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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

PROTECTION OF THE EU BUDGET TO END 2013

Table of Contents

1. EXECUTIVE SUMMARY AND CONCLUSIONS

This Communication on the protection of the European Union (EU) budget seeks to describe in detail the functioning of the preventive and corrective mechanisms used to protect the EU budget from illegal or irregular expenditure, and to provide a best estimate of the figures resulting from their use.

Preventive actions and responsibilities depend on the method of implementation of the EU budget – for example interruptions and/or suspension of payments are widely used under Cohesion policy and have now been introduced to Agricultural spending.

Corrective actions, i.e. financial corrections and recoveries, arise following the supervision and checks made by both the Commission and, in the case of shared management expenditure, Member States on the eligibility of expenditure funded by the EU budget. Given the multi-annual character of the programmes, the control framework and the complexity of the corrective mechanisms and procedures, the results (i.e. corrections) are generally implemented several years after weaknesses or irregularities have been identified. This Communication focuses primarily on the results of the Commission's supervisory role, but figures on financial corrections and recoveries resulting from Member State controls are also given in section **7**.

It is stressed that the primary objective of financial corrections and recoveries is to ensure that EU funds are used in accordance with the legal framework. Financial corrections and recoveries related to the Common Agricultural Policy (CAP) and to internal and external policies result in the return of previously paid irregular amounts to the EU budget (net financial corrections). Irregular amounts detected under Cohesion policy are, up to now, mostly corrected by their replacement with new expenditure, which should be regular – in this case monies do not return to the EU budget. Following the successful operation of net financial corrections in the Agricultural area for many years, the legislator has decided that a similar mechanism should be applied to Cohesion policy for the programming period 2014-2020.

Regarding the impact of corrective measures taken by the Commission, the key figures for the financial year 2013 are as follows:

- Financial corrections and recoveries confirmed (decided or accepted) in 2013 totalled EUR 3.4 billion or 2.3% of budgetary payments that year; See table **3.1**;
- Implemented amounts in 2013 were of a similar level, being EUR 3.3 billion or 2.2% of budgetary payments. See table **3.1**.

Cumulative figures, however, provide more useful information on the significance of corrective mechanisms used by the Commission because they take into account the multi-annual character of most EU spending and neutralise the impact of one-off events:

- During the period 2009-2013 the amounts of financial corrections and recoveries confirmed and decided show an increasing trend. The average amount confirmed was EUR 2.9 billion or 2.2% of the average amount of payments made from the EU budget, while the average amount implemented in this period was EUR 2.7 billion or 2.1% of payments; See graph **4.1**;
- For EAGF, the average correction rate per financial year for the period 1999-2013 was 1.5 % of expenditure; See section **4.2.2**;

- For ERDF and ESF 2000-2006 funds (where the closure is almost complete), at the end of 2013 the combined rate of financial corrections, based on Commission supervision work only, was 4.5 % of the allocations made (the correction rate increases to 5.1% of allocations when considering the additional financial corrections reported by Member States and related to their own control activity). See section **4.2.4**.

The figures presented in this Communication demonstrate the positive results of the multi-annual preventive and corrective activities undertaken by both the Commission and Member States, the ultimate outcome being that the EU budget is adequately protected from expenditure incurred in breach of applicable law – see also the Commission's "Synthesis Report" for 2013, in particular section 4.1[1]. Moreover, the significance of the amounts reported concerning financial corrections and recoveries should be viewed as an affirmation of the commitment of both parties to ensuring that European taxpayers' money is being used in accordance with legal requirements.

2. OBJECTIVE AND BACKGROUND

2.1. Objective

This Communication on the protection of the EU budget is prepared annually following a specific request by the European Parliament in the context of the 2011 discharge procedure and is therefore addressed to this institution, as well as to the Council. It is also transmitted to the European Court of Auditors (ECA). It should be read in conjunction with the figures disclosed in Note 6 of the 2013 EU annual accounts, the Commission's Synthesis Report, and the relevant parts of the Annual Activity Reports of the Directorates General concerned.

The objective of this Communication is to provide:

(1) A high-level overview of the mechanisms foreseen in the legislation which define the process of identifying and then dealing with administrative errors, irregularities and suspected fraud[2] detected by EU bodies and by Member States; and

(2) a best estimate of the total amounts[3] of financial corrections and recoveries concerned for 2013, and cumulative, so as to illustrate in real terms how:

   a. the EU budget is protected from expenditure incurred in breach of law, and
   b. the Member States are involved and impacted.

As well as the above, information is also given on the additional corrections reported as effected by Member States under Cohesion policy (programming period 2007-2013 only) and Agriculture following their own controls and audits. Information is also provided on amounts recovered relating to advances (pre-financing) paid out that have not been used by the beneficiary and on recoveries relating to own resource revenues of the EU budget.

2.2. Background

The significant work of both the Commission and the Member States to manage the risks relating to the legality and regularity of operations financed by the EU budget and the resulting impact is performed in accordance with the Treaty on the Functioning of the European Union (TFEU[4]), the Financial Regulation[5], its rules of application[6] and the various

[1] Communication from the Commission to the European Parliament, the Council and the European Court of Auditors: Synthesis of the Commission's management achievements in 2013 (COM(2014)342 final of 11 June 2014).
[2] See also the 2013 Annual Report on the Protection of the European Union's financial interests — Fight against fraud adopted on 17 July 2014 (COM(2014)474 final) (based on 2013 provisional annual accounts figures).
[3] Due to the rounding of figures into millions of Euros, amounts in some tables may appear not to add up.
[4] See Official Journal C 115 of 9 May 2008.
[5] Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 (Official Journal L 298, 26 October 2012).

sector-specific legal texts. The Commission protects the EU budget, i.e. EU spending, from undue or irregular expenditure via two main methods:

(1) preventive actions; and
(2) corrective mechanisms (primarily financial corrections imposed on Member States and, to a lesser extent, recoveries from recipients of EU payments).

It is highlighted that the result of financial corrections is that they exclude from Union financing expenditure for which disbursements have been made in breach of applicable law in order to ensure that EU funds are used in line with the legal requirements.

It is necessary to distinguish between different types of financial corrections:

- financial corrections applied on Cohesion funds are in most cases amounts which Member States accept to deduct from expenditure presented to the Commission and which are replaced by regular expenditure. They are not returned to the EU budget;

- financial corrections applied on Agricultural funds are amounts which are definitively recovered by the Commission and which Member States cannot replace by other expenditure. These amounts are considered as “assigned revenue” in the EU budget and are used to reduce national contributions to the Agriculture budget. They are referred to as "net financial corrections".

It is also important to underline that for a significant portion of EU expenditure, e.g. Cohesion, Research and Rural Development policies, the programmes concerned are of a multi-annual nature. In line with Article 32(2)(e) of the Financial Regulation, this is taken into account when designing and implementing preventive and corrective measures, as well as when assessing the results of these actions. In fact, financial corrections and recoveries are made at all stages of a programme's life-cycle, once expenditure has been incurred and/or a payment has been made. In Cohesion policy, due to the legislation applicable to the 2000-2006 programming period, the majority of corrections occur at the closure of the project/programme, which can be years after the first expenditure has been incurred and/or first payment was made. However for the 2007-2013 programming period, as a result of the preventive measures taken, the part of financial corrections applied during the years of implementation of the programmes has increased; consequently it can be expected that the part of financial corrections applied at closure will be lower. For the 2014-2020 programming period, this trend will be confirmed by the introduction of certain provisions in the sector-based regulations related to the annual accounts and net financial corrections. Concerning Rural Development policy, net financial corrections can be applied throughout the life-cycle of a programme.

The importance of financial corrections and recoveries is particularly highlighted when considering multi-annual residual error rates. This is because these rates take into account both detected error rates and financial corrections and recoveries over the entire life cycle of programmes and projects. Therefore, they indicate the real impact of irregular expenditure and represent key indicators for assessing how supervisory and control systems manage the risks relating to the legality and regularity of operations financed by the EU budget over the lifespan of programmes (see the Commission’s Synthesis Report for 2013, in particular section 4.1).

[6] Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 (Official Journal L 362, 31 December 2012).

2.3. Process for financial corrections and recoveries

Financial corrections and recoveries follow a defined and logical process[7]:

1. An on-the-spot audit (or control or inspection) is made, or a desk assessment is carried out by the Commission or another EU body (OLAF, ECA) of an EU or national audit report;

2. The audit or desk assessment results in the identification of possible system weaknesses and/or an estimate of ineligible expenditure is communicated by the Commission to the Member State or final beneficiary concerned as part of a formal contradictory process (*financial corrections and recoveries "in progress"*);

3. Following these discussions and the possible receipt of additional audit evidence from Member States or final beneficiaries, a financial correction or recovery is confirmed, i.e. accepted by the Member State or decided (adopted by a Commission decision);

4. The last step is for the observed situation of undue expenditure to be definitively corrected (*financial corrections and recoveries "implemented"*), by means of different mechanisms foreseen in the sector-based regulatory frameworks.

Financial corrections and recoveries reported by the Commission are the result of its supervisory role and audit activity described above. For policies under shared management, in accordance with their obligation to “take all necessary measures…to protect the Union’s financial interests”, Member States also perform controls and make corrections on their own – see section **7**. This means that the EU funds under shared management are under the double protection of two parties at all times.

One important point to note on the figures presented in this Communication is that, for shared management, they represent both corrections arising on individual cases uncovered by the Commission, but also extrapolated or flat-rate corrections. The latter are corrections imposed by the Commission at programme level and are provided for in Article 80(4) of the Financial Regulation: "*Where such amounts [unduly spent] cannot be identified precisely, the Commission may apply extrapolated or flat-rate corrections in accordance with the sector-specific rules.*" They are made when deficiencies or weaknesses are uncovered in the national administration's management and control systems covering a given measure or programme and take the form of a fixed percentage applied to all claims received on the relevant expenditure until Member States implement remedial actions and the identified deficiencies are rectified. Therefore, these flat-rate corrections are not calculated on the basis of identified individual irregularities at beneficiary level but are proportionally linked to the gravity of the deficiencies observed.

2.4. Further consequences of financial corrections and recoveries

The legislation in place offers numerous tools and control mechanisms to the Commission and Member States. In addition to the significant amounts reported above, there are further amounts of financial corrections accepted by Member States as a result of the supervisory role of the Commission. Remedial action plans may have a preventive impact on expenditure already incurred by beneficiaries and registered at national level in the certifying authority's accounts but not yet declared to the Commission. For such expenditure, the certifying authority (under Cohesion policy) applies the financial correction requested by the Commission prior to declaring expenditure. Particularly in the case of extrapolated or flat-rate corrections, where there are weaknesses in management

[7] Details on the legislation concerning the protection of the EU budget and the methods of implementing and controlling the EU budget are provided in the “Communication on the Protection of the Union budget to end 2012” (COM(2013)682 final/2, pages 4 to 8).

and control systems covering a large population of projects, the amounts concerned can be significant.

This preventive effect of the Commission supervisory role is not always reflected in the official reporting even though amounts can be significant and it leads to an increased protection of the EU budget. Another example concerns warning letters sent out by the Directorates-General when system deficiencies are identified before a payment claim is submitted to the Commission. Warning letters are sent by Directors-General at their own initiative in their capacity as responsible authorising officers by delegation for the Commission, not because of any explicit regulatory requirement. Such warning letters may have the same preventive effect on the protection of the EU budget, but in this case no financial correction is reported by the European Commission/ Member States either.

Recoveries from beneficiaries may also result from audits and financial corrections by the Commission services in Agriculture and Rural Development policies. When the Member State recovers irregular amounts from farmers before the financial correction is decided by the Commission, these amounts are reimbursed to the EU budget and are deducted from the financial correction. Amounts recovered from final beneficiaries after the execution of the financial correction do not have to be reimbursed to the EU budget. This system encourages Member States in their efforts to actually recover irregular payments without unjustified delays. An additional control employed by the Commission where it considers that the time taken for a Member State to recover amounts from a final beneficiary is too long, involves launching infringement procedures against the Member State involved. This of course is in addition to the fact that the EU Budget may have been already protected via the original financial correction.

In the field of the CAP, a specific mechanism also exists under which 50% of undue payments which the Member States have not yet recovered from the beneficiaries within 4 years (or 8 years in case of judicial proceedings), are automatically charged to their national budgets. This gives a strong incentive to the national authorities to complete the recovery procedures in a timely manner. Member States remain obliged to recover the outstanding 50% which has to be returned to the EU budget. In addition, the Commission may also charge the entire amount still to be recovered (and not only 50%) if it considers that the Member States' authorities have been negligent in the management of the recovery procedure for specific individual cases.

3. FINANCIAL CORRECTIONS AND RECOVERIES IN 2013

3.1. Overview

Financial corrections reported under this section (as well as in sections **4** and **5**) are the result of the Commission’s supervision which identified the need for additional corrections not previously decided by Member States (in breach of their obligation to “bear in first instance the responsibility for (…) making the financial correction required”).

The amounts of financial corrections and recoveries are primarily dependent on the level of irregularities detected in previous years, i.e. controls by the Commission or Member States over a number of years may uncover a higher level of weaknesses or irregularities, thus increasing the level of financial corrections and recoveries to be made. Given the multi-annual character of the control framework and the complexity of the corrective mechanisms and procedures, the results (i.e. corrections) are generally implemented several years after weaknesses or irregularities have been identified.

In general, given the nature of financial corrections and the multi-annual nature of the expenditure to which they relate to, it is more useful to look at cumulative figures (see section **4**). Nonetheless, looking exclusively at 2013 and in order to give an idea of the level of the financial corrections and recoveries confirmed and implemented in 2013, it is noted that the amounts, while mostly relating to systems weaknesses or irregularities of past years, represent in financial terms respectively 2.3% and 2.2% of all budget payments (for further details see sections below).

Table 3.1: Financial corrections and recoveries overview for 2013

EUR millions

Policy domain	Total EU budget payments in 2013	Total financial corrections <u>in progress</u> at end 2013	Total financial corrections <u>confirmed</u> in 2013	Total recoveries <u>confirmed</u> in 2013	Total <u>confirmed</u> in 2013	% of payments of the EU budget	Total financial corrections <u>implemented</u> in 2013	Total recoveries <u>implemented</u> in 2013	Total <u>implemented</u> in 2013	% of payments of the EU budget
Agriculture										
EAGF	45 011	3 258	843	227	**1 070**	*2.4%*	481	155	**636**	*1.4%*
Rural Development	12 960	660	247	139	**386**	*3.0%*	230	129	**359**	*2.8%*
Cohesion Policy*										
ERDF	31 133	1 459	337	1	**338**	*1.1%*	622	-	**622**	*2.0%*
Cohesion Fund	11 906	148	220	-	**220**	*1.8%*	277	-	**277**	*2.3%*
ESF	13 776	583	834	40	**874**	*6.3%*	842	40	**882**	*6.4%*
FIFG/EFF	566	18	10	24	**34**	*6.0%*	4	23	**27**	*4.8%*
EAGGF Guidance	192	-	1	2	**3**	*1.6%*	14	2	**16**	*8.3%*
Other	116	-	-	16	**16**	*13.8%*	-	16	**16**	*13.8%*
Sub-total shared management	***115 660***	***6 126***	***2 492***	***449***	***2 941***	***2.5%***	***2 469***	***365***	***2 834***	***2.5%***
Internal policy areas	16 986	1	3	393	**396**	*2.3%*	3	398	**401**	*2.4%*
External policy areas	7 055	N/A	N/A	93	**93**	*1.3%*	N/A	93	**93**	*1.3%*
Administration	8 693	N/A	N/A	6	**6**	*0.1%*	N/A	6	**6**	*0.1%*
TOTAL	**148 394***	**6 127**	**2 495**	**941**	**3 436**	***2.3%***	**2 472**	**862**	**3 334**	***2.2%***

**Excludes EUR 75 million paid to Croatia under the Compensations heading.*

** Out of the total amount of EUR 1 402 million of financial corrections confirmed, EUR 514 million related to the 2007-2013 programming period, EUR 714 million related to the 2000-2006 programming period, and the remaining amount of EUR 174 million related to the 1994-1999 programming period; Out of the amount of EUR 1 759 million of financial corrections implemented that concerned Cohesion policy, EUR 693 million related to the 2007-2013 programming period, EUR 889 million related to the 2000-2006 programming period, and the remaining EUR 177 million related to the 1994-1999 programming period.

The largest and most complex programmes related to the programming period 2000-2006 were closed in 2013, resulting in high amounts being reported. Amounts relating to 2007-2013 are relatively lower as a result of the preventive actions undertaken by the Commission (see section **6**), bearing in mind that corrections tend to still be more concentrated at closure stage.

The total amount of financial corrections and recoveries confirmed in 2013 increased by 20% compared to 2012 (financial corrections increased by 15% and recoveries increased by 35%).

Financial corrections and recoveries implemented dropped from EUR 4.4 billion in 2012 to EUR 3.3 billion in 2013. This decrease is due to a significant case related to the implementation in 2012 of a financial correction of EUR 1.8 billion concerning Cohesion programmes for the period 2000-2006 in Spain. The resulting decrease by 34% of financial corrections implemented in 2013 (from EUR 3.7 billion to EUR 2.5 billion) was partially compensated by an increase of 27% of recoveries implemented in 2013 (from EUR 0.7 billion to EUR 0.9 billion).

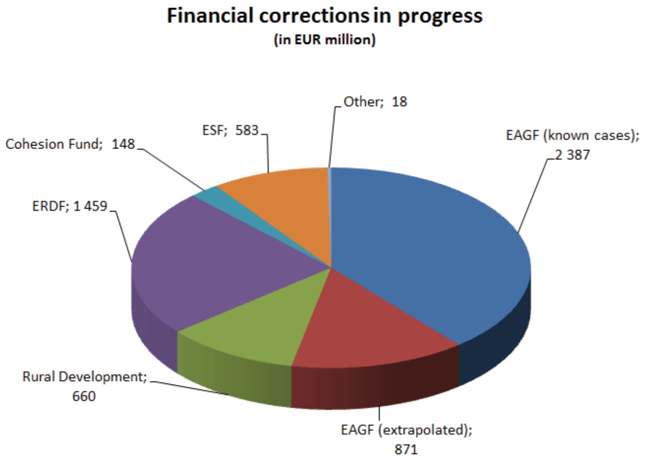
3.2. Financial corrections

3.2.1 Financial corrections in progress at 31/12/2013

Under Agriculture and Rural Development, the amount of net financial corrections in progress is based on an estimate of the amount of expenditure which is likely to be reimbursed to the EU budget by the Member State as a result of the conformity clearance procedure.

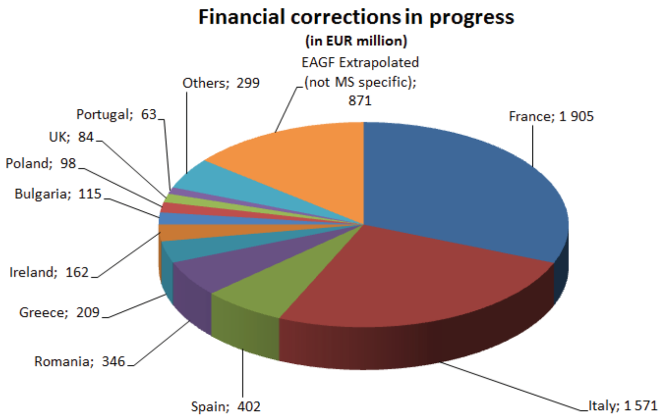
Under Cohesion Policy, the amount disclosed under financial corrections in progress is based on audit findings of the Commission and those of ECA or OLAF, all of which are followed up by the relevant Directorates General through on-going contradictory procedures with the concerned Member States.

Graph 3.2.1.1: Shared management financial corrections in progress at 31/12/2013; Breakdown by Fund



As 2007-2013 programmes are multi-funds, the ERDF amount includes CF amounts related to that period.

Graph 3.2.1.2: Shared management financial corrections in progress at 31/12/2013; Breakdown by Member State



Concerning **EAGF**, cases amount to EUR 2 387 million, of which EUR 1 697 million relates to **France**. It is highlighted that these amounts correspond to provisional estimates by the Commission of the risk to the EU budget before the end of the conformity clearance procedure and that, as provided for in the legislation, the Commission shall duly take into account all contradictory evidence provided by the Member State when making its final assessment. The final amount of the net financial correction may therefore be lower, for instance in cases where the first estimate made by the Commission resulted from a flat-rate approach and the Member State later provided further evidence that allowed a more precise estimate to be made. For this reason, amounts estimated to be in progress can be higher than the final net financial correction decided by the Commission. It is further underlined that the breakdown per Member State is heavily influenced by the ongoing conformity clearance procedures, which tend to be concentrated on only a few Member States at any one time, since audits are decided after a risk-based analysis is conducted, thus targeting the most risky Member States. For EAGF, table **4.2.2** illustrates the long-term breakdown per Member State.

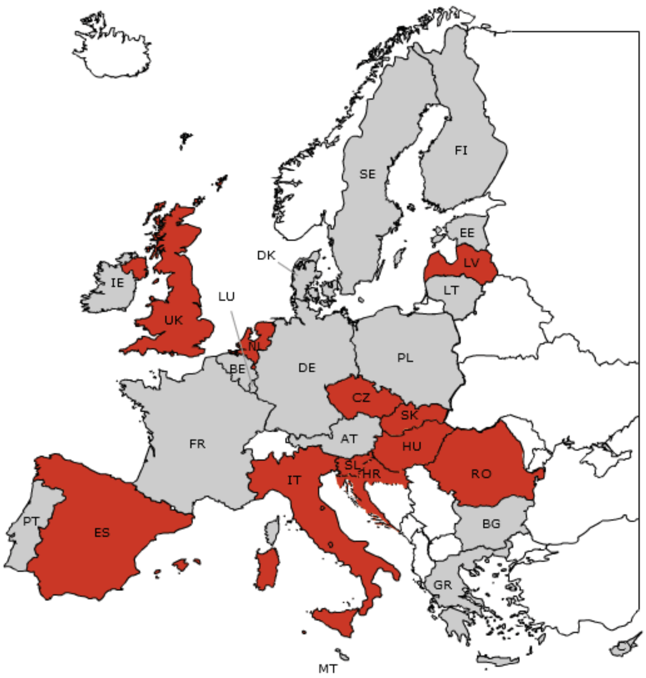
Concerning **ERDF**, amounts are mainly related to the 2000-2006 programming period and the closure of the outstanding issues for programmes in Italy (EUR 966 million), Ireland (EUR 142 million), Spain (EUR 119 million), and Greece (EUR 65 million).

Concerning **ESF**, the majority of financial corrections in progress at end 2013 concern the closure of 2000-2006 programmes reflecting financial corrections proposed by the Commission in closure letters but not yet accepted by Member States. The main amounts relate to Italy (EUR 388 million) and Spain (EUR 141 million).

3.2.2 Financial corrections confirmed in 2013

Attention is drawn to the fact that the data and maps presented below relate to one year only, 2013. The level of both the global corrections amount and the split by Member State can change significantly depending on the year. Therefore, a meaningful assessment of the corrective capacity of supervisory and control systems has to be based, in line with the nature of this expenditure, on a multi-annual perspective (see section **4**).

Map and Table 3.2.2: Shared management financial corrections confirmed in 2013 as compared to EU payments received; Breakdown by Member State



The map above takes into account the relative weight of the financial corrections confirmed for each Member State compared to the payments received from the EU budget in the year 2013.

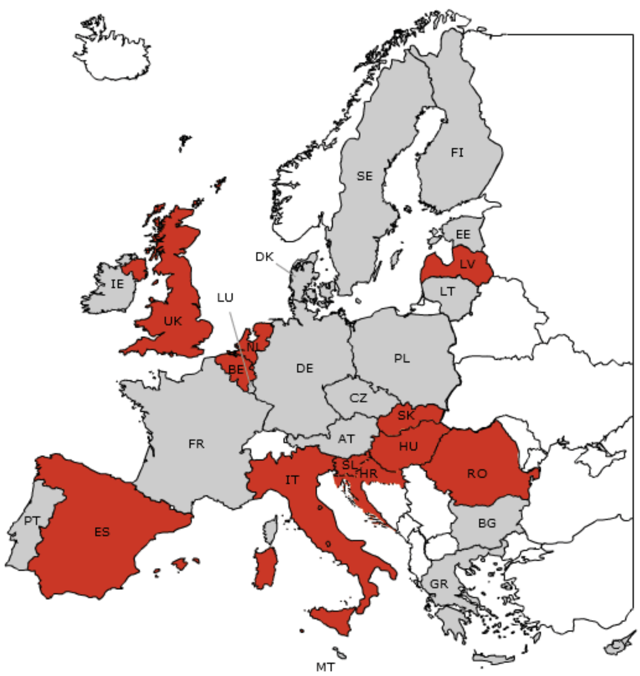
Light grey shows Member States that are below the average percentage of 2.2%.

Red highlights Member States that are above the average percentage of 2.2%.

Member State	Payments received from the EU budget in 2013 (EUR million)	Financial corrections confirmed in 2013 (EUR million)	Financial corrections confirmed in 2013 % as compared to payments received from the EU budget in 2013
Belgium	1 144	18	*1.6%*
Bulgaria	1 829	5	*0.3%*
Czech Rep.	4 771	146	*3.1%*
Denmark	1 066	12	*1.1%*
Germany	11 179	37	*0.3%*
Estonia	914	0	*0.0%*
Ireland	1 607	26	*1.6%*
Greece	6 866	138	*2.0%*
Spain	12 408	458	*3.7%*
France	12 170	222	*1.8%*
Croatia	2	1	*43.4%*
Italy	11 091	370	*3.3%*
Cyprus	178	0	*0.0%*
Latvia	1 003	23	*2.3%*
Lithuania	1 718	14	*0.8%*
Luxembourg	67	0	*0.4%*
Hungary	5 676	158	*2.8%*
Malta	125	0	*0.1%*
Netherlands	1 321	82	*6.2%*
Austria	1 546	4	*0.2%*
Poland	15 782	175	*1.1%*
Portugal	5 948	17	*0.3%*
Romania	5 409	278	*5.2%*
Slovenia	726	23	*3.2%*
Slovakia	1 943	63	*3.3%*
Finland	1 243	7	*0.5%*
Sweden	1 174	1	*0.2%*
UK	4 554	214	*4.7%*
INTERREG	2 199	1	*0.0%*
TOTAL	**115 660**	**2 492**	***2.2%***

3.2.3 *Financial corrections implemented in 2013*

Map and Table 3.2.3: Shared management financial corrections implemented in 2013 as compared to EU payments received; Breakdown by Member State



The map above takes into account the relative weight of the financial corrections implemented for each Member State compared to the payments received from the EU budget in the year 2013.

Light grey shows Member States that are below the average percentage of 2.1%.

Red highlights Member States that are above the average percentage of 2.1%.

Member State	Payments received from the EU budget in 2013 (EUR million)	Financial corrections implemented in 2013 (EUR million)	Financial corrections implemented in 2013 % as compared to payments received from the EU budget in 2013
Belgium	1 144	24	*2.1%*
Bulgaria	1 829	19	*1.0%*
Czech Rep.	4 771	76	*1.6%*
Denmark	1 066	12	*1.1%*
Germany	11 179	39	*0.3%*
Estonia	914	10	*1.1%*
Ireland	1 607	9	*0.6%*
Greece *	6 866	- 18	*-0.3%*
Spain	12 408	717	*5.8%*
France	12 170	96	*0.8%*
Croatia	2	1	*43.4%*
Italy	11 091	381	*3.4%*
Cyprus	178	0	*0.0%*
Latvia	1 003	24	*2.3%*
Lithuania	1 718	8	*0.5%*
Luxembourg	67	0	*0.1%*
Hungary	5 676	160	*2.8%*
Malta	125	0	*0.1%*
Netherlands	1 321	47	*3.5%*
Austria	1 546	1	*0.1%*
Poland	15 782	195	*1.2%*
Portugal	5 948	31	*0.5%*
Romania	5 409	284	*5.3%*
Slovenia	726	23	*3.2%*
Slovakia	1 943	73	*3.8%*
Finland	1 243	6	*0.4%*
Sweden	1 174	22	*1.9%*
UK	4 554	228	*5.0%*
INTERREG	2 199	1	*0.0%*
TOTAL	**115 660**	**2 469**	***2.1%***

* The negative percentage for Greece results from a correction applied in 2013 on previously reported amounts. Without this correction, the percentage would be 2.1% for Greece, and the overall percentage would be 2.3%.

3.3. Recoveries

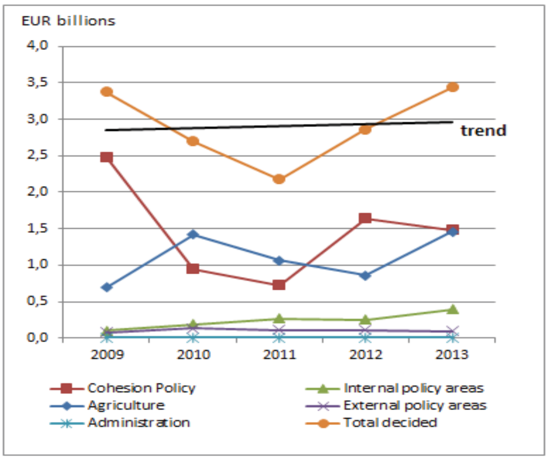
The figures for recoveries confirmed and implemented in 2013 are presented in table **3.1** above, with EUR 941 million being confirmed and EUR 862 million being implemented in 2013. As can be seen in tables **4.3.1** and **4.3.2** below, these amounts show a significant increase from 2012, mainly driven by increased recoveries in internal policy areas.

4. CUMULATIVE FINANCIAL CORRECTIONS AND RECOVERIES TO END 2013

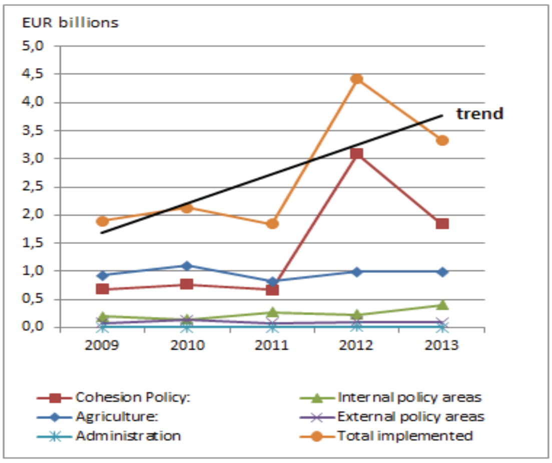
4.1. Overview

Cumulative figures provide useful information on the significance of the corrective mechanisms used by the Commission, in particular because they take into account the multi-annual character of programmes and projects and neutralise the impact of one-off events. The graphs below show the evolution of financial corrections and recoveries confirmed and implemented during the last 5 years:

Graphs 4.1: Financial corrections and recoveries 2009-2013



Financial corrections and recoveries confirmed 2009-2013



Financial corrections and recoveries implemented 2009-2013

The average amount of financial corrections and recoveries confirmed per year by the Commission during the period 2009 to 2013 was **EUR 2.9 billion** or **2.2%** of the average amount of payments from the EU budget of EUR 131 billion (shared management: EUR 2.6 billion or 2.5 % of the average amount of payments of EUR 101 billion); all other types of management: EUR 353 million or 1.2% of the average amount of payments of EUR 30 billion. The trend for confirmed amounts is slightly increasing, which demonstrates that the multi-annual control framework is successfully protecting the EU budget over time.

The average amount of financial corrections and recoveries implemented for 2009-2013 was **EUR 2.7 billion**, which represents **2.1%** of the average amount of payments from the EU budget in that period. The increasing trend shown above can be explained by the closure of the programming period 2000-2006, as a significant number of financial corrections and recoveries are only implemented at that stage (see below).

4.2. Financial corrections

4.2.1 Overview

Table 4.2.1: Cumulative financial corrections confirmed & implementation percentage to end 2013

EUR millions

Expenditure	Programming Period 1994-1999 Period	Programming Period 2000-2006 Period	Programming Period 2007-2013 Period	Cumulated EAGF decisions	Total financial corrections confirmed at end 2013	Financial corrections not yet implemented at end 2013	Implemented / confirmed at end 2013	Financial corrections confirmed at end 2012
Agriculture	**0**	**112**	**374**	**9 148**	**9 634**	**1 001**	**89.6%**	**8 525**
EAGF	-	-	-	9 148	**9 148**	920	90.0%	8 286
Rural Development	0	112	374	N/A	**486**	82	83.2%	239
Cohesion Policy	**2 719**	**7 729**	**1 741**	**N/A**	**12 189**	**756**	**93.8%**	**10 786**
ERDF	1 788	5 188	667	N/A	**7 643**	477	93.8%	7 305
Cohesion Fund	271	688	245	N/A	**1 204**	113	90.7%	984
ESF	560	1 678	820	N/A	**3 057**	65	97.9%	2 224
FIFG/EFF	100	102	9	N/A	**211**	102	51.8%	201
EAGGF Guidance	0	73	0	N/A	**73**	0	100.0%	72
Other	**-**	**-**	**-**	**N/A**	**4**	**0**	**100.0%**	**2**
Total	**2 719**	**7 840**	**2 116**	**9 148**	**21 827**	**1 757**	**91.9%**	**19 313**

The different programming periods in Cohesion policy clearly show the multi-annual nature of the EU budget cycle. Since the 2000-2006 period is approaching the end of the closure process, the amount of financial corrections is considerably high, especially when compared to the 2007-2013 period. Financial corrections for this more recent period are expected to continue to increase in the coming years as its programmes start to close (some are reaching the 95% payment threshold) but should be of a lower importance compared to the previous programming period due to the success of preventive measures. In particular, the use of the interruptions and suspensions mechanisms has proved to be a strong incentive for Member States to improve their management and control systems in cooperation with the Commission services.

4.2.2 Agriculture: financial corrections under EAGF clearance of accounts

Concerning **EAGF**, the amount of financial corrections imposed by the Commission since 1999 totals EUR 9 148 million (from 43 decisions adopted). **The average correction rate per financial year for the period 1999-2013 has been 1.5 % of expenditure**. Once decided by the Commission, the amounts are generally automatically implemented unless a Member State has been granted the possibility of paying in instalments.

Table 4.2.2: Cumulative financial corrections decided under EAGF clearance of accounts from 1999 to end 2013; Breakdown by Member State

EUR millions

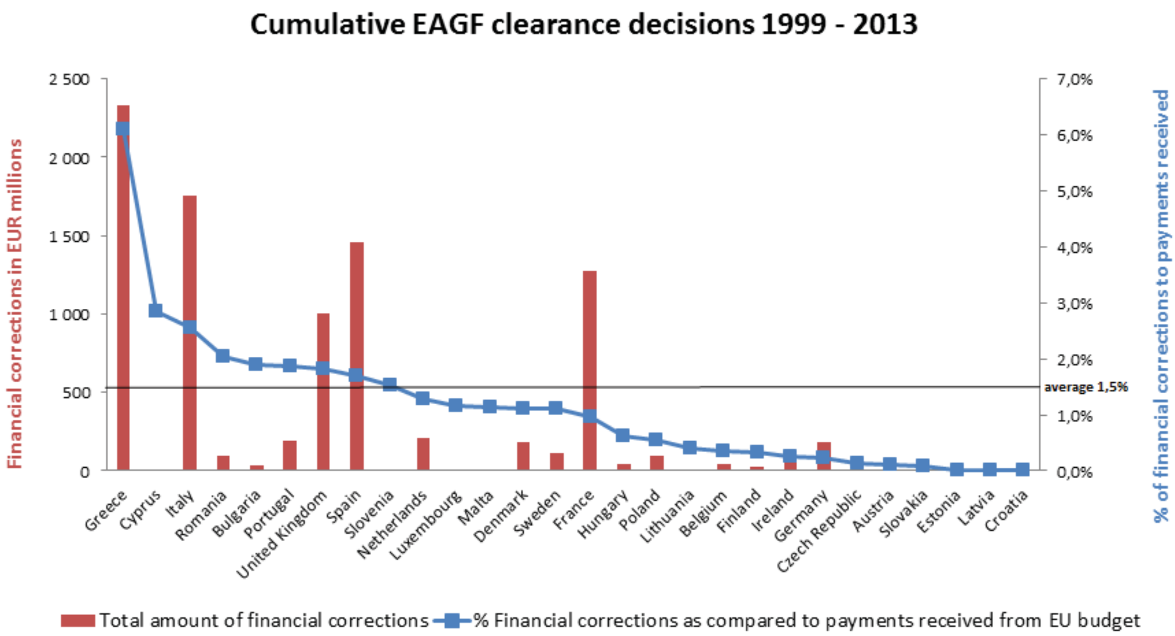
Member State	EAGF payments received from EU budget	% of payments received as compared to total payments	Cumulated EAGF financial corrections at end 2013	% as compared to payments received from EU budget	% as compared to total amount of financial corrections
Belgium	11 638	*1.9%*	42	*0.4%*	*0.5%*
Bulgaria	1 980	*0.3%*	37	*1.9%*	*0.4%*
Czech Republic	4 742	*0.8%*	6	*0.1%*	*0.1%*
Denmark	16 345	*2.7%*	183	*1.1%*	*2.0%*
Germany	82 340	*13.5%*	186	*0.2%*	*2.0%*
Estonia	523	*0.1%*	0	*0.0%*	*0.0%*
Ireland	19 474	*3.2%*	48	*0.2%*	*0.5%*
Greece	38 139	*6.3%*	2 328	*6.1%*	*25.4%*
Spain	85 336	*14.0%*	1 457	*1.7%*	*15.9%*
France	133 217	*21.9%*	1 272	*1.0%*	*13.9%*
Croatia	0	*0.0%*	-	*N/A*	*N/A*
Italy	68 953	*11.3%*	1 757	*2.5%*	*19.2%*
Cyprus	338	*0.1%*	10	*2.9%*	*0.1%*
Latvia	749	*0.1%*	0	*0.0%*	*0.0%*
Lithuania	2 089	*0.3%*	8	*0.4%*	*0.1%*
Luxembourg	435	*0.1%*	5	*1.2%*	*0.1%*
Hungary	7 279	*1.2%*	45	*0.6%*	*0.5%*
Malta	27	*0.0%*	0	*1.1%*	*0.0%*
Netherlands	16 371	*2.7%*	212	*1.3%*	*2.3%*
Austria	10 459	*1.7%*	11	*0.1%*	*0.1%*
Poland	16 755	*2.8%*	92	*0.6%*	*1.0%*
Portugal	10 278	*1.7%*	193	*1.9%*	*2.1%*
Romania	4 782	*0.8%*	97	*2.0%*	*1.1%*
Slovenia	629	*0.1%*	10	*1.5%*	*0.1%*
Slovakia	2 077	*0.3%*	2	*0.1%*	*0.0%*
Finland	7 916	*1.3%*	26	*0.3%*	*0.3%*
Sweden	10 542	*1.7%*	116	*1.1%*	*1.3%*
United Kingdom	55 077	*9.1%*	1 007	*1.8%*	*11.0%*
Total	**608 491**	***100.0%***	**9 148**	***1.5%***	***100.0%***

The table above gives a breakdown of the financial corrections that are reimbursed to the EU budget by the Member States concerned to the EU budget. Year on year, the total amounts of financial corrections remain relatively stable with a positive trend over the period, in absolute amounts and also in terms of percentage of expenditure.

The following graph illustrates the total financial corrections per Member State, together with the percentage of these financial corrections as compared to the payments received from the EU budget.

It is noted that nine Member States present a rate of correction above the average of 1.5 % and contribute to 75 % of the total amount of corrections, but at the same time it should be understood that these nine Member States received 44% of payments from the EU budget.

Graph 4.2.2: Member States' cumulative financial corrections under EAGF clearance of accounts from 1999 to end 2013 as compared to payments received from the EU Budget



4.2.3 Agriculture: Deficiencies in Member States' Control systems

Material deficiencies noted in Member States' management and control systems, as identified by them, DG AGRI, the ECA, and/or OLAF (fraud investigations) are closely followed up by DG AGRI up until it has obtained reliable evidence that the weaknesses have been remedied through the implementation of appropriate actions by the Member State, the irregular expenditure declared in the past has been corrected, and the new system has proved its reliability in practice.

For example, concerning aid schemes in Poland, serious structural deficiencies were identified by DG AGRI in 2013 for the pre-recognition of producer groups for fruits and vegetables. For amounts previously paid out, the financial risk to the fund is covered via the conformity clearance procedure which will claw back amounts of unduly spent EU money. For the future, Poland has been requested to take the necessary remedial actions. These actions will be monitored by DG AGRI. Regarding the deficiencies in the wine sector, two sets of guidelines on the application of the national support programme have been issued in February and April 2013.

Under direct payments, persistent deficiencies concerning the incorrect definition of certain types of pasture land as being eligible have been identified in 15 Spanish Paying Agencies and in Greece. In Spain, the remedial actions were audited mid-2013 and found not to address the situation in full. As a consequence there will be increased monitoring and follow-up of the Spanish implementation plan and financial corrections will continue. In Greece, the Land Parcel Identification System (LPIS) established in 2008 included areas which due to their inherent situation should not be eligible for CAP support. As a condition of the decision to defer financial corrections, Greece was required to address this situation via an action plan. For the claims concerning years 2009-2012 and subsequent years, the clearance procedures triggering net financial corrections are on-going. Furthermore, failure to implement the remedial actions as scheduled triggered a revocation of the deferral of net financial corrections for the pasture deficiency and a pre-suspension letter addressed to the Greek authorities on 24 June 2014 with a clear deadline to meet the remaining milestones.

In addition, a comprehensive action plan to remedy serious deficiencies in the quality of LPIS-GIS was completed by Portugal in 2013, whilst for France a wide-ranging action plan to update and complete the LPIS was launched and is expected to be fully completed for claim year 2016. As regards Portugal, the conformity clearance procedure ensured the claw back of over EUR 100 million in net financial corrections for financial years 2007 to 2009, while for subsequent years the conformity procedures are still ongoing. For France, a number of significant financial corrections are in progress in respect of financial years 2008-2010 for which the clearance of accounts procedure is well advanced. A mission carried out in February 2014 showed that while in general the action plan is on track, some intermediate commitments have not been met. Consequently, France has been requested to tackle these issues and at the same time a more detailed reporting has been requested so as to enable a more hands-on follow-up by DG AGRI. It should be noted that in France, the action plan covering the management of payment entitlements and the cross-compliance system was successfully implemented. The monitoring of the quality of the Integrated Administration and Control System (IACS) and LPIS, including the necessary guidance and support, fall now under the responsibility of a new unit within DG AGRI that became effective in 2014.

Action plans as a result of adjustments in the error rates above 5% were triggered following assessments by the ECA of certain control systems as being 'not effective' or 'partially effective' (e.g. Romania, Bulgaria, Portugal), or by DG AGRI audits and from the lack of assurance concerning the reported control statistics (e.g. Greece, the Netherlands). For example, significant systemic weaknesses were identified by both DG AGRI's conformity audits and ECA audits in Romania concerning the measure 312 'Support for the creation and development of microenterprises'. Following DG AGRI's request, the Romanian authorities implemented an action plan in order to improve the situation. Additionally, the reimbursements from the Commission to Romania relating to this measure were interrupted during 2013. Following constant work by DG AGRI with the Romanian authorities, it was considered in May 2014 that while efforts for implementing the special action plan for measure 312 have to continue, resuming payments could be possible, on the condition that the Romanian authorities accept a close monitoring by DG AGRI, thus mitigating the risk. Nevertheless, a confirmation that the systemic weaknesses relating to measure 312’s implementation have been successfully addressed can only be definitely obtained after a future audit. The EU budget will be protected through conformity audit procedures leading to net financial corrections and recovery from the Member State; in the same time, a very close follow up of the Romanian Rural Development programmes is ongoing.

In Bulgaria, DG AGRI audits for Rural Development revealed serious shortcomings in the administrative checks and also deficiencies in the on-the-spot checks. Main weaknesses concerned the checks of the public procurement procedure, the existence of ineligible and/or unreasonable costs, the scope of the on-the-spot checks, and the early and high payment of advances. With regard to the high level of advances, they have to be seen in the light of the n+2 de-commitment rule. The Bulgarian authorities have been invited to explain why such early and high advance payments were necessary. These explanations will be duly taken into consideration when concluding on the existence of a possible circumvention of the n+2 rule and when deciding on the need for a financial correction. Following a first letter sent out by DG AGRI to all Member States at the beginning of 2013, a process for the establishment and monitoring of national action plans for the reduction of error rates was put in place. Member States submitted their action plans, in close cooperation with DG AGRI services, and three seminars were organised to present the state of play and provide guidance, both during 2013 and 2014.

4.2.4 Cohesion Policy: ERDF & ESF 2000-2006

As the closure of the 2000-2006 period is in the completion stage, a useful comparison of the overall results of the corrective actions with the total monies spent can be made and thus a more complete view of the impact of corrective mechanisms is possible. For the ERDF and ESF funds at the end of 2013 the combined amount of financial corrections, based on Commission supervision work only, was EUR 8.8 billion. This corresponds to about 4.5% of the allocations (EUR 196.9 billion) at end 2013. The correction rate increases to 5.1% of allocations when considering the additional financial corrections reported by Member States and related to their own control activity.

Financial corrections imposed at the closure stage by the Commission represent roughly one third of the total financial corrections imposed by the Commission for that programming period. This includes amounts of corrections in progress at end 2013 corresponding to 0.8% of the allocations (EUR 1 502 million), which are covered by closure letters formally communicated to Member States authorities but not yet accepted by Member States. This data updates the figures provided by the concerned Directorates General to the European Parliament in their report[8] dated 12/04/2013 on "Financial corrections carried out for ERDF and ESF on 2000-2006 programmes".

[8] Ares(2013) 689652

Table 4.2.4: Programming period 2000-2006 - ERDF & ESF Financial corrections confirmed and in progress at 31/12/2013; Breakdown by Member State

EUR millions

Member State	ERDF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Financial corrections in progress (closure letters sent)	Total financial corrections imposed for 2000-2006	Percentage of financial corrections in relation to the ERDF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	1 945	*1.0%*	15	0	16	0.8%	0.2%
Czech Republic	1 456	*0.7%*	5	6	11	0.8%	0.1%
Denmark	570	*0.3%*	1	-	1	0.1%	0.0%
Germany	26 960	*13.7%*	50	0	50	0.2%	0.6%
Estonia	305	*0.2%*	2	-	2	0.5%	0.0%
Ireland	3 067	*1.6%*	21	142	163	5.3%	1.9%
Greece	20 211	*10.3%*	1 154	66	1 221	6.0%	13.9%
Spain	40 686	*20.7%*	3 246	260	3 506	8.6%	40.0%
France	14 825	*7.5%*	332	23	355	2.4%	4.1%
Italy	27 501	*14.0%*	1 229	1 354	2 582	9.4%	29.5%
Cyprus	53	*0.0%*	-	-	-	0.0%	0.0%
Latvia	518	*0.3%*	4	-	4	0.8%	0.1%
Lithuania	773	*0.4%*	3	-	3	0.3%	0.0%
Luxembourg	71	*0.0%*	2	-	2	2.6%	0.0%
Hungary	1 695	*0.9%*	12	-	12	0.7%	0.1%
Malta	57	*0.0%*	-	-	-	0.0%	0.0%
Netherlands	2 702	*1.4%*	44	-	44	1.6%	0.5%
Austria	1 647	*0.8%*	0	0	0	0.0%	0.0%
Poland	7 032	*3.6%*	180	-	180	2.6%	2.1%
Portugal	18 178	*9.2%*	190	-	190	1.0%	2.2%
Slovenia	215	*0.1%*	2	-	2	0.9%	0.0%
Slovakia	1 245	*0.6%*	44	1	45	3.6%	0.5%
Finland	1 789	*0.9%*	0	-	0	0.0%	0.0%
Sweden	1 634	*0.8%*	12	-	12	0.7%	0.1%
United Kingdom	16 129	*8.2%*	293	1	294	1.8%	3.4%
Interreg	5 645	*2.9%*	26	41	67	1.2%	0.8%
Total	**196 911**	***100.0%***	**6 866**	**1 895**	**8 761**	**4.5%**	**100.0%**

Four Member States present a rate of correction above the average of 4.5% and represent 85 % of the total amount of corrections and 47% of the total contributions received. It is worth underling that a large majority of the problems leading to the financial corrections reported by the Commission for these Member States at the time are now solved. This is in particular the case, for example, for EUR 2.6 billion of ERDF corrections reported for Spain (for deficiencies found by the Commission in the 2000-2006 Spanish management and control systems which have been addressed and are not present anymore in the 2007-2013 operational programmes) and EUR 1.1 billion of ERDF corrections for Greece (a result of the measures taken to resolve the deficiencies in tendering for public works and contract implementation before 2005). For Italy and Ireland, the majority of the corrections reported are corrections "in progress", proposed by the Commission at the closure stage and contested by the Member State with the presentation of additional information for consideration. A significant part of these corrections for Italy relate to unfinished projects.

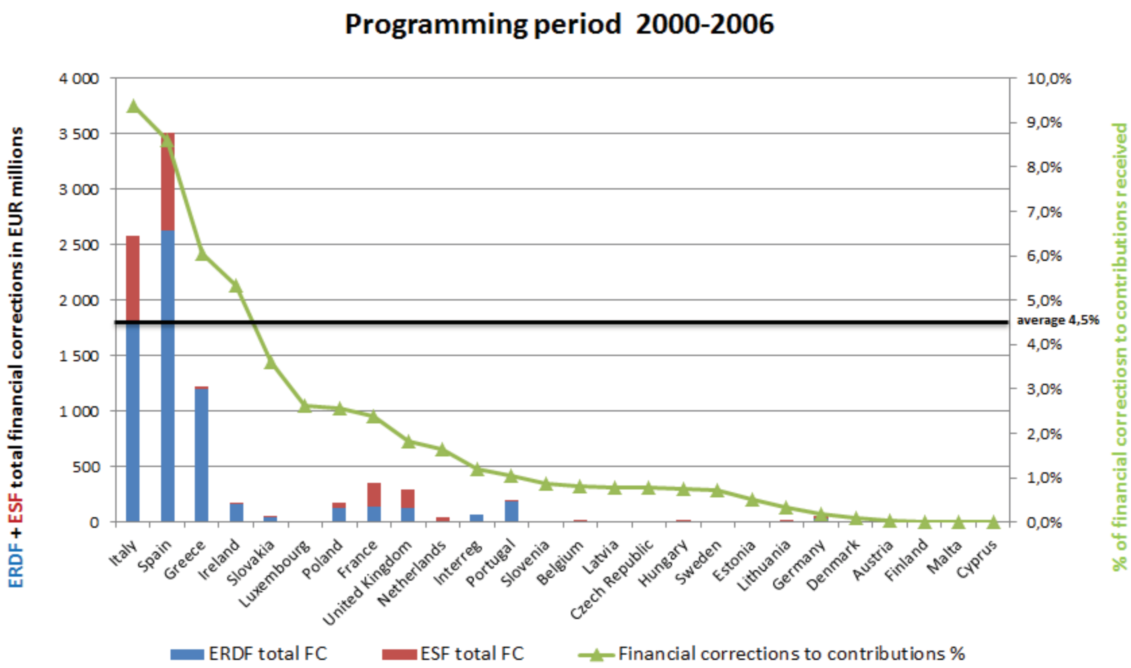
With regard to **ESF**, the aim of DG EMPL for the future is to move further from the need to correct errors to a situation where errors are avoided. This is particularly important for Member States where financial corrections have been the highest in recent years, such as Spain, Italy and Romania (see Table **4.2.4** above and table **4.2.5** below).

Considering the important and recurring number of reservations related to the Spanish programmes, DG EMPL in 2011 decided to launch a dedicated action plan towards the

Spanish ESF implementing authorities, in particular to stimulate the full use of all simplification opportunities offered by the EU regulation and to remove unnecessarily more stringent national eligibility rules (e.g. for employment aid schemes). A working group composed of audit staff and geographical desk officers was created to monitor the effective implementation of the agreed actions. Similar activities have been undertaken in Italy. Other examples of close cooperation with Member States in order to address the root causes of the recurring problems identified include Romania, where the Commission worked together with national authorities in order to strengthen their management and control systems for the previous and new programming periods.

From a broader perspective, the enhanced regulatory framework for 2014-2020, including in particular, the annual assurance package and the possibility to use net financial corrections in case of serious deficiencies, coupled with the continuation of the existing strict policy on interruptions and suspensions and the strong encouragement of the utilisation of all simplification opportunities, should result in a further improvement of the implementation of the European Structural and Investment Funds (ESIF) in the new programming period. DG EMPL will also build on the efforts initiated in recent years to help these Member States improve their systems by using best practice available.

Graph 4.2.4: Member States' cumulative financial corrections confirmed and in progress at 31/12/2013 for ERDF & ESF programming period 2000-2006 as compared to contributions received



4.2.5 Cohesion Policy: ERDF/CF & ESF 2007-2013

As the 2007-2013 programming period has not reached the closure stage, it is normal that the cumulative amounts corrected to date are much lower than for the 2000-2006 period. This reflects the fact that the most significant financial corrections are made at closure. The coming years should see the amounts below increase. Reference is also made to the corrections made by Member States in this period – see section **7**.

Table 4.2.5: Programming period 2007-2013 – ERDF/CF & ESF Financial corrections confirmed and in progress at 31/12/2013; Breakdown by Member State

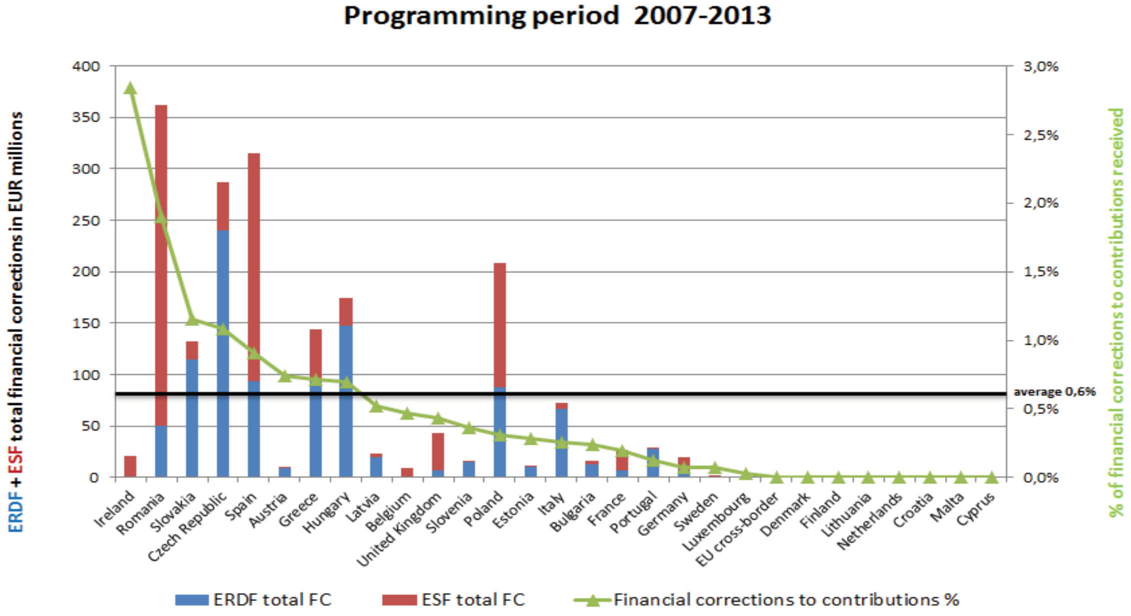
EUR millions

Member State	ERDF/CF+ESF contribution amount for 2007-2013	% of contribution amount to total contributions	Financial corrections confirmed	Financial corrections in progress (closure letters sent)	Total financial corrections imposed for 2007-2013	Percentage of financial corrections in relation to the ERDF/CF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	2 063	*0.6%*	10	0	10	0.5%	0.5%
Bulgaria	6 674	*1.9%*	8	8	16	0.2%	0.8%
Czech Republic	26 540	*7.6%*	285	2	287	1.1%	15.0%
Denmark	510	*0.1%*	0	-	0	0.0%	0.0%
Germany	25 488	*7.3%*	19	0	19	0.1%	1.0%
Estonia	3 403	*1.0%*	10	-	10	0.3%	0.5%
Ireland	751	*0.2%*	21	0	21	2.8%	1.1%
Greece	20 210	*5.8%*	144	-	144	0.7%	7.5%
Spain	34 649	*10.0%*	276	39	316	0.9%	16.5%
France	13 449	*3.9%*	26	0	27	0.2%	1.4%
Croatia	858	*0.2%*	-	-	-	0.0%	0.0%
Italy	27 923	*8.0%*	72	0	72	0.3%	3.7%
Cyprus	612	*0.2%*	-	-	-	0.0%	0.0%
Latvia	4 530	*1.3%*	23	-	23	0.5%	1.2%
Lithuania	6 775	*2.0%*	0	-	0	0.0%	0.0%
Luxembourg	50	*0.0%*	0	-	0	0.0%	0.0%
Hungary	24 908	*7.2%*	174	-	174	0.7%	9.1%
Malta	840	*0.2%*	-	-	-	0.0%	0.0%
Netherlands	1 660	*0.5%*	-	-	-	0.0%	0.0%
Austria	1 204	*0.3%*	2	7	9	0.7%	0.5%
Poland	67 186	*19.3%*	205	3	208	0.3%	10.9%
Portugal	21 412	*6.2%*	1	26	28	0.1%	1.4%
Romania	19 058	*5.5%*	358	5	362	1.9%	18.9%
Slovenia	4 101	*1.2%*	14	1	15	0.4%	0.8%
Slovakia	11 496	*3.3%*	102	30	132	1.1%	6.9%
Finland	1 596	*0.5%*	0	-	0	0.0%	0.0%
Sweden	1 626	*0.5%*	1	-	1	0.1%	0.1%
United Kingdom	9 891	*2.8%*	36	7	43	0.4%	2.2%
Cross-border	7 987	*2.3%*	0	-	0	0.0%	0.0%
Total	***347 450***	***100.0%***	***1 790***	***128***	***1 918***	***0.6%***	***100.0%***

As 2007-2013 programmes are multi-funds, no split is given between ERDF and CF in the above table.

Eight Member States present a rate of correction above the average of 0.6% and represent 75% of the total amount of financial corrections, and 40% of the contributions received.

Graph 4.2.5: Member States' cumulative financial corrections confirmed and in progress at 31/12/2013 for ERDF/CF & ESF programming period 2007-2013 as compared to contributions received



Concerning **ERDF/CF** and the **Cohesion Fund**, in 2013, the Commission continued to exercise rigorously its supervisory role by ensuring that Member States address the identified weaknesses in their management and control systems. The objective was to identify and address any major outstanding material risk so as to ensure an appropriate protection of the EU budget, and to arrive at an acceptable residual risk by the closure of programmes. This resulted in an overall improvement for the 2007-2013 programming period compared to 2000-2006, and in a positive trend as regards the incidence of errors in Cohesion expenditure over the years thanks to a series of actions taken by the Commission in cooperation with Member States.

Firstly, the capacity of national management and control systems to prevent, detect and correct errors before expenditure is declared to the Commission has been strengthened. On the one hand, the Commission services invested significant management and audit efforts in improving the functioning of Member States' first level verifications. On the other hand, the 2007-2013 regulations introduced the obligation for audit authorities to use statistical samples for audits of operations. This, associated with exhaustive audit supervision and guidance from the Commission leading to considerable capacity building efforts, very much helped to improve the reliability of error rates reported on a yearly basis to the Commission in the Member States' Annual Control Reports and used as indicators on the effectiveness of management and control systems in the Commission assurance process. The Commission audit work could thus shift towards obtaining assurance on the work of audit authorities, concentrating on the weakest ones or on those ensuring the highest coverage of EU Funds. In addition, the Commission is continuously following-up identified weaknesses and monitoring that the work quality of the audit authority remains satisfactory when the single audit status has been granted to a programme. The close cooperation with audit authorities ensures a timely detection and solution of problems already at national level. It also contributes to the improvement of the assurance process at Commission level.

The Commission also carries out its own on-the-spot risk-based audits, including audits at the level of beneficiaries, if it considers that certain deficiencies (concerning in particular complex issues such as public procurement or State aid issues for ERDF/CF) could remain either undetected or not detected in a timely manner. This includes verifying implementation of remedial actions plans in case of interruptions and financial corrections. These audits contribute to improvements in the management and control systems for programmes put under reservation ensuring that past and future expenditure declared to the Commission is legal and regular. It also provides an additional, more direct source of assurance to the Commission.

Secondly, the improved capacity to detect problems has been pro-actively used to improve the functioning of Member States' management systems, while implementing the necessary financial corrections. The systematic and consistent use by the Commission of the legal possibility to interrupt and/or suspend payments to programmes with significant management weaknesses since 2008, or the decision of the Directors General to issue warning letters when no payments are pending, has avoided EU reimbursements of expenditure with a high risk of error, while also providing strong incentives to Member States to rapidly improve their management and control systems. Indeed, interruptions and suspensions are only terminated after reasonable assurance is obtained on the progress made in the implementation of the necessary measures including implementation of financial corrections (see section **6**). At the same time, the joint work of the EU and Member States' control authorities has allowed for better agreement on, and implementation of, the necessary financial corrections so as to duly protect the EU budget against irregular expenditure, including through flat-rate corrections. Member States were, in turn, able to re-use the EU resources affected by these corrections for other projects. However, such corrections still have a major financial and political impact in the Member States concerned since irregular expenditure has to be funded by national resources unless it is recovered from beneficiaries.

In order to mitigate the remaining risks and weaknesses identified in Member States and programmes at the level of managing authorities, DG REGIO has also taken initiatives to implement additional capacity building actions for the 2007-2013 programmes. A new Competence Centre on administrative capacity building was established at the beginning of 2013 in order to support public administrations managing ERDF and the Cohesion Fund. For public procurement, the Competence Centre has established a Public Procurement Action Plan in coordination with DG Internal Market and the other ESI Funds. Actions are also taken to improve the good implementation of State aid rules, while an exchange platform between administrations managing the funds is being developed in order to capitalise on existing good practices on the ground.

Concerning the **ESF**, the 2013 developments confirm a long term trend of decreasing exposure of DG EMPL expenditure to error, while the volume of payments has significantly increased. In addition to the common factors mentioned above for ERDF and the Cohesion Fund, the probability of occurrence of errors has been significantly reduced since the introduction of the possibility to declare ESF-related expenditure on the basis of simplified cost options. The uptake of this method has increased in recent years, thanks to the significant efforts made by the Commission in order to persuade Member States to fully leverage the simplification opportunities offered by the 2007-2013 Structural Funds regulations, which have been further strengthened for the 2014-2020 programming period. At the same time, the Commission has actively worked in close cooperation with a number of Member States to remove unnecessarily complex national eligibility rules and introduce the necessary changes in the national legislation. This has notably been the case in Spain and Italy.

Recognising that there is scope to further strengthen the management and control systems and align between policy areas, a reinforced regulatory framework was adopted for the 2014-2020 programming period. The increased possibility of net financial corrections by the Commission in Cohesion policy, as well as the increased accountability at Member States level, will act as major drivers for further change – see section **5**.

4.3. Recoveries

The tables below provide the amounts of recoveries confirmed and implemented for the period 2009-2013. Both categories show an increasing trend.

Table 4.3.1: Recoveries confirmed 2009-2013

EUR millions

Recoveries	Years					Total 2009-2013	Total 2008-2012
	2009	2010	2011	2012	2013		
Agriculture							
EAGF	163	178	174	162	227	**905**	1 038
Rural Development	25	114	161	145	139	**585**	446
Cohesion	102	24	50	22	83	**280**	228
Internal policy areas	100	188	270	252	393	**1 202**	849
External policy areas	81	137	107	107	93	**524**	463
Administration	9	5	8	7	6	**35**	30
Total	**480**	**646**	**770**	**695**	**941**	**3 530**	**3 053**

Table 4.3.2: Recoveries implemented 2009-2013

EUR millions

Recoveries	Years					Total 2009-2013	Total 2008-2012
	2009	2010	2011	2012	2013		
Agriculture							
EAGF	148	172	178	161	155	**814**	1 015
Rural Development	25	114	161	166	129	**595**	466
Cohesion	102	25	48	14	81	**270**	219
Internal policy areas	100	162	268	229	398	**1 157**	799
External policy areas	81	136	77	99	93	**486**	425
Administration	9	5	2	9	6	**31**	25
Total	**464**	**614**	**734**	**678**	**862**	**3 353**	**2 949**

5. NET FINANCIAL CORRECTIONS AND IMPROVEMENTS PLANNED FOR THE PROGRAMMING PERIOD 2014-2020

5.1. Background

The budget implementation type and the policy area influence how the EU budget is impacted by the different correction mechanisms. But in all cases, the correction mechanisms have the same result – that the EU budget is protected from expenditure incurred in breach of law. A net financial correction is a correction whereby the Member State concerned cannot re-use the corrected and recovered amounts and therefore loses the funds. As a consequence, the EU funding for the expenditure in question is decreased.

Notably under the CAP, the corrective action leads to the return of previously paid amounts in the form of assigned revenue to the EU budget. For Cohesion, the 2007-2013 legislation foresees that the corrected amounts can be re-used, under certain conditions, to fund other eligible projects, thus allowing the goals of the programme to be achieved. Net financial corrections leading to the return of previously paid amounts to the EU budget were generally the exception.

Following the successful operation of net financial corrections in the Agricultural area for many years, the legislator has decided that net financial corrections should be more widely applied to Cohesion Policy for the new programming period 2014-2020. It is to be noted that the Commission will not report net financial corrections (for funds other than Agriculture) before 2016 at the earliest, due to the rhythm of implementation of programmes (first programme accounts are to be submitted by 15 February 2016).

5.2. 2013 net financial corrections: Impact on the EU budget

Table 5.2: Impact of financial corrections & recoveries on the EU Budget

Policy domain	Total amount implemented in 2013 *(in EUR millions)*	Exclusion of expenditure incurred in breach of law (Yes/No)	Reimbursement to EU budget (Yes/No)	Impact on EU budget	Main expenditure budget chapters concerned
Agriculture:	**995**				
EAGF financial corrections	481	Y	Y	Assigned revenue	05 02 05 03
EAGF recoveries	155	Y	Y	Assigned revenue	05 02 05 03
Rural development financial corrections	230	Y	Y	Assigned revenue	05 04
Rural development recoveries	129	Y	Y*	-	-
Cohesion Policy:	**1 839**				
Financial corrections implemented by withdrawals	775	Y	N	-	-
Financial corrections implemented by recoveries	489	Y	Y	Assigned revenue	13 03 13 04 04 02 11 06
Financial corrections implemented by de-commitment/ deduction at closure	494	Y	Y**	-	-
Recoveries	81	Y	Y	Assigned revenue	13 03 13 04 04 02 11 06
Other policy areas:	**500**				
Financial corrections implemented by de-commitment/ deduction at closure	1	Y	N**	-	-
Financial corrections implemented by recoveries	2	Y	Y	Assigned revenue	18 03
Recoveries	497	Y	Y	Assigned revenue	Various
TOTAL	**3 334**				

* Under the current legal framework of EAFRD, recoveries are compensated with payments, releasing amounts that can be spent again for the Member State concerned; at closure (after 2015) no re-use will be possible and a recovery order will have to be issued. For SAPARD and TRDI, recoveries are made via the issue of recovery orders since the funds are now in a closure stage.

** Under the current legal framework of Cohesion policy in particular, but also for other policy areas, financial corrections can lead to reduction in expenses/envelope (but not a real cash-flow back to the EU budget) only:
- If Member States are unable to present sufficient eligible expenditure;
- After the closure of programmes where replacement of expenditure is no longer possible;
- In case of disagreement with the Commission.

Net financial corrections lead to "revenue arising from the repayment,…, of amounts wrongly paid" and are treated as assigned revenue[9]. Apart from two exceptions, the Financial Regulation[10] does not include specific provisions on how the assigned revenue generated by a net financial correction can be used. However, Article 7 of the Rules of Application of the Financial Regulation (RAP) determines that the budget commentary shall show which budget lines may receive the appropriations corresponding to the assigned revenue. In summary, assigned revenue goes back to the budget line or Fund from which the expenditure was originally paid and may be spent again, see table below, but they are not earmarked for specific Member States.

5.3. Impact on national budgets

Under shared management, all financial corrections and recoveries have an impact on national budgets regardless of their method of implementation. It has to be underlined that even if no reimbursement to the EU budget is made, the impact of financial corrections is always negative at Member State's level. This is because in order not to lose EU funding, the Member State must replace ineligible expenditure by eligible operations. This means that the Member State bears, with its own resources (from the national budget), the financial consequences of the loss of EU co-financing of expenditure considered ineligible under the EU programme rules (in the form of opportunity cost) unless it recovers the amounts from individual beneficiaries. This is not always possible, for example in the case of flat-rate corrections at programme level (due to deficiencies in the national administration managing the programme) which are not directly linked to individual irregularities at project level.

5.4. Agriculture

5.4.1 Situation up to 2013

According to the CAP legal framework, financial corrections imposed by the Commission on Member States upon completion of a conformity clearance procedure have always been and will continue to be net corrections since the first clearance of accounts decision for both EAGF and EAFRD.

For EAGF, every year the Commission adopts between two and four conformity clearance decisions on a package of individual financial corrections. In 2013 the Commission adopted four such decisions, covering 147 individual net financial corrections for a total amount of EUR 1.1 billion (2.4% of the CAP expenditure budgeted for 2013) – see table **3.1**, confirmed amounts. 70% of the financial corrections adopted are concentrated in four Member States: Greece, France, UK and Poland. However this can change from year to year depending on the evolution of the quality of the national and regional control systems. A total amount of EUR 636 million was implemented in 2013.

For EAGF, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission to the Member State concerned in the second month following the Commission decision on a financial correction. For EAFRD, the financial corrections are reimbursed by Member States to the EU budget. In 2013 assigned revenues from EAFRD financial corrections amounted to EUR 212 million, with a further EUR 18 million for the Temporary Rural Development Instrument (TRDI).

To ease the strain on Member States' budgets, an option was introduced whereby corrections of a certain volume can be executed in three annual instalments on request of

[9] Art. 21(3)(c) of the Financial Regulation.
[10] For European Agricultural Guarantee Fund (EAGF) the appropriations are assigned to the ''origin of the revenue'' (Art. 174(1) FR) and for financial instruments to the ''same financial instrument'' (Art.140(6) FR).

the Member State concerned. Execution in instalments has been so far accepted for Bulgaria, Greece, Portugal, Romania, Spain and Lithuania.

Additionally, where undue payments are or can be identified as a result of conformity clearance procedures, Member States are required to follow them up by recovery actions against the final beneficiaries. In 2013, the irregular amounts recovered from beneficiaries amounted to EUR 94 million for EAGF and EUR 103 million for Rural Development – see also section **7.1**.

5.4.2 Improvements planned for period 2014-2020

Focus on more risky expenditure

As a result of the higher error rate reported by the Court in its DAS 2011 and DAS 2012, the number of EAFRD audits were increased significantly in 2013 (35) and again in 2014 (to 45), thus double the 2012 amount (23). Another consequence is that some Member States are audited every year, until all serious deficiencies are remedied.

The audit strategy for the period 2014-2020 is based on a reinforced risk analysis and a rolling three-year programme which will ensure a better coverage of the overall expenditure, notably to achieve a better audit coverage, and targeting mainly the serious and/or systemic deficiencies in the Member States' management and control systems. More intensive audit activities will continue in the most risky areas with a system-based approach.

No discretion and fewer flat-rate corrections

Any identified risk to the EU budget will systematically trigger a net financial correction since the Commission is legally bound to exclude any identified illegal expenditure from EU financing. Both EAGF and EAFRD net financial corrections are governed by the new CAP Horizontal Regulation which tightens the procedure even more, to the extent that the method and the criteria for fixing the amount of financial corrections is now set out in the delegated act.

Both the Financial Regulation and the new CAP Horizontal Regulation provide for a ranking of types of net financial corrections where flat-rate corrections may only be used if calculated or extrapolated corrections cannot be established with proportionate efforts.

Shorter conformity procedure

The Commission will continue with actions aimed at streamlining the whole procedure. Firstly, the new CAP Horizontal Regulation describes precisely the nature, scope and sequence of the successive steps, as well as the different types of financial corrections. Secondly, provisions in the delegated act (method and criteria for calculating the financial correction) and implementing acts (details of the conformity procedure, with mandatory deadlines) are intended to further streamline the legal framework and limit the risk of unnecessary delays. Thirdly, on that stronger basis, DG AGRI will intensify its monitoring of the progress of the conformity procedures to ensure a strict respect of the deadlines.

Reinforcement of the Commission's supervisory role

The CAP regulatory tools have been reinforced for the financial period 2014-2020, including: having a single system of monitoring and evaluation for both pillars, streamlining/speeding up of the conformity clearance procedure, better definition of the criteria and methodology for applying net financial corrections, introducing a new model for assurance by the Certifying Body (CB) on the legality and regularity of declared expenditure based on representative samples.

Simplified payment schemes

DG AGRI will continue its efforts to identify the root causes of errors (an ad-hoc task force was set-up), and to propose and encourage the widest possible use of the simplified payment schemes that are less prone to errors.

5.4.3 Interruptions and suspension for CAP will be aligned with Cohesion Policy Funds

Under the new CAP Horizontal Regulation, a new legal framework for interruptions and suspensions of CAP funds entered into force in 2014 which will strengthen the Commission's powers to suspend EU financing in cases where risks of irregular payments have been identified. Accordingly the Commission may reduce or <u>suspend</u> monthly (EAGF) or interim (EAFRD) payments where "*one or more of the key components of the national control system in question do not exist or are not effective due the gravity or persistence of the deficiencies found*" (or there are similar serious deficiencies in the system for the recovery of irregular payments) and:

- either the deficiencies are of a continuous nature and have already been the reasons for at least two financial correction decisions,

<u>*or*</u>

- the Commission concludes that the Member State concerned is not in a position to implement the necessary remedial measures in the immediate future, in accordance with an action plan with clear progress indicators to be established in consultation with the Commission.

For EAGF, as according to the new rules, monthly payments to Member States may continue until the conditions for a suspension decision are met, the rhythm of the monthly payments would not allow for using an interruption procedure. However, for EAFRD, the new Common Provisions Regulation (CPR) also provides for the <u>interruption</u> of interim payments by the Authorising Officer by Delegation (i.e. the Director-General) as an additional, quick and reactive tool in case of concerns on the legality and regularity of payments.

The combination of both preventive actions (interruption for EAFRD, suspension for both Funds) and net financial corrections will allow the Commission to act promptly and effectively and protect the EU budget: no new payments will be made or they will be reduced up to the level of the estimated risk during the suspension; irregular payments already made will be fully covered via the net financial corrections.

5.5. Cohesion

5.5.1 Situation up to 2013

Due to the legal framework, for Cohesion Policy, net financial corrections leading to the return of previously paid amounts to the EU budget were generally the exception. However, as can be seen in table **5.2**, in 2013 EUR 570 million of financial corrections and recoveries from Member States were made that were treated as assigned revenue under Cohesion Policy. This is a large increase from 2012 (EUR 63 million) and is due to a number of factors.

For **ESF** in 2013, the amount of financial corrections implemented via recovery order totalled EUR 282 million. More recoveries took place in 2013 mainly due to the closure of the 1994-1999 programmes (EUR 153 million) and the most complex 2000-2006 programmes (EUR 82 million) related to Spain.

For **ERDF** 1994-1999 amounts reimbursed by Member States increased from around EUR 0.5 million in 2012 to EUR 22 million in 2013 due mainly to the closure of some old outstanding programs for Italy (EUR 14.6 million) and Belgium (EUR 7.5 million). For ERDF 2000-2006, amounts reported increased by from EUR 34 million in 2012 to EUR 170 million in 2013 due mainly to the closure of ERDF programmes for Italy (EUR 82 million) and Spain (EUR 80 million).

The remaining amounts relate to EAGGF Guidance and FIFG/EFF.

5.5.2 Improvements planned for period 2014-2020

A significant change is introduced for the 2014-2020 programming period: under certain conditions laid down in Article 145(6) of the CPR, the Commission must adopt a decision applying a net financial correction. In such cases the current possibility for the Member State to accept the correction and to re-use the EU funds in question is removed, while net financial corrections were only applied in exceptional cases before the 2014-2020 period under Cohesion policy.

Firstly, the obligation to impose net financial corrections in the 2014-2020 period will therefore introduce an additional incentive on the side of the Member States to further improve their management and control since these corrections will reduce the funds earmarked for a particular Member State when serious deficiencies not previously detected, reported nor corrected at Member State level are discovered by EU audits.

Secondly, with the new 2014-2020 financial control procedures, Member States will have strong incentives to carry out timely, effective and robust controls, including management verifications and audits, before certification of the annual programme accounts. When drawing up the accounts, the management declaration and the audit opinion, the programme authorities should obtain reasonable assurance through such control procedures that all material irregularities have been corrected and that possible serious deficiencies, at any level of the management and control system, have been addressed, or are being addressed. Audit authorities will play a reinforced role in presenting audit opinions every year for each programme: their audit opinions will be based on annual residual risks of error in expenditure included in the accounts following corrections applied to the expenditure certified in the accounts by the certifying authorities, as a result of all audits and controls before closing the accounts. Residual error rates reported by Member States will be assessed and validated by the Commission's DGs when preparing their Annual Activity Reports.

Within the new financial management cycle, 15 February following each accounting year[11] is the cut-off date for the application of the new provision on net financial corrections in relation to expenditure of the preceding accounting year. By that date, Member States must submit to the Commission the programme's accounts, management declaration, audit opinion and corresponding reports. This means that all national control and verification work has to be finalised so that the Member States can certify the legality and regularity of expenditure included in their annual accounts.

Financial corrections for irregularities/deficiencies identified before 15 February each year

The rules of the 2014-2020 programming period concerning financial corrections for irregularities identified before 15 February each year are similar to those of the 2007-2013 programming period. The objective is to maintain the incentive for Member States to detect and correct irregularities themselves, and so to exclude irregular amounts from expenditure declared to the Commission, and thus avoid a loss of EU funds. Irregular

[11] This date can be extended to 1st March in exceptional cases at the request of the Member State, cf. Article 59(5) of the Financial Regulation.

expenditure detected through national verifications or audits has to be deducted from the accounts to be submitted to the Commission by 15 February each year. Having done so, the Member State will be able to re-use the amounts thus corrected for new eligible operations under the programme, just as in the 2007-2013 programming period.

In the cases of EU audits carried out on expenditure before the certified accounts are submitted to the Commission and which detect irregularities requiring financial corrections, two scenarios are possible, as in the current period:

> (1) If the Member State agrees on the financial correction to be made and takes action, it will be able to re-use the corrected amounts for new eligible operations (Article 145(4) CPR);
>
> (2) If the Member State does not agree, the Commission will adopt a financial correction decision, following the contradictory procedure provided for in Article 145 of the CPR. This financial correction will always be net and the programme and Member State allocation will be reduced proportionally. The Member State will not be able to re-use this amount.

Commission assessment of legality and regularity on the basis of the accounts, audit opinion and accompanying documents submitted by 15 February each year

The introduction of the new provision on annual reporting by Member States and on net financial corrections implies changes in the way the Commission will carry out its responsibilities. The Commission will assess and review the audit opinions (elements relating to the functioning of systems and legality and regularity) and annual control reports, including the reported error rates, as well as the management declarations and annual summaries, within three months of reception of the documents provided by 15 February. The Commission will, on this basis, make its risk-assessment and establish its audit plan determining the required risk-based audits targeted to the selected high-risk programmes.

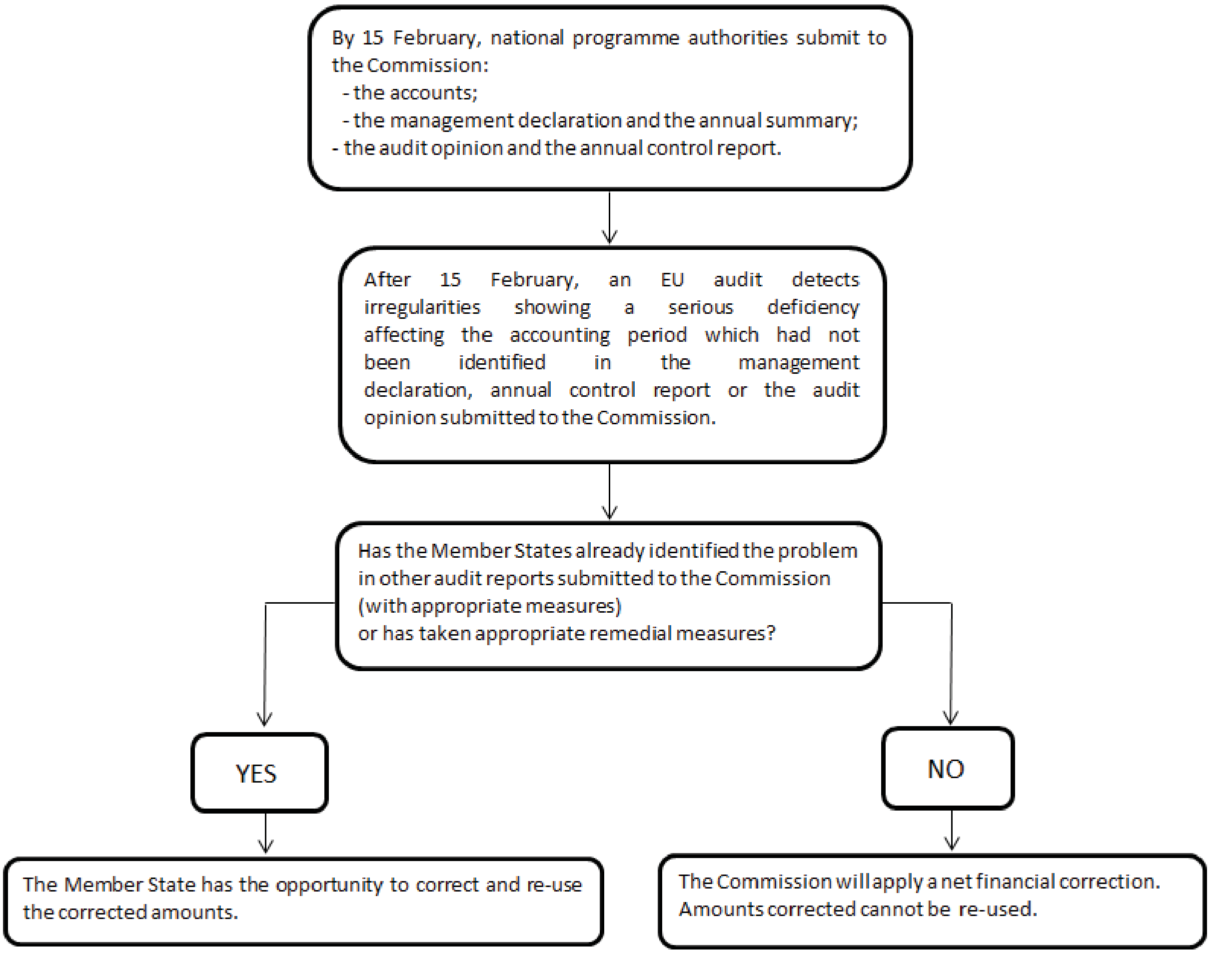
The Commission will carry out its risk-based audits by the end of the calendar year in which the Member State submitted the audit opinions, management declarations and related documents. It will examine, through desk and on-the-spot audit work and re-performance of samples of national audits including at the level of operations, whether reported information is reliable and therefore constitutes an adequate basis for assurance on legality and regularity. Priority will be given to auditing programmes that have a material impact on the Commission's payments for the corresponding fund in the accounting year. The past performance of Member States authorities will also be taken into account in the risk-based criteria for the definition of audit priorities.

Identification by EU audits of irregularities indicating a serious deficiency <u>after</u> 15 February each year

If EU (Commission including OLAF or ECA) audits carried out after 15 February each year detect irregularities demonstrating a serious deficiency affecting the corresponding accounting year, the Commission has the obligation to take a formal decision applying a financial correction, if the conditions defined in the regulation are fulfilled. The Commission has no discretionary power in the matter. <u>The resulting financial correction will always be net</u>. This means that the allocation to the programme and the total allocation of the Member State in question will be automatically reduced by the amount of the correction, even if during the contradictory procedure the Member State accepts the audit results and agrees to the financial correction. As a consequence there is no possibility for the concerned Member State to re-use the amount subject to such a net financial correction in another programme.

The conditions set-out in the regulation obliging the Commission to apply net financial corrections are the following:

– The irregularities detected by EU audits demonstrate a serious deficiency affecting an accounting period for which the Member State submitted a management declaration and an audit opinion which did not identify the problem.
– After 15 February and prior to detection by the EU audits, the Member State has not identified the problem in other audit reports submitted to the Commission (with the appropriate measures) or has not taken appropriate remedial measures.



When the conditions for a net financial correction are met, the Member State will have the right to present its observations within two months[12], and any additional audit evidence in a hearing, before the financial correction decision is adopted by the Commission. Finally, independently from whether the Member State eventually accepts or not the Commission position as regards the required financial correction, the Commission has to adopt a formal decision within maximum six months of the hearing with the Member State.

Under the CPR, the Commission is empowered to lay down in a delegated act detailed rules concerning the criteria for the assessment of the functioning of management and control systems, including the main types of serious deficiencies, the criteria for establishing the level of financial correction to be applied and the criteria for applying flat-rates or extrapolated financial corrections. The delegated act adopted on 3 March 2014 (Commission Delegated Regulation (EU) 480/2014) is based on the framework for the

[12] With an additional two months allowed in case of proposed extrapolated or flat-rate correction for the Member State to demonstrate that the actual extend of the irregularity is less than that assessed by the Commission.

assessment of the key requirements of management and control systems and for setting the level of flat-rate corrections. The Commission therefore has a stronger legal basis compared to the current programming period which included similar elements under a non-legally binding guidance note. Moreover, the criteria for the assessment and the levels of flat-rate corrections will be well-known in advance to all programme stakeholders.

The approach foreseen by the delegated act is that the Commission will conclude on the existence of a serious deficiency based on its assessment of the system key requirements when at least one of the main system key requirements or two of the other system key requirements are considered as working partially or not functioning. In such cases, it will apply a flat-rate financial correction, unless the Member State can provide, within four months, a more precise estimate of the risk through the audit of an appropriate and representative sample of the concerned expenditure as a basis for an extrapolated correction.

Flat-rate correction percentages already applied during previous programming periods are maintained, i.e. 5%, 10%, 25% and 100%. This approach has been confirmed by the case law of the Court of Justice. Nonetheless the decision to apply any level of financial correction must take account of proportionality and of the residual risk to the EU budget, as required in the CPR. Therefore, where the application of a flat-rate fixed in accordance with the delegated act would be disproportionate, the Commission shall apply a reduced level of flat-rate correction.

Increased level of correction for repeated deficiencies

When the same deficiencies have been detected by EU audits despite a previous financial correction, the Commission has included a provision in the delegated act allowing for a higher rate of correction than in the case of the first correction. This is a clear message to Member States that they need to ensure a rapid and permanent adjustment of their management and control systems once a serious deficiency has been detected.

Other measures already in force will continue to be applied

The two new possibilities offered in the enhanced regulatory framework for 2014-2020 as described above, i.e. the possibility to impose net financial corrections, and the introduction of the annual assurance package, will be coupled with the continuation of the existing strict policy on interruptions and suspensions, and the strong encouragement of the utilisation of all simplification opportunities. This should result in a further improvement of the implementation of the Cohesion policy in the new programming period.

6. PREVENTIVE MEASURES

6.1. Agriculture

For Agriculture, as well as the Commission's corrective action via net financial corrections, Member States have put in place structures and procedures to protect the EU budget. As explained under section **5.4.3** above, under the new CAP Horizontal Regulation, a new legal framework for interruptions and suspension of CAP funds will enter into force in 2014.

Additionally, a compulsory administrative structure has been set up at the level of Member States:

- The management and control of the expenditure is entrusted to dedicated paying agencies, which must be accredited by the Member State prior to their operations on the basis of a comprehensive set of accreditation criteria laid down in EU law. The paying agencies' compliance with these criteria is subject to a detailed review by an external audit body, as well as to a constant supervision by the competent national authority, and clear procedures exist as to how to address and remedy any problem.

- Moreover, the heads of the paying agencies are required to provide an annual statement of assurance which covers the completeness, accuracy and veracity of the paying agency's accounts, as well as a declaration of assurance on the legality and regularity of the underlying transactions. These statements of assurance are verified by independent certification bodies, which are required to provide an opinion thereon. For those Member States with only one paying agency, this statement of assurance received from the director of the paying agency, together with the certificate and opinion of the certification body, constitute by definition the "annual summary" referred to in Article 53(b) of the Financial Regulation.

Member States are required to put in place systems for ex-ante controls and dissuasive sanctions:

- For each aid support scheme financed by EAGF or EAFRD, ex-ante administrative and on-the-spot checks are performed and dissuasive sanctions are applied in case of non-compliance by the beneficiary. These control systems are to be applied by the paying agencies and encompass common features and special rules tailored to the specificities of each aid regime. They are designed to provide for exhaustive ex-ante administrative controls of 100% of aid applications, cross-checks with other databases where appropriate, as well as on-the-spot checks of pre-payments on a sample of transactions ranging between 1% and 100% of the population, depending on the risk associated with the regime concerned. If on-the-spot checks reveal a high number of irregularities, additional controls must be carried out.

- In this context, the most important system is the IACS, which covered 92 % of EAGF expenditure in financial year 2013 (91.4 % in 2012). To the extent possible, the IACS is also used to manage and control Rural Development measures relating to parcels or livestock, which accounted for 44.7 % of payments under the EAFRD in 2013. For both Funds, the IACS covered 81.4 % of total expenditure in 2013.

- A detailed reporting from Member States to the Commission on the checks carried out by them and on the sanctions applied is foreseen in the legislation. The reporting system enables a calculation, for the main aid schemes, of the level of error found by Member States at the level of the final beneficiaries. The accuracy of the statistical information reported and the quality of the underlying on-the-spot checks is also verified and validated by the certification bodies for direct aids and Rural Development measures.

The latter reports from the Member States disclose the preventive effect of the ex-ante administrative and on-the-spot controls carried out:

Table 6.1: Member States' own corrections applied before payments to beneficiaries are executed

EUR millions

Member State	EAGF Market Measures	EAGF Direct Payments	EAFRD	Total 2013
Belgium	0.33	1.00	0.81	2.14
Bulgaria	2.14	9.31	5.60	17.05
Czech Republic	0.70	0.23	1.34	2.27
Denmark	0.12	1.35	0.78	2.25
Germany	4.26	5.52	7.57	17.35
Estonia	0.03	0.40	1.94	2.37
Ireland	0.00	1.73	0.79	2.52
Greece	0.24	6.03	3.53	9.80
Spain	23.75	4.03	19.37	47.15
France	19.13	2.90	3.79	25.82
Croatia	0.00	0.00	0.00	0.00
Italy	1.93	18.38	7.58	27.89
Cyprus	0.00	0.64	0.22	0.86
Latvia	0.00	1.78	1.92	3.70
Lithuania	0.07	0.78	3.00	3.85
Luxembourg	0.00	0.04	0.09	0.13
Hungary	4.02	6.43	5.08	15.52
Malta	0.02	0.01	0.08	0.11
Netherlands	21.76	0.56	2.26	24.57
Austria	0.78	0.80	3.49	5.07
Poland	10.23	8.40	12.67	31.30
Portugal	0.44	0.92	5.46	6.82
Romania	2.67	6.70	9.81	19.17
Slovenia	0.66	0.15	1.12	1.93
Slovakia	0.18	1.94	1.15	3.27
Finland	0.01	0.44	0.86	1.31
Sweden	0.68	1.28	1.80	3.77
United Kingdom	0.00	2.52	3.39	5.90
Total	**94.14**	**84.28**	**105.48**	**283.90**

6.2. Cohesion

In addition to the corrective mechanisms mentioned above, the Commission uses a number of preventive mechanisms to protect the EU budget before it makes payments to Member States when it is aware of potential deficiencies. These are especially valuable for improving control systems in the Member States and thus reducing the need for future financial corrections by the Commission.

In accordance with Articles 91 and 92 respectively of Regulation 1083/2006 for programming period 2007-2013, under Cohesion Policy, and in addition to making financial corrections and recoveries, the Commission may:

- **interrupt** the payment deadline for a maximum period of 6 months for 2007-13 programmes if:
(a) There is evidence to suggest a significant deficiency in the functioning of the management and control systems of the Member State concerned; or
(b) The Commission services have to carry out additional verifications following information that expenditure in a certified statement of expenditure is linked to a serious irregularity which has not been corrected.

- **suspend** all or part of an interim payment to a Member State for 2007-13 programmes in the following three cases:

(a) There is evidence of serious deficiency in the management and control system of the programme and the Member State has not taken the necessary corrective measures; or
(b) Expenditure in a certified statement of expenditure is linked to a serious irregularity which has not been corrected; or
(c) Serious breach by a Member State of its management and control obligations.
Where the required measures are not taken by the Member State, the Commission may impose a financial correction.

Table 6.2: Interruptions

EUR millions

Fund	Cohesion policy: 2007-2013 programming period							
	Total open cases at 31.12.2012		New cases 2013		Closed cases during 2013		Total open cases at 31.12.2013	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
ERDF & Cohesion Fund	38	1 638	220	4 242	157	4 272	101	1 608
ESF	15	181	25	349	20	258	20	272
EFF	30	108	20	339	40	350	10	97
Total	**83**	**1 927**	**265**	**4 930**	**217**	**4 880**	**131**	**1 977**

The table above presents for the ERDF, the Cohesion Fund, the ESF and the EFF, a view on the evolution of the interruption cases both in number and in amount. The opening balance includes all the cases still open at end 2012, irrespective of the year when the interruption was notified to the Member State. The new cases only refer to the interruptions notified in the year 2013. The closed cases represent the cases for which the payment of cost claims resumed in 2013, irrespective of the year when the interruption started. The cases still open at end 2013 represent the interruptions that remain active at 31 December 2013, i.e. the payment deadline of cost claims is still interrupted pending corrective measures to be taken by the Member State concerned.

Suspensions

Concerning **ERDF** and the **Cohesion Fund** and the 2 suspension decisions still in force at end 2012, the decision was taken in 2013 to lift the suspension for Germany. The suspension decision related to Italy however remains in force at end 2013. 4 new suspension decisions were adopted in 2013: 3 related to Spain were still in force at year-end; one related to Estonia was lifted before the year-end. It should be noted that 2 new suspension decisions were adopted in January 2014, both on programmes implemented in Spain. Concerning **ESF**, 2 suspension decisions adopted in 2012 were still effective at end 2012. The suspension was lifted in 2013 for the Czech Republic, but it remained in force in 2013 for Slovakia. 11 suspension decisions were adopted in 2013. All but one (Germany) were still on-going at year-end (Belgium, the Czech Republic, Spain, France, Italy, Slovakia and the United Kingdom). One suspension decision adopted in 2011 was still on-going at year end (France). There were no suspension decisions taken in 2013 for **EFF**.

Fraud-prevention measures

Fraud, when it occurs, raises significant attention and damages the reputation of the EU. In this respect, an important initiative taken by the Cohesion DGs in 2013/2014 was to hold in December 2013 a conference on anti-fraud measures for all Member States. This was followed by a series of conference in Greece, Romania, Bulgaria, Czech Republic, Slovakia, Italy and Croatia, and others are planned (Slovenia, Spain, Poland, Lithuania, Latvia and Estonia). Furthermore the Commission produced specific guidance to support Member States' fraud risk assessment and developed tailor-made IT tools in order to help them target their anti-fraud efforts on high risk projects. These actions are in line with the increased responsibilities at Member State level arising from the new Cohesion Policy regulation (Article 125(4)(c)) which requires them to "put in place effective and proportionate anti-fraud measures taking into account the risks identified".

7. CORRECTIVE ACTIONS MADE BY MEMBER STATES ON THEIR OWN INITITATIVE

7.1. Agriculture

Regulation (EC) No 1290/2005 on the financing of the CAP (replaced by Regulation 1306/2013) requires Member States to recover sums lost as a result of detected irregular payments and to reimburse these to the EU budget. The recovery procedures, in accordance with the principle of subsidiarity, are wholly the responsibility of the Member States concerned and are thus subject to their national judicial procedures.

Table 7.1: Amounts recovered from final beneficiaries and reimbursed to the EU budget in 2013 following Member States own controls and checks

EUR millions

Member State	EAGF	EAFRD	Total 2013
Belgium	1.57	1.30	2.88
Bulgaria	0.01	1.61	1.62
Czech Republic	0.06	2.02	2.08
Denmark	0.77	0.59	1.36
Germany	6.52	7.97	14.49
Estonia	0.05	1.67	1.71
Ireland	2.71	1.54	4.25
Greece	1.98	0.67	2.65
Spain	11.74	2.75	14.49
France	13.72	2.08	15.80
Croatia	-	-	-
Italy	9.16	3.55	12.71
Cyprus	0.41	0.59	1.00
Latvia	0.27	0.56	0.83
Lithuania	0.45	0.62	1.07
Luxembourg	0.04	0.03	0.07
Hungary	2.14	9.25	11.39
Malta	0.00	0.11	0.11
Netherlands	5.89	0.85	6.74
Austria	3.76	11.95	15.70
Poland	10.26	11.30	21.56
Portugal	5.07	4.90	9.96
Romania	3.79	28.69	32.48
Slovenia	0.61	0.51	1.12
Slovakia	0.09	0.83	0.92
Finland	2.64	1.07	3.71
Sweden	5.15	1.13	6.28
United Kingdom	5.42	4.60	10.02
Total	**94.31**	**102.71**	**197.02**

7.2. Cohesion

Under shared management, Member States have the primary obligation to prevent and detect irregularities, and thus they make major efforts and commit resources to making financial corrections and recovering undue amounts from beneficiaries. Moreover, they perform management verifications, controls and audits in the first instance, these being in addition to those of the Commission detailed above. Under the regulations for the current programming period, Member States have to report annually to the Commission the corrections stemming from all controls performed. Such a requirement was only introduced for 2007-2013 and the Commission is performing risk-based audits to test the reliability of these figures as part of its assurance process.

The cumulative corrections implemented to end 2013, following the controls made by the Member States for Cohesion Policy programming period 2007-2013, are given below. These amounts are in addition to, and after deduction of, the corrections reported cumulatively by the Commission above.

Table 7.2: Cumulative corrections at end 2013 reported by Member States for Cohesion Policy period 2007-2013

EUR millions

Member State	ERDF/CF	ESF	EFF	Total 2013
Belgium	3	9	0	**12**
Bulgaria	13	3	0	**16**
Czech Republic	201	0	0	**201**
Denmark	1	0	1	**1**
Germany	458	100	0	**558**
Estonia	-	0	0	**1**
Ireland	0	5	0	**5**
Greece	115	14	0	**130**
Spain	256	91	20	**367**
France	84	57	1	**142**
Croatia	0	-	-	**0**
Italy	208	36	3	**247**
Cyprus	1	1	0	**1**
Latvia	33	2	1	**37**
Lithuania	11	0	0	**11**
Luxembourg	-	1		**1**
Hungary	55	0	0	**55**
Malta	1	0	0	**1**
Netherlands	6	3	0	**9**
Austria	6	2	0	**8**
Poland	392	0	1	**392**
Portugal	85	38	1	**124**
Romania	111	0	4	**115**
Slovenia	2	6	0	**7**
Slovakia	54	4	0	**59**
Finland	1	0	1	**2**
Sweden	3	1	1	**5**
United Kingdom	76	21	2	**99**
Cross-border	16			**16**
TOTAL IMPLEMENTED	**2 191**	**396**	**35**	**2 622**

It is highlighted that the Commission has taken a prudent approach, due to certain weaknesses in the Member State figures, so as to ensure that the above amounts are not overstated – as a result some of them may in reality be higher. This, however, has no impact on the reliability of the Commission's own figures. The amounts in question are very significant and when added to the results of the Commission's work, give a very clear indication of the success of the controls put in place by both parties.

8. OTHER RECOVERIES

8.1. Recovery of pre-financing amounts

Another important control of the Commission, which is not covered by any of the above mechanisms, is the recovery of unused (i.e. unspent) pre-financing amounts. When a beneficiary has not used (spent) the advances received from the EU on eligible expenditure, the Commission issues a recovery order to return the monies to the EU budget. This procedure represents an important step in the control system of the EU to ensure that no excess money is kept by the beneficiary without proper expense justification, thus contributing to the protection of the EU budget. The amounts are the result of the issuance of a recovery order by the Commission, and are recorded in the accounting system as such. The below recovery of unused pre-financing amounts should not be confused with irregular expenditure recovered. Where Commission services identify and recover such expenditure in relation to pre-financing amounts paid out, these are included in the normal financial correction or recovery processes described above.

Table 8.1: Recovery of pre-financing amounts

EUR millions

	2013
Agriculture:	
EAGF	0
Rural Development	0
Cohesion Policy:	
ERDF	68
Cohesion Fund	4
ESF	53
FIFG/EFF	7
EAGGF Guidance	3
Internal policy areas	208
External policy areas	91
Administration	1
Total recovered pre-Financing	**435**

8.2. Recoveries relating to own resource revenues

So as to provide a complete picture of all the tools used by the Commission to protect the EU budget, it is also necessary to consider the recoveries made in the area of own resource revenue. Own resource revenue is the primary element of the EU's operating revenue and therefore the bulk of expenditure is financed by it. The Commission makes on-the-spot inspections so as to verify that the correct amounts are being supplied to the EU budget. Amounts can also be audited as part of the ECA's annual audit process. In 2013, the amounts recovered were as follows:

Table 8.2: Recoveries relating to own resource revenues

EUR millions

	2013
Amounts recovered:	
- Principal	22
- Interest	21
Total recovered	**43**