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ANNEXES 1 to 9

CORRIGENDUM
Annule et remplace les annexes du document COM(2018) 457 final du 6 juin 2018:
Correction du formatage des tableaux dans l'annexe 2 (p. 113) et l'annexe 4 (p. 123).

ANNEXES

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

2017 Annual Management and Performance Report for the EU Budget

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List of annexes

Annex 1: Snapshot of the Commission-wide impact indicators

These statistical indicators are high-level context indicators designed to track the longer-term and indirect impacts of EU action. They were identified in the Strategic Plans of the Commission services. This annex presents an intermediate reporting on the current trends.

General objective: A New Boost for Jobs, Growth and Investment

1. Percentage of EU GDP invested in R&D (combined public and private investment)		
Baseline (2012)	Latest known value (2016)	Target (2020)
2.01 %	2.03 %	3 %
Source: Eurostat[151]		

2. Employment rate population aged 20-64		
Baseline (2014)	Latest known value (2016)	Target (2020)
69.2 %	71.1 %	At least 75 %
Source: Eurostat		

3. Tertiary educational attainment, age group 30-34		
Baseline (2013)	Latest known value (2016)	Target (2020)
37.1 %	39.1 %	At least 40 %
Source: Eurostat		

4. Share of early leavers from education and training[152]		
Baseline (2013)	Latest known value (2016)	Target (2020)
11.9 %	10.7 %	Less than 10 %
Source: Eurostat		

5. People at risk of poverty or social exclusion		
Baseline (2013)	Latest known value (2016)	Target (2020)
122.7 million	118.0 million	At least 20 million people fewer than in 2008 (116.2 million)
Source: Eurostat		

6. GDP growth		
Baseline (2014)	Latest known value (2016)	Target (2020)
1.8 %	2.0 %	Increase
Source: Eurostat		

7. Gross Fixed Capital Formation (GFCF) investments to GDP ratio		
Baseline (2014)	Latest known value (2016)	Target (2016-2020)
19.4 %	19.8 %	21 %-22 %
Source: Eurostat		

8. Labour productivity EU-28 as compared to US (US=100)[153]		
Baseline (2014)	Latest known value (2016)	Target (2020)
75	76	Increase
Source: AMECO database of the European Commission's Directorate-General for Economic and Financial Affairs		

9. Resource productivity: Gross Domestic Product (GDP, €) over Domestic Material Consumption (DMC, kg)[154] Explanation:		
Baseline (2010 – Eurostat estimate)	Latest known value (2016)	Target (2020)
1.8 €/kg (EU-28)	2.1€/kg (EU-28)	Increase
Source: Eurostat		

General objective: A Connected Digital Single Market

10. Aggregate score in Digital Economy and Society Index (DESI) EU-28[155]		
Baseline (DESI 2015)	Latest known value (DESI-2017)	Target (2020)
0.46	0.52	Increase
Source: DESI		

General objective: A Resilient Energy Union with a Forward-Looking Climate Change Policy

11. Greenhouse gas emissions (index 1990=100)		
Baseline (2013)	Latest known value (2016 prox. estimates by EEA)	Target (2020)
80.2 %	77.4 %	At least 20 % reduction (index ≤80)
Source: European Environmental Agency; Eurostat		

12. Share of renewable energy in gross final energy consumption				
Baseline (2013)	Interim Milestone (2015/2016)	Interim Milestone (2017/2018)	Latest known value (2015)	Target (2020)
15 %	13.6 %	15.9 %	16.7 %	20 %
Source: Eurostat				

13. Increase in energy efficiency – Primary energy consumption		
Baseline (2013)	Latest known value (2015)	Target (2020)
1 569.9 million tonnes of oil equivalent (Mtoe)	1 529.6 million tonnes of oil equivalent (Mtoe)	20 % increase in energy efficiency (No more than 1 483 Mtoe of primary energy consumption)
Source: Eurostat		

14. Increase in energy efficiency – Final energy consumption		
Baseline (2013)	Latest known value (2015)	Target (2020)
1 106.2 million tonnes of oil equivalent (Mtoe)	1 082.2 million tonnes of oil equivalent (Mtoe)	20 % increase in energy efficiency (No more than 1 086 Mtoe of final energy consumption)
Source: Eurostat		

15. Number of Member States at or above the electricity interconnection target of at least 10 %			
Baseline (2014)	Interim Milestone(2018)	Latest known value (2017)	Target (2020)
16 Member States at or above 10 % electricity interconnection target	19 Member States at or above 10 % electricity interconnection target	17 Member States at or above 10 % electricity interconnection target	24 Member States at or above 10 % electricity interconnection target (Spain and Cyprus to follow later)
Source: ENTSO-e			

General objective: A Deeper and Fairer Internal Market with a Strengthened Industrial Base

16. Gross value added of EU industry in GDP		
Baseline (2014)	Latest known value (2016)	Target (2020)
17.1 %	17.4 %	20 %
Source: Eurostat		

17. Intra-EU trade in goods (% of GDP)		
Baseline (2014)	Latest known value (2015)	Target (2020)
20.4 %	20.3 %	Increase
Source: Eurostat		

18. Intra-EU trade in services (% of GDP)		
Baseline (2014)	Latest known value (2015)	Target (2020)
6.3 %	6.6 %	Increase
Source: Eurostat		

19. Share of mobile EU citizens as % of the labour force		
Baseline (2014)	Latest known value (2016)	Target (2020)
3.4 %	3.9 %	Increase
Source: Eurostat (age group 15-64)		

20. Composite indicator of financial integration in Europe (FINTEC)[156]		
Baseline (2014)	Latest known value (2017)	Target (2020)
0.5/0.3 The first entry is the price-based, the second the volume-based indicator value.	0.56/0.28	Increase
Source: European Central Bank		

General objective: A Deeper and Fairer Economic and Monetary Union

21. Dispersion of GDP per capita[157]		
Baseline (2014)	Latest known value (2016)	Target (2020)
Euro area: 42.3 %	42.0 %	Reduce
EU 27: 41.9 %	41.5 %	Reduce
EU 28: 42.5 %	42.1 %	Reduce
Source: Eurostat		

22. Composite Indicator of Systemic Stress (CISS)[158]		
Baseline (Average range 2010-2014)	Latest known value (2017)	Target (2020)
0.25 in normal times 0.8 in a crisis mode	0.0308	Stable trend
Source: European Central Bank		

23. Income quintile share ratio[159]		
Baseline (2014)	Latest known value (2016)	Target (2020)
5.2	5.2	Reduce
Source: Eurostat		

General objective: A balanced and progressive trade policy to harness globalisation

24. Percentage of EU trade in goods and services as well as investment covered by applied EU preferential trade and investment agreements			
Baseline Goods average for 2014-2016, Services and FDI average for 2013-2015	Latest known value (2017) Goods, Services and FDI average for 2014-2016	Milestone** (2018)	Target** (2020)
Goods: Imports 27 % Exports 32 % Total 29 %	Goods: Imports 27 % Exports 32 % Total 30 %	Goods: Imports 32 % Exports 37 % Total 34 %	Goods: Imports 51 % Exports 61 % Total 56 %
Services: Imports 10 % Exports 9 % Total 9 %	Services: Imports 10 % Exports 10 % Total 10 %	Services: Imports 15 % Exports 15 % Total 15 %	Services: Imports 54 % Exports 52 % Total 53 %
FDI stocks: Imports 4 % Exports 7 % Total 6 %	FDI stocks: Imports 4 % Exports 7 % Total 6 %	FDI stocks: Imports 9 % Exports 13 % Total 11 %	FDI stocks: Imports 55 % Exports 59 % Total 57 %

Source: Eurostat for the raw indicators and DG Trade for the list of countries covered by trade and investments agreements*
Source of goods: Eurostat
Source of services: Eurostat
Source of FDI stocks: Eurostat

* See agreements under "In place" and "Agreements partly in place".
** The milestone and target figures are based on expectations of provisional application/entry into force of agreements that are currently under negotiation (see also result indicator 1.1 : "Number of on-going EU trade and investment negotiations and number of applied EU trade and investment agreements" of DG TRADE's Strategic Plan 2016-2020).

General objective: An Area of Justice and Fundamental Rights Based on Mutual Trust

25. Share of the population considering themselves as "well" or "very well" informed of the rights they enjoy as citizens of the Union		
Baseline (2015)	Latest known value	Target (2020)
42 %	Next survey planned for 2019	Increase

Source: Eurobarometer on Citizenship

26. Citizens experiencing discrimination or harassment		
Baseline (2015)	Latest known value	Target (2021) The Eurobarometer takes place every 3 years.
21 %	Next survey planned for 2019	Decrease

Source: Eurobarometer on discrimination

27. Gender Pay Gap (GPG) in unadjusted form, EU-28[160]		
Baseline (2013 - provisional figure)	Latest known value (2015)	Target (2020)
16.8 %	16.3 %	Decrease

Source: Eurostat

General objective: Towards a New Policy on Migration[161]

28. Rate of return of irregular migrants		
28.1. Explanation: The indicator measures the total return rate (number of persons returned divided by return decisions issued by the Member States)		
Baseline (2014) 41.8 %	Latest known value (2016) 50.6 %	Target (2020) Increase
Source: Eurostat[162], DG HOME; Eurostat: Return decisions; Eurostat: Total number of persons returned		
28.2 Explanation: The indicator measures the % of effective returns to third countries (returns to third countries divided by return decisions issued by the Member States)		
Baseline (2014) 36.2 %	Latest known value (2016) 46.3 %	Target(2020) Increase
Source: Eurostat: Return decisions; Eurostat Returns to third countries		
29. Gap between the employment rates of third-country nationals compared to EU nationals163, age group 20-64		
Baseline (2014) Gap: 13.4 points EU nationals: 69.8 % Third-country nationals: 56.4 %	Latest known value (2016) Gap: 15.3 points EU nationals: 71.8 % Third-country nationals: 56.5 %	Target (2020) Decrease
Source: Eurostat		

General objective: A Stronger Global Actor

30. GDP per capita (current prices-PPS) as % of EU level in countries that are candidates or potential candidates for EU accession		
Baseline (2014) 34 % for Western Balkans (excluding Kosovo[164]) 64 % for Turkey	Latest known value (2016) 35 % for Western Balkans (excluding Kosovo[165]) 64 % for Turkey	Target (2020) Increase
Source: Eurostat		
31. Ranking to measure political stability and absence of violence in countries part of the European Neighbourhood Policy (ENP)[166]		
Baseline (2014) NE*: 33.89 - 4 countries above 30 NS**: 11.99 - 4 countries above 10	Latest known value (2016) NE: 28.41 – 3 countries above 30 NS: 13.14 -5 countries above 10	Target (2020) NE: decrease in the number of countries above 30 by 1 NS: increase in the number of countries above 10 by 1
* Neighbourhood East (NE): Number of countries in a percentile rank above 30. ** Neighbourhood South (NS): Number of countries in a percentile rank above 10. Source: Worldwide Governance Indicators (WGI) project (WB group)		

32. Sustainable Development Goal 1.1.1: Proportion of population below international poverty line			
Baseline[167] (Computed on country level data from 2012 or before, drawing on World Bank data for the poverty rates, and UN Population Division data for the weights; extracted in November 2017 to take into account data revisions)	Interim Milestone	Latest known value (Computed on country level data from 2016 or before, drawing on World Bank data for the poverty rates, and UN Population Division data for the weights; extracted in November 2017)	Target (2030) UN Sustainable Development Goals
17.0 % (including the graduated countries - Partnership countries for which bilateral assistance is phased out)	Rolling On course for 2030 based on annual progress report prepared by UN Secretary General.	15.1 % (including the graduated countries - Partnership countries for which bilateral assistance is phased out)	0 %
28.4 % (excluding the graduated countries)		26.7 % (excluding the graduated countries)	
Source: World Bank (poverty rate); UN Population Division (population weights)			

General Objective: EU Collective Net Official Development Assistance (ODA) as a percentage of EU GNI: a) in total, b) to LDCs (Least Developed Countries)

33. EU Collective Net Official Development Assistance (ODA) as a percentage of EU GNI: a) in total, b) to LDCs (Least Developed Countries)			
Baseline (2014)	Interim Milestone (2020)	Latest known value (2015)	Target (2030) Council Conclusions of 26 May 2015, in the framework of the 2030 Agenda for Sustainable Development
In total: 0.43 % To LDCs: 0.11 %	In total: n/a To LDCs: 0.15 %	In total: 0.47 % To LDCs: 0.11 %	In total: 0.70 % To LDCs: 0.20 %
Based on analysis of final 2014 ODA spending by EU Member States and non-imputed spending by the EU institutions as reported by the OECD DAC. Final data for two EU Member States was not available so earlier data was extrapolated.			
Source: OECD Development Assistance Committee (DAC)			

General objective: A Union of Democratic Change

34. Voter turnout at European Elections		
Baseline (2014)	Latest known value (insert also date)	Target (2019)
42.61 %	No new value	Increase
Source of the data: European Parliament		

35. Number of opinions received from National Parliaments[168]			
Baseline (2014)	Latest known value		Target (2020)
	(2016)	(30/9/2017)	
506	620	417	Increase
Source: European Commission Annual report on relations between the European Commission and national parliaments			

General objective: To help achieve the overall political objectives, the Commission will effectively and efficiently manage and safeguard assets and resources, and attract and develop the best talents

36. Trust in the European Commission		
Baseline (EB 83 – Spring 2015)	Latest known value (EB 87 – Spring 2017)	Target (2020)
40 % tend to trust	41 % tend to trust	Increase
Source: Standard Eurobarometer on Public Opinion in the European Union		

37. Staff engagement index in the Commission		
Baseline (2014)	Latest known value (2016)	Target (2020)
65.3 %	64.3 %	Increase
Source: European Commission		

Annex 2: Amounts at risk and reservations in the 2017 Annual Activity Reports

2-A. Overall estimated amount at risk at closure (EUR millions) reported in the 2017 Annual Activity Reports

The following tables show a consolidated overview of the Commission's overall amount at risk at closure, **first per policy area and next per department** (in its entirety per Authorising Officer by Delegation). To allow comparison with previous Annual Management and Performance Reports, our groupings of Commission departments is kept stable. Consequently, our policy areas do not necessarily equal the European Court of Auditors Annual Report chapters (of which the number, the titles and even the compositions have changed in each of the at least 4 previous years). E.g. "*Cohesion, Migration and Fisheries*" includes all other departments (beyond the Agriculture department) which execute the largest part(s) of their budget in shared management mode; i.e. not only the Regional and Employment departments (which are indeed *cohesion*), but also the Maritime and Home Affairs departments (which are resp. *natural resources* and *security & citizenship*).

The Development department and thus the Commission Total also include the **European Development Fund** relevant expenditure. In addition, the Development, Neighbourhood, Humanitarian, Home Affairs, Regional and Employment departments and thus the Commission Total also include the **EU Trust Funds** relevant expenditure[169].

Those departments ensure the transparent and complete coverage of the relevant Trust Fund(s) in their Annual Activity Report (based on the reports from the Trust Fund Managers). Their accountability for their contributions (from the EU budget and/or the European Development Fund) paid into the Trust Funds on the one hand, and for the transactions made out of the Trust Funds (i.e. with the EU budget, European Development Fund and other donors' funds) as a Trust Fund Manager on the other hand, is distinguished.

2017 (provisional) annual accounts	Payments made	- New Prefinancing	+ Retentions made	+ Cleared Prefinancing	- Retentions released	= Relevant expenditure
EU budget	133 294	- 29 708	2 311	16 790	- 701	121 986
of which: contributions to the EU Trust Funds	*- 233*					*- 233*
European Development Fund	4 158	- 2 648		1 818		3 328
of which: contributions to the EU Trust Funds	*- 150*					*- 150*
EU Trust Funds	730	- 676		27		81
Commission Total (*)	**137 799**	**- 33 032**	**2 311**	**18 635**	**- 701**	**125 012**

For the ***reconciliation*** *of the relevant expenditure of the Development, Neighbourhood, Humanitarian, Home Affairs, Regional, Employment, Research and Budget departments, and of the Innovation and Networks Executive Agency, see the overall amount at risk tables and related footnotes in their Annual Activity Reports.*

Full specifications of the tables columns [“(a) – (i)”]

(a) In all cases of Co-Delegations (Internal Rules Article 3), the "payments made" are covered by the Delegated departments (*since 2017 also for Type 3*). In the case of Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating departments (*the reporting on the latter is being reconsidered for 2018*).
Co-Delegations Type 1 are actually 'divided' between departments, with each department duly covering its own 'share' of (both) payments and pre-financings.
PS: "Pre-financings paid/cleared" are always covered by the Delegated departments, even in the case of Cross-SubDelegations.

(b) New pre-financing paid by the department itself during the financial year (i.e. excluding any pre-financing received as transfer from another department). The “Pre-financing” is covered as in the context of note 2.5.1 to the Commission (provisional) annual accounts (i.e. excluding the "Other advances to Member States" (note 2.5.2) which is covered on a pure payment-made basis).

(c) In Cohesion, the (10 %) retention made

(d) Pre-financing having been cleared during the financial year (i.e. their 'delta' in 'actuals', not their 'cut-off' based estimated 'consumption')

(e) In Cohesion, the (10 %) retention which is released or (partially) withheld by the Commission

(f) For the purpose of equivalence with the European Court of Auditors' scope of the Commission funds with potential exposure to legality and regularity errors (*see the European Court of Auditors 2016 Annual Report methodological Annex 1.1 paragraph 10*), also our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out [& adds the retentions made], and adds the previous pre-financing actually cleared [& subtracts the retentions released and those (partially) withheld; and any deductions of expenditure made by Member States in the annual accounts] during the financial year. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(g) In order to calculate the weighted Average Error Rate for the total relevant expenditure in the reporting year, the detected or equivalent[170] error rates have been used. For types of low-risk expenditure with indications that the error rate might be close to 'zero' (e.g. administrative expenditure, operating subsidies to agencies), a 0.5 % error rate has nevertheless been used as a conservative estimate.

(h) Even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections, which is the best available estimate of the corrective capacity of the ex-post control systems implemented by the department over the past years, the Authorising Officer by Delegation has adjusted this historic average. Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely ex-ante control systems) have been adjusted in order to come to the best but conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes[171]. Consequently, estimates are not necessarily comparable between (families of) departments.

(i) For some programmes with no set closure point (e.g. European Agricultural Guarantee Fund) and for some multiannual programmes for which corrections are still possible afterwards (e.g. European Agricultural Fund for Rural Development and European Structural and Investment Funds), all corrections that remain possible are considered for this estimate.

When a department uses ranges of 'minimum-maximum' values for its estimates, then the columns are ‘split’ accordingly.

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

*For the **reconciliation** of the relevant expenditure of the Development, Neighbourhood, Humanitarian, Home Affairs, Regional, Employment, Research and Budget departments, and of the Innovation and Networks Executive Agency, see the overall amount at risk tables and related footnotes in their Annual Activity Reports.*

Policy area	Total payments (a)	New pre-financing paid (b)	Retentions made by Cohesion family DGs (c)	Pre-financing cleared (d)	Retentions (partially) released by Cohesion family DGs (e)	Total relevant expenditure (f)=(a)-(b)+(c)+(d)-(e)	Estimated amount at risk at payment (g) = Average Error Rate applied on (f)		Estimated future corrections (h) = Adjusted rate of Average Recoveries and Corrections applied on (f)		Estimated amount at risk at closure (i) = (g)-(h)	
							lowest value	highest value	lowest value	highest value	lowest value	highest value
Agriculture	55 872.0	98.9		183.9		55 957.0	1 243.6 (2.22 %)	1 243.6 (2.22 %)	1 173.9 (2.10 %)	1 173.9 (2.10 %)	69.7 (0.12 %)	69.7 (0.12 %)
Cohesion, Migration and Fisheries	39 234.0	11 502.9	2 310.8	3 193.3	701.1	32 533.8	358.7 (1.10 %)	358.7 (1.10 %)	14.4 (0.04 %)	14.4 (0.04 %)	344.4 (1.06 %)	344.4 (1.06 %)
External Relations	13 609.5	8 977.2		6 001.1		10 633.5	131.7 (1.24 %)	131.7 (1.24 %)	28.4 (0.27 %)	28.4 (0.27 %)	103.2 (0.97 %)	103.2 (0.97 %)
Research, Industry, Space, Energy and Transport	15 526.2	8 593.0		6 414.9		13 348.1	302.3 (2.26 %)	313.3 (2.35 %)	83.7 (0.63 %)	84.9 (0.64 %)	218.7 (1.64 %)	228.4 (1.71 %)
Other Internal Policies	6 983.5	3 379.5		2 460.8		6 065.0	38.9 (0.64 %)	40.1 (0.66 %)	6.8 (0.11 %)	6.8 (0.11 %)	32.0 (0.53 %)	33.2 (0.55 %)
Other Services & Administration	6 612.8	83.1		60.7		6 590.4	9.4 (0.14 %)	12.3 (0.19 %)	0.4 (0.01 %)	0.6 (0.01 %)	9.0 (0.14 %)	11.8 (0.18 %)
Reconciliations	-39.2	397.9		320.7		-116.4						
Total 2017	**137 798.8**	**33 032.5**	**2 310.8**	**18 635.4**	**701.1**	**125 011.4**	**2 084.6 (1.67 %)**	**2 099.7 (1.68 %)**	**1 307.6 (1.05 %)**	**1 309.0 (1.05 %)**	**777.0 (0.62 %)**	**790.7 (0.63 %)**
Total 2016						*137 127.9*	*2.13 %*	*2.62 %*	*1.48 %*	*1.55 %*	*0.65 %*	*1.07 %*

Policy area	DG	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by Cohesion family DGs *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by Cohesion family DGs *(e)*	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated amount at risk at payment *(g) = Average Error Rate applied on (f)*		Estimated future corrections *(h) - Adjusted rate of Average Recoveries and Corrections applied on (f)*		Estimated amount at risk at closure *(i) = (g)-(h)*	
								lowest value	highest value	lowest value	highest value	lowest value	highest value
Agriculture	AGRI	55 872.0	98.9	-	183.9	-	55 957.0	1 243.6	1 243.6	1 173.9	1 173.9	69.7	69.7
Cohesion, Migration and Fisheries	EMPL	10 357.1	2 372.0	645.3	349.6	300.9	8 679.0	91.5	91.5	0.1	0.1	91.5	91.5
	HOME	1 705.4	1 179.8	-	1 182.0	-	1 707.5	26.9	26.9	14.3	14.3	12.6	12.6
	MARE	510.7	170.8	19.0	84.8	6.2	437.5	2.3	2.3	-	-	2.3	2.3
	REGIO	26 660.8	7 780.3	1 646.5	1 576.9	394.0	21 709.8	238.0	238.0	-	-	238.0	238.0
External Relations	DEVCO	7 389.1	4 499.2	-	3 337.1	-	6 227.0	83.0	83.0	13.1	13.1	69.9	69.9
	ECHO	2 370.3	1 980.4	-	1 146.5	-	1 536.4	16.6	16.6	6.1	6.1	10.4	10.4
	FPI	574.1	501.6	-	353.6	-	426.1	8.1	8.1	1.7	1.7	6.4	6.4
	NEAR	3 260.8	1 991.6	-	1 162.5	-	2 431.8	23.9	23.9	7.5	7.5	16.4	16.4
	TRADE	15.2	4.4	-	1.4	-	12.2	0.1	0.1	-	-	0.1	0.1
Research, Industry, Space, Energy and Transport	CNECT	1 720.9	758.9	-	748.3	-	1 710.3	67.0	67.4	20.7	20.7	46.3	46.7
	EASME	1 147.2	724.0	-	284.2	-	707.4	19.9	20.4	1.1	1.1	18.9	19.4
	ENER	1 343.2	1 116.0	-	833.9	-	1 061.1	6.8	6.8	2.4	2.4	4.3	4.3
	ERCEA	1 601.2	672.2	-	557.2	-	1 486.2	16.1	16.1	3.9	3.9	12.2	12.2
	GROW	1 936.1	1 759.1	-	286.7	-	463.7	6.9	6.9	3.0	3.0	3.9	3.9
	INEA	2 460.1	1 378.9	-	1 418.0	-	2 499.2	30.3	37.7	6.3	7.5	24.1	30.2
	MOVE	414.0	160.5	-	128.7	-	382.2	4.6	4.6	3.2	3.2	1.4	1.4
	REA	1 697.2	1 102.1	-	739.2	-	1 334.3	33.4	33.4	5.5	5.5	27.9	27.9
	RTD	3 206.3	921.3	-	1 418.7	-	3 703.7	117.3	120.0	37.6	37.6	79.7	82.4
Other Internal Policies	CHAFEA	80.7	28.0	-	43.4	-	96.1	1.3	1.3	0.7	0.7	0.6	0.6
	CLIMA	27.9	8.9	-	11.4	-	30.5	-	-	-	-	-	-
	COMM	122.7	12.0	-	9.3	-	120.0	1.3	1.3	0.1	0.1	1.1	1.1
	EAC	2 358.4	2 304.5	-	1 411.5	-	1 465.3	14.7	14.7	0.2	0.2	14.5	14.5
	EACEA	635.9	512.3	-	513.9	-	637.6	10.5	10.5	2.2	2.2	8.3	8.3

Policy area	DG	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by Cohesion family DGs *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by Cohesion family DGs *(e)*	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated amount at risk at payment *(g) = Average Error Rate applied on (f)*		Estimated future corrections *(h) - Adjusted rate of Average Recoveries and Corrections applied on (f)*		Estimated amount at risk at closure *(i) = (g)-(h)*	
								lowest value	highest value	lowest value	highest value	lowest value	highest value
Other Internal Policies	ECFIN	2 841.6	15.1	-	2.6	-	2 829.1	1.6	1.6	-	-	1.6	1.6
	ENV	220.8	153.1	-	195.8	-	263.5	2.2	2.2	0.8	0.8	1.4	1.4
	JUST	169.8	141.5	-	115.5	-	143.8	1.7	1.7	1.0	1.0	0.7	0.7
	SANTE	425.3	192.8	-	144.4	-	377.0	5.0	6.2	1.8	1.8	3.2	4.4
	TAXUD	100.4	11.3	-	13.0	-	102.1	0.6	0.6	-	-	0.6	0.6
Other Services & Administration	BUDG	11.6	-	-	-	-	11.6	0.1	0.1	-	-	0.1	0.1
	COMP	5.4	0.3	-	0.2	-	5.3	-	-	-	-	-	-
	DGT	17.2	-	-	-	-	17.2	0.1	0.1	0.1	0.1	-	-
	DIGIT	267.9	-	-	-	-	267.9	1.3	1.3	-	-	1.3	1.3
	EPSC	0.2	-	-	-	-	0.2	-	-	-	-	-	-
	EPSO/ EUSA	7.8	-	-	-	-	7.8	-	-	-	-	-	-
	ESTAT	49.6	3.7	-	6.0	-	51.9	0.1	0.1	0.1	0.1	0.1	0.1
	FISMA	49.1	39.7	-	35.3	-	44.7	0.2	0.2	0.1	0.1	0.1	0.1
	HR	278.6	-	-	0.8	-	279.4	-	1.1	-	-	-	1.1
	IAS	-	-	-	-	-	-	-	-	-	-	-	-
	JRC	210.7	4.8	-	0.9	-	206.8	1.0	1.0	0.1	0.1	0.9	0.9
	OIB	360.6	-	-	-	-	360.6	-	1.8	-	0.2	-	1.6
	OIL	96.9	-	-	-	-	96.9	-	-	-	-	-	-
	OLAF	33.3	7.5	-	7.3	-	33.2	0.3	0.3	-	-	0.3	0.3
	OP	71.4	-	-	-	-	71.4	-	-	-	-	-	-
	PMO	5 043.0	-	-	-	-	5 043.0	5.8	5.8	-	-	5.8	5.8

Policy area	DG	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by Cohesion family DGs *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by Cohesion family DGs *(e)*	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated amount at risk at payment *(g) = Average Error Rate applied on (f)*		Estimated future corrections *(h) - Adjusted rate of Average Recoveries and Corrections applied on (f)*		Estimated amount at risk at closure *(i) = (g)-(h)*	
								lowest value	highest value	lowest value	highest value	lowest value	highest value
	SCIC	61.1	0.7	-	0.6	-	60.9	0.3	0.3	-	-	0.3	0.3
	SG	8.8	2.3	-	2.2	-	8.7	-	-	-	-	-	-
	SJ	3.2	-	-	-	-	3.2	-	-	-	-	-	-
	SRSS	36.4	24.1	-	7.4	-	19.7	0.2	0.2	-	-	0.1	0.2
	TF 50	-	-	-	-	-	-	-	-	-	-	-	-
Reconciliations		-39.2	397.9	-	320.7	-	-116.4	-	-	-	-	-	-
TOTAL		**137 798.8**	**33 032.5**	**2 310.8**	**18 635.4**	**701.1**	**125 011.4**	**2 084.6**	**2 099.7**	**1 307.6**	**1 309.0**	**777.0**	**790.7**

2-B. Summary of reservations (EUR millions) reported in the 2017 Annual Activity Reports

I. Expenditure – *current* programmes

Policy Area	Description of reservation	Dept.	Impact on Legality and Regularity[172]	Amount at risk at reporting = exposure
Agriculture	EAGF market measures (5 elements of reservation in 3 MS)	AGRI	Quantified	55.2
	EAGF direct payments (15 paying agencies in 8 MS)	AGRI	Quantified	394.0
	EAFRD expenditure for rural development measures (22 paying agencies in 15 MS)	AGRI	Quantified	320.5
Cohesion, Migration and Fisheries	2014-2020 European Regional Development Fund / Cohesion Fund (17 programmes in 9 MS and one European Territorial Cooperation programme)	REGIO	Quantified	79.0
	2014-2020 European Social Fund. Youth Employment Initiative. Fund for European Aid to the most Deprived (ESF/YEI/FEAD) (15 programmes in 6 MS)	EMPL	Quantified	21.1
	2014-2020 Management and control systems for the Asylum, Migration and Integration Fund (AMIF) (Finland, Greece) and the Internal Security Fund (ISF) (Finland)	HOME	Quantified for Finland. Non-quantified for Greece	1.2
External Relations	Direct management grants – incl. cross-delegation	DEVCO	Quantified	21.2
	Programmes managed by the African Union Commission (AUC) involving a significant level of procurement	DEVCO	Quantified	5.5
	Instrument for Cooperation with Industrialised countries (ICI)	FPI	Quantified	3.5
	Direct management grants	NEAR	NEW; Quantified	13.2
	Projects in Syria and Libya. for which no assurance building is possible (no staff access to projects or auditors' access to documents)	NEAR	Non-quantified	0.0
Research, Industry, Space, Energy and Transport	Research Fund for Coal and Steel (RFCS)	RTD	Quantified	2.3
Other Internal Policies	Internal control system partially functioning	EACEA	NEW; Non-quantified	0.0
	European Asylum Support Office (EASO) - management and control systems weaknesses	HOME	NEW; Non-quantified	0.0
	Non-research grant programmes	HOME	Quantified	6.3
	Non-research grant programmes	JUST	Quantified	1.3
	EU Registry Emissions Trading System (EU ETS) - significant security weakness remaining	CLIMA	Non-quantified	0.0
Other Services & Administration	Direct management grants (limited assurance building)	SRSS	NEW; Non-quantified	0.0
			TOTAL	924.3

II. Expenditure – '*legacy*' programmes

Policy Area		Description of reservation	Dept.	Impact on Legality and Regularity	Amount at risk at reporting = exposure
Agriculture		(none)			
Cohesion, Migration and Fisheries		2007-2013 European Regional Development Fund / Cohesion Fund / Instrument for Pre-Accession (20 programmes in 7 Member States and European Territorial Cooperation programmes, plus one Cross Border Cooperation programme)	REGIO	Quantified	30.8
		2007-2013 European Social Fund (18 programmes in 9 MS)	EMPL	Quantified	0.9
		2007-2013 European Fisheries Fund (EFF) (5 programmes in 5 MS)	MARE	Non-Quantified	0.0
		2007-2013 Solidarity and Management of Migration Flows (SOLID) general programme: Germany: European Refugee Fund (ERF) and European Integration Fund (EIF); United Kingdom: European Integration Fund (EIF) and European Return Fund (RF)	HOME	Quantified for Germany. Non-quantified for the UK	1.6
External Relations		(none)			
Research, Industry, Space, Energy and Transport	FP7	Research FP7 – incl. cross-delegations	RTD	Quantified	50.0
		Research FP7 – incl. funds paid to AAL Association and ECSEL Joint Undertaking	CNECT	Quantified	22.5
		Research FP7 – incl. FP7 funds paid to GSA Agency and cross-delegation	GROW	Quantified	0.1
		Research FP7	HOME	Quantified	0.2
		Research FP7	ENER	Quantified	2.5
		Research FP7	MOVE	Quantified	0.4
		Research FP7 - Space and Security	REA	Quantified	5.8
		Research FP7 - Small and Medium Enterprises	REA	Quantified	4.3
	CIP	CIP (Competitiveness and Innovation Programme)	GROW	Quantified	0.3
		CIP ICT Policy Support Programme (PSP)	CNECT	Quantified	4.9
		CIP Intelligent Energy Europe (IEE II)	EASME	Quantified	0.8
		CIP Eco-Innovation	EASME	Quantified	0.6
Other Internal Policies	EAC	2007-2013 Lifelong Learning Programme (LLP)	EACEA	Quantified	1.7
		2007-2013 Culture Programme	EACEA	Quantified	1.1
		2007-2013 Youth Programme	EACEA	Quantified	0.0
Other Services & Administration		(none)			
				TOTAL	**128.6**

III. Revenue

Policy Area	Description of reservation	Dept.	Impact on Legality and Regularity	Amount at risk at reporting = exposure
Revenue	Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget by the UK	BUDG	Quantified	430.7
			TOTAL	**430.7**

Annex 3: Definitions of the amount at risk

The Commission measures the **level of error** for assessing whether financial operations have been implemented in compliance with the applicable regulatory and contractual provisions. The level of error is defined as the **best estimation** by the authorising officer, taking into account **all relevant information** available and using **professional judgement**, of the expenditure or revenue found to be in breach of applicable regulatory and contractual provisions at the time the financial operations were authorised.

The Commission uses three indicators to measure the level of error:

- **Amount at risk** is the level of error expressed as an absolute amount, in value
- **Error rate** is the level of error expressed as a percentage
- **Residual error rate** is the level of error after corrective measures have been implemented, expressed as a percentage

The level of error is measured at various moments in time:

- At the **time of payment**; when no corrective measures have been yet implemented
- At the **time of reporting**; when some corrective measures have been implemented but others will be implemented in successive years
- At the **time of closure**; when all corrective measures will have been implemented. *For multiannual programmes this refers to the end of programme implementation; for annual programmes this is calculated at the end of a multiannual period covering the implementation of corrective measures, depending on the programme.* [173]

The term **corrective measures** refers to the various (*ex-post*) controls implemented after expenditure is declared to the Commission and/or the payment is authorised[174], aimed to identify and correct errors through financial corrections and recoveries.

The **estimated future corrections** is the amount of expenditure in breach of applicable regulatory and contractual provisions that the Authorising Officer by Delegation conservatively estimates s/he will still identify and correct through (*ex-post*) controls implemented *after* the payment is authorised, i.e. not only including corrections already implemented at the time of reporting but also those that will be implemented in subsequent year(s). The estimates can be based on the average amount of financial corrections and recoveries in past years, but adjusted when necessary in particular to neutralise (i) elements which are no longer valid under the current legal framework and (ii) ex-ante and/or one-off events.[175]

These concepts have the "**relevant expenditure**"[176] potentially at risk as calculation basis, which includes the payments made, subtracts the new pre-financing paid out (still owned by the Commission), and adds the previous pre-financing cleared (ownership transferred) during the financial year [177] This is a 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general accounting.

As a result, in terms of exposure, the Commission presents **three types of amount at risk**, calculated as follows:

- The overall **Amount at Risk at Payment** in the relevant expenditure is calculated based on the Detected Error Rates (in %) or its equivalents[178] for the expenditure segments, leading up to their total weighted Average Error Rates. Consequently, these are 'gross' types of error rates – which are closest[179] but not directly comparable to the European Court of Auditors' Most Likely Error rate and its range)[180].
- The **Amount at Risk at Reporting** *from the reservations* is calculated based on the Residual Error Rate (in %). This is typically a (cumulative) weighted average of the population segments audited and already cleaned (remaining error near 0 %) versus not (yet) audited (so presumed to be still affected by the Detected Error Rate). This concept assumes that the errors found and the corrections made so far in previous years (up to the time of reporting) apply similarly to the relevant expenditure of the reporting year as well. Consequently, this is an 'intermediate' type of error rate – up to that moment in the management cycle. *However, as this concept is based on (quantified[181]) Annual Activity Report Reservations only, it is not an "overall" concept given that it does not cover at all any relevant expenditure in the population which is not under reservation (i.e. for which the Residual Error Rate is not higher than 2 %).*

- The overall **Amount at Risk at Closure** in the relevant expenditure is an estimated figure calculated by subtracting the Estimated Future Corrections from the Amount at Risk at Payment.

Consequently, this is a 'net' type of error rate (in amount and/or in %) – forward-looking to the point when all recoveries and corrections will have been made.

Annex 4: Protection of the EU Budget

This Annex describes the functioning of the preventive and corrective mechanisms foreseen in the 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 financial effects these mechanisms have and indicates how Member States are involved and impacted. The following information focuses primarily on the results of the Commission's supervisory role, but also provides an insight into the results of Member States' controls.

Key considerations for the protection of the EU budget

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.

In **2017**, financial corrections and recoveries **confirmed** amount to **EUR 2 662 million**. During **the period 2011-2017** the **average amount confirmed** was **EUR 3 306 million** which **represents 2.4 % of the average amount of payments** made from the EU budget. The figures reported confirm the positive results of the multi-annual 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.

Under shared management the Member States are primarily responsible for identifying and recovering from beneficiaries amounts unduly paid. Controls carried out by Member States represent the first layer of control in the activities to protect the EU budget. The Commission can apply preventive measures and/or financial corrections on the basis of irregularities or serious deficiencies identified by Member State authorities, on the basis of its own verifications and audits, European Anti-Fraud Office investigations or as a result of audits by the European Court of Auditors.

For shared management, the Commission increasingly uses a number of preventive mechanisms and encourages Member States to address weaknesses in their management and control systems so as to prevent irregular expenditure. The Commission applies corrective mechanisms as a last resort where preventive mechanisms were not effective.

For **Cohesion** and the **European Agricultural Fund for Rural Development** (**EAFRD**), the vast majority of the financial corrections confirmed/implemented in 2017 relate to the 2007-2013 programmes.

The corrections confirmed or implemented during the year relate to errors and irregularities detected in 2017 or in previous years. Overall, 92 % of the total financial corrections decided have been implemented by the end of 2017.

Agriculture and Rural Development

For the **European Agricultural Guarantee Fund (EAGF)**, the average correction rate for Commission financial corrections under conformity clearance of accounts for the **period 1999 to end 2017** was **1.8 % of expenditure** (all of which are net financial corrections).

Net corrections leading to a reimbursement to the EU budget are characteristic for Agriculture and Rural Development. In 2017, the main corrections related notably to specific deficiencies in the Integrated Administration and Control System (IACS) in some Member States and insufficient checks of the reasonableness of costs for investments measures and application of the public procurement rules under rural development or negligence in the management of recoveries and other debts.

The Commission now applies a number of 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 2017, the Commission has issued decisions - related to Common Agriculture Policy - related for interruptions of EUR 23 million, for the reduction of payments of EUR 291 million, and for suspensions of EUR 3 million.

For both **European Agricultural Guarantee Fund** and **European Agricultural Fund for Rural Development**, where deficiencies are identified in management and control systems, the Member States concerned are required to put in place appropriate remedial action plans in the paying agencies concerned. If the deficiencies are not remedied in line with an action plan in a timely manner, the Commission may suspend or reduce payments.

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.

In addition to the financial corrections, Member States' own reductions before payments to beneficiaries amounted to EUR 546 million at the end of the financial year 2017.

Cohesion

For the **European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF)** 2007-2013 funds, at the end of 2017 the combined rate of financial corrections, based on Commission supervision work only, was 1.9 % of the allocations made.

For Cohesion Policy (2007-2013), net corrections are rather exceptional, due to the different legal framework and budget management type (reinforced preventive mechanism). Where the Commission identifies individual irregularities (including ones of systemic nature) or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all of the expenditure declared for co-financing from the **European Regional Development Fund, Cohesion Fund** or **European Social Fund** and reimbursed by the Commission is in line with the applicable rules.

During the 2000-2006 and 2007-2013 programme periods, Member States were able to replace irregular expenditure with new expenditure if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced (i.e. the Member State could spend less money throughout the programming period).

The European Court of Auditors recently assessed the effectiveness of preventive and corrective measures taken by the Commission in cohesion policy for the 2007-2013 period[182] and concluded that overall the Commission had made effective use of the measures at its disposal to protect the EU budget from irregular expenditure and that the Commission's corrective measures put pressure on Member States to address weaknesses in their management and control systems.

The regulatory provisions for the 2014-2020 period significantly strenthen the Commission's position on protecting the EU budget from irregular expenditure.

This is mainly due to the set-up of the new assurance model for the 2014-2020 programming period, which reduces the risk of having a material level of error in the accounts on a yearly basis. In fact, 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. During the accounting year the Commission retains 10 % of each interim payment until the finalisation of all national control cycles. Timely identification of deficiencies in the functionning of the management and control system and reporting of reliable error rates is in the Member States' best interest since the Commission shall make net financial corrections in case Member States have not appropriately addressed them before submitting their annual accounts to the Commission.

For the period 2014-2020, the Member States have applied in 2017 financial corrections totalling EUR 97 million for **European Regional Development Fund/Cohesion Fund**, while the financial corrections imposed for **European Social Fund (ESF), Youth Employment Initiative (YEI)** and the **Fund for European Aid to the most Deprived (FEAD)** amounted to EUR 190 million.

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. Net corrections leading to a reimbursement to the EU budget are characteristic for direct and indirect management.

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.

1. Financial corrections and recoveries at end 2017

1.1. Financial corrections and recoveries 2017

MFF Heading	Total EU budget payments in 2017	Total financial corrections confirmed in 2017	Total recoveries confirmed in 2017	Total financial corrections and recoveries confirmed in 2017	% of payments of the EU budget	Total financial corrections implemented in 2017	Total recoveries implemented in 2017	Total financial corrections and recoveries implemented in 2017	% of payments of the EU budget
Smart & inclusive growth	**57 030**	**509**	**357**	**867**	**1.5 %**	**443**	**346**	**789**	**1.4 %**
ERDF	16 853	246	-	246	1.5 %	170	-	170	1.0 %
Cohesion Fund	8 366	198	-	198	2.4 %	250	-	250	3.0 %
ESF	9 797	65	-	65	0.7 %	23	0	23	0.2 %
Internal policies	22 014	N/A	357	357	1.6 %	N/A	346	346	1.6 %
Sustainable growth: natural resources	**56 743**	**1 214**	**324**	**1 538**	**2.7 %**	**1 560**	**231**	**1 790**	**3.2 %**
EAGF183	44 695	985	195	1 180	2.6 %	1 217	131	1 348	3.0 %
Rural Development 184	11 113	225	113	338	3.0 %	248	84	331	3.0 %
FIFG/EFF	401	4	1	5	1.2 %	95	1	96	23.9 %
EAGGF Guidance	-	0	1	1	N/A	-	1	1	N/A
Internal policies	534	N/A	15	15	2.7 %	N/A	15	15	2.7 %
Security & citizenship	**2 867**	**6**	**14**	**20**	**0.7 %**	**6**	**14**	**20**	**0.7 %**
Migration and home affairs	2 127	6	-	6	0.3 %	6	-	6	0.3 %
Internal policies	740	N/A	14	14	1.9 %	N/A	14	14	1.9 %
Global Europe	**9 793**	**N/A**	**234**	**234**	**2.4 %**	**N/A**	**244**	**244**	**2.5 %**
External policies	9 793	N/A	234	234	2.4 %	N/A	244	244	2.5 %
Administration	**9 656**	**N/A**	**3**	**3**	**0.0 %**	**N/A**	**3**	**3**	**0.0 %**
Administration	9 656	N/A	3	3	0.0 %	N/A	3	3	0.0 %
Total	**136 089**	**1 729**	**933**	**2 662**	**2.0 %**	**2 008**	**837**	**2 845**	**2.1 %**

Table 1.1: Financial corrections and recoveries overview for 2017[185] in EUR millions.

** Excludes EUR 1 291 million paid out under the Special Instruments heading.*

1.1.1. Agriculture and Rural Development

The **financial corrections**[186] confirmed by the Commission in 2017 reflect the significant efforts made by the Directorate General for Agriculture and Rural Development (DG AGRI) in accelerating the conformity clearance processes, including processing outstanding procedures which are now finalised. As regards correcting irregularities committed by the beneficiary, Member States must record and report on the **recovery** of the amounts unduly spent within the annual financial clearance exercise. Recovering irregular payments directly from the final beneficiaries is the sole responsibility of the Member States.

1.1.2. Cohesion

2007-2013 programming period

Financial corrections under **European Regional Development Fund/Cohesion Fund** in 2017 remained high, thus confirming the multi-annual corrective capacity of the policy. This is also the result of the strict application of interruption/suspension procedures by the Commission since the beginning of the programming period and the fact that in 2017 the closure packages were sent to the Commission, with the last possibility for the Member States to declare new expenditure, after the application of the financial corrections requested by the Commission.

The Member States with the highest corrections in 2017 were Poland (EUR 391 million), Hungary (EUR 99 million) and Greece (EUR 78 million). As a result, at end 2017 the cumulative amount of financial corrections for 2007-2013 confirmed by Member States as consequence of the Commission supervisory role is EUR 3 498 million[187].

For **European Social Fund** the total amount of financial corrections confirmed in 2017 stands at EUR 65 million and in cumulative figures at EUR 1 519 million. There were no financial corrections decided by a Commission decision. The total amount of financial corrections implemented in 2017 stands at EUR 23 million out of which EUR 5 million have been confirmed in 2017 and EUR 18 million in the previous years. The total amount of financial corrections implemented for **European Social Fund** stands at EUR 1 263 million in cumulative figures. 83 % of financial corrections confirmed during the year 2017 and previous years for the programming period 2007-2013 have been implemented, leaving an amount of EUR 256 million to be implemented at closure. Member States with the highest level of financial corrections implemented in 2017 are Portugal (EUR 15 million), Spain (EUR 5 million) and Poland (EUR 3 million).

The total amount of financial corrections confirmed in cumulative figures for the **European Maritime and Fisheries Fund (EMFF)** stands at EUR 26 million in 2017, with EUR 2 million to be implemented at closure.

2014-2020 programming period

For **European Regional Development Fund/Cohesion Fund** programmes for which expenditure was declared for the accounting year 1 July 2016 to 30 June 2017, there were no net financial corrections imposed by Commission Decision. However, the Member States themselves applied financial corrections in the accounts following their audits of operations.

This shows that the new system excludes from the annual accounts expenditure found to be irregular (0.7 % of the expenditure declared during the accounting year corrected as a result of audit of operations).

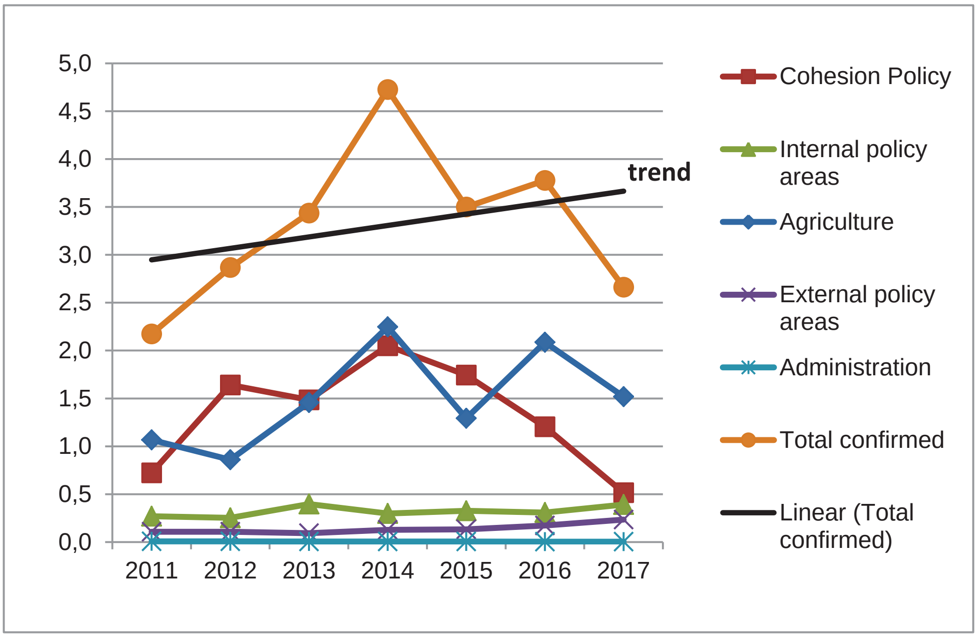
For **European Social Fund**, **Youth Employment Initiative** and the **Fund for European Aid to the most Deprived** programmes for which expenditure was declared during the accounting year 1 July 2016 to 30 June 2017, there were no financial corrections imposed by Commission Decision, however there were EUR 190 million of financial corrections implemented by Member States in their annual accounts.

1.2. Cumulative financial corrections and recoveries to end 2017

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

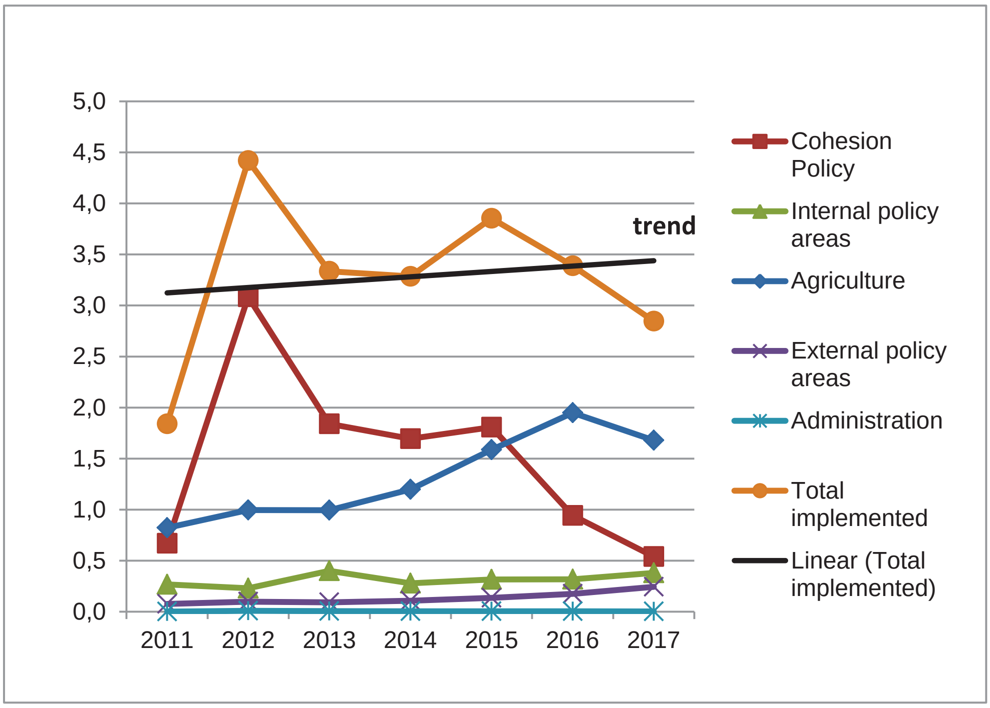
1.2.1. Period 2011-2017

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



*Graph 1.2.1.1: Financial corrections and recoveries **confirmed** 2011-2017 (EUR billions)*

The average financial corrections and recoveries **confirmed** (2011-2017) amount to EUR 3.3 billion which represents 2.4 % of average budget payments.



*Graph 1.2.1.2: Financial corrections and recoveries **implemented** 2011-2017 (EUR billions)*

The average amount of financial corrections and recoveries **implemented** for 2011-2017 was EUR 3.3 billion, which represents 2.4 % of the average amount of payments from the EU budget in that period.

1.2.2. Cumulative financial corrections confirmed and implementation percentage at end 2017

	Programming Period				Cumulated EAGF decisions	Financial corrections confirmed at end 2017	Implemen-tation % end 2017	Financial corrections confirmed at end 2016	Implemen-tation % end 2016
	1994-1999 Period	2000-2006 Period	2007-2013 Period	2014-2020 Period					
Agriculture	**-**	**143**	**1 278**	**14**	**14 081**	**15 517**	***91.1 %***	**14 291**	***88.5 %***
EAGF	-	-	-	-	14 081	14 081	*91.6 %*	13 081*	*89.1 %*
Rural Development	-	143	1 278	14	N/A	1 436	*86.6 %*	1 211	*82.2 %*
Cohesion Policy	**2 083**	**9 080**	**6 486**	**0**	**N/A**	**17 649**	***92.7 %***	**17 136**	***92.4 %***
ERDF	1 143	5 815	3 793	-	N/A	10 751	*91.3 %*	10 505	*91.8 %*
Cohesion fund	268	843	1 147	-	N/A	2 259	*95.8 %*	2 060	*92.9 %*
ESF	569	2 111	1 519	-	N/A	4 199	*93.9 %*	4 134	*94.8 %*
FIFG/EFF	100	140	28	-	N/A	267	*99.3 %*	264	*64.8 %*
EAGGF Guidance	3	171	-	-	N/A	174	*100.0 %*	174	*100.0 %*
Other	**-**	**-**	**-**	**-**	N/A	**44**	***99.6 %***	**38**	***99.5 %***
Total	**2 083**	**9 223**	**7 764**	**14**	**14 081**	**33 211**	***92.0 %***	**31 466**	***90.6 %***

Table 1.2.2: Cumulative financial corrections confirmed & implementation percentage to end 2017 in EUR millions

** The closing balance of 2016 does not include an amount of EUR 15.7 million concerning decision C(2014)8997.*

1.2.3. Cumulative recoveries 2011-2017

The tables below provide the amounts of recoveries confirmed and implemented for the period 2011-2017.

See also section 1.3.1 below concerning the impact on the EU budget.

Recoveries	**Years**						
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Agriculture:							
EAGF	174	162	227	213	117	100	195
Rural Development	161	145	139	165	206	242	113
Cohesion	50	22	83	35	5	10	2
Internal policy areas*	270	252	393	293	302	303	386
External policy areas*	107	107	93	127	132	173	234
Administration	8	7	6	5	5	4	3
Total	**770**	**695**	**941**	**838**	**767**	**833**	**933**

*Table 1.2.3: Recoveries **confirmed** 2011-2017 in EUR millions*

Recoveries	Years						
	2011	2012	2013	2014	2015	2016	2017
Agriculture:							
EAGF	178	161	155	150	155	118	131
Rural Development	161	166	129	167	152	43	84
Cohesion	48	14	81	32	7	12	2
Internal policy areas*	268	229	398	274	293	313	374
External policy areas*	77	99	93	108	136	175	244
Administration	2	9	6	5	5	4	3
Total*	**734**	**678**	**862**	**736**	**749**	**665**	**837**

*Table 1.2.4: Recoveries **implemented** 2011-2017 in EUR millions*

* *It should be noted that the amounts disclosed for the periods 2011-2014 are based on a different methodology which has been subsequently refined to better identify and track recoveries.*

1.3. Impact of financial corrections and recoveries

1.3.1 Impact on the EU budget

Financial corrections and recoveries may or may not have an impact on the EU budget:

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 (European Agricultural Guarantee Fund, European Agricultural Fund for Rural Development, European Agricultural Guidance and Guarantee Fund) lead almost 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.

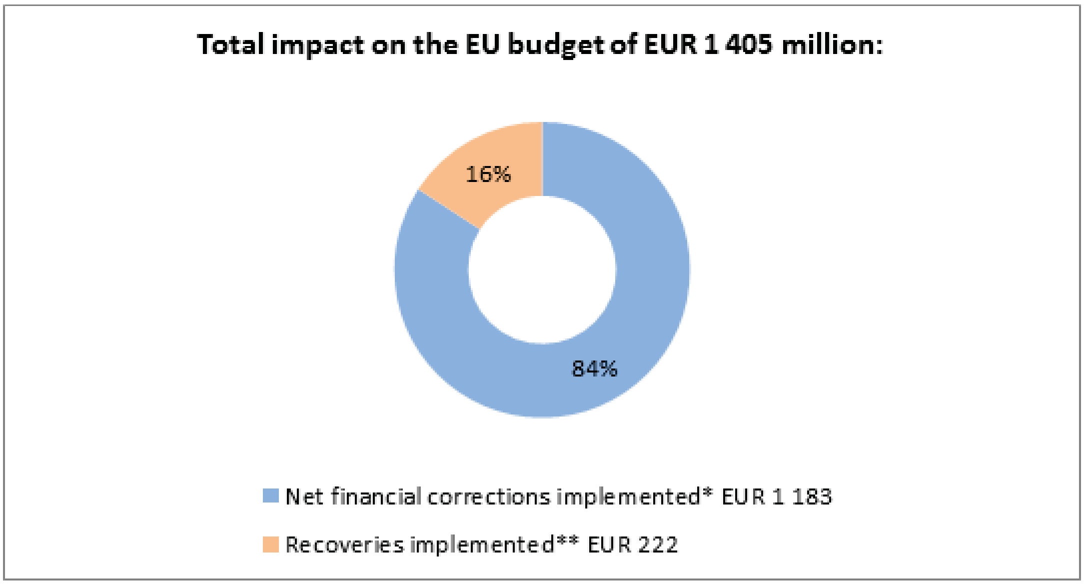
Under the legal framework applicable for Cohesion Policy up to the 2007-2013 programming period, a real cash-flow back to the EU budget occurs only:

– 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.



Graph 1.3.1: Impact on the EU Budget 2017

* *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 1.2.3.*

Revenues arising from net financial corrections and recoveries are treated as assigned revenue[188]. It should be also noted that the Commission deducts detected ineligible expenditure (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.

1.3.2. 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 States 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 the ineligible expenditure can be recovered 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.

2. Agriculture and rural development

2.1. Preventive actions

Preventive actions by the Member States

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 (PAs). Compliance with strict accreditation criteria is subject to constant supervision by the competent national authority (at ministerial level). The directors of paying agencies are required to provide an annual management declaration on the completeness, accuracy and veracity of the accounts, as well as a declaration that the system in place provides reasonable assurance on the legality and regularity of the underlying transactions. The annual accounts, the functioning of the internal control procedures and the legality and regularity of the expenditure of paying agencies are verified and certified by the Certification Bodies (an independent external audit body), which also reviews the compliance with the accreditation criteria. The management declarations are also verified by the above-mentioned certification bodies, which are required to provide an annual opinion. For each support scheme financed by the European Agricultural Guarantee Fund or European Agricultural Fund for Rural Development, the paying agencies apply a system of exhaustive ex-ante administrative controls and on-the-spot checks prior to any payment. These controls are made in accordance with precise rules set out in the sector specific legislation. 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.

Preventive actions by the Commission

With a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments, the Commission applies a number of available preventive instruments such as:

– the interruption of payments for the second pillar (European Agricultural Fund for Rural Development);

– sreduction and suspension of EU financing for both pillars (European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development).

First, where the declarations of expenditure or information received from the Member State enable the Commission to establish that it has been effected by paying agencies not accredited, that payment periods or financial ceilings have not been respected or that expenditure has not been effected in accordance with Union rules, the Commission may reduce or suspend the payments to the Member State under both pillars.

Secondly, the Commission may reduce or suspend monthly (European Agricultural Guarantee Fund) or interim (European Agricultural Fund for Rural Development) 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*"[189] (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 **European Agricultural Fund for Rural Development**, the Common Provisions Regulation (CPR)[190] 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. The Commission can also interrupt the payment deadline in case the Authorising Officer by Subdelegation requires further verifications after the submission of a declaration of expenditure. In 2017, payments were interrupted for Greece and Romania and also suspended for Romania.

For **European Agricultural Guarantee Fund**, the legislator has not provided for using the interruption procedure due to the monthly rhythm of the payments. For European Agricultural Guarantee Fund suspensions of monthly payments due to deficiencies in the control system were made for a total amount of EUR 3 million (Poland). There were no reductions in the monthly payments due to deficiencies in the control system in 2017. The other reductions concern overruns of ceilings, deadlines and other eligibility issues.

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

For the CAP in 2017 the Commission has decided to reduce payments by EUR 291 million, to interrupt EUR 23 million and to suspend EUR 3 million.

2.2. Corrective actions

For **European Agricultural Guarantee Fund**, 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.

For **European Agricultural Fund for Rural Development**, 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 offsetting it in the reimbursement in the following quarter. It therefore happens 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. Of the three ad hoc decisions adopted in 2017 a total of EUR 287 million was scheduled for recovery in 3 annual instalments. One deferral decision was due to expire on 22 June 2017 but was prolonged for a year until 22 June 2018. Of the three ad hoc decisions adopted in 2017 another EUR 24 million became subject to deferral (and subsequent recovery in 5 annual instalments) under this prolonged deferral decision.

2.3. Deficiencies in Member States' management and control identified and measures undertaken

The main root causes of errors leading to corrections have been:

– Errors in non-compliance;

– Eligibility conditions not met; and

– Breach of procurement rules.

These were addressed by putting in place action plans which identify the deficiencies for the Paying agencies concerned and define remedial actions to be implemented by the Paying agencies.

As from 2015, DG AGRI has further improved the system of action plans reporting by Member States concerned, including a reinforced focus on audit findings as well as improved indicators and milestones for monitoring purposes. The action plans are expected to address the identified deficiencies by describing, for each of them, the corrective actions to be taken and the established benchmarks and timetable for implementing their actions. The action plans are normally triggered by serious deficiencies identified in the framework of conformity procedures.

The regulatory quality assessment which Member States must carry out of their Land Parcel Identification System is actively followed-up by DG AGRI to ensure that Member States take the remedial actions required to meet the quality standards that are considered appropriate, in view of the fundamental role played by the Land Parcel Identification System in ensuring correct claims and payments.

In general, the Commission has launched an ambitious simplification process intended to reduce complexity and administrative burden which will also contributes to bringing the risk of error further down. During 2016 and 2017 several legal simplification initiatives were proposed by DG AGRI, affecting a number of implementing and delegated acts. Thanks to these amendments, the management and control system was simplified and new possibilities were introduced, such as the "yellow card" system for penalties or simplification of controls for financial instruments.

But the major simplification initiative was proposed though the Omnibus Regulation, including the 4 Common Agricultural Policy Regulations, the Common Provisions Regulation together for the European Structural and Investment Funds and the Financial Regulation. The agricultural part of the Omnibus Regulation was published in 2017 introducing some simplification and technical improvements to the four basic regulations of the Common Agricultural Policy.

In 2017, DG AGRI participated in 3 conferences with the Heads of the Paying Agencies in Gozo (Malta), Tartu (Estonia) and Brussels (Belgium) (the latter organised by DG AGRI). These Conferences allow for the sharing of good practices in the implementation of the Common Agricultural Policy and inform about strategic issues as regards assurance and audit. Meetings are also regularly organised with representatives of the Leaning Network of the Paying Agencies, in which strategic issues and implementation challenges are discussed.

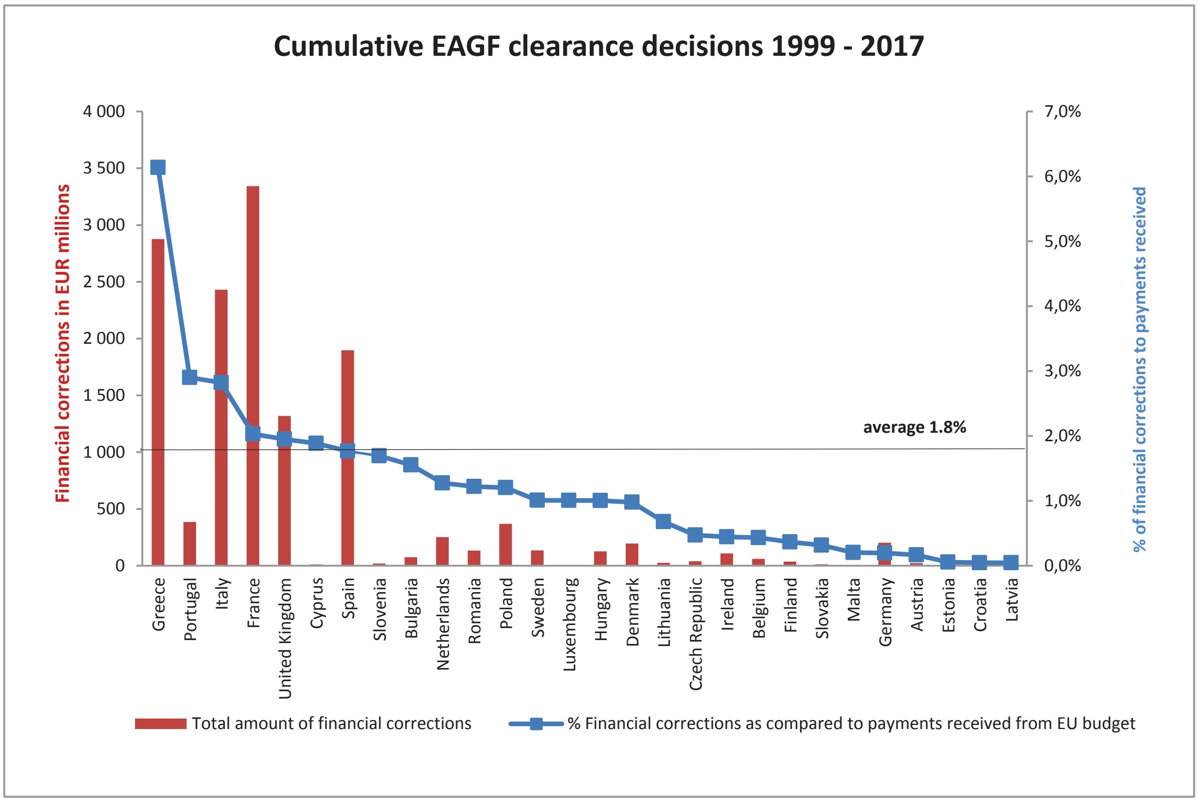
Furthermore, since 2013 seven seminars on error rate in rural development have been organised, of which the latest took place in June 2017. The seminars aim at presenting the lessons learnt from the audit work, sharing good practices in Member States' experience with the implementation of the programmes and provide guidance. These seminars are organised jointly in the framework of the Rural Development Committee and the Agricultural Funds Committee in order to ensure the involvement of both Managing Authorities and Paying Agencies.

2.4. Cumulative figures

Concerning **European Agricultural Guarantee Fund**, the average correction rate per financial year for the period 1999-2017 has been **1.8 %** 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.

Member State	EAGF payments received from EU budget	% of payments received as compared to total payments	Cumulated EAGF financial corrections at end 2017	% as compared to payments received from EU budget	% as compared to total amount of financial corrections
Belgium	13 980	*1.8 %*	60	*0.4 %*	*0.4 %*
Bulgaria	4 813	*0.6 %*	75	*1.6 %*	*0.5 %*
Czech Republic	8 261	*1.1 %*	39	*0.5 %*	*0.3 %*
Denmark	19 951	*2.5 %*	195	*1.0 %*	*1.4 %*
Germany	102 974	*13.1 %*	202	*0.2 %*	*1.4 %*
Estonia	990	*0.1 %*	1	*0.1 %*	*0.0 %*
Ireland	24 396	*3.1 %*	108	*0.4 %*	*0.8 %*
Greece	46 891	*6.0 %*	2 877	*6.1 %*	*20.4 %*
Spain	107 436	*13.7 %*	1 897	*1.8 %*	*13.5 %*
France	164 566	*21.0 %*	3 343	*2.0 %*	*23.7 %*
Croatia	652	*0.1 %*	0	*0.0 %*	*0.0 %*
Italy	86 167	*11.0 %*	2 431	*2.8 %*	*17.3 %*
Cyprus	568	*0.1 %*	11	*1.9 %*	*0.1 %*
Latvia	1 474	*0.2 %*	1	*0.0 %*	*0.0 %*
Lithuania	3 779	*0.5 %*	26	*0.7 %*	*0.2 %*
Luxembourg	585	*0.1 %*	6	*1.0 %*	*0.0 %*
Hungary	12 582	*1.6 %*	126	*1.0 %*	*0.9 %*
Malta	49	*0.0 %*	0	*0.2 %*	*0.0 %*
Netherlands	19 704	*2.5 %*	251	*1.3 %*	*1.8 %*
Austria	13 329	*1.7 %*	22	*0.2 %*	*0.2 %*
Poland	30 596	*3.9 %*	368	*1.2 %*	*2.6 %*
Portugal	13 281	*1.7 %*	385	*2.9 %*	*2.7 %*
Romania	10 977	*1.4 %*	134	*1.2 %*	*1.0 %*
Slovenia	1 196	*0.2 %*	20	*1.7 %*	*0.1 %*
Slovakia	3 778	*0.5 %*	12	*0.3 %*	*0.1 %*
Finland	10 048	*1.3 %*	37	*0.4 %*	*0.3 %*
Sweden	13 331	*1.7 %*	134	*1.0 %*	*1.0 %*
United Kingdom	67 674	*8.6 %*	1 319	*1.9 %*	*9.4 %*
Total	**784 029**	***100.0 %***	**14 081**	***1.8 %***	***100.0 %***

Table 2.4: European Agricultural Guarantee Fund Cumulative financial corrections decided under conformity clearance of accounts from 1999 to end 2017; Breakdown by Member State in EUR millions



Graph 2.4: European Agricultural Guarantee Fund Member States' cumulative financial corrections under conformity clearance of accounts from 1999 to end 2017 as compared to payments received from the EU Budget

2.5. 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 European Agricultural Guarantee Fund or European Agricultural Fund for Rural Development, ex ante administrative and on-the-spot checks are performed and dissuasive sanctions are applied in case of non-compliance by the beneficiary. If on-the-spot checks reveal a high number of irregularities, additional controls must be carried out.

  – In this context, by far the most important system is the Integrated Administration and Control System (IACS). The IACS covered in the financial year 2017 86.8 % of European Agricultural Guarantee Fund and Rural Development expenditure.

– Detailed reporting from Member States to the Commission on the checks carried out by them and on the sanctions applied is provided for by the legislation and enables a calculation, for the main aid schemes, of the level of error found by Member States at the level of the final beneficiaries.

These 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 546 million. The most significant total corrections related to Spain (EUR 109 million), Italy (EUR 78 million) and France (EUR 67 million).

Member State	EAGF Market Measures	EAGF Direct Payments	EAFRD	Total 2017
Belgium	1.6	2.6	0.6	**4.8**
Bulgaria	3.2	8.9	11.5	**23.7**
Czech Republic	0.4	1.3	3.2	**5.0**
Denmark	0.4	1.0	1.3	**2.7**
Germany	3.9	10.4	7.9	**22.2**
Estonia	0.0	0.9	2.1	**3.0**
Ireland	0.0	0.9	0.8	**1.7**
Greece	1.7	6.5	4.6	**12.8**
Spain	26.6	72.8	9.7	**109.2**
France	41.7	20.4	4.5	**66.6**
Croatia	6.3	6.5	6.9	**19.8**
Italy	10.2	44.7	23.2	**78.0**
Cyprus	0.0	1.3	0.4	**1.7**
Latvia	0.0	0.9	0.8	**1.7**
Lithuania	0.0	4.4	2.1	**6.5**
Luxembourg	0.0	0.1	0.1	**0.2**
Hungary	10.2	20.9	7.9	**38.9**
Malta	0.0	0.1	0.0	**0.1**
Netherlands	0.4	13.9	0.5	**14.8**
Austria	4.2	0.3	2.4	**6.9**
Poland	0.6	28.5	3.9	**32.9**
Portugal	3.3	3.4	4.2	**10.9**
Romania	1.8	40.4	17.3	**59.5**
Slovenia	0.6	0.3	0.5	**1.4**
Slovakia	0.0	2.8	3.9	**6.7**
Finland	0.7	0.8	1.1	**2.6**
Sweden	0.6	1.7	0.3	**2.6**
United Kingdom	0.3	6.8	1.8	**8.9**
Total	**118.9**	**303.6**	**123.5**	**545.9**

Table 2.5: Member States own corrections in 2017 applied before payments to beneficiaries are executed (in addition to Commission reporting[191]) in EUR millions

3. Cohesion policy

3.1. Preventive actions

The regulations for all programming periods enable **the Commission to apply preventive measures**, i.e. payment interruptions[192] and suspensions, and, in case the preventive mechanisms were not effective, also **corrective measures** i.e. financial corrections. The Commission policy on interruption and suspension of payments operates on a preventive basis, triggering the interruption of interim payments 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 **European Regional Development Fund/Cohesion Fund** and **European Social Fund** 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 is thus already net of irregular amounts.

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.

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. For 2007-2013 programming period under closure process the suspension of payments has been merged with the closure process.

In view of the regulatory changes for 2014-2020, in particular, the articulation between Article 83 Common Provision Regulation (CPR) on interruptions, Article 142 CPR on suspensions and two new elements of the CPR, the annual closure of accounts and the 10 % retention on reimbursement of interim payments (Articles 130 and 139 of the CPR), Regional and Urban Policy Directorate General (DG REGIO) and Employment, Social Affairs and Inclusion Directorate General (DG EMPL) agreed to follow a common approach regarding interruption of payments, as a balanced solution that protects the EU budget against serious irregularities and serious deficiencies in the management and control system. This ensures a residual error rate below 2 % and the possibility for the Commission to apply net financial corrections should serious deficiencies be identified by the Commission's Audit Directorates (or the European Court of Auditors) subsequent to the submission of the accounts, not identified, reported or corrected by the Member State.

Under the agreed approach, an interruption is necessary only where the serious deficiency in the management and control system would require a correction higher than 10 % or where the irregularity would have serious financial consequences (impact above 10 % of the programme's financial allocation or above the threshold of EUR 50 million) – in application of Article 83 (1)(a) of Regulation 1303/2013. If no payment claim is submitted, a warning letter of possible interruption of payment deadline is to be sent. A warning letter is also sent for cases with estimated risk to the EU budget below 10 %. In case of system deficiencies, the Member State is requested to take necessary measures to improve the system, and in case of irregularities the Member State is required to not include related expenditure in the interim claims and in the accounts until the legality and regularity of the expenditure is confirmed.

Interruptions

Fund	Cohesion policy: 2007-2013 programming period							
	Total open cases at 31.12.2016		New cases 2017		Closed cases during 2017		Total open cases at 31.12.2017	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
ERDF & CF	49	1 688	0	0	7	125	42	1 563
ESF	13	381	0	0	13	381	0	0
EFF	15	90	3	1	0	0	18	91
Total	**77**	**2 159**	**3**	**1**	**20**	**506**	**60**	**1 653**

Table 3.1: Interruptions in EUR millions. The table above presents for the European Regional Development Fund and Cohesion Fund, the European Social Fund and the European Maritime and Fisheries Fund, 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 2016, 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 2017. The closed cases represent the cases for which the payment of cost claims resumed in 2017, irrespective of the year when the interruption started. The cases still open at end 2017 represent the interruptions that remain active at 31 December 2017, i.e. the payment deadline of cost claims is still interrupted pending corrective measures to be taken by the Member State concerned.

For **European Regional Development Fund/Cohesion Fund**, and **European Social Fund** 2007-2013 programmes under closure process, no new interruption letters were sent in 2017. As from 31 March 2017 all ongoing procedures (interruption or suspension decision in relation to applications for interim payment) are no longer necessary since the underlying deficiencies or irregularities which led the Commission to interrupt or suspend the interim payment will be dealt with during the closure procedure.

For **European Regional Development Fund /Cohesion Fund** 2014-2020 programmes, multiple payments related to Greece were interrupted due to a cartel case detected in large infrastructure projects. The national authorities applied the necessary financial corrections and the interruption was lifted before the end of 2017. In addition only few warnings have been issued, as the implementation of the new programming period has not yet advanced significantly. These cases are based either on the findings of the EPSA (the early preventive system audit) or following the serious allegations in the press (e.g. non-transparent selection procedure). In line with the new methodology for 2014-2020 programming period described above, DG REGIO issued 3 warning letters concerning Slovakia, Poland and Hungary.

For **European Social Fund/Youth Employment Initiative** and the **Fund for European Aid to the most Deprived** 1 interruption concerning the Youth Employment Initiative France, for which the payment was interrupted at the end of 2016 was lifted in 2017 and 4 warning letters have been sent to Greece, Croatia, France and Bulgaria.

Suspensions

For Cohesion at this stage of the programming period 2007-2013 and after the submission of the closure packages for the 2007-2013 programmes by 31 March 2017, all suspensions of interim payments became void (as the interim claims have been replaced by final payment claims), so no new suspension decisions have been adopted by the Commission and no suspension decision have been repealed. The interruptions and suspension cases will be followed during the closure of the respective programme and the suspension decisions will be formally repealed after the closure of programmes.

The Member State is nevertheless required to take necessary actions to solve all identified deficiencies. The Commission will end the suspension of all or part of the interim payments where the Member State has taken the necessary measures to enable the suspension to be lifted.

For **European Regional Development Fund /Cohesion Fund**, 3 2007-2013 operational programmes were suspended at the time of closure. The concerned Member States were informed that the suspension decision has become redundant at closure and that the underlying deficiencies or irregularities will be dealt within the course of the closure procedure. Final payments could only be processed once all outstanding issues have been dealt with.

For **European Social Fund (ESF)**, 7 operational programmes were suspended at the end of 2016, related to 2007-2013 programmes, of which 2 were lifted in the beginning of 2017 concerning Spain (Baleares and Andalucia, following the confirmation of the Member State of the deduction of financial corrections from an interim or the final payment). In addition a pre-suspension letter and a pre-correction letter have been sent before the closure process started to Germany and Slovakia.

3.2. Corrective actions

For Cohesion policy where the Commission identifies individual irregularities (including the ones of systemic nature) or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all of the expenditure declared for co-financing from the **European Regional Development Fund, Cohesion Fund** or **European Social Fund** and reimbursed by the Commission is brought back in line with the applicable rules.

During the 2000-2006 and 2007-2013 programming periods, **Member States were able to replace irregular expenditure with new expenditure** if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced (i.e. the Member State could spend less money throughout the programming period).

Net corrections are rather the exception under the 2007-2013 framework, due to the legal framework and budget management type (reinforced preventive mechanism). The regulatory provisions for the 2014-2020 period significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure. This is mainly due to the set-up of the new yearly based assurance model, which reduces the risk of having a material level of error. In fact, 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. The Commission retains 10 % of each interim payment until the finalisation of all national control cycle. Timely identification of serious deficiencies in functioning of the management and control system and reporting of reliable error rates is in the Member States' best interest since the Commission shall make net financial corrections in case Member States have not appropriately addressed them before submitting annual accounts to the Commission.

3.3. 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 such as capacity building actions in Member States, pursuing further the single audit approach, carrying out complementary risk-based audits and exercising a strict supervision over programme management, using the available legal tools such as **interruptions, suspensions** and, where necessary, **financial corrections**.

During the 2007-2013 period, the Commission put in place targeted actions to improve the administrative capacity in the Member States, which continue under the 2014-2020 period. Cross-cutting initiatives to mitigate the main risks and weaknesses identified include notably:

A general administrative capacity initiative with the following measures already implemented or on-going:

– **TAIEX REGIO PEER2PEER,** an exchange tool for regional policy practitioners/experts in Member States, which experienced great success throughout the year. In this framework, 130 exchanges were implemented by December 2017, involving 1 920 participants from 26 Member States (mainly from Lithuania, Czech Republic, Romania, Bulgaria and Croatia). These exchanges should help Member States increase the quality and the legality of spending and accelerate the absorption of Funds. A peer-to-peer exchange of expertise between authorities managing and implementing **European Regional Development Fund and Cohesion Fund** programmes[193].

– **A strategic training programme** for Managing, Certifying and Audit Authorities and Intermediate Bodies on the implementation of the 2014 – 2020 Regulations: 756 participants from all Member States have attended the 5 different training modules organised so far. In total 26 two-day training sessions have been organised in the premises of DG REGIO

– **A Competency Framework** for efficient management and implementation of European Regional Development Fund and the Cohesion Fund, aimed at supporting further professionalization of the fund management. The framework is accompanied by a Self-Assessment Tool which is a flexible instrument enabling employees to self-assess the proficiency level for each competency required for their job. The assessment results can be aggregated at institution level thereby providing evidence for the preparation of Learning and Development Plans Translations of the user guidelines and other support documents are now available in 21 EU languages

– **Prevention of fraud and corruption:** Organisation of 13 anti-fraud and anti-corruption conferences/workshops in different Member States, together with European Anti-Fraud Office, Migration and Home Affairs Directorate General (DG HOME), Internal Market, Industry, Entrepreneurship and SMEs Directorate General, (DG GROW), European Structural and Investment Funds (ESIF) DGs (DG AGRI, DG EMPL, DG MARE and DG REGIO) and in co-operation with Transparency International, focusing on awareness raising and practical tools and instruments to fight fraud and corruption like data mining tools, open data and intensified cooperation with civil society; **launch of a study on appropriate anti-fraud and anti-corruption practices** in the management of the Funds applied in the Member States which will be summarized in a handbook.

– **Pilot Integrity Pacts:** An Integrity Pact is an innovative tool developed by Transparency International to help governments, businesses and civil society fighting corruption in public contracting. It is based on an agreement between a contracting authority and economic operators bidding for public contracts that they will abstain from corrupt practices and will conduct a transparent procurement process. To ensure accountability and legitimacy, a civil society organisation will monitor that all parties comply with their commitments throughout the entire project lifecycle, i.e. as from the drafting of the terms of reference to the closure of the project. 17 pilot Integrity Pacts will be set up in 11 Member States (Bulgaria, Czech Republic, Greece, Hungary, Lithuania, Latvia, Slovenia, Portugal, Romania, Italy and Poland) as from 2016 and run for a period of four years. Integrity Pacts have been signed for all but one project in Portugal.

– **A dedicated action plan on public procurement** for strengthening capacity in that field in close cooperation with DG GROW, other European Structural and Investment Funds DGs and European Investment Bank (EIB). The action plan includes 26 actions (13 closed; 13 on going). Some of them are:

– Public Procurement Guidance for Practitioners on the avoidance of errors in ESI funded projects. An updated guide taking into account the new Public Procurement directives is now available in English; all other language versions follow by end May.

– Monitoring of the ex-ante conditionality action plans on public procurement with a focus on those Member States which are still implementing their action plans.

– A public procurement stock-taking study including more than 50 good practice examples in public procurement across the EU, has been widely disseminated. A large follow up study on in-depth analysis of some good practice examples and their transferability to other Member States,

– Promotion of transparency and open data on public procurement.

– Two pilot projects in cooperation with the Organisation for Economic Co-operation and Development (OECD) where support was given to Bulgaria and Slovakia for their implementation of their ex ante conditionality action plan on public procurement (especially training) and (in Slovakia) on preparation for an e-procurement strategy.

– Promotion of strategic procurement (smart, green, inclusive, small and medium-sized enterprises) in cohesion policy in cooperation with the Organisation for Economic Co-operation and Development.

– **A State aid action plan** designed in close cooperation with DG Competition. It aims at increasing awareness and understanding of the impact of state aid on cohesion policy, improving the co-operation between the various actors involved in the monitoring of State aid in the Member States, and providing pro-active support to the EU Member States and regions in the correct application of State aid rules. It includes measures for:

– Reviewing existing good practices and their dissemination.

– Strategic training programmes, including expert and country specific seminars.

– Exchanges between the Commission and Audit Authorities, for further dissemination of audit checklists adapted to the 2014 General Block Exemption Regulation (GBER) revisions.

– Tailor made assistance to Member States offering them expert support.

As regards **European Social Fund**, 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.

3.4. Cumulative figures

3.4.1. Cohesion Policy: European Regional Development Fund and European Social Fund 2000-2006

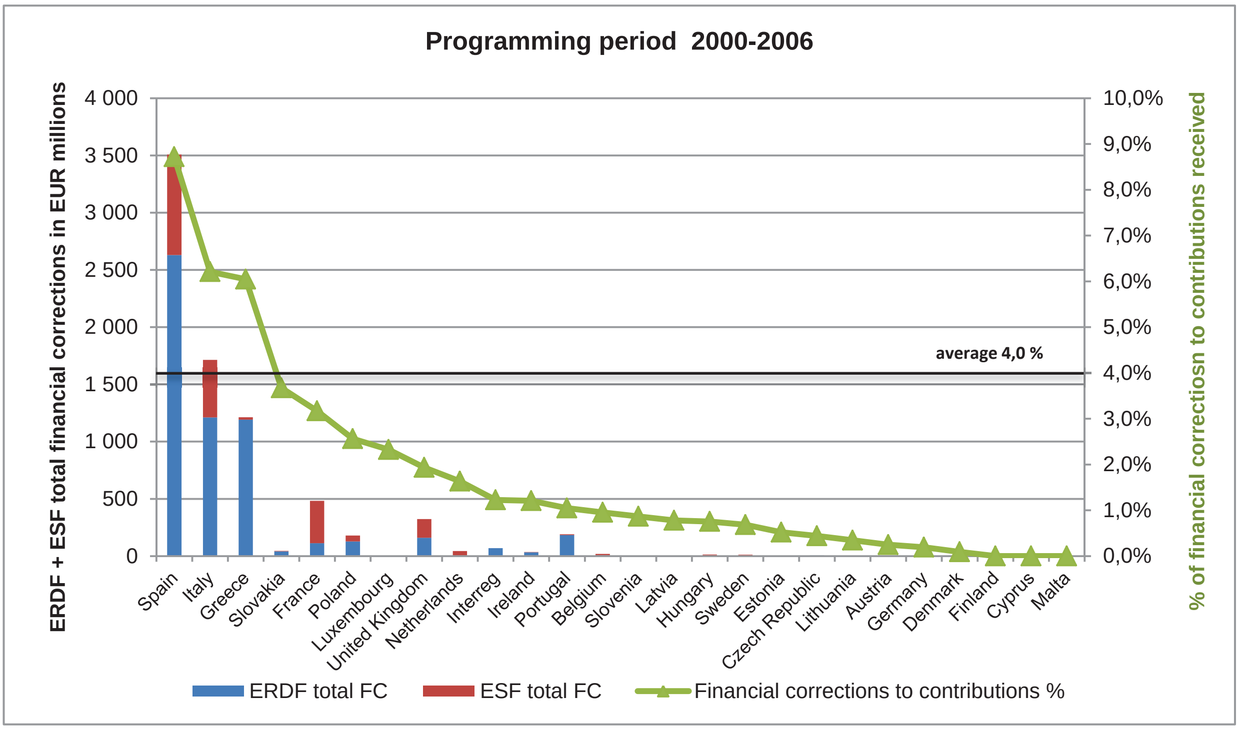
Member State	ERDF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	1 979	*1.0 %*	19	*1.0 %*	*0.2 %*
Czech Republic	1 443	*0.7 %*	6	*0.4 %*	*0.1 %*
Denmark	608	*0.3 %*	1	*0.1 %*	*0.0 %*
Germany	27 387	*13.8 %*	53	*0.2 %*	*0.7 %*
Estonia	306	*0.2 %*	2	*0.5 %*	*0.0 %*
Ireland	3 003	*1.5 %*	36	*1.2 %*	*0.5 %*
Greece	20 054	*10.1 %*	1 212	*6.0 %*	*15.3 %*
Spain	40 229	*20.3 %*	3 508	*8.7 %*	*44.3 %*
France	15 224	*7.7 %*	483	*3.2 %*	*6.1 %*
Italy	27 612	*14.0 %*	1 715	*6.2 %*	*21.6 %*
Cyprus	52	*0.0 %*	0	*0.0 %*	*0.0 %*
Latvia	517	*0.3 %*	4	*0.8 %*	*0.1 %*
Lithuania	772	*0.4 %*	3	*0.3 %*	*0.0 %*
Luxembourg	80	*0.0 %*	2	*2.3 %*	*0.0 %*
Hungary	1 709	*0.9 %*	13	*0.8 %*	*0.2 %*
Malta	57	*0.0 %*	0	*0.0 %*	*0.0 %*
Netherlands	2 695	*1.4 %*	44	*1.6 %*	*0.6 %*
Austria	1 654	*0.8 %*	4	*0.2 %*	*0.1 %*
Poland	7 015	*3.5 %*	180	*2.6 %*	*2.3 %*
Portugal	18 149	*9.2 %*	190	*1.0 %*	*2.4 %*
Slovenia	218	*0.1 %*	2	*0.9 %*	*0.0 %*
Slovakia	1 225	*0.6 %*	45	*3.7 %*	*0.6 %*
Finland	1 824	*0.9 %*	0	*0.0 %*	*0.0 %*
Sweden	1 696	*0.9 %*	12	*0.7 %*	*0.1 %*
United Kingdom	16 739	*8.5 %*	324	*1.9 %*	*4.1 %*
Interreg	5 645	*2.9 %*	69	*1.2 %*	*0.9 %*
Total	**197 893**	***100.0 %***	**7 925**	***4.0 %***	***100.0 %***

Table 3.4.1: Programming period 2000-2006 - European Regional Development Fund & European Social Fund Financial corrections confirmed at 31 December 2017; Breakdown by Member State in EUR millions

For **European Regional Development Fund** the Commission has closed all the 379 programmes (compared to 378 at end of 2016). The last programme (OP Sicily) was closed in May 2017 after the official acceptance of the closure declaration by the Member State.

Financial corrections imposed by the Commission to all Member States cumulatively up to the end of 2017 are EUR 5.8 billion[194], 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 1.7 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 **European Social Fund**, the Commission has closed all 239 programmes proceeding to 29 partial and 210 full closures leaving remaining EUR 338 million which corresponds to EUR 100 million of suspended operations following judicial proceedings, and EUR 238 million of not released commitments related to ongoing financial correction procedures for Italy (Sicily). At the end of 2017, the total amount of financial corrections confirmed for 2000-2006 programming period - taking into account financial corrections in progress - amounted to EUR 2.4 billion, representing 3.5 % of the **European Social Fund** allocation. This 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. Comparing to 2016, no new substantial financial corrections have been reported.



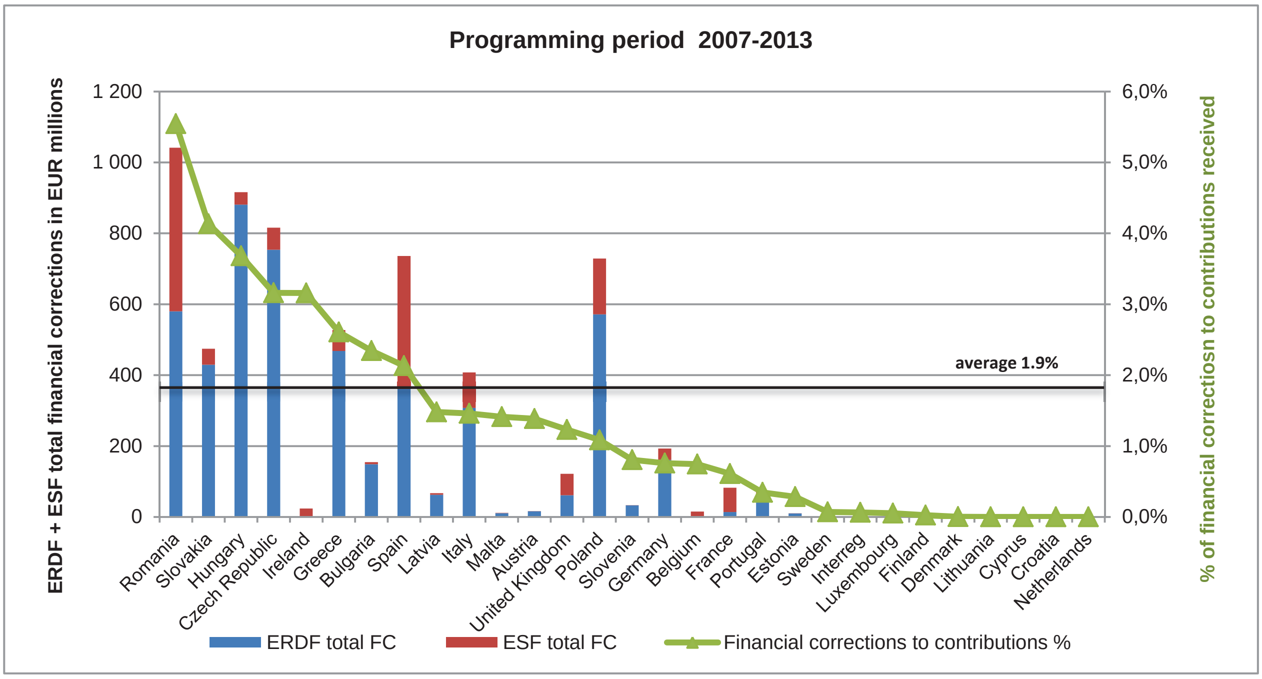
Graph 3.4.1: Member States' cumulative financial corrections confirmed at 31 December 2017 for European Regional Development Fund & European Social Fund programming period 2000-2006 as compared to contributions received

3.4.2. Cohesion Policy: European Regional Development Fund/Cohesion Fund & European Social Fund 2007-2013

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.

Member State	ERDF/CF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF/CF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	2 059	*0.6 %*	15	*0.7 %*	*0.2 %*
Bulgaria	6 595	*1.9 %*	155	*2.3 %*	*2.4 %*
Czech Republic	25 819	*7.5 %*	816	*3.2 %*	*12.6 %*
Denmark	510	*0.1 %*	0	*0.0 %*	*0.0 %*
Germany	25 458	*7.4 %*	193	*0.8 %*	*3.0 %*
Estonia	3 403	*1.0 %*	10	*0.3 %*	*0.2 %*
Ireland	751	*0.2 %*	24	*3.2 %*	*0.4 %*
Greece	20 210	*5.8 %*	527	*2.6 %*	*8.2 %*
Spain	34 521	*10.0 %*	736	*2.1 %*	*11.4 %*
France	13 546	*3.9 %*	83	*0.6 %*	*1.3 %*
Croatia	858	*0.2 %*	0	*0.0 %*	*0.0 %*
Italy	27 940	*8.1 %*	408	*1.5 %*	*6.3 %*
Cyprus	612	*0.2 %*	0	*0.0 %*	*0.0 %*
Latvia	4 530	*1.3 %*	67	*1.5 %*	*1.0 %*
Lithuania	6 775	*2.0 %*	0	*0.0 %*	*0.0 %*
Luxembourg	50	*0.0 %*	0	*0.1 %*	*0.0 %*
Hungary	24 893	*7.2 %*	916	*3.7 %*	*14.2 %*
Malta	840	*0.2 %*	12	*1.4 %*	*0.2 %*
Netherlands	1 660	*0.5 %*	0	*0.0 %*	*0.0 %*
Austria	1 170	*0.3 %*	16	*1.4 %*	*0.3 %*
Poland	67 186	*19.4 %*	729	*1.1 %*	*11.3 %*
Portugal	21 412	*6.2 %*	74	*0.3 %*	*1.2 %*
Romania	18 782	*5.4 %*	1 041	*5.5 %*	*16.1 %*
Slovenia	4 101	*1.2 %*	33	*0.8 %*	*0.5 %*
Slovakia	11 483	*3.3 %*	474	*4.1 %*	*7.3 %*
Finland	1 596	*0.5 %*	0	*0.0 %*	*0.0 %*
Sweden	1 626	*0.5 %*	1	*0.1 %*	*0.0 %*
United Kingdom	9 878	*2.9 %*	122	*1.2 %*	*1.9 %*
Interreg	7 956	*2.3 %*	5	*0.1 %*	*0.1 %*
Total	**346 220**	***100.0 %***	**6 459**	***1.9 %***	***100.0 %***

Table 3.4.2: Programming period 2007-2013 – European Regional Development Fund/Cohesion Fund & European Social Fund Financial corrections confirmed at 31 December 2017; Breakdown by Member State in EUR millionsAs 2007-2013 programmes are multi-funds, no split is given between European Regional Development Fund and Cohesion Fund in the above table.



Graph 3.4.2: Member States' cumulative financial corrections confirmed at 31 December 2017 for European Regional Development Fund/Cohesion Fund & European Social Fund programming period 2007-2013 as compared to contributions received

For **European Regional Development Fund/Cohesion Fund** programmes, the Commission has imposed around EUR 4.9 billion of financial corrections[195] cumulatively since the beginning of the 2007-2013 programming period (which includes EUR 1.4 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 Hungary (EUR 880 million), Czech Republic (EUR 754 million), Romania (EUR 580 million), Poland (EUR 570 million), Greece (EUR 468 million), Slovakia (EUR 429 million), Spain (EUR 362 million) and Italy (EUR 307 million).

For **European Social Fund**, the Member States with the highest level of cumulative amount of financial corrections confirmed are Romania (EUR 461 million), Spain (EUR 374 million) and Poland (EUR 158 million). At this stage of the implementation and at closure of the programmes the cumulative amount of financial corrections stands at EUR 1.5 billion representing 2 % of the **European Social Fund** allocation.

3.5. Member States corrections

Under the regulations for the 2007-2013 programming period, Member States have to report annually to the Commission the corrections[196] stemming from all controls performed. The Commission has performed risk-based audits and desk reviews to test the reliability of these figures as part of its assurance process and the Member States' audit authorities have assessed the reliability of these financial corrections in the context of their audit opinion provided at closure.

Member State	ERDF/CF	ESF	EFF	Total
Belgium	4.8	31.9	0.0	**36.7**
Bulgaria	106.6	10.0	-	**116.6**
Czech Republic	387.6	14.8	0.3	**402.7**
Denmark	0.8	0.2	1.1	**2.0**
Germany	466.2	258.5	1.9	**726.6**
Estonia	25.5	1.1	2.8	**29.4**
Ireland	5.5	30.1	0.2	**35.8**
Greece	677.4	74.3	77.2	**828.9**
Spain	1 273.6	513.4	60.3	**1 847.3**
France	227.4	111.2	4.7	**343.3**
Croatia	2.1	0.4	0.0	**2.5**
Italy	546.0	143.5	11.6	**701.1**
Cyprus	9.2	1.9	0.7	**11.8**
Latvia	49.1	2.8	1.9	**53.8**
Lithuania	20.6	1.2	1.8	**23.7**
Luxembourg	0.0	0.2	-	**0.2**
Hungary	546.7	6.7	0.1	**553.5**
Malta	0.0	-	0.1	**0.1**
Netherlands	24.3	6.1	6.8	**37.2**
Austria	18.1	6.0	0.1	**24.2**
Poland	713.0	11.6	6.5	**731.1**
Portugal	262.7	63.8	14.6	**341.0**
Romania	382.7	85.7	24.3	**492.8**
Slovenia	105.1	-	0.0	**105.2**
Slovakia	127.3	16.3	0.9	**144.5**
Finland	2.8	1.0	1.0	**4.8**
Sweden	8.3	2.3	0.4	**11.0**
United Kingdom	238.0	82.2	8.1	**328.2**
Cross-border	58.7		-	**58.7**
Total implemented	**6 290.1**	**1 477.1**	**227.6**	**7 994.8**

Table 3.5.1: Cumulative corrections at end 2017 reported by Member States for Cohesion Policy period 2007-2013[197] in EUR millions

It is highlighted that the Commission has taken a prudent approach[198], 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 cumulative amounts (above) 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.

Financial corrections declared by the Member States for Cohesion Policy period 2014-2020[199]

In February 2018 the Member State authorities submitted certified accounts for the accounting year 1 July 2016 to 30 June 2017. According to the information received in the assurance packages, following the results of audit of operations, for **European Regional Development Fund /Cohesion Fund** the Member States have applied financial corrections totalling EUR 97 million. The financial corrections imposed for **European Social Fund/Youth Employment Initiative** and the **Fund for European Aid to the most Deprived** amounted to EUR 190 million. No financial corrections were reported for **European Maritime and Fisheries Fund** in 2017.

Member State	ERDF/CF	ESF-YEI/FEAD	Total
Belgium	0.1	0.2	**0.3**
Bulgaria	2.2	0.1	**2.2**
Czech Republic	15.2	0.0	**15.2**
Denmark	-	0.0	**0.0**
Germany	1.6	4.2	**5.8**
Estonia	0.6	0.2	**0.9**
Ireland	0.0	-	**0.0**
Greece	7.5	11.8	**19.3**
Spain	-	0.5	**0.5**
France	2.7	1.3	**3.9**
Croatia	-	0.0	**0.0**
Italy	0.9	1.4	**2.3**
Cyprus	0.0	-	**0.0**
Latvia	0.0	0.0	**0.0**
Lithuania	12.8	5.9	**18.7**
Hungary	8.4	2.2	**10.6**
Poland	26.0	7.8	**33.8**
Portugal	2.0	1.9	**3.8**
Romania	-	0.2	**0.2**
Slovenia	-	0.0	**0.0**
Slovakia	16.3	153.2	**169.4**
Finland	0.2	0.0	**0.2**
Sweden	-	0.0	**0.0**
United Kingdom	0.1	0.0	**0.1**
Territorial Cooperation	0.8	-	**0.8**
Total implemented	**97.3**	**190.7**	**288.0**

Table 3.5.2: Financial corrections for the accounting year 1/07/2016 to 30/06/2017 reported by Member States for Cohesion Policy period 2014-2020[200] in EUR millions

4. 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, is given below.

For **Research expenditure**, the control framework applicable to both direct[201] and indirect[202] 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 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[203]) 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.

5. Detailed financial corrections and recoveries information

5.1. Net financial corrections 2017

Confirmed

MFF Heading	Net financial corrections confirmed in 2017*	Financial corrections with replacement of expenditure and other corrections confirmed in 2017	Total financial corrections confirmed in 2017
Smart & inclusive growth	**(139)**	**649**	**510**
*ERDF***	(141)	387	**246**
Cohesion Fund	1	197	**198**
ESF	0	65	**65**
Sustainable growth: natural resources	**939**	**275**	**1 214**
*EAGF****	710	275	**985**
Rural Development	225	-	**225**
FIFG/EFF	4	0	**4**
EAGGF Guidance	-	-	**0**
Security & citizenship	**0**	**6**	**6**
Migration and home affairs	0	6	**6**
Total	**800**	**929**	**1 729**

Table: in EUR millions

** A total of EUR 314 million remain to be classified and is treated as non-net corrections in this table.*

*** The negative amount for European Regional Development Fund is due to Court of Justice ruling(s) cancelling a number of regional policy financial correction decisions for the 1994-99 period.*

**** For the purpose of calculating its corrective capacity in the Annual Activity Report, DG AGRI takes into account only the amounts related to conformity clearance decisions adopted by the Commission and published in the Official Journal of the EU and deducts corrections in respect of cross-compliance as well as other corrections not relevant to current expenditure. For details on the methodology used for financial year 2017, see 2017 Annual Activity Report of DG AGRI, point 2.1.1.3.1.*

Implemented

MFF Heading	Net financial corrections implemented in 2017	Financial corrections with replacement of expenditure and other corrections implemented in 2017	Total financial corrections implemented in 2017
Smart & inclusive growth	**(100)**	**543**	**443**
*ERDF**	(141)	311	**170**
Cohesion Fund	41	209	**250**
ESF	0	23	**23**
Sustainable growth: natural resources	**1 283**	**277**	**1 560**
EAGF	943	274	**1 217**
Rural Development	248	-	**248**
FIFG/EFF	92	3	**95**
EAGGF Guidance	-	-	**-**
Security & citizenship	**0**	**6**	**6**
Migration & home affairs	0	6	**6**
Total	**1 183**	**825**	**2 008**

Table: in EUR millions

** The negative amount for European Regional Development Fund is due to Court of Justice ruling(s) cancelling a number of regional policy financial correction decisions for the 1994-99 period.*

The impact of the correction mechanism varies depending on the budget implementation type, the sectorial management and the financial rules of the policy area. In all cases, the correction mechanisms aim at protecting the EU budget from expenditure incurred in breach of law.

5.2. Breakdown of flat-rate[204] corrections 2017

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 normally bears the financial consequences as these corrections are not directly linked to individual irregularities at project level, i.e. there is no individual final beneficiary to recover monies from.

	Total financial corrections confirmed in 2017	Flat-rate financial corrections* confirmed in 2017	Total financial corrections implemented in 2017	Flat-rate financial corrections* implemented in 2017
Agriculture				
EAGF	985	278	1 217	458
EAFRD	225	89	248	191
Cohesion				
ERDF & CF**	444	(3)	420	130
ESF	65	44	23	2
EFF/FIFG	4	-	95	-
Internal policies	6	5	6	5
Total	**1 729**	**414**	**2 008**	**787**

Table: in EUR millions

* *Includes extrapolated corrections.*

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

5.3. Breakdown of financial corrections made at source 2017

At source financial corrections are applied by the Member State authorities before or at the same time that new expenditure is declared to the Commission. In the majority of the cases they are the result of flat rate corrections imposed for deficiencies in the management and control system, identified following the Commission audits[205].

Member State	At source financial corrections confirmed in 2017	At source financial corrections implemented in 2017
Belgium	0.2	(3.3)
Bulgaria	(0.3)	0.0
Czech Republic	0.1	0.1
Germany	0.0	0.0
Ireland	0.1	0.1
Greece	6.8	6.8
Spain	1.9	1.9
France	178.6	178.6
Croatia	0.0	0.0
Italy	60.0	60.0
Cyprus	1.1	0.0
Lithuania	0.1	0.1
Hungary	3.6	65.1
Netherlands	0.4	0.4
Austria	0.2	0.2
Poland	0.0	2.2
Portugal	0.0	0.0
Romania	12.6	13.0
Sweden	1.8	1.8
United Kingdom	25.4	25.4
Total	**292.4**	**352.3**

Table: in EUR millions

In 2017, the main financial corrections at source concern **European Agricultural Guarantee Fund.**

The most significant confirmed corrections at source concern France (EUR 178.6 million) and Italy (EUR 60 million).

5.4. Breakdown by Member State: Financial corrections in 2017 compared to EU payments received

Member State	Payments received from the EU budget in 2017 (EUR million)	Financial corrections confirmed in 2017 (EUR million)	Financial corrections confirmed in 2017 % as compared to payments received from the EU budget in 2017	Financial corrections implemented in 2017 (EUR million)	Financial corrections implemented in 2017 as % of payments received from the EU budget in 2017
Belgium	949	1	*0.1 %*	0	*0.0 %*
Bulgaria	1 702	28	*1.7 %*	46	*2.7 %*
Czech Republic	3 975	3	*0.1 %*	12	*0.3 %*
Denmark	1 074	3	*0.3 %*	5	*0.4 %*
Germany	8 569	(181)	*(2.1 %)*	(108)	*(1.3 %)*
Estonia	618	0	*0.0 %*	0	*0.0 %*
Ireland	1 580	2	*0.1 %*	0	*0.0 %*
Greece	4 595	103	*2.3 %*	7	*0.2 %*
Spain	9 348	72	*0.8 %*	314	*3.4 %*
France	11 358	495	*4.4 %*	776	*6.8 %*
Croatia	852	1	*0.1 %*	0	*0.0 %*
Italy	8 481	502	*5.9 %*	258	*3.0 %*
Cyprus	190	1	*0.7 %*	1	*0.7 %*
Latvia	709	21	*2.9 %*	0	*0.0 %*
Lithuania	1 413	16	*1.1 %*	11	*0.8 %*
Luxembourg	60	2	*2.8 %*	1	*2.4 %*
Hungary	4 190	108	*2.6 %*	125	*3.0 %*
Malta	125	0	*0.0 %*	0	*0.0 %*
Netherlands	1 130	6	*0.5 %*	3	*0.3 %*
Austria	1 347	2	*0.1 %*	10	*0.7 %*
Poland	12 815	542	*4.2 %*	315	*2.5 %*
Portugal	4 085	14	*0.3 %*	122	*3.0 %*
Romania	5 175	(79)	*(1.5 %)*	16	*0.3 %*
Slovenia	441	0	*0.0 %*	1	*0.2 %*
Slovakia	1 615	2	*0.1 %*	21	*1.3 %*
Finland	1 159	3	*0.3 %*	2	*0.1 %*
Sweden	1 121	2	*0.2 %*	3	*0.3 %*
United Kingdom	4 582	48	*1.1 %*	54	*1.2 %*
INTERREG	67	12	*18.0 %*	11	*15.8 %*
Total	**93 326**	**1 729**	***1.9 %***	**2 008**	***2.2 %***

Table: in EUR millions

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

5.5. Agricultural amounts recovered from final beneficiaries by the Member States in 2017 and used in the calculation of the corrective capacity

Member State	EAGF	EAFRD	Total 2017
Belgium	2.3	0.3	**2.6**
Bulgaria	1.4	2.1	**3.5**
Czech Republic	0.6	1.4	**2.0**
Denmark	3.7	1.0	**4.7**
Germany	16.1	5.7	**21.8**
Estonia	0.4	1.1	**1.5**
Ireland	3.8	2.1	**5.9**
Greece	7.6	8.6	**16.1**
Spain	12.6	5.3	**17.8**
France	12.8	3.1	**15.9**
Croatia	1.0	2.1	**3.1**
Italy	17.4	18.8	**36.2**
Cyprus	0.2	0.0	**0.2**
Latvia	0.3	1.3	**1.6**
Lithuania	1.4	1.7	**3.0**
Luxembourg	0.1	0.1	**0.3**
Hungary	4.1	3.3	**7.4**
Malta	0.4	1.6	**2.1**
Netherlands	5.6	0.5	**6.1**
Austria	5.8	4.6	**10.4**
Poland	4.8	9.5	**14.3**
Portugal	4.4	12.7	**17.1**
Romania	15.6	17.3	**32.9**
Slovenia	0.7	0.7	**1.5**
Slovakia	1.3	1.5	**2.7**
Finland	0.7	0.9	**1.7**
Sweden	0.4	0.6	**1.0**
United Kingdom	5.1	5.5	**10.6**
Total	**130.7**	**113.2**	**243.9**

Table: in EUR millions

The recovered amounts presented above reflect the data used in order to calculate the corrective capacity from recoveries, but include also recoveries due to cross compliance infringements.These amounts are treated as assigned revenue for European Agricultural Guarantee Fund, while the amounts recovered for European Agricultural Fund for Rural Development can be reallocated to the programme concerned.

For **European Agricultural Fund for Rural Development** (2007-2013 and 2014-2020 programming periods), the figures are taken from the debtors' ledger (recovered amount and interest). For **European Agricultural Guarantee Fund**, the amounts are taken from the EU accounts, as they are declared by the Member States with their monthly declarations.

Annex 5: Assurance provided by the Internal Audit Service

The Commission also based its assurance on the work done by the Internal Audit Service (IAS), its principal findings and recommendations, and information from the Audit Progress Committee (APC). The Committee supports the Commission in ensuring the independence of the internal auditor and that audit recommendations are properly taken into account and receive appropriate follow-up.

The Internal Audit Service has provided in its 2017 Internal Audit Report according to Article 99 (3) of the Financial Regulation conclusions on performance audits completed in 2017, made reference to the overall opinion on financial management for the year 2017 and reported on progress in implementing its audit recommendations.

The Internal Audit Service concluded that 95 % of the recommendations followed up during 2013-2017 had been effectively implemented by the auditees. Of the 359 recommendations still in progress at the cut-off date of 31 January 2018 (representing 20% of the total number of accepted recommendations over the past five years), one was classified as critical[206] and 133 as very important. Out of these 134 recommendations rated critical or very important, 12 very important were overdue by more than six months at the end of 2017, representing 0.7 % of the total number of accepted recommendations of the past five years. The Internal Audit Service's follow-up work confirmed that, overall, recommendations are being implemented satisfactorily and the control systems in the audited departments are improving.

The Internal Audit Service continued to carry out performance audits in 2017 as part of its work programme in response to the Commission's move towards a performance-based culture and greater focus on value for money. The Internal Audit Service conclusions on these audits related to:

(i) Performance management and measurement:

- Governance-related issues: Following the administrative reform of 2000, the Commission made significant advances in strengthening its accountability, responsibility and assurance building processes. The decentralised model of financial management is well understood and embedded in the culture of the organisation and clear accountability instruments are in place together with a robust assurance building process. Furthermore, in October 2017 the Commission adopted a Communication on governance in the European Commission. Nevertheless, the Internal Audit Service identified the need for proportionate improvements at corporate level, in particular as regards risk management and more general aspects of the current governance arrangements, including IT governance.
- Production process and the quality of statistics not produced by Eurostat*:* the Internal Audit Service concluded that the framework currently in place in the Commission is not robust enough to ensure that the quality of the statistics not produced by Eurostat which are used by the DGs/Services to support their key policies and report on their performance is of a satisfactory quality overall.
- HR management: the Internal Audit Service concluded that the DGs and Executive Agencies have taken adequate measures to manage the HR challenges to which they are confronted, but also identified significant areas for improvement as regards strategic HR management (DG HOME and EACEA) and the allocation of HR (DG HOME and DG JUST).
- IT management: several IT audits concluded that there is room for improving the effectiveness of IT security in the Commission in specific areas at *corporate* level (DG DIGIT: although the preventive controls are adequately designed and effective, the level of maturity varies between the different technologies analysed; in addition, there are significant weaknesses as regards integrity controls) or *operational* level (DG ENER, European Anti-fraud office).
- Other non-financial processes: Internal Audit Service audits showed that further actions and improvements are necessary to increase the overall performance of the audited processes in specific areas (e.g. the current corporate framework on the cost effectiveness of controls; the management of agricultural markets, including market crises, by DG AGRI; the food safety crisis preparedness by DG SANTE; the cooperation of the Commission with the national courts in the enforcement of EU antitrust policy; the efficiency and effectiveness of complaints

handling as part of the enforcement of EU environmental law by DG ENV; the implementation of scientific projects management activities of JRC; staff awareness on how to deal with social media and interest representatives as part of the ethics rules and obligations in European Anti-fraud office).

(ii) Performance in implementing budget operational and administrative appropriations

- Direct management: Based on the audits of performance in implementing budget operational and administrative appropriations, the Internal Audit Service did not identify significant performance weaknesses in the area of directly managed funds.

  However, the Internal Audit Service identified specific improvements to be made in the areas of:

  - Indirect management: several audits focused on the supervision arrangements in place in the DGs and Services revealed significant performance issues (e.g. lack of clearly defined supervision strategy for Shift2Rail (S2R) by DG MOVE, DG DEVCO's monitoring of and supervision on the operational performance of the international financial institution's (IFIs) entrusted with the management of investment facilities)

  - Shared management: several audits assessed programme and project management processes and revealed several significant performance weaknesses some of which may endanger the achievement of the policy objectives (e.g. the consistency, effectiveness and timeliness of the operational programmes (OP) amendment process by DGs REGIO, EMPL and MARE, through which Member States can re-orient the delivery mechanisms for implementing OPs; the mechanisms to ensure consistency between the policy preparation and the implementation of funding for youth employment initiatives managed by DG EMPL; the performance measurement and reporting of the Fund for European Aid to the most Deprived (FEAD) managed by DG EMPL; the process for the approval and early monitoring of major projects supported by the European Regional Development Fund and the Cohesion Fund managed by DG REGIO).

In addition, the Internal Audit Service issued limited conclusions on the state of internal control to every DG and department in February 2018 based on its audit work undertaken between 2015 and 2017. These conclusions were intended to contribute to the 2017 Annual Activity Reports of the DGs and departments concerned. The conclusions draw particular attention to all open recommendations rated 'critical' or the combined effect of a number of recommendations rated 'very important' and in four cases (DG CLIMA, DG DEVCO, SRSS and EACEA) the Internal Audit Service stated that the DG, service or agency concerned should duly assess if they require the issuance of a reservation in the respective Annual Activity Report. In three cases (DG CLIMA, DG DEVCO and EACEA) the DGs/agency issued such reservations in line with Internal Audit Service limited conclusions:

- DG CLIMA with regard to the delay observed in the implementation of one very important IT security related recommendation (on the management of the security of the EU ETS IT system), which exposes the DG to the risk of security breaches;

- DG DEVCO with regard to the delay observed in the implementation of one very important recommendation issued in the context of the audit on the management of the African Peace Facility;

- EACEA with regard to one critical and a number of very important recommendations issued in the context of the audit on Erasmus+ and Creative Europe – grant management phase 1. Following the action taken by the Agency, the rating of the critical recommendation has been downgraded to 'very important' after a follow-up engagement performed by the Internal Audit Service in March 2018.

In the case of the Structural Reform Support Service (SRSS), the Internal Audit Service drew particular attention to the SRSS to the public procurement issues identified in an audit on financial management in the SRSS and indicated that the service should duly assess if these require a reservation in the Annual Activity Report. On the basis of the existing corporate guidelines, the service concluded that there was no basis for a financial reservation and no need for a reservation in the Annual Activity Report on reputational grounds as the reputational risks identified did not materialise. The Annual Activity Report agreed with this assessment.

As required by its mission charter, the Commission's internal auditor also submitted an overall opinion, which is based on the audit work in the area of financial management in the Commission carried out by the Internal Audit Service during the previous three years (2015-2017) and also takes into account information from other sources, namely the reports from the European Court of Auditors. Based on this audit information, the internal auditor considered that, in 2017, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations made in the Authorising Officer by Delegations' Declarations of Assurance and issued in their respective Annual Activity Reports.

In arriving at the overall opinion, the internal auditor also considered the combined impact of all amounts estimated to be at risk at payment as calculated by the Authorising Officers by Delegation, as these go beyond the amounts put under reservation. The overall amounts at risk are the best estimation of Authorising Officers by Delegation for the amount of the expenditure authorised not in conformity with the applicable contractual and regulatory provisions at the time of the payment in 2017. In their 2017 Annual Activity Reports, the DGs estimate the amounts at risk at payment. Taken together, these correspond to an overall amount below materiality of 2%, as defined in the instructions for the preparation of the 2017 Annual Activity Reports, of all executed payments in the Commission budget, the European Development Fund and the EU Trust Funds in 2017. These amounts at risk at payment in 2017 do not yet include any financial corrections and recoveries related to deficiencies and errors the DGs will detect and correct in the next years due to the multi-annual corrective mechanisms built into the Commission's internal control systems.

Given these elements, the internal auditor considers that the EU budget is therefore adequately protected in total and over time.

Without further qualifying the opinion, the internal auditor added an 'emphasis of matter' highlighting issues that require particular attention as follows:

Supervision strategies regarding third parties implementing policies and programmes

Although it remains fully responsible for ensuring the legality and regularity of expenditure and sound financial management (and also the achievement of policy objectives), the Commission is increasingly relying on third parties to implement its programmes. This is mostly done by delegating the implementation of the EC operational budget (under indirect management mode) or certain tasks to third countries, international organisations or international financial institutions, national authorities and agencies, Joint Undertakings, non-EU bodies and EU Decentralised Agencies. Moreover, in some policy areas, greater use is progressively made of financial instruments under the current 2014-2020 MFF. Such instruments and alternative funding mechanisms entail specific challenges and risks for the Commission, as also highlighted by the ECA.

To fulfil their overall responsibilities, the operational DGs have to oversee the implementation of the programmes and policies and provide guidance and assistance where needed. The DGs therefore have to define and implement adequate, effective and efficient supervision/monitoring/reporting activities to ensure that the delegated entities and other partners effectively implement the programmes, adequately protect the financial interests of the EU, comply with the delegation agreements, when applicable, and that any potential issue is addressed as soon as possible.

The Internal Audit Service recommended in a number of audits that certain DGs' control and supervisory strategies should set out more clearly their priorities and needs as regards obtaining assurance on sound financial management in those EU and non-EU bodies. In particular, the control strategies did not sufficiently take into account the different risks involved in entrusting tasks to the delegated entities and independent sources were not effectively used to build up the assurance. These DGs should undertake more effective and efficient supervisory activities.

Furthermore, the objectives of the supervisory/monitoring/reporting activities and how to assess their effectiveness were not sufficiently clear and controls on these activities were limited in practice.

The Internal Audit Service notes the initiatives undertaken by the central services as well as the action plans developed following the recommendations from Internal Audit Service by the partner DGs to mitigate the risks related to the relations with their decentralised agencies and implementing bodies on among other things, monitoring programming, performance and budgetary issues.

Annex 6: Compliance with payment time limits (Article 111 5 RAP)[207]

The **statutory time limits** for payments are laid down in the main body of the Financial Regulation[208]. There are also some exceptionally applied time limits which are detailed in sector-specific regulations.

Article 92 of the Financial Regulation foresees that payments to creditors must be made within deadlines of 30, 60 or 90 days, depending on how demanding and complex it is to test the deliverables against the contractual obligations. Most of the payments have to be executed within 30 days; this represents in volume a global average of: 87 % in 2015 and 2016, 89 % in 2017. For contracts and grant agreements for which payment depends on the approval of a report or a certificate, the time limit for the purposes of the payment periods is no longer automatically suspended until the report or certificate in question has been approved.

The period of two months remains valid for payments under Article 87 of the Regulation of the European Parliament and the Council[209] laying down the general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

Compliance with payment time limits has been reported by the Commission departments in their Annual Activity Reports since 2007

[210] In accordance with the applicable rules, the payment times reported in this annex have been calculated as follows:

For payments related to contracts and grant agreements signed before 2013 the time limits specified in the Financial Regulation of 2007 are applied

- where the payment is contingent upon the approval of a report. the time from approval of the report until payment;
- where no report is required. the time from reception of the payment request until payment

For payments related to contracts and grant agreements signed as from 2013, the Financial Regulation of 2012 is applied:

- where no report is required and where the payment is contingent upon the approval of a report, the time from reception of the payment request until payment

The **Commission's global average payment time** is monitored by the Accounting Officer. It has evolved as follows in recent years:

All time limits combined	2015	2016	2017
Global average net payment time	24.9 days	21.4 days	20.4 days
Global average gross payment time	28.6 days	24.9 days	23.3 days

The data shows that the global average net payment time of the Commission departments has been **below 30 days for the last 3 years** for all time limits combined and has steadily decreased since 2016. They are encouraged to continue their efforts in this regard and to implement follow up measures whenever payment time problems are identified. The global average gross payment time is newly provided following a recommendation from the Ombudsman. It represents the average time to pay including any period of suspension

The table below illustrates the evolution of the "***late payments***", i.e. *payments made after expiry of the statutory time limit in recent* years for all payments combined. The data used has been extracted from the corporate accounting system:

All time limits combined	**2015**	**2016**	**2017**
Late payments in number	17.9 %	12.4 %	10.4 %
Late payments in value	17.5 %	8.5 %	3.1 %
Average number of overdue days[211]	39.5 days	39.1 days	39.6 days

The number of late payments and the amounts associated with them have decreased significantly since 2016. This result is believed to be linked to the more stringent requirements associated with the 2012 Financial Regulation. Another reason is associated with the sufficient availability of payment appropriations. The average number of overdue days (delays calculated in days), for all time limits combined is stabilized since 3 years.

Concerning the ***interest paid for late payments***[212] (see figures in the table below) **the total amount paid by the Commission in 2017 increased compared to 2016.** This is mainly the consequence of interest paid by the Development department after a Court case (which had been provisioned). The abnormally high amount of interest paid in 2015 was mainly due to the lack of payment appropriations.

	2015	**2016**	**2017**
Interest paid for late payments	EUR 2 064 949.02	EUR 685 645.20	EUR 824 420.68

In general, payments delays and interest paid are a consequence of payment shortages. For that reason, the Budget department has summarised some possible measures which could be applied by the Authorising Officer to actively manage payment appropriations

Other **causes of late payments** include the complexities of evaluating the supporting documents that are a prerequisite for all payments. This is particularly onerous when the supporting documents are reports of a technical nature (in average 13 % of the payments in 2015 and 2016. 11 % in 2017) that sometimes have to be assessed by external experts Other causes are associated with difficulties in coordinating the financial and operational checks of payment requests, and issues with the management of payment suspensions

The 2009 Communication establishing Commission-internal payment targets provided a clear incentive to services to reduce their payment times. There is scope for reducing payment times further When setting up action plans in this area, services' should focus on further reducing late payments from their current levels of 10 4 % of payments in terms of their number. 3 1 % of their value. ***The aim should be to meet the statutory payment time for every payment***

The table that follows gives a detailed overview of the suspensions of payment:

	2015	**2016**	**2017**
Total number of suspensions	27 254	26 595	26 173

Suspensions are a tool that allows the responsible authorising officer to withhold temporarily the execution of a payment because the amount is not due, because of the absence of appropriate supporting documentation or because there are doubts on the eligibility of the expenditure concerned. It is a basic tool for the authorising officer in the payment process towards avoiding irregular or erroneous payments and fundamental towards ensuring sound financial management and protecting the Union's financial interest.

Annex 7: Summary of Waivers of recoveries of established amounts receivable (Article 91 5 RAP)

In accordance with Article 91 (5) of the Rules of Application, the Commission is required to report each year to the budgetary authority, in an annex to the summary of the Annual Activity Reports, on the waivers of recovery involving 100 000 EUR or more

The following tables show the total amounts and the number of waivers above 100 000 EUR, per department, for the financial year 2017

EU budget:

Department	Amount of waivers, in EUR	Number of waivers
Agriculture	659 157.56	1
Communication Networks	140 792.06	1
Development	4 719 147.50	8
Education, Audiovisual and Culture Executive Agency	245 000.00	2
Employment	403 588.74	2
Energy	605 481.50	2
Neighbourhood	136 236.00	1
Research	234 338.50	2
Total:	**7 143 741.86**	**19**

European Development Fund:

Department	Amount of waivers. in EUR	Number of waivers
European Development Fund	3 074 817.44	9

Guarantee Fund:

Department	Amount of waivers. in EUR	Number of waivers
Guarantee Fund (Research 7th Framework Programme & Horizon 2020)	1 928 183.77	12

Annex 8: Report on negotiated procedures (Article 53 RAP)

1. Legal basis

Article 53 of the Rules of Application of the Financial Regulation requires Authorising Officers by Delegation to record contracts concluded under negotiated procedures. Furthermore, the Commission is required to annex a report on negotiated procedures to the summary of the Annual Activity Reports referred to in Article 66 (9) of the Financial Regulation.

2. Methodology

A distinction has been made between the 47 departments which normally do not provide external aid, and those three departments (DEVCO, NEAR and FPI) which conclude procurement contracts in the area of external relations (different legal basis: Chapter 3 of Title IV of Part Two of the Financial Regulation) or award contracts on their own account, but outside of the territory of the European Union.

These three departments have special characteristics as regards data collection (decentralised services, …), the total number of contracts concluded, thresholds to be applied for the recording of negotiated procedures (EUR 20 000), as well as the possibility to have recourse to negotiated procedures in the framework of the rapid reaction mechanism (extreme urgency). For these reasons, a separate approach has been used for procurement contracts of these three departments.

3. Overall results of negotiated procedures recorded

3.1. The 47 departments, excluding "external relations"

On the basis of the data received, the following statistics were registered: 102 negotiated procedures with a total value of EUR 519 million were processed out of a total of 746 procurement procedures (negotiated, restricted or open) for contracts over EUR 60 000 with a total value of EUR 2 892 million.

For the Commission, the average proportion of negotiated procedures in relation to all procedures amounts to **13.7 %** in number (14.2 % in 2016), which represents some **17.9 %** of all procedures in value (16.4 % in 2016).

An authorising department shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is "distinctly higher than the average recorded for the Institution" i.e. if it exceeds the average proportion by 50 %, or if the increase from one year to the next is over 10 % in the proportion.

Thus, the reference threshold for this year is fixed at **20.5 %** (21.3 % in 2016).

8 departments exceeded the reference threshold and, in addition, 8 increased their number of negotiated procedures by more than 10 % in the proportion of the negotiated procedures launched last year (5 departments exceeded both indicators). Among these 8 departments, it should be noted that 5 of them concluded only one to four negotiated procedures, but the low number of procedures conducted by each of them (up to 10), makes their average high. Consequently their results are to be considered as non-significant.

To be noted that, 20 departments have not used any negotiated procedure, including 6 ones that awarded no contract at all.

The assessment of negotiated procedures compared with the previous year shows a decrease in the order of 0.5 percentage points in terms of relative number and an increase of 1.5 percentage points in terms of relative value.

3.2. The three "external relations" departments

On the basis of the data received, the following statistics were registered: 124 negotiated procedures for a total value of contracts of EUR 97 million were processed out of a total of **455** procedures for contracts over EUR 20 000 with a total value of about EUR 544 million.

For the three "external relations" departments, the average proportion of negotiated procedures in relation to all procedures amounts to **27.3 %** in number (23.1 % in 2016), which represents some **17.8 %** of all procedures in value (**11.2 %** in 2016).

Thus the reference threshold for this year is fixed at **40.9 %** (**34.6 %** in 2016) which represents an increase of 50% the average proportion of 2017. One department exceeds the reference threshold of **40.9 %.**

If compared with previous year, these departments have registered an increase of **4.2** percentage points in number of negotiated procedures in relation to all procedures and an increase of **6.6** percentage points in terms of relative value.

4. Analysis of the justifications and corrective measures

The number of negotiated procedures in 2017 compared to 2016 has slightly increased (from 86 to 102), due to the increase of the overall number of procurement procedures (from 606 to 746).

The following categories of justifications to call for a negotiated procedure have been presented by those departments who exceeded the thresholds:

- **Statistical deviations** due to the high number of contracts awarded under all procedures.
- **Objective situations of the economic activity sector,** where the number of operators may be very limited or in a monopoly situation (for reasons of intellectual property, specific technical expertise, confidential information, exclusivity rights, etc.). Monopoly situations are met inter alia, in the health area, such as for the purchase of vaccines and antigens for animal diseases. Situations of technical captivity may also arise especially in the IT domain (absence of competition for technical reasons and/or because of the protection of exclusive rights related to proprietary licenses).
- **Situations of emergency or crisis** that cannot be foreseen in advance by the contracting authority, as is the need to ensure contractual continuity of critical secured and highly available network services to key applications in the context of police cooperation, asylum policy, foreign policy, civil protection, money laundering. Additionally, situations in relation to the provision of emergency assistance or crisis situation (e.g. in relation to the nature of the Instrument for Stability which intervene in crisis situation, urgent preparatory measures in Iraq in the field of the Common Foreign and Security Policy or Election Observation Missions in Kosovo).
- **Similar services/works** as provided for in the initial tender specifications. Some services in charge of large inter-institutional procurement procedures realise during the implementation of the contract (most likely in framework contract procedures) that the needs initially foreseen do not often match with the consumption trend during the execution of the contract. Therefore, the leading service must start a negotiated procedure on behalf of all Institutions to increase the ceiling of the framework contract in question.
- **Additional services** not included in the initial contract, which become necessary, due to unforeseen circumstances.
- **Unsuccessful open or restricted procedure**, leading to a negotiated procedure (e.g. “Cooperation on competition in Asia” project or “Platform for Policy Dialogue and Cooperation”, i.e. research services to the EU in the fields of conflict prevention, peace-building, mediation and crisis management)

Regular available measures are proposed or implemented by the Budget department’s Central Financial Service and other departments concerned to redress the use of negotiated procedures when other alternatives could be available:

- An **improved programming** of procurement procedures.
- **Improvement of the system of evaluation of needs**. The Commission's central services will continue their active communication and consultation policy with the other Commission departments, institutions, agencies and other bodies along the following axes:
  - permanent exchange of information via regular meetings with user services and agencies in appropriate fora;
  - ad-hoc surveys prior to the initiation of (inter-institutional) procurement procedures for the evaluation of needs;
  - better estimate of needs of inter-institutional framework contracts and better monitoring with semester consumption reports from user services or agencies;
- **Training and improved inter-service communication**. The Budget department’s Central Financial Service provides regular practical training sessions on procurement and community of practice sessions.
- Regular update of **standard model documents and guidance documents** on procurement.

Annex 9: EU Trust Funds (Article 187.10 FR)

This annex contains comprehensive and detailed report to the European Parliament and the Council on the activities supported by European Union Trust Funds, on their implementation and performance, as well as on their accounts.

For the performance and results aspects, see sub-section 1.5 on 'Global Europe'.

The Financial Regulation allowed the European Commission to create and administer EU Trust Funds in the field of external action: these are multi-donor trust funds for emergency, post-emergency or thematic actions.

A Trust Fund is both a legal arrangement and distinct financial structure relying on a pool funding mechanism, in which several donors jointly finance an action on the basis of commonly agreed objectives and reporting formats. Trust funds have many advantages, such as flexibility, speed of decision-making and the possibility to pool funding from different sources and donors:

- EU Trust Funds enhance the international role of the EU, as well as strengthen the visibility and efficiency of its external action and development assistance.
- Another advantage is faster decision-making process in the selection of the measures to be implemented in comparison with traditional multiannual programmes devoted to development cooperation. This can prove crucial in emergency and post-emergency actions, the categories of measures (together with thematic actions) for which EU Trust Funds may be established.
- One more benefit is the leverage of additional resources to devote to external action, since the establishment of an EU Trust Fund requires at least one additional donor.

Donors to an EU Trust Fund may be individual Member States as well as other entities. The pooling of resources could also increase coordination between different EU donors in selected areas of intervention, for example if individual Member States decide to channel at least part of their national bilateral assistance through EU Trust Funds.

In order for an EU Trust Fund to be created, it must meet a number of conditions, including EU added value (its objectives can be better met at EU than at national level), additionally (the trust fund should not duplicate already existing and similar instruments) and managerial advantages.

The constitutive act of the EU Trust Fund signed by the European Commission and the donors details some important features of the trust fund, including its specific objectives, the rules for the composition and the internal rules of its board, as well as the duration of the trust fund, which is always limited in time. EU Trust Funds have so far all been set up for an initial 60 months (five years), apart from the Colombia EU Trust Fund set up in December 2016 for four years.

Financial contributions to an EU Trust Fund are lodged in a specific bank account. EU Trust Funds are not integrated in the EU budget, but their management needs to be in accordance with the Financial Regulation to the extent necessary to ensure proper use of public resources. The European Commission is empowered to adopt delegated acts laying down detailed rules on the management, governance and reporting of the EU Trust Funds.

EU Trust Funds are implemented directly by the European Commission, which is authorised to use up to 5 % of the resources pooled in a trust fund to cover its management costs. In the case of emergency or post-emergency EU Trust Funds, budget implementation may also be indirect, with the possibility to entrust relevant tasks to other entities, such as third countries and their designated bodies or international organisations and their agencies. In addition to the specific objectives of a given trust fund, implementation must comply with the principles of sound financial management, transparency, proportionality, non-discrimination and equal treatment.

Each EU Trust Fund has its own governing board, which decides on the use of the pooled resources. The board ensures representation of the donors and is chaired by the European Commission, whose positive vote is required for the final decision on the use of the resources. Member States that do not contribute to the trust fund as well as the European Parliament participate as observers. An EU Trust Fund acts collectively on behalf of the EU and all the contributors to its financing.

As far as control and audit mechanisms are concerned, the provisions of the Financial Regulation and its rules of application include a series of safeguards. For example, each year EU Trust Funds are subject to an independent external audit. In addition, the powers of the European Court of

Auditors and of the Commission's internal auditor over EU Trust Funds are the same as those they exercise over the other activities of the European Commission.

With regard to reporting obligations, the European Commission is to submit an annual report on each EU Trust Fund to the European Parliament and the Council. The annual report must be exhaustive and include detailed information on the activities supported by the trust fund, their implementation and performance as well as their accounts. The Commission also reports on a monthly basis to the European Parliament and the Council on the budgetary implementation of the EU Trust Funds.

The following EU Trust Funds have been established:

- the EU Trust Fund for the Central African Republic: 'the BÊKOU EUTF' – established 2014
- the EU Regional Trust Fund in Response to the Syrian Crisis: 'the MADAD EUTF' – established 2014
- the European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa: 'the AFRICA EUTF' - established 2015
- the European Union Trust Fund for Colombia: 'the COLOMBIA EUTF' – established 2016

The BÊKOU EUTF

The BÊKOU EUTF (which means 'hope' in Sango, the primary language spoken in the Central African Republic) was established on 15 July 2014, by the European Union (represented by the Commission's Development and Humanitarian departments and by the European External Action Service) and three of its Member States: France, Germany and the Netherlands. The Fund was established with the objective to support all aspects of the country's exit from crisis and its reconstruction efforts. It was furthermore designed taking into consideration the need to better link the reconstruction/development programmes with the humanitarian response (Linking Relief, Rehabilitation and Development - LRRD) in order to rebuild the capacity of the country.

In total 5 EU Member States and other donors have, by the 31 December 2017, contributed to this EU Trust Fund. The total amount of pledges from donors, the European Development Fund and the EU Budget reached over EUR 236 million.

The priority sectors that the Trust Fund supports include health, food security, access to water and reconciliation within Central African Republic society.

Furthermore, the Court of Auditors published a special report in which it assessed the justification of the fund's establishment, its management and the achievement of its objectives so far. Despite some limited shortcomings, it concluded that the choice to set up the fund was appropriate in the given circumstances. It should be taken into account that this was the first EU Trust Fund ever set up. The Court recommended the Commission to develop further guidance on the choice of aid vehicle, to improve donor coordination, selection procedures, performance measurement and to optimise administrative costs.

The MADAD EUTF

The EU Regional Trust Fund in Response to the Syrian Crisis, the 'Madad Fund', ('Madad' broadly means 'helping together' in Arabic), was established on 15 December 2014.

By way of a revised Commission establishment decision in December 2015, and subsequent adoption by the Trust Fund Board in March 2016, the scope of the Madad Fund has been expanded to also cover support to internally displaced persons (IDPs) in Iraq fleeing from the interlinked Syria/Iraq/Da'esh crisis, to provide flexibility to support affected countries also with hosting non-Syrian refugees, and to provide support in the Western Balkans to non-EU countries affected by the refugee crisis.

At the end of 2017, the EU and 23 donors contributed to the Trust Fund: the EU Budget, 22 Member States and 1 non-Member State, with total contributions reaching an amount of approximately EUR 1.43 billion. The contributions from the EU Budget amounted by the end of 2017 to EUR 1.278 billion while the contributions from Member States amounted to EUR 125.8 million and EUR 24.7 million from Turkey. Projects focusing on education, livelihoods and health covering a total of EUR 1.2 billion million have already been approved, out of which EUR 871 million have been contracted to the Trust Fund's implementing partners on the ground.

The Madad Fund is an important implementation channel also for the Facility for Refugees in Turkey, with some 10 % of the Facility's budget to be channelled via the Trust Fund.

These programmes support refugees and host communities in their needs for basic education and child protection, training and higher education, better access to healthcare, improved water and wastewater infrastructure, as well as support for projects promoting resilience, economic opportunities and social inclusion.

The AFRICA EUTF

The EU Trust Fund for Africa was established on 12 November 2015. It provides a rapid, flexible and effective response to root causes of irregular migration and displaced persons in Africa as well as to the crisis in the Sahel and Lake Chad, the Horn of Africa, and the North of Africa regions. It has since then been extended to Ghana, Guinea and Ivory Coast

It aims to help fostering stability and contributing to better migration management. In line with the EU development-led approach to forced displacement, it also helps addressing the root causes of destabilisation, forced displacement and irregular migration, by promoting economic and equal opportunities, security and development.

The EU provides support to the three regions to face the growing challenges of demographic pressure, environmental stress, extreme poverty, internal tensions, institutional weaknesses, weak social and economic infrastructures and insufficient resilience to food crises, which have in some places led to open conflict, displacement, criminality, radicalisation and violent extremism, as well as irregular migration, trafficking in human beings and the smuggling of migrants.

The EU Trust Fund for Africa benefits a comprehensive group of African countries crossed by the major migration routes. These countries are part of the following regional operational windows:

- Window A: Sahel and Lake Chad: Burkina Faso, Cameroon, Chad, the Gambia, Mali, Mauritania, Niger, Nigeria, Senegal, Ghana, Guinea and Cote d'Ivoire
- Window B: Horn of Africa: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, Tanzania and Uganda
- Window C: North of Africa: Algeria, Egypt, Libya, Morocco and Tunisia

In addition to the countries mentioned above, neighbouring African countries may also benefit, on a case by case basis, from EU Trust Fund for Africa projects with a regional dimension in order to address regional migration flows and related cross-border challenges.

Activities funded under the EU Trust Fund for Africa are implemented through a range of operating partners, including EU Member States cooperation agencies, Non-Governmental Organisations and international organisations. Several implementation modalities are envisaged: delegated cooperation, calls for proposals, budget support, blending and direct awards in particular situations. Priorities of the EU Trust Fund for Africa have been identified through a dialogue with African partners and relevant local, national and regional stakeholders.

As of 31 December 2017, a total of 143 projects worth EUR 2 388 million have been approved for the Sahel & Lake Chad, the Horn of Africa and the North of Africa regions. Of the total amount approved, 210 contracts have been signed with implementing partners for an amount of over EUR 1 502 million (63 % of the approved funding).

In total 26 EU Member States and two other donors (Switzerland and Norway) have, by mid-April 2018, contributed to this EU Trust Fund.

The COLOMBIA EUTF

The signature of the constitutive agreement of the EU Trust Fund for Colombia took place on 12 December 2016. The EU Trust Fund is set to have close to EUR 96 million at its disposal, from the EU budget and from contributions of 19 EU Member States (Croatia, Czech Republic, Cyprus, France, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Spain, Sweden, the United Kingdom, Slovakia and Slovenia).

In its first year of operations, the Colombia Trust Fund approved 7 projects for a total amount of EUR 30.3 million and EUR 20 million were contracted by 31st December 2017.

The Trust Fund will help to support the implementation of the peace agreement in the early recovery and stabilisation phases of the post conflict. The overall objective is to help Colombia to secure a stable and lasting peace, to rebuild its social and economic fabric, and to give new hope to the people of Colombia.

The **EU Trust Funds' annual reports by their Trust Fund Managers** (as Authorising Officers by Sub-Delegation), include more details on the activities of the EU Trust Funds. They can be found as annexes of the Annual Activity Reports of the Commission's Development and Neighbourhood departments:

DG DEVCO

- EUTF 'Bêkou' – the EU Trust Fund for the Central African Republic
- EUTF 'Africa' - Horn of Africa Window
- EUTF 'Africa' - Sahel and Lake Chad Window
- EUTF 'Africa' - North of Africa Window
- EUTF 'Colombia' - North of Africa Window

DG NEAR

- 'Madad' Fund – The EU Regional Trust Fund in response to the Syrian crisis

Endnotes

1 http://www.eib.org/efsi/index.htm, Ie, the figures on this page are not part of formal EIB Group reporting on EFSI. Therefore, they are provisional and unaudited. The figures are subject to change.

2 Based on the projects that received financing in 2015 and 2016.

3 Five hotspots (Moria, Vathy, Vial, Lepida and Pyli) are operational in Greece.

4 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eutf_syria_factsheet-english.pdf

5 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/facility_table.pdf

6 https://ec.europa.eu/commission/sites/beta-political/files/solidarity-corps-factsheet_en.pdf

7 Including European Development Fund and external assigned revenue

8 http://ec.europa.eu/echo/what/humanitarian-aid/education-emergencies_en

9 OJ C 322, 28/09/2017

10 See also the Commission's annual Report to the European Parliament and the Council 'Protection of the European Union's financial interests — Fight against fraud 2016 Annual Report' (COM(2017) 383 of 20/07/2017)

11 SWD(2018) 171 final

12 http://ec.europa.eu/eurostat/web/europe-2020-indicators/

13 https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-communication_en.pdf

14 The text in this section is based on the Annual Activity Reports of DGs RTD, GROW, ECFIN, EAC, MOVE, ENER, CNECT, as well as on the relevant Programme Statements for the programmes under this budgetary heading

15 Report on the state of play of the Investment Plan for Europe, https://ec.europa.eu/commission/sites/beta-political/files/brochure-investment-plan-17x17-july17_en.pdf

16 Regulation (EU) 2017/2396, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32017R2396

17 http://www.eib.org/efsi/index.htm, Ie, the figures on this page are not part of formal EIB Group reporting on EFSI. Therefore, they are provisional and unaudited. The figures are subject to change.

18 European Investment Project Portal, https://ec.europa.eu/eipp/desktop/en/index.html

19 Based on the projects that received financing in 2015 and 2016.

20 https://ec.europa.eu/commission/commissioners/2014-2019/thyssen/announcements/speech-conference-financial-instruments-funded-european-social-fund-brussels_en

21 Data extracted from Horizon 2020 Dashboard

22 SWD(2017) 221, and extended version: https://ec.europa.eu/research/evaluations/pdf/book_interim_evaluation_horizon_2020.pdf#view=fit&pagemode=none

23 SWD(2018) 40, https://ec.europa.eu/assets/eac/erasmus-plus/eval/swd-e-plus-mte.pdf

24 https://ec.europa.eu/commission/sites/beta-political/files/solidarity-corps-factsheet_en.pdf

25 External evaluation study report: http://ec.europa.eu/DocsRoom/documents/28084, Commission Evaluation Staff Working Document to be published in 2018

26 These are preliminary results based on a methodology developed by the consultancies M-Five, KombiConsult and HACON. To ensure the robustness of the analysis, DG MOVE has launched a more detailed study on 14 June 2017 that running until 2018.

27 SWD(2018) 44, https://ec.europa.eu/transport/sites/transport/files/legislation/swd-2018-0044-mid-term-evaluation-cef-ia-part2.pdf

28 SWD(2017) 346, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0346

29 SWD(2017) 347, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0347

30 Staff Working document SWD(2017) 346 final, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0346

31 European GNSS Agency: Summary of Achievements in 2016, https://www.gsa.europa.eu/sites/default/files/2016_gsa_summary_report.pdf

32 COM(2017) 616, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2017:616:FIN

33 https://ec.europa.eu/info/news/looking-back-europes-contribution-iter-over-last-ten-years-2018-apr-12_en

34 http://f4e.europa.eu/Downloads/Press/Magnets_Press_Release_190520171200.pdf

35 http://fusionforenergy.europa.eu/mediacorner/newsview.aspx?content=1212

36 The text in this section is based on the Annual Activity Reports of DGs REGIO and EMPL, as well as on the relevant Programme Statements for the programmes under this budgetary heading

37 Five Funds, forming the European Structural and Investment Funds (ESIF), work together to support economic development across all EU countries, in line with the objectives of the Europe 2020 strategy: European Regional Development Fund (ERDF); European Social Fund (ESF); Cohesion Fund (CF); European Agricultural Fund for Rural Development (EAFRD); European Maritime and Fisheries Fund (EMFF). The latter two are covered by Budget Heading 2 (Sustainable Growth).

38 COM(2017) 755 final (page 5) - http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/strat_rep_2017/strat_rep_2017_en.pdf

39 Special report No 15/2017: Ex ante conditionalities and performance reserve in Cohesion: innovative but not yet effective instruments

40 Source: REGIO Annual Activity Report, page 12

41 Seventh report on economic, social and territorial cohesion - http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion7/7cr.pdf

42 Strategic report 2017 on the implementation of the European Structural and Investment Funds http://ec.europa.eu/regional_policy/en/policy/how/stages-step-by-step/strategic-report/

43 One individual may participate in several European Social Fund funded operations and therefore 'participants' should be understood as participations

44 http://ec.europa.eu/regional_policy/en/policy/evaluations/ and http://ec.europa.eu/social/main.jsp?langId=en&catId=701

45 http://ec.europa.eu/regional_policy/en/policy/analysis/

46 Staff Working document SWD(2016)318

47 COM(2017) 755 final (page 12) - http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/strat_rep_2017/strat_rep_2017_en.pdf

48 Special Report 23/2016 Maritime transport, Special Report 2/2017 Partnership Agreements, Special Report 18/2017 Single European Sky, Special Report 13/2017 Rail traffic

49 The text in this section is based on the Annual Activity Reports of DGs AGRI, MARE, ENV and CLIMA as well as on the relevant Programme Statements for the programmes under this budgetary heading

50 COM(2017) 713 final - http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017DC0713

51 https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/facts-figures/direct-payments.pdf

52 Evaluation study of the payment for agricultural practices beneficial for the climate and the environment, Final Report - https://ec.europa.eu/agriculture/sites/agriculture/files/fullrep_en.pdf, Commission Evaluation Staff Working Document to be published in 2018

53 Special Report No 21/2017

54 Figures by 31/12/2016.

55 Regulation (EU) 2017/2393

56 https://enrd.ec.europa.eu/projects-practice_en

57 Special Report No 16/2017: Rural Development Programming: less complexity and more focus on results needed and Special report no 11/2018: New options for financing rural development projects: Simpler but not focused on results

58 Staff Working Document to be published in 2018

59 SWD(2017) 452 final, Strategic report 2017 on the implementation of European Structural and Investment Funds

60 COM(2018) 48 final - http://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-48-F1-EN-MAIN-PART-1.PDF

61 SWD(2017) 274 final – http://ec.europa.eu/newsroom/document.cfm?doc_id=45977

62 COM(2016) 942 final - http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:942:FIN

63 SWD(2017) 355 final - https://ec.europa.eu/info/sites/info/files/report-on-the-mid-termevaluation_swd_355_en.pdf

64 COM(2015)478 final, Mid-term review of the EU Biodiversity Strategy to 2020

65 The text in this section is based on the Annual Activity Reports of DGs HOME, JUST, ECHO, SANTE, EAC as well as on the relevant Programme Statements for the programmes under this budgetary heading

66 Publication first half of 2018

67 Publication first half of 2018

68 A 'hit' in the Schengen Information System means that the person or object has been found in another Member State and further action, specified in the alert, is provided by the system.

69 https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20171114_central_mediterranean_route_en.pdf

70 SWD(2017) 0287 final, 30.8.2017, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD%3A2017%7%3A287%7 %3AFIN

71 Publication first half 2018

72 COM(2017) 546 final - http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0546&from=EN

73 COM(2017) 586 final - https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0586&from=EN

74 The text in this section is based on the Annual Activity Reports of DGs DEVCO, ECHO, NEAR, FPI, ECFIN, as well as on the relevant Programme Statements for the programmes under this budgetary heading

75 In 2017, the European Commission provided EUR 1.4 billion in humanitarian aid (excluding the European Development Fund and external assigned revenue). This amount also includes the allocation for the Emergency Support within the EU. If all instruments and sources are added up (European Development Fund, external assigned revenue from Member States – mostly for the Facility for Refugees in Turkey – and Emergency Support within the EU), the total amount of humanitarian aid increases to EUR 2.2 billion.

76 http://ec.europa.eu/echo/what/humanitarian-aid/education-emergencies_en

77 ICF, Comprehensive evaluation of the European Union humanitarian aid in 2012-2016, (2018), https://ec.europa.eu/echo/sites/echo-site/files/cha_final_report_01032018_master_clean.pdf , p 38

78 SWD(2017) 604, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0604

79 SWD(2017) 605, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0605

80 SWD(2017) 607, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0607

81 Regulation (EU) 2017/2306 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 230/2014 establishing an instrument contributing to stability and peace, OJ L 335, 15.12.2017, p. 6–10, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R2306

82 COM(2017) 720 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2017:720:FIN

83 SWD(2017) 608 final, https://ec.europa.eu/europeaid/sites/devco/files/swd-mid-term-review-pi_en_0.pdf

84 External Evaluation of the Partnership Instrument (2014 – mid 2017) of June 2017: https://ec.europa.eu/europeaid/mid-term-evaluation-partnership-instrument-pi-draft-report_en

85 http://europa.eu/rapid/press-release_IP-17-2007_en.htm

86 SWD(2017) 463, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD:2017:463:FIN

87 However, in the case of Turkey the European Court of Auditors concluded that only limited results have been achieved so far, see Special Report 07/2018, 'EU pre-accession assistance to Turkey, only limited results so far.'

88 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/facility_table.pdf

89 SWD(2017) 600, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017SC0600

90 The EU suspended all its bilateral cooperation with the Government of Syria in May 2011. However the EU continues to deliver assistance to the Syrian population, both inside and outside Syria.

91 This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

92 SWD(2017) 602, https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52017SC0602

93 JOIN(2017) 18, https://eeas.europa.eu/sites/eeas/files/2_en_act_part1_v9_3.pdf

94 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eutf_syria_factsheet-english.pdf

95 SWD(2016) 295 final, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016SC0295

96 http://ec.europa.eu/dgs/economy_finance/evaluation/completed/index_en.htm

97 OJ C 322, 28/09/2017

98 The Committee of Sponsoring Organisations of the Treadway Commission (COSO) is a joint initiative of five private sector organisations, dedicated to providing thought leadership to executive management and governance entities on critical aspects of organisational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting. COSO has established a common internal control model against which companies and organisations may assess their control systems.

99 Communication to the Commission from Commissioner Oettinger – Revision of the Internal Control Framework (C(2017) 2373 of 19 April 2017)

100 Agriculture, Climate, Communication, Informatics, Education and Culture and its agency, Small and Medium Enterprises agency, Employment, Energy, Environment, Human Resources, Mobility, Regional, Interpretation, and Legal departments.

101 The methodology has been developed in close co-operation with all the Commission departments.

102 During 2017, the Budget department developed and implemented a new (risk-focused) strategy for the validation of local systems. It aims to simplify and speed up the process, reducing the administrative burden on authorising departments and disseminating best practices beyond the departments examined.

103 The main open recommendations involve the Regional and Paymaster departments.

104 Mainly the Mobility/Energy, Research and Agriculture departments

105 Mainly the completeness of the registration of reflows from financial instruments, the documentation and reporting on recovery context, and the timely establishment of recovery orders.

106 Plus the European Development Fund and the EU Trust Funds in the case of the External Relations departments

107 The financial importance of the 50 Commission departments varies significantly. The management of funds is highly concentrated among a few big spending departments (with more than 40% of payments made by the Agriculture department only and 80% by seven Commission departments), with a long tail of other much smaller spending departments (the 'last' 5% of payments is made by 34 (i.e. two thirds) of the Commission departments).

108 Shares in the 2017 expenses by the European Commission (with less for ‘Cohesion’ compared to the 2016 ‘closure year’).

109 Mainly in shared management: financial corrections before declaring, accepting and reimbursing the expenditure to the Commission.

110 Before accepting the expenditure, clearing the pre-financing (i.e. transferring its ownership) and/or making the interim/final payment.

111 e.g. recovering unused pre-financing, rejection of (part of) costs claimed, etc.

112 After having accepted the expenditure, cleared the pre-financing (i.e. ownership transferred) and/or made the interim/final payment.

113 As required by the Financial Regulation Article 66(5).

114 For the definitions of the terminology in this subsection, see Annex 3.

115 i.e. financial operations not in conformity with the applicable contractual and regulatory provisions.

116 Or equivalent: see Annex 3.

117 More detailed tables in Annex 2-A.

118 European Court of Auditors’ 2016 Annual Report, Paragraph 1.25 with Box 1.8

119 These may include errors of a formal nature that, although important to address, do not always result in undue payments and therefore do not always give rise to financial corrections or recovery orders.

120 Data from AUDEX (AUDIT and EXtrapolation system for H2020), including ‘direct’ coverage (fully audited transactions) and ‘indirect’ coverage (non-audited participations which, nevertheless, after the full treatment of audit results, are clean from systematic errors)

121 More detailed tables in Annex 2-A.

122 More detailed tables in Annex 2-A.

123 Article 66(9) of the Financial Regulation requires the Authorising Officers by Delegation to include in their Annual Activity Reports an overall assessment of the costs and benefits of controls.

124 For shared management, the Agricultural and Home Affairs departments reported separately on the costs of controls at Member States’ level in 2017 whereas the Maritime, Employment and Regional departments will report on it in 2018 once the results of their on-going studies will be available. For indirect management, 13 out of 17 departments reported on the cost at entrusted entities level separately from the Commission’s cost of control in 2017. However, the cost of controls by the entrusted entities is only a portion of the broader administration (management) fees paid.

125 Simplified Cost Options mean lump sums, flat rates and scales of unit costs.

126 Article 325(1) of the Treaty on the Functioning of the European Union

127 Article 317 of the Treaty on the Functioning of the European Union

128 Article 32 of the Financial Regulation

129 https://ec.europa.eu/info/publications/annual-activity-reports_en

130 Including since 2017 the ‘Task Force for the Preparation and Conduct of the Negotiations with the United Kingdom under Article 50 of the Treaty on European Union’

131 'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year, for which the financial impact is zero for this reporting year, or which cannot be quantified because they are only reputational.

132 The first results from the implementation of the related action plan were reviewed by the Internal Audit Service in March 2018. Consequently, the Internal Audit Service downgraded the previously critical recommendation to very important.

133 More detailed tables in Annex 2-B.

134 Six departments; i.e. the Development, Neighbourhood and Humanitarian departments, plus also (albeit to a limited extent) the Home Affairs, Regional and Employment departments

135 Four EU Trust Funds: the 'Bêkou' Trust Fund, i.e. the EU Trust Fund for the Central African Republic; the 'Madad' Fund, i.e. the EU Regional Trust Fund in Response to the Syrian Crisis; the EU Emergency Trust Fund for Africa; the EU Trust Fund for Colombia

136 In their Annual Activity Reports Annex 4, the materiality criteria state that ‘the control system established for Horizon 2020 is designed to achieve a control result in a range of 2 % - 5 % detected error rate, which should be as close as possible to 2 % after corrections. Consequently, this range has been considered in the legislation as the control objective set for the framework programme.’ This is an alternative to the general materiality criteria usually applied by Commission departments (by which the residual error rate must be lower than 2 % by the end of the implementation of the programme).

137 The legislative financial statement accompanying the Commission's proposal for the Horizon 2020 regulation states: ‘The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within a range between 2-5 % is a realistic objective taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the research projects. The ultimate aim for the residual level of error at the closure of the programmes after the financial impact of all audits, corrections and recovery measures will have been taken into account is to achieve a level as close as possible to 2 %.’

138 The Legislative Authority adopted certain provisions that increase the risk of error, such as a limit on additional remuneration, reimbursement for large scale research infrastructure and a higher target for SME participation.

139 https://www.eca.europa.eu/en/Pages/Strategy.aspx

140 https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=44524

141 In Cohesion this is not always a 'net' reimbursement to the EU budget, as Member States have the option to replace the ineligible expenditure with new eligible expenditure.

142 Including financial corrections at source and corrections from financial clearance in Agriculture. The methodology used by DG AGRI to calculate the corrective capacity for the purpose of its annual activity report is explained under point 2.1.1.3.1 of DG AGRI’s 2017 Annual Activity Report.

143 The Internal Audit Service audit on Erasmus+ and Creative Europe – grant management phase 1 (from the call to the signature of contracts).

144 Internal Audit Service Audit on the Governance, Planning, Monitoring and Implementation of the budget line of the OLAF Supervisory Committee.

145 INEA only partially accepted the observation as it considered that part of this recommendation was beyond its remit and should be addressed at Commission level. However, the action plan provided by INEA addressed all parts of the recommendation (including the part rejected).

146 Following discussion in the Audit Progress Committee DG NEAR confirmed that the management will pursue the principles recommended by the Internal Audit Service .

147 E.g. internal control standards are based on the 2013 framework for internal control principles established by the Sponsoring Organizations of the Treadway Commission.

148 European Court of Auditors’ Special Report No 27/2016 on 'Governance at the European Commission – best practice?',

149 Communication to the Commission from President Juncker and First Vice-President Timmermans: Governance in the European Commission, C(2017) 6915 final of 11 October 2017, URL: https://ec.europa.eu/info/sites/info/files/c_2017_6915_final_en.pdf.

150 European Court of Auditors, Rapid case review on the implementation of the 5 % reduction of staff posts, 21/12/2017.

151 Eurostat periodically revises its published data to reflect new or improved information, also for previous years. The latest published data is available by clicking on "bookmark". The "latest known value" column reflects the data that was available at the time of the preparation of the Annual Activity Reports on 2017 and it is the reference point for the Annual Activity Reports of Commission services.

152 The share of 18 to 24 year old persons who have at most lower secondary education and are not in further education and training.

153 Gross domestic product at 2010 reference levels per hour worked (purchasing power parity adjusted).

154 The indicator focuses on the sustainability of growth and jobs.

155 DESI is a composite index that summarises relevant indicators on Europe's digital performance and tracks the evolution of EU Member States in digital competitiveness. The closer the value is to 1, the better. The DESI index is calculated as the weighted average of the five main DESI dimensions: 1 Connectivity (25 %), 2 Human Capital (25 %), 3 Use of Internet (15 %), 4 Integration of Digital Technology (20 %) and 5 Digital Public Services (15 %). The DESI index is updated once a year.

156 The FINTEC indicator is a scale-free measure normalized to always lie between 0 and 1; 0 means no cross-border integration, 1 means full integration; for the price-based part 1 would mean total absence of any price differentials for comparable money market instruments; for the volume-based part, full integration would mean lack of any home bias on the side of investors.

157 Variation coefficient of GDP volume indices of expenditure per capita.

158 CISS measures the state of instability in the euro area financial system. It comprises 15 mostly market-based financial stress measures split into five categories: financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets. It is unit-free and constrained to lie within the interval (0, 1).

159 The ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile).

160 The unadjusted Gender Pay Gap (GPG) represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.

161 The indicator measures the % of effected returns compared to return decisions issued by the Member States.

162 Eurostat collects both the nominator and the denominator annually from the Ministries of Interior / Border Guards / Police of the Member States. The data depend very much on national circumstances and policies. In addition, the time lag between the return decision and its execution means that the reference population of the nominator and denominator are not the same.

163 Host-country nationals and other EU nationals counted together.

164 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

165 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

166 The indicator measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. Higher values in percentile rank indicate better governance ratings.

167 For the calculation of the baseline, beneficiary countries under the Development Cooperation Instrument and European Development Fund have been taken into account. Beneficiaries under the European Neighbourhood Instrument and EU-Greenland Partnership Instrument have been excluded.

168 The number of opinions to a certain degree depends on the number of legislative proposals and policy communications put forward by the Commission.

169 Six departments; i.e. the Development, Neighbourhood and Humanitarian departments, plus also (albeit to a limited extend) the Home Affairs, Regional and Employment departments;
Four EU Trust Funds: the 'Bêkou' Trust Fund, i.e. the EU Trust Fund for the Central African Republic; the 'Madad' Fund, i.e. the EU Regional Trust Fund in Response to the Syrian Crisis; the EU Emergency Trust Fund for Africa; the EU Trust Fund for Colombia. See also Annex 9.

170 e.g. the "adjusted error rates" (Agriculture department, for Rural Development), the "reportable error rates" (Regional department, for the 2007-2013 programmes), or the “residual total error rates” (Maritime department, for the current programme). In other cases (e.g. Development and Neighbourhood departments), they

are derived by a backwards calculation based on results from advanced residual error studies; i.e. by adding the estimated future corrections (if not assumed being zero) to the amount at risk at closure.

171 As disclosed in the Annual Activity Reports, this includes considering fewer more recent years than the 7-years-period (e.g. Agriculture, Development, Neighbourhood departments), using an alternative estimation basis (e.g. Agriculture, Research, Communication Networks, Regional, Employment departments and the Research Executive Agency), or even estimating that future corrections will be zero (e.g. Regional, Employment, Maritime departments for their current programmes, as the relevant corrections have been implemented by the Member States in the relevant annual accounts to have a residual error rate below the materiality threshold of 2 % following the change of the management and control system put in place for the 2014-2020 period).

172 'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year, for which the financial impact is zero for this reporting year, or which cannot be quantified because they are only reputational.

173 For some programmes with no set closure point (e.g. European Agricultural Guarantee Fund) and for some multiannual programmes for which corrections are still possible afterwards (e.g. European Agricultural Fund for Rural Development and European Structural and Investment Funds), all corrections that remain possible are considered for this estimate.

174 or equivalent, such as after the expenditure is registered in the Commission's accounting system, after the expenditure is accepted or after the pre-financing is cleared. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle.

175 As disclosed in the Annual Activity Reports, this includes considering fewer more recent years than the 7-years-period (e.g. Agriculture, Development, Neighbourhood departments), using an alternative estimation basis (e.g. Agriculture, Research, Communication Networks, Regional, Employment departments and the Research Executive Agency), or even estimating that future corrections will be zero (e.g. Regional, Employment, Maritime departments for their current programmes, as the relevant corrections have been implemented by the Member States in the relevant annual accounts to have a residual error rate below the materiality threshold of 2 % following the change of the management and control system put in place for the 2014-2020 period).

176 Equivalent to the European Court of Auditors' methodology (European Court of Auditors 2016 Annual Report methodological Annex 1.1 paragraph 10)

177 In all cases of Co-Delegations (Internal Rules Article 3), the "payments made" are covered by the Delegated departments (since 2017 also for Type 3). In the case of Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating departments (the reporting on the latter is being reconsidered for 2018).

"Pre-financings paid/cleared" are always covered by the Delegated departments, even in the case of Cross-SubDelegations.
PS: Co-Delegations Type 1 are actually 'divided' between departments, with each department duly covering its own 'share' of (both) payments and pre-financings.

178 e.g. the "adjusted error rates" (Agriculture department; for Rural Development), the "reportable error rates" (Regional department; for the 2007-2013 programmes), or the "residual total error rates" (Maritime department; for the current programme). In other cases (e.g. Development and Neighbourhood departments), they are derived by a backwards calculation based on results from advanced residual error studies; i.e. by adding the estimated future corrections (if not assumed being zero) to the amount at risk at closure.

179 See the European Court of Auditors' 2016 Annual Report, paragraph 1.25 with box 1.8

180 See the European Court of Auditors' methodology (European Court of Auditors 2016 Annual Report methodological Annex 1.1 paragraph 17)

181 'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year, for which the financial impact is zero for this reporting year, or which cannot be quantified because they are only reputational.

182 Special Report No 4/2017 "Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period".

183 The methodology used by DG AGRI in order to calculate the corrective capacity for the purpose of its annual activity report is explained under point 2.1.1.3.1 of DG AGRI Annual Activity Report 2017.

184 The methodology used by DG AGRI in order to calculate the corrective capacity for the purpose of its annual activity report is explained under point 2.1.1.3.1 of DG AGRI Annual Activity Report 2017.

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

186 For the purpose of calculating its corrective capacity in the Annual Activity Report, DG AGRI takes into account only the amounts related to conformity clearance decisions adopted by the Commission and published in the Official Journal of the EU and deducts the corrections in respect of cross-compliance infringements. For details on the methodology used for FY 2017, see DG AGRI Annual Activity Report 2017, point 2.1.1.3.1.

187 The amount does not include the financial corrections “at source”.

188 Article 21(3)(c) of the Financial Regulation.

189 Art. 41 of Reg. 1306/2013.

190 Regulation (EU) Nº 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) Nº 1083/2006 – OJ L 347, 20.12.2013, p. 320.

191 Stemming from Member States' control statistics reported to the Commission

192 Not for the 2000-2006 period.

193 'Technical Assistance and Information Exchange instrument TAIEX-REGIO PEER 2 PEER'

194 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.

195 Including financial corrections at source.

196 At source corrections are excluded from this annual reporting, in line with the legal framework applicable for 2007-2013.

197 In addition to Commission reporting.

198 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 1.2.2 above).

199 This information has been transmitted in the assurance packages received in February 2018 for the third accounting year and is still under assessment by the Commission services (information as reported by the Member States, pending the Commission verifications).

200 In addition to Commission reporting

201 Research budget implemented by the Commission and Executive Agencies.

202 Implementation of Research budget entrusted to joint undertakings.

203 Budget implementation by international organisations.

204 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. It needs also to be underlined that for European Regional Development Fund/Cohesion Fund in some cases the amounts of corrections communicated by the Member States cover both individual and flat rate/extrapolated corrections; for reporting purposes these amounts are included under the typology (individual or flat rate) which is considered prevalent. These two limitations do not have an impact on the reliability of the global amounts reported.

205 As a result, the eligible expenditure declared to the Commission is capped to the amount after the deduction of the flat rate correction.

206 The Internal Audit Service performed in 2017 (final report issued in January 2018) an audit in EACEA on Erasmus+ and Creative Europe – Grant Management phase 1 (from the call to the signature of contracts). Overall,

the Internal Audit Service identified serious shortcomings in the design and implementation of EACEA's controls that require urgent and determined action to ensure that the highest quality projects are selected for EU funding in compliance with the applicable rules. The Internal Audit Service notably issued one critical recommendation (accepted by the Agency) as regards the role of the evaluation committee (no evidence that the evaluation committees' final conclusions on the projects to be financed or rejected were based on a review of and deliberations on the merits of all the submitted grant proposals and that they did not simply endorse the work done by external experts whose role is to assist the committees but not to take the final decisions). Following the action taken by the Agency, the rating of this critical recommendation has been downgraded to 'very important' after an Internal Audit Service follow-up engagement performed in March 2018.

207 From 2017 onwards, the scope of statistics has been extended to include the European Development Fund and the EU Trust Funds in the total of the Commission.

208 Commission Delegated Regulation (EU) N° 1268/2012 of 29 October 2012 (OJ L 362, 312.12.2012, p.1)

209 Regulation (EC) No 1083/2006 of the European Parliament and of the Council laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006, p. 25)

210 Based on available data in the corporate accounting system (ABAC) as of end of the financial year 2007

211 i.e. above the statutory time limit

212 i.e. no longer conditional upon the presentation of a request for payment (with the exception of amounts below EUR 200)