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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Subject:	ANNEXES 2 to 11 to the Report from the Commission to the European Parliament, the Council and the COURT OF Auditors: 2019 Annual Management and Performance Report for the EU Budget

Delegations will find attached document COM(2020) 265 final - ANNEXES 2 to 11.

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Brussels, 24.6.2020
COM(2020) 265 final

ANNEXES 2 to 11

ANNEXES

to the

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

2019 Annual Management and Performance Report for the EU Budget

Annex 2:
Mainstreaming and tracking of cross-cutting priorities

The EU budget addresses specific policy needs through one or several programmes. The horizontal nature of some policy objectives, however, requires their deeper integration throughout the budget. This is particularly true for climate mainstreaming and biodiversity tracking.

Climate mainstreaming

Why do we do it?

The fight against climate change is, by its very nature, a fight that transcends national boundaries. In order to develop new clean technology, deploy the best solutions and adapt our economies in favour of a more sustainable path, action at EU level is needed. EU action enjoys significant economies of scale, pulling together the resources to reach critical mass and building a stronger position in the international arena.

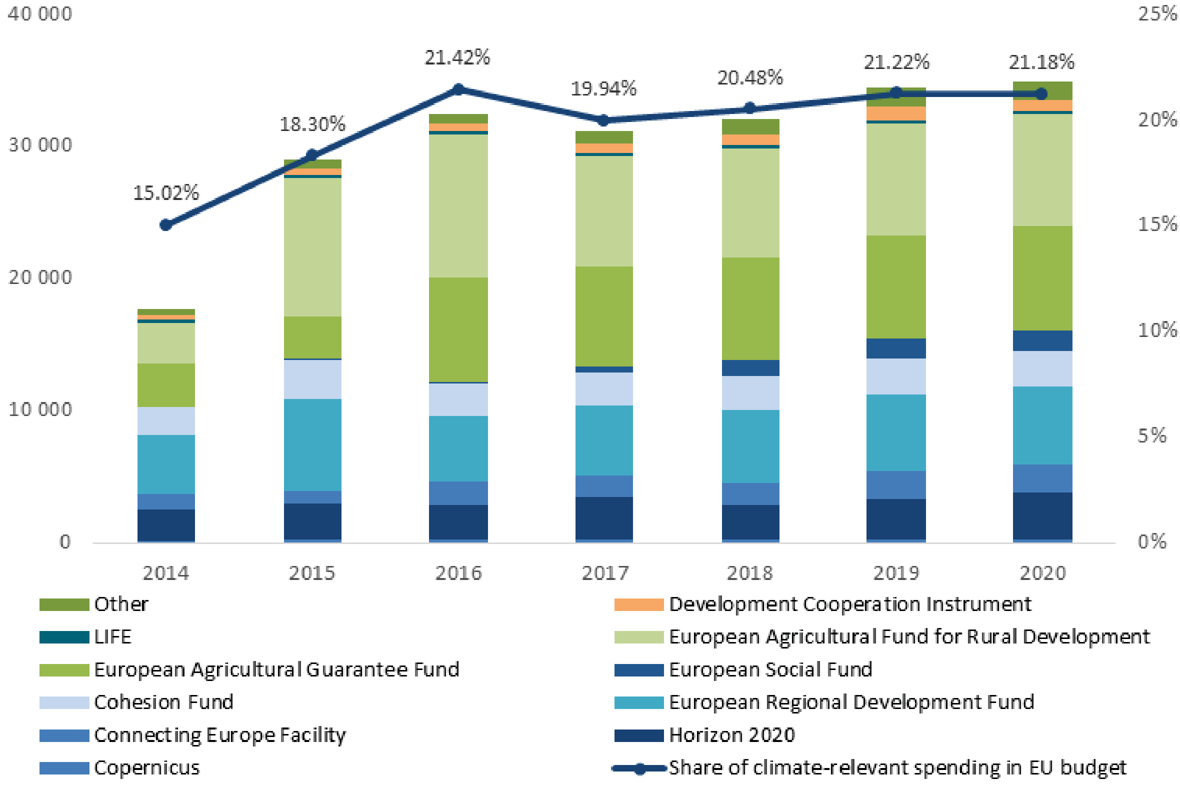
What do we do?

In the 2014-2020 multiannual financial framework, the Commission implemented an innovative approach to dedicating resources to the fight against climate change: 'climate mainstreaming'. This means that programmes in all policy areas must consider climate priorities in their design, implementation and evaluation phases. With a target of ensuring 20% of the EU budget expenditure is contributing to climate goals, all programmes are designed to implement the following two types of measures.

- **Adaptation.** This is about finding solutions and ensuring preparedness for the adverse effects of climate change, taking appropriate action to prevent or minimise the damage they can cause or taking advantage of any opportunities that may arise.
- **Mitigation.** This consists of actions that limit the magnitude of long-term climate change. Climate change mitigation generally involves reductions in emissions of greenhouse gases.

In this context, **'climate proofing'** is the practice of making sure that buildings and infrastructure are well adapted to the changes in the environment. It is applied across the EU budget in the programmes supporting infrastructures. In addition, to guarantee that the EU budget financing does not have a harmful effect on the environment, an **'exclusion list'** of projects that cannot be financed is also included in the common provisions regulation.

How much do we spend?



NB: All amounts in million EUR.
Source: European Commission.

To track the EU budget expenditure, an internationally recognised methodology is used: the Organisation for Economic Co-operation and Development's 'Rio markers'. Under this methodology, for each project/objective/strand/programme a coefficient of either 0%, 40% or 100% is applied to reflect the different degrees to which climate considerations have been integrated into the expenditure. The EU budget mitigates its potential negative impact on the climate by embedding climate considerations in every programme, through climate proofing and the 'exclusion list' of projects.

For the period 2014-2020 the EU budget has dedicated EUR 211 billion to the fight against climate change, i.e. 19.83%.

What have we achieved?

1.3 million-tonnes decrease	30 000 registered users	79% of total EU agricultural area
in CO_2 equivalent thanks to Cohesion Fund investments.	of Copernicus Climate Change Service.	subject to at least one 'greening' obligation, increasing the environmental impact of the measure.

- Horizon 2020 projects address technology development and market barriers, and accelerate the uptake of renewable energy technologies. On a regional basis, CoolHeating supported the implementation of small modular heating and cooling grids in south-eastern Europe using improved business strategies and innovative financing schemes. The project 'best practices and implementation of innovative business models for renewable energy aggregators' explored the aggregation of various distributed renewable energy sources. WinWind project partners drafted a number of good-practice measures based on those from their own countries to improve social acceptance of wind energy in the target regions. Biomass is also a valuable source of renewable energy, and so Securechain ensured optimal management of the EU's woody biomass supply chain. LIFES 50plus focused on floating 5-10 MW wind turbines installed at water depths ranging from 50 metres to about 200 metres. In a climate-neutral EU, power generation should be fully decarbonised by 2050, with more than 80% of the EU's electricity produced by renewable energy.

- Thanks to the European Regional Development Fund and the Cohesion Fund, by end 2018, an estimated annual decrease in greenhouse gas emissions of 1.3 million tonnes of CO_2 equivalent was achieved, and the energy consumption classification for 174 000 households was improved.
- The European Social Fund also contributes to climate objectives, notably through greater support for training and labour market measures linked to green jobs. For example, in Czechia, the European Social Fund supported 111 projects in the coal regions with a total allocation of EUR 21.3 million. More concretely, in North Moravia, the public employment service implemented a European Social Fund-supported project called 'Outplacement', which supported 265 miners by providing them with training in welding, driving or gaining a professional licence and other skills.
- Under the common agricultural policy, the 'greening' layer of direct payments accounts for 30% of Member States' annual direct payment ceilings and covers annual obligations that are beneficial for the environment and climate (e.g. crop diversification, maintenance of permanent grassland), and the dedication of 5% of arable land to ecologically beneficial areas ('ecological focus areas'). As of 2018, 79% of the total EU agricultural area was subject to at least one 'greening' obligation, increasing the environmental impact of the measure.
- In 2018, a total of 3.4 million hectares of agricultural and forest land was covered by management contracts contributing to carbon sequestration or conservation. This equals 89.5% of the 2023 target of 4 million hectares.
- The LIFE 'agri adapt' project aims to increase the resilience of EU agriculture to climate change by demonstrating sustainable best-practice adaptation measures with an ecosystem-based approach at farm level. The project aims to adapt 120 farms by its end.
- Under the Development Cooperation Instrument, the global climate change alliance plus initiative, as a thematic flagship initiative, will continue to enhance vulnerable partner countries' resilience to the effects of climate change and to enable them to engage in low-carbon development processes by supporting them.
- Climate-related administrative expenditure is not accounted for in the mainstreaming estimates. The European Commission is committed to sustainability. Thus, through the eco-management and audit scheme system, the Commission implements a monitoring programme to assess, measure, monitor and reduce the environmental impact of its daily activities. The Commission has achieved significant results, such as the following (results refer to the Brussels site during the period 2005-2018) ([1]):
  - energy for buildings = – 65% (MWh/person);
  - CO_2 emissions for buildings = – 87% (tonnes/person);
  - since August 2009, 95% of the Commission's total electricity consumption in Brussels has come from 100%-renewable sources.

Biodiversity tracking

Why do we do it?

To halt and reverse the decline of biodiversity in the EU is a major objective of the EU, as also provided for in the political guidelines from Commission President von der Leyen. Protecting biodiversity is a global issue that requires transnational intervention and coordination. The

([1]) For more details, please consult the environmental statement of the Commission (https://ec.europa.eu/environment/emas/pdf/other/ES2019_consolidated_volume_web_edition_optimised.pdf).

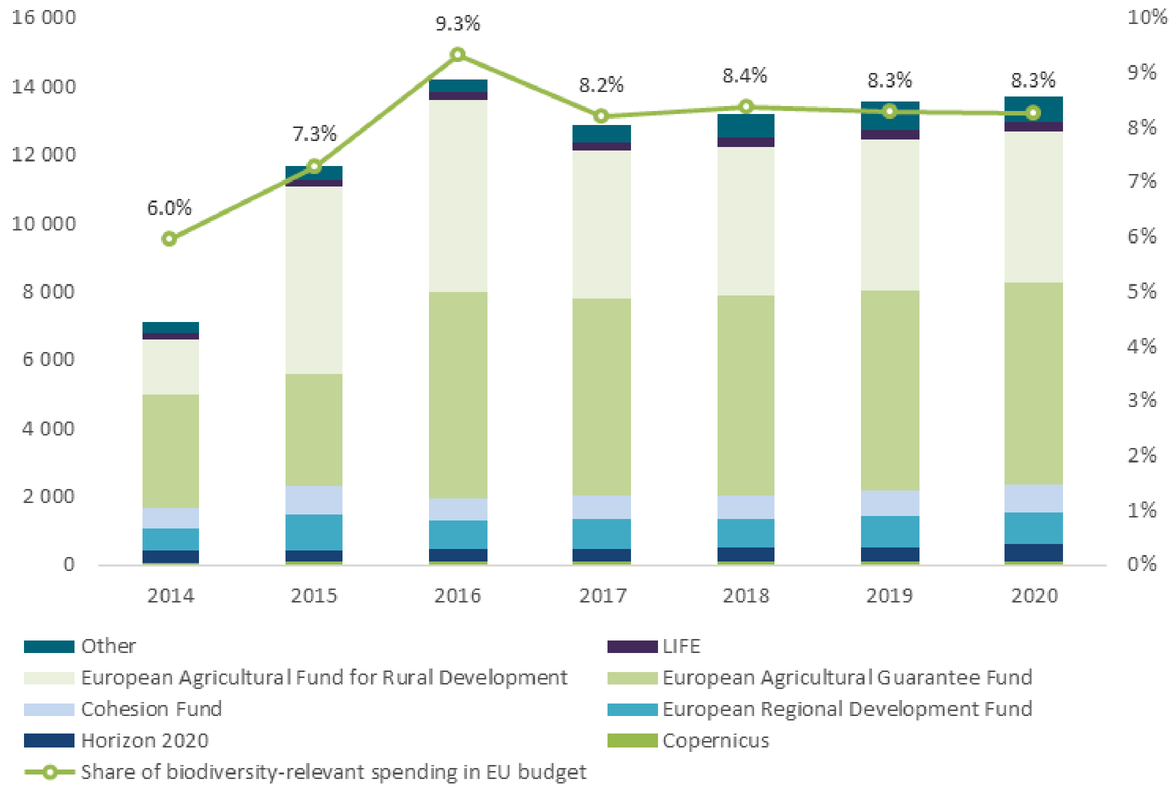
preservation of biodiversity ensures the long-term stability of ecosystems and enables sustainable preservation of natural resources for future generations. Tackling biodiversity loss and restoring ecosystems requires significant investments, including ones to ensure a more resilient society and combat the emergence of diseases linked to ecosystem degradation and wildlife trade. Nature-based solutions – including ecosystem restoration – have the potential to provide a significant proportion of the mitigation potential needed to meet our international climate objectives in a very cost-effective way.

What do we do?

This important strategic political ambition is also reflected in the European Green Deal and the European Green Deal investment plan (2020).

The upcoming **EU 2030 biodiversity strategy** and the post-2020 global biodiversity framework provide further orientation for financing and resource mobilisation to support biodiversity. The EU finances the protection of biodiversity by integrating the objectives of the EU 2030 biodiversity strategy into the whole of the EU budget, both within the EU via the main funding instruments and outside the EU through external action funding.

How much do we spend?



NB: All amounts in million EUR.
Source: European Commission.

To track the EU budget expenditure, an internationally recognised methodology is used: the Organisation for Economic Co-operation and Development's 'Rio markers'. Under this methodology, for each project/objective/strand/programme a coefficient of 0%, 40% or 100% is applied to reflect the different degrees to which biodiversity considerations are integrated into the expenditure.

For the period 2014-2020 the EU budget has dedicated EUR 85 billion, or 8% of the multiannual financial framework, to the fight against biodiversity loss.

What have we achieved?

Improving conditions of 186 different species	Almost 3 million hectares of natural habitats	16% of agricultural land contributing to biodiversity
is the aim of 262 LIFE actions.	supported under EU cohesion policy.	in 2018, thanks to the requirements of their management contracts. This is very close to the 2023 target of 17%.

Annex 3:
Risk at payment/closure reported in the 2019 annual activity reports

Main concepts

The Commission's multiannual control strategies involve both preventive and corrective measures to ensure the sound financial management of EU funds (see **chart** below).

Preventive and corrective measures

OBJECTIVES

1. Ensure legality and regularity of transactions
2. Ensure an anti-fraud strategy and measures
3. Ensure economy, efficiency and effectiveness
4. Safeguard assets and information
5. Produce reliable reporting

CONTROLS

Preventive measures
EX ANTE

Simplification of programmes
E.g. fixed-amount grants

Prevention of double funding
E.g. each beneficiary cannot receive more than one grant (per project)

Problem detection; funding suspension and corrections
E.g. desk checks of cost claims and invoices

Fraud proofing
E.g. European Anti-Fraud Office reviewing programmes
voiding fraud-prone provisions in legislation and programm

Awareness
E.g. anti-fraud training

Corrective measures
EX POST

Problem detection; financial recoveries or corrections
E.g. audits of beneficiaries

Simplification of future programmes (based on lessons learnt)
E.g. fixed amounts for grants

Fraud investigation; recoveries or corrections
E.g. European Anti-Fraud Office pursuing fraud cases

Main features of the Commission's control strategies
Source: European Commission.

Preventive measures take place before the Commission makes the payment. They result mostly from controls (called *ex ante* controls) carried out by the Member States and entrusted entities before submitting expenditure to the Commission, and by the Commission before accepting and reimbursing expenditure, clearing pre-financing (i.e. transferring its ownership to the beneficiary) and making interim/final payments. As required by Article 74(5) of the financial regulation, all financial operations are subject to controls before payment, under all management modes.

Examples of such preventive measures are the recovery of unused pre-financing, the (partial) rejection of costs claimed, and the financial corrections made by Member States before declaring the expenditure to the Commission.

The intensity, in terms of frequency and/or depth, of these controls depends on the risks and costs involved. Consequently, for low-risk transactions *ex ante* controls usually take the form of desk reviews rather than on-site controls at the premises of the beneficiary. Indeed, for such transactions, on-site controls would entail a prohibitive cost compared to the expected benefit.

In shared management, the possibility of interruptions/suspensions of payments to Member States in the event of serious deficiencies detected by national or EU audits in the management and control systems has a preventive character. In addition, the Commission provides training and guidance to Member State authorities on the eligibility aspects of grants and procurement.

Corrective measures take place after the Commission has made the payment or accepted the expenditure. In line with Article 74(6) of the financial regulation, these result from controls (called *ex post* controls) that are typically performed on-site, on a sample basis, and are either representative or based on a risk assessment. In shared management, the Commission will perform system audits of Member States' controls and/or the work of the audit bodies after a risk analysis. These audits may lead to financial corrections and recoveries of irregular expenditure (2).

For an analysis of the actual financial corrections and recoveries made during the 2019 reporting year itself, see Annex 5, 'Key considerations for the protection of the EU budget'.

Sources and root causes of errors detected by the Commission or by the Member States are also taken into account when preparing future (simplified) legislation and when (re)designing controls in order to further reduce the level of error in the next generation of funding programmes.

Risk at payment

The risk at payment quantifies any errors that remain after preventive controls have been applied and payments have been made (3), but before corrective measures have been applied. These errors are typically detected by Commission departments through audits or surveys. Measurement at this stage allows for the errors to be corrected and for additional preventive measures (e.g. additional guidance for Member States, entrusted entities or beneficiaries) to be taken, if necessary, and to gauge the effectiveness of the (*ex ante*) controls and to adapt them if needed.

Each department estimates its error rate per programme or other segment of payments. Some departments may use different terminology in their annual activity reports: 'adjusted error rates' is used by DG Agriculture and Rural Development and 'residual total error rates' is used by DG Regional and Urban Policy, DG Employment, Social Affairs and Inclusion and DG Maritime Affairs and Fisheries. Nevertheless, the departments use a consistent methodology to assess the risk of error in their financial operations based on the institutional framework in place. This is typically done through audits of sampled financial transactions, taking place after the payments, taking into account and assessing the results of audits carried out by programme authorities in the first instance under shared management. These reveal any errors that may have remained after the *ex ante* controls had been applied and make it possible to estimate those parts of expenditure or revenue likely to be in breach of

(2) NB: Such corrections are not sanctions and do not include the penalties and fines.
(3) Or equivalent, such as after the expenditure is accepted (i.e. registered in the Commission's accounting system) or after the pre-financing is cleared.

applicable regulatory and contractual provisions before any correction has taken place. This corresponds to the risk at payment for an individual programme or segment, as a percentage.

All types of error, either formal or material, are duly considered and may lead to further enhancements of the control systems in place. Furthermore, in terms of consequences for the EU budget, the Commission calculates the actual financial impact of the errors. This is not necessarily equal to the total value of the EU funding involved: for example it may only be equal to the amount of overpayment where a grant beneficiary has declared an amount above the reimbursement ceiling, to a pro rata amount of the EU funding where the EU only co-funds a grant, or even zero in the case of merely formal errors that have no financial impact. A special case of the latter is where formal errors occur in procurement procedures that do not necessarily preclude the possibility that the best offer was selected, that the output has been delivered in accordance with the contract and that the payments have been regular ([4]).

On the other hand, two departments (DG International Cooperation and Development and DG Neighbourhood and Enlargement Negotiations) carry out specific studies to determine their error rates, including all corrections until the end of the programmes. This is called the 'residual error rate' and corresponds in this case to a risk at closure. The departments obtain the error rate at payment by adding the estimated future corrections to the estimated risk at closure.

The risk at payment value is obtained by multiplying the relevant expenditure per programme or segment by the corresponding error rate.

For low-risk expenditure, where there are indications that the error rate might be close to zero (e.g. administrative expenditure, operating subsidies for agencies), it is nevertheless recommended to use an error rate of 0.5% as a conservative estimate.

The results per programme or segment are aggregated to provide, at the level of the department, the policy area and the Commission, the overall risk at payment value, which is the sum of all the amounts of risk at payment, and its percentage, which is the overall weighted average of the risk at payment as a percentage.

Estimated future corrections

Once an error is detected, it will subsequently be corrected – either via recovery or by being offset against future payments. However, as both detection and remedy may not be immediate, corrections will often not be made in the same financial year as the payment. Nevertheless, the multiannual control systems and corrective mechanisms ensure that any necessary corrections are made within the relevant programme's life cycle.

Because the majority of the programmes and control strategies are multiannual, the risk at payment determined in the first instance may therefore provide an incomplete picture, as errors can still be corrected over the course of a number of years after the payments have taken place, until the closure of the programme. In addition, corrections resulting from *ex post* controls rarely take place within the same financial year as the payment.

Therefore, in a second stage, departments estimate the percentage of future corrections they could still apply. These are the conservative and forward-looking estimates of the corrections that they will implement as a result of (*ex post*) controls in subsequent years.

The estimates of future corrections described here must not be confused with the actual financial corrections and recoveries made during 2019 (presented in Annex 5). Firstly, the scope of the actuals

([4]) See the guidelines for determining financial corrections to be made to expenditure financed by the Union for non-compliance with the applicable rules on public procurement, C(2019) 3452 final, 14.5.2019.

is broader as they include both preventive and corrective measures to protect the EU budget, not just *ex post* corrections. Secondly, the timing is different as the actuals relate to expenditure from previous years (during which errors may have been higher) as opposed to the estimated future corrections, which are calculated to relate only to 2019 expenditure.

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

To some extent, this estimate is based on the 7-year historical average of recoveries and financial corrections. However, where the departments are of the opinion that this is not the best available estimate of their *ex post* corrective capacity for their current activities, they adjust or replace their historical average. Any *ex ante* elements (e.g. recovery of unused pre-financing), one-off events, (partially) cancelled or waived recovery orders or 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 only *ex ante* control systems) may be taken out in order to arrive at the best and most conservative estimate of future corrections to be applied for the expenditure of the current programmes.

In 2019, most departments adjusted or replaced their historical average of corrections in order to arrive at their best conservative estimate of the future corrections to be applied to their relevant expenditure for the reporting year.

The types of adjustments made include reducing the 7-year period (e.g. for DG Agriculture and Rural Development, DG Maritime Affairs and Fisheries, DG International Cooperation and Development and DG Neighbourhood and Enlargement Negotiations), using an alternative estimation basis (e.g. for DG Agriculture and Rural Development, DG Maritime Affairs and Fisheries, DG Regional and Urban Policy and DG Employment, Social Affairs and Inclusion (5), plus the research group of departments), and assuming that future *ex post* corrections will be zero (e.g. for departments whose control systems consist of predominantly *ex ante* controls).

These future corrections can never be fully equal to the risk at payment. This is due to the fact that some of the errors may be of a formal nature, which, although important to address, does not always result in undue payments and therefore does not always give rise to financial corrections or recovery orders.

Risk at closure

This risk is estimated at programme closure (6), meaning that when all *ex post* controls are completed and corrections are applied, legally no further action may be taken.

The risk is obtained by deducting the estimated future corrections from the risk at payment, as a value and as a percentage. These amounts and percentages represent the most up-to-date estimation of the outcome to be expected by the closure of each programme. The estimation is forward-looking, anticipating the point when all future corrections have been made. The risk at closure is more representative of the multiannual corrective capacity of the Commission and of the real risk to the expenditure.

Similarly to the risk at payment, the results per programme or segment are aggregated to provide, at the level of the department, the policy area and the Commission, the overall risk at closure as a value, which is the sum of all the amounts of risk at closure, and as a percentage, which is the overall weighted average of the risk at closure as a percentage.

(5) These departments use their envisaged corrections identified for the specific operational programmes and accounting year affected.
(6) In the case of the common agricultural policy, the term 'final amount at risk' is used instead, to better reflect the fact that there is no set closure point for the European Agricultural Guarantee Fund measures.

Main features of the Commission and the Court of Auditors approaches

The concepts above have been developed to fit the Commission's management context, but they largely converge with those used by the Court of Auditors in its audit approach, as shown by the following (see also the comparison in the table on the following page).

- The risk at payment is closest ([7]) to the Court of Auditors' 'estimated level of error'. In recent years, the Court of Auditors has recognised that the Commission figures are, in most cases, broadly in line with its own estimates and/or range ([8]).
- As a basis for calculating the amount(s) at risk, 'relevant expenditure' corresponds to the payments made, minus new pre-financing paid (still owned by the Commission) plus pre-financing paid in previous years and cleared (ownership transferred to the beneficiaries) during the financial year. This is fully in line with the Court of Auditors' approach ([9]).
- The 'materiality threshold' set, in most cases, at 2% of the relevant expenditure ([10]), is also in line with the Court of Auditors' methodology ([11]).

In addition, in order to be able to provide bottom-up management assurance, and to identify and address issues in specific areas, the Commission calculates the error rates per programme (or other relevant segment) for the same accounting year as the one assessed by the Court of Auditors. This means that the Commission's information on error rates is more detailed than that of the Court of Auditors. Moreover, the Commission's methodology takes into account the multiannual nature of the spending programmes for the risk at closure, especially the fact that errors not identified at the point of payment for the specific accounting year under assessment can still be detected and corrected in the subsequent year(s).

([7]) European Court of Auditors, 2018 annual report, paragraph 1.35.
([8]) European Court of Auditors, 2017 annual report, paragraphs 1.32, 1.34 and 1.36.
([9]) European Court of Auditors, 2018 annual report, Annex 1.1 (on methodology), paragraph 13.
([10]) The only exceptions are: (a) 1% for revenue (by DG Budget; stricter in view of the very large amounts); and (b) the range of 2-5% for the Horizon 2020 programme (by the research-related departments; see details in Section 2.3.1 of the report).
([11]) European Court of Auditors, 2018 annual report, Annex 1.1 (on methodology), paragraph 21.

	European Commission management perspective	**European Court of Auditors** audit perspective
Roles	• Provide annual management assurance • Identify weaknesses and take action on a multiannual basis • Protect the EU budget	• Provide an audit opinion on the legality and regularity of financial transactions of a specific year
Level of granularity	• Error rate for the EU budget as a whole and individual error rates for each department and policy area under Headings 1 to 5, plus for revenue • Error rates calculated per policy area, programme and/or relevant (sub)segments • Expenditure and revenue of the year (or 2 years for research) with a multiannual perspective	• Error rate for EU budget as a whole and individual error rates for Headings 1a, 1b, 2 and 5, plus for revenue • Expenditure and revenues of the year
Multiannuality	• Two error rates (risk at payment and risk at closure [12]); multiannuality prospectively taken into account for the risk at closure through estimated future corrections for all programmes	• One error rate (most likely error) • Multiannuality retroactively taken into account, only through financial corrections implemented for closed programmes
Materiality threshold	• 2% • Except for revenue (1%) and for Horizon 2020 (between 2% and 5%)	• 2%
More information	• Annex 3 to this report	• Annex 1.1 to the Court of Auditors' annual report

Comparison between perspectives of the Commission and the European Court of Auditors

These approaches can lead to differences between the error rates reported by the Court of Auditors and those reported by the Commission.

This is especially true when the Court of Auditors detects procurement errors and/or the late availability of supporting documents for grants, in a (few) sampled transaction(s): it extrapolates the impact to the whole multiannual financial framework heading or to the whole EU budget, which often amplifies the significance of such errors.

(12) For the spending related to the common agricultural policy, the term 'final amount at risk' is used, as the measures under the European Agricultural Guarantee Fund are not 'closed'.

Given its carefully determined segmentation, the Commission, when detecting such errors, is able to extrapolate them more precisely to the areas where they are most likely to appear. It is thus able to give a more nuanced view of the level of error across the payments made and to identify exactly where the errors occurred and, therefore, what remedial actions are needed.

See some examples per policy area in Section 2.3.1 of the report.

Main data for 2019

Relevant expenditure from the EU budget

The amount of the Commission's 'relevant expenditure' from the **EU budget** is determined to be in line with the Court of Auditors' scope of transactions reviewed ([13]). In this approach, pre-financing and retentions are only taken into account when the final recipient of EU funds has provided evidence of their use and the Commission (or another institution or body managing EU funds) has accepted the final use of the funds (by clearing the pre-financing or releasing the amount retained), because this is where errors of legality or regularity may occur. Therefore, the risks at payment and at closure are determined against this amount.

Other expenditure added to obtain the Commission's consolidated budget

In order to show a complete picture of the funds for which the Commission is responsible, the expenditure made under the **European Development Fund** **has been added to this report**. This is a budget separate from the EU budget, currently co-managed by **five departments**. In Tables B and C, the corresponding European Development Fund expenditure is included in the policy areas and the departments concerned (still mainly DG International Cooperation and Development, plus DG European Civil Protection and Humanitarian Aid Operations, DG Education, Youth, Sport and Culture, the Education, Audiovisual and Culture Executive Agency, and the Joint Research Centre).

These tables also show the expenditure related to the four **EU Trust Funds**: the EU Trust Fund for the Central African Republic, the EU Regional Trust Fund in Response to the Syrian Crisis, the EU Emergency Trust Fund for Africa and the EU Trust Fund for Colombia (see also Annex 11). In Table B, this expenditure is included in the external relations policy area. In Table C, it is included in DG International Cooperation and Development, DG Neighbourhood and Enlargement Negotiations and DG European Civil Protection and Humanitarian Aid Operations. These **three departments** ensure the transparent and complete coverage of the relevant trust fund(s) in their annual activity reports, based on the reports from the trust fund managers. They make a distinction between their accountability for the 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 from the trust funds, i.e. with the funds collected from the EU budget, the European Development Fund and other donors, as a trust fund manager, on the other hand.

The following tables show:

- the amount of relevant expenditure for the whole Commission (see Table A) – this is the basis against which the risk at payment and at closure are determined to be in line with the Court of Auditor's approach;
- a consolidated overview of the Commission's risk at payment/closure per policy area (see Table B) and per department (see Table C).

([13]) European Court of Auditors, 2018 annual report, Annex 1.1 (on methodology), paragraph 13.

2019 (provisional) annual accounts	Payments made (a)	– New pre-financing (b)	+ Retentions made (c)	+ Cleared pre-financing (d)	– Retentions released (e)	= Relevant expenditure (f) = (a) – (b) + (c) + (d) – (e)
EU budget	154 719	– 32 748	4 673	22 196	– 4 713	144 127
Contributions from the EU budget to the EU Trust Funds	*– 395*					*– 395*
European Development Fund	3 847	– 2 050		2 000		3 797
Contributions from the European Development Fund to the EU Trust Funds	*– 600*					*– 600*
EU Trust Funds	1 284	– 1 107		285		462
Commission total	**158 856**	**– 35 905**	**4 673**	**24 481**	**– 4 713**	**147 392**

Table A: Amount of 'relevant expenditure' for the whole Commission (million EUR)
Source: Commission annual activity reports.

Specifications of columns (a) to (f)

(a) All the payments made in 2019, including pre-financing, as registered in the Commission's accounting system.

(b) Pre-financing paid by the Commission in 2019 (in line with Note 2.5.1, on 'Pre-financing', to the Commission's (provisional) annual accounts).

(c) In cohesion, a 10% retention is made for all interim payments to the Member States. This is released once the Member States' accounts have been accepted by the Commission.

(d) Pre-financings that have been cleared during the financial year. This means that the Commission has accepted the final use of the funds by clearing the advance.

(e) Amount of the retention released in 2019 (see (b)) and, also in cohesion, the deductions of expenditure made by the Member States.

Relevant expenditure = (a) – (b) + (c) + (d) – (e).

Tables B and C: Risk at payment/closure, per policy area and per department

Compared to the previous annual management and performance reports (in which the grouping of Commission departments was kept stable over the years), this year three of the six policy areas have been adjusted slightly as follows, in order to bring them closer to the main ones used by the European Court of Auditors in its annual report:

- in 'natural resources', the payments made by DG Maritime Affairs and Fisheries, DG Environment and DG Climate Action have been added to those made by DG Agriculture and Rural Development ([14]);
- in 'economic, social and territorial cohesion', only the payments made by DG Regional and Urban Policy and DG Employment, Social Affairs and Inclusion (in the sense of budget Heading 1b) have been retained;
- in 'other internal policies', the payments made by DG Migration and Home Affairs have been added.

Nevertheless, given the very large budget shares of DG Agriculture and Rural Development, DG Regional and Urban Policy and DG Employment, Social Affairs and Inclusion compared to other departments, these modifications do not significantly change the magnitude of the groups' data or the conclusions for these policy areas for the previous and current year(s).

These policy areas as presented in Section 2 of this report differ slightly from the headings presented in Section 1. The split of the budget into the headings does not fully correspond to the budget as allocated to the 50 managing Commission departments and thus as accounted for in their management reporting. For the purposes of this report (a summary of the annual activity reports), each department is allocated in its entirety into (only) one of the six policy areas.

Specifications of the additional columns in Tables B and C

(a) to (f) Same as in Table A.

(g) **Estimated risk at payment** (as a value and as a percentage).

The two cohesion-related departments present a range of values, as follows:

- the lower value corresponds to the departments' risk at payment for the 2019 relevant expenditure based on their confirmed residual total error rate for the accounting year 2017/2018: 2.2% for cohesion as a whole, split between 2.4% for DG Regional and Urban Policy and 1.6% for DG Employment, Social Affairs and Inclusion;
- the upper value corresponds to a worst-case scenario (i.e. maximum risk), taking into account possible additional risks in parts of expenditure not reviewed under EU audits that indicate the possibility for higher error rates for some programmes: 3.1% for cohesion as a whole, split between 3.5% for DG Regional and Urban Policy and 2.2% for DG Employment, Social Affairs and Inclusion.

Beyond the cohesion departments, a few other departments also use a range of 'minimum-maximum' rates/amounts for their estimated risk at payment, but with rather minor variances between the two values.

(h) **Estimated future corrections** (as a value and a percentage).

(i) **Estimated risk at closure** (as a value and a percentage).

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

([14]) The area of agriculture comprises the European Agricultural Guarantee Fund market measures and European Agricultural Guarantee Fund direct aid payments (common agricultural policy pillar 1), and the European Agricultural Fund for Rural Development expenditure (common agricultural policy pillar 2). The agriculture expenditure (98%) still represents the bulk of the expenditure under this policy area.

Policy area	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by cohesion-related departments *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by cohesion-related departments *(e)*	Total relevant expenditure *(f) = (a) – (b) + (c) + (d) – (e)*	Estimated risk at payment *(g) = Average error rate applied to (f)*		Estimated future corrections *(h) = Adjusted rate of average recoveries and corrections applied to (f)*		Estimated risk at closure *(i) = (g) – (h)*	
							Lowest value	Highest value	Lowest value	Highest value	Lowest value	Highest value
Natural resources	59 205.8	295.6	65.3	365.1	70.4	59 270.1	1 100.9	1 100.9	1 026.9	1 026.9	73.9	74.0
							1.9%	*1.9%*	*1.7%*	*1.7%*	*0.1%*	*0.1%*
Economic, social and territorial cohesion	53 455.3	10 154.4	4 607.7	4 107.6	4 642.8	47 373.4	1 055.4	1 492.0	527.8	964.3	527.7	527.7
							2.2%	*3.1%*	*1.1%*	*2.0%*	*1.1%*	*1.1%*
External relations	13 623.8	9 378.3	0.0	7 555.5	0.0	11 801.0	119.5	119.5	31.7	31.7	87.8	87.8
							1.0%	*1.0%*	*0.3%*	*0.3%*	*0.7%*	*0.7%*
Research, industry, space, energy and transport	16 875.8	10 051.9	0.0	8 212.9	0.0	15 036.8	292.6	293.2	71.4	71.4	221.3	221.9
							1.9%	*2.0%*	*0.5%*	*0.5%*	*1.5%*	*1.5%*
Other internal policies	8 503.2	5 887.7	0.0	4 151.2	0.0	6 766.7	68.2	70.2	14.4	14.4	53.8	55.9
							1.0%	*1.0%*	*0.2%*	*0.2%*	*0.8%*	*0.8%*
Other services and administration	7 191.8	137.1	0.0	89.3	0.0	7 143.9	34.1	36.0	0.5	0.5	33.6	35.5
							0.5%	*0.5%*	*0.0%*	*0.0%*	*0.5%*	*0.5%*
Total 2019	**158 855.6**	**35 905.0**	**4 673.0**	**24 481.5**	**4 713.2**	**147 391.9**	**2 670.7**	**3 111.9**	**1 672.6**	**2 109.2**	**998.1**	**1 002.7**
							1.8%	***2.1%***	***1.1%***	***1.4%***	***0.7%***	***0.7%***
Total 2018	*156 748.5*					*150 252.6*	*1.7%*		*0.9%*		*0.8%*	

Table B: Risk at payment/closure per policy area for the whole Commission (2019, million EUR)
Source: Commission annual activity reports.

Policy area	Department	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by cohesion-related departments *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by cohesion-related departments *(e)*	Total relevant expenditure *(f) = (a) – (b) + (c) + (d) – (e)*	Estimated risk at payment *(g) = Average error rate applied to (f)*		Estimated future corrections *(h) = Adjusted rate of average recoveries and corrections applied to (f)*		Estimated risk at closure *(i) = (g) – (h)*	
								Lowest value	Highest value	Lowest value	Highest value	Lowest value	Highest value
Natural resources	DG Agriculture and Rural Development	58 063.9	32.8	0.0	7.0	0.0	58 038.1	1 096.3	1 096.3	1 026.4	1 026.4	69.9	69.9
	DG Climate Action	31.6	5.3	0.0	5.3	0.0	31.6	0.0	0.1	0.0	0.0	0.0	0.1
	DG Environment	152.1	69.6	0.0	212.1	0.0	294.6	1.8	1.8	0.5	0.5	1.3	1.3
	DG Maritime Affairs and Fisheries	958.2	187.8	65.3	140.6	70.4	905.9	2.8	2.8	0.1	0.1	2.7	2.7
Economic, social and territorial cohesion	DG Employment, Social Affairs and Inclusion	14 707.5	2 673.9	1 261.2	728.5	1 522.4	12 500.8	201.3	280.0	50.0	128.8	151.3	151.3
	DG Regional and Urban Policy	38 747.8	7 480.4	3 346.5	3 379.1	3 120.3	34 872.6	854.2	1 212.0	477.8	835.6	376.4	376.4
External relations	DG International Cooperation and Development	7 254.6	4 637.3	0.0	3 675.4	0.0	6 292.7	69.9	69.9	13.5	13.5	56.5	56.5
	DG European Civil Protection and Humanitarian Aid Operations	2 184.4	1 711.3	0.0	1 542.5	0.0	2 015.6	16.7	16.7	6.9	6.9	9.9	9.9
	Service for Foreign Policy Instruments	729.9	639.0	0.0	541.5	0.0	632.5	8.9	8.9	2.5	2.5	6.3	6.3
	DG Neighbourhood and Enlargement Negotiations	3 437.3	2 385.1	0.0	1 792.2	0.0	2 844.4	23.9	23.9	8.8	8.8	15.1	15.1

Policy area	Department	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by cohesion-related departments *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by cohesion-related departments *(e)*	Total relevant expenditure *(f) = (a) – (b) + (c) + (d) – (e)*	Estimated risk at payment *(g) = Average error rate applied to (f)*		Estimated future corrections *(h) = Adjusted rate of average recoveries and corrections applied to (f)*		Estimated risk at closure *(i) = (g) – (h)*	
								Lowest value	Highest value	Lowest value	Highest value	Lowest value	Highest value
	DG Trade	17.6	5.6	0.0	3.9	0.0	15.9	0.1	0.1	0.0	0.0	0.1	0.1
Research, industry, space, energy and transport	DG Communications Networks, Content and Technology	1 516.5	974.7	0.0	700.3	0.0	1 242.1	38.8	39.4	11.3	11.3	27.5	28.1
	Executive Agency for Small and Medium-sized Enterprises	1 430.8	940.6	0.0	605.0	0.0	1 095.2	30.8	30.8	3.4	3.4	27.3	27.3
	DG Energy	841.7	749.4	0.0	884.5	0.0	976.8	3.0	3.0	2.1	2.1	0.9	0.9
	European Research Council Executive Agency	2 012.5	818.4	0.0	415.6	0.0	1 609.7	19.3	19.3	6.8	6.8	12.6	12.6
	DG Internal Market, Industry, Entrepreneurship and SMEs	2 154.0	1 900.6	0.0	1 887.8	0.0	2 141.2	12.8	12.8	1.8	1.8	11.0	11.0
	Innovation and Networks Executive Agency	3 177.0	1 866.3	0.0	1 635.8	0.0	2 946.5	57.3	57.3	11.0	11.0	46.3	46.3
	DG Mobility and Transport	515.2	192.0	0.0	203.1	0.0	526.3	8.3	8.3	3.7	3.7	4.5	4.5
	Research Executive Agency	2 140.7	1 589.1	0.0	1 064.7	0.0	1 616.2	38.2	38.2	7.4	7.4	30.7	30.7

Policy area	Department	Total payments (a)	New pre-financing paid (b)	Retentions made by cohesion-related departments (c)	Pre-financing cleared (d)	Retentions (partially) released by cohesion-related departments (e)	Total relevant expenditure (f) = (a) – (b) + (c) + (d) – (e)	Estimated risk at payment (g) = Average error rate applied to (f)		Estimated future corrections (h) = Adjusted rate of average recoveries and corrections applied to (f)		Estimated risk at closure (i) = (g) – (h)	
								Lowest value	Highest value	Lowest value	Highest value	Lowest value	Highest value
	DG Research and Innovation	3 087.4	1 020.8	0.0	816.1	0.0	2 882.7	84.1	84.1	23.8	23.8	60.4	60.4
Other internal policies	Consumers, Health, Agriculture and Food Executive Agency	115.2	41.1	0.0	27.1	0.0	101.2	0.7	0.7	0.2	0.2	0.6	0.6
	DG Communication	127.4	12.3	0.0	11.1	0.0	126.3	0.6	0.6	0.0	0.0	0.6	0.6
	DG Education, Youth, Sport and Culture	3 224.6	3 162.1	0.0	2 084.7	0.0	2 147.2	24.9	24.9	0.2	0.2	24.7	24.7
	Education, Audiovisual and Culture Executive Agency	740.7	596.4	0.0	500.9	0.0	645.3	10.3	10.3	2.1	2.1	8.2	8.2
	DG Economic and Financial Affairs	1 408.2	56.9	0.0	3.3	0.0	1 354.5	0.0	0.8	0.0	0.0	0.0	0.8
	DG Migration and Home Affairs	2 154.5	1 662.1	0.0	1 203.2	0.0	1 695.5	26.6	26.6	9.7	9.7	16.9	16.9
	DG Justice and Consumers	180.0	139.8	0.0	131.6	0.0	171.8	2.4	2.4	0.9	0.9	1.4	1.4
	DG Health and Food Safety	435.9	204.2	0.0	179.5	0.0	411.1	2.0	3.3	1.0	1.0	1.0	2.2
	DG Taxation and Customs Union	116.7	12.7	0.0	9.7	0.0	113.7	0.6	0.6	0.2	0.2	0.4	0.4

Policy area	Department	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by cohesion-related departments *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by cohesion-related departments *(e)*	Total relevant expenditure *(f) = (a) – (b) + (c) + (d) – (e)*	Estimated risk at payment *(g) = Average error rate applied to (f)*		Estimated future corrections *(h) = Adjusted rate of average recoveries and corrections applied to (f)*		Estimated risk at closure *(i) = (g) – (h)*	
								Lowest value	Highest value	Lowest value	Highest value	Lowest value	Highest value
Other services and administra-tion	DG Budget	22.6	0.0	0.0	0.0	0.0	22.6	0.1	0.1	0.0	0.0	0.1	0.1
	DG Competition	13.7	0.4	0.0	0.3	0.0	13.7	0.1	0.1	0.0	0.0	0.1	0.1
	DG Translation	16.9	0.0	0.0	0.0	0.0	16.9	0.1	0.1	0.1	0.1	0.0	0.0
	DG Informatics	327.1	0.0	0.0	0.0	0.0	327.1	1.6	1.6	0.0	0.0	1.6	1.6
	European Political Strategy Centre	0.3	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
	European Personnel Selection Office / European School of Administration	9.3	0.0	0.0	0.0	0.0	9.3	0.0	0.0	0.0	0.0	0.0	0.0
	Eurostat	91.6	25.3	0.0	5.0	0.0	71.3	0.3	0.3	0.0	0.0	0.3	0.3
	DG Financial Stability, Financial Services and Capital Markets Union	58.4	48.3	0.0	41.4	0.0	51.6	0.3	0.3	0.1	0.1	0.2	0.2
	DG Human Resources and Security	298.6	0.0	0.0	0.0	0.0	298.6	0.0	1.5	0.0	0.0	0.0	1.5
	Internal Audit Service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Joint Research Centre	237.4	0.0	0.0	0.0	0.0	237.4	1.2	1.2	0.1	0.1	1.1	1.1

Policy area	Department	Total payments (a)	New pre-financing paid (b)	Retentions made by cohesion-related departments (c)	Pre-financing cleared (d)	Retentions (partially) released by cohesion-related departments (e)	Total relevant expenditure (f) = (a) – (b) + (c) + (d) – (e)	Estimated risk at payment (g) = *Average error rate applied to (f)*		Estimated future corrections (h) = *Adjusted rate of average recoveries and corrections applied to (f)*		Estimated risk at closure (i) = (g) – (h)	
								Lowest value	Highest value	Lowest value	Highest value	Lowest value	Highest value
	Office for Infrastructure and Logistics in Brussels	383.1	0.0	0.0	0.0	0.0	383.1	1.5	1.9	0.1	0.1	1.4	1.8
	Office for Infrastructure and Logistics in Luxembourg	105.9	0.0	0.0	0.0	0.0	105.9	0.5	0.5	0.0	0.0	0.5	0.5
	European Anti-Fraud Office	33.0	8.7	0.0	3.4	0.0	27.7	0.1	0.1	0.0	0.0	0.1	0.1
	Publications Office	43.1	0.0	0.0	0.0	0.0	43.1	0.1	0.1	0.0	0.0	0.1	0.1
	Office for the Administration and Payment of Individual Entitlements	5 393.0	0.0	0.0	0.0	0.0	5 393.0	27.0	27.0	0.0	0.0	27.0	27.0
	DG Interpretation	60.7	0.4	0.0	0.5	0.0	60.8	0.3	0.3	0.0	0.0	0.3	0.3
	Secretariat-General	9.8	2.6	0.0	2.5	0.0	9.7	0.1	0.1	0.0	0.0	0.1	0.1
	Legal Service	4.0	0.0	0.0	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
	Structural Reform Support Service	83.2	51.3	0.0	36.1	0.0	67.9	0.8	0.8	0.1	0.1	0.8	0.8
TOTAL		**158 855.6**	**35 905.0**	**4 673.0**	**24 481.5**	**4 713.2**	**147 391.9**	**2 670.7**	**3 111.9**	**1 672.6**	**2 109.2**	**998.1**	**1 002.7**

Table C: Risk at payment/closure per department for the whole Commission (2019, million EUR)
Source: Commission annual activity reports.

Annex 4: Reservations reported in the 2019 annual activity reports

Concept

Within the context of their overall assurance-building process, authorising officers by delegation perform a detailed analysis for each segment of their portfolio. At the end of each financial year, they determine the residual error rate ([15]) for each programme. This residual error rate is based on the ('gross') detected error rate, but takes into account any corrections made so far. Where this residual error rate is above the materiality threshold, the authorising officers duly qualify their declarations of assurance with a reservation. This is in line with the European Court of Auditors' approach ([16]).

Reservations are keystones in the accountability building. They are an indicator of the Commission's transparency concerning any challenges or weaknesses encountered and their potential financial impact. That reservations lead to the qualification of a declaration of assurance in an annual activity report is part of sound financial management. They are also a tool to address weaknesses that remain. Although most reservations are prompted by findings regarding management and control of past payments, they also have a positive preventive effect, with action plans being developed to mitigate future risks and to strengthen control systems.

Furthermore, the number of reservations is not an indicator of the quality of the financial management. This is partly because there is no direct link between the number of reservations and their financial impact, and also because some weaknesses trigger multiple reservations. For example, multiple reservations may arise from programme segments implemented by more than one department, or because the weakness resulting in a 'new' reservation for the current programming period is a continuation of one from a previous programming period. However, this reporting method provides more precision and transparency.

2019 reservations

For the 2019 reporting year, all 50 authorising officers by delegation ([17]) declared they had reasonable assurance ([18]). Of the 50 authorising officers by delegation, 39 issued unqualified declarations of assurance, while 11 issued qualified declarations with a total of 18 reservations for the programme or specific area in their portfolio affected by a weakness (see chart below). These reservations affect revenue as well as expenditure. In all cases, the authorising officers by delegation concerned adopted action plans to address the underlying weaknesses and mitigate the resulting risks. The situation regarding reservations can be summarised as follows.

- Of the 18 reservations for 2019, 17 are recurrent ([19]) and only one is new (by DG Maritime Affairs and Fisheries, for the European Maritime and Fisheries Fund, in a single Member

([15]) At the time of reporting, some of the corrective measures have already been implemented, while others will be in the next few year(s). Therefore, the residual error rate is based on the detected error rate but takes into account those corrections that have already been made up to the end of the reporting year. It is an 'intermediate' type of error rate between estimated risk at payment and estimated risk at closure, up to the time of reporting in the management cycle.
([16]) European Court of Auditors, 2018 annual report, Annex 1.1 (on methodology), paragraph 21.
([17]) 'The authorising officer shall be responsible in the Union institution concerned for implementing revenue and expenditure in accordance with the principle of sound financial management, including through ensuring reporting on performance, and for ensuring compliance with the requirements of legality and regularity and equal treatment of recipients.' (Financial regulation, Article 74(1)).
([18]) https://ec.europa.eu/info/publications/annual-activity-reports_en
([19]) Recurring from previous year(s), mainly because the root causes of the material level of error can be partially mitigated, but not fully eradicated, under the current programmes' frameworks.

State). For all reservations, the impact on the 2019 expenditure has been (re)calculated, but eight reservations are entirely or partially non-quantified ([20]).

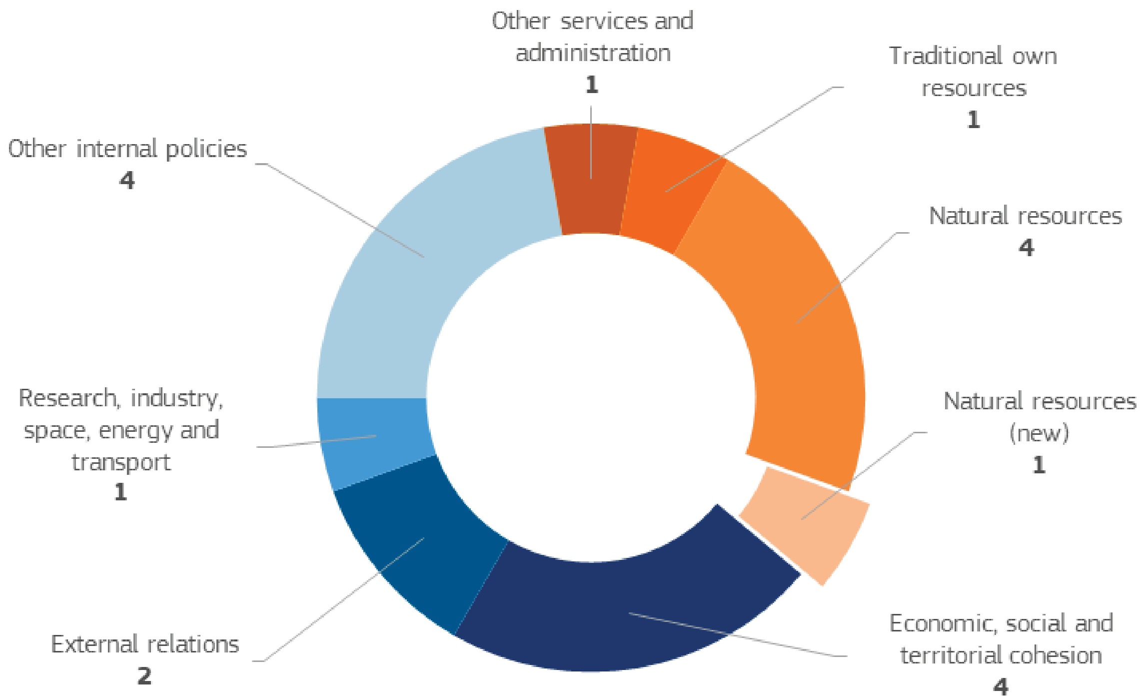
- Six reservations were lifted because the underlying weaknesses had been resolved. These concerned previous issues – with three entrusted entities, with a Member State, with an executive agency's control system and with a programme's high error rate – which have been duly addressed.
- For 17 other previous reservations the 'de minimis' rule was applied, whereby reservations are no longer considered meaningful under certain conditions (see box below). These were mostly related to 2007-2013 'legacy' programmes in the fields of research, competitiveness, education and culture, and external relations ([21]).

Introduction of a 'de minimis' rule for reservations as from 2019

Further to the decision by the Corporate Management Board on 30 April 2019, a 'de minimis' rule for reservations has been introduced ([22]).

Reservations related to cases with a residual error rate above the 2% materiality threshold are deemed not substantial for segments that represent less than 5% of the department's total payments and have a financial impact of less than EUR 5 million. Therefore, quantified reservations which do not exceed both thresholds are not needed ([23]). This applies especially but not exclusively to the legacy programmes.

Nevertheless, full transparency of the management reporting remains ensured, and even this significant reduction in the number of reservations from 2018 to 2019 only has a very limited financial impact. Indeed, as this mostly concerned legacy programmes, which are being phased out, the total financial impact of the 17 reservations lifted by applying this rule would have only been EUR 15.2 million, or a mere 1.4%, of the total financial impact of all 2019 reservations.



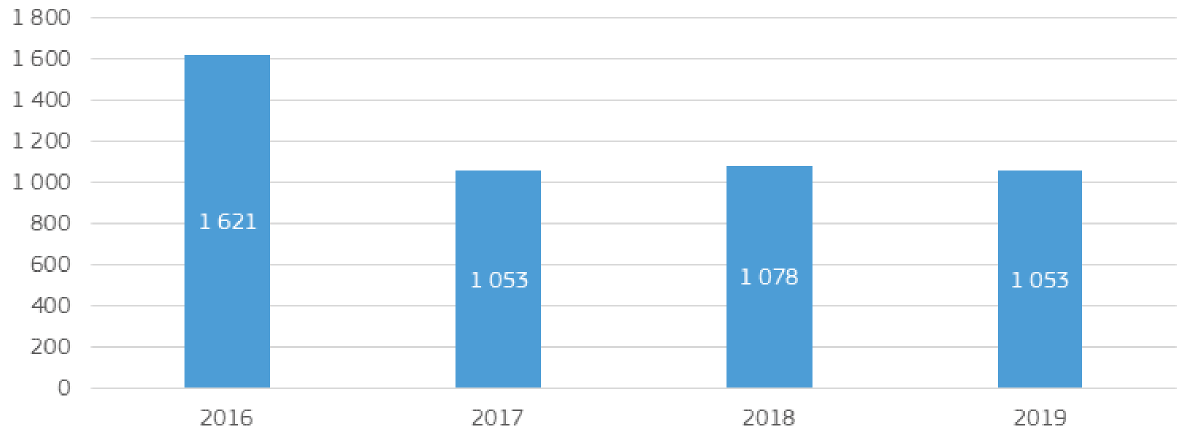
Number of reservations by policy area (2019)

([20]) Reservations are non-quantified when the financial impact is zero, when it is not possible to assess the financial impact accurately, or when the effect is only reputational.
([21]) In addition to those previous reservations lifted, one potential new reservation was also avoided by applying the de minimis rule: for the Consumers, Health, Agriculture and Food Executive Agency's legacy 'health' programme (financial impact of EUR 0.1 million).
([22]) Announced in the 2018 annual management and performance report (p. 173).
([23]) Without prejudice to maintaining a reservation for reputational reasons, if applicable.

Source: European Commission annual activity reports.

Financial impact of reservations

In cases where the residual error rate is above the materiality threshold, the financial impact resulting from a reservation is obtained by multiplying the relevant programme or segment's expenditure by the residual error rate. The total amount for 2019 (EUR 1 053 million; 2% lower than in 2018) is comparable to the level of the previous 2 years. The composition and evolution of the financial impact over the years is presented in the table and chart below.



Policy area	Total payments in 2019	Financial impact of the reservations
Natural resources	59 206	655
Economic, social and territorial cohesion	53 455	363
External relations	13 624	16
Research, industry, space, energy and transport	16 876	8
Other internal policies	8 503	12
Other services and administration	7 192	0
Total	**158 856**	**1 053**
Impact out of current programmes out of total		1 045
Impact of legacy programmes out of total		8
Policy area	**Total own resources in 2019**	**Financial impact of the reservations**
Own resources	146 570	—

Financial impact ('exposure') from the 2016, 2017, 2018 and 2019 quantified reservations (million EUR)
Source: European Commission annual activity reports.

Full list(s) of reservations

The tables below present the 18 reservations for 2019.

- For the 13 reservations related to the current programmes for 2014-2020, see Table D.
- For the 4 reservations related to the legacy programmes for 2007-2013, see Table E.
- For the 1 reservation related to the revenue side of the EU budget, see Table F.

In addition, for the 23 reservations that were lifted in 2019 see:

- For the 6 2018 reservations lifted in 2019 because the underlying issues had been resolved, see Table G.
- For the 17 2018 reservations lifted in 2019 by application of the de minimis rule, see Table H.

Source: Commission annual activity reports.

Policy area	Description of reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
Natural resources	European Agricultural Guarantee Fund market measures (7 elements of reservation in 6 Member States)	DG Agriculture and Rural Development	Quantified	47.6
	European Agricultural Guarantee Fund direct payments (17 paying agencies in 9 Member States)	DG Agriculture and Rural Development	Quantified	307.6
	European Agricultural Fund for Rural Development expenditure for rural development measures (21 paying agencies in 18 Member States)	DG Agriculture and Rural Development	Quantified	288.4
	2014-2020 European Maritime and Fisheries Fund (1 programme in 1 Member State)	DG Maritime Affairs and Fisheries	*Reservation issued in 2019* Quantified	11.3
	EU emissions trading system registry – security weakness	DG Climate Action	Non-quantified	—
Economic, social and territorial cohesion	2014-2020 European Regional Development Fund / Cohesion Fund (59 programmes in 13 Member States and 8 European territorial cooperation (*) programmes)	DG Regional and Urban Policy	Quantified; non-quantified for 1 European territorial cooperation programme	228.7
	2014-2020 European Social Fund, Youth Employment Initiative, Fund for European Aid to the Most Deprived (30 programmes in 9 Member States)	DG Employment, Social Affairs and Inclusion	Quantified	134.3
External relations	Direct management grants	DG Neighbourhood and Enlargement Negotiations	Quantified	15.7
	Projects in Libya and Syria for which no assurance building is possible (no staff access to projects or auditor access to documents)	DG Neighbourhood and Enlargement Negotiations	Non-quantified	—

Policy area	Description of reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
Research, industry, space, energy and transport	(*None*)			
Other internal policies	Non-research grant programmes	DG Justice and Consumers	Quantified	1.7
	Non-research grant programmes	DG Migration and Home Affairs	Quantified	7.2
	2014-2020 management and control systems for the Asylum, Migration and Integration Fund (in 2 Member States) and the Internal Security Fund (in 6 Member States)	DG Migration and Home Affairs	Quantified, with the exception of one Member State for which the reservation is not quantifiable	2.5
Other services and administration	Technical support funds – direct management grants to non-pillar-assessed beneficiaries	DG Structural Reform Support (formerly Structural Reform Support Service)	Quantified	0.1
Total				**1 045.1**

Table D: 2019 reservations related to the current programmes for 2014-2020

(*) The European territorial cooperation series of programmes, funded by the European Regional Development Fund, is one of the key instruments of the EU supporting cooperation across borders through project funding.

Policy area	Description of reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
Natural resources	(*None*)			
Economic, social and territorial cohesion	2007-2013 European Regional Development Fund / Cohesion Fund / Instrument for Pre-Accession Assistance (9 programmes in 6 Member States, plus 1 Instrument for Pre-Accession Assistance / cross-border cooperation programme)	DG Regional and Urban Policy	Non-quantified	—
	2007-2013 European Social Fund (6 programmes in 4 Member States)	DG Employment, Social Affairs and Inclusion	Non-quantified	—
External relations	(*None*)			
Research, industry, space, energy and transport	Seventh framework programme for research and technological development	DG Research and Innovation	Quantified	8.2
Other internal policies	2007-2013 general programme 'solidarity and management of migration flows', including: • European Integration Fund (in 3 Member States) • European Refugee Fund (in 4 Member States) • European Return Fund (in 3 Member States) • External Borders Fund (in 6 Member States)	DG Migration and Home Affairs	Quantified for European Refugee Fund Belgium; non-quantified for the others	0.2
Other services and administration	(*None*)			
Total				**8.3**

Table E: 2019 reservations related to the legacy programmes for 2007-2013

Policy area	Description of reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
Revenue	Inaccuracy of the traditional own resources amounts transferred to the EU budget	DG Budget	Non-quantified	—

Table F: 2019 reservation related to the revenue side of the EU budget

Policy area	Description of *2018* reservation	Department	Impact on legality and regularity	Financial impact (*2018*, million EUR)
Natural resources	2007-2013 European Fisheries Fund (1 programme in 1 Member State)	DG Maritime Affairs and Fisheries	Non-quantified	—
Economic, social and territorial cohesion	(*None*)			
External relations	Programmes managed by the African Union Commission involving a significant level of procurement	DG International Cooperation and Development	Quantified	5.0
Research, industry, space, energy and transport	Competitiveness of small and medium-sized enterprises programme grants	Executive Agency for Small and Medium-sized Enterprises	Quantified	1.6
Other internal policies	Internal control system partially functioning	Education, Audiovisual and Culture Executive Agency	Non-quantified	—
	European Asylum Support Office – management and control system weaknesses	DG Migration and Home Affairs	Non-quantified	—
	European Border and Coast Guard Agency – procurement and control system weaknesses	DG Migration and Home Affairs	Non-quantified	—
Other services and administration	(*None*)			
Total				***6.6***

Table G: 2018 reservations that were lifted during 2019 because the underlying issues had been resolved

Policy area		Description of *2018* reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
Natural resources		(*None*)			
Economic, social and territorial cohesion		(*None*)			
External relations		Direct management grants – cross-delegation *(and indirect management grants)*	DG International Cooperation and Development	Quantified	3.2
		Instrument for Cooperation with Industrialised Countries	Service for Foreign Policy Instruments	Quantified	3.9
Research, industry, space, energy and transport		Research Fund for Coal and Steel	DG Research and Innovation	Quantified	1.6
	Seventh framework programme for research and technological development	Seventh framework programme – including funds paid to Active and Assisted Living Association and Electronic Components and Systems for European Leadership Joint Undertaking	DG Communications Networks, Content and Technology	Quantified	0.7
		Seventh framework programme – including its funds paid to European Global Navigation Satellite Systems Agency and cross-delegation	DG Internal Market, Industry, Entrepreneurship and SMEs	Quantified	0.0
		Seventh framework programme	DG Migration and Home Affairs	Quantified	0.5
		Seventh framework programme	DG Energy	Quantified	0.7
		Seventh framework programme	DG Mobility and Transport	Quantified	0.3
		Seventh framework programme – space and security	Research Executive Agency	Quantified	1.3
		Seventh framework programme – small and medium-sized enterprises	Research Executive Agency	Quantified	0.7
	Competitiveness and innovation programme	Competitiveness and innovation programme	DG Internal Market, Industry, Entrepreneurship and SMEs	Quantified	0.2

Policy area		Description of *2018* reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
		Competitiveness and innovation programme – information and communications technology policy support programme	DG Communications Networks, Content and Technology	Quantified	0.0
		Competitiveness and innovation programme – intelligent energy Europe	Executive Agency for Small and Medium-sized Enterprises	Quantified	0.0
		Competitiveness and innovation programme – eco-innovation	Executive Agency for Small and Medium-sized Enterprises	Quantified	1.4
Other internal policies	**Education, Youth, Sport and Culture**	2007-2013 lifelong learning programme	Education, Audiovisual and Culture Executive Agency	Quantified	0.0
		2007-2013 culture programme	Education, Audiovisual and Culture Executive Agency	Quantified	0.5
		2007-2013 Tempus programme	Education, Audiovisual and Culture Executive Agency	Quantified	0.2
Other services and administration		(*None*)			
Total					**15.2**

Table H: 2018 reservations that were lifted during 2019 by application of the de minimis rule ([24])

([24]) In addition to the previous reservations lifted, one potential new reservation was also avoided by applying the de minimis rule: for the Consumers, Health, Agriculture and Food Executive Agency's legacy 'health' programme (financial impact of EUR 0.1 million).

Annex 5: The multiannual control cycle protecting the EU budget

This annex describes the functioning of the preventive and corrective mechanisms provided for in EU legislation and the actions taken by the Commission services to protect the EU budget from illegal or irregular expenditure. It also provides a best estimate of the effects these mechanisms generate and indicates how Member States are involved and impacted. The following information focuses primarily on the results of the Commission's supervisory tasks, but also provides an insight into the results of Member States' controls.

When implementing the EU budget it is especially important to prevent – or detect and subsequently correct – system weaknesses leading to errors, irregularities or fraud. The Commission and – for programmes under shared management – Member State authorities take preventive and corrective measures (i.e. financial corrections and recoveries) as provided for in EU legislation to protect the EU budget from illegal or irregular expenditure – see also *Annex 3.*

The primary objective of financial corrections and recoveries is to ensure that only expenditure in accordance with the legal framework is financed by the EU budget.

1. Key considerations for the protection of the EU budget

One important objective of the Commission is to ensure cost-effectiveness when designing and implementing management and control systems that prevent or identify and correct errors. Control strategies should therefore maintain higher, more frequent scrutiny in riskier areas and ensure cost-effectiveness.

The **confirmed** financial corrections and recoveries for **2019** amount to **EUR 1 942 million**. During **2013 to 2019** the **average amount of confirmed financial corrections and recoveries** was **EUR 3 102 million**, which **represents 2.1% of the average amount of payments** made from the EU budget. In addition, for **cohesion policy funds**, for 2014 to 2020, the Member States have themselves applied corrections totalling **EUR 670 million**, in line with the regulatory provisions, which increase programme managing authorities' accountability and significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure.

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

Under shared management, the Member States are primarily responsible for identifying any amounts unduly paid and recovering them from beneficiaries. 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 or European Anti-Fraud Office investigations, or as a result of audits by the European Court of Auditors.

For the **Cohesion Fund** and the **European Agricultural Fund for Rural Development**, the vast majority of the financial corrections confirmed/implemented in 2019 relate to the 2007-2013 programme period. The corrections confirmed or implemented during the year relate to errors and irregularities detected in 2019 or in previous years. Overall, 98.6% of the total financial corrections confirmed had been implemented by the end of 2019.

1.1. Agriculture and rural development

For the **European Agricultural Guarantee Fund**, the average correction rate for Commission financial corrections under conformity clearance of accounts from 1999 to the end of 2019 was 1.7% of expenditure (all of which are net financial corrections).

Net corrections leading to a reimbursement to the EU budget are characteristic of agriculture and rural development (the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development). In 2019 the main corrections related notably to specific deficiencies in the Integrated Administration and Control System in some Member States, insufficient checks on eligibility criteria in some rural development measures, issues detected in the checks to establish access to the aid claimed and in the on-site checks in the fruit and vegetable sector and deficiencies in cross-compliance controls and in the application of sanctions.

The Commission applies a number of available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and incentivising Member States to reduce irregular payments. In 2019, the Commission issued common agricultural policy-related decisions for interruptions of EUR 4 million, for the reduction of payments of EUR 68 million, and for suspensions of EUR 0.33 million. Reductions include amounts for late payments or ceiling overruns by Member States.

As regards the **European Agricultural Guarantee Fund**, the Member States where, for example, the Integrated Administration and Control System, including the Land Parcel Identification System, does not reach the necessary quality level are required to put in place appropriate action plans; they risk suspension of reimbursements should the action plan not be properly implemented.

For the **European Agricultural Fund for Rural Development**, the Commission interrupts payments in the event of problems and also has recourse to suspensions and reductions. Similarly as for the European Agricultural Guarantee Fund, Member States are asked to put in place action plans where serious deficiencies are detected in the management and control system; they face the same risk of suspensions as for the European Agricultural Guarantee Fund should they not follow through properly.

In general, the Commission is implementing an ambitious simplification process which has already begun to reduce complexity and the administrative burden and will continue to do so, contributing to further reducing the risk of error.

In addition to the financial corrections, Member States' own reductions before payments to beneficiaries amounted to EUR 542 million at the end of the 2019 financial year.

1.2. Cohesion

As regards the 2007-2013 funds of the **European Regional Development Fund**, the **Cohesion Fund** and the **European Social Fund**, at the end of 2019 the combined rate of financial corrections, based on Commission supervision work only, amounted to 2.1% of the allocations made.

For cohesion policy, net corrections are rather the exception, due to the different legal framework compared to that of agriculture and type of budget management (reinforced preventive mechanism). Where the Commission identifies individual irregularities (including ones of a systemic nature) or serious deficiencies in the Member State management and control systems, it can apply financial corrections (including at a flat rate) with the purpose of restoring a situation where all or part of the expenditure declared for co-financing from the European Regional Development Fund, the Cohesion Fund or the European Social Fund and reimbursed by the Commission is 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 (i.e. loss of EU assistance), in particular at closure. In contrast, a Commission financial correction decision (in case the Member State continued to disagree on the need for a correction) always had a direct, net impact on the Member State: the

Member State had to pay the amount back and its financial allocation was reduced (i.e. the Member State could not spend as much money throughout the programme period). For the European Social Fund, there are still 27 programmes for the 2000-2006 programming period and 17 for the 2007-2013 period with outstanding pending recoveries and administrative and judicial proceedings at Member State level, mainly for Germany and Italy. The full closure is in progress.

The European Court of Auditors assessed the effectiveness of the preventive and corrective measures taken by the Commission in the cohesion policy for 2007 to 2013 ([25]) 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 programming 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 assurance model for the 2014-2020 programming period, which reduces the risk of a material level of error appearing in the accounts submitted on a yearly basis. In fact, the new legal framework provides for the increased accountability of programme managing authorities, which have to perform sound management verifications in 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 the national control cycle. Member States have the opportunity to correct the declared expenditure during the accounting year by withdrawing the irregular expenditure and replacing it with a new, regular one. In addition, financial corrections in the accounts, as preventive or corrective measures, provide more assurance.

It is in the Member States' best interests to ensure the timely identification of deficiencies in the functioning of the management and control system and in the reporting of reliable error rates, since the Commission will make net financial corrections if Member States have not appropriately addressed any deficiencies before submitting their annual accounts to the Commission. The co-legislator however set strict conditions for the application of such net financial corrections, which the Commission needs to scrupulously assess and respect in each case.

For 2014 to 2020, the Member States themselves applied financial corrections in 2019 totalling EUR 527.0 million for the **European Regional Development Fund / Cohesion Fund**, while the financial corrections imposed for the **European Social Fund / Youth Employment Initiative** and the **Fund for European Aid to the Most Deprived** amounted to EUR 134.4 million. The financial corrections reported for the **European Maritime and Fisheries Fund** amounted to EUR 8.3 million.

In addition, Member States have deducted from the accounts significant amounts that were under ongoing assessments of legality and regularity and for which the programme's certifying authorities were therefore not in a position to certify the legality and regularity of the expenditure at the time of submitting the accounts, as per their regulatory obligation.

1.3. Direct and indirect management

The Commission has established a control framework for 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 of programmes under direct and indirect management.

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

([25]) European Court of Auditors, *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 – Special report No 4/2017*.

2. Overview of *ex ante* and *ex post* controls

2.1. *Ex ante* controls

Prevention is the first line of defence against errors. The Commission's key preventive mechanisms include interrupting and suspending payments ([26]) as well as carrying out *ex ante* controls leading to the rejection of ineligible amounts before the Commission accepts the expenditure and makes payments. The Commission is focusing more and more on such preventive measures with a view to better protecting the EU budget. These also serve as incentives for Member States to reduce irregular payments. **In 2019, the confirmed preventive measures amounted to EUR 416 million and the implemented preventive measures amounted to EUR 483 million**. These included *ex ante* controls such as deductions before payment/acceptance by the Commission, Member State deductions from new expenditure declared to the Commission ('at-source' deductions) and other *ex ante* adjustments which, if not performed, would otherwise have led to expenditure being incurred that was not in line with the legal framework.

Fund	Value of preventive measures confirmed
Agricultural policy:	**0**
European Agricultural Guarantee Fund	0
Rural development	0
Cohesion policy:	**0**
European Regional Development Fund	0
Cohesion Fund	0
European Social Fund	0
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	0
European Agricultural Guidance and Guarantee Fund	0
Internal policies	**210**
External policies	**200**
Administration	**6**
Total	**416**

Fund	Value of preventive measures implemented
Agricultural policy:	**0**
European Agricultural Guarantee Fund	0
Rural development	0
Cohesion policy:	**68**
European Regional Development Fund	67
Cohesion Fund	0
European Social Fund	0
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	0
European Agricultural Guidance and Guarantee Fund	0
Internal policies	**210**
External policies	**200**
Administration	**6**
Total	**483**

Overview of preventive measures for 2019 (million EUR)

NB: Due to the rounding of figures to the nearest million EUR, some financial data in the tables above may appear not to add up.

Source: European Commission.

([26]) These are not reported in the tables below but in a separate section in Annex 5.

2.2. *Ex post* controls

Where preventive mechanisms are not effective, the Commission, as part of its supervisory role, applies corrective mechanisms. The Commission's main corrective mechanisms include *ex post* controls on amounts it has accepted and paid out. In shared management these lead to financial corrections, and in direct and indirect management they result in recoveries from final recipients. **In 2019, the confirmed corrective measures amounted to EUR 1.5 billion and the implemented corrective measures amounted to EUR 2.4 billion.** These include the recovery orders issued, the implementation of the results of the *ex post* controls in cost claims and invoices, the financial corrections applied and the replacement of expenditure ('withdrawals').

Fund	Value of corrective measures confirmed
Agricultural policy:	**710**
European Agricultural Guarantee Fund	343
Rural development	367
Cohesion policy:	**739**
European Regional Development Fund	443
Cohesion Fund	68
European Social Fund	299
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	0
European Agricultural Guidance and Guarantee Fund	(72)
Internal Policies	**63**
External Policies	**14**
Administration	**0**
Total	**1 526**

Fund	Value of corrective measures implemented
Agricultural policy:	**1 500**
European Agricultural Guarantee Fund	1 138
Rural development	362
Cohesion policy:	**819**
European Regional Development Fund	324
Cohesion Fund	88
European Social Fund	479
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	0
European Agricultural Guidance and Guarantee Fund	(72)
Internal Policies	**68**
External Policies	**15**
Administration	**0**
Total	**2 402**

Overview of corrective measures for 2019 (million EUR)

NB: Due to the rounding of figures to the nearest million EUR, some financial data in the tables above may appear not to add up.

Source: European Commission.

From confirmation to implementation

The workflow of preventive and corrective mechanisms applied by the Commission involves two significant steps: the confirmation phase and the implementation phase. For example, a deduction before the acceptance of expenditure is **confirmed** as soon as it is decided by the relevant Commission services, while a financial correction is only confirmed once it is accepted by the Member State or decided by an official Commission decision.

Some preventive and corrective mechanisms are implemented during the year in which they are confirmed, but in most cases the beneficiary of the spending programme has, based on EU legislation, time to comment or provide additional material on proposed corrections/deductions/rejections. Once this adversarial process is finalised the Commission needs to recover the amount corresponding to the correction proposed and therefore the implementation takes place a year, or often several years, after confirmation ([27]).

A financial correction is considered **implemented** when it has been applied and recorded in the Commission accounts, which, in the following cases, means that the financial transaction has been validated by the authorising officer responsible: deduction of the financial correction from the amounts declared by the Member State in an interim or final payment claim; a recovery order and/or cancellation of the commitment appropriation(s) corresponding to the financial correction amount ([28]).

2.3. Preventive and corrective measures applied in 2019

The table below provides a complete picture (including one-off measures) of all preventive and corrective measures applied during 2019 to protect the EU budget – amounting to **EUR 1.9 billion confirmed** and **EUR 2.9 billion implemented**. These amounts cover preventive actions and corrective actions made during 2019 irrespective of the year in which the initial expenditure was made.

Fund	Total payments from EU budget *in 2019* (million EUR)	Total amounts confirmed *in 2019* (million EUR)	% of payments made from the EU budget	Total amounts implemented *in 2019* (million EUR)	% of payments made from the EU budget
Agricultural policy:	**58 098**	**710**	***1.2%***	**1 500**	***2.6%***
European Agricultural Guarantee Fund	43 885	343	*0.8%*	1 138	*2.6%*
Rural development	14 213	367	*2.6%*	362	*2.5%*
Cohesion policy:	**53 169**	**739**	***1.4%***	**887**	***1.7%***
European Regional Development Fund	29 559	443	*1.5%*	391	*1.3%*
Cohesion Fund	8 812	68	*0.8%*	88	*1.0%*
European Social Fund	13 939	299	*2.1%*	479	*3.4%*
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	859	1	*0.1%*	1	*0.1%*
European Agricultural Guidance and Guarantee Fund	0	(72)	*n/a*	(72)	*n/a*
Internal policies	**27 045**	**273**	***1.0%***	**278**	***1.0%***
External policies	**10 108**	**214**	***2.1%***	**215**	***2.1%***
Administration	**10 381**	**6**	***0.1%***	**6**	***0.1%***
Total	**158 801 (*)**	**1 942**	***1.2%***	**2 885**	***1.8%***

Overview of financial corrections and recoveries for 2019, including financial corrections at source

NB: Due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

(*) Excludes EUR 295 million paid out under the 'Special instruments' heading.

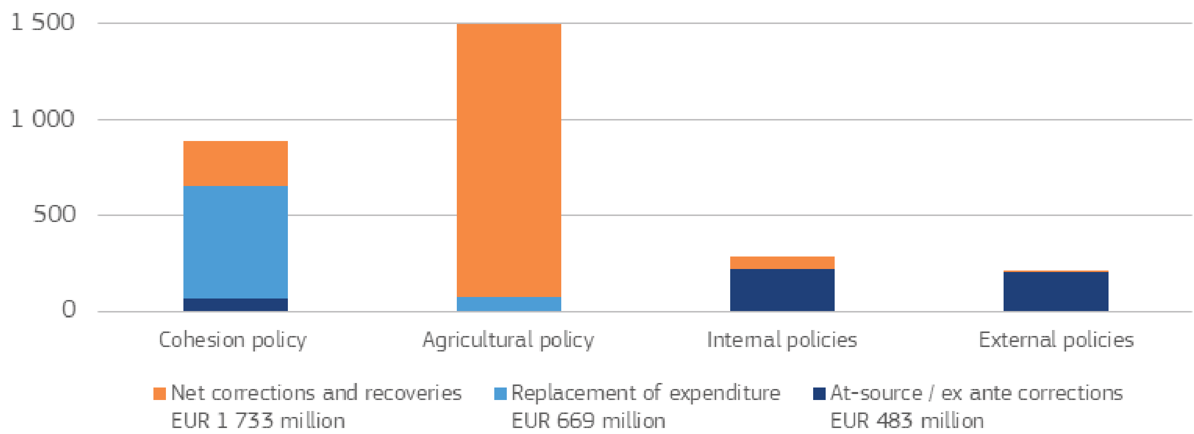
Source: European Commission.

([27]) For the common agricultural policy, the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development, Member States may, under certain conditions, be granted the option to repay financial corrections in instalments, which is the main reason for the difference in confirmed and implemented financial corrections in 2019.

([28]) In cohesion-related funds 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.

In addition, for **cohesion policy funds**, for 2014 to 2020, the Member States have applied corrections totalling EUR 527.0 million for the **European Regional Development Fund / Cohesion Fund**, while the financial corrections imposed for the **European Social Fund / Youth Employment Initiative** and the **Fund for European Aid to the Most Deprived** amounted to EUR 134.4 million. The financial corrections reported for the **European Maritime and Fisheries Fund** amounted to EUR 8.3 million.

Types of *ex ante* and *ex post* mechanisms in 2019



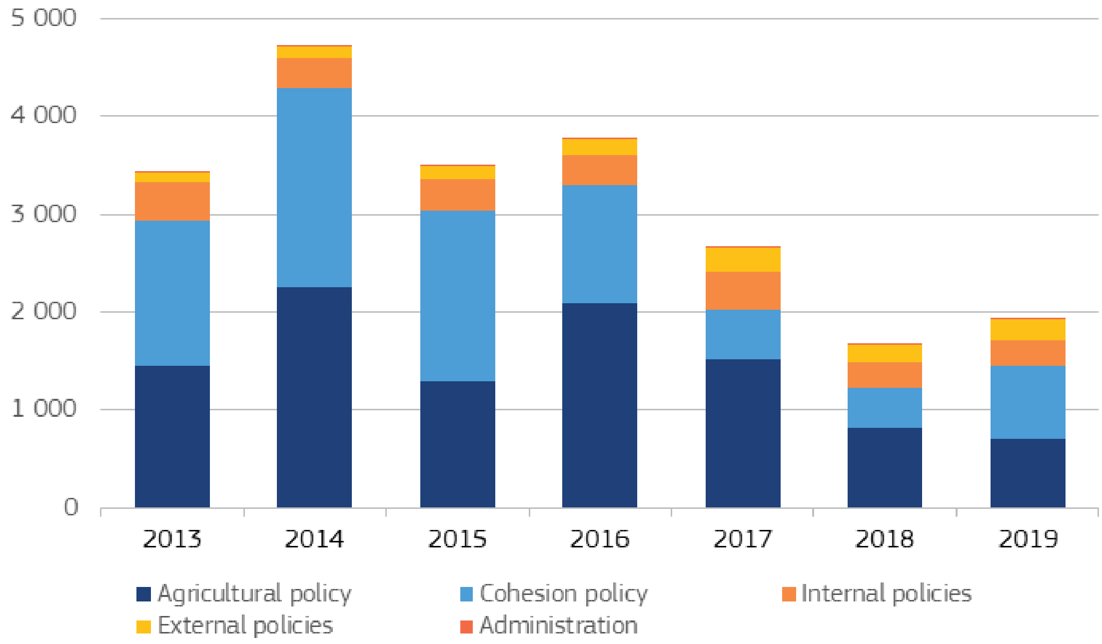
Types of financial corrections and recoveries implemented in 2019 (million EUR)
Source: European Commission.

Net corrections leading to a reimbursement of the amounts previously paid from the EU budget are characteristic of agriculture and rural development and of direct and indirect management. For **agriculture**, in **2019** the Commission continued to apply the net financial corrections in the same way as in previous years.

For **cohesion** policy, net corrections were, prior to the 2007-2013 programming period, the exception. They were only applied in cases where Member States were not able to replace irregular expenditure with new expenditure or, after the corresponding contradictory procedure, they did not agree to implement the financial corrections proposed by the Commission. Under the legal framework for 2014 to 2020, the Commission is to apply net financial corrections – even if the Member State has agreed to the proposed corrections – where EU/Court audits detect that a serious deficiency leading to a material level of risk in reimbursed expenditure remained undetected, uncorrected and unreported by the Member State. In all other circumstances, the Commission will continue to apply financial corrections as before, meaning that the Member State can still reuse the funds if it accepts the corrections and has sufficient additional new expenditure to replace the amounts withdrawn as irregular.

The Commission applies a number of available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and incentivising Member States to reduce irregular payments.

Multiannual character of EU spending programmes



Confirmed cumulative financial corrections and recoveries for 2013-2019 (million EUR)
Source: European Commission.

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

For the **European Agricultural Guarantee Fund**, the average correction rate for Commission financial corrections under conformity clearance of accounts for 1999 to the end of 2019 was 1.7% of expenditure (all of which are net financial corrections) – see 'Agriculture and rural development – Cumulative figures'.

For the 2007-2013 **European Regional Development Fund, Cohesion Fund** and **European Social Fund**, at the end of 2019 the combined rate of financial corrections, based on Commission supervision work only, amounted to 2.1% of the allocations made – see 'Cohesion policy – Cumulative figures'.

For 2013 to 2019 the average amount of confirmed financial corrections and recoveries was EUR 3.1 billion, or 2.1% of the average amount of payments made from the EU budget, while the average amount implemented in this period was EUR 3.3 billion or 2.2% of the payments.

3. Financial corrections and recoveries at the end of 2019

3.1. Overview of financial corrections and recoveries for 2019

The table below provides a complete picture (including one-off measures) of all the preventive and corrective measures confirmed and implemented during 2019 to protect the EU budget – EUR 1.9 billion confirmed and EUR 2.9 billion implemented. These amounts cover preventive actions and corrective actions made during 2019, irrespective of the year in which the initial expenditure was made.

Multiannual financial framework heading	Total EU budget payments in 2019 (million EUR)	Total financial corrections *confirmed* in 2019 (million EUR)	Total recoveries *confirmed* in 2019 (million EUR)	Total financial corrections and recoveries *confirmed* in 2019 (million EUR)	% of payments made from the EU budget	Total financial corrections *implemented* in 2019 (million EUR)	Total recoveries *implemented* in 2019 (million EUR)	Total financial corrections and recoveries *implemented* in 2019 (million EUR)	% of payments made from the EU budget
Smart and inclusive growth	**75 535**	**810**	**224**	**1 035**	***1.4%***	**958**	**229**	**1 187**	***1.6%***
European Regional Development Fund	**29 559**	443	—	**443**	*1.5%*	391	—	**391**	*1.3%*
Cohesion Fund	**8 812**	68	—	**68**	*0.8%*	88	—	**88**	*1.0%*
European Social Fund	**13 939**	299	—	**299**	*2.1%*	479	—	**479**	*3.4%*
Internal policies	**23 225**	n/a	224	**224**	*1.0%*	n/a	229	**229**	*1.0%*
Sustainable growth: natural resources	***59 521***	**251**	**403**	**653**	***1.1%***	**1 091**	**350**	**1 441**	***2.4%***
European Agricultural Guarantee Fund	**43 885**	141	202	**343**	*0.8%*	982	156	**1 138**	*2.6%*
Rural development	**14 213**	181	186	**367**	*2.6%*	181	181	**362**	*2.5%*
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	**859**	0	0	**1**	*0.1%*	0	0	**1**	*0.1%*
European Agricultural Guidance and Guarantee Fund	—	(72)	0	**(72)**	*n/a*	(72)	0	**(72)**	*n/a*
Internal policies	**564**	n/a	14	**14**	*2.5%*	n/a	13	**13**	*2.3%*
Security and citizenship	**3 256**	**13**	**20**	**33**	***1.0%***	**13**	**22**	**35**	***1.1%***
Migration and home affairs	**800**	13	—	**13**	*1.6%*	13	—	**13**	*1.6%*
Internal policies	**2 456**	n/a	20	**20**	*0.8%*	n/a	22	**22**	*0.9%*
Global Europe	**10 108**	**n/a**	**217**	**217**	***2.1%***	**n/a**	**218**	**218**	***2.2%***
External policies	**10 108**	n/a	217	**217**	*2.1%*	n/a	218	**218**	*2.2%*
Administration	**10 381**	**n/a**	**4**	**4**	***0.0%***	**n/a**	**4**	**4**	***0.0%***
Administration	**10 381**	n/a	4	**4**	*0.0%*	n/a	4	**4**	*0.0%*
Total	**158 801 (*)**	**1 074**	**868**	**1 942**	***1.2%***	**2 062**	**823**	**2 885**	***1.8%***

Overview of financial corrections and recoveries for 2019

NB: Due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

(*) Excludes EUR 295 million paid out under the 'Special instruments' heading.

Agriculture and rural development

The **financial corrections** confirmed by the Commission in 2019 ([29]) reflect the improvements observed over recent years in the management and control systems of the Member States, also confirmed by the constantly decreasing level of error in the expenditure. The conformity clearance processes have been accelerated and corrections for past cases applied ([30]) and hence the level of financial corrections is stabilising. As regards correcting irregularities committed by beneficiaries, Member States must record and report on the **recovery** ([31]) of amounts unduly spent, as part of the annual financial clearance. Recovering irregular payments directly from the final beneficiaries is the sole responsibility of the Member States.

Cohesion

2007-2013 programming period

For the **European Regional Development Fund / Cohesion Fund** in 2019, EUR 514.2 million in financial corrections was confirmed in the context of the closure of the programmes as a result of the Commission's supervisory activities. The good progress made on closure in 2019 enabled the implementation of financial corrections amounting to EUR 457.5 million.

As of the end of 2019, the cumulative amount of financial corrections for 2007 to 2013 confirmed by Member States as a result of the Commission's supervisory activities is EUR 4.3 billion ([32]), with an implementation rate of 98%.

For the **European Social Fund**, 94.3 % of financial corrections confirmed in 2019 and previous years have been implemented, leaving an amount of EUR 97.8 million still to be implemented for the remaining programmes under the progressing closure. The total amount of financial corrections implemented stands at EUR 210.4 million. The total amount of financial corrections confirmed stands at EUR 30.6 million.

The total amount of cumulative financial corrections confirmed for the **European Fisheries Fund** stands at EUR 28 million in 2019, including EUR 2 million to be implemented at closure.

2014-2020 programming period

For the **European Regional Development Fund / Cohesion Fund** programmes for which expenditure was declared for the accounting year 1 July 2018 to 30 June 2019, there were no net financial corrections imposed by any Commission decision. However, the Member States themselves applied financial corrections to the accounts following the completion of their national control cycle.

This shows that the new system allows expenditure found to be irregular to be excluded from annual accounts. In 2019 a total of EUR 3.41 billion was deducted either from interim payment applications or directly from the accounts. Out of this, around 15.5% (EUR 527.0 million) was corrected as a result of audits. The remaining amounts removed from the accounts were mainly (at least 55%) due to different ongoing assessments under Article 137(2) of the common provisions regulation of expenditure previously declared during the accounting year, but also due to additional management verifications and corrections of clerical errors.

In addition, in 2019, following the Commission and national controls and audits, financial corrections were applied to certified expenditure in previously accepted accounts, thus confirming the effective functioning of the multiannual corrective capacity of the 2014-2020 programmes.

([29]) For the purposes of calculating its corrective capacity in the annual activity report, DG Agriculture and Rural Development only takes into account the executed amounts related to conformity clearance decisions adopted by the Commission and published in the *Official Journal of the European Union*, and deducts the corrections in respect of cross-compliance infringements.

([30]) 'Past cases' refers to conformity clearance enquiries that had been opened before 1 January 2014 and had been pending for a considerable length of time and therefore covered several financial years, resulting in substantial financial corrections being decided during the period where DG Agriculture and Rural Development made an effort to close all such old cases.

([31]) As regards recoveries by Member States, DG Agriculture and Rural Development uses the amounts reported in the debtor's ledgers.

([32]) This amount does not include financial corrections at source.

For the **European Social Fund,** for the accounting year 1 July 2018 to 30 June 2019, 187 **European Social Fund / Youth Employment Initiative** programmes certified a total expenditure of EUR 18 868.1 million by 31 July 2019, while 26 **Fund for European Aid to the Most Deprived** programmes certified expenditure amounting to EUR 404.1 million. Following the submission of the annual accounts by 1 March 2020, the amount of the expenditure deducted by the Member States was EUR 1 079.6 million for the European Social Fund / Youth Employment Initiative and EUR 10.6 million for the Fund for European Aid to the Most Deprived. Out of these amounts, deductions of EUR 132.9 million and EUR 1.5 million, respectively, were made by the Member States from the annual accounts, together with withdrawals and recoveries implemented during the accounting year as a result of financial corrections following national and EU audit work.

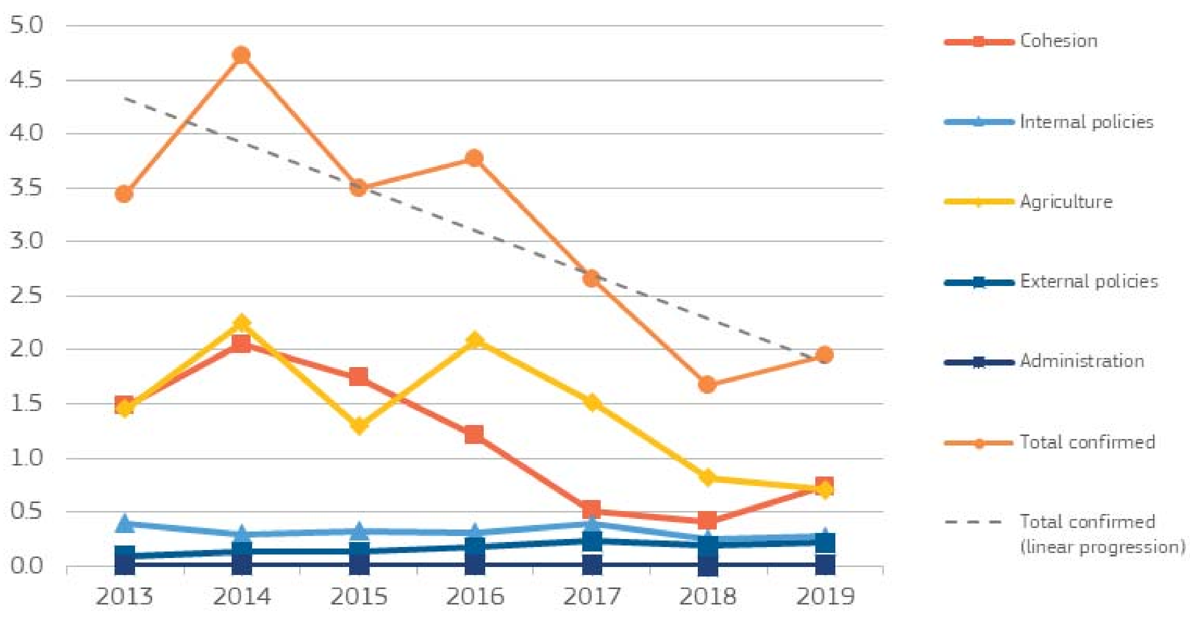
The financial corrections reported for the **European Maritime and Fisheries Fund** amounted to EUR 8.3 million. An additional EUR 71.2 million was deducted from the accounts due to ongoing legality and regularity assessments, and also due to additional management verifications and corrections of clerical errors.

3.2. Cumulative financial corrections and recoveries to the end of 2019

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

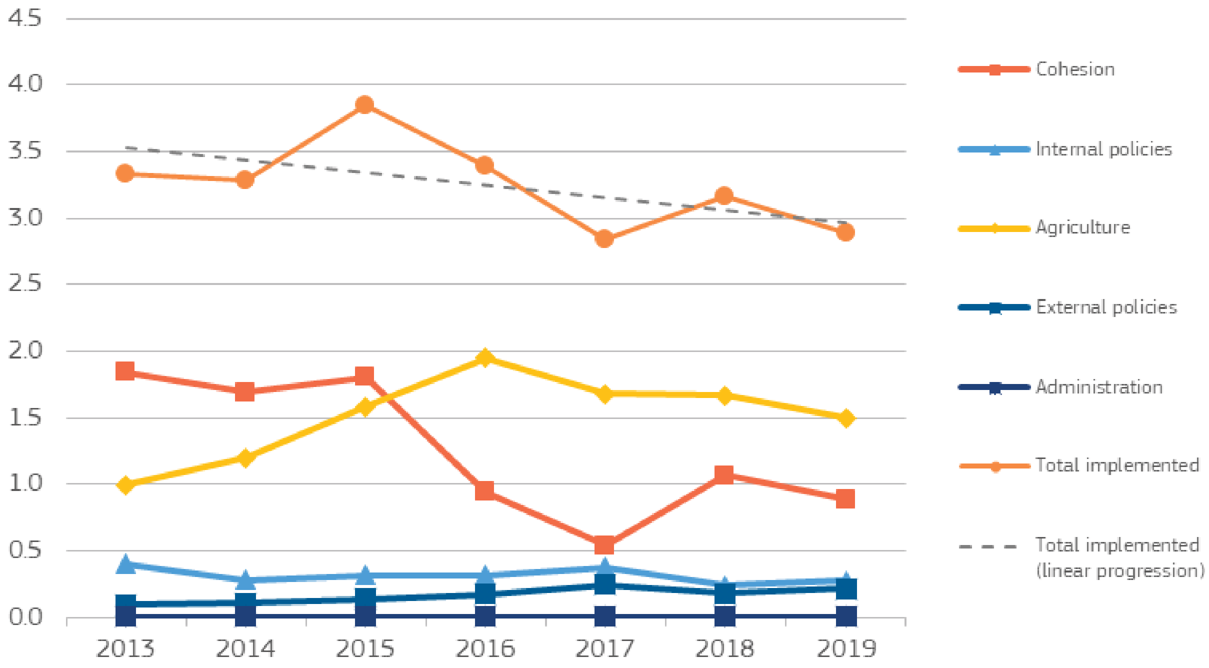
2013-2019 programming period

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



Confirmed financial corrections and recoveries for 2013-2019 (billion EUR)

The average **confirmed** financial corrections and recoveries (for 2013-2019) amount to EUR 3.1 billion, which represents 2.1% of the average amount of payments made from the EU budget.



Financial corrections and recoveries implemented for 2013-2019 (billion EUR)

The average amount of financial corrections and recoveries **implemented** for 2013 to 2019 was EUR 3.3 billion, which represents 2.2% of the average amount of payments from the EU budget in that period.

Percentage of implementation of financial corrections at the end of 2019

	Confirmed financial corrections (million EUR) for programming period:				Cumulated European Agricultural Guarantee Fund decisions (million EUR)	Confirmed financial corrections at end of 2019 (million EU R)	Impleme ntation % at end of 2019	Confirmed financial corrections at end of 2018 (million EUR)	Impleme ntation % at end of 2018
	1994-1999	2000-2006	2007-2013	2014-2020					
Agricultural policy	**—**	**143**	**1 612**	**56**	**14 529**	**16 341**	***100.0%***	**16 040**	***95.9%***
European Agricultural Guarantee Fund	—	—	—	—	14 529	14 529	*100.0%*	14 410	*95.4%*
Rural development	—	143	1 612	56	n/a	1 811	*100.0%*	1 630	*100.0%*
Cohesion policy	**2 083**	**9 387**	**7 328**	**—**	**n/a**	**18 798**	***97.4%***	**18 060**	***96.5%***
European Regional Development Fund	1 143	5 916	4 421	—	n/a	11 480	*97.7%*	11 036	*98.1%*
Cohesion Fund	268	852	1 296	—	n/a	2 417	*95.2%*	2 349	*94.1%*
European Social Fund	569	2 380	1 584	—	n/a	4 532	*97.8%*	4 233	*93.4%*
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	100	140	28	—	n/a	268	*99.3%*	267	*99.3%*
European Agricultural Guidance and Guarantee Fund	3	99	0	—	n/a	102	*100.0%*	174	*100.0%*
Other	**—**	**0**	**56**	**3**	**n/a**	**59**	***100.0%***	**46**	***99.6%***
Total	**2 083**	**9 531**	**8 996**	**59**	**14 529**	**35 198**	***98.6%***	**34 146**	***96.2%***

Cumulative confirmed financial corrections and their implementation percentage to the end of 2019

Cumulative recoveries 2013-2019

The tables below provide the amounts of recoveries confirmed and implemented for the period 2013-2019.

See also 'Impact on the EU budget', below.

Fund	Year						
	2013	2014	2015	2016	2017	2018	2019
Agricultural policy:							
European Agricultural Guarantee Fund	227	213	117	100	195	138	202
Rural development	139	165	206	242	113	178	186
Cohesion policy	83	35	5	10	2	3	0
Internal policies	393	293	302	303	386	247	261
External policies	93	127	132	173	234	188	214
Administration	6	5	5	4	3	3	6
Total (*)	**941**	**838**	**767**	**833**	**933**	**757**	**868**

Confirmed recoveries for 2013-2019 (million EUR)

Fund	Year						
	2013	2014	2015	2016	2017	2018	2019
Agricultural policy:							
European Agricultural Guarantee Fund	155	150	155	118	131	132	156
Rural development	129	167	152	43	84	315	181
Cohesion policy	81	32	7	12	2	3	0
Internal policies	398	274	293	313	374	241	265
External policies	93	108	136	175	244	179	215
Administration	6	5	5	4	3	3	6
Total (*)	**862**	**736**	**749**	**665**	**837**	**873**	**823**

Implemented recoveries for 2013-2019 (million EUR)

(*) NB: The amounts disclosed for 2013 and 2014 are based on a different methodology, which has been subsequently refined to better identify and track recoveries.

3.3. Impact of financial corrections and recoveries

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, thereby not losing EU funding (i.e. this is not a net correction as there is no return of money to the EU budget).

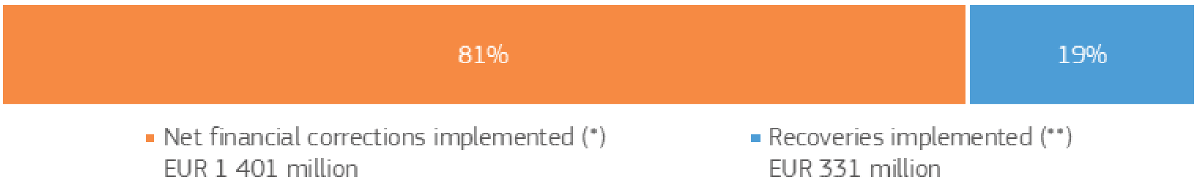
A net financial correction is a correction that has a net impact on the EU budget (i.e. the corrected and recovered amounts are reimbursed to the EU budget).

Agriculture and rural development corrections (for the European Agricultural Guarantee Fund, the European Agricultural Fund for Rural Development and the European Agricultural Guidance and Guarantee Fund) almost always lead 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 end of the 2007-2013 programming period, a real return of cash to the EU budget only occurs:

- if Member States were unable to present sufficient eligible expenditure;
- after the closure of programmes where the replacement of ineligible expenditure by eligible was no longer possible;
- in the event of a disagreement with the Commission.

However, a significant change was introduced for the 2014-2020 period: the Commission has an obligation to apply a net financial correction when serious deficiencies in the effective functioning of the management and control system not previously detected, reported or corrected at Member State level are discovered by EU audits after the submission of the assurance packages. In such cases, unlike in previous programming periods, the possibility for the Member State to accept the correction and to reuse the EU funds in question is removed.



Impact on the EU budget (2019)

(*) 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 ‘Cumulative recoveries 2013-2019’ above.

Revenues arising from net financial corrections and recoveries are treated as assigned revenue ([33]); the Commission also implements recoveries at source by deducting ineligible expenditure (identified in previous or current cost claims) from payments made. In general, assigned revenue goes back to the budget heading or fund from which the expenditure was originally paid and may be spent again, but it is not earmarked for specific Member States.

4. Agriculture and rural development

4.1. Preventive actions

Preventive actions by the Member States

A compulsory administrative structure has been set up at the Member State level. The management, control and payment of the expenditure are entrusted to accredited paying agencies. 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, along with a declaration that the system in place provides reasonable assurance of the legality and regularity of the underlying

([33]) Article 21(3)(b) of the financial regulation.

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 (independent external audit bodies), which also review compliance with the accreditation criteria. The management declarations are also verified by the abovementioned certification bodies, which are required to provide an annual opinion. For each support scheme financed by the **European Agricultural Guarantee Fund** or the **European Agricultural Fund for Rural Development**, the paying agencies apply a system of exhaustive *ex ante* administrative controls and on-site checks prior to any payment. These checks are carried out 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 to the Commission on a yearly basis.

Preventive actions by the Commission

The Commission applies a number of available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments. The Commission may interrupt payments for the second pillar (the **European Agricultural Fund for Rural Development**) and reduce or suspend the payments for both pillars (the **European Agricultural Guarantee Fund** and the **European Agricultural Fund for Rural Development**).

Firstly, where the declarations of expenditure or the annual accounts do not enable the Commission to establish whether the expenditure has been effected in accordance with EU 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 to the gravity or persistence of the deficiencies found' ([34]) (or if 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 cause of 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 the **European Agricultural Fund for Rural Development**, the common provisions regulation ([35]) also provides for the interruption of interim payments by the authorising officer by delegation (i.e. the Director-General) as an additional, quick, reactive tool in the event of concerns about the legality and regularity of payments. In 2019, payments of a total of EUR 4 million were interrupted for Czechia, Lithuania, Austria and Romania, and payments of EUR 0.247 million and EUR 0.084 million were also suspended for Czechia and Romania, respectively.

For the **European Agricultural Guarantee Fund**, the schedule of the monthly payments would not allow for such an interruption procedure. For the European Agricultural Guarantee Fund in 2019, the Commission decided to reduce payments by EUR 68 million due to ceiling overruns, missed deadlines and eligibility issues. There were no suspensions or reductions in the monthly payments that were due to deficiencies in the control system in 2019.

The interruptions and reductions/suspensions are provisional. Where relevant, these are accompanied by an audit. If the deficiency is confirmed, the relevant expenditure is definitively excluded from EU funding by the application of a financial correction under the conformity clearance procedure.

([34]) Article 41 of Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy (OJ L 347, 20.12.2013, p. 549).

([35]) Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 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 and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund (OJ L 347, 20.12.2013, p. 320).

4.2. Corrective actions

For the **European Agricultural Guarantee Fund**, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission in the 2nd month following the Commission decision on a financial correction to the Member State concerned.

For the **European Agricultural Fund for Rural Development**, the financial corrections are executed through a recovery order requesting the Member State concerned to reimburse the amounts to the EU budget; they are mostly executed by a set-off in the reimbursement in the following quarter. It therefore occurs that decisions adopted at 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. In 2019, a total of EUR 146 million was scheduled for recovery in three annual instalments.

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

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

- errors of non-compliance;
- eligibility conditions not being met;
- breaches of procurement rules.

These were addressed by putting in place action plans that identify the deficiencies for the paying agencies concerned and establish remedial actions for them to implement.

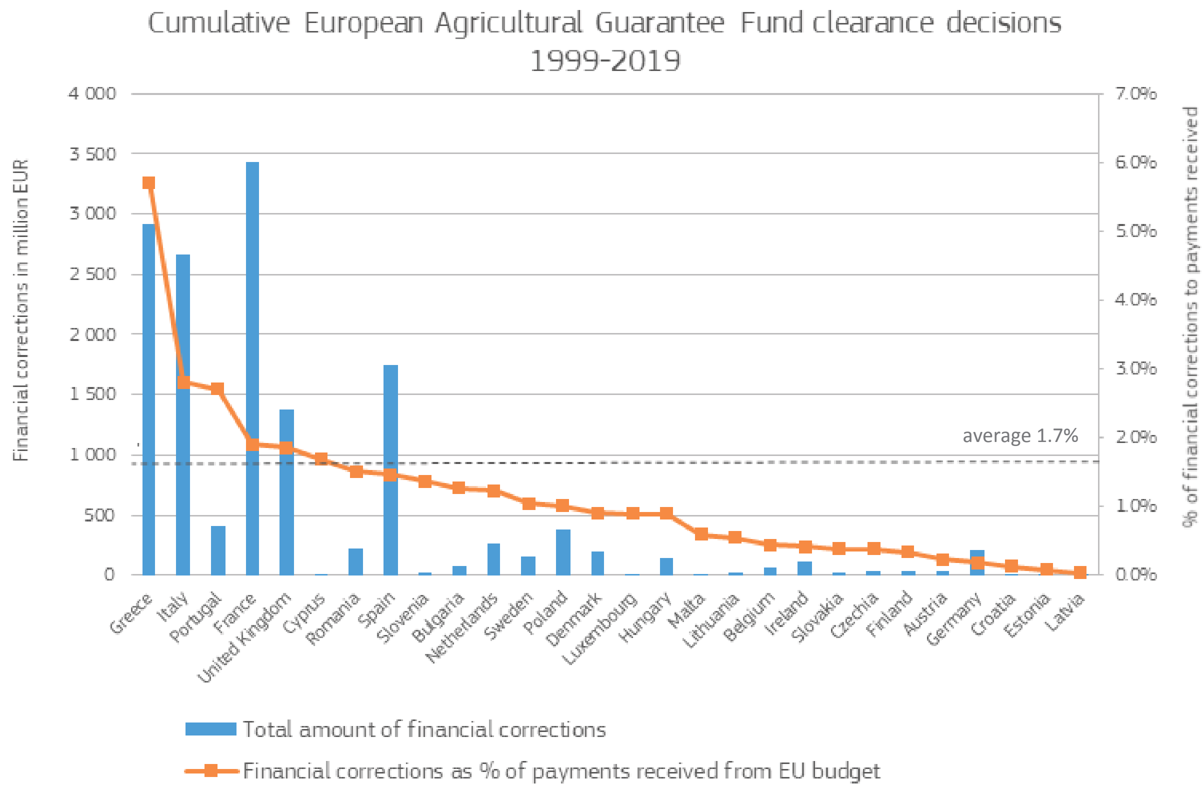
In general, the Commission has launched an ambitious simplification process intended to reduce complexity and the administrative burden, which will also contribute to bringing the risk of error further down.

4.4. Cumulative figures

Concerning the **European Agricultural Guarantee Fund**, the average correction rate per financial year from 1999 to 2019 has been 1.7% of expenditure. Once decided by the Commission, the corrections are implemented automatically unless a Member State has been granted the possibility of paying in three annual instalments.

Member State	European Agricultural Guarantee Fund payments received from EU budget (million EUR)	Payments received as % of total payments from EU budget	Cumulated European Agricultural Guarantee Fund financial corrections at end 2019 (million EUR)	Financial corrections as % of payments received from EU budget	Financial corrections for Member State as % of total amount of financial corrections
Belgium	15 184	*1.7%*	67	*0.4%*	*0.5%*
Bulgaria	6 437	*0.7%*	81	*1.3%*	*0.6%*
Czechia	9 989	*1.1%*	38	*0.4%*	*0.3%*
Denmark	21 629	*2.5%*	196	*0.9%*	*1.4%*
Germany	112 906	*12.9%*	204	*0.2%*	*1.4%*
Estonia	1 251	*0.1%*	1	*0.1%*	*0.0%*
Ireland	26 823	*3.1%*	112	*0.4%*	*0.8%*
Greece	51 053	*5.9%*	2 918	*5.7%*	*20.1%*
Spain	118 724	*13.6%*	1 742	*1.5%*	*12.0%*
France	179 896	*20.6%*	3 430	*1.9%*	*23.6%*
Croatia	1 192	*0.1%*	2	*0.1%*	*0.0%*
Italy	94 780	*10.9%*	2 658	*2.8%*	*18.3%*
Cyprus	682	*0.1%*	12	*1.7%*	*0.1%*
Latvia	1 966	*0.2%*	1	*0.0%*	*0.0%*
Lithuania	4 742	*0.5%*	26	*0.5%*	*0.2%*
Luxembourg	666	*0.1%*	6	*0.9%*	*0.0%*
Hungary	15 208	*1.7%*	136	*0.9%*	*0.9%*
Malta	60	*0.0%*	0	*0.6%*	*0.0%*
Netherlands	21 192	*2.4%*	262	*1.2%*	*1.8%*
Austria	14 767	*1.7%*	34	*0.2%*	*0.2%*
Poland	37 451	*4.3%*	380	*1.0%*	*2.6%*
Portugal	14 829	*1.7%*	402	*2.7%*	*2.8%*
Romania	14 683	*1.7%*	221	*1.5%*	*1.5%*
Slovenia	1 481	*0.2%*	20	*1.4%*	*0.1%*
Slovakia	4 683	*0.5%*	18	*0.4%*	*0.1%*
Finland	11 109	*1.3%*	37	*0.3%*	*0.3%*
Sweden	14 739	*1.7%*	153	*1.0%*	*1.1%*
United Kingdom	74 097	*8.5%*	1 373	*1.9%*	*9.4%*
Total	**872 218**	***100%***	**14 529**	***1.7%***	***100%***

Cumulative financial corrections for the European Agricultural Guarantee Fund decided under conformity clearance of accounts from 1999 to the end of 2019, by Member State



Cumulative financial corrections for the European Agricultural Guarantee Fund under conformity clearance of accounts from 1999 to the end of 2019, compared to payments received from the EU budget

4.5. Member States' corrections

Member States are required to put in place the following systems for *ex ante* controls and reductions or exclusions of financing.

- For each aid support scheme financed by the European Agricultural Guarantee Fund or the European Agricultural Fund for Rural Development, *ex ante* administrative and on-site checks are performed and dissuasive sanctions are applied in the event of non-compliance by the beneficiary. If on-site checks reveal a high number of irregularities, additional controls must be carried out.
- In this context, the most important system by far is the Integrated Administration and Control System. In the financial year 2019, the Integrated Administration and Control System covered 83.9% of European Agricultural Guarantee Fund and rural development expenditure.
- Detailed reporting by Member States to the Commission on the checks that they carry out and on the sanctions applied is provided for in the legislation and enables the degree of error found by Member States at the level of the final beneficiaries to be calculated for the main aid schemes.

These reports from the Member States disclosed the preventive effect of the *ex ante* administrative and on-site controls carried out, which led to corrections amounting to EUR 541.75 million. The biggest corrections are related to Spain (EUR 113 million), Italy (EUR 79 million) and France (EUR 74 million).

Member State	Member State's own corrections to European Agricultural Guarantee Fund market measures	Member State's own corrections to European Agricultural Guarantee Fund direct payments	Member State's own corrections to European Agricultural Fund for Rural Development	Member State's total own corrections in 2019
Belgium	1.30	1.82	2.54	5.66
Bulgaria	0.04	30.22	10.01	40.27
Czechia	0.05	1.05	3.14	4.25
Denmark	0.12	0.97	1.97	3.07
Germany	3.48	8.10	13.62	25.20
Estonia	0.01	0.81	4.07	4.88
Ireland	0.18	1.18	4.37	5.73
Greece	3.36	10.02	6.50	19.88
Spain	20.18	72.66	20.14	112.98
France	35.35	18.32	20.23	73.90
Croatia	7.53	7.57	9.13	24.23
Italy	17.52	45.05	15.96	78.54
Cyprus	0.45	0.95	0.18	1.59
Latvia	0.03	0.96	0.88	1.86
Lithuania	0.00	1.99	2.79	4.78
Luxembourg	0.00	0.27	0.18	0.45
Hungary	4.14	8.65	7.69	20.49
Malta	0.01	0.03	0.06	0.10
Netherlands	0.40	9.04	1.34	10.79
Austria	0.84	0.35	3.25	4.44
Poland	0.57	15.50	6.36	22.43
Portugal	8.49	3.04	7.29	18.82
Romania	0.62	18.54	13.89	33.04
Slovenia	0.22	0.25	1.07	1.53
Slovakia	0.25	1.76	1.57	3.58
Finland	0.40	1.79	2.04	4.23
Sweden	0.06	1.72	2.31	4.08
United Kingdom	0.20	5.99	4.78	10.97
Total	**105.79**	**268.61**	**167.35**	**541.75**

Member States' own corrections in 2019, applied before payments to beneficiaries were executed, in addition to Commission reporting (million EUR)

5. Cohesion policy

5.1. Preventive actions

The regulations for all programming periods enable **the Commission to apply preventive measures**, i.e. payment interruptions ([36]) and suspensions, and 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 activities 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 the net amount (i.e. without 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 a preventive effect in protecting the EU budget, but no amount is reported by the Commission / Member States in such cases as this effect is more difficult to quantify.

Interruptions and suspensions are only lifted on the basis of reasonable assurance of the implementation of corrective measures and/or after financial corrections have been implemented. For the 2007-2013 programming period, under the closure process the suspension of payments has been merged with the closure process itself.

In view of the regulatory changes for 2014 to 2020 (in particular, the relationship between Article 83, on interruption, and Article 142, on suspensions, of the common provisions regulation; and two new elements in the regulation – the annual closure of accounts and the 10% retention on reimbursement of interim payments (Articles 130 and 139)), DG Regional and Urban Policy and DG Employment, Social Affairs and Inclusion 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 of below 2% and the possibility for the Commission to apply net financial corrections should its audit directorates (or the European Court of Auditors) identify serious deficiencies 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 a serious deficiency in the management and control system would require a correction higher than 10% or where the irregularity would have serious financial consequences (an impact of above 10% of the programme's financial allocation or above the threshold of EUR 50 million), according to Article 83(1)(a) of the common provisions regulation. If no payment claim is submitted, a warning letter of the potential interruption of the payment deadline is to be sent. A warning letter is also sent for cases with an estimated risk to the EU budget of below 10%. In the event of system deficiencies, the Member State is requested to take the necessary measures to improve the system, and in the event of irregularities the Member State is required to not include related expenditure in the interim claims and in the account until the legality and regularity of the expenditure is confirmed.

([36]) Except for the 2000-2006 period.

Interruptions

For cohesion, at this stage of **the 2007-2013 programming period**, since the submission of the closure packages at the end of March 2017, no further interim payments have been processed. Once the Member State has sent an application for payment of the final balance, that application replaces all pending applications for interim payments. As of that moment, the Commission's obligation to honour pending applications for interim payments ceases. Consequently, an interruption or suspension decision in relation to applications for interim payments or the lifting of an existing suspension decision is no longer necessary. It should be noted that the Member State is nevertheless required to take the necessary action to solve all deficiencies identified during the closure procedure. The interruptions and suspension cases will be monitored during the closure of their respective programmes and the suspension decisions will be formally repealed after the closure of the programmes.

For **the 2014-2020 programming period**, there were 20 interruptions (19 new and 1 carried over from 2018) for the **European Regional Development Fund / Cohesion Fund** programmes in 2019, and 6 warnings of interruptions. In 2019, 16 interruptions and 3 warnings of interruptions were lifted.

For the **European Social Fund / Youth Employment Initiative** and the **Fund for European Aid to the most Deprived**, 12 interruption decisions were adopted in 2019. In addition, 16 warning letters were sent to the Member States concerned.

For the **European Maritime and Fisheries Fund** there were four open cases of interruptions for a total amount of EUR 6.2 million, three of which relate to a lack of compliance with the management and control system, as per Article 83(1)(a) of the common provisions regulation. The fourth case relates to the application of Article 100(1) of the European Maritime and Fisheries Fund in a case of non-compliance with the common fisheries policy obligations. The cases are currently being followed up on in close cooperation with the Member States concerned.

Suspensions

For the **2014-2020 programming period**, there were seven pre-suspensions concerning the reliability of performance data and one suspension decision concerning *ex ante* conditionality for the **European Regional Development Fund / Cohesion Fund** programmes. Two pre-suspensions concerning the reliability of performance data were lifted.

For the **European Social Fund / Youth Employment Initiative** and the **Fund for European Aid to the most Deprived**, one suspension decision was adopted in 2019 and five pre-suspension letters were sent to the Member States.

For the **European Maritime and Fisheries Fund** there is only one suspension (related to Ireland) as of 31 December 2019, for a total amount of EUR 6 million.

5.2. Corrective actions

For cohesion policy, where the Commission identifies individual irregularities (including those of a 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, the Cohesion Fund or the European Social Fund and reimbursed by the Commission is 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 any such additional expenditure to declare, the financial correction resulted in a net correction (a loss of funding). In contrast, a Commission financial correction decision always had a direct and net impact on the Member State: the Member State had to pay the amount back and its financial allocation was reduced (i.e. the Member State could spend less money throughout the programming period).

Net corrections were rather the exception under the 2007-2013 framework, due to the legal framework and type of budget management (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 annual assurance model, which reduces the risk of a material level of error. In fact, the new legal framework provides for increased accountability for programme managing authorities, which have to perform sound management verifications in time for the submission of the programme accounts each year. The Commission retains 10% of each interim payment until the finalisation of the whole national control cycle. It is in the best interests of the Member States to ensure the timely identification of serious deficiencies in the functioning of the management and control system and in the reporting of reliable error rates, since **the Commission makes net financial corrections** where Member States have not appropriately addressed any deficiencies before submitting their annual accounts to the Commission.

5.3. Deficiencies identified in Member States' management and control 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 the national level. Nevertheless, the Commission seeks to ensure that the national systems prevent errors before certification, and it takes a number of actions (such as capacity-building actions) in Member States, pursuing the single audit approach further, carrying out complementary risk-based audits and exercising 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; these have continued over the 2014-2020 period. Cross-cutting initiatives to mitigate the main risks and weaknesses identified include the following.

A general administrative capacity-building initiative. The initiative contains the following ongoing or already implemented measures.

- The Technical Assistance and Information Exchange Instrument, an exchange tool for regional policy practitioners/experts from authorities managing and implementing European Regional Development Fund and Cohesion Fund programmes in the Member States. In this framework, 208 peer-to-peer exchanges were carried out by December 2019, involving 3 232 participants, from all EU Member States. These exchanges should help Member States improve the quality and the legality of spending and accelerate the absorption of funds.
- A strategic training programme for managing, certifying and audit authorities and intermediate bodies on the implementation of the 2014-2020 regulations: 1 150 participants, from all Member States, had attended the six different training modules held by the end of 2019, and a total of 38 2-day training sessions have been held at the premises of DG Regional and Urban Policy.
- A competency framework for the efficient management and implementation of the European Regional Development Fund and the Cohesion Fund, aimed at supporting further professionalisation of the fund management. The framework is accompanied by a self-assessment tool, which is a flexible instrument enabling employees to assess their own level of proficiency in each of the skills required for their job. The assessment results can be aggregated at the institutional level, thereby providing a basis for the preparation of learning and development plans. The self-assessment tool and user guidelines, as well as other support documents, are available in 21 EU languages.
- Phase 1 of a pilot project on frontloading administrative capacity building has been implemented in close cooperation with the Organisation for Economic Co-operation and Development. Five managing authorities, from Bulgaria, Greece, Spain, Croatia and Poland, received assistance to develop roadmaps to enhance administrative capacity building. The key findings of the pilot project are detailed in a synthesis report drafted by the Organisation for Economic Co-operation and Development, and the project's recommendations to managing authorities, national authorities and the Commission are aimed at improving the management and implementation of European Structural and Investment Funds in the 2021-2027 programming period. The Commission has signed an agreement with the Organisation for Economic Co-operation and Development for phase 2, under which selected actions from the roadmap will be implemented. Furthermore, a draft practical toolkit on how to develop roadmaps for administrative capacity building will provide support to Member States.
- Prevention of fraud and corruption. Focusing on awareness raising and practical tools and instruments to fight fraud and corruption, such as data-mining tools, open data and intensified cooperation with civil society organisations; finalising a study on appropriate anti-fraud and anti-corruption practices in the management of the funds applied in the Member States; launching a study identifying good practices and developing capacity-building tools for prevention of fraud/corruption.
- Pilot integrity pacts. An integrity pact is an innovative tool developed by Transparency International to help governments, businesses and civil society fight corruption in public contracting. It is based in 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 monitors the process to ensure that all parties comply with their ethical commitments throughout the entire project life cycle, i.e. from the drafting of the terms of reference to the closure of the project. Currently, 18 pilot integrity pacts are being implemented in 11 Member States (Bulgaria, Czechia, Greece, Italy, Latvia, Lithuania, Hungary, Poland, Portugal, Romania and Slovenia), showing some significant first results.

- A dedicated action plan on public procurement. For strengthening capacity in the field of public procurement, in close cooperation with DG Internal Market, Industry, Entrepreneurship and SMEs, other departments dealing with the European Structural and Investment Funds and the European Investment Bank. The action plan includes 41 actions (22 concluded; 19 ongoing), some of which are:
    - the promotion of transparency and open data on public procurement by implementing pilot projects with the European Bank for Reconstruction and Development in some Member States;
    - the provision of support to post-2020 programme negotiations (via the enabling condition for public procurement etc.);
    - actions to ensure a level playing field and training for Member States on strategic public procurement;
    - an overview of the typology of public procurement errors reported by national audit authorities and errors detected by DG Regional and Urban Policy auditors;
    - the promotion of strategic procurement (e.g. smart, green and inclusive procurement or procurement involving 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. This aims at increasing awareness and understanding of the impact of state aid on cohesion policy, improving the cooperation between the various actors involved in the monitoring of state aid in the Member States, and providing proactive support to the EU Member States and regions in the correct application of state aid rules. It includes measures for:
    - the reviewing of existing good practices and their dissemination;
    - strategic training programmes, including expert and country-specific seminars;
    - tailor-made assistance to Member States, offering them expert support.

As regards the **European Social Fund**, ineligible costs continue to be the main source of error, together with ineligible projects/beneficiaries, followed by public procurement issues. The Commission has initiated targeted measures to address the root causes of errors in these areas.

5.4. Cumulative figures

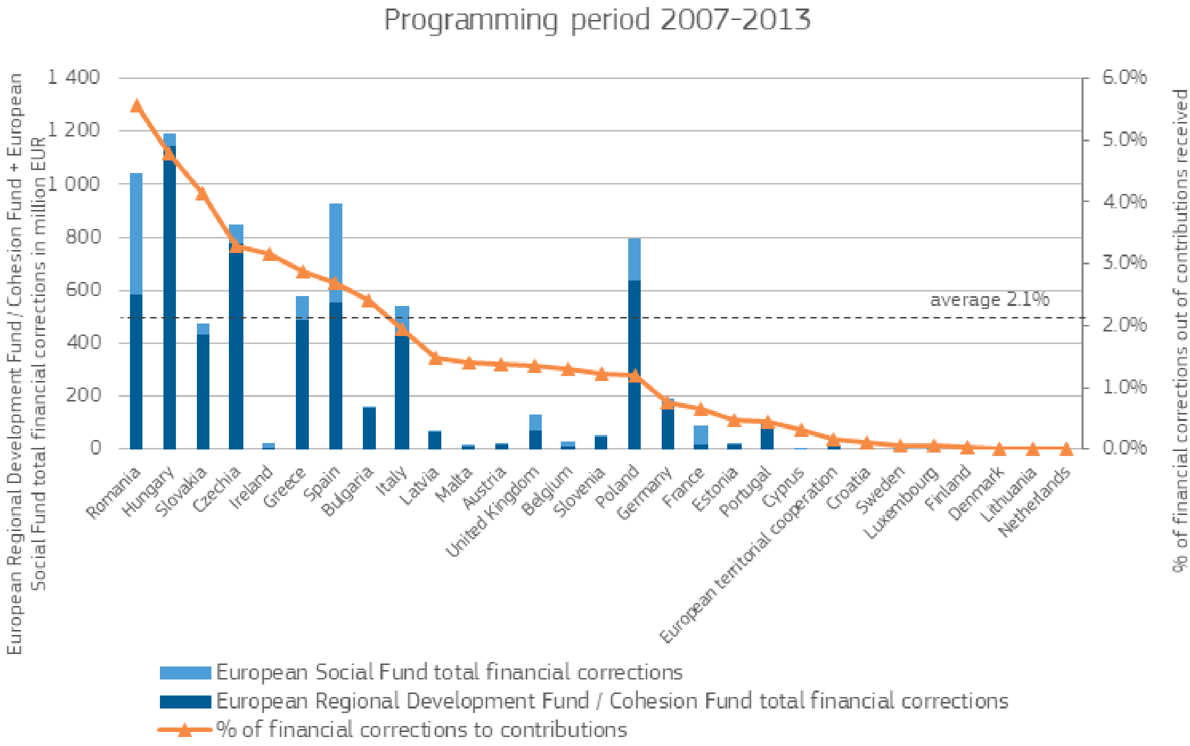
Cohesion policy: European Regional Development Fund / Cohesion Fund and European Social Fund 2007-2013

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

Member State	European Regional Development Fund / Cohesion Fund + European Social Fund (million EUR) contribution amount	% of contribution amount out of total contributions	Financial corrections confirmed (million EUR)	Financial corrections as % of total European Regional Development Fund / Cohesion Fund + European Social Fund contributions	Financial corrections imposed as % of total financial corrections
Belgium	2 059	*0.6%*	27	*1.3%*	*0.4%*
Bulgaria	6 595	*1.9%*	159	*2.4%*	*2.2%*
Czechia	25 819	*7.5%*	847	*3.3%*	*11.6%*
Denmark	510	*0.1%*	0	*0.0%*	*0.0%*
Germany	25 458	*7.4%*	194	*0.8%*	*2.7%*
Estonia	3 403	*1.0%*	16	*0.5%*	*0.2%*
Ireland	751	*0.2%*	24	*3.2%*	*0.3%*
Greece	20 210	*5.8%*	579	*2.9%*	*7.9%*
Spain	34 521	*10.0%*	928	*2.7%*	*12.7%*
France	13 546	*3.9%*	88	*0.6%*	*1.2%*
Croatia	858	*0.2%*	1	*0.1%*	*0.0%*
Italy	27 940	*8.1%*	543	*1.9%*	*7.4%*
Cyprus	612	*0.2%*	2	*0.3%*	*0.0%*
Latvia	4 530	*1.3%*	67	*1.5%*	*0.9%*
Lithuania	6 775	*2.0%*	0	*0.0%*	*0.0%*
Luxembourg	50	*0.0%*	0	*0.1%*	*0.0%*
Hungary	24 893	*7.2%*	1 190	*4.8%*	*16.3%*
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%*	*0.2%*
Poland	67 186	*19.4%*	795	*1.2%*	*10.9%*
Portugal	21 412	*6.2%*	97	*0.5%*	*1.3%*
Romania	18 782	*5.4%*	1 043	*5.6%*	*14.3%*
Slovenia	4 101	*1.2%*	50	*1.2%*	*0.7%*
Slovakia	11 483	*3.3%*	477	*4.2%*	*6.5%*
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%*	133	*1.4%*	*1.8%*
European territorial cooperation	7 956	*2.3%*	12	*0.2%*	*0.2%*
Total	**346 220**	***100%***	**7 300**	***2.1%***	***100%***

European Regional Development Fund / Cohesion Fund and European Social Fund confirmed financial corrections for the 2007-2013 programming period, as of 31 December 2019, by Member State

As the 2007-2013 programmes are multi-funds, no split is given between European Regional Development Fund and Cohesion Fund data in the table above.



Member States' confirmed cumulative financial corrections as of 31 December 2019 for the European Regional Development Fund / Cohesion Fund and European Social Fund for programming period 2007-2013, compared to contributions received

For the **European Regional Development Fund / Cohesion Fund** programmes, the Commission has imposed financial corrections of around EUR 5.7 billion ([37]) cumulatively since the beginning of the 2007-2013 programming period (including EUR 1.4 billion in financial corrections applied by the Member States, before or when the expenditure was declared to the Commission, as a result of requested remedial actions). The main Member States concerned are Hungary (EUR 1 143 million), Czechia (EUR 777 million), Poland (EUR 637 million), Romania (EUR 582 million), Spain (EUR 553 million), Greece (EUR 485 million), Italy (EUR 435 million) and Slovakia (EUR 432 million).

For the **European Social Fund**, the Member States with the highest amount of cumulative financial corrections confirmed are Romania (EUR 461 million), Spain (EUR 376 million), Poland (EUR 158 million) and Italy (EUR 108 million). At this stage of the implementation and at the closure of the programmes the cumulative amount of financial corrections confirmed stands at EUR 1.583 billion, representing 2% of the European Social Fund's declared expenditure at close. The cumulative amount of the financial corrections implemented stands at EUR 2 995 million (EUR 1 509 million implemented at Member State level and EUR 1 486 million implemented by the Commission), representing around 3.8% of the declared expenditure.

([37]) Including financial corrections at source.

5.5. Member States' corrections

Financial corrections declared by the Member States for the cohesion policy period 2014-2020 ([38])

In February 2020 the Member State authorities submitted the certified accounts for the accounting year 1 July 2018 to 30 June 2019. According to the information received in the assurance packages, following the results of the audit of operations, for the **European Regional Development Fund / Cohesion Fund** the Member States have applied financial corrections totalling EUR 527.0 million. The financial corrections imposed for the **European Social Fund / Youth Employment Initiative** and the **Fund for European Aid to the most Deprived** amounted to EUR 134.4 million, while for the **European Maritime and Fisheries Fund** EUR 8.3 million was reported in 2019.

Member State	European Regional Development Fund / Cohesion Fund	European Social Fund – Youth Employment Initiative / Fund for European Aid to the Most Deprived	European Maritime and Fisheries Fund	Total
Belgium	2.3	0.5	0.0	**2.8**
Bulgaria	11.9	0.8	1.6	**14.3**
Czechia	7.0	0.0	0.7	**7.7**
Denmark	—	0.0	0.0	**0.0**
Germany	16.0	5.4	0.0	**21.5**
Estonia	1.3	0.0	0.0	**1.3**
Ireland	1.5	-	0.0	**1.5**
Greece	27.9	7.8	0.0	**35.7**
Spain	76.3	62.2	0.2	**138.6**
France	65.3	8.1	0.4	**73.8**
Croatia	0.1	2.7	1.4	**4.2**
Italy	52.7	7.6	—	**60.2**
Cyprus	0.1	0.0	—	**0.1**
Latvia	0.1	0.0	0.0	**0.1**
Lithuania	3.3	0.5	—	**3.9**
Luxembourg	—	—	—	**0.0**
Hungary	13.1	9.1	—	**22.2**
Malta	0.0	0.0	—	**0.0**
Netherlands	0.1	—	0.0	**0.1**
Austria	14.8	0.1	0.0	**14.9**
Poland	8.8	0.9	—	**9.7**
Portugal	109.6	3.0	2.9	**115.5**

([38]) This information was sent in the assurance packages received in February 2020 for the 5th accounting year and is still under assessment by the Commission services (information as reported by the Member States, pending verification by the Commission).

Member State	European Regional Development Fund / Cohesion Fund	European Social Fund – Youth Employment Initiative / Fund for European Aid to the Most Deprived	European Maritime and Fisheries Fund	Total
Romania	69.7	10.9	0.2	**80.8**
Slovenia	1.0	0.0	0.0	**1.1**
Slovakia	34.8	0.5	0.1	**35.4**
Finland	0.1	0.0	0.2	**0.3**
Sweden	0.0	0.0	0.0	**0.0**
United Kingdom	7.4	14.1	0.4	**21.9**
European territorial cooperation	1.9	—	—	**1.9**
Total implemented	**527.0**	**134.4**	**8.3**	**669.6**

Financial corrections for the accounting year 1 July 2018 to 30 June 2019 reported by Member States for the cohesion policy period 2014-2020, in addition to Commission reporting (million EUR)

6. Direct and indirect management

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

For **research expenditure**, the control framework applicable to both direct ([39]) and indirect ([40]) 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 based on 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 such 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 extrapolated to all of the beneficiary's ongoing EU-funded projects.

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 ([41]), used for this implementation. This strategy starts with choosing the most appropriate tool when drafting the planning documents and the financial decisions, and leads 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 provided for 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's financial interests are therefore safeguarded by, in addition to all the other possible means offered by the financial regulation, 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.

([39]) I.e. the research budget is implemented by the Commission and executive agencies.
([40]) I.e. the implementation of the research budget is entrusted to joint undertakings.
([41]) I.e. the budget implementation is carried out by international organisations.

7. Detailed information on financial corrections and recoveries

7.1. Net financial corrections 2019

Confirmed

Multiannual financial framework heading	Net financial corrections confirmed in 2019 (*)	Financial corrections with replacement of expenditure, and other corrections confirmed in 2019	Total financial corrections confirmed in 2019
Smart and inclusive growth	**281**	**529**	**810**
European Regional Development Fund	1	443	**443**
Cohesion Fund	0	68	**68**
European Social Fund	280	19	**299**
Sustainable growth: natural resources	**251**	**0**	**251**
European Agricultural Guarantee Fund (**)	141	—	**141**
Rural development	181	—	**181**
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	0	—	**0**
European Agricultural Guidance and Guarantee Fund	(72)	—	**(72)**
Security and citizenship	**6**	**7**	**13**
Migration and home affairs	6	7	**13**
Total	**537**	**536**	**1 074**

Confirmed net financial corrections in 2019, by multiannual financial framework heading (million EUR)

NB: Due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

(*) A total of EUR 235 million remains to be classified and is treated as non-net corrections in this table.

(**) For the purposes of calculating its corrective capacity in the annual activity report, DG Agriculture and Rural Development only takes into account the amounts related to conformity clearance decisions adopted by the Commission and published in the *Official Journal of the European Union*, and deducts the corrections in respect of cross-compliance infringements

Implemented

Multiannual financial framework heading	Net financial corrections implemented in 2019	Financial corrections with replacement of expenditure, and other corrections implemented in 2019	Total financial corrections implemented in 2019
Smart and inclusive growth	**304**	**654**	**958**
European Regional Development Fund	35	356	391
Cohesion Fund	0	88	88
European Social Fund	269	210	479
Sustainable growth: natural resources	**1 091**	**0**	**1 091**
European Agricultural Guarantee Fund	982	—	982
Rural development	181	—	181

Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	0	—	0
European Agricultural Guidance and Guarantee Fund	(72)	—	(72)
Security and citizenship	**6**	**7**	**13**
Migration and home affairs	6	7	13
Total	**1 401**	**661**	**2 062**

Implemented net financial corrections in 2019, by multiannual financial framework heading (million EUR)

NB: Due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

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

7.2. Breakdown of flat-rate corrections 2019

Flat-rate corrections ([42]) are a valuable tool used when the related amount cannot be quantified on the basis of a representative statistical sample or when the impact of individual errors on expenditure cannot be quantified precisely. However, this means that a Member State subject to a flat-rate 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.

Multiannual financial framework heading	Total financial corrections confirmed	Flat-rate financial corrections (*) confirmed in 2019	Total financial corrections implemented	Flat-rate financial corrections (*) implemented in 2019
Agriculture				
European Agricultural Guarantee Fund	141	5	982	458
European Agricultural Fund for Rural Development	181	18	181	18
Cohesion				
European Regional Development Fund and Cohesion Fund (**)	511	137	479	137
European Social Fund	299	280	479	301
Financial Instrument for Fisheries Guidance / European Fisheries Fund / European Maritime and Fisheries Fund	0	0	0	0
European Agricultural Guidance and Guarantee Fund	(72)	—	(72)	—
Internal policies	13	8	13	8
Total	**1 074**	448	**2 062**	921

([42]) For the European Regional Development Fund / Cohesion Fund, flat-rate corrections should be seen as an estimation of the financial corrections (flat-rate and/or extrapolated) that are not directly linked to individual operations/projects. It also needs to be underlined that 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) that is considered prevalent. These two limitations do not have an impact on the reliability of the global amounts reported.

Flat-rate financial corrections in 2019, by multiannual financial framework heading (million EUR)
(*) Includes extrapolated corrections.
(**) Breakdown of flat-rate corrections only available for 2007-2013 multiannual financial framework.

7.3. Breakdown of at-source financial corrections 2019

Member State	At-source financial corrections confirmed in 2019	At-source financial corrections implemented in 2019
Belgium	0.3	0.3
Czechia	—	67.2
Hungary	—	0.1
TOTAL	**0.3**	**67.6**

At-source financial corrections in 2019 (million EUR)

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 cases they are the result of flat-rate corrections imposed for deficiencies in the management and control system, identified following the Commission audits ([43]).

The main at-source financial correction implemented in 2019 concerns the **European Regional Development Fund** (in Czechia, for EUR 67 million).

([43]) As a result, the eligible expenditure declared to the Commission is capped at the amount established after the deduction of the flat-rate correction.

7.4. Breakdown by Member State: Financial corrections in 2019 compared to EU payments received

Member State	Payments received from the EU budget in 2019 (million EUR)	Financial corrections confirmed in 2019 (million EUR)	Financial corrections confirmed in 2019 as % of payments received from the EU budget in 2019	Financial corrections implemented in 2019 (million EUR)	Financial corrections implemented in 2019 as % of payments received from the EU budget in 2019
Belgium	1 245	15	*1.2%*	17	*1.3%*
Bulgaria	2 238	20	*0.9%*	19	*0.9%*
Czechia	5 017	1	*0.0%*	92	*1.8%*
Denmark	1 063	0	*0.0%*	0	*0.0%*
Germany	9 233	1	*0.0%*	1	*0.0%*
Estonia	1 018	7	*0.7%*	7	*0.7%*
Ireland	1 758	5	*0.3%*	5	*0.3%*
Greece	4 740	(46)	*(1.0%)*	415	*8.8%*
Spain	10 947	(8)	*(0.1%)*	180	*1.6%*
France	12 159	68	*0.6%*	120	*1.0%*
Croatia	1 997	2	*0.1%*	2	*0.1%*
Italy	10 711	567	*5.3%*	632	*5.9%*
Cyprus	201	0	*0.0%*	0	*0.0%*
Latvia	1 343	0	*0.0%*	0	*0.0%*
Lithuania	1 428	1	*0.1%*	2	*0.2%*
Luxembourg	86	0	*0.5%*	0	*0.5%*
Hungary	5 973	138	*2.3%*	134	*2.2%*
Malta	198	0	*0.2%*	0	*0.2%*
Netherlands	986	12	*1.2%*	12	*1.2%*
Austria	1 545	10	*0.6%*	19	*1.2%*
Poland	16 989	65	*0.4%*	129	*0.8%*
Portugal	4 520	20	*0.5%*	27	*0.6%*
Romania	5 530	151	*2.7%*	166	*3.0%*
Slovenia	846	0	*0.0%*	0	*0.0%*
Slovakia	2 294	9	*0.4%*	35	*1.5%*
Finland	1 127	0	*0.0%*	0	*0.0%*
Sweden	1 288	17	*1.3%*	19	*1.5%*
United Kingdom	6 034	17	*0.3%*	25	*0.4%*
European territorial cooperation	178	1	*0.8%*	1	*0.8%*
Total	**112 693**	1 074	*1.0%*	2 062	*1.8%*

Financial corrections compared to EU payments received in 2019, by Member State

7.5. Agricultural funding amounts recovered from final beneficiaries by the Member States in 2019 and used in the calculation of the corrective capacity

Member State	European Agricultural Guarantee Fund recoveries	European Agricultural Fund for Rural Development recoveries	Total recoveries 2019
Belgium	1.64	0.89	2.53
Bulgaria	3.55	5.99	9.54
Czechia	1.32	3.03	4.35
Denmark	1.20	0.74	1.94
Germany	11.54	9.02	20.56
Estonia	0.33	1.88	2.21
Ireland	4.24	2.06	6.30
Greece	6.61	2.99	9.60
Spain	12.52	5.88	18.40
France	31.66	5.13	36.79
Croatia	1.67	2.28	3.94
Italy	41.00	41.63	82.64
Cyprus	0.30	0.03	0.34
Latvia	0.32	0.52	0.83
Lithuania	2.00	1.61	3.61
Luxembourg	0.26	0.24	0.50
Hungary	3.76	4.34	8.11
Malta	0.03	0.09	0.13
Netherlands	2.37	0.13	2.49
Austria	1.83	3.09	4.92
Poland	5.78	10.32	16.10
Portugal	5.91	10.50	16.41
Romania	8.39	17.46	25.86
Slovenia	0.44	0.74	1.17
Slovakia	1.07	1.60	2.68
Finland	1.06	1.09	2.15
Sweden	0.25	0.14	0.39
United Kingdom	4.74	6.67	11.41
Total	**155.80**	**140.10**	**295.90**

Member States' financial recoveries from final beneficiaries of agricultural funding in 2019 (million EUR)

For the **European Agricultural Fund for Rural Development**, the figures are taken from the debtors' ledger (recovered amount plus interest), as reconciled at the end of March 2020. Only recoveries to the **European Agricultural Fund for Rural Development** (2007-2013 and 2014-2020) are taken into account. For the **European Agricultural Guarantee Fund**, the figures represent amounts recovered from the beneficiaries by the Member States and reimbursed to the Commission as assigned revenue ('implemented' amounts).

The recovered amounts presented above include recoveries due to cross-compliance infringements. However, for the purposes of calculating the corrective capacity, such recoveries are excluded.

Annex 6: Assurance provided by the Internal Audit Service

The work of the Internal Audit Service, its principal findings and recommendations, and the information from the Audit Progress Committee contribute to the overall assurance-building process at Commission level. The Audit Progress Committee supports the Commission by ensuring the independence of the internal auditor and that audit recommendations are properly taken into account and appropriately followed up.

In 2019, the Internal Audit Service produced an annual internal audit report, in line with Article 118(4) of the financial regulation, which: (i) summarised the performance audits completed in 2019, (ii) presented the overall opinion on financial management for the year 2019, (iii) recalled the contribution of the Internal Audit Service to the annual activity reporting of the Commission's departments and the executive agencies and (iv) reported on progress in implementing its audit recommendations.

Financial management: internal auditor's overall opinion

As required by its mission charter, the Commission's Internal Audit Service issued an overall opinion, which is based on the audit work it had carried out in the area of financial management in the Commission during the previous 3 years (2017-2019) 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 2019, 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 the authorising officers by delegation made in their 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 by authorising officers by delegation for the amount of the expenditure authorised that was not in conformity with the applicable contractual and regulatory provisions at the time of the payment in 2019.

In their annual activity reports, the directorates-general estimate amounts at risk to total between EUR 2.68 billion and EUR 3.11 billion approximately. This corresponds to between 1.8% and 2.1% of total expenditure from the Commission budget, the European Development Fund and the EU Trust Funds in 2019 and therefore just above a materiality of 2% as defined in the instructions for the preparation of the 2019 annual activity reports.

These amounts at risk at payment in 2019 do not yet include any financial corrections and recoveries related to deficiencies and errors that the Commission departments will detect and correct in the coming years due to the multiannual 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. The COVID-19 outbreak and the Commission's response to it did not affect the Commission's ability to protect the EU budget during 2019. It may however do so in 2020 and the following years as *ex post* corrective measures that have led to corrections in the past may become less effective (affecting corrective capacity) (see also the related emphasis of matter below).

Without further qualifying the opinion, the internal auditor added the following two 'emphases of matter', highlighting issues that require particular attention.

(i) Implementation of the EU budget in the context of the current crisis related to the COVID-19 pandemic: need for a detailed assessment of emerging risks and for the definition and implementation of corresponding mitigating measures.

The health, social, economic and financial situation created by the COVID-19 pandemic entails potentially high, cross-cutting risks for the institution as regards the implementation of the EU budget and the delivery of its policy priorities.

The Commission is accountable for the implementation of the EU budget. This includes the operations conducted prior to the crisis (as part of the 2014-2020 multiannual financial framework), for which adequate controls (*ex post* in particular) still need to be performed, and during the crisis itself, on assurance, compliance and performance aspects.

As the crisis continues, this context poses challenges, in particular as regards:

- the implementation of the budget in compliance with the applicable legal framework, due to changing rules and evolving regulations, urgent procedures, use of exceptional measures, difficult conditions and/or limited availability of financial and human resources;
- the extent to which the necessary controls and verifications, whether at the level of the Commission, Member States, non-EU countries, implementing partners and/or beneficiaries, can be performed as intended due to logistical constraints such as the need for full and timely access to information and documentation, problems in undertaking missions / on-site checks and the ability of implementing partners and beneficiaries to continue their normal activities;
- the potential impact on the Commission's current and future corrective capacity, due to the very challenging economic situation, which will need to be tackled at EU and national levels, including the possible bankruptcies of final beneficiaries, which could make it difficult to recover undue amounts.

The assurances provided on the financial management of the EU budget are multiannual in nature and depend on the robustness of the corresponding control strategies at different levels. These are based on risk assessments of the specific programmes and related budget operations, *ex ante* and *ex post* controls on expenditure, supervision strategies regarding third parties implementing policies and programmes, together with the implementation of the corrective capacity to protect the EU budget.

To ensure the budget is duly protected in the face of these unprecedented challenges, the Commission's directorates-general and services should (i) duly assess the risks caused by the COVID-19 pandemic related to financial management in terms of assurance, compliance with the legal framework and the corrective capacity of the multiannual systems, as well as performance; and (ii) define and implement adequate mitigating measures, such as adjusting or redefining their control strategies.

(ii) Supervision strategies regarding third parties implementing policies and programmes.

Although the Commission remains fully responsible for ensuring the legality and regularity of expenditure and sound financial management (and also the achievement of policy objectives), it has increasingly relied on third parties to implement its programmes. This is mostly done by delegating the implementation of the EU's operational budget or certain tasks to countries outside the EU, international organisations or international financial institutions, national authorities and national agencies in Member States, joint undertakings, non-EU bodies and EU decentralised agencies. Moreover, in certain policy areas, alternative funding mechanisms such as financial instruments are (planned to be) increasingly used and entail specific challenges and risks for the Commission, as also highlighted by the European Court of Auditors.

To fulfil their overall responsibilities, the directorates-general have to oversee the implementation of the programmes and policies and provide guidance and assistance where needed. Therefore, they 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, where applicable, and that any potential issues identified are addressed as soon as possible.

The Internal Audit Service continued to recommend in a number of audits in 2019 that the control strategies and supervisory arrangements of the relevant directorates-general should set out the priorities and the need to obtain assurance on sound financial management in those EU and non-EU bodies more clearly. Although actions have been taken in recent years both at the level of the central services and at that of the relevant directorates-general to mitigate the risks identified as a result of audit work, further improvements are still needed in some areas.

In this context, the Commission directorates-general should continue their efforts to identify and assess the risks involved in delegating tasks to third parties and pursue effective and efficient supervisory activities by further developing the relevant control strategies. This is relevant not only for the activities delegated under the current 2014-2020 multiannual financial framework, but even more so in view of the expected increase in the use of equity, guarantee and risk-sharing instruments in the next, 2021-2027 multi financial framework.

The Internal Audit Service will monitor the developments regarding the impact of the COVID-19 crisis and the reliance on third parties for the implementation of programmes, on the current and the new (revised) multiannual financial framework, the updated political priorities and the Commission's financial management. This will be done as part of the Internal Audit Service's updates of the periodic (strategic) risk assessments and resulting audit plans.

Results of performance audits by the Internal Audit Service

With a view to contributing to the Commission's performance-based culture and greater focus on value for money, the Internal Audit Service carried out performance audits and audits that included important performance elements (comprehensive audits) in 2019 as part of its 2019-2021 strategic audit plan.

The Internal Audit Service made recommendations to help improve the overall performance of several key processes in the following areas.

- **Supervision strategies regarding the implementation of programmes by third parties.** The 2019 audits provide a mixed picture in this area, with weaknesses identified (in three out of five audits completed in 2019). In DG Energy and DG Mobility and Transport, the Internal Audit Service audits did not give rise to any critical or very important recommendations concerning the supervision. However, the Internal Audit Service issued recommendations on supervision strategies in specific areas regarding the performance framework of the European Union Finance for Innovators Instrument (DG Research and Innovation); the fruit and vegetable regime, in relation to the Member States (DG Agriculture and Rural Development); and the monitoring of the implementation and performance of 2014-2020 operational programmes in relation to the Member States (DG Employment, Social Affairs and Inclusion, DG Regional and Urban Policy and DG Maritime Affairs and Fisheries).
- **Control strategies of selected directorates-general and services.** The Internal Audit Service identified in its audits in this area several weaknesses as regards: the planning and design of the control activities for a specific programme (an Executive Agency for Small and Medium-sized Enterprises programme on environment and climate action); the monitoring and follow-up of audits (DG International Cooperation and Development, DG Neighbourhood and Enlargement Negotiations); the effectiveness of the control strategy (DG European Civil Protection and Humanitarian Aid Operations – for ensuring regularity and sound financial management in the *ex ante* controls as well as in *ex post* audits); the closure of mandates for common foreign security policy missions and the specific mitigating measures applied for the implementation of the EU budget delegated to the non-pillar-assessed mission in Somalia (Service for Foreign Policy Instruments); and the set-up, planning and execution of the audit activity and the clearance of accounts (DG Migration and Home Affairs).
- **Human resources management processes.** Although action had already been taken in several areas following audits performed by the Internal Audit Service, the issues identified in previous years were also identified in two of the three human resources audits performed in 2019 (mainly as regards task and skills mapping, workload assessment and staff allocation in DG Taxation and Customs Union and the European Anti-Fraud Office, and as regards the human resources strategy in DG Taxation and Customs Union and the implementation of the

human resources strategy in the European Anti-Fraud Office). In contrast, the human resources audit in DG Trade did not give rise to any critical or very important recommendations. Two other audits (of site management in the Joint Research Centre and of the efficiency and effectiveness of the Health and Food Audits and Analysis Directorate in DG Health and Food Safety) revealed specific issues related to the staffing in the audited areas.

These audits confirmed that in the area of human resources management both the corporate and the operational directorates-general and services need to assume the responsibility for the tasks relating to their respective roles (DG Human Resources and Security for the design of the policies, development of centralised tools and provision of specific assistance and support; and directorates-general and services – at directorate-general level or for specific business processes – for the design and implementation of adequate human resources strategies to support the achievement of their objectives).

- **Information technology management processes.** Several audits focused on information technology project management practices. While two audits on this topic (of DG Informatics and DG Education, Youth, Sport and Culture) did not identify any significant performance issues, one issue – concerning governance practices for the monitoring of programmes and projects – was identified in the audit in the Publications Office. In the European Anti-Fraud Office, overall, the controls in place for information technology project management practices did not provide sufficient assurance to mitigate the risks, and five very important weaknesses were identified.
- **Better regulation.** No significant performance issues were identified in the several areas audited in relation to the better regulation framework (i.e. the digital single market policy proposals of DG Communications Networks, Content and Technology, the impact assessments in DG Justice and Consumers, the evaluation and studies by DG Climate Action and DG Environment and the monitoring of EU law implementation by DG Taxation and Customs Union), except for specific issues related to the procurement of evaluations and studies in DG Environment.
- **Assessment of the implementation of the new internal control framework in the Commission in selected directorates-general.** The results of a series of limited reviews performed by the Internal Audit Service in six directorates-general and offices were satisfactory overall, as none gave rise to any critical or very important recommendations.
- **Performance-related issues in other processes.** A number of weaknesses were identified and recommendations issued by the Internal Audit Service in various other areas, such as: the quality review function in Eurostat; the internal control system underpinning the processes for reviewing the unit costs methodology used by Member States to finance veterinary and plant health programmes and emergency measures in DG Health and Food Safety; specific areas of the management of international activities in DG Environment; specific issues related to the management of recovery orders (the management of insolvencies and bankruptcies, and the offsetting process) in DG Budget.

Contribution of the Internal Audit Service to the annual activity reporting of the authorising officers by delegation

The Internal Audit Service issued **limited conclusions on the state of internal control** to every directorate-general and service ([44]) in February 2020. These limited conclusions contributed to the 2019 annual activity reports of the directorates-general and services concerned. They draw on the audit work carried out in the last 3 years and cover all open recommendations issued by the Internal Audit Service.

The Internal Audit Service's conclusions on the state of internal control in the directorates-general are limited to the management and control systems that were audited in the past 3 years (2017-2019).

([44]) Except for DG Defence Industry and Space; Inspire, Debate, Engage and Accelerate Action; and the UK Task Force.

Follow-up of previous Internal Audit Service recommendations

The Internal Audit Service's follow-up work confirmed that, overall, **recommendations are being implemented satisfactorily by the Commission's directorates-general, services and executive agencies and the control systems in the audited departments are improving**.

Of the 245 recommendations (classified as critical, very important or important) **still in progress** in the Commission departments at the cut-off date of 31 January 2020 (representing 13% of the total number of accepted recommendations over the past 5 years), none are classified as critical and 71 are rated as very important. Out of these 71 recommendations, only six were long overdue (i.e. still open more than 6 months after the original implementation date), representing 0.3% of the total number of accepted critical and very important recommendations of the past 5 years.

Once **management reports the recommendations as completed, the Internal Audit Service conducts follow-up audits to assess the effectiveness of their implementation**. As a result, the Internal Audit Service concluded that 98% of the recommendations followed up during 2015 to 2019 had been adequately and effectively implemented by the auditees.

Annex 7: Summary of the work and conclusions of the Audit Progress Committee

An updated Audit Progress Committee charter was adopted by the College of Commissioners in February 2020. It largely builds on the strengths of the previous charter, keeping the mandate and the composition of the Audit Progress Committee stable ([45]) while reflecting the required changes in the internal membership as a result of the new Commission taking office on 1 December 2019.

The Audit Progress Committee has focused its work on four key objectives set out in its 2019 and 2020 work programmes, namely: considering the audit planning of the internal auditor; analysing the results of internal and external audit work to identify potentially significant risks, including in a thematic manner; monitoring the follow-up mitigation of significant residual risks identified by audit work; and ensuring the independence of the internal auditor and monitoring the quality of internal audit work.

The Audit Progress Committee is satisfied as to the independence and quality of internal audit work and that the internal auditor's planning adequately covers the audit universe and continues to cover the key risk areas. The Audit Progress Committee observed, based on the analysis prepared by the internal auditor, the high level of convergence between the critical risks identified by management and the high risks identified by the Internal Audit Service. The Audit Progress Committee also expressed satisfaction about the further increase in the quality and coherence of the list of critical risks as identified by management in response to the Committee's previous requests for improvements.

The committee welcomed that the Internal Auditor's overall opinion for 2019 is positive and is qualified only with regard to the management reservations as expressed in the annual activity reports of the Authorising Officers by Delegation. For the fifth year in a row the Internal Auditor includes an emphasis of matter relating to outsourcing ('externalisation'). The committee has highlighted its concerns about such risks on numerous occasions, and again reiterated that efforts to mitigate them through adequate control strategies and tools need to be continued as a matter of priority. The committee also took note of and expressed support for the newly raised emphasis of matter on the implementation of the EU budget in the context of the ongoing crisis related to the COVID-19 pandemic. It held a dedicated discussion on the associated new and emerging risks, as well as their potential impact on the wider control environment, audit conditions and assurance building in general.

The committee took note of the Internal Auditor's overall conclusion on performance audits, in particular concerning the supervision strategies regarding the implementation of programmes by third parties, control strategies of selected Commission departments, information technology and human resources management processes, and better regulation initiatives. The committee noted with satisfaction the thematic convergence with its own priorities and that most of the highlighted key audit findings had been discussed by the committee or were scheduled for discussion at its future meetings.

The Audit Progress Committee noted that all of the audit recommendations issued by the Internal Auditor in 2019 were accepted by the management and satisfactory action plans were being implemented to address the risks identified.

No critical recommendations were issued by the internal auditor during the reporting period.

The Committee continued to closely follow up on the issues raised in its previous annual reports, as detailed below:

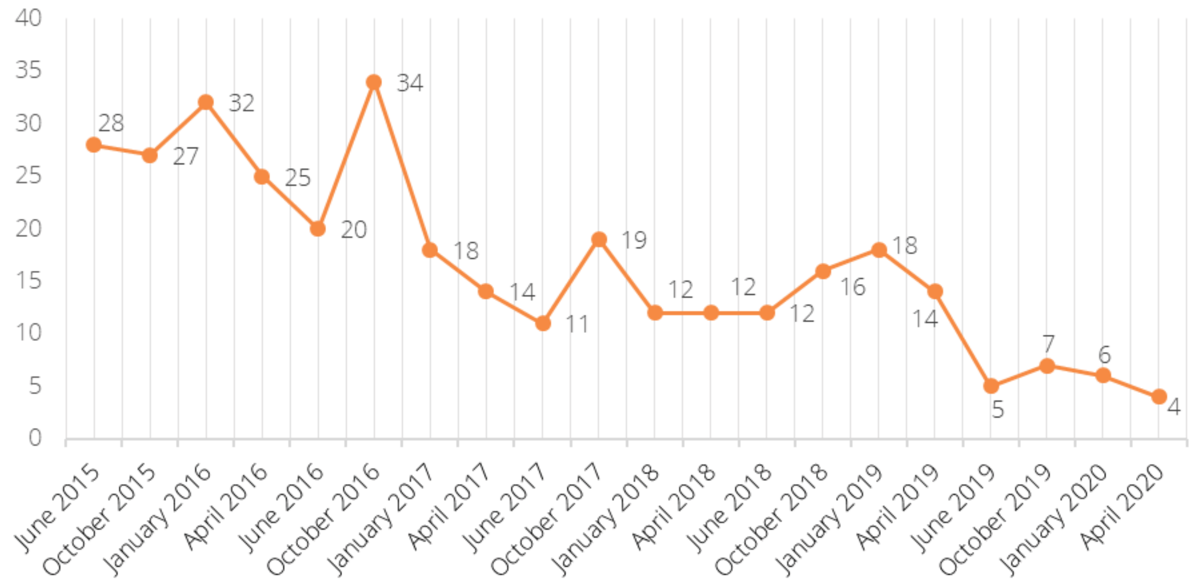
- the Audit Progress Committee welcomed the fact that all recommendations from the internal auditor's report on the Commission's governance/oversight arrangements concerning risk

([45]) The Audit Progress Committee comprises nine members. A maximum of six are Members of the Commission, and at least three are external members with proven professional expertise in audit and related matters. Half of the Commission membership of the Audit Progress Committee is renewed half way through the term. Contracts with external members are drawn up each year.

management, financial reporting and the *ex post* verification/audit function had been fully implemented and closed;

- in the area of performance, all three very important internal audit recommendations to Eurostat as concerns the production process and the quality of statistics other than those produced by that service were implemented during the reporting period;
- the Audit Progress Committee noted with satisfaction that the long-outstanding recommendations addressed to the Office for the Administration and Payment of Individual Entitlements concerning the budget of the European Anti-Fraud Office's Supervisory Committee were fully implemented and had been closed.

The effective implementation rate of the internal auditor's recommendations (i.e. 98% for recommendations issued from 2015 to 2019) is high. The number of very important audit recommendations that are overdue by more than 6 months has fallen considerably over recent years, from an average of 28 in the period between June 2015 and October 2016 to an average of 14 since January 2017, as shown in the chart below.



Number of critical and very important recommendations overdue for more than 6 months
Source: European Commission.

During the reporting period, the Audit Progress Committee continued to scrutinise the state of play of the implementation of the European Court of Auditors' recommendations, including the follow-up of the Court's audit findings on the reliability of the EU consolidated accounts.

With the recent updates applied to its charter, the Audit Progress Committee has evolved into a mature and effective actor in the Commission's governance structures. The newly established Audit Progress Committee for the 2019-2024 period will ensure that it continues to play its important role in enhancing governance, organisational performance and accountability across the entire organisation, throughout the term of the Commission.

Annex 8: Compliance with payment time limits

The **statutory time limits** for payments are laid down in the financial regulation (46). There are also some exceptionally applied time limits which are detailed in sector-specific regulations.

Article 116 of the financial regulation provides that payments to creditors must be made within deadlines of 30, 60 or 90 days, depending on how demanding and complicated it is to test the deliverables against the contractual obligations. Most of the payments have to be executed within 30 days; these represented a global average of 89% of payments in 2017, 2018 and 2019. For contracts and grant agreements for which payment depends on the approval of a report or a certificate, the time limit for the payment periods is no longer automatically suspended until the report or certificate in question has been approved.

The period of 2 months remains valid for payments under Article 87 of the regulation laying down the general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (47).

Compliance with payment time limits has been reported on by the departments in their annual activity reports since 2007 (48). 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 2007 financial regulation relate to:
  - 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 from 2013 on, the time limits in the 2018 financial regulation relate to:

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

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

	2017	2018	2019
Global average net payment time	20.4 days	18.4 days	16.3 days
Global average gross payment time	23.3 days	21.5 days	19.1 days

Commission's global average payment times, with all time limits combined, over the past 3 years

The data show that the global average net payment time, combining all time limits, of the Commission departments is below 30 days for the past 3 years and has steadily decreased since 2016. Departments are encouraged to continue their efforts in this regard and to implement follow-up measures whenever payment time problems are identified. The provision of the global average gross payment time is a new feature, following a recommendation from the Ombudsman. It represents the average time taken to pay, including any period of suspension.

(46) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union (OJ L 193, 30.7.2018, p. 1).
(47) Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (OJ L 210, 31.7.2006, p. 25).
(48) Based on available data in the corporate accounting system as of the end of the financial year 2007.

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

	2017	2018	2019
Share of payments that were late	10.4%	7.6%	5.0%
Share in value of late payments out of value of total payments	3.1%	3.3%	2.2%
Average number of days overdue (*)	39.6 days	45.5 days	42.4 days

Evolution of Commission's late payments, with all time limits combined, over the past 3 years
(*) I.e. number of days over the statutory time limit.

The number of late payments and the amounts associated with them have decreased significantly since 2016. This is believed to be partly the result of the more stringent requirements associated with the 2018 financial regulation. Another reason relates to the sufficient availability of payment appropriations. However, the average number of days overdue (delays are calculated in days), for all time limits combined, increased in 2018.

Concerning the **interest paid for late payments** ([49]) (see figures in the table below), **the total amount paid by the Commission remained stable in 2019**. The higher amount in 2017 was mainly the consequence of interest paid in 2017 by DG International Cooperation and Development after a Court of Justice case.

	2017	2018	2019
Interest paid on late payments (EUR)	824 421	385 468	380 653

In general, payment delays and interest paid are a consequence of payment shortages. For that reason, DG Budget has summarised some possible measures that 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 (as was the case for, on average, 11% of the payments in 2017, 2018 and 2019), which 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 internal Commission payment targets provided a clear incentive to services to reduce their payment times. There is scope for reducing payment times even further. When setting up action plans in this area, departments should focus on further reducing late payments from their current levels of 5% of the number of payments and of 2.2% of the value of the payments. **The aim should be to meet the statutory payment time for every payment.**

([49]) Payments of late interests are no longer conditional upon the presentation of a request for payment (with the exception of amounts below EUR 200).

The following table gives a detailed overview of the suspensions of payment.

	2017	2018	2019
Total number of suspensions	26 173	24 643	24 765

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

Annex 9:
Summary of waivers of recoveries

In accordance with **Article 101(5) of the financial regulation**, the Commission reports each year to the budgetary authority on the waivers it has granted in an annex to the summary of the annual activity reports.

The table below shows the total value and the number of waivers above and below EUR 60 000 in the financial year 2019.

The individual annual activity reports provide more details on the individual waivers above EUR 60 000.

EU budget area	Department	Total value of waivers (EUR)	Number (left) and value (right, EUR) of waivers above EUR 60 000		Number (left) and value (right, EUR) of waivers below EUR 60 000	
	DG Communications Networks, Content and Technology	2 775 513.99	13	2 340 136.24	18	435 377.75
	DG Communication	6 905.99			1	6 905.99
	DG Competition	1 152 250.00	2	1 152 250.00		
	DG International Cooperation and Development	2 432 435.69	11	1 843 447.70	28	588 987.99
	DG Education, Youth, Sport and Culture	66 034.77	1	66 034.77		
	Education, Audiovisual and Culture Executive Agency	724 818.47	2	222 199.24	27	502 619.23
	DG Economic and Financial Affairs	321 558.00	1	321 558.00		
	DG Energy	3 142.71			1	3 142.71
	DG Environment	214 037.32	2	176 055.77	5	37 981.55
	European Research Council Executive Agency	673 035.56	1	673 035.56		
	Service for Foreign Policy Instruments	677 150.44	5	617 442.04	3	59 708.40
	DG Internal Market, Industry, Entrepreneurship and SMEs	35 117.10			1	35 117.10
	Executive Agency for Small and Medium-sized Enterprises	201 385.20	1	201 385.20		
	Innovation and Networks Executive Agency	15 551.90			1	15 551.90

	DG Neighbourhood and Enlargement Negotiations	1 251 347.08	4	968 680.38	18	282 666.70
	Office for the Administration and Payment of Individual Entitlements	50 275.50			17	50 275.50
	DG Research and Innovation	817 146.41	2	817 146.41		
	Legal Service	109 455.79			10	109 455.79
	DG Structural Reform Support	182 310.10			16	182 310.10
		11 709 472.02	45	9 399 371.31	146	2 310 100.71
European Developmen t Fund		**Total value of waivers (EUR)**	**Number (left) and value (right, EUR) of waivers above EUR 60 000**		**Number (left) and value (right, EUR) of waivers below EUR 60 000**	
European Development Fund		3 001 628.61	5	2 940 684.44	5	60 944.17
Guarantee Funds		**Total value of waivers (EUR)**	**Number (left) and value (right, EUR) of waivers above EUR 60 000**		**Number (left) and value (right, EUR) of waivers below EUR 60 000**	
Guarantee Funds		3 322 191.54	17	2 250 996.75	47	1 071 194.79
OVERALL TOTAL		**18 033 292.17**	**67**	**14 591 052.50**	**198**	**3 442 239.67**

Annex 10:
Report on negotiated procedures

Legal basis

Article 74(10) of the financial regulation ([50]) 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 74(9) of the financial regulation.

Methodology

A distinction has been made between the 47 departments which normally do not provide external aid and the three departments (DG International Cooperation and Development, DG Neighbourhood and Enlargement Negotiations and the Service for Foreign Policy Instruments) which conclude procurement contracts in the area of external relations (using a different legal basis: Chapter 3 of Title VII of the financial regulation) or award contracts on their own account, but outside the territory of the European Union.

These three departments have special characteristics as regards data collection from their EU delegations (decentralised services, etc.), the total number of contracts concluded and thresholds to be applied for the recording of negotiated procedures (EUR 20 000), as well as the option of using negotiated procedures in the framework of the Rapid Reaction Mechanism (in cases of extreme urgency). For these reasons, a separate approach has been used for procurement contracts awarded by these three departments.

Overall results of negotiated procedures recorded

The 47 departments, excluding 'external relations'

On the basis of the data received, the following statistics were registered: 92 negotiated procedures with a total value of EUR 341 million were processed out of a total of 763 procurement procedures (negotiated, restricted or open) for contracts over EUR 60 000 with a total value of EUR 3.02 billion.

For the Commission, the average proportion of negotiated procedures in relation to all procedures amounts to **12.1%** in number (10.8% in 2018), which represents **11.3%** of all procedures in value (4.4% in 2018). The assessment of negotiated procedures compared with the previous year shows an increase in the order of **1.3** percentage points in terms of relative number and a decrease of **6.8** percentage points in terms of relative value.

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 proportion. Thus, the reference threshold for this year is **18.1%** (16.2% in 2018).

Seven departments exceeded the reference threshold and seven increased their number of negotiated procedures by more than 10% in proportion with last year, with five among them exceeding the reference threshold as well. It should be noted that, out of these nine departments, five concluded

([50]) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union (OJ L 193, 30.7.2018, p. 1).

between one and four negotiated procedures and the low total number of procedures conducted (below or equal to seven) makes their average high; consequently, their respective results are to be considered to not be significant. Two departments, although they did not exceed the reference threshold, increased their number of negotiated procedures by more than 10% in proportion with last year.

It should be noted that 21 departments did not use any negotiated procedure, including 8 that did not awarded any contracts worth over EUR 60 000 in 2019.

The three 'external relations' departments

On the basis of the data received, the following statistics were registered: 94 negotiated procedures for a total value of contracts of EUR 113 million were processed out of a total of 365 procedures for contracts over EUR 20 000 with a total value of about EUR 864 million.

For the three 'external relations' departments, the average proportion of negotiated procedures in relation to all procedures amounts to **25.8%** in number (35.6% in 2018), which represents **13.1%** of all procedures in value (11.7% in 2018). Compared with the previous year, these departments have registered a decrease of **9.8** percentage points in number of negotiated procedures in relation to all procedures and an increase of **1.4** percentage points in terms of relative value.

An authorising service 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 proportion. Thus, the reference threshold for this year is fixed at **38.6%** (53.3% in 2018), which one of the three departments exceeds.

None of the three departments presented an increase of over 10% in the proportion of negotiated procedures compared to the last year.

Analysis of the justifications and corrective measures

The number of negotiated procedures in 2019 compared to 2018 increased slightly (from 86 to 92), despite the decrease in the number of procurement procedures (from 798 to 763). Overall, this is a positive result.

The following categories of justifications for the use of a negotiated procedure have been presented by the departments exceeding the thresholds.

- **Similar services/works as provided for in the initial tender specifications.** One service in charge of large interinstitutional procurement procedures realises during the implementation of the contract that the needs initially foreseen do not match with the consumption trend during the execution of the contract. Therefore, the lead service must start a negotiated procedure on behalf of all institutions to increase the ceiling of the framework contract in question. One relevant example of such a justification was the obligations of the Commission under Regulation 377/2014 with an initial predefined budget.
- **Objective situations of the economic activity sector,** where the number of operators may be very limited or there may be a monopoly (for reasons of specific technical expertise, exclusivity rights, highly specialised markets, where competition is limited to very few economic operators or is even completely absent, etc.). Monopolies may be related to technical compatibility requirements of previous purchases of scientific equipment, for example contracts for maintenance and upgrades that the Commission cannot give to any other organisation aside from the original equipment contractor, which holds the intellectual property rights. Another example is in the case of comparability of results, and when a laboratory is accredited with the International Organization for Standardization Standard 17025, calibration and maintenance of the equipment must be carried out by the original manufacturer. Situations of technical captivity may also arise especially in the information technology domain (due to absence of competition for technical reasons and/or

because of the protection of exclusive rights related to the purchase of proprietary licences or the maintenance and continuity of existing applications, i.e. upgrades, etc.).

- **Unsuccessful open or restricted procedures,** leading to a negotiated procedure.
- **Additional services** not included in the initial contract, but which become necessary due to unforeseen circumstances.

The following regular available measures are proposed or implemented by DG Budget and other departments concerned in order to limit the use of negotiated procedures when other alternatives may be available:

- **Improved programming** of procurement procedures.
- **Improvement of the system of evaluation of needs** — the Commission's central services will continue their policy of active communication and consultation with the other Commission departments, institutions, agencies and other bodies along the following lines:
  - permanent exchange of information via regular meetings with user services and agencies in appropriate forums;
  - ad hoc detailed surveys prior to the initiation of (interinstitutional) procurement procedures for the evaluation of needs;
  - better estimates of needs for interinstitutional framework contracts and better monitoring with semester consumption reports from user services or agencies.
- **Training and improved interservice communication** — DG Budget's Central Financial Service provides regular practical training sessions on procurement and community of practice sessions.
- Regular update of **standard corporate model documents and guidance documents** on procurement.
- Building of an end-to-end corporate eProcurement solution.

Annex 11:
EU Trust Funds

In accordance with **Article 252 of the financial regulation**, this annex contains **a comprehensive and detailed report to the European Parliament and to the Council on the activities supported by European Union Trust Funds and on their implementation and performance, as well as on their accounts**.

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 a 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 option of pooling funding from different sources and donors, in addition to the following:

- EU Trust Funds enhance the international role of the EU and strengthen the visibility and efficiency of its external action and development assistance;
- a 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;
- the ability to leverage 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 (i.e. its objectives can be better met at EU level than at national level), additionality (i.e. 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, and the duration of the trust fund, which is always limited. EU Trust Funds have so far all been set up for an initial 60 months (5 years), apart from the EU Trust Fund for Colombia, which was set up (in December 2016) for 4 years. All current EU Trust Funds have a closure date by the end of 2020. However, existing projects will still continue until the end of 2023 or 2024.

Financial contributions to an EU Trust Fund are placed in a specific bank account. EU Trust Funds are not integrated into 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 option to entrust relevant tasks to other entities, such as non-EU 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 the 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 along with the European Parliament are invited to 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 to the Council. The annual report must be exhaustive and include detailed information on the activities supported by the trust fund, their implementation and their performance, as well as their accounts. The Commission also reports on a monthly basis to the European Parliament and to the Council on the budgetary implementation of the EU Trust Funds.

The following EU Trust Funds have been established.

- **European Union Trust Fund for the Central African Republic.** 'The Bêkou Trust Fund'; established in 2014.
- **European Union Regional Trust Fund in Response to the Syrian Crisis.** Established in 2014.
- **European Union Emergency Trust Fund for Stability and Addressing Root Causes of Irregular Migration and Displaced Persons in Africa.** 'The Africa Trust Fund'; established in 2015.
- **European Union Trust Fund for Colombia.** 'The Colombia Trust Fund'; established in 2016.

The Bêkou Trust Fund

The Bêkou Trust Fund ('bêkou' meaning '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 DG International Cooperation and Development and DG European Civil Protection and Humanitarian Aid Operations and by the European External Action Service) and three of its Member States: Germany, France and the Netherlands. The fund was established with the objective of supporting all aspects of the country's exit from crisis and its reconstruction efforts. Furthermore it was designed, taking into consideration the need to better link the reconstruction/development programmes with the humanitarian response (bringing together relief, rehabilitation and development), to rebuild the capacity of the country.

By 31 December 2019, France, Germany, Italy, the Netherlands and Switzerland had contributed to this EU Trust Fund. The total amount of pledges from external donors, the European Development Fund and the EU budget reached over EUR 295 million.

The priority sectors that the trust fund supports include basic services, notably in health, agricultural development, the restoration of national and local administrations, economic recovery and reconciliation within Central African society. By the end of 2019, the Bêkou Trust Fund had funded actions of a total value of EUR 253 million in commitments.

Furthermore, the Court of Auditors published a special report in which it assessed the justification for the establishment of the fund, its management and the achievement of its objectives so far. Despite a limited number of shortcomings, it concluded that the decision to set up the fund was appropriate under the given circumstances. It should be noted 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 and performance measurement and to optimise administrative costs.

The Syrian Crisis Trust Fund

The EU Regional Trust Fund in Response to the Syrian Crisis 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 trust fund has been expanded to also cover support to internally displaced persons in Iraq fleeing the crisis involving Iraq, Syria and Da'esh, to provide flexibility to also support affected countries 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 2019, the following donors contributed to the trust fund: the EU budget, 22 Member States and one non-EU country, with the amount of the total contributions made available reaching EUR 1.9 billion. By the end of 2019 the contributions from the EU budget amounted to more than EUR 1.7 billion, while the contributions received from Member States and other donors amounted to EUR 190 million, including EUR 24.7 million from Turkey. Projects are mainly focusing on education, livelihoods and health, covering a total of EUR 1.9 billion, of which EUR 1.5 billion has been contracted to the trust fund's implementing partners on the ground. The main benefiting region and countries are the Middle East (receiving 42% of total contracted amount) and Turkey (19%), Lebanon (18%) and Jordan (12%).

The trust fund has also been an important implementation channel for the Facility for Refugees in Turkey, with some 5% of the facility's budget having been funnelled via the trust fund.

These programmes support the needs of refugees and host communities for basic education and child protection, training and higher education, better access to healthcare and improved water and waste-water infrastructure, along with supporting projects promoting resilience, economic opportunities and social inclusion.

The Africa Trust Fund

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 regions of the Sahel and Lake Chad, the Horn of Africa and North Africa. It has since been extended to Côte d'Ivoire, Ghana and Guinea.

It aims to help foster stability and contribute to better migration management. In line with the EU's development-led approach to forced displacement, it also helps address 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, along with 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.** The Sahel and Lake Chad: Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Ghana, Guinea, Mali, Mauritania, Niger, Nigeria, Senegal and The Gambia.
- **Window B.** The Horn of Africa: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, Tanzania and Uganda.

- **Window C.** North 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 being implemented through a range of operating partners, including EU Member States cooperation agencies, non-governmental organisations and international organisations. Several implementation modalities have been envisaged: delegated cooperation, calls for proposals, budget support, blending and direct awards in particular situations. The 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 2019, nearly EUR 4.7 billion has been made available for commitments, of which EUR 4.2 billion, or 90%, has been committed, with a split of nearly EUR 1.9 billion (40%) for the Sahel and Lake Chad window, nearly EUR 1.4 billion (30%) for the Horn of Africa and EUR 0.7 billion (15%) for North Africa, as well as EUR 0.2 billion (5%) for regional and other programmes. Contracts have been signed with implementing partners for a total amount of more than EUR 3.5 billion.

In total 28 EU Member States and two other donors (Norway and Switzerland) had, by the end of 2019, contributed EUR 569 million to this EU Trust Fund. Contributions through EU instruments and European Development Funds amount to EUR 4 104 million.

The Colombia Trust Fund

The signature of the constitutive agreement of the EU Trust Fund for Colombia took place on 12 December 2016. At the end of 2019 the EU Trust Fund had close to EUR 94 million from the EU budget at its disposal, plus a total of EUR 27 million in contributions from 21 EU Member States and Chile.

The Colombia Trust Fund has commitments amounting to a total of EUR 95 million, and EUR 77 million had been contracted by 31 December 2019.

The trust fund will help to support the implementation of the peace agreement in the early post-conflict recovery and stabilisation phases. The overall objective is to help Colombia to secure a stable and lasting peace, to rebuild its social and economic fabric and to bring renewed hope to its people.

The EU Trust Funds' annual reports by their trust fund managers (as authorising officers by subdelegation) provide more details on the activities of the EU Trust Funds. They can be found as annexes to the annual activity reports of the Commission's DG International Cooperation and Development and DG Neighbourhood and Enlargement Negotiations.

DG International Cooperation and Development

- **Bêkou Trust Fund.** The EU Trust Fund for the Central African Republic
- **Africa Trust Fund.** Horn of Africa window
- **Africa Trust Fund.** Sahel and Lake Chad window
- **Africa Trust Fund.** North Africa window (*management cross-subdelegated to DG Neighbourhood and Enlargement Negotiations*)
- Colombia Trust Fund

DG Neighbourhood and Enlargement Negotiations

- Syrian Crisis Trust Fund

Key terms

TERM	DEFINITION
Agency	• An **executive agency** is a body governed by EU public law and which has its own legal personality, to which the Commission entrusts, under its own control and responsibility, certain tasks relating to the management of EU programmes. • A **decentralised agency** is a body governed by EU public law and which has its own legal personality. A decentralised agency is subject to the external control of the Court of Auditors and to the annual discharge from the European Parliament.
Annual management and performance report	The annual report providing a comprehensive overview of the performance, management and protection of the EU budget. The Commission, by adopting this report, takes overall political responsibility for the management of the EU budget.
Appropriations	Amount of commitments/payments that can be committed/paid after receipt of contributions.
Basic act	An act of secondary law (regulation, directive or decision) laying down the objectives and conditions for budget implementation. It usually relates to the type of action (programmes).
Budget execution	Consumption of the budget through expenditure and revenue operations.
Budgetary commitment	The reserving of appropriations to cover subsequent specific payments.
Direct management	A form of implementation of the EU budget where the implementation is carried out by the Commission or one of its executive agencies.
Discharge	Decision by which the European Parliament closes an annual budget execution process, on the basis of a recommendation from the Council and a declaration of assurance from the Court of Auditors. It covers the accounts of all the EU's revenue and expenditure, the resulting balance, and assets and liabilities, as shown in the balance sheet.
Draft budget	The proposal of the European Commission for an annual financial plan drawn up according to budgetary principles, which provides forecasts and authorises an estimate of future costs and revenue and expenditures, with detailed descriptions and justifications (the latter in 'budgetary remarks'). Once adopted, the **voted budget** will be available in the following year for the intended purpose.
Evaluation	Tool to provide a reliable and objective assessment of how efficient and effective interventions financed from or guaranteed by the EU budget have been or are expected to be. Commission services assess the extent to which interventions have achieved their policy objectives, and how their performance could be improved in the future.

TERM	DEFINITION
Financial instrument	Means of providing EU financial support from the budget to address one or more of the EU's specific policy objectives through a risk-sharing mechanism. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees or other risk-sharing instruments and may, where appropriate, be combined with other forms of financial support or with funds under shared implementation.
Grant	A direct financial contribution, by way of donation, from the budget to finance either an action intended to help achieve an objective of an EU policy or the functioning of a body that pursues an aim of general European interest or has an objective corresponding to part of an EU policy.
Heading	A group of EU activities covering a broad category of expenditure under the multiannual financial framework. The current multiannual financial framework (2014-2020) is composed of six headings, as follows: • **Heading 1.** 'Smart and inclusive growth', which has two subheadings: (a) Competitiveness for growth and jobs and (b) Economic, social and territorial cohesion. • **Heading 2.** 'Sustainable growth – Natural resources', which includes agriculture, fisheries and the environment. • **Heading 3.** 'Security and citizenship'. • **Heading 4.** 'Global Europe'. • **Heading 5.** 'Administration'. • **Special instruments.** These are for areas that fall outside the multiannual financial framework ceilings or its other headings.
Implementation rate	Share of available amounts committed or paid compared to the amount of the voted budget.
Indirect management	A form of implementation of the EU budget based on entrustment by the Commission of one or more third parties (e.g. non-EU countries, international organisations, European Investment Bank Group).
Joint undertaking	A legal EU body established under the Treaty on the Functioning of the European Union. The term can be used to describe any collaborative structure proposed for the 'efficient execution of Union research, technological development and demonstration programmes'.
Payment appropriations	Amount of money covering expenditure due in the year, arising from legal commitments entered into in the current year and/or earlier years.
Programme	Set of related measures and activities for implementing EU policies. EU policies are implemented through a wide range of programmes and funds providing financial support to hundreds of thousands of beneficiaries – farmers, students, scientists, non-governmental organisations, businesses, towns, regions, etc.
Shared management	A form of implementation of an EU fund or programme where the task of management is delegated to EU Member States (as opposed to direct management). This applies to the vast majority of EU-funded projects.

TERM	DEFINITION
Special instruments	A means of providing EU financial support from the budget to allow the EU to react to specified unforeseen circumstances or to allow the financing of clearly identified expenditure that cannot be financed within the limits of the ceilings available for one or more headings. The mobilisation of special instruments is subject to a decision by the budgetary authority, acting on a proposal for a transfer from the 'reserve' title to the item concerned.

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