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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS**

**PROTECTION OF THE EU BUDGET TO END 2015**

## Table of Contents

1.	EXECUTIVE SUMMARY AND CONCLUSIONS.....	3
2.	PROCESSES .....	7
2.1.	Preventive mechanisms.....	7
2.2.	Corrective mechanisms.....	7
2.3.	Cost-effectiveness of management and control systems .....	10
2.4.	Public internal control and the management of EU Funds .....	10
3.	FINANCIAL CORRECTIONS AND RECOVERIES AT END 2015 .....	11
3.1.	Financial corrections and recoveries 2015.....	11
3.2.	Cumulative financial corrections and recoveries to end 2015 .....	15
3.3.	Impact of financial corrections .....	18
4.	AGRICULTURE AND RURAL DEVELOPMENT .....	19
4.1.	Preventive actions .....	19
4.2.	Corrective actions .....	20
4.3.	Deficiencies in Member States' management and control identified and measures undertaken.....	21
4.4.	Cumulative figures.....	22
4.5.	Member States corrections.....	23
5.	COHESION POLICY .....	24
5.1.	Preventive actions .....	24
5.2.	Corrective actions .....	27
5.3.	Deficiencies in Member States' management and control identified and measures undertaken.....	28
5.4.	Cumulative figures.....	29
5.5.	Member States corrections.....	33
6.	DIRECT AND INDIRECT MANAGEMENT.....	34
	ANNEXES: DETAILED FIGURES .....	35
1.	Financial corrections in 2015 compared to EU payments received; Breakdown by Member State.....	35

2.	Breakdown of flat rate corrections in 2015 .....	36
3.	Breakdown of financial corrections at source in 2015 .....	36
4.	Breakdown of net financial corrections in 2015 .....	37
5.	Agricultural amounts recovered from final beneficiaries by the Member States in 2015 .....	38
6.	Member States own corrections in 2015 applied before payments to beneficiaries are executed (in addition to Commission reporting) .....	39
7.	Cumulative corrections at end 2015 reported by Member States for Cohesion Policy period 2007-2013 .....	40

## 1. EXECUTIVE SUMMARY AND CONCLUSIONS

This Communication describes the functioning of the preventive and corrective mechanisms foreseen in the European Union (EU) legislation and the actions taken by the Commission services to protect the EU budget from illegal or irregular expenditure. It also provides a best estimate of the figures resulting from their use and indicates how Member States are involved and impacted. It complements the information included in the 2015 Financial Statement Discussion and Analysis (FSDA), the 2015 Annual Management and Performance Report for the EU Budget (AMPR), and the relevant parts of the Annual Activity Reports of the Directorates General concerned.

About 80 % of the EU budget is implemented by Member States which need to comply with the commonly agreed rules on budget implementation. The Member States are partners of the Commission in respect of ensuring the compliance with the EU legislation and the protection of the EU budget.

The Commission protects the EU budget, i.e. EU spending, from undue or irregular expenditure via two main mechanisms:

- (1) Preventive mechanisms (e.g. ex-ante controls, interruptions and suspension of payments); and
- (2) Corrective mechanisms (primarily financial corrections imposed on Member States but also recoveries from recipients of EU payments): in case preventive mechanisms were not effective the Commission, in the framework of its supervisory role, is required to apply corrective mechanisms as a last resort.

The primary objective of financial corrections and recoveries is to ensure that only expenditure in accordance with the legal framework is financed by the EU budget. Under shared management the Member States are primarily responsible for identifying and recovering from beneficiaries amounts unduly paid. In order to ensure the cost-effectiveness of control systems, one of the main work streams on which the services of the Commission will further work during the current mandate of the College is to rationalise and streamline controls and allocate resources to controls deemed most appropriate for managing legality and regularity risks within the regulatory framework. For shared management, the main objective is to improve the effectiveness of Member States' control systems.

For Agriculture and Rural Development financial corrections have always a net impact on the EU budget by recovering amounts unduly spent which leads to a reimbursement to the EU budget. Under Cohesion Policy, the Member States have the option to replace the ineligible expenditure with new eligible expenditure, thus not losing the EU funding. Under other management types financial corrections are used to effect corrections before an EU reimbursement has been made.

This Communication focuses primarily on the results of the Commission's supervisory role, but also provides information on the results of Member States' controls.

### Financial corrections & Recoveries: 2015 Results

Regarding the impact of corrective measures taken by the Commission, the key figures for the financial year 2015 are as follows:

Policy Areas	EUR millions	
	Total financial corrections and recoveries <u>confirmed</u> in 2015	Total financial corrections and recoveries <u>implemented</u> in 2015
Agriculture & Rural Development	1 292	1 587
Cohesion Policy	1 744	1 808
Internal policies	326	317
External policies	132	136
Administration	5	5
<b>TOTAL</b>	<b>3 499</b>	<b>3 853</b>
% of budgetary payments	2.4 %	2.7 %

The following graph provides an overview per policy areas of the different types of corrections implemented in 2015 (EUR millions):

*For the definitions of the three types of corrections please see Section 2.2.2.*

### Financial corrections & Recoveries: Cumulative Results

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

*Financial corrections and recoveries confirmed 2009-2015 (EUR millions):*

- During the **period 2009-2015** the **average amount confirmed** was EUR 3.3 billion or **2.4 % of the average amount of payments** made from the EU budget, while the **average amount implemented** in this period was EUR 3 billion or **2.2 % of payments** - see graph 3.2.1;
- For the **European Agricultural Guarantee Fund (EAGF)**, the average correction rate for Commission financial corrections for the **period 1999 to end 2015** was **1.7 % of expenditure** (all of which are net financial corrections) - see section 4.4;
- For the **European Regional Development Fund (ERDF) and European Social Fund (ESF) 2000-2006 funds** (where the closure is almost complete), at the end of 2015 the combined rate of financial corrections, based on Commission supervision work only, was **4.2 % of the allocations made** - see section 5.4.1;
- The average amount confirmed under direct and indirect management for the **period 2009-2015** was EUR 380 million or **1.2 % of the average amount of payments**;
- The Commission analyses the origin of the errors detected in previous periods – see the Report on areas of consistently high errors and their root causes.

### Protection of the EU budget: Main Conclusions

One important objective of the Commission's "**budget focused on results strategy**" is to ensure cost-effectiveness when designing and implementing management and control systems which prevent or identify and correct errors. Control strategies should therefore consider a higher level of scrutiny and frequency in riskier areas and ensure cost-effectiveness.

The Commission focuses more and more on measures which **prevent irregular expenditure** and help to **avoid such irregularities recurring** in the future.

The **figures above confirm the positive results** of the multiannual preventive and corrective activities undertaken by the Commission and the Member States by demonstrating that these activities **ensure that the EU budget is protected from expenditure in breach of law**.

Financial corrections and recoveries are also an **incentive for the Member States** to improve their systems and processes to prevent the occurrence of future errors.

The corrections decided during the year are the result of the errors and irregularities detected in previous years. **90 % of the financial corrections** decided have been **implemented by the end of 2015**.

**Net corrections leading to a reimbursement to the EU budget** are characteristic for **Agriculture & Rural Development** and **direct & indirect management**. For **Cohesion Policy**, **net corrections are up to now the exception**, due to the different legal framework and budget management type (reinforced preventive mechanism).

**Flat rate corrections** are imposed where the financial impact of errors cannot be more precisely quantified with proportionate effort.

Specific control frameworks are put in place for spending under **direct and indirect management** covering primarily the grant management process, because this addresses existing risks.

The Commission facilitates and participates in the **Public Internal Control (PIC) Network**, allowing Member States to work together to improve Internal Control including the management of EU funds, to identify good practice especially where effective implementation is proving difficult (see report on areas of consistently high errors and their root causes).

## **Improvements foreseen under the 2014-2020 Multiannual Financial Framework (MFF)**

### Agriculture and Rural Development

The Commission has started to apply a number of newly available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments. In that context the implementation of action plans by Member States has become a prominent feature in the Commission's budget management toolbox. In addition, with the objective to further develop the single audit approach also in CAP management, the Commission is actively promoting and supervising the new role of the Certification Bodies with regard to ensuring the Legality and Regularity of payments.

As regards the EAGF, the Commission constantly requests Member States to maintain their Land Parcel Identification Systems (LPIS) in particular by regularly updating it. Member States where the system does not reach the necessary quality level are required to put in place appropriate action plans while facing the risk of financing suspensions should the action plan not be properly implemented.

For the European Agricultural Fund for Rural Development (EAFRD), the programming phase included specific checks as to the controllability and verifiability of programmed measures. In addition the Commission interrupts payments in case of problems and has also recourse to suspensions. In general, the Commission has launched an ambitious simplification process intended to reduce complexity and administrative burden which will also contribute to bringing the risk of error further down.

### Cohesion

The new legal framework foresees an increased accountability for programme managing authorities which have to apply sound verifications on time for the submission of programme accounts each year. Annual accounts include financial corrections applied by the Member State in relation to the accounting year. Accounts and financial corrections are subject to an audit opinion by the programme audit authority which also provides an audit opinion on the legality and regularity of account expenditure based on the level of identified residual risk after all corrections have been applied.

During the accounting year the Commission; retains 10 % of each interim payment until the finalisation of all control procedures, including audits at the time of submission of accounts, applies procedures for the acceptance of accounts, subsequently pays or recovers the annual balance and carries out targeted, risk-based audits to ensure that no serious deficiency leading to a material level of risk in reimbursed expenditure remained undetected or uncorrected by the Member State. Otherwise the Commission must apply net financial corrections.

The Commission will also continue to strictly implement the interruption / suspension mechanisms leading, where necessary, to financial corrections where it has indications of serious deficiencies in management and control systems. It will also continue to ensure preventive capacity building actions with programme authorities to improve the quality of spending and to cooperate closely with audit authorities under the single audit principle to timely and effectively address risks.

### Direct and Indirect Management

The Commission has established a control framework in direct and indirect management which focuses on ex-ante checks on payments, in-depth ex-post checks carried out at the beneficiaries' premises after costs have been incurred and declared, and verification missions to international organisations.



## 2. PROCESSES

### 2.1. Preventive mechanisms

The Commission uses a number of preventive mechanisms to protect the EU budget. The Commission focuses more and more on measures which prevent irregular expenditure and help to avoid such irregularities recurring in the future.

Under the **shared management mode** (i.e. Agricultural and Cohesion policy expenditure), Member States are primarily responsible throughout the expenditure life cycle for ensuring that expenditure paid out from the EU budget is legal and regular. The Commission provides timely and close supervision, based on EU audit results, national audit results received throughout the years, results of OLAF investigations, and any other information coming to the services knowledge that points to a system deficiency or serious uncorrected irregularities. Key elements pointing to the effective functioning of the monitoring and control system are re-assessed on a continuous basis to prevent irregular payments.

Under **direct and indirect management**, preventive actions include checks made by the responsible services on eligibility of expenditure being claimed by beneficiaries. These ex-ante controls are embedded in the programmes' management processes and intended to provide reasonable assurance on the legality and regularity of expenditure being paid. The Commission services can also provide guidance, particularly on contractual issues, with the aim of ensuring a sound and efficient management of funding and therefore a lower risk of irregularities. The Early Detection and Exclusion System (EDES) of economic operators set up and operated by the Commission also ensures the protection of the Union's financial interests.

### 2.2. Corrective mechanisms

#### 2.2.1 Overview

A significant portion of EU expenditure, e.g. Cohesion, Research and Rural Development policies, is of a multiannual nature. In line with Article 32(2)(e) of the Financial Regulation (FR)<sup>1</sup>, this is taken into account when designing and implementing corrective measures, as well as when assessing the results of these actions. Corrective actions can be distinguished between: a) financial corrections and b) recoveries, both of which are made at all stages of a programme's life-cycle, once expenditure has been incurred and / or a payment has been made. The Commission is required to apply corrective mechanisms as a last resort in case preventive mechanisms were not effective.

*The workflow of corrective actions is as follows:*



#### 2.2.2. Financial corrections

Financial corrections **in progress** are the preliminary stage where the process for making a financial correction has been opened but the contradictory procedure with the Member State concerned is still on-going. The indicated amounts are only initial estimates by the Commission services, subject to change. They are thus proposed but not yet accepted by the Member States nor decided by the Commission.

A financial correction is **confirmed** as soon as it is accepted by the Member State or decided by the Commission.

<sup>1</sup> Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 – OJ L 298, 26.10.2012, p. 1.

A financial correction is considered **implemented** when the correction has been applied and recorded in the Commission accounts, which means the financial transaction was validated by the responsible Authorising Officer in the following cases: deduction from the interim or final payment claim, recovery order and / or a de-commitment transaction.

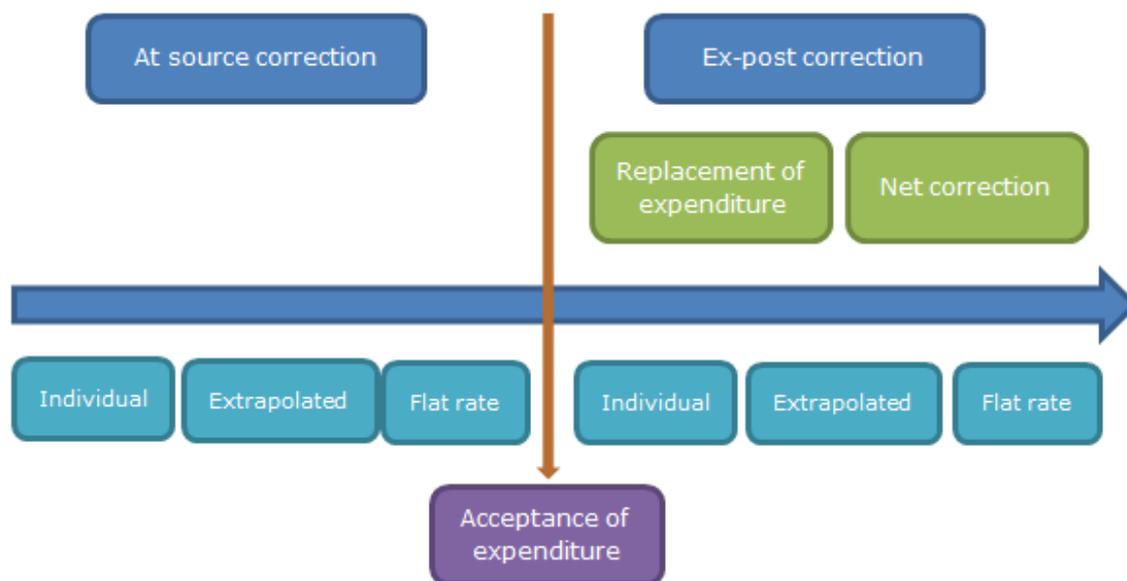
The Commission applies the following types of financial corrections on the expenditure declared by the Member States ("**ex-post**" corrections):

- Financial corrections on individual cases, based on a precise identification of amounts unduly spent, and the financial implications for the budget;
- Extrapolated financial corrections if the related amount can be quantified on the basis of a representative statistical sample with a sufficient level of confidence;
- Flat rate corrections, if the related amount cannot be quantified on the basis of a representative statistical sample or when the impact on expenditure of individual errors cannot be quantified precisely (e.g. financial corrections of individual public contracts based on agreed flat rates).

All financial corrections, no matter what type, have a negative impact on national budgets – even if no reimbursement to the EU budget is made, because funds have to be used to replace ineligible expenditure.

"**At source**" financial corrections are used to effect financial corrections before an EU reimbursement has been made. These occur when the correction is applied by the Member State when certifying new expenditure to the Commission following and as a result of the remedial action plan agreed with the Commission. It should be highlighted that the difference between "ex-post" and "at source" financial corrections is a timing one.

Overview financial corrections over time:



**Replacement of expenditure** refers to the possibility under cohesion legislation for Member States to replace ineligible expenditure with new eligible expenditure, thus not losing EU funding (i.e. not a net correction as there is no return of money to the EU Budget).

A **net financial correction** is a correction that has a net impact on the EU budget, (i.e. the corrected and recovered amounts are reimbursed to the EU budget).

- Agriculture and Rural Development corrections (EAGF, EAFRD, EAGGF) lead always to a reimbursement to the EU budget whereas, due to the legal framework, for Cohesion Policy, the return of previously paid amounts to the EU budget were generally the exception during the implementation of the programmes.
- Under the legal framework applicable for Cohesion Policy up to the 2007-2013 programming period, a real cash-flow back to the EU budget occurs only:

- If Member States are unable to present sufficient eligible expenditure;
- After the closure of programmes where replacement of ineligible by eligible expenditure is no longer possible;
- In case of disagreement with the Commission.

However, a significant change was introduced for the 2014-2020 period: the Commission has the obligation to apply a net financial correction when serious deficiencies in the effective functioning of the management and control system not previously detected, reported nor corrected at Member State level are discovered by EU audits after the submission of the assurance packages. In such cases, the possibility of previous programming periods for the Member State to accept the correction and to re-use the EU funds in question is removed.

Under shared management, Member States 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.

### *2.2.3. Recoveries*

#### AGRICULTURE AND RURAL DEVELOPMENT

Regulation (EU) No 1306/2013<sup>2</sup> on the financing of the CAP requires the Member States to recover sums lost as a result of detected irregular payments. However, the recovery procedures, in accordance with the principle of subsidiarity, are wholly the responsibility of the Member States concerned and, thus, subject to their individual administrative and judicial procedures. Therefore, while some procedures deliver rapid results, others take more time.

In order to address delays by some Member States in recovering undue payments, the legislator introduced an automatic clearing mechanism under which 50 % of any undue payments which the Member States have not recovered from the beneficiaries within 4 years or, in the case of legal proceedings, 8 years, would be charged to their national budgets (so-called "50 / 50 rule"). Even after the application of this mechanism, Member States are, however, obliged to pursue their recovery procedures and, if they fail to do so with the necessary diligence, the Commission may decide to charge the entire outstanding amounts to the Member States concerned. Moreover, pursuant to Article 28 of Regulation 908/2014<sup>3</sup>, Member States are required to off-set any outstanding debts against future payments to the debtor (compulsory compensation).

With the entry into force of the new legal framework, the 50 / 50 rule now has also to be applied to EAFRD in the financial year when it occurs and not at the closure of the programme. Consequently, as from financial year 2014, the Member States are required to indicate amounts to be charged under the 50 / 50 rule also for EAFRD 2007-2013 as well as for EAFRD 2014-2020 programmes<sup>4</sup>.

Undue payments that are the result of administrative errors committed by the national authorities also have to be deducted from the annual accounts of the Paying Agencies concerned and, thus, excluded from EU financing.

For the EAGF, amounts recovered from the beneficiaries are credited to the EU budget as assigned revenue, after deduction of a 20 % flat rate recovery cost<sup>5</sup>. For EAFRD recoveries are taken into consideration in a future reimbursement claim received by the Commission and therefore can be reused for the programme within the programming period. After the end of the eligibility period they are credited to the EU budget as assigned revenue.

<sup>2</sup> Regulation (EU) N° 1306/2013 of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy - OJ L 347, 20.12.2013, p. 549.

<sup>3</sup> OJ L 255, 28.8.2014, p. 59.

<sup>4</sup> Article 54(2) of Regulation (EU) No 1306/2013.

<sup>5</sup> Article 55 of Regulation (EU) No 1306/2013.

## COHESION POLICY

Recoveries are mainly issued at or after closure of the programmes and result in revenue for the EU budget. Under the current programming period (2014-2020) and for the first time in 2017, recoveries will also occur in the framework of the annual acceptance of the accounts. The Commission will calculate the balance between the amount accepted in the accounts and the amounts already paid to the Member States during the accounting year (annual pre-financing and 90 % of the payment applications). Where this is an amount recoverable from the Member State, a recovery order will be issued. This recovery order, which can be executed when possible by offsetting against subsequent payment applications, is not a financial correction and is not reducing the overall allocation of the programme. This amount will accordingly be re-used for the programme.

## DIRECT AND INDIRECT MANAGEMENT

Under direct and indirect management and in accordance with the FR, recovery orders should be established by the authorising officer for amounts unduly paid. Recoveries are then implemented by direct bank transfer from the debtor (and constitute assigned revenue for the EU budget that can be re-used for the same programme) or by offsetting from other amounts that the Commission owes to the debtor. Commission services implement recoveries also "at source" by deducting ineligible expenditure (identified in current cost claims) from payments made.

### **2.3. Cost-effectiveness of management and control systems**

In line with the requirement of the Financial Regulation, an important objective of the Commission's "**budget focused on results strategy**" is to ensure cost-effectiveness when designing and implementing management and control systems which prevent or identify and correct errors. Control strategies should therefore consider a higher level of scrutiny and frequency in riskier areas and ensure cost-effectiveness. This is important because controls impose a significant administrative burden on beneficiaries and may even discourage participation in programmes. Furthermore, inefficient and ineffective controls absorb resources which could otherwise contribute to the achievement of results. For more details, please see the Commission's 2015 Annual Management and Performance Report<sup>6</sup>.

### **2.4. Public internal control and the management of EU Funds**

The protection of the EU Budget is a shared responsibility of the Commission and the Member States. The Commission facilitates and participates in the Public Internal Control (PIC) Network, which brings together Internal Control representatives from all EU Member States. The PIC Network examines Internal Control issues, relating either to the national budget or the management of EU funds, with a view to identifying good practice in those areas where effective implementation is proving difficult. The PIC Network comes together at regular intervals, allowing all Member States to work together to improve their Internal Control arrangements for better financial management and better performance.

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<sup>6</sup> Report from the Commission to the European Parliament, the Council and the European Court of Auditors: 2015 Annual Management and Performance Report for the EU Budget, COM(2016) 446 final, 5.7.2016.

### 3. FINANCIAL CORRECTIONS AND RECOVERIES AT END 2015

#### 3.1. Financial corrections and recoveries 2015

Table 3.1: Financial corrections and recoveries overview for 2015<sup>7</sup>

*EUR millions*

MFF Heading	Total EU budget payments in 2015	Total financial corrections confirmed in 2015	Total recoveries confirmed in 2015	Total financial corrections and recoveries confirmed in 2015	% of payments of the EU budget	Total financial corrections implemented in 2015	Total recoveries implemented in 2015	Total financial corrections and recoveries implemented in 2015	% of payments of the EU budget
<b>Smart &amp; inclusive growth</b>	<b>68 009</b>	<b>1 637</b>	<b>254</b>	<b>1 892</b>	<b>2.8%</b>	<b>1 766</b>	<b>246</b>	<b>2 013</b>	<b>3.0%</b>
ERDF	28 363	826	-	826	2.9%	774	-	774	2.7%
Cohesion Fund	12 098	462	-	462	3.8%	585	-	585	4.8%
ESF	10 277	348	1	349	3.4%	407	-	407	4.0%
Internal policies	17 271	-	254	254	1.5%	-	246	246	1.4%
<b>Sustainable growth: natural resources</b>	<b>58 066</b>	<b>1 072</b>	<b>348</b>	<b>1 420</b>	<b>2.4%</b>	<b>1 314</b>	<b>337</b>	<b>1 652</b>	<b>2.8%</b>
EAGF	44 940	922	117	1 040	2.3%	1 017	155	1 173	2.6%
Rural Development	11 793	46	206	253	2.1%	263	152	414	3.5%
FIFG/EFF	791	6	2	8	1.0%	10	6	16	2.0%
EAGGF Guidance	64	97	2	99	154.0%	24	2	26	40.6%
Internal policies	478	-	21	21	4.4%	-	23	23	4.8%
<b>Security &amp; citizenship</b>	<b>2 019</b>	<b>23</b>	<b>28</b>	<b>51</b>	<b>2.5%</b>	<b>23</b>	<b>24</b>	<b>48</b>	<b>2.4%</b>
Migration and home affairs	779	23	-	23	3.0%	23	-	23	3.0%
Internal policies	1 239	-	28	28	2.2%	-	24	24	2.0%
<b>Global Europe</b>	<b>7 884</b>	<b>-</b>	<b>132</b>	<b>132</b>	<b>1.7%</b>	<b>-</b>	<b>136</b>	<b>136</b>	<b>1.7%</b>
External policies	7 884	-	132	132	1.7%	-	136	136	1.7%
<b>Administration</b>	<b>8 978</b>	<b>-</b>	<b>5</b>	<b>5</b>	<b>0.1%</b>	<b>-</b>	<b>5</b>	<b>5</b>	<b>0.1%</b>
Administration	8 978	-	5	5	0.1%	-	5	5	0.1%
<b>TOTAL</b>	<b>144 955*</b>	<b>2 732</b>	<b>767</b>	<b>3 499</b>	<b>2.4%</b>	<b>3 104</b>	<b>749</b>	<b>3 853</b>	<b>2.7%</b>

\* Excludes EUR 288 million paid out under the Special Instruments heading.  
Please note that the figures above may slightly differ from the ones shown in the Annual Report on the Protection of the EU financial interests and the fight against fraud and its staff working documents since that report was published earlier, at a stage where only provisional figures were available.

#### 3.1.1 Agriculture and Rural Development

##### Financial corrections:

The high level of financial corrections confirmed by the Commission in 2015 reflects the significant efforts made by the Directorate General for Agriculture and Rural Development (DG AGRI) from 2013 in accelerating the conformity clearance procedures, including processing long outstanding procedures. As a result, a large number of corrections covering several financial years were confirmed in 2015. In the future, at cruising speed, it is expected that the annual amount of financial corrections will be stable around the average of the last 3 years.

In addition, the increased number of instalments and deferrals granted to Member States explains why in the previous three years (2012 to 2014) the amounts implemented for Agriculture and Rural Development were lower than the amounts decided by the Commission. The difference should disappear once cruising speed is reached.<sup>8</sup>

<sup>7</sup> It should be noted that due to the rounding of figures into millions of euros, some financial data in the tables below may appear not to add-up.

<sup>8</sup> More detailed information can be found in section 2.4.2.1 in the 2015 annual activity report of DG AGRI ([http://ec.europa.eu/atwork/index\\_en.htm](http://ec.europa.eu/atwork/index_en.htm)).

### Recoveries:

**In 2015, Member States have recovered EUR 155 million for EAGF and EUR 153 million for EAFRD from beneficiaries.**

As regards correcting irregularities committed by the beneficiary, Member States must record and report on the recovery of the irregular spent amounts within the annual financial clearance exercise.

Recovering irregular payments directly from the final beneficiaries is the sole responsibility of the Member States. **Annex 5** sets out the amounts recovered in 2015 from the beneficiaries by the Member States (as reported by Member States in their debtors' ledger) and reimbursed to the Commission. These amounts are treated as **assigned revenue** for **EAGF**, while the amounts recovered for **EAFRD can be reallocated to the programme concerned**.

#### *3.1.2 Cohesion 2000-2006 programming period*

The advanced stage of the closure process of **ERDF** programmes and **Cohesion Fund** projects led to the following financial corrections being imposed and accepted by Member States in 2015:

- EUR 155 million of financial corrections for the closure of **ERDF** programmes in 7 Member States, the most significant being for Italy (EUR 108 million) and Greece (EUR 34 million);
- EUR 53 million accepted by 13 Member States for **Cohesion Fund** projects, the largest being for Czech Republic (EUR 16 million).

#### **Financial corrections confirmed:**

**ERDF / CF - EUR 208 million**

**ESF - EUR 179 million**

For **ESF**, in the context of the closure process, all 239 programmes have been closed (209 fully and 30 partially). The Member States with the highest level of financial corrections confirmed and implemented in 2015 were respectively France (EUR 149 million) and Spain (EUR 30 million). In addition, for Sweden the closure process has been finalised as well.

Significant progress was made in 2015 in relation to the closure of the Financial Instrument for Fisheries Guidance (**FIFG**). At the end of 2015, 57 programmes out of 60 were closed. Most financial corrections concerned were implemented via recovery orders.

#### *3.1.3 Cohesion 2007-2013 programming period*

Financial corrections under **ERDF / CF** in 2015 increased significantly compared to previous years, thus confirming the effectiveness of these multiannual controls of the policy. This is also the result of the strict policy of interruption / suspension procedures by the Commission since the beginning of the programming period and the fact that in 2015 some longstanding cases, for which payment applications were blocked for months or even years, came to an end after the implementation of financial corrections. For those cases, the corrections applied by Member States could only be reported in 2015 after the lifting of the interruption / suspension procedures. The increase of financial corrections in 2015 is also supported by the higher error rates reported by the national audit authorities in the 2015 Annual Control Reports (ACR) compared to the error rates reported in the past. The Member States with the highest corrections (excluding at source corrections) in 2015 were Slovakia (EUR 236 million), Italy (EUR 161 million), Germany (EUR 143 million), Greece (EUR 120 million) and Spain (EUR 117 million).

#### **Financial corrections confirmed:**

**ERDF / CF - EUR 1 532 million**

**ESF - EUR 169 million**

As a result, at end 2015 the cumulative amount of financial corrections for the 2007-2013 period confirmed by Member States as consequence of the Commission supervisory role is above EUR 2.3 billion.

Under **ESF**, financial corrections of EUR 169 million have been confirmed and EUR 227 million have been implemented, out of which EUR 142 million were confirmed in 2015 and EUR 85 million in the previous years. 95 % of financial corrections confirmed during the year 2015 and previous years have been implemented, leaving an amount of EUR 60 million (cumulative) as not yet implemented

at year end. Member States with the highest level of corrections implemented in 2015 are Romania (EUR 133 million) and Spain (EUR 29 million) corresponding to the lifting of suspension of payments.

Financial corrections confirmed for **European Fisheries Fund (EFF)** decreased by about 70 % from 2014. The withdrawal of ineligible expenditure from the subsequent payment claim following audits and desk reviews from the Commission allows such financial corrections to be implemented rapidly.

### *3.1.4 Cohesion 2014-2020 programming period*

The second accounting year was ongoing in the course of 2015 and the designation of authorities has not yet taken place for almost all the operational programmes, therefore no audit activity related to the declaration of expenditure has yet been processed. Consequently, no financial corrections can be reported.

### *3.1.5. Financial corrections & recoveries 2015: further details*

Different views of the financial corrections amounts in 2015 are provided in the annexes. Attention is drawn to the fact that the data presented below relates to one year only, 2015. 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 effectiveness of supervisory and control systems has to be based, in line with the nature of this expenditure, on a multiannual perspective (see section **3.2**).

The information provided in the Annexes can be summarised as follows:

#### *1. Breakdown by Member State*

The most important Member States in terms of confirmed financial corrections compared to EU payments received are Greece (9.9 %), Romania (8 %) and Slovakia (7.3 %).

#### *2. Breakdown of flat-rate corrections*

Flat rate corrections are a valuable tool that is used when the related amount cannot be quantified on the basis of a representative statistical sample or when the impact on expenditure of individual errors cannot be quantified precisely. However, this means that the Member State subject to a flat correction bears the financial consequences as the corrections are not directly linked to individual irregularities at project level, i.e. there is no individual final beneficiary to recover monies from.

For ERDF / CF, flat rate corrections should be seen as an estimation of the financial corrections (flat rate and / or extrapolated) which are not directly linked to individual operations / projects.<sup>9</sup>

<b>Flat rate corrections in 2015:</b> <b>EUR 2.2 billion confirmed</b> <b>EUR 1.3 billion implemented</b>
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#### *3. Breakdown of financial corrections made at source*

At source financial corrections are applied by the Member State authorities at the same time the expenditure is declared to the Commission resulting from flat rate corrections following Commission audits.

The main at source financial corrections for **ERDF/CF** concern Romania (EUR 345 million).<sup>10</sup>

<sup>9</sup> It needs to be underlined that in some cases the amounts communicated by the Member States cover both individual and flat-rate / extrapolated corrections; for reporting purposes these amounts are included under the category (individual corrections of flat-rate) which is considered prevalent. These two limitations do not have an impact on the reliability of the global amounts reported.

<sup>10</sup> For ERDF/CF, since there is no legal requirement for Member States to report on at source financial corrections, nor a structured reporting since the beginning of the programming period, the amounts reported represent a prudent and non-

**At source corrections in 2015:**

**EUR 0.5 billion confirmed**

**EUR 0.8 billion implemented**

For **ESF**, the amount of financial corrections at source confirmed in 2015 for 2007-2013 programming period stands at EUR 81 million. The main Member States concerned by at source financial corrections are: Czech Republic, France, Poland, Slovakia and Romania.

Among the financial corrections implemented for the 2007-2013 programming period, EUR 115 million are at source financial corrections out of which EUR 66 million confirmed in 2015 and EUR 49 million confirmed in the previous year.

4. *Net financial corrections 2015*

The budget implementation type, the sectorial management and the financial rules of the policy area influence how the EU budget is impacted by the different correction mechanisms. In all cases, the correction mechanisms result in the EU budget being protected from expenditure incurred in breach of law.

**Net financial corrections in 2015:**

**EUR 0.8 billion confirmed**

**EUR 1.2 billion implemented**

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exhaustive estimation for cases for which the Commission could reconstitute a clear audit trail at the level of the certifying authority.

## 3.2. Cumulative financial corrections and recoveries to end 2015

Cumulative figures provide useful information on the significance of the corrective mechanisms used by the Commission, in particular as they take into account the multiannual character of programmes and projects and neutralise the impact of one-off events.

### 3.2.1. Period 2009-2015

The graphs below show the evolution of financial corrections and recoveries confirmed and implemented during the last 7 years.

#### **Graphs 3.2.1: Financial corrections and recoveries 2009-2015**

*Financial corrections and recoveries confirmed 2009-2015 (EUR billions)*

**Average confirmed financial corrections 2009-2015:**

**EUR 3.3 billion**

**2.4 % of average budget payments**

The trend for confirmed amounts is slightly increasing, which demonstrates that the multiannual control framework is successfully protecting the EU budget over time.

*Financial corrections and recoveries **implemented** 2009-2015 (EUR billions)*

The average amount of financial corrections and recoveries **implemented** for 2009-2015 was EUR 3 billion, which represents 2.2 % of the average amount of payments from the EU budget in that period.

### *3.2.2. Decisions of the Court of Justice concerning Regional policy financial corrections*

During 2015, Court of Justice judgements were issued annulling a number of regional policy financial corrections' decisions taken between 2008 and 2010 (for a total amount of EUR 457 million corrections related to the programming period 1994-1999). The annulment was based on a new legal interpretation of the rules laid down in Regulation 1083/2006 and represents a change in relation to previous judgements of the Court of Justice. These annulled corrections have been deducted from both the confirmed and implemented amounts of the year 2015 and from the cumulative amounts in the table below.

### 3.2.3. Financial corrections implementation percentage at end 2015

**Table 3.2.3: Cumulative financial corrections confirmed & implementation percentage to end 2015**

EUR millions

	Programming Period			Cumulated EAGF decisions	Total financial corrections confirmed at end 2015	Implementation % end 2015	Financial corrections confirmed at end 2014	Implementation % end 2014
	1994-1999 Period	2000-2006 Period	2007-2013 Period					
<b>Agriculture</b>	-	<b>139</b>	<b>787</b>	<b>11 766</b>	<b>12 692</b>	<b>85.4%</b>	<b>11 514</b>	<b>82.8%</b>
<i>EAGF</i>	-	-	-	11 766	11 766	85.7%	10 808	83.7%
<i>Rural Development</i>	-	139	787	N/A	926	81.3%	706	69.3%
<b>Cohesion Policy</b>	<b>2 273</b>	<b>8 922</b>	<b>4 748</b>	<b>N/A</b>	<b>15 943</b>	<b>93.4%</b>	<b>14 203</b>	<b>92.2%</b>
<i>ERDF</i>	1 799	5 794	2 664	N/A	10 257	92.4%	8 973	91.9%
<i>Court of Justice judgements</i>	(457)	0	0	N/A	(457)	-	-	-
<i>ERDF total</i>	1 342	5 794	2 664	N/A	9 800	92.1%	8 973	91.9%
<i>Cohesion Fund</i>	268	842	857	N/A	1 968	99.9%	1 496	88.7%
<i>Court of Justice judgements</i>	0	(9)	0	N/A	(9)	-	-	-
<i>Cohesion fund total</i>	268	833	857	N/A	1 958	97.6%	1 496	88.7%
<i>ESF</i>	560	1 990	1 198	N/A	3 748	98.4%	3 399	96.5%
<i>FIFG/EFF</i>	100	127	29	N/A	256	63.0%	250	60.4%
<i>EAGGF Guidance</i>	3	178	-	N/A	181	60.1%	85	100.0%
<b>Other</b>	-	-	-	<b>N/A</b>	<b>32</b>	<b>100.0%</b>	<b>9</b>	<b>100.0%</b>
<b>Total</b>	<b>2 273</b>	<b>9 060</b>	<b>5 535</b>	<b>11 766</b>	<b>28 666</b>	<b>89.9%</b>	<b>25 726</b>	<b>88.0%</b>

The different programming periods in Cohesion policy clearly show the multiannual 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 higher, especially when compared to the 2007-2013 period.

### 3.2.4. Cumulative recoveries 2009-2015

The tables below provide the amounts of recoveries confirmed and implemented for the period 2009-2015. See also section 3.3.1 below concerning the impact on the EU budget.

**Table 3.2.4: Recoveries confirmed 2009-2015**

EUR millions

Recoveries	Years							Total
	2009	2010	2011	2012	2013	2014	2015	
Agriculture:								
<i>EAGF</i>	163	178	174	162	227	213	117	<b>1 234</b>
<i>Rural Development</i>	25	114	161	145	139	165	206	<b>956</b>
Cohesion	102	24	50	22	83	35	5	<b>320</b>
Internal policy areas	100	188	270	252	393	293	302	<b>1 798</b>
External policy areas	81	137	107	107	93	127	132	<b>784</b>
Administration	9	5	8	7	6	5	5	<b>45</b>
<b>Total</b>	<b>480</b>	<b>646</b>	<b>770</b>	<b>695</b>	<b>941</b>	<b>838</b>	<b>767</b>	<b>5 137</b>

**Table 3.2.5: Recoveries implemented 2009-2015**

EUR millions

Recoveries	Years							Total
	2009	2010	2011	2012	2013	2014	2015	
Agriculture:								
EAGF	148	172	178	161	155	150	155	<b>1 119</b>
Rural Development	25	114	161	166	129	167	152	<b>914</b>
Cohesion	102	25	48	14	81	32	7	<b>309</b>
Internal policy areas	100	162	268	229	398	274	293	<b>1 724</b>
External policy areas	81	136	77	99	93	108	136	<b>730</b>
Administration	9	5	2	9	6	5	5	<b>41</b>
<b>Total</b>	<b>464</b>	<b>614</b>	<b>734</b>	<b>678</b>	<b>862</b>	<b>736</b>	<b>749</b>	<b>4 837</b>

### 3.3. Impact of financial corrections

#### 3.3.1. Impact on the EU budget in 2015

##### **Graph 3.3.1: Impact on the EU Budget**

\* The main expenditure chapters concerned are 0502, 0503, 0504, 1303, 1304, 0402, 1106 and 1803.

\*\* Excluding "At source" recoveries. The main expenditure chapters concerned are 0502, 0503, 1303, 1304, 0402 and 1106. For more information on recoveries see 3.2.4.

As explained above, revenue arising from net financial corrections and recoveries are treated as assigned revenue<sup>11</sup>, noting that the Commission implements recoveries also "at source" by deducting ineligible expenditure (which has been identified in previous or current cost claims) from payments made. In general, assigned revenue goes back to the budget line or fund from which the expenditure was originally paid and may be spent again but it is not earmarked for specific Member States.

#### 3.3.2. 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.

## 4. AGRICULTURE AND RURAL DEVELOPMENT

### 4.1. Preventive actions

#### Preventive actions by the Member States

<sup>11</sup> Article 21(3)(c) of the Financial Regulation.

A compulsory administrative structure has been set up at the level of Member States. The management, control and payment of the expenditure is entrusted to accredited paying agencies (PA). Compliance with strict accreditation criteria (which are laid down in Commission Implementing Regulation (EU) No 908/2014 and in Commission Delegated Regulation (EU) No 907/2014<sup>12</sup>) is subject to a detailed review by an independent external audit body designated at national level (certification body) as well as to constant supervision by the competent national authority (at ministerial level). The PAs are required to provide an annual management declaration which includes a declaration that the system in place provides reasonable assurance on the legality and regularity of the underlying transactions. These management declarations are verified by the above-mentioned certification bodies, which are required to provide an annual opinion.

For each support scheme financed by the EAGF or EAFRD, the PAs apply a system of exhaustive ex-ante administrative controls (100 % of aid applications must be checked) and on-the-spot checks (at least 5 % in the case of most schemes) prior to any payment. These controls are made in accordance with precise rules set out in the sector specific legislation (e.g. the Integrated Administration and Control System – IACS, including a Land Parcel Identification System – LPIS). For the majority of these aid schemes Member States are required to send statistical information on the checks carried out and their results on a yearly basis to the Commission (control statistics).

### Preventive actions by the Commission

Under the new Common Agricultural Policy (CAP) Horizontal Regulation<sup>13</sup>, a new legal framework for reduction, interruptions and suspensions of CAP funds entered into force in 2014, which will strengthen the Commission's powers to reduce / suspend EU financing in cases where risks of irregular payments have been identified.

**EAGF: Reductions of EUR 27.2 million for 14 MS.**  
**EAFRD: 24 interruptions and 7 suspensions / reductions.**

Accordingly, the Commission may reduce or suspend 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*"<sup>14</sup> (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,
- or*
- 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 **EAFRD**, the new Common Provisions Regulation (CPR)<sup>15</sup> also provides for the interruption 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 about the legality and regularity of payments.

For **EAGF**, the rhythm of the monthly payments would not allow for using such an interruption procedure. For EAGF, there were no suspensions of payment in 2015. Reductions in the monthly payments due to deficiencies in the control system were made for the first time in 2015 for a total amount of EUR 16 million (Greece). The other reductions concern overruns of ceilings, deadlines and other eligibility issues. There were 87 operations in total related to the reductions.

The interruptions and reductions / suspensions are provisional. Where relevant these could be accompanied by an audit. If the deficiency is confirmed, the relevant expenditure is definitely

<sup>12</sup> OJ L 255, 28.8.2014, p. 18 and 59.

<sup>13</sup> Regulation (EU) N° 1306/2013 of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy - OJ L 347, 20.12.2013, p. 549.

<sup>14</sup> Art. 41 of Reg. 1306/2013.

<sup>15</sup> Regulation (EU) N° 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Funds, the European Social Fund and the Cohesion Fund repealing Regulation (EC) N° 1083/2006 – OJ L 347, 20.12.2013, p. 320.

excluded from EU funding by application of a financial correction under the conformity clearance procedure.

## 4.2. Corrective actions

According to the CAP legal framework, financial corrections imposed by the Commission on Member States **have always been net corrections**<sup>16</sup>. The amounts are actually reimbursed by the Member States and are treated as assigned revenue in the EU budget. They are used to finance CAP expenditure as a whole without being earmarked for any particular Member State. The actual execution of the reimbursement to the EU budget may be delayed via instalment (execution in three annual instalments) or deferral decisions.

In the framework of shared management, the detection and correction of errors is in the direct responsibility of the Member States. Each time deficiencies are found in the management and control system, conformity procedures are opened and, at the same time, Member States are requested to take remedial action. The latter are closely monitored, failures to implement them may lead to interruption, reduction or suspension of the EU payments for the measure concerned. Member States were requested to submit action plans to remedy the weaknesses underlying the reservations. Those action plans were then assessed to check whether they would, if properly implemented, actually remedy the identified deficiencies in due time. The Commission assessed annually the effectiveness of the remedial actions that have already been taken by the Member State. It can be concluded that **the risk for the EU budget is systematically covered by the conformity clearance procedure and net financial corrections.**

For **EAGF**, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission in the second month following the Commission decision on a financial correction to the Member State concerned.

**Up to end 2015, instalment decisions for corrections of EUR 2.3 billion have been adopted.**

For **EAFRD**, the financial corrections are executed through a recovery order requesting the Member State concerned to reimburse these amounts to the EU budget mostly executed by set-off in the reimbursement in the following quarter. It therefore occurs that decisions adopted in the end of year N are only executed at the beginning of year N+1. Furthermore, the execution of the decision may be delayed due to instalment and deferral decisions.

This is particularly the case since 2010 when, due to the financial and economic crisis, Member States requested more frequently the benefit of an existing provision in the legislation allowing reimbursement of financial corrections via annual instalments (rather than a one-off payment): if the amount to be reimbursed by the Member State is more than 0.01 % of its GDP, it may request that the deductions are made in annual instalments (max. 3) instead of all at once.

### **Deferral of reimbursement of financial corrections:**

- Greece
- Portugal

In 2012, the Commission introduced a new provision<sup>17</sup> which permitted deferral of reimbursement of financial corrections for Member States under EU financial assistance and under the condition that the deficiencies at the origin of the financial correction are remedied.

The Member States which were subject to financial assistance mechanisms could request to defer for a one-off 18 months period their financial corrections. All amounts which should be executed during that period were deferred until the end of the period at which time the total amount was scheduled to be repaid via 3 annual instalments. Deferral decisions were adopted in respect of Greece for EUR 529 million while for Portugal EUR 109 million was deferred. The first two annual instalments for

<sup>16</sup> The procedure by which the Commission accepts the accounts of the Member States and thereby the expenditure made by the paying agencies to farmers and beneficiaries. Firstly, the accounts of paying agencies are checked for accuracy by certification bodies in the Member States and are then subject to an annual financial clearance decision by the Commission. Secondly, the Commission itself then carries out the conformity clearance procedure based on audits which permit it to identify and exclude (in later years) payments not complying with the rules.

<sup>17</sup> Commission Implementing Regulation (EU) No 375/2012 of 2 May 2012 amending Regulation (EC) No 885/2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the accreditation of paying agencies and other bodies and the clearance of the accounts of the EAGF and EAFRD - OJ L 118, 3.5.2012, p. 4–5.

the repayment of deferred amounts were done in 2014 and 2015, the third and final annual instalments will be repaid in 2016.

In 2015 a new deferral decision was adopted for Greece. After the expiry of the deferral period the corrections are required to be executed in five annual instalments. The deferral granted to Greece will expire on 22 of June 2017. So far EUR 335 million were deferred.

### **4.3. Deficiencies in Member States' management and control identified and measures undertaken**

The Commission has produced in 2013 reports on the root causes of error in respect of each of the three Activity Based Budget (ABB) activities and has identified the principal weaknesses in the Member States' management and control systems. As a follow-up, remedial actions are being taken by the Member States concerned and the Commission actively monitors their proper implementation. The Commission is further addressing the main risks created for the Funds by the existing root causes by means of audit enquiries and action plans already underway in certain Member States. On top of that, and at a more upstream stage, a series of actions covering improvements in monitoring, communication and remedial action are envisaged to mitigate the situation further and prevent issues from arising in the future. Moreover, the CAP Reform of 2013 has introduced a significant degree of simplification in a number of areas (e.g. introduction of simplified cost option in rural development) upon which the European Parliament and Council of Ministers could agree as well as improved control systems. Further simplification will focus on a more equitable situation for farmers while maintaining the effectiveness of the system and taking into account the complexities of some schemes, e.g. for the administrative penalties.

The **main root causes of error for direct payments** were related to: Errors / non-compliances by national administration arising when national administrations do not adapt their system as to ensure compliance with the rules or do not follow their own instructions; insufficient quality and update of the Land Parcel Identification System (LPIS); low quality of the on-the-spot checks; mistakes in the aid applications. It should be noted that the IACS, including LPIS, is the main management and control system to ensure the regularity of direct aid payments. It covers more than 90 % of EAGF expenditure and makes a significant contribution in preventing and reducing the level of error in the aid schemes to which it applies. When weaknesses in its functioning are detected, remedial actions are requested and their implementation is closely monitored by the Commission.

For **market measures, the root causes of errors** lie with: Eligibility conditions not met due to complexity of conditions, difficulties with the verifiability and controllability of measures; procurement rules; different interpretation in Member States on the admissibility of expenditure; insufficient information about Member States' management and control systems; weaknesses in the Member States' application of the management and control systems.

Rural development remains an area under close scrutiny. In order to address the causes of the errors, in 2015, DG AGRI further reinforced the existing action plans to address the reservations included in the 2014 Annual Activity Report (AAR), on the basis of improved cooperation and analysis within Commission services and intensive dialogue with Member States. Following this approach, an improved system of reporting by all Member States on their national or regional action plans for the reduction of error rates was put in place. This includes a reinforced focus on regular follow-up on audit findings, as well as improved indicators and milestones for monitoring purposes. A specific IT tool was developed by the Commission in 2014, and became fully operational in 2015, to collect and handle the information extracted from the national or regional action plans in an efficient and consistent manner, providing an overview and facilitating appropriate follow-up.

### **4.4. Cumulative figures**

Concerning **EAGF**, the amount of financial corrections decided by the Commission since 1999 totals EUR 11 766 million. The average correction rate per financial year for the period 1999-2015 has been **1.7 %** of expenditure. Once decided by the Commission, the corrections are automatically implemented unless a Member State has been granted the possibility of paying in three annual instalments.

**Table 4.4: EAGF Cumulative financial corrections decided under conformity clearance of accounts from 1999 to end 2015; 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 2015	% as compared to payments received from EU budget	% as compared to total amount of financial corrections
Belgium	12 755	1.8%	45	0.4%	0.4%
Bulgaria	3 257	0.5%	71	2.2%	0.6%
Czech Republic	6 533	0.9%	8	0.1%	0.1%
Denmark	18 208	2.6%	192	1.1%	1.6%
Germany	92 771	13.3%	203	0.2%	1.7%
Estonia	743	0.1%	1	0.1%	0.0%
Ireland	21 930	3.2%	108	0.5%	0.9%
Greece	42 621	6.1%	2 723	6.4%	23.1%
Spain	96 161	13.8%	1 510	1.6%	12.8%
France	149 034	21.4%	2 588	1.7%	22.0%
Croatia	253	0.0%	0	0.0%	0.0%
Italy	77 223	11.1%	1 930	2.5%	16.4%
Cyprus	453	0.1%	10	2.1%	0.1%
Latvia	1 065	0.2%	0	0.0%	0.0%
Lithuania	2 888	0.4%	24	0.8%	0.2%
Luxembourg	507	0.1%	6	1.1%	0.0%
Hungary	9 947	1.4%	63	0.6%	0.5%
Malta	37	0.0%	0	0.8%	0.0%
Netherlands	18 058	2.6%	240	1.3%	2.0%
Austria	11 884	1.7%	12	0.1%	0.1%
Poland	23 517	3.4%	155	0.7%	1.3%
Portugal	11 749	1.7%	342	2.9%	2.9%
Romania	7 579	1.1%	207	2.7%	1.8%
Slovenia	904	0.1%	20	2.2%	0.2%
Slovakia	2 898	0.4%	6	0.2%	0.1%
Finland	8 971	1.3%	34	0.4%	0.3%
Sweden	11 935	1.7%	120	1.0%	1.0%
United Kingdom	61 373	8.8%	1 146	1.9%	9.7%
<b>Total</b>	<b>695 255</b>	<b>100.0%</b>	<b>11 766</b>	<b>1.7%</b>	<b>100.0%</b>

**Graph 4.4: EAGF Member States' cumulative financial corrections under conformity clearance of accounts from 1999 to end 2015 as compared to payments received from the EU Budget**

#### **4.5. Member States corrections**

Member States are required to put in place systems for ex-ante controls and reductions or exclusions of financing:

- 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 PAs and encompass common features and special rules tailored to the specificities of each aid regime. They are designed to provide 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 by far most important system is the Integrated Administration and Control System (IACS), which in financial year 2015 covered 93.8 % of EAGF expenditure. To the extent possible, the IACS is also used to manage and control Rural Development measures relating to parcels or livestock, which in 2015 accounted for 54.1 % of payments under the EAFRD. For both Funds together, the IACS covered 85.6 % of total expenditure.
- 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, which led to corrections amounting to EUR 353 million. The most important corrections related to Spain (EUR 70 million), Italy (EUR 39 million) and Poland (EUR 35 million). See **Annex 6** for detailed figures reported in 2015.

## **5. COHESION POLICY**

### **5.1. Preventive actions**

In 2015, the Commission continued to apply the strict policy on interruption and suspension of payments decided by the Commission in the framework of the 2008 Action plan to strengthen the Commission's supervisory role under shared management of structural actions in order to protect the EU budget. This policy, in force for the 2007-2013 period, operates on a preventive basis, triggering the interruption of interim payments - or the sending of a warning letter if no payment claim is outstanding - as soon as there is evidence to suggest a significant deficiency in the management and control system of all or part of an operational programme, thus avoiding the reimbursement by the EU budget of amounts which might be affected by serious irregularities.

As regards **ERDF / CF** and **ESF** programmes, it is worth underlining that the remedial action plans agreed by the Member States as a result of the Commission's supervisory role also have a preventive impact on expenditure already incurred by beneficiaries and registered at national level in the certifying authority's accounts, but not yet declared to the Commission. For such expenditure, the certifying authority applies the financial correction requested by the Commission prior to declaring expenditure.

**Expenditure declared to the Commission already net of irregular amounts.**

Particularly in the case of extrapolated or flat rate corrections due to deficiencies in management and control systems, the amounts preventively corrected by certifying authorities prior to certification may be significant.

This can be demonstrated in the case of at source financial corrections applied to Romania in 2015 (EUR 345 million) or in 2014 by the Czech Republic (EUR 398 million) and Hungary (EUR 135 million) in the frame of remedial action plans for different programmes. For ESF, the main at source financial corrections confirmed were in 2015 applied to Romania (EUR 77 million).

Similarly, warning letters sent out by the Commission when system deficiencies are identified before a payment claim is submitted to the Commission may also have the same preventive effect on the protection of the EU budget, but no amount is reported by the Commission / Member States in this case as this effect is more difficult to quantify. The preventive effect of the Commission's supervisory role leads to an increased protection of the EU budget (and to reduced errors detected by audit authorities when auditing amounts claimed from the Commission) and has therefore to be reflected as well in the reporting.

Interruptions and suspensions are only lifted on the basis of reasonable assurance on the implementation of corrective measures and / or after financial corrections have been implemented. Financial corrections need to be included in a payment claim submitted to the Commission or agreed with the Commission. The adequacy of the corrective measures, including financial corrections is assessed in particular on the basis of audit evidence provided by the national audit authority or by a Commission (follow-up) audit, and after individual examination of the case aiming to ensure consistency, transparency and equal treatment amongst Member States.

### 5.1.1. Interruptions and suspensions

**Table 5.1.1: Interruptions**

EUR millions

Fund	Cohesion policy: 2007-2013 programming period							
	Total open cases at 31.12.2014		New cases 2015		Closed cases during 2015		Total open cases at 31.12.2015	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
<b>ERDF &amp; CF</b>	99	3 818	87	5 299	135	7 387	51	1 730
<b>ESF</b>	32	970	27	1 392	33	1 599	26	762
<b>EFF</b>	7	14	25	157	30	162	2	8
<b>Total</b>	<b>138</b>	<b>4 802</b>	<b>139</b>	<b>6 848</b>	<b>198</b>	<b>9 148</b>	<b>79</b>	<b>2 501</b>

The table above presents for the ERDF & CF, 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 2014, 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 2015. The closed cases represent the cases for which the payment of cost claims resumed in 2015, irrespective of the year when the interruption started. The cases still open at end 2015 represent the interruptions that remain active at 31 December 2015, i.e. the payment deadline of cost claims is still interrupted pending corrective measures to be taken by the Member State concerned.

Concerning **ERDF and CF**, the 51 payments that remained interrupted at the end of 2015 represent Spain (39), Hungary (5), Cross-border programmes (4) and the Czech Republic (3). Most of the cases stem from the analysis of the ACRs provided by the Member States and to some extent from other sources like media or Commission audit missions.

Concerning **ESF**, the 26 payments that remained interrupted at end 2015 represent Spain (11), Italy (8), France (2), Hungary (2), the United Kingdom (2) and Germany (1), of which 15 were already interrupted at end 2014.

For the **EFF**, most of the interruptions relate to issues stemming from the analysis of the ACRs provided by the Member States at the beginning of each year (reports not provided, not reliable or showing high error rates). 5 operational programmes were placed under reservation in the 2014 AAR (with payments interrupted): for all 5 cases, the Member State concerned took the necessary remedial action and payments could resume.

### Suspensions

Concerning **ERDF and CF**, 6 operational programs were suspended at end 2014, of which 3 were lifted during 2015. 10 suspension decisions were adopted in 2015: Spain (3), Cross-border (3), Hungary (2), Italy (1) and the UK (1). 6 of these new decisions were still in force at year-end, leading to a total number of 9 suspension decisions active at the end of 2015.

Concerning **ESF**, 18 operational programmes were suspended at end 2014, of which 11 were lifted during 2015. 10 suspension decisions were adopted in 2015 (France (1), Germany (1), Hungary (1), Italy (2), Slovakia (1), Spain (1) and the UK (3)), of which 2 (Slovakia and 1 of the UK ones) were lifted later in 2015. At the end of 2015, a total of 15 suspensions are still in force (France (1), Germany (1), Hungary (1), Italy (3), Spain (7) and UK (2)).

Interim payments for the **EFF** operational programme for Estonia were suspended in May 2014 and resumed in April 2015. There is no other suspension in the pipeline.

### 5.1.2. Fraud-prevention measures

The first and strongest preventive measure against fraud is the operation of a robust system of internal control, designed and operated as a proportionate response to the risks identified. Such a system can reduce the risk that fraud occurs or remains undetected, but cannot completely eliminate the likelihood of fraud occurring. As at end 2015, DG Regional and Urban Policy's operational

directorates are responsible for follow-up actions, in relation to 70<sup>18</sup> OLAF investigation cases in relation to the ERDF and the CF. According to OLAF's assessments, an amount of up to EUR 1 billion could potentially be affected by the alleged suspected fraud or irregularities. This is a maximum amount that needs to be evaluated by the Authorising Officer based on the reported findings.

According to the Commission's Report on the fight against fraud of 31 July 2015<sup>19</sup>, Member States communicated a total number of 3 579 irregularity cases to OLAF for the ERDF and the CF for a potentially affected amount of EUR 1.68 billion. According to the report, in 2014 the share of suspected fraud cases out of the irregularities notified by Member States to OLAF represented around 0.51 % of the 2014 payments for Cohesion Policy. The Commission verifies the work performed by Member States authorities on their combat against fraud, using a risk based approach. Nevertheless, since fraud and corruption schemes are very diverse and changing elements and the Commission cannot be a substitute to Member States authorities and verify 100 % of expenditure, the scope of fraud and / or corruption in particular in public procurement procedures in the EU (part of which also involve EU co-financed projects) may be higher than the amounts reported from Member States seem to suggest. The Commission therefore continue to analyse the fraud risk levels and suspicions in Member States, regions and programmes, the types of reported fraud (modus operandi) and the mitigating measures adopted by the Member States.

The Joint Anti-Fraud Strategy (JAFS) 2015-2020<sup>20</sup> has entered into force, covering ERDF, ESF, CF and other funds. With the JAFS the 3 Directorates General<sup>21</sup> aim at intensifying their on-going anti-fraud efforts through a series of new initiatives:

**In December 2015 the Joint Anti-Fraud Strategy (JAFS) of Structural Fund DGs successfully launched.**

- 1) Analysis of the results of the fraud risk assessments that Member States have to carry out under the 2014-2020 legislative provisions for the purpose of further underpinning and updating the action plan of the new strategy;
- 2) Increasing the effective use by Member States of the ARACHNE tool to detect potential fraud;
- 3) The organisation of anti-corruption and anti-fraud seminars for Member States with a view to strengthening their capacity to better fight fraud and corruption;
- 4) Other actions with the objective of promoting good governance, raising awareness and increasing the administrative capacity of the Member States to protect the EU's and national financial interests.

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

During 2015, other main actions which were implemented in the framework of the fight against fraud were:

- Internal training and awareness-raising actions to desk officers and auditors and programme authorities in the Member States.
- Reinforcement of the internal procedure for following-up final case reports (FCRs) issued by OLAF.
- Training and awareness-raising actions for Member States having to put in place effective and proportionate anti-fraud measures to mitigate against residual fraud risks.
- Collaboration with OLAF to fight fraud.
- Promotion of ARACHNE to support management verifications.
- Involvement of civil society through "Integrity pacts".

As a result of its policy of zero tolerance to fraud, the Commission has issued 42 warning letters linked to OLAF final case reports and other fraud suspicions in 2015.

<sup>18</sup> As at end 2014, 50 cases were being followed up. For 8 cases the follow-up was finalised in 2015. 28 new final case reports which were received from OLAF in 2015 are being followed up.

<sup>19</sup> COM(2015)386 final [http://ec.europa.eu/anti\\_fraud/documents/reports-commission/2014/pif\\_report\\_2015\\_en.pdf](http://ec.europa.eu/anti_fraud/documents/reports-commission/2014/pif_report_2015_en.pdf).

<sup>20</sup> See Ares(2015)6023058 of 23 December 2015.

<sup>21</sup> DG Employment, Social Affairs and Inclusion (EMPL), DG Maritime Affairs and Fisheries (MARE) and DG Regional and Urban Policy (REGIO).

## 5.2. Corrective actions

### 5.2.1. Situation up to 2007-2013 programming period

Financial corrections reported in 2015 for **ERDF / CF** for all programming periods remained stable compared to the last three years, with a significant increase in the amounts of corrections reported for the 2007-2013 programming period<sup>22</sup>.

**Financial corrections for 2015 remained stable compared to previous years confirming the strict correction policy implemented including interruptions and suspensions.**

This increase for 2007-2013 is due to the fact that in 2015 some longstanding cases, for which payment applications were blocked for several months or even years, came to an end after the implementation of financial corrections, contributed to this increase. For those cases, the corrections applied by Member States could only be reported in 2015 after the lifting of the interruption / suspension procedures.

As regards the **ESF**, the amount of financial corrections implemented reported in 2015 increased for all programming periods reflecting mainly the acceptance of the financial corrections in the context of closure of the 2000-2006 programmes and lifting of the long term suspensions for 2007-2013 programmes.

### 5.2.2. Improvements made and to be made

Concerning the **Cohesion Policy Funds**, in 2015, the Commission continued to exercise rigorously its supervisory role by interrupting / suspending payments as soon as deficiencies were identified and 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 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, as described below.

Furthermore, the Common Provisions Regulation (CPR) 2014-2020 contains reinforced control provisions compared to 2007-2013 and requirements that improve the Member States' accountability so as to better address errors and ensure legality and regularity of co-financed expenditure. The main aspects to be underlined:

**Significant improvements due to implementation of interruptions & suspensions and the use of simplified cost options.**

- A new financial management framework with a programme accounting year running from 1 July to 30 June. The certifying authority certifies to the Commission the expenditure in the programme accounts drawn up for each accounting year, containing only legal and regular expenditure cumulatively declared during the accounting year and cleared from all irregularities detected following national verifications and audits.
- A 10 % retention mechanism on all Commission interim payments during the accounting year meaning that the Commission reimburses the entirety of claimed expenditure only once all national controls including the audits by the audit authority have been carried out and their results fully analysed and taken into account by the managing and certifying authorities.
- The submission by the programme managing authority of a management declaration confirming the information contained in the accounts and that the control system in place gives the necessary guarantees concerning the legality and regularity of the operations and declared expenditure. This declaration will be accompanied by a report containing a

<sup>22</sup> The amount reported for 2015 includes negative financial corrections regarding lost Court cases and thus compensates the trend described here – see section 3.2.2.

summary of all control and audit results carried out up to certification of the accounts, an analysis of the nature and extent of errors and system weaknesses identified, as well as of corrective actions taken or planned.

- Independent audit work and audit opinion on the accounts, in addition to audits on the proper functioning of systems and representative samples of operations and expenditure as in the current period, by the programme audit authority. This will include assurance that all detected irregular expenditure has been appropriately and correctly decertified and excluded from interim payment claims or from the annual accounts and that when serious deficiencies were detected, corrective actions were implemented.
- The introduction of compulsory net financial corrections to be adopted by the Commission when EU audits detect irregularities indicating a serious deficiency not detected / reported by the programme authorities in relation to the programme accounts submitted by 15 February each. Net financial corrections reducing the Member States' allocations in case of undetected / non reported serious deficiencies will provide increased incentives for national robust and timely controls, including by the managing authorities, before certifying programme accounts to the Commission.
- Simplification and harmonisation of rules for all 5 ESI funds. The increased use of simplified cost options and their positive results in bringing down the errors.

In the area of the **ESF**, during 2015 the Commission continued to actively promote the use of the Simplified Cost Options (SCO) through seminars and the launching of a trans-national network in 2015. An overview report on SCOs was submitted to the European Parliament in November 2015 and highlighted an already very significant increase from the 7 % of the ESF implemented under SCOs for 2007-2013 to the 35 % planned by the national authorities for 2014-2020. In 2016, further actions have been identified which focus on 9 Member States with the lowest level of planned use of SCOs, with the overall objective to reach 50 % of ESF implemented through SCOs. Proposals for amending the Regulation are being explored in the context of the mid-term review of the MFF.

### **5.3. Deficiencies in Member States' management and control identified and measures undertaken**

As mentioned above, under shared management Member States are primarily responsible for the effective and efficient functioning of the management and control systems at national level. Nevertheless, the Commission seeks to ensure that the national systems better prevent errors before certification and takes a number of actions:

- co-operation with managing authorities on achieving sound and timely management verifications in order to prevent irregularities occurring in the first place or being included in payment claims certified to the Commission;
- implementing preventive capacity building actions including advice, support and training with programme authorities to reinforce their administrative capacity where needed;
- further co-operation with audit authorities under the single audit principle to timely and effectively address risks
- carrying out complementary risk-based audits on risk areas and managing authorities or intermediate bodies; and
- exercising a strict supervision over programme management, using the available legal tools such as interruptions, suspensions and, where necessary, financial corrections.

In the 2007-2013 period, main root causes of errors lie, among others, in complex management structures in some Member States, high staff turnover in some authorities leading to a loss of expertise or insufficient staff allocation.

**ERDF / CF main causes of errors:**

- a) Complex structures in MS**
- b) Complex legislation**
- c) Weak management controls in MS**

Errors result also from the fact that national or regional rules applied to Cohesion policy may be more demanding than those foreseen in the national legislation for similar expenditure nationally funded. Management verifications conducted by Member States continue to be a key issue. In particular the formal nature of management verifications, insufficient verifications of public procurement procedures, State aid or eligibility rules, insufficient structure / organisation of the managing authority or intermediate body and lack of training and supervision in case of delegation of responsibilities are the main issues. The results of the audit work are used by the Commission to assess whether it can rely principally on the opinion of the Audit Authority with regards to the effective functioning of the systems.

**ESF main causes of errors:**

- a) Ineligible costs**
- b) Ineligible projects or beneficiaries**

As regards ESF, ineligible costs continues to be the main source of error, together with ineligible projects / beneficiaries and then public procurement issues. The Commission has initiated targeted measures to address root causes of errors in these areas. Audit missions performed in 2015 focused on the following main topics:

- Following-up on the reception of the 2014 ACRs.
- The thematic audit on management verifications, already applied in 2013 and 2014, has been pursued in 2015 with 9 additional missions. Recommendations and, where applicable, interruption and suspension procedures have been initiated for those programmes showing areas of non-compliance or weak verifications.
- For 20 programmes in the 2014 AAR reservation, an audit mission was performed in 2015.
- In 2015, 6 ACR re-performance and 2 Article 73 audit missions took place.

The 2015 AAR of MARE contains a reservation due to deficiencies in the management and control systems of the following **EFF** operational programmes: the Czech Republic, Italy, Romania, Slovakia and Spain (Galicia only). Italy had not submitted its ACR; Galicia is the subject of a scope limitation. The remaining operational programmes were all affected by material error, as reported in the ACRs. The Member States have all been notified of the results of the Commission's analysis of the ACRs. Interruption letters have been sent to affected Member States where a claim is pending, specifying the necessary corrective action to be taken to allow payments to resume.

## **5.4. Cumulative figures**

### *5.4.1 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<sup>23</sup>.

**Cumulative corrections  
4.2 % of budget allocations**

For the ERDF and ESF funds at the end of 2015, the combined amount of financial corrections, based on Commission supervision work only, was EUR 7 784 million.

<sup>23</sup> For a more exhaustive explanation of the corrective mechanism put in place by the Commission for the closure 2000-2006, see the Report on financial corrections carried out for ERDF and ESF on 2000-2006 programmes (Ares(2013)689652 – 12 April 2013).

**Table 5.4.1: Programming period 2000-2006 - ERDF & ESF Financial corrections confirmed and in progress at 31 December 2015; 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%	19	-	19	1.0%	0.2%
Czech Republic	1 456	0.7%	6	-	6	0.4%	0.1%
Denmark	570	0.3%	1	-	1	0.1%	0.0%
Germany	26 960	13.7%	53	2	54	0.2%	0.7%
Estonia	305	0.2%	2	-	2	0.5%	0.0%
Ireland	3 067	1.6%	36	-	36	1.2%	0.4%
Greece	20 211	10.3%	1 212	-	1 212	6.0%	14.8%
Spain	40 686	20.7%	3 494	28	3 522	8.7%	43.0%
France	14 825	7.5%	482	-	482	3.3%	5.9%
Italy	27 501	14.0%	1 588	373	1 961	7.1%	24.0%
Cyprus	53	0.0%	-	-	0	0.0%	0.0%
Latvia	518	0.3%	4	-	4	0.8%	0.0%
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%	13	-	13	0.8%	0.2%
Malta	57	0.0%	-	-	0	0.0%	0.0%
Netherlands	2 702	1.4%	44	-	44	1.6%	0.5%
Austria	1 647	0.8%	4	-	4	0.2%	0.1%
Poland	7 032	3.6%	180	-	180	2.6%	2.2%
Portugal	18 178	9.2%	190	-	190	1.0%	2.3%
Slovenia	215	0.1%	2	-	2	0.9%	0.0%
Slovakia	1 245	0.6%	45	-	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%	324	-	324	2.0%	4.0%
Interreg	5 645	2.9%	69	-	69	1.2%	0.8%
<b>Total</b>	<b>196 911</b>	<b>100.0%</b>	<b>7 784</b>	<b>403</b>	<b>8 187</b>	<b>4.2%</b>	<b>100.0%</b>

At the end of 2015, the Commission had closed 361 **ERDF** programmes (compared to 338 at end 2014) out of a total of 379 programmes. The remaining 18 programmes represent cases where the Member States contested the financial corrections proposed by the Commission, presented additional information to be considered or requested reimbursement of irrecoverable amounts. These cases are followed up by financial correction procedures (hearings) and decisions on irrecoverable amounts.

For **ERDF**, financial corrections imposed by the Commission to all Member States cumulatively up to the end of 2015 are EUR 5.8 billion<sup>24</sup>, representing around 4.5 % of the total allocations for all 2000-2006 programmes. This process can be broken down into EUR 4.1 billion of financial corrections during the life cycle of the programmes and another EUR 1.6 billion of financial corrections applied at closure of the programmes. The main Member States concerned are Spain (EUR 2.6 billion), Italy (EUR 1.2 billion) and Greece (EUR 1.2 billion).

For **ESF**, the closure process had already been finalised at the end of 2014. At end 2015 the total amount of financial corrections for 2000-2006 programming period - taking into account financial corrections in progress - amounted to EUR 2.4 billion, representing 3.6 % of the ESF allocation. This

<sup>24</sup> This amount does not include the at source financial corrections applied by the Member States before declaring the expenditure to the Commission, since there was no legal requirement to report such amounts. Consequently, the Commission does not have such information.

process can be broken down into EUR 1.2 billion of financial corrections during the life cycle of the programmes and another EUR 1.2 billion applied at closure.

**Graph 5.4.1: Member States' cumulative financial corrections confirmed and in progress at 31 December 2015 for ERDF & ESF programming period 2000-2006 as compared to contributions received**

#### 5.4.2 Cohesion Policy: ERDF / CF & ESF 2007-2013

While financial corrections for the 2007-2013 period are expected to continue to increase in the coming years as its programmes start to close, figures so far indicate an overall lower volume of financial corrections compared to the previous programming period.

**Cumulative  
corrections 1.4 % of  
budget allocations**

The lower volume of financial corrections reflects the improved capacity of the management and control systems to detect problems and to correct errors before expenditure is declared to the Commission, as reflected in the lower error rates for cohesion policy in the period 2007-2013 compared to the period 2000-2006. Reference is also made to the corrections made by Member States in this period.

**Table 5.4.2: Programming period 2007-2013 – ERDF / CF & ESF Financial corrections confirmed and in progress at 31 December 2015; 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	2 062	0.6%	24	2	24	1.2%	0.5%
Bulgaria	6 668	1.9%	144	-	144	2.2%	3.0%
Czech Republic	26 425	7.6%	810	-	810	3.1%	17.2%
Denmark	510	0.1%	0	-	0	0.0%	0.0%
Germany	25 465	7.3%	179	1	179	0.7%	3.8%
Estonia	3 403	1.0%	12	-	12	0.3%	0.2%
Ireland	751	0.2%	22	-	22	2.9%	0.5%
Greece	20 210	5.8%	338	-	338	1.7%	7.2%
Spain	34 527	9.9%	488	2	488	1.4%	10.4%
France	13 549	3.9%	64	1	64	0.5%	1.4%
Croatia	858	0.2%	-	-	-	N/A	N/A
Italy	27 943	8.0%	293	-	293	1.0%	6.2%
Cyprus	612	0.2%	-	-	-	N/A	N/A
Latvia	4 530	1.3%	47	-	47	1.0%	1.0%
Lithuania	6 775	2.0%	0	-	0	0.0%	0.0%
Luxembourg	50	0.0%	0	-	0	0.1%	0.0%
Hungary	24 893	7.2%	432	-	432	1.7%	9.1%
Malta	840	0.2%	0	-	0	0.0%	0.0%
Netherlands	1 660	0.5%	-	-	-	N/A	N/A
Austria	1 204	0.3%	16	-	16	1.3%	0.3%
Poland	67 186	19.3%	334	-	334	0.5%	7.1%
Portugal	21 412	6.2%	22	-	22	0.1%	0.5%
Romania	19 058	5.5%	961	-	961	5.0%	20.4%
Slovenia	4 101	1.2%	33	-	33	0.8%	0.7%
Slovakia	11 483	3.3%	425	-	425	3.7%	9.0%
Finland	1 596	0.5%	0	-	0	0.0%	0.0%
Sweden	1 626	0.5%	1	-	1	0.1%	0.0%
United Kingdom	9 883	2.8%	71	2	71	0.7%	1.5%
Cross-border	7 987	2.3%	3	-	3	0.0%	0.1%
<b>Total</b>	<b>347 268</b>	<b>100.0%</b>	<b>4 719</b>	<b>8</b>	<b>4 719</b>	<b>1.4%</b>	<b>100.0%</b>

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

\*These figures represent the number of financial corrections in progress for ESF; figures on financial corrections in progress for ERDF / CF are not available.

**Graph 5.4.2: Member States' cumulative financial corrections confirmed and in progress at 31 December 2015 for ERDF / CF & ESF programming period 2007-2013 as compared to contributions received**

For **ERDF / CF** programmes, the Commission has imposed around EUR 3.5 billion of financial corrections cumulatively since the beginning of the 2007-2013 programming period (which includes EUR 1.2 billion of financial corrections applied by the Member States before or at the same time of declaring the expenditure to the Commission as a result of requested remedial actions). The main Member States concerned are Czech Republic (EUR 748 million), Romania (EUR 506 million), Hungary (EUR 405 million), Slovakia (EUR 388 million), Greece (EUR 289 million), Spain (EUR 273 million) and Italy (EUR 266 million).

For **ESF**, the Member States with the highest level of cumulative amount of financial corrections confirmed are Romania (EUR 455 million), Spain (EUR 215 million) and Poland (EUR 157 million). At this stage of the implementation and almost at closure of the programmes the cumulative amount of financial corrections including financial corrections in progress stands at EUR 1.2 billion representing 1.6 % of the ESF allocation.

## **5.5. Member States corrections**

Under the regulations for the 2007-2013 programming period, Member States have to report annually to the Commission the corrections<sup>25</sup> stemming from all controls performed. The Commission is performing risk-based audits and desk reviews to test the reliability of these figures as part of its assurance process.

See **Annex 7** for details of the figures. It is highlighted that the Commission has taken a prudent approach<sup>26</sup>, due to certain weaknesses in the Member State figures, so as to ensure that the 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.

## **6. DIRECT AND INDIRECT MANAGEMENT**

For direct and indirect management expenditure, the Commission has control frameworks in place to prevent, detect, correct and thus deter irregularities at the different stages of the grant management process in order to achieve both operational and financial objectives. An overview of the controls made in two key areas of direct and indirect management expenditure, research and international aid, are given below.

For **Research expenditure**, the control framework applicable to both direct<sup>27</sup> and indirect<sup>28</sup> management modes starts with the development of a work programme, which goes through a wide-ranging consultation process to ensure that it best meets the expectations of all stakeholders and will maximise the research outcome. Following the evaluation of proposals, further controls are then carried out as the selected proposals are translated into legally binding contracts. Project implementation is monitored throughout the lifetime of the project. Payments against cost claims are all subject to ex-ante checks according to standard procedures, which include an audit certificate given by a qualified auditor. As well as standard controls, additional, targeted, controls can also be carried out according to the information received and the risk of the transaction.

A main source of assurance comes from in-depth ex-post checks carried out on a sample of claims, at the beneficiaries' premises, after costs have been incurred and declared. A large number of these in-depth checks are carried out over the lifetime of the programme. Any amounts paid in excess of

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<sup>25</sup> At source corrections are excluded from this annual reporting, in line with the legal framework applicable for 2007-2013.

<sup>26</sup> In order to eliminate the risk of double counting, the amounts reported in this section are calculated as the difference between the cumulative amounts reported by the Member States (Art. 20 reports on withdrawals and recoveries) and the financial corrections reported by the Commission (table 3.2.3 above)

<sup>27</sup> Research budget implemented by the Commission and Executive Agencies.

<sup>28</sup> Implementation of Research budget entrusted to joint undertakings.

what is due are recovered, and systemic errors are extended to all ongoing participations of a beneficiary.

In the field of **International Cooperation and Development**, the Commission has established a control framework to prevent, detect, correct and thus deter irregularities at the different stages of the implementation of funding, applicable to both management modes (direct and indirect<sup>29</sup>) used for this implementation. This strategy starts from the choice of the most appropriate tool when drafting the planning documents and the financial decisions, and translates into the actual checks carried out at all stages of the implementation. From the point of view of financial control, the system is made up of a number of instruments systematically applied to the implementation of contracts and grants for all management modes: ex-ante checks on payments, audits carried out by the Commission and foreseen in an audit plan, expenditure verifications carried out prior to payments by beneficiaries of grants, verification missions to international organisations and an overall ex-post control on the basis of the Residual Error Rate study carried out every year.

The EU financial interests are therefore safeguarded, in addition to all the other possible means offered by the Financial Regulation, by the Commission's ex-ante control of individual transactions as well as subsequent controls or audits, and by the resulting recovery of any unduly disbursed funds where the agreed procedures have not been respected, or where the activities were not eligible for EU financing.

Finally, the last partial revision of the Financial Regulation<sup>30</sup> brought about a new Early Detection and Exclusion System (EDES) which ensures the detection and circulation of restricted information concerning economic operators which represent a threat to the Union financial interests. This information is centralised in a new database from 2016.

## **ANNEXES: DETAILED FIGURES**

### **1. Financial corrections in 2015 compared to EU payments received; Breakdown by Member State**

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<sup>29</sup> Budget implementation by international organisations.

<sup>30</sup> Regulation (EU, Euratom) No 2015/1929 of the European Parliament and of the Council of 28 October 2015 amending Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union (OJ L 286, 30.10.2015, p.1).

Member State	Payments received from the EU budget in 2015 (EUR million)	Financial corrections confirmed in 2015 (EUR million)	Financial corrections confirmed in 2015 % as compared to payments received from the EU budget in 2015	Financial corrections implemented in 2015 (EUR million)	Financial corrections implemented in 2015 as % of payments received from the EU budget in 2015
Belgium	1 045	1	0.1%	11	1.1%
Bulgaria	2 524	67	2.7%	143	5.7%
Czech Republic	6 921	111	1.6%	254	3.7%
Denmark	1 139	3	0.3%	2	0.2%
Germany	8 796	60	0.7%	(57)	(0.6%)
Estonia	346	2	0.6%	1	0.3%
Ireland	1 724	(3)	(0.2%)	19	1.1%
Greece	5 672	562	9.9%	403	7.1%
Spain	11 975	(181)	(1.5%)	(157)	(1.3%)
France	11 625	318	2.7%	661	5.7%
Croatia	468	0	0.0%	0	0.0%
Italy	10 578	378	3.6%	373	3.5%
Cyprus	149	0	0.1%	0	0.1%
Latvia	900	28	3.1%	28	3.1%
Lithuania	739	8	1.1%	10	1.3%
Luxembourg	70	1	1.1%	1	1.3%
Hungary	5 459	108	2.0%	255	4.7%
Malta	95	0	0.2%	1	0.6%
Netherlands	1 129	58	5.1%	(23)	(2.0%)
Austria	1 411	(21)	(1.5%)	10	0.7%
Poland	12 957	176	1.4%	119	0.9%
Portugal	2 197	148	6.7%	85	3.9%
Romania	6 263	502	8.0%	595	9.5%
Slovenia	816	18	2.2%	20	2.5%
Slovakia	3 632	264	7.3%	133	3.7%
Finland	1 065	4	0.4%	4	0.4%
Sweden	1 045	14	1.4%	14	1.4%
United Kingdom	5 526	102	1.8%	195	3.5%
INTERREG	1 887	1	0.1%	3	0.1%
<b>TOTAL</b>	<b>108 153</b>	<b>2 732</b>	<b>2.5%</b>	<b>3 104</b>	<b>2.9%</b>

*Negative amounts displayed in the above table may be due to Court of Justice judgements annulling financial correction decisions.*

It should be noted that due to the rounding of figures into millions of euros, some financial data in the tables may appear not to add-up.

## 2. Breakdown of flat rate corrections in 2015

	Total financial corrections confirmed (EUR million)	Flat-rate financial corrections* confirmed in 2015 (EUR million)	Total financial corrections implemented (EUR million)	Flat-rate financial corrections* implemented in 2015 (EUR million)
<b>Agriculture***</b>				
EAGF	922	709**	1 017	-
Rural Development	46	179**	263	-
<b>Cohesion</b>				
ERDF & CF****	1 289	986	1 359	970
ESF	348	279	407	312
EAGGF guidance	97	0	24	0
EFF/FIFG	6	3	10	3
Internal policies	23	10	23	10
<b>TOTAL</b>	<b>2 732</b>	<b>2 165</b>	<b>3 104</b>	<b>1 295</b>

\* Includes extrapolated corrections.

\*\* This represents a best estimate. The majority of financial corrections integrate amounts based on precise calculations and flat rates.

\*\*\* Implemented flat-rate figures for Agriculture are not available.

\*\*\*\* Breakdown of flat-rate corrections available only for MFF 2007-2013.

## 3. Breakdown of financial corrections at source in 2015

Member State	At source financial corrections confirmed in 2015 (EUR million)	At source financial corrections implemented in 2015 (EUR million)
Belgium	0	0
Bulgaria	0	28
Cyprus	0	0
Czech Republic	3	67
Spain	7	7
Finland	0	0
France	3	3
United Kingdom	0	0
Greece	2	30
Hungary	12	126
Ireland	0	0
Italy	6	4
Latvia	2	2
Netherlands	1	1
Poland	56	4
Portugal	0	0
Romania	423	507
Sweden	5	5
Slovakia	5	5
<b>TOTAL</b>	<b>524</b>	<b>788</b>

#### 4. Breakdown of net financial corrections in 2015

##### Confirmed

EUR millions

MFF Heading	Net financial corrections confirmed in 2015	Financial corrections with replacement of expenditure and other corrections confirmed in 2015	Total financial corrections <u>confirmed</u> in 2015
<b>Smart &amp; inclusive growth</b>	<b>(241)</b>	<b>1 878</b>	<b>1 637</b>
ERDF	127	1 157	1 283
Court of Justice judgements	(457)	0	(457)
<b>ERDF total</b>	<b>(330)</b>	<b>1 157</b>	<b>826</b>
Cohesion Fund	26	446	472
Court of Justice judgements	(9)	0	(9)
<b>Cohesion Fund total</b>	<b>17</b>	<b>446</b>	<b>462</b>
ESF	73	276	348
<b>Sustainable growth: natural resources</b>	<b>1 063</b>	<b>9</b>	<b>1 072</b>
EAGF	918	4	922
Rural Development	46	-	46
FIFG/EFF	2	4	6
EAGGF Guidance	97	-	97
<b>Security &amp; citizenship</b>	<b>9</b>	<b>15</b>	<b>23</b>
Migration and home affairs	9	15	23
<b>TOTAL</b>	<b>831</b>	<b>1 901</b>	<b>2 732</b>

A total of EUR 549 million remain to be classified and is treated as non-net corrections in this table.

##### Implemented

EUR millions

MFF Heading	Net financial corrections implemented in 2015	Financial corrections with replacement of expenditure and other corrections implemented in 2015	Total financial corrections <u>implemented</u> in 2015
<b>Smart &amp; inclusive growth</b>	<b>(117)</b>	<b>1 883</b>	<b>1 766</b>
ERDF	259	973	1 231
Court of Justice judgements	(457)	0	(457)
<b>ERDF total</b>	<b>(198)</b>	<b>973</b>	<b>774</b>
Cohesion Fund	63	576	639
Court of Justice judgements	(54)	0	(54)
<b>Cohesion Fund total</b>	<b>9</b>	<b>576</b>	<b>585</b>
ESF	73	334	407
<b>Sustainable growth: natural resources</b>	<b>1 289</b>	<b>25</b>	<b>1 314</b>
EAGF	998	20	1 017
Rural Development	263	-	263
FIFG/EFF	5	5	10
EAGGF Guidance	24	-	24
<b>Security &amp; citizenship</b>	<b>9</b>	<b>15</b>	<b>23</b>
Migration & home affairs	9	15	23

<b>TOTAL</b>	<b>1 181</b>	<b>1 923</b>	<b>3 104</b>
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## 5. Agricultural amounts recovered from final beneficiaries by the Member States in 2015

*EUR millions*

<b>Member State</b>	<b>EAGF</b>	<b>EAFRD</b>	<b>Total 2015</b>
Belgium	2.8	0.6	3.4
Bulgaria	1.6	3.1	4.7
Czech Republic	0.6	1.0	1.6
Denmark	2.4	3.3	5.6
Germany	11.3	11.7	23.0
Estonia	0.5	1.3	1.7
Ireland	5.6	2.8	8.4
Greece	2.8	3.0	5.7
Spain	19.0	6.6	25.5
France	22.9	3.9	26.8
Croatia	0.3	0.0	0.3
Italy	20.0	21.1	41.1
Cyprus	0.3	0.0	0.4
Latvia	1.5	1.0	2.5
Lithuania	14.9	1.3	16.2
Luxembourg	0.3	0.2	0.5
Hungary	3.6	9.1	12.7
Malta	0.0	0.1	0.2
Netherlands	2.6	1.0	3.5
Austria	5.7	8.2	13.9
Poland	8.1	19.4	27.5
Portugal	4.9	11.7	16.7
Romania	10.0	31.5	41.4
Slovenia	0.6	0.9	1.5
Slovakia	1.4	1.2	2.5
Finland	1.1	1.5	2.6
Sweden	2.0	1.5	3.4
United Kingdom	9.0	6.9	15.9
<b>Total</b>	<b>155.4</b>	<b>153.8</b>	<b>309.2</b>

**6. Member States own corrections in 2015 applied before payments to beneficiaries are executed (in addition to Commission reporting<sup>31</sup>)**

*EUR millions*

<b>Member State</b>	<b>EAGF Market Measures</b>	<b>EAGF Direct Payments</b>	<b>EAFRD</b>	<b>Total 2015</b>
Belgium	0.3	1.2	0.9	2.4
Bulgaria	0.2	13.5	7.2	20.8
Czech Republic	0.0	0.3	0.8	1.1
Denmark	0.0	1.1	1.4	2.6
Germany	4.7	5.1	7.5	17.3
Estonia	0.0	0.6	1.4	2.0
Ireland	3.0	2.6	0.7	6.2
Greece	0.6	11.6	6.4	18.6
Spain	27.0	25.9	17.2	70.1
France	9.5	5.2	5.6	20.4
Croatia	0.1	1.0	0.0	1.1
Italy	3.9	26.9	8.0	38.8
Cyprus	0.1	0.7	0.2	0.9
Latvia	0.0	1.2	1.6	2.8
Lithuania	0.0	0.8	2.9	3.7
Luxembourg	0.0	0.0	0.1	0.1
Hungary	2.6	11.3	15.3	29.1
Malta	0.0	0.0	0.4	0.4
Netherlands	6.5	0.8	1.8	9.1
Austria	2.2	2.4	3.5	8.1
Poland	12.8	12.5	9.9	35.2
Portugal	0.9	2.6	5.5	9.0
Romania	2.1	11.5	13.3	26.9
Slovenia	0.1	0.2	0.9	1.2
Slovakia	0.2	3.6	1.2	4.9
Finland	0.0	2.1	2.3	4.4
Sweden	4.6	0.7	2.3	7.6
United Kingdom	0.6	2.7	5.2	8.5
<b>Total</b>	<b>81.9</b>	<b>148.0</b>	<b>123.3</b>	<b>353.2</b>

<sup>31</sup> Stemming from Member States' control statistics reported to the Commission.

**7. Cumulative corrections at end 2015 reported by Member States for Cohesion Policy period 2007-2013<sup>32</sup>**

*EUR millions*

Member State	ERDF/CF	ESF	EFF	Total
Belgium	5.2	23.4	-	<b>28.6</b>
Bulgaria	62.8	4.8	-	<b>67.7</b>
Czech Republic	336.4	2.8	-	<b>339.1</b>
Denmark	0.7	0.1	0.2	<b>1.0</b>
Germany	393.7	99.2	1.2	<b>494.1</b>
Estonia	19.0	0.7	0.5	<b>20.3</b>
Ireland	0.8	18.2	0.2	<b>19.1</b>
Greece	672.7	33.3	0.1	<b>706.2</b>
Spain	499.7	240.7	47.1	<b>787.5</b>
France	164.9	64.2	2.4	<b>231.5</b>
Croatia	1.7	0.3	-	<b>2.0</b>
Italy	435.8	111.6	4.2	<b>551.6</b>
Cyprus	0.7	0.6	0.3	<b>1.7</b>
Latvia	4.1	2.5	1.2	<b>7.8</b>
Lithuania	18.8	0.6	0.1	<b>19.5</b>
Luxembourg	-	1.0	-	<b>1.0</b>
Hungary	302.1	2.7	0.1	<b>304.9</b>
Malta	1.6	0.3	0.0	<b>1.9</b>
Netherlands	10.0	5.5	5.5	<b>21.0</b>
Austria	10.8	4.4	0.0	<b>15.1</b>
Poland	530.4	-	0.8	<b>531.1</b>
Portugal	223.1	73.4	2.5	<b>299.0</b>
Romania	252.3	-	-	<b>252.3</b>
Slovenia	73.8	6.8	0.0	<b>80.7</b>
Slovakia	168.6	8.9	0.1	<b>177.5</b>
Finland	2.0	0.9	1.0	<b>3.9</b>
Sweden	7.1	1.4	0.3	<b>8.8</b>
United Kingdom	137.3	42.8	2.7	<b>182.7</b>
Cross-border	35.6	-	-	<b>35.6</b>
<b>TOTAL IMPLEMENTED</b>	<b>4 371.7</b>	<b>751.3</b>	<b>70.4</b>	<b>5 193.5</b>

<sup>32</sup> In addition to Commission reporting – see section 5.5.