2013

Annual Activity Report

DG Regional and Urban Policy

Table of Contents

INTRODUCTION:

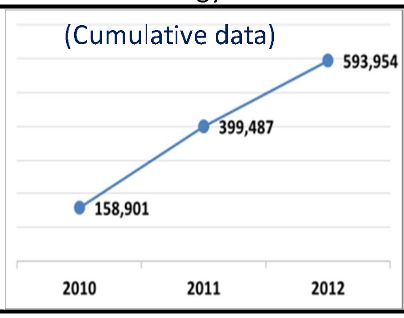
The DG in brief

Regional Policy is delivered through shared management with agreement on multi-annual development and investment programmes between the Commission, Member States and regions every seven years (the current period is 2007-2013). These agreed programmes ensure that sufficient resources are made available in good time to the right objectives. Regional policy is funded by the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) and invests in a wide range of economic and social activities ranging from large infrastructure projects, environmental projects to support to research and innovation and small-scale support services for SMEs. The forms of assistance also vary from grants to more sophisticated financial engineering instruments and public-private partnerships. The ERDF and CF, together with the European Social Fund, constitute the cohesion policy of the EU.

The year in brief

The Annual Activity Report is a management report of the Director-General of DG Regional and Urban Policy to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources and the achievement of objectives.

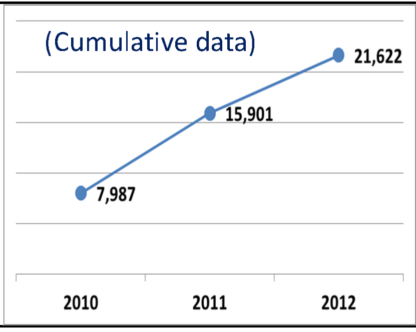
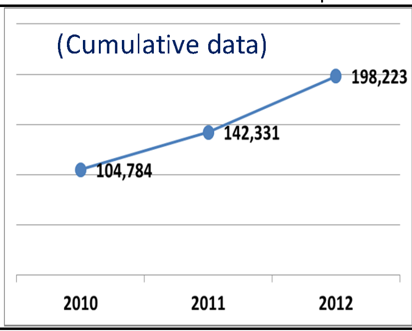
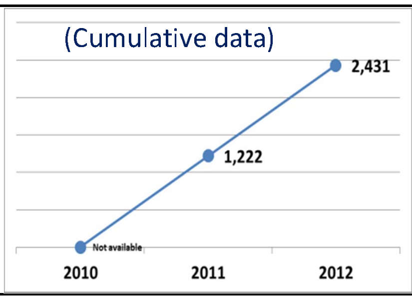
Key Performance Indicators (5 most relevant)

Key Performance Indicator	Progression of global achievements[1] (latest known results) 2010* - 2011* - 2012**	Total targets[2] (end 2015)	Achievements / targets[3]
Related Policy Objective: ERDF and CF General objective To reduce disparities between the levels of development of the various regions, in particular for rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps and to contribute to achieving the targets set out in the Europe 2020 strategy of smart, sustainable and inclusive growth, and in particular towards the achievement of quantitative headline targets identified in that strategy.			
KPI 1: Jobs created *Source: Aggregate core indicators 01, 06, 09, 35, Annual Implementation Reports (all MS covered)*		1,079,865	485,611 (45%)

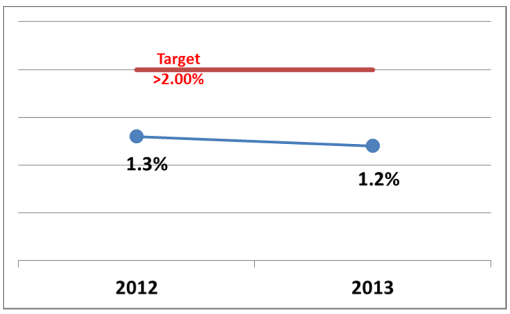
[1] Under "global achievements", we present the sum of all achievements linked to the relevant indicator reported by each operational programme, regardless of whether or not targets had been set. It therefore expresses the most recent available estimate of the total achievements.

[2] As revised in November 2013 following a quality review of the target values reported by programme authorities.

[3] Achievements with targets: under this heading, is presented the cumulative value of achievements reported by programme authorities where a target had been set. The related figure can then be used to assess progress against targets.

Key Performance Indicator	Progression of global achievements (latest known results) 2010* - 2011* - 2012**	Total targets (end 2015)	Achievements / targets
Related Policy Objective: ERDF Specific objective Strengthening research, technological development and innovation			
<u>KPI 2</u>: Number of enterprises cooperating with supported research institutions *Source: Core indicator 05, Annual Implementation Reports*		26,419	17,647 (68%)
Related Policy Objective: ERDF Specific objective Enhancing the competitiveness of small and medium-sized enterprises			
<u>KPI 3</u>: Number of enterprises receiving support *Source: Core indicator 07, Annual Implementation Reports*		214,978	171,450 (80%)
<u>KPI 4</u>: Additional capacity of renewable energy production *Source: Core indicator 24, Annual Implementation Reports*		5,143	1,874 (36%)

* Data as published in the 2013 Strategic Report
** Data resulting from 2012 Annual Implementation Reports

Key Performance Indicator	Target	Latest known results 2012- 2013
<u>KPI 5:</u> Cumulative residual error rate in shared management	< 2%	

Policy highlights of the year (executive summary of part I)

When analysing the figures illustrating DG Regional and Urban Policy progress against the target values defined for indicators associated with the policy general and specific objectives, certain elements have to be taken into account:

- The severe deterioration in the economic situation over the programming period, which constitutes a major change in the context in which programmes have been carried out as compared with what was envisaged when the plans for expenditure were initially drawn up. Because of this, some of the target values defined for the indicators might have been overestimated.
- A sustained rhythm of financial implementation is a precondition for the policy to deliver its intended effects. In this respect, persistent delays can still be noted in many countries in the implementation of programmes.

Despite that, there is growing evidence that ERDF and Cohesion Fund programmes are delivering across many policy areas and Member States. As the largest source of EU funds to regions, localities and enterprises - representing 29% of the total EU budget in 2013 - regional policy has continued to play a pivotal role in helping Member States to conciliate their fiscal consolidation constraints with the support to long-term investments strategies which are necessary to recover from the crisis and return to a job-creating growth.

This mainly derives from the analysis of the performance information contained in the annual implementation reports submitted by the Member States in June 2013 and from evaluation evidence produced across Member States -which is consolidated and analysed annually through a dedicated network of experts- showing a significant acceleration in ERDF and CF outputs and results compared to previous years.

Significant progress has notably been noted in relation to the 4 key policy performance indicators, for which reported global achievements have progressed on average by 57% compared to the previous year[4]. A similar progression has been noted for most of the indicators associated with the specific objectives, although achievements in relation to transport and environment are still lagging behind, partly due to issues of administrative capacity in some Member States, which are being addressed through targeted actions.

Taking into account that performance information reported by Member States refers in most case to 2012, and that the 2007-2013 programmes will continue to produce results on the ground for at least 3 additional years, the current level of achievements for ERDF and CF can be considered globally satisfactory.

As regards the Instrument for Pre-Accession assistance (IPA) and the Solidarity Fund (EUSF), policy achievements are also globally in line with the expected trends, despite persistent difficulties in the absorption of the funds for IPA.

Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)

Different sources of information are used to build up the Director-General's annual declaration of assurance that the resources assigned to the activities have been used for the intended purpose and in accordance with the principle of sound financial management, and that the control procedures put

[4] Jobs created: + 49%; Number of enterprises cooperating with supported research institutions: +36%; Number of enterprises receiving support: +39%; Additional capacity of renewable energy production: +99%.

in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. The assurance is built on a comprehensive assessment by all parties involved in the management and control of every programme.

The first sources of information are the annual control reports (ACRs) and the opinions submitted by the programmes' audit authorities and covering all programmes. DG Regional and Urban Policy performed a detailed assessment of the ACRs and audit opinions and confirmed the opinions given by the audit authorities in 304 cases, corresponding to 94% of programmes.

Similarly to last year, DG Regional and Urban Policy assessed the reliability of the error rates reported in the ACRs. Globally, error rates reported by programme authorities covering 89% of 2013 expenditure were assessed as a reliable source of information for the purpose of calculating the risk to 2013 payments.

In 11% of the cases the Directorate-General decided to estimate the risk at flat-rate because the reported error rates were considered unreliable or insufficient / inconclusive audit information was obtained at the date of the assessment to allow full confirmation of the reported error rates.

The validated error rate, reflecting the effective functioning of management and controls systems, together with the cumulative residual risk constitutes the cornerstone of the assurance process of the now consolidated methodology to estimate the amount of 2013 payments at risk. Other sources of information to build up the annual declaration of assurance are: (i) the results of DG Regional and Urban Policy's own audit work in 2013, in particular the review of the work of the audit authorities and the audit of specific risk programmes or areas such as management verifications and public procurement; (ii) other EU audit results; (iii) national system audit reports received throughout the year; (iv) annual summaries of controls and national declarations; (v) the opinions of the Directors as Authorising Officers by Sub-Delegation for the programmes and (vi) experience from previous years.

As with the Annual Activity Report 2012, DG Regional and Urban Policy presents a view of the multiannual impact of Member States' corrective capacities and estimates the cumulative residual risk (CRR) of irregular expenditure after six years of implementation. This estimated CRR has been used to confirm whether corrective measures (withdrawals and recoveries in 2013 and previous years) already implemented by Member States or registered in the certifying authority's accounts in view of deduction in the next certification of expenditure (formal agreements) have adequately mitigated the risks of irregularities since the beginning of the period. Programmes with serious deficiencies are under reservation. As a general rule, a cumulative residual risk above 2% has also led to a reservation for the concerned programme.

The reservations are identified for the entire programme or for a sub-part when only a specific isolated component is concerned. On the basis of these sources of information, DG Regional and Urban Policy has made an assessment of the functioning of the national management and control systems.

Overview of reservations

Regarding **shared management**, the situation is as follows :

As regards the 2007-2013 programming period, the estimated average risk rate linked to the 2013 payments for ERDF and Cohesion Fund is in the range of 2.8% to an upper limit of 5.3 %. Last year it was between 2.2% and 5%.

Taking into account the corrective measures already implemented by Member States, the cumulative residual risk is below 2% (1.2%).

DG Regional and Urban Policy concludes that it has reasonable assurance as regards legality and regularity of transactions except for 74 programmes of the current programming period, due to the deficiencies detected in the management and control systems and / or a cumulative residual risk above 2% at the date of this report for 73 ERDF/CF programmes and 1 IPA -CBC programme.

The quantification of the reservation for these programmes is EUR 422.8 million or 1% of the interim payments made in 2013 for ERDF/CF and IPA-CBC 2007-2013.

As regards the 2000-2006 programming period, a reputational reservation is formulated for ERDF for 5 programmes and for the Cohesion Fund for 2 Member states in the Transport sector. There is no financial risk in 2013 as final payments will be executed only when an agreement reached with the Member States concerned on the level of financial correction to be applied.

Regarding **indirect management**, on the basis of analysis made at programme level DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions except for one IPA programme. The quantification of the reservation for this programme is EUR 17.4 million.

Finally for direct **management and for the Solidarity Fund**, no material deficiencies were identified. On this basis, DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions.

The total quantification is EUR 440.2 million (approx. 1% of the 2007-2013 ERDF/CF/IPA paid in 2013). This is overall below the materiality threshold and represents the risk linked to the individual reservations.

Overall conclusion on assurance

In accordance with the governance statement of the European Commission, DG Regional and Urban Policy conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. As required by the Financial Regulation, the Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG Regional and Urban Policy has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented. Furthermore, DG Regional and Urban Policy has taken measures to further improve the efficiency of its internal control systems in the areas covered by ICS 1, 2, 3 and 5[5] as reported in Part 3.

In addition, DG Regional and Urban Policy has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Part 2 for further details.

[5] ICS 1 - Mission; ICS 2 - Organisation and values; ICS 3 – Staff allocation and mobility; ICS 5 - Objectives and Performance Indicators.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation concerning 73 ERDF/CF programmes and 2 IPA programmes for the programming period 2007-2013 and 5 ERDF operational programmes and 2 Cohesion Fund interventions for the programming period 2000-2006.

Information to the Commissioner

The main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Johannes Hahn, responsible for Regional and Urban Policy.

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives

Cohesion Policy programmes are delivered through shared management. Operational Programmes are agreed with the European Commission once every seven years; they are implemented by Member State authorities who report annually on progress. Policy achievements are the result of a combination of factors – the policy, the quality of implementation by the implementing bodies, the regulatory context, the economic context, etc. It should be noted that the 2007-2013 programmes have been implemented during an unprecedented economic crisis which was not foreseen at the time they were agreed.

This should notably be taken into account when assessing progress against the target values, which were set before the crisis started to be felt.

In addition to that, it should also be considered that the last year of implementation on the ground for 2007-2013 programmes will be 2015. Considering that the reported achievements values are in most cases referred to the year 2012, the policy will continue to produce results for at least 3 full years of implementation.

1.1.1 Policy area Cohesion Policy: a positive impact on the economies of Member States, mitigating the effects of the crisis

Policy Area: Cohesion Policy				**☒ Spending programme**
General objectives	**Impact indicators**	**Target or estimated impact**	**Interim Milestone** (if any)	**Latest known results (cumulative)**
General objective 1 (Convergence): To stimulate the growth potential and employment of the least-developed MS and regions	Impact of the 2007-2013 period as a percentage of baseline – GDP* *(Source: HERMIN model)*[6]	2020: EU 15+2: 0.8% EU 12: 2.1%	2016: EU 15+2: 2.0% EU 12: 4.4%	Not applicable
	Average annual impact of the 2007-2013 period as a percentage of baseline – Employment* *(Source: HERMIN model)*[7]	2020: EU 15+2: 1.2% EU 12: 0.9%	2016: EU 15+2: 2.3% EU 12: 2.5%	Not applicable

[6] Due to the impossibility to isolate the contribution of regional policy to the achievement of Europe 2020 objectives and targets by using RACER indicators, and in order to provide a better view of the expected ERDF and CF specific contribution to the achievement of long-term outcomes of Regional and Urban Policy, it is considered appropriate to present data resulting from macro-economic models such as HERMIN, illustrating the cumulative expected impact of the 2007-2013 programmes on GDP and employment. However, the estimates of impact delivered are to a large extent dependent on the assumptions built into these models. It follows from that that expected impacts as measured by the model cannot be considered actual results, which is why no data are presented in the column "Latest known results".
It is also to be noted that, in order to avoid confusion, the models' results on GDP and on employment are presented here as a percentage of baseline and not cumulated (as in the 2013 MP). This is the standard way of displaying the results of models simulations and how they are communicated by most modelling communities.

<table>
<tr><td></td><td>Lisbon index

(Source: Eurostat)</td><td>Index 60 for all regions eligible to convergence objective by 2015</td><td>Not Applicable</td><td><table><tr><td>2010</td><td>2011</td><td>2012</td></tr><tr><td>54.3</td><td>51.2</td><td>NA</td></tr></table></td></tr>
<tr><td rowspan="2">**General objective 2 (Competitiveness):** To strengthen regions' competitiveness and attractiveness as well as employment by helping them to anticipate economic and social changes</td><td>Jobs created (gross)
(Source: 2012 Annual Implementation Reports)</td><td>422,000 gross jobs to be created in 2007-2013 in 15 MS[7]</td><td>Not Applicable</td><td><table><tr><td>2012</td></tr><tr><td>247,431</td></tr></table></td></tr>
<tr><td>Lisbon index for competitiveness regions
(Source: Eurostat)</td><td>Index 90 for all eligible regions by 2015</td><td>Not Applicable</td><td><table><tr><td>2010</td><td>2011</td><td>2012</td></tr><tr><td>84.3</td><td>81.3</td><td>NA</td></tr></table></td></tr>
<tr><td>**General objective 3 (European Territorial Cooperation):** To promote stronger integration of the EU to support balanced and sustainable development</td><td>Average GDP/head disparities between border regions of EU15 and EU12

(Source: Eurostat)</td><td>1.40 in 2013</td><td>Not Applicable</td><td><table><tr><td>2010</td><td>2011</td><td>2012</td></tr><tr><td>1.44</td><td>1.38</td><td>NA</td></tr></table></td></tr>
<tr><td>**General objective 4 (Pre-accession):** To assist candidate countries as well as potential candidate countries in their progressive alignment with the standards and policies of the European Union, including cross-border cooperation</td><td>Improved capacity of candidate countries; monitoring of the recommendations of the reports

(Source: REGIO E3 monitoring data)</td><td>Progress as reported in the annual progress reports of the Commission on candidate countries</td><td>Not Applicable</td><td>2013:
Turkey: Chapter 22 of accession negotiations opened.
Iceland: Negotiations put on hold by national government.
Montenegro: MCS still undergoing conferral of management procedure.</td></tr>
</table>

*****: The HERMIN model captures both the demand and the supply side effects of Cohesion Policy programmes. While the latter are expected to produce impact in the long run (i.e. after programmes are terminated), the former only produces impact during the implementation of programmes. This explains why the expected impact in 2020 -as estimated by the HERMIN model- is smaller than in 2016. EU 15+2 = EU 12 + ES + PT + EL + East German Länders + Mezzogiorno.

Comments on reported achievements

Estimates resulting from macroeconomic models (impacts estimated for Cohesion Policy as a whole, also including European Social Fund):

- **Impact of the 2007-2013 period as a percentage of baseline - GDP**

[7] The corresponding indicator being associated with the Competitiveness objective, it is considered more appropriate to report target and achievement values referred to the 15 Member States providing the biggest contribution towards the related objective. The figures presented here should therefore not be compared with the ones referred to KPI 1, covering all Member States.

Cohesion Policy improves the structure of the economies of the EU[8]. At the same time, the implementation of programmes also generates economic activity. Accordingly, the impact of Cohesion Policy is twofold. It has a short term impact reflecting the implementation of programmes and a long term impact by improving the structure of the economy. This implies that an important part of its impact only materialises in the long run, i.e. after the programmes are completed, and that the full impact builds up in time as shown by the figures.

- **Average annual impact of the 2007-2013 period as a percentage of baseline - Employment**
  Increase in economic activity generated by Cohesion Policy programmes also translates into increase in labour demand. Even if employment has generally decreased in the EU because of the economic crisis, its level is still higher with than without Cohesion Policy and, as for the impact of GDP, this remains true for a number of years after the completion of the programmes.

Lisbon index

The Lisbon Index measures how far regions are from eight Lisbon targets for 2011. A region scores 100 if it has reached all eight targets, while the region farthest away from all eight targets scores 09. Cohesion Policy aims to boost employment rates, life-long learning, educational attainment and innovation. As a result, it should have an impact on all the Lisbon targets, especially in the less developed regions. From 2006 to 2010, the Lisbon index increased from 48.2 to 54.3 for Convergence regions and from 79.6 to 84.3 for Competitiveness regions. The crisis, however, has considerably reduced the progress to these targets in 2011 (the Lisbon Index is 51.3 for Convergence regions and 81.3 for Competitiveness regions). A further deterioration is also expected in 2012.

Gross Jobs created

The data associated with this indicator relate to "Gross jobs created" in competitiveness regions (422,000) as reported by programme authorities in the 2012 Annual Implementation Reports. Thus, they should not be compared to information resulting from macroeconomic models that produce data which are different in nature (simulations vs. reported achievements) and scope (impacts estimated for Cohesion Policy as a whole, also including European Social Fund, and for all MS). The target figure indicated in previous programming and reporting documents (757,000, resulting from data extracted manually from 100 2007-2013 OPs) related to both Objectives. Thanks to the extensive quality review of the information provided by the MS, it is now possible to identify the targets and achievement values for the different objectives and we have isolated the targets for the Competitiveness Objective. The achievement value for end 2012 corresponds to 59% of the target.

It should be noted that this indicator is "gross" jobs, an aggregate of jobs created at the level of the projects supported. It does not take account of deadweight, displacement or substitution. However, it may also underestimate the jobs created and the use of this indicator was not obligatory and not all programmes used it, even when it was relevant. And in some cases, the creation of jobs was not an objective in 2007 when the programmes were agreed.

Average GDP/head disparities between border regions of EU15 and EU12

ETC programmes support cooperation between EU regions, notably between border regions. They should contribute to reduce disparities across borders. From 2006 to 2011, average GDP/head disparities between border regions of EU15 and EU12 have decreased from 1.52 to 1.38. However, the economic crisis is likely to disrupt this trend and increase in disparities may be observed in the future.

---

[8] According to the underlying result chain, actions financed by Cohesion policy (notably those falling under ERDF specific objective 1) contribute to modernising and diversifying economic structure, strengthening the endogenous potential for development of the concerned regions, ensuring creation or preservation of sustainable jobs.

[9] For more info see:
http://ec.europa.eu/regional_policy/sources/docgener/focus/2010_03_lisbon_index.pdf

General achievement

The impact of Cohesion Policy on the economies of the Member States is generally positive. It is particularly strong in the Member States which are net recipients of cohesion policy but it can also be significant in Member States which are net contributors to the EU budget. This is particularly true for net contributor countries featuring strong trade links with the net recipient countries and which indirectly benefit from the increase in trade triggered by the cohesion policy related economic stimulus in the main beneficiaries.

Cohesion Policy programmes are, according to the econometric models, increasing the level of GDP of the main beneficiaries by 0.9% per annum between 2007 and 2013. In the EU-12, the increase of GDP is estimated at 2.1% per annum over the same period.

Policy achievements in relation to specific objectives

Policy achievements against the specific objectives are based on the reporting in Annual Implementation Reports by the Managing Authorities for each Operational Programme. Member States agreed to provide data against a set of common or core indicators related to the most frequently implemented actions. This reporting was introduced in 2009 and is not obligatory. The purpose of the core indicator reporting is to have aggregated data on the achievements of Cohesion Policy programmes. The core indicator data does not communicate all the achievements of the programmes many of which are monitored through programme specific indicators.

1.1.2 ABB activity European Regional Development Fund: a significant increase in reported achievements compared to the previous years

ABB activity: European Regional Development Fund			☒ **Spending programme**		
Specific objective	**Result indicators**[10] *(Source: AIRs 2012)*	Available target (2007-2015)	Latest known results[11] (Achievements 2007-2012)		
			Achievements with targets[12]	Achievements / Targets (%)	Global achievements 2007-2012[13]
Specific objective 1: Supporting the generation of smart and sustainable growth and jobs through investments and services, including development of	Number of enterprises receiving support *(REGIO core indicator 07: direct investment aid to SMEs)*	214,978	171,450	80%	198,223

[10] No data are reported as regards the indicator "Amounts provided to/invested by SMEs", due to lack of reliable information

[11] For some OPs, targets are not available for all the relevant indicators (there was no legal obligation to provide quantified targets for all indicators). Information concerning achievements is presented as explained in footnotes 5 and 6.

[12] Achievements with targets: under this heading, is presented the cumulative value of achievements reported by programme authorities where a target had been set. The related figure can then be used to assess progress against targets.

[13] Global achievements: under this heading, we present the sum of all achievements linked to the relevant indicator reported by each operational programme, regardless of whether or not targets had been set. It therefore expresses the most recent available estimate of the total achievements.

financing instruments, raising productivity, competitiveness and innovation capacities of enterprises, in particular of SMEs	Number of new enterprises supported *(REGIO core indicator 08: number of start-ups supported)*	81,619	75,123	92%	77,800

Comments on reported achievements[14]

A significant increase in achievements was reported by Member States in 2012 compared to 2011, although there are considerable variations across Member States.

While only a limited number of indicators is provided here to illustrate the achievements of the financed interventions, a wide range of measures have been implemented across the EU to support enterprises and their innovation capacities. Tangible results in this sector include aid to investment in SMEs, research activities and the introduction of Information and Communication Technology to help firms to innovate and to take advantage of technological advances in methods of production. They also include aid to services to provide technical advice, guidance and financial assistance to business start-ups and to firms to encourage cooperation with other enterprises and research centres as well as exporting and the formation and expansion of clusters.

Through these interventions, as foreseen by the underlying result chain, the EC contributes to modernising and diversifying economic structure, strengthening the endogenous potential for development of the concerned regions, ensuring creation or preservation of sustainable jobs.

Evaluation results collected through the expert evaluation network established by DG Regional and Urban Policy, based on the 2012 AIRs and evaluations undertaken in Member States up to mid-2013, suggest that enterprise support is the main source of jobs creation among all interventions co-financed by the ERDF[15].

Examples of achievements

Czech Republic: *The ERDF co-financed 53 new Centres for Technology Transfer, Centres of Excellence and Science and Technology Parks.*

France*: The ERDF provided support to the 71 'Pôles de compétitivité' which were set up to bring together clusters of businesses, research laboratories and universities, each specialising in a particular broad sector of activity. According to evaluation evidence gathered in 2012, they had been responsible up to then for over 2,500 innovations since they were established.*

ABB activity: European Regional Development Fund			**☒ Spending programme**		
Specific objective	**Result indicators** *(Source: AIRs 2012)*	Available target (2007-2015)	Latest known results (Achievements 2007-2012)		
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2012
Specific objective 2:	**TRANSPORT (accessibility gain)**				
	Km of newly built roads *(REGIO core indicator 14)*	6,746	1,975[16]	29%	2,236

---

[15] See reports by the Expert Evaluation Network at: http://ec.europa.eu/regional_policy/information/evaluations/index_en.cfm#1

[16] Particular low achievement reported in PL. See commentary for further details

Improving accessibility and attractiveness of the regions and cities, through development of Research and Technological Development, communication (digital agenda) and energy, transport, environmental and social infrastructure	Km of reconstructed or upgraded roads *(REGIO core indicator 16)*	24,485	22,711	93%	31,217
	Km of new railway lines *(REGIO core indicator 17)*	354	301	85%	305
	Km of reconstructed or upgraded railway lines *(REGIO core indicator 19)*	3,539	2,104	59%	2,369
	ENVIRONMENT (Additional population served by improved:)				
	Water supply *(REGIO core indicator 25)*	15,047,893	3,221,629	21%	3,226,629
	Wastewater treatment *(REGIO core indicator 26)*	19,696,696	5,001,958	25%	5,464,498
	Additional capacity of renewable energy production (MW) *(REGIO core indicator 24)*	5,143	1,874	36%	2,431
	ENVIRONMENTAL PROTECTION AND RISK PREVENTION				
	Population benefiting from flood protection measures *(REGIO core indicator 32)*	9,801,862	3,866,132	39%	4,179,289
	Population benefiting from forest fire protection measures *(REGIO core indicator 33)*	21,624,546	16,814,896	78%	20,276,615
	INFORMATION SOCIETY, RESEARCH and INNOVATION				
	Employment increase in supported enterprises *(REGIO core indicator 06)*	26,442	12,073	46%	20,755
	Additional households with broadband access *(REGIO core indicator 12 for population)*	7,097,599	4,980,459	70%	5,049,965
	SOCIAL INFRASTRUCTURES				
	Capacity of supported childcare/education infrastructure *(REGIO core indicator 37)*	5,171,846	4,283,533	83%	4,748,647

Comments on reported achievements

A notable increase in achievements was reported by Member States in 2012 compared to 2011, although the reported outputs are below target in relation to most transport and environmental infrastructure projects, especially for the EU12. It is however to be noted that infrastructure projects tend to be slower to produce tangible outputs and, even more so, results because of their scale and complexity and, accordingly, the time it typically takes to carry them out from initial planning to final completion.

In the transport sector, the main underachievement is reported in one OP (Infrastructure in PL), which can be attributed to the strict definition, applied by the PL authorities, as to what constitutes a "completed" project which omits infrastructure which is operational but for which all administrative procedures are not finalised. In the environmental sector, underachievement is evident in several MS where environmental projects are often managed at the municipal level. These problems relate to public procurement, planning procedures and a limited capacity to manage projects, as well as in some cases a lack of co-financing due to the ongoing economic crisis. Actions targeted at addressing issues of poor administrative capacity (notably in the area of public procurement) are being defined and implemented by the relevant geographical desks, with the help of REGIO competence centre dedicated to administrative capacity.

In the transport sector, despite the difficulty to report on tangible outputs and results, there were still some significant outcomes, especially in the form of improvements in existing railway lines. In the energy sector, the additional capacity to produce electricity from renewables suggests that the overall expansion may reach the target set by the end of 2015.

Through these interventions, as foreseen by the underlying result chain, the EC contributes to improving accessibility and attractiveness of regions and cities, to enhancing quality of life of EU citizens and decreasing vulnerability/exposure to risks related to natural disasters.

Examples of achievements

***Austria**: Projects supported led to generating capacity in 55 plants using biofuels being increased by 89 MW or by 20%, resulting in a potential reduction in greenhouse gas emissions equivalent to the CO_2 produced by around 33,000 cars.*

***Italy**: Projects co-financed by the ERDF resulted in wastewater treatment being improved for over 1 million people, around 13% of the total population in Convergence regions and nearly 40% of that in Sicily and Basilicata where most of the investment was carried out.*

ABB activity: European Regional Development Fund			**☒ Spending programme**
Specific objective	**Result indicators**[17] *(Source: AIRs 2012)*	Available target (2007-2015)	Latest known results (Achievements 2007-2012)
Specific objective 3: Developing regional and local potential through encouraging integrated development approach, capacity building, cross border and transnational cooperation and supporting networking, exchange of experience and cooperation between regions, towns and relevant social, economic and environmental actors	Number of people participating in joint education or training activities	Not available	738,220

ABB activity: European Regional Development Fund			**☒ Spending programme**
Specific objective	**Result indicators**[18] *(Source: AIRs 2012)*	Available target (2007-2015)	Latest known results (Achievements 2007-2012)

[17] No data are reported for the indicator "Number of transnational co-operation projects developing RTD and innovation networks", due to lack of reliable information.

[18] No data are reported for the indicator "Number of projects respecting two of the following criteria: joint development, joint implementation, joint staffing, joint financing", due to lack of reliable information.

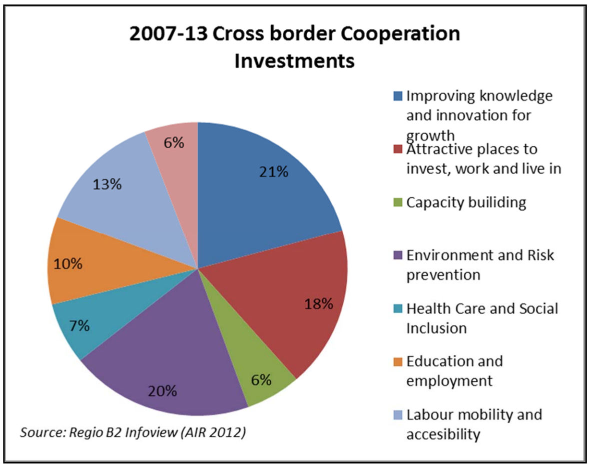
Specific objective 4: Supporting cross-border, transnational and interregional cooperation (European territorial cooperation) including cross-border cooperation between Member States and candidate or potential candidate countries	Number of people getting employment on the other side of the border (result of Cross-Border-Cooperation project)	Not available	1,189

Comments on reported achievements for specific objectives 3 and 4

European Territorial Co-operation programmes were not included in the voluntary reporting on core indicators which has allowed the provision of aggregate data for the Convergence and Competitiveness programmes. Because of that, only part of the performance information resulting from the indicators initially associated with the specific objectives above is considered reliable and is reported here.

It has however to be noted that European Territorial Co-operation actions produce both intangible and tangible achievements. The main intangible achievement of the European Territorial Co-operation is the bringing down of cross-cultural barriers, thus contributing to the construction of an integrated European space. This is done through the financing of thousands of projects for above EUR 8.7 billion over the period (60% of which have been spent already) in a wide variety of activities linked to the maturity of border cooperation. Tangible achievements notably stem from programmes having reached more mature stages of cooperation, allowing tackling common handicaps -especially risk prevention and emergency response activities-, leading to the development of functional economic links between regions and enhancing the quality of life in those areas, notably via investments in innovation, healthcare and education services, employment and labour mobility, as evidenced in the pie chart below.

The results of such actions in terms of cross- border labour mobility and education are illustrated by the reported achievements in relation to the two indicators presented in the tables above.



Illustrations of specific achievements resulting from transnational cooperation and macro-regional strategies are provided below.

Examples of achievements

Transnational cooperation: *CHEMSEA-Chemical munitions search and assessment (Baltic Sea Programme) - Cooperation of leading scientific institutes and decision-makers stopping leaks of the chemical warfare agents dumped in the Baltic Sea after World War II.*

Macro-regional strategies: *The Danube Sturgeon Task Force has been created to secure viable populations of this fish in the Danube river, facilitating projects, measures and initiatives for bringing the sturgeon back, promoting a cross-cutting approach, linking biodiversity to policy areas such as* *water quality, permeability of habitats, economic development, environmental education and even prevention of crime (related to the illegal caviar trade).*

1.1.3 ABB activity Cohesion Fund: an increase in reported achievements, but several sectors still lagging behind

ABB activity: Cohesion Fund			☒ Spending programme		
Specific objective	**Result indicators** *(Source: AIRs 2012)*	Available target (2007-2015)	Latest known results (Achievements 2007-2012)		
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2012
Specific objective 1: Strengthen the economic and social cohesion of the Community in the interests of promoting sustainable development by: Developing the trans-European transport networks and in particular strategic projects with high European added value	**TRANSPORT (accessibility gain)**				
	Km of newly built roads (CF countries) *(REGIO core indicator 14)*	6,368	1,839	29%	1,902
	Km of reconstructed or upgraded roads (CF countries) *(REGIO core indicator 16)*	23,873	22,692	88%	30,861
	Km of new railway lines (CF countries) *(REGIO core indicator 17)*	253	59	23%	61
	Km of reconstructed or upgraded railway lines (CF countries) *(REGIO core indicator 19)*	2,372	1,032	44%	1,087

Comments on reported achievements for specific objective 1

The comments concerning the transport sector formulated in relation to ERDF specific objective 2 above also apply to Cohesion Fund.
The only notable difference concerns the achievements related to new railway lines, which are lagging behind in Cohesion Fund countries.
Difficulties have been noted particularly in Poland (project pipeline and administrative capacity, implementation difficulties and delays), Romania (procurement problems), Slovenia (lengthy public procurement procedures, crisis in the construction sector, long national spatial planning procedures).

Examples of achievements

***Estonia**: Improvements in the rail network co-financed by the EU led to a 31% reduction in travel time up to the end of 2012, the aim being to reduce it further, by 45% by the end of 2015.*

ABB activity: Cohesion Fund			☒ Spending programme		
Specific objective	**Result indicators** *(Source: AIRs 2012)*	Available target (2007-2015)	Latest known results (Achievements 2007-2012)		
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2012
Specific objective 2:	**SUSTAINABLE DEVELOPMENT (Additional population served by improved:)**				

Strengthen the economic and social cohesion of the Community in the interests of promoting sustainable development by: Supporting actions of Member States related to the environment and sustainable development clearly presenting environmental benefits (renewable energy, energy efficiency, clean urban transport…)	Water supply *(REGIO core indicator 25)*	14,439,893	2,613,629	19%	2,803,736
	Waste water treatment *(REGIO core indicator 26)*	16,773,060	3,784,595	23%	3,831,933
	Additional capacity of renewable energy production (MW) *(REGIO core indicator 24)*	1,988	851	43%	1,030

Comments on reported achievements for specific objective 2

The comments concerning the environmental sector formulated in relation to ERDF specific objective 2 above also apply to Cohesion Fund.

Delays have been experienced in many countries in carrying out projects involving investment in environmental infrastructure as a result of planning difficulties and co-financing problems. Difficulties have been noted particularly in Bulgaria (where the reimbursement rate in the water sector only reached 11%, which means that the targets will be substantially missed) and in Romania. In order to address these shortcomings, the Commission has requested serious sector and organisational reforms, encouraging the use of all the technical assistance resources available from the various International Financial Institutions.
Despite the difficulties in the water sector (reflected by the indicators above), some notable environmental achievements were registered in CF countries as regards the disposal and treatment of solid waste.
As regards energy, improving efficiency was one of the main focuses for Cohesion Fund countries, where a significant share of funding was used to improving energy efficiency in apartment blocks and public buildings.

Examples of achievements

***Malta**: The South Sewage Treatment Plant built with the aid of EU funding, which is capable of treating 80% of the sewage generated on the island, led to the status of coastal waters in the south of the country being raised from Class 3 to Class 1 and to Malta becoming the first Mediterranean country to treat all wastewater before it is discharged into the sea.*

***Slovakia**: EU funding co-financed the construction or modernisation of 89 differentiated waste collection facilities, increasing the amount of waste recovered by 15,699 tons a year.*

1.1.4 ABB activity IPA: a steady progression towards building capacity in candidate countries, but persistent difficulties in the absorption of the funds

ABB activity: Management of IPA and ISPA funds (Pre-accession assistance)			☒ Spending programme
Specific objective	**Result indicators**[19]	**Target (2017)**	**Latest known results (Achievements 2013)**
Specific objective 1: To assist candidate countries in building capacity for management of pre-accession assistance aiming to prepare for Structural Funds (for IPA regional component and IPA-cross border cooperation component).	Commission Decisions on Conferral of Management (Decentralized Implementation System under IPA Component III in place for all 5 OPs of FYROM, Montenegro, Turkey) *(Source: Art. 14 of Commission Regulation (EC) No 718/2007 of 12 June 2007)*	5 (1 FYROM, 3 Turkey, 1 Montenegro)	4 (1 FYROM, 3 Turkey)

Comments on reported achievements for specific objective 1

The Instrument for Pre-accession Assistance (IPA) is the means by which the EU supports reforms in the 'enlargement countries' with financial and technical help. The IPA funds build up the capacities of the countries throughout the accession process, resulting in progressive, positive developments in the region. The allocation of EU pre-accession funds helps translate the political priorities of the enlargement strategy into concrete actions. Through IPA, the EU reinforces its guidance to the aspiring countries on the priorities necessary for aligning with EU standards and legislation.

2013 marked some significant achievements in this respect. Chapter 22 of accession negotiations[20] was opened with Turkey. The negotiations with Iceland moved to the technical-meetings stage before the new Icelandic government put negotiations on hold in late May. In December the Council opened the way for the opening of negotiations with Serbia.
While important preliminary steps in the preparation of negotiations with Montenegro were taken, management and control system are still undergoing conferral of management procedure. The Country faces some capacity challenges which are being tackled effectively. This should make it possible to meet the fixed target by 2017.

ABB activity: Management of IPA and ISPA funds (Pre-accession assistance)			☒ Spending programme
Specific objective	**Result indicators**[18]	**Target (2017)**	**Latest known results (Achievements 2013)**

[19] As information concerning results was not available for all the indicators included in the 2013 MP, it was decided to already report against the new set of indicators defined for IPA and included in DG Regional and Urban Policy's MP 2014
[20] One of the key criteria for accession stipulated in the Treaty on the European Union is the ability to take on and implement effectively the obligations of membership, including adherence to the aims of political, economic and monetary union. The conditions and timing of the candidate's adoption, implementation and enforcement of all current EU rules is negotiated throughout the accession process. These rules (the "acquis") are divided into 35 different policy fields ("chapters"), such as transport, energy, environment, etc., each of which is negotiated separately. Chapter 22 refers to "Regional policy and coordination of structural instruments".

Specific objective 2: To assist candidate countries to develop pipeline of mature projects to implement the strategy/priorities agreed in the multi-annual development programmes A. Enhancing transport infrastructure, in particular interconnection and interoperability with trans-European networks; B. Improvement of environment infrastructure, to promote compliance with the EU environment acquis, particularly waste management, water supply and urban waste water; C. Enhancing regional competitiveness and productive environment to achieve social and economic development and creation of sustainable employment.	Absorption of available funds (%) under IPA Component III 2007-2013 (aggregate for FYROM, Turkey, Montenegro) *(Source: REGIO E3 monitoring data)*	100%	32% (24% FYROM, 33% Turkey)
	Submission of major projects by national authorities of FYROM, Turkey, Montenegro to DG REGIO service for approval *(Source: REGIO E3 monitoring data)*	44[21] (3 FYROM, 39 Turkey[22], 2 Montenegro)	41 (2 FYROM, 39 Turkey[23])
	Number of major projects approved by the Commission out of the total number of major projects to be submitted by national authorities of FYROM, Turkey, Montenegro to DG REGIO service for approval (%) *(Source: REGIO E3 monitoring data)*	100%[24] (100% FYROM, 100% Turkey, 100% Montenegro)	66% (67% FYROM, 70% Turkey)

Comments on reported achievements for specific objective 2

As regards absorption of the available funds, the implementation of IPA remains slow and problematic in most of the concerned countries. This is notably true for FYROM, with an extensive project pipeline but very important cumulated delays in procurement phase and insufficient quantitative and qualitative capacities in the Operating Structure.

As for Turkey, IPA's biggest beneficiary in absolute terms, the country has avoided possible "n+3" losses at the end of 2012 for the environment and transport programmes thanks to the significant number of major projects approved. The regional competitiveness programme is the least advanced on the ground and could not avoid a "n+3" loss of EUR 11.6 million, despite the creation - and the top-up in 2012 - of two financial engineering 'holding funds' in cooperation with the European Investment Fund. In order to tackle these difficulties, DG Regional and Urban Policy services will further increase their focus on the approval of all the remaining major projects so as to increase absorption rates through the advance payments while leaving to the national authorities enough time for implementation. In parallel, a third financial engineering instrument (Technology Transfer Accelerator) is currently in the pipeline.

1.1.5 ABB activity European Union Solidarity Fund: a sustained capacity to meet the

[21] Total number of major projects which need to be submitted in order to cover fully the aggregate available budget of all OPs

[22] Not taking into account 1 Major Project withdrawn and 2 Financial Instruments

[23] Not taking into account 1 Major Project withdrawn and 2 Financial Instruments

[24] All milestone and target values in this row represent the total number of major projects whose timely approval by the Commission is necessary to cover fully the available aggregate budget of the OPs. This total number is a subset of the total number of major projects mentioned in the "Indicative List of Major Projects" annexed to each OP. The difference between the two reflects the volume of "overbooking" of the aggregate available budget. We opt for reflecting the total number of major projects necessary for covering the available budget and not for the total number of major projects mentioned in the "Indicative List of Major Projects," as the overbooking in certain OPs is so significant (up to 100% overbooking over the available budget) that reflecting the latter would have a highly distortive effect on the presentation of the real workload targets.

requests for assistance formulated by the countries affected by natural disasters

ABB activity: European Union Solidarity Fund			☒ Spending programme
Specific objective	**Result indicators**	**Target (2017)**	**Latest known results (Achievements 2013)**
Specific objective 1: To grant assistance to Member States or countries negotiating their accession to the EU in the event of a major natural disaster with serious repercussions on living conditions, the natural environment or the economy for the financing of emergency operations undertaken by the public authorities in support of the affected population	Population helped in overcoming a crisis situation where their living conditions have been affected *(Source: REGIO E1 monitoring data)*	100% of population affected and eligible upon the Member States' request	7 EUSF grants decided in 2013, covering 100% of the affected areas and population for which interventions were requested
	Size of disaster-stricken area where rehabilitation has been assisted *(Source: REGIO E1 monitoring data)*	100% of areas affected and eligible upon the Member States' request	Aid available for 100% of affected areas (choice of supported operations up to the beneficiary country)

Comments on reported achievements for specific objective 1

The European Union Solidarity Fund (EUSF) is an instrument based on the subsidiarity principle and assists eligible countries in coping with disasters of such size and impact that they have difficulties facing them with their own means alone. EUSF aid comes in addition to national efforts as an act of European solidarity.
In 2013, the Commission continued to respond promptly and effectively to requests for assistance formulated by countries affected by natural disasters. The aid mobilised (decided) in 2013, in reply to the applications received, amounts to EUR 415,1 million. Since its creation in 2002, the mobilisation of the EUSF has been approved on a total of 31 occasions following major disasters.

In order to increase the effectiveness of the fund, a legislative proposal to improve its functioning was presented by the Commission on 25 July 2013. The expected benefits of the new set-up should make the fund more responsive to disasters and more visible, while streamlining its operational criteria.

Examples of achievements

Slovenia*: The EU Solidarity Fund grant of EUR 14 million for the flooding in Slovenia of November 2012 helped to complement the efforts undertaken by the Slovenian State. The grant is being used for restoration to working order of water infrastructure facilities and restoration of water courses.*

Germany/Austria/Czech Republic*: In October 2013, an amount of nearly EUR 400 million was approved for the flooding disasters in Germany, Austria and the Czech Republic of May/June 2013. The European Parliament and Council, in their capacity as budgetary authority, approved the additional budget in November 2013 which led to the carry-over of the budget appropriations to 2014. The financial contribution is being used for essential emergency operations (i.e. restoration to working order of infrastructure in the affected Länder and regions, securing of preventive infrastructures, cleaning up operations and funding rescue services).*

1.2 Implementation of 2013 operational priorities contributing to policy achievements

The general objectives by policy area and the specific objectives for operational activities illustrated under section 1.1 above refer to the legal and multiannual objectives and implementation of Regional and Urban Policy through its main financial components (ERDF, Cohesion Fund, IPA and Solidarity Fund) contributing to the delivery of the overall cohesion policy objectives. The relevant indicators and policy outputs related to the functioning and execution of these instruments provide the framework for measuring and assessing the achievement of policy objectives.

In order to foster their achievement, DG Regional and Urban Policy identified 25 operational priorities for 2013, out of which 15 were strategic. These priorities, structured around five main multiannual priorities, reflect the DG's operational focus on actions (mainly measured through output indicators related to the DG's internal processes) which can positively contribute to the delivery of policy results, thus enhancing policy performance.

The achievements associated with the DG's operational priorities presented below (which have a greater impact on the achievement of policy objectives) should therefore be seen as a direct illustration of DG Regional and Urban Policy ability to accomplish its mission. A full overview of the implementation of 2013 operational priorities is provided in annex 6.

Greater integration of cohesion policy within EU governance mechanisms and reinforced results orientation

Contribution to (short- or long-term) policy achievements

The firm integration of Cohesion policy into the new economic governance of the EU in the Multiannual Financial Framework (MMF) for 2014-2020 **helps to increase the responsiveness of the policy** to changing economic circumstances and emerging imbalances. This is done by influencing Country Specific Recommendations (CSRs) related to Cohesion Policy and ensuring that they are reflected in Member States' 2014-2020 programme strategies. Thus, a strong link is ensured between growth productivity-enhancing reforms and the related cohesion policy investments, making it possible to achieve a greater impact of EU intervention on the ground.

Ensuring that evaluation evidence on policy achievements produced at national level is systematically collected and synthetized makes it possible to **feed adequately policy debate**. In addition, by continuously improving the reliability of performance information provided by programme authorities, the DG enhances its **capacity to provide evidence of cohesion policy performance and results**.

Main achievements / difficulties

Integration of Cohesion Policy into the European Semester
DG Regional and Urban Policy successfully contributed to 14 CSRs related to Cohesion Policy (4-5 in 2012).

Demonstrating policy results

In 2013, DG Regional and Urban Policy continued to collect and synthesize evaluation evidence from the Member States through the Expert Evaluation Network. The DG continued as well to support MS to report against core indicators and carried out quality checks on the data transmitted through the AIRs. As a result of these checks, the proportion of operational programmes accompanied by the core indicators, quantified and assessed as plausible at the end of November was assessed as 85% of the 235 reviewed OPs, compared to 78% at the first check in September 2013.

Preparing for the 2014-2020 period

Contribution to (short- or long-term) policy achievements

The successful and timely preparation of the framework and the basic planning documents for the next generation of programmes to be implemented in 2014-2020 is crucial to the success of the reformed Cohesion Policy. These documents are in fact be the basis upon which the Member States, for the next seven years, will prepare, agree upon and invest in a limited number of agreed priorities capable of achieving sustainable, smart and inclusive growth. Negotiating for better spending and result-orientation contribute to fostering policy performance throughout 2014-2020.

Illustration of main achievements / difficulties

Adoption of 2014-2020 legislative package

Following intensive input into the negotiations by DG REGIO, in close cooperation with other Commission services, the co-legislators adopted the legislative package on 17/12/2013, i.e. less than one month after the adoption of the MFF (adoption 02/12/2013).

Preparation of delegated and implementing acts

Preparatory work for delegated and implementing acts started in early 2013 and 24 meetings with Member State experts were held in 2013. 25 fiches outlining the contents of the acts have been presented and first draft legal texts were finalised and presented to the experts. Work has progressed according to plans and adoption of all relevant delegated and implementing acts necessary for the start-up of programmes is foreseen within 6 months of the adoption of the legislative package.

Drafting of guidance notes

Close to 70 draft guidance notes were finalised and validated by the Board of Directors during the year. This is equivalent to 100% of the guidance notes which are needed by desk officers for programming. Following the adoption of the legislative package at the end of the year, the content of the guidance is being updated and finalised so that it is in line with the adopted legislative package.

Adoption of Partnership Agreements (PA)/Operational Programmes (OP)

The adoption of PA/OP has been delayed due in part to the late adoption of the 2014-2020 legislation, which was expected much earlier in the second half of 2013. It was then not possible for Member States to formally submit any Partnership Agreements or Operational Programmes for adoption by the Commission in 2013. As of March 20, twelve Partnership Agreements were formally submitted and two of them are progressing towards approval. 17 OPs were submitted as of March 20. While the majority of PAs and OPs have still to be formally submitted, DG Regional and Urban Policy has given informal feedback to all Member States' draft PAs and many OPs, thus frontloading a significant part of the negotiations.

Extensive informal dialogue was carried out during 2013. Most PA drafts were commented by the Commission, which included screening by DG Regional and Urban Policy competence centres and geographical units in consultation with other services to combine Commission informal observations for Member State. One third of the OPs was also consulted, six of them through an inter-service consultation. As a result of the informal dialogue, more than 10 Member States were ready to submit their PA formally in January - February 2014. The competence centres provided continued assistance to geographic units, i.e. by providing lines to take, answers to questions, technical assistance and participation in negotiation meetings. Both geographical units and competence centres provided inputs for Commission's assessment of the fulfilment of ex-ante conditionalities.

To achieve the sound and efficient use of Funds to mobilise investments for growth and jobs in turbulent time of crisis

Contribution to (short- or long-term) policy achievements

A sustained rhythm of absorption is a necessary condition for the delivery of growth and jobs through the effective use of the Funds.

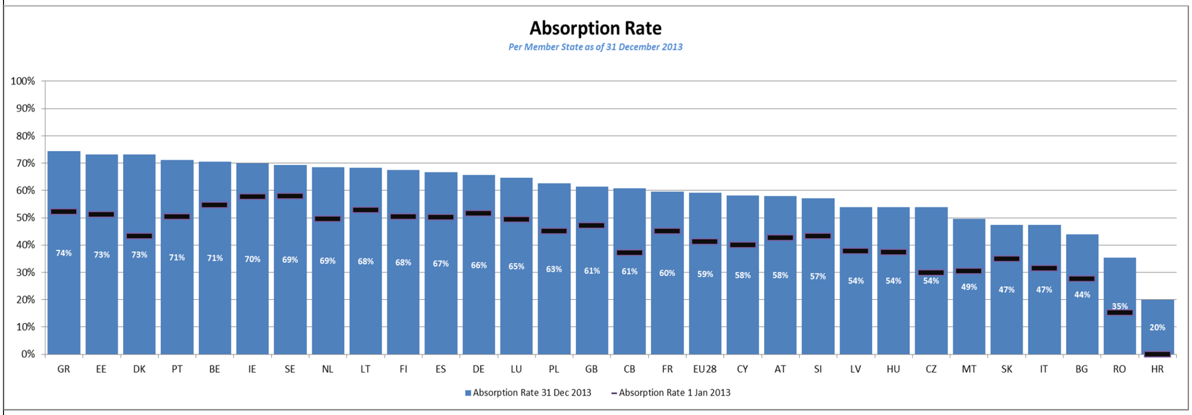
While implementing targeted actions aimed at addressing country-specific difficulties and increasing the Member State capacity to effectively use the available Funds, DG Regional and

Urban Policy also helped Member States enhance the quality of processes such as projects selection, which are crucial for optimizing the impact of the policy.

Illustration of main achievements / difficulties

Level of absorption

The current level of absorption remains a cause for concern, as the current payment claims cumulatively submitted represent only 59% of available funds, as shown in the chart below (Payments from the ERDF and CF relative to the total available for the 2007-2013 period, end-2012 and end-2013 (%)).



The situation is particularly critical for a number of Member States such as Romania, Bulgaria, Italy, Slovakia and Malta for which the absorption rate is below 50%. The analysis of AIRs 2012 shows that only 83.8% of the funds were allocated to specific projects by end of 2012 while the target was set at 95%. This is due to slow reported project selection in several countries.

DG REGIO support to implementation

In response to this situation, DG Regional and Urban Policy has maintained a hands-on approach by helping the responsible authorities through technical meetings, targeted advice, dialogue with national authorities and closer follow up on the implementation of EU Funds.

In cooperation with other Commission services, DG Regional and Urban Policy has provided guidance and assistance to tackle existing difficulties: delays in project selection, timely preparation of major projects, accurate reporting against core indicators, imbalanced implementation across investment priorities, lack of financial flows to beneficiaries for financial engineering instruments, etc.

In addition, DG Regional and Urban Policy intensely cooperated with Member States in order to promptly respond to requests for re-programming the available funds to projects and priorities that could ensure more effective spending and thus greater contribution to growth and jobs.

As regards internal processes, the DG devoted further efforts to contribute to an accelerated implementation by ensuring that OP modifications were swiftly adopted and submitted major projects were assessed in a timely way and consequently adopted or rejected.

Major Projects

Notable efforts were deployed concerning major projects. The backlog in this area has been significantly reduced thanks to the adoption of 190 major projects during the year. 90% of projects submitted before 1 January 2013 have been processed (approved/ rejected/ withdrawn), exceeding the fixed target (80%).

However, deciding on a project application remains a lengthy process, as only 58% of the major projects applications received could be processed within 180 days (target 95%). This is mainly due to the low capacity of Member States to send timely responses to Commission observations. Targeted actions aimed at improving Member States capacity in this area are implemented, directly and through technical assistance.

Financial instruments

Financial Engineering Instruments (FEIs) have become an increasingly important delivery tool for Cohesion Policy objectives during 2007-2013 and a significant share of resources has been progressively delivered through these instruments.

At end 2013, a total of 592 FEIs (68 holding funds and 524 specific funds) had been set up under 178 operational programmes in almost all Member States, and in one region covered by a cross-border cooperation programme. The contributions of the Operational Programmes to FEIs amounted to EUR 12.5 billion, including over EUR 8.3 billion of Structural Funds, while the total amount claimed at the end of 2013 was EUR 9.3 bn.

In 2013 DG Regional and Urban Policy continued to strengthen its monitoring activities on the progress made in financing and implementing FEIs, expanding its use of the specific reporting requirement for Member States introduced in December 2011. The Member States' reporting has been consistently used as an analytical tool for the risk assessment of the "underperforming" cases of FEIs and to trigger remedial actions.

1.3 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities.

According to the Financial Regulation (Article 30), the principle of economy requires that the resources used by the Institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc…) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

However, and as recalled under section 1.1 above, under the shared management mode the Commission cooperates with Member States' administrations, which are in charge of the operational implementation. Thus, efficient and effective implementation of actions supported by the ERDF and CF largely depends on good governance and partnership among all the relevant territorial and socio-economic partners. In particular, crucial processes such as project selection remain largely in the hands of programme authorities.

DG Regional and Urban Policy has however set up a control environment and put in place procedures aimed at inducing authorities in charge of the implementation to comply with the principles of economy (minimizing the cost of inputs), efficiency (relation between resources and results) and effectiveness (achievement of objectives).

In addition to that, specific initiatives aimed at improving the DG's internal effectiveness and efficiency have been launched.

The following initiatives show how these principles are implemented in our DG.

Example 1: Change REGIO

An important internal process, called "Change Regio" has been launched in 2012 in order to better address DG Regional and Urban Policy's main challenges for the coming years and identify strategies toward greater efficiency in a context of programmed staff reduction. The organisational structure was streamlined and a light matrix organisation was introduced.

Over the course of 2013, work in the context of Change REGIO has continued to focus on measures aimed at increasing efficiency of work and re-enforcing the capabilities of the DG to deliver on the reformed Cohesion Policy.

A number of processes and activities of the December 2012 Blueprint for Change have been implemented.

The matrix interaction between Competence Centres, Geographic Units and Policy Units is functioning as intended. The Workload Assessment (WLA) launched in April 2013 has been finalised and provides the DG with the first ever overall snapshot of its activities, tasks and related outputs together with the corresponding human resource allocations, collected and presented at unit level and aggregated at the DG level. Future resource allocations, the streamlining of processes and planning, as well as monitoring of workload against DG priorities will be based on it as far as possible. The revised recruitment policy is fully in use and should reinforce producing quality hires. Considerable progress has been achieved in the establishment of risk profiles to be used as a basis for a differentiation approach in our relations with MS so that resources are mobilised where prospects for efficiency of operations and impact are highest. A number of low priority activities and opportunities for operational efficiency gains have been identified, with decisions to discontinue or reduce certain non-essential tasks taken. A further number of complex procedures and processes are being selected for future re-engineering so that additional efficiency gains are generated. The identification of activities which can be discontinued or postponed was completed in 2013 and a full proposal of 10 actions has been presented to the Board of Directors. Half of the proposals were already approved by the Board.

A Roadmap for Change REGIO for 2014 was adopted in Dec 2013, identifying three main strands of work:

- Management/monitoring of OPs with minimum service level to be established for MSs and OPs and defining the roles and priorities for geographic units and competence centres for 2014-2020;
- Optimization of the DG's administrative culture and definition of HR processes and services to be delivered to staff and management;
- Optimization of auditing of OPs through harmonizing audit work and increasing collaboration with other DGs.

Working groups on the above three strands of the roadmap have been set up at senior management level and are already working on deliverables planned for end first semester 2014.

Example 2: Business process management for the 2014-2020 period

A dedicated team on business process management, in close cooperation with the IT unit, has taken a leading role on the design of new processes in relation to the 2014-2020 programming period. In 2013 a number of key processes were analyzed as illustrated below and in some cases re-engineered.

The following processes are designed and implemented or under implementation in SFC2014 and WAVE (IT tools supporting respectively the exchanges between the Commission and the MS and DG REGIO and EMPL internal processes). The processes are shared and aligned with DG EMPL ensuring a common approach to internal processes wherever possible. For the Partnership Agreement processes these are aligned between the four ESIF DGs:

- Adoption of Partnership Agreement;
- Adoption of Operational Programmes including initial commitment;
- Payment of pre-financing;
- Review of the designation of authorities.

The following processes are designed but are still under review:

- Notification of Major Projects;
- Adoption of Major Projects;
- Amendment of Partnership Agreement;
- Amendment of Operational Programmes;
- Interim payments;
- Adoption of Joint Action Plans;
- Review of Audit Strategy;
- Management of interruption/warning/pre-suspension and suspensions.

The focus of the process design is to respect the deadlines provided by the regulations while at the same time maximizing the efficiency. Wherever possible tasks are parallelized and automated. As a consequence of the work being performed during the negotiation of the regulations all processes had to pass through multiple iterations and review cycles.

The work carried out will ensure full alignment of DG Regional and Urban Policy and other ESIF DGs internal procedures to the requirements and features of the new legislation (effectiveness), while rationalizing the related procedures' steps (thus increasing efficiency).

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the annual reports by AOSDs;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from management and audit authorities in Member States in shared management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the reports of the ex-post supervision or audit;
- the opinion and the observations of the Internal Audit Capability (IAC);
- the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support management assurance on the achievement of the internal control objectives[25]. It is structured in three separate sections:

2.1. The DG's assessment of its own activities for the management of its resources;

2.2. The assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and

2.3. The assessment of the results of internal and external audits, including the implementation of audit recommendations.

The table below presents an overview of the financial resources managed by DG Regional and Urban Policy in 2013 (excluding advances). Payments under shared management account for more than 99% of the overall payments.

Payments per Management Mode, 2013

	Activity	Total Payments in 2013 (EUR million)
Shared Management EUR 43,107.40m (99.33%)	ERDF / Cohesion Fund 2007-2013	40,994.49 [26]
	Cohesion Fund 2000-2006	754.52
	ERDF 2000-06	1,289.85[27]
	ERDF before 2000	2.30
	EU Solidarity Fund	14.32
	IPA Cross-border Cooperation	51.80

[25] Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

[26] Excludes advances amounting to EUR 2.7m, if taken into account total 2007-2013 ERDF/CF payments in 2013 amounts to EUR 40,997m

[27] Includes Urban II and Community Initiatives 2000-2006

	Activity	Total Payments in 2013 (EUR million)
	Community Initiatives Before 2000	0.12
Indirect Management EUR 226.07m (0.52%)	IPA Regional Development	218.50[28]
	ISPA Croatia	7.57
Direct Management EUR 63.09m (0.15%)	Pilot Projects / Preparatory Actions	4.03
	Technical Assistance	56.10
	Cross Sub delegations received	2.96

2.1 Management of human and financial resources by DG REGIO

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

2.1.1 Control effectiveness as regards legality and regularity

2.1.1.1 Shared Management – ERDF/ CF 2007-2013

DG Regional and Urban Policy has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. The control objective is to ensure that the cumulative residual risk of each programme does not exceed 2% on a cumulative basis.

<u>Materiality criteria (control objective) and reservation</u>

Regarding the legality and regularity of the underlying transactions, the objective is to ensure that the estimated residual risk of error is less than 2% at the end of the implementation of each programme. Reservations are made for all programmes for which the management and control system is considered as not effective enough. In addition, reservations are also made as a general rule for programmes presenting a system assessed by the Directorate-General as functioning well or with only some improvements needed, but for which the cumulative residual risk (CRR) exceeds 2% (thus demonstrating an insufficient corrective capacity over the period). The CRR is estimated by considering the multi-annual impact of the validated error rates calculated since the beginning of the programming period, after deduction of recoveries and withdrawals reported by Certifying Authorities for each year[29], as well as pending recoveries at the end of the reporting year and withdrawals accepted by Certifying Authorities and recorded in their accounts prior to the date of signature the annual activity report. The CRR is expressed as a percentage of the value of the cumulative interim payments made for the programming period, taking into account corrections up to the date of signature of the annual activity report.

<u>Key control indicators and results reported</u>

[28] Excludes advances to Turkey operational programmes of EUR 16.35 million, with advances, total payments within the year amounts to EUR 234.85 million for IPA Regional Development.

[29] Withdrawals and recoveries formally reported by Certifying authorities in the IT system SFC 2007 by 31 March each year (article 20(2) of Regulation (EC) No 1828/2006 as amended) reflect corrections implemented at national level in the preceding year through the deduction of the corresponding amounts from statements of expenditure previously certified to the Commission. They reflect the overall corrective capacity of the management and control system for each programme, aggregated at priority axis level, independently from the source of the correction.

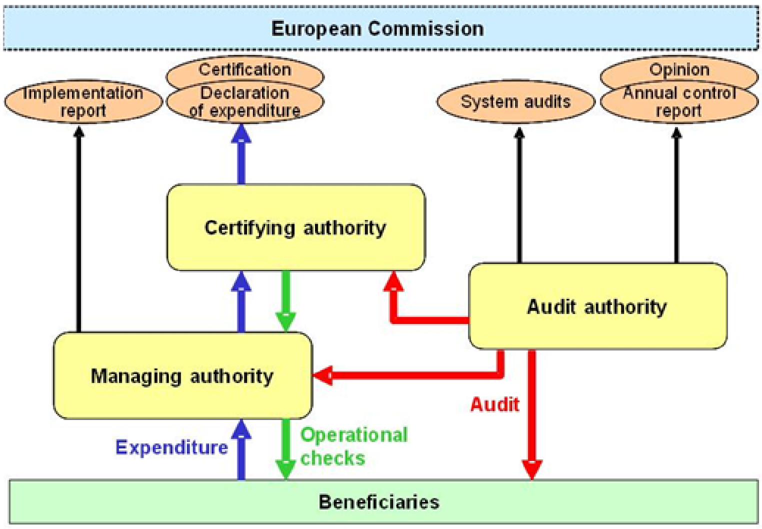
Different sources of information are used to build up the Director-General's annual declaration of assurance that the resources assigned to the activities have been used for the intended purpose and in accordance with the principle of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. The assurance is built on a comprehensive assessment by all parties involved in the management and control of every programme.

Control system for the Fund under shared management

Cohesion Policy is built on a multiannual and multilevel control system whereby one level of control may rely on the work of previous controls performed by other bodies after having performed its own verifications that previous controls are effective (single audit concept).

At national level three authorities are responsible for the management and control of funds through the selection, control and monitoring of operations.

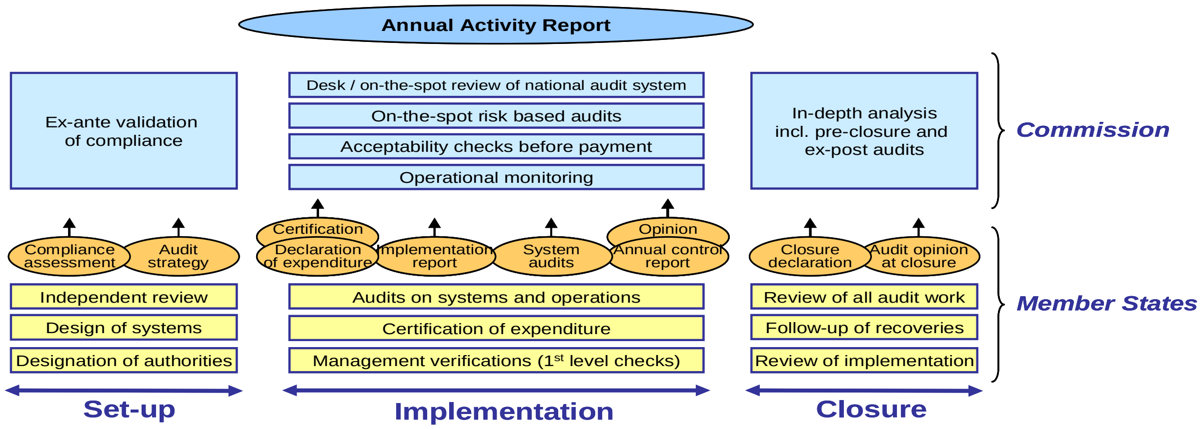
- Throughout the implementation period the **managing authority and its intermediate bodies** perform ex ante management verifications, i.e. desk checks on all payment claims submitted by beneficiaries and on-the-spot checks on sampled operations before declaration of expenditure to the next level, as well as additional ex-post checks.
- The **certifying authority** takes steps to ensure that adequate verifications have been made by the managing authority before certifying the legality and regularity of expenditure to the Commission in certified payment applications, including carrying out its own checks when necessary.
- The **audit authority** is the next level of control and is responsible for setting an audit strategy to perform system audits on the management and control system and audits on representative samples of operations. It reports the results annually to the Commission in an annual control report, which includes an annual audit opinion on the functioning of the systems and the total projected error rate resulting from audits on operations. Unlike the two previous levels of controls, audits carried out by the national audit authorities are carried out ex-post, after certification of expenditure to the Commission.



Supervisory role of the Commission and control strategy:

Throughout the implementation period the operational and audit units of DG Regional and Urban Policy ensure the correct monitoring of implementation of all programmes and of audit activities through regular operational contacts and meetings with Member States authorities,checks on payment claims, and analysis of annual implementing reports, monitoring data and audit results.

In particular DG Regional and Urban Policy has an **audit strategy** in place (see section D below) covering all Funds for which the DG is responsible, which is updated annually **based on its risk-assessments reviewed annually to take into account new audit results and other information**. For the 2007-2013 programming period, the audit strategy contributing to the assurance building is implemented through the following various strands of controls foreseen in the regulatory framework, as described hereafter (further details are provided in annex 8):



The Directorate-General's audit strategy is currently being revised on the basis of the new information for the update of risk-assessments for 2007-2013 programmes. In addition, a single audit strategy for the 2014-2020 programming period is being developed jointly with other services in charge of ESI Funds. This single strategy takes account of the requirement to draw up annual accounts for each programme following completion of controls at national level, and submission of a complete set of assurance documents by 15 February each year as from 2016. This will include a management declaration by the managing authority accompanied by an annual summary of all management verifications and audits carried out, certified accounts by the certifying authority and an annual audit opinion and control report by the audit authority encompassing the accounts, the effective functioning of the management and control system and the legality and regularity of transactions. Following the analysis of these assurance documents and the corrective actions taken by the Member States for each programme, DG Regional and Urban Policy will assess the remaining risks in the expenditure of the accounting year under analysis and will audit those programmes at risk of undetected serious deficiencies that would jeopardise the legality and regularity of expenditure certified in the annual accounts. When the Commission concludes that serious deficiencies still exist that were not identified nor reported by the Member State, it will apply net financial corrections to the concerned programmes or part of programmes (see outline of the 2014-2020 audit strategy in annex 8).[30]

The following sections (from A to I) form the building blocks of DG Regional and Urban Policy's assurance.

[30] See also Commission communication COM(2013)934 final to the European Parliament and the Council on the application of net financial corrections on Member States for Agriculture and Cohesion Policy [2014-2020 programming period]

A. Adoption of programmes and setting up of systems

The table below shows the indicators used to assess the effectiveness of the controls carried out during the reporting year.

Indicator (programming period 2007-2013)	2013
% of programmes adopted (322)	100%
% of managing and certifying authorities designated	100%
Indicator (programming period 2014-2020)	**2013**
% of programmes adopted	NA
% of managing and certifying authorities designated	NA

For the 2007-2013 programming period, the compliance assessment process allowed DG Regional and Urban Policy to take preventive measures on the set up of systems[31] and to identify risks early in the programming period before any EU payment was made. This exercise was closed in 2011 for 316 programmes out of 317. For one remaining programme ("POI Attrattori culturali, naturali e turismo FESR"[32]), DG Regional and Urban Policy rejected the compliance assessment submitted by the Member State various times since 2011 and requested further clarifications and changes. The compliance assessment was eventually accepted in April 2013. However, the payment deadline was immediately interrupted for two reasons: the Directorate-General did not have assurance that expenditure certified to the Commission before the approval of the compliance assessment was fully regular in line with the agreed management and control system; and the audit authority had not submitted a complete annual control report for 2012, pending the approval of a revised compliance assessment. This programme is under reservation (no payment was made in 2013).

In 2013, following the accession of Croatia, three additional programmes and two ETC programmes were adopted under the 2007-2013 multiannual financial framework. The compliance assessment reports and opinions, which were initially rejected by DG Regional and Urban Policy, were finally accepted in March 2014 since the required management information system was fully set up. No ERDF/CF payments were made in 2013 in relation to the Croatian mainstream programmes.

For the 2014-2020 programming period, a designation procedure for all programme authorities and intermediate bodies is foreseen at national level. The Member States must notify the Commission of the date and legal form of the designations of the managing authorities and, where applicable, of the certifying authorities, prior to the submission of the first application for interim payment to the Commission. For these authorities, designation will be based on a system description and audit report and opinion. The Commission will be able to request to review, based on its risk assessment, designation procedures for programmes with an ERDF/CF contribution of over EUR 250 million, or can be asked by Member States to review the designation process if significant changes were introduced in management and control systems compared to the previous programming period. The single audit strategy for the 2014-2020 programming period based on the risk assessment model designed for the desk review work of the designation package foresees for the 2014-2015 audit plan targeted on-the-spot audits to verify the designation procedure in case of doubts and early, preventive system audits on the effective implementation of the described systems in case of identified risks[33].

[31] Modifications to the management and control systems are reported in the Annual Control Reports submitted by audit authorities by year end

[32] Operational programme 2007IT161PO001

[33] see outline in annex 8

B. Analysis of the Member States' annual control reports (ACRs)

The table below shows the indicators used to assess the effectiveness of the controls carried out during the reporting year.

Indicator	2013
Reviewed audit authorities by DG REGIO	47[34] in charge of 96% of ERDF/CF allocations
Reliance on reviewed audit authorities by DG REGIO	40 in charge of 90% of ERDF/CF allocations
Number of reported error rate assessed as reliable (unchanged or recalculated)	306 (89%) (for 289 programmes)
% of the expenditure on which the Directorate-General can rely on the work of the audit authorities (based on ACRs reliable error rates)	89% of 2013 payments
Weighted average error rate on 2013 payments as reported by Member States (based on 2012 error rates)	1.6%
Weighted average error rate after the Directorate-General's analysis and validation (2013 payments)	2.8%
Cumulative residual risk by end 2013 (average for all programmes)	1.2%

Analysis of the ACR audit opinions[35]

One major source of information under the 2007-2013 programming period is the annual control reports (ACRs) and audit opinions submitted by the programmes' audit authorities and covering, in principle, all programmes each year. For the year 2013, a total number of 212 ACRs have been received covering all 322 ERDF/CF programmes (100%).

The Member States' audit authorities expressed the following audit opinions in their ACRs (see also detailed table in annex 8):

- unqualified opinion for 209 programmes (65% of programmes or 46% of the amount of 2013 interim payments made),
- qualified opinion for 113 programmes (35% and 54% respectively)
- adverse / disclaimer of opinion: none.

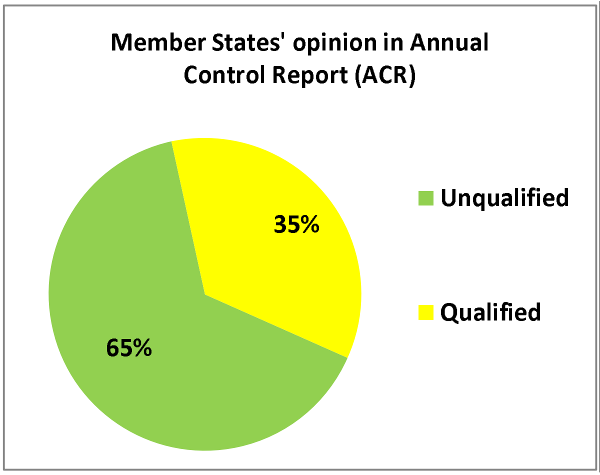
In all cases, DG Regional and Urban Policy performed a detailed assessment of the ACRs and audit opinions received against all audit results and information at its disposal (from its own audit work, from the ECA, from other Structural Funds services and from the 547 national systems audit reports received from Audit Authorities and analysed throughout the year). At the end of March 2014, and as a result of this analysis, the Directorate-General issued acceptance letters for 254 programmes (79%), including with follow up actions in some cases, and returned ACRs for correction to audit authorities for 19 programmes (6%). For 49 programmes (15%) the assessment letters were under preparation at the time of signature of this report.

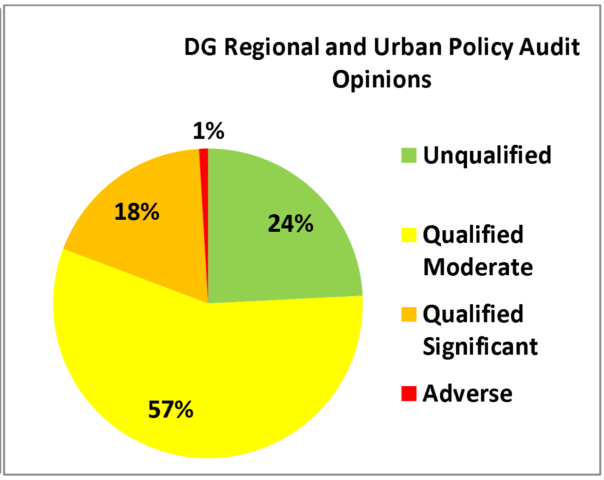
Following its analysis of the ACRs, DG Regional and Urban Policy considers that it can confirm the audit opinions of the audit authorities for 304 programmes (94 %). This includes 76 OPs with unqualified opinions and 110 with qualified opinions and 118 programmes[36] (37%) for which the audit authority expressed an unqualified audit opinion but the Directorate-General expressed a qualified opinion with moderate impact, a category of audit opinion that is not available to audit

[34] Out of 81 ERDF/CF audit authorities in total, including for ETC programmes.
[35] Annex: table showing the Member States' national audit opinions (in the ACR) per MS
[36] Out of 209 programmes with unqualified opinions from the Member States.

authorities under the regulation. This category of audit opinion means that any improvements needed are of a minor importance and thus do not jeopardise the assurance. In 18 cases (5% of programmes) the Directorate-General expressed a more negative opinion than the audit authority: for 15 programmes the Directorate-General's audit opinion was qualified with significant impact, while an unqualified opinion was reported by the audit authority. This different assessment is based on the unreliability of the audit results of the audit authorities for 12 programmes and was based on the lack of compliance with the requirements for computerised information systems for 3 programmes (HR). In another 3 cases the Directorate-General expressed an adverse opinion instead of a qualified opinion reported by the audit authority, due to inadequate audit work leading to unreliable reported error rate (SK, 2 programmes) or the high error rate reported (CZ, 1 programme[37]).

A breakdown of the categories of the Directorate-General's audit opinions following the assessment of the ACRs compared to the reported opinions is shown below:





Analysis of the ACR error rates

The Member States' audit authorities have reported all the 345 error rates expected[38] covering the 322 programmes based on representative samples, including statistical ones for 64% of cases (222 reported error rates for 204 programmes). The audit authorities have reported a significant audit coverage, 31% of 2012 expenditure on average (33% for 2011 expenditure[39]) through the audit of operations or parts of operations. Cumulatively since the start of the programming period and until December 2013, audit authorities audited on average 35% of all declared expenditure. Although the coverage rate varies between programmes, this shows that single auditing under shared

[37] For this CZ programme, as well as for 4 additional CZ programmes with a qualified opinion from the Member State and DG Regional and Urban Policy, due to high error rates, no reservation was made as these high error rates correspond to expenditure declared prior to the global remedial action plan implemented at the request of the Directorate-General which led to financial corrections and improvement of the systems implemented in 2013.

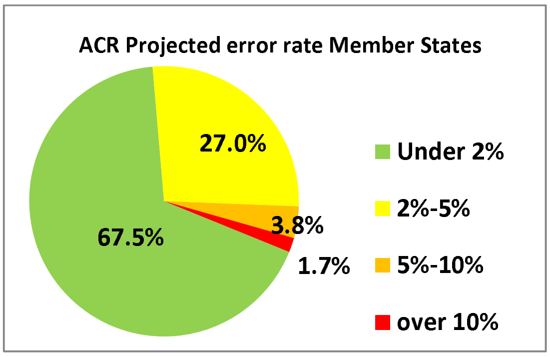
[38] Member States report error rates per programme or groups of programmes and, for 15 Member States, by Fund (ERDF and Cohesion Fund) within 23 programmes with a Cohesion Fund component and separate sample. When programmes are grouped, for the sake of presentation, the same error rate being reported is considered in statistics for each programme within the group. In total 345 error rates are therefore considered, covering the 322 programmes + 23 Cohesion Fund specific samples.

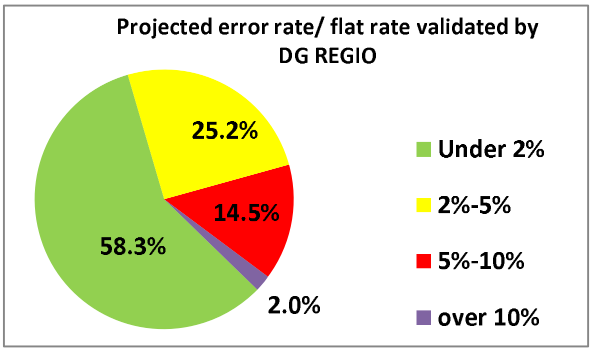
[39] 35% for 2010 expenditure. The tools and updated guidance on sampling provided to audit authorities and finalised in April 2013 ensure more proportionate audit efforts while ensuring the same quality and level of assurance from audits on operations. This allows reducing the audit burden on beneficiaries and the cost of control for the Member States. The Commission also notes an increased use of statistical sampling for more programmes, as a result of its capacity building efforts with audit authorities since end 2012.

management allows for a large coverage of beneficiaries and expenditure each year. The trend shows the optimisation of the audit effort and improved performance of national audits through the use of statistical sampling methods, following the Commission updated guidance and training efforts with all audit authorities as from end 2012/early 2013, leading to increased representativeness of national audit results. Compared to the previous programming period, the quality of the Member States' audit work has therefore increased significantly.

Reported error rates are below 2 % in 67.5% of cases[40] (215 programmes and the corresponding 233 reported error rates); between 2% and 5% in 27% of cases (88 programmes, 93 reported error rates); between 5% and 10% in 3.8% of cases (13 programmes/reported error rates) and above 10% for 1.7% of cases (6 programmes/reported error rates).

Error rates reported by audit authorities in the ACRs[41] and validated by DG Regional and Urban Policy as a result of its assessment and adjustments are disclosed in the pie-charts **below:**





The Directorate-General takes into account, for its analysis of the reliability of reported error rates, its own assessment of the reliability of the work of the main audit authorities. This assessment is based on its direct audit work in the framework of the audit enquiry "review of the work of audit authorities", which also includes re-performance of the audit work of the audit authorities at beneficiary level. Where an assurance gap remains, the Directorate-General carries out its own audits to obtain the required additional assurance on the concerned risky programmes or parts of programmes (see section D below).

Taking into account all of the above, the Directorate-General thoroughly assessed the reliability and correctness of the total projected error rates reported by the audit authorities. This assessment encompassed the following steps:

(a) a critical review of detailed information on sampling data and results provided in the ACR or of more detailed information subsequently requested from audit authorities;

(b) specific meetings organised in Brussels with 14 Member States[42] during which additional clarifications were obtained; and

(c) on-the-spot missions covering in total 11 Member States[43] and 77 programs out of 322.

Globally **the Directorate-General has assessed 89% of reported error rates as a reliable source of information for the purpose of calculating the risk to 2013 payments**, by validating the error rates

---

[40] For 4 CZ programmes, 0% error rates were reported in ACR 2013, either because there was no expenditure declared in 2012 (2 programmes) or because 2012 expenditure audited were corrected before certification and declaration to the Commission by applying a flat rate correction in the framework of the action plans requested by the Commission (2 programmes).

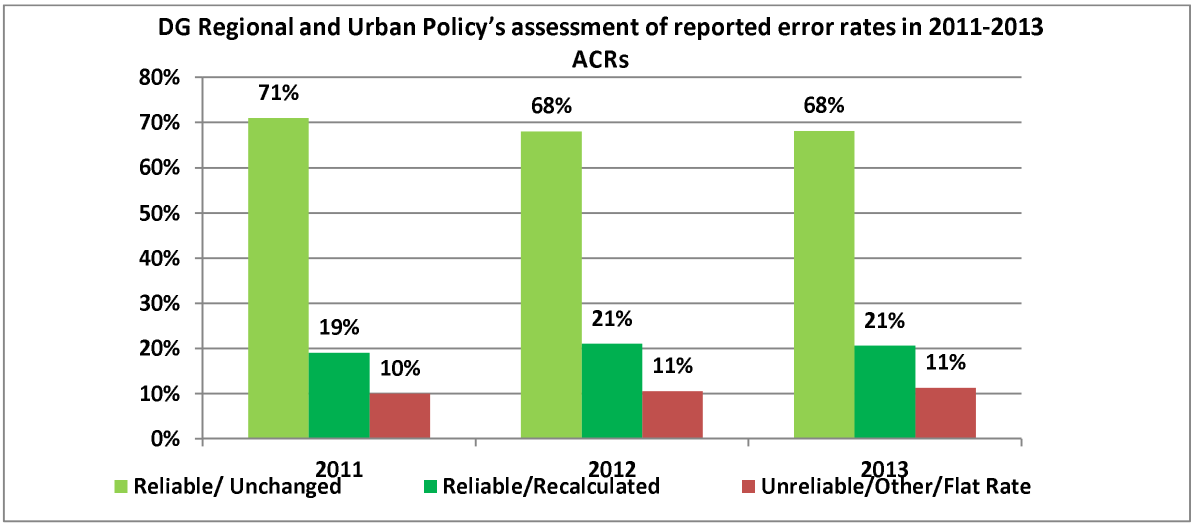
[41] In annex 8, information is disclosed per Member State

[42] AT, BE/Vl, CZ, DK, FR, HR, IE, IT,LT, LU, MT, NL, SI, SK

[43] AT, BE, RO, ES, CZ, HU, IT, NL, SI, DE, UK

reported in the ACRs in 68% of reported rates or by being able to recalculate the error rate based on all information made available by the audit authority and validated by the Directorate-General's auditors for 21% of cases.

In 11% of the cases the Directorate-General decided to estimate the risk as a flat-rate because the reported error rates were considered unreliable. These ratios are similar to those reported in the AAR 2012.



In relation to 2013 interim payments the best estimate of error rates and risks associated, following the Directorate-General's assessment and validation, is the following:

RESULTS	Best estimate error rates following assessment by DG REGIO					
	Number of error rates for 322 programmes (ERDF/CF)			2013 interim payments		
Range	Nr.	%		Amount (mil. EUR)	%	
<2%	201	58.3%		22,105.23	53.9%	
2-5%	87	25.2%		12,875.23	31.4%	
5-10%	50	14.5%	16.5%	5,331.16	13.0%	14.7%
>10%	7	2.0%		682.86	1.7%	
TOTAL	**345**	**100%**		**40,994.49**	**100%**	

The impact of the Directorate-General's analysis applied to 2013 expenditure, when sufficient and reliable information was available and including the substitution of unreliable error rates by flat rates was 1.2%. **It means that the average ACRs' reported rate of 1.6% has been increased to 2.8% of 2013 expenditure through DG Regional and Urban Policy's assessment[44].**

Finally, when applying the validated error rates on the 2012 expenditure the average risk rate for year 2012 is 3.3%, which is within the range of the estimated rate disclosed in the 2012 AAR (between 2.2%-5%). This confirms the validity of the methodology applied by the Directorate-General.

[44] The weighted average error rate does not reflect, by nature, the specific cases where there was no payment in 2013 due to the preventive measures taken by the Commission (interruption/pre-suspension procedures launched in 2012 (UK/England)) or where expenditure was corrected at Member State level before certification according to remedial action plans requested by the Commission (CZ).

C. National system audit reports, annual summaries and national declarations

National system audit reports

Throughout the year, audit authorities are requested to provide their final systems audit reports to DG Regional and Urban Policy, once the contradictory process is completed. In 2013, the Directorate-General has received a total of 547 system audit reports from the Member States. Following its analysis, it provided feed-back to Member States, including in writing in 72% of cases[45]. When significant deficiencies are reported by audit authorities, or where the Directorate-General considers that reported audit findings indicate significant deficiencies in the programme, this constitutes a basis for the Director-General to launch pre-suspension procedures and therefore to interrupt payments for the concerned programme during the year and therefore to prevent reimbursement of irregular expenditure[46]. This has been the case for 10 programmes under formal suspension in 2013. For the purpose of the annual activity report and its audit opinion per programme, the Audit Directorate took account of the result of its analysis of national system audit reports and cross-checked individual audit results and conclusions with audit opinions provided in the annual control reports received by year end.

Annual summaries

The submission of **annual summaries** of payments and audit results by 15 February each year is an obligation for Member States under the previous Financial Regulation. This requirement runs until the end of the implementation of the current programming period. The Commission strongly recommended Member States to add value to the annual summaries by providing additional information than formally required (e.g. analysis of the functioning of systems across all programmes at Member State level, diagnosis of problems and their solutions and description of best practices). Member States are reluctant to provide such information in the annual summaries since it is sometimes a duplication with that provided in the annual control reports (ACR) for each individual programme.

For 2013, all 28 Member States have complied with the minimum requirements of the Financial Regulation regarding the information to be provided and some Member States have followed the Commission's recommendations by providing a voluntary overall analysis at Member State level (18) and/or a voluntary declaration on the overall level of assurance (14) in their annual summaries. When relevant, the Directorate-General has analysed this information to corroborate its own assessment of the national management and control systems or the information provided to the Commission in the ACR.

All annual summaries have been accepted or accepted with follow-up, by requesting some additional information from the Member States. Information per Member State is disclosed in Annex 8.

National declarations

Four Member States - **the Netherlands, Denmark, Sweden and the United Kingdom** – have regularly submitted national declarations on a voluntary basis to the Commission over the last years. The Commission supports those Member States who provide the Commission with a national declaration of assurance and encourages them to disclose elements of the underlying process in order for the Commission to be able to optimize the assurance it may draw from their declarations. Public declarations issued at senior national level make the control process in the Member States more

[45] The remaining reports were analysed and feedback was provided to audit authorities in different meetings or formal feedback is still pending at year end. In all cases the necessary follow-up action was taken, including by pre-suspending payments where necessary.

[46] In line with article 92 of Council Regulation (EC) No 1083/2006.

transparent and help identify changes which are needed to make the system more effective, where necessary[47].

The Dutch national declaration was issued in March 2014. The Directorate-General notes that the reference period for the national declaration is 1 July 2012 to 30 June 2013 for the functioning of systems and therefore provides some additional assurance for the 2013 AAR. The reference period for expenditure is also covering part of 2012; the declaration thus confirms the assessment made by the Directorate-General in its 2012 AAR.

The national declarations received from **Sweden** for the Annual Activity Report 2012 (issued in June 2013 and providing additional conclusions from the National Audit Office) and from **Denmark** (issued by the Danish Supreme Audit Authority in November 2013) both relate to 2012 expenditure. These opinions confirm the assurance reported by the Directorate-General in its 2012 AAR for these two Member States. An updated national Declaration covering all Funds has been received from Sweden in October 2013 and confirms the assurance reported by the Directorates-General in the 2012 AAR.

In July 2012, the **United Kingdom** (HM Treasury) issued a statement on the use of the EU budget over the financial years 2006-07 to 2011-12[48], whose aim is to consolidate data on the use of EU funds in the UK. The Annex "report on the use of EU funds in the UK" provides an interim report on the use of EU funds, including Structural Funds. The statement indicates that HM Treasury is seeking to further strengthen Parliamentary scrutiny of the financial relationship between the EU and the UK Government by developing a new and improved framework for accounting for the use of EU Funds, to be launched for the financial year 2013-2014.

D. Audit Activity of the Directorate-General

Commission on-the-spot audit activity in the Member States provides a direct source of assurance to the Directorate-General including for the assessment of audit results communicated by audit authorities. The Directorate-General therefore focused its limited resources for on-the-spot audits to key identified risks. DG Regional and Urban Policy's audit strategy in place for 2011-2013 covers the main risks identified for the policies and instruments managed by the Directorate-General and foresees rolling audit plans over 18 months (the current one running up to end June 2014). Audit plans are reviewed each year based on updated risk assessments that take account of all available audit results and new information obtained through the assessment of all audit results from the previous year. This audit strategy is currently being updated (see page 32 above and annex 8).

For ERDF and Cohesion Fund 2007-2013, the Directorate-General's audit work focused in 2013 on six audit enquiries, as indicated in the table below. On-the-spot audits are carried out at the level of programmes authorities and/or intermediate bodies, and usually include verifications of audit evidence down to the source, at the level of beneficiaries/projects. The scope and extent of on-the-

[47] The Commission services have elaborated guidance on national declarations for the use of Member States authorities. This guidance was made available to Member States in March 2011 and encourages Member States to develop such national declarations that would fulfil the conditions for adding value to the Commission assurance building process. It also concludes that the Commission proposal on management declarations in the revised Financial Regulation, signed at the operational level, may constitute a first practical and useful step that could later be endorsed at a political level in the Member States. Following the creation of an Inter-institutional working group (composed of representatives of Parliament, the Council and the Commission) set up within the context of the Inter-institutional Agreement accompanying the multiannual financial framework for 2014-2020, the Commission also expects to introduce in the first half of 2014 a template and recommendations for these declarations to make them useful for the Commission's own assurance process.

[48] The UK Statement sets out "details of the United Kingdom's gross and net contributions to the EU Budget over the financial years 2006-07 to 2011-12 (together with estimates for 2012-13 to 2016-17) and over the calendar years 2006 to 2011 (together with an estimate for 2012)."

spot audit work, particularly at the level of individual beneficiaries and projects, varies between enquiries and audits, depending on the specific objectives.

The on-the-spot audits carried out in 2013 according to the specific enquiries under the audit strategy and the resulting audit opinions are as follows:

	Input		Results	
	Audit Enquiries related to ERDF/CF 2007-2013 programming period	**Audits carried out in 2013**	**Audit opinions[49]/assessment**	
Review the reliability of the audit authorities (single auditing) 57% of audit missions	Review of Audit Authorities (in addition to fact-finding missions on the ACR analysis)	28	**Assessment of the 22 Audit Authorities reviewed in 2013**	
			Works well, no or minor improvements are needed	-
			Works, but some improvements are needed	18
			Works partially. Substantial improvements are needed	4
			Essentially does not work	-
	Missions to validate the ACR error rates	12	N/A	
	Audits to monitor the work of audit authorities when the article 73 has been granted to programmes	5	Unqualified	4
			Qualified	1
			Adverse	-
Targeted high risk audits 28% of audits	Bridging the assurance gap - targeted audit of high risk programmes / authorities / areas[50]	22	Works well, no or minor improvements are needed	2
			Works, but some improvements are needed	11
			Works partially. Substantial improvements are needed	4
			Essentially does not work	3
Thematic audits 15% of audits	Thematic audits on financial instruments	4	Unqualified	-
			Qualified with minor observations	2
			Qualified with significant observations	1
			Adverse	1
	Thematic audits on recoveries	4	Unqualified	1
			Qualified with minor observations	3
	Performance audits[51]	4	N/A	
	Total number of audits	**79**		

The main results and conclusions from the 2013 audits and cumulatively since the start of these six enquiries and the resulting follow-up and corrective actions requested from the concerned programmes to safeguard the Commission's interest , which are directly relevant for the Directorate-General's annual assurance process, are described below (a more comprehensive summary for each enquiry is provided in annex 8).

[49] Audit opinions are preliminary at this stage, pending the finalisation of the contradictory process with the auditee, in some cases. Depending on the audit enquiry, various audit missions may lead to the expression of one single audit opinion, therefore the possible discrepancies between the numbers of audits and opinions.

[50] Audit opinions are not provided but audit reports provide a conclusion as to the effective functioning of the audited system / part of the system. For two audits, the final conclusion is pending.

[51] This enquiry does not intend to provide audit opinion per audit carried out. Results are expressed as global conclusions for the reviewed sector.

Review of Audit Authorities

The results of the audit enquiry "review of audit authorities" are used to assess whether DG Regional and Urban Policy can rely principally on the audit authorities' audit opinion and error rates for its annual assurance and implement Article 73 of Regulation (EC) No 1083/2006 (through the latter, DG Regional and Urban Policy relies on the audit authority in a formal manner and does not carry its own audits any longer – see below). A total of 232 missions have been carried out on the spot cumulatively since 2009: 177 audit missions (including 28 in 2013) and 7 monitoring missions (5 in 2013), as well as 48 fact-finding missions (12 in 2013) to validate the ACR error rates. Audits covered cumulatively the main 47 audit authorities responsible for more than 96% in total of the ERDF/CF total allocation[52]. DG Regional and Urban Policy's audit work included the on-the-spot re-performance of audits at the level of individual beneficiaries in order to test the reliance which can be placed on the audit work carried out by the audit authorities (in 2013, this was the case for 24 out of 28 audit missions carried out on the spot). As a result, and based on the audit reports issued so far, the Directorate-General concluded that **the work of 40 audit authorities in charge of auditing around 90% of ERDF/CF allocations for the 2007-2013 period can in general be relied upon**.

The extensive audit work under this enquiry, which represents 57% of the on-the-spot audit work in 2013, has considerably contributed to DG Regional and Urban Policy's overall assurance for the programmes covered by the reviewed audit authorities through many aspects, such as increased assurance that the annual control reports and reported audit opinions and error rates are reliable; reduction of errors; concrete remedial action plans and significant capacity-building for audit authorities. This extensive audit work has also contributed to interruptions / pre-suspensions during the year and to the necessary reservations expressed in the annual activity report when deficiencies had not been remedied (for example in the case of the Slovakian audit authority[53]).

Single audit – Article 73

In accordance with Article 73 of Regulation (EC) No 1083/2006 and as a direct result of its audits to review the work of audit authorities, the Directorate-General has concluded that it could formally rely on the work of 17 reviewed audit authorities presenting satisfactory audit results and covering 56 programmes, taking also into account the effective functioning of the management and control system of these concerned programmes (second condition under article 73). New Article 73 letters were granted in 2013 to programmes in Germany (Sachsen Anhalt) and the Netherlands. Pending the final audit report, a further Article 73 letter may be granted in the first half of 2014 to one programme of a new audit authority.

Audits to monitor the work of audit authorities when Article 73 has been granted to programmes

The decision under Article 73 that the Commission can rely principally on the audit opinion provided by the audit authority and will not audit the concerned programmes does not prevent it from carrying out on-the-spot audit work in the future for these audit authorities. The Commission remains responsible for ensuring a continuous monitoring and supervision of the work of those audit authorities on which work it is relying (e.g. through review of the annual control reports and annual audit opinion, assessment of national system audit reports, joint/observer audit missions with the audit authorities and bilateral meetings), as detailed in its "updated roadmap for Article 73" and in line with auditing standards. It therefore carried out 5 on-the-spot monitoring missions in 2013.

[52] out of 73 in total for the ERDF/CF mainstream programmes

[53] DG Regional and Urban Policy has detected deficiencies at the level of the Slovakian audit authority. The deficiencies are impacting all 9 Slovakian ERDF/CF programmes as the audit authority cannot be relied upon. However for one of the programme (OP Environment), the DG has obtained reasonable assurance through its own audit work and the implemented action plan including flat rate financial corrections.

For 4 out of these, the results were positive, so it could be concluded that the reviewed audit authorities continued to comply with key requirements stipulated in Article 62 of Regulation (EC) No 1083/2006. For one audit authority, however, significant deficiencies were identified in its functioning during the audit and the 2013 Annual Control Report received by year end was considered unreliable. Appropriate corrective measures are therefore being taken by the Commission for this audit authority and the Commission will resume its own audits.

Bridging the assurance gap - targeted audits of high risk programmes, authorities or areas

Through the enquiry to review audit authorities' work, in some cases the Directorate-General may identify that certain deficiencies could remain undetected or not timely detected, which could jeopardise the assurance process (assurance gap). The scope of this complementary audit enquiry is therefore to cover (part of) operational programmes or particular areas still considered at high risk. Such risk-based audits focused mainly on the reliability of management verifications at the level of the managing authorities/intermediary bodies (59% of all audits carried out), and to a lesser extent on selection of operations, corrective capacity of the managing authority, certification of expenditure by the certifying authority and high risk operations not yet audited by the national audit authority. In 2013, 22 audits were carried out under this enquiry (28% of all the on-the-spot audit work in 2013), which led to interruptions of payments in 7 cases. A total of 77 audit missions have been carried out since 2010 covering 15 Members States and 70 operational programmes, including on-the-spot at the level of beneficiaries. These risk-based audits thus contributed to the implementation of preventive and corrective measures such as remedial actions plans, interruptions and financial corrections, and to improvements in the management and control systems for programmes put under reservation, ensuring that past and future expenditure declared to the Commission is legal and regular. The same approach will be implemented to address and follow-up the reservations in the 2013 annual activity report of the Directorate General.

A synthesis report on the results of this enquiry was provided to the European Parliament Discharge Rapporteur in December 2013 and concludes that the audit enquiry "Bridging the assurance gap" has proven to be a pro-active response by the Directorate-General to increase its assurance.

Thematic audits

Results from thematic audits on recoveries and on the implementation of financial instruments also contribute to the assurance process while focusing on important aspects that contribute to assurance on the legality and regularity of expenditure and also sound financial management (performance audits). Thematic audits constituted 15% of the on-the-spot audit work in 2013.

Pending the results of contradictory procedures on the four audits carried out in 2013 (DE/Thüringen, FR, IT/PON Ambienti per l'Apprendimento and PON Competenze per lo Sviluppo and CZ), the preliminary conclusions of the **audits on recoveries reported by Member States** show that arrangements for keeping an account of amounts recovered or withdrawn are acceptable in the majority of programmes audited, and provide reliable information regarding recoveries and withdrawals. Exceptions concern programmes in the Czech Republic (request for correction of previous years' over-reporting, implemented by end 2013) and the Italian programmes which under-report withdrawals and recoveries due to administrative delays. The finding from the Czech programmes led the Commission services to issue additional horizontal recommendations to all certifying authorities to ensure an improved reporting exercise for 2013 by end March 2014 and to request correction of past reporting where necessary. The Commission services intend to continue and adjust the enquiry in 2014 and beyond to focus on the completeness and reliability of reported data for an increasing number of Member States and programmes. Obtaining assurance on recoveries implemented at Member State level is of increasing importance for the purpose of calculating accurate cumulative residual risks at programme level, and in particular in view of the assurance at closure of programmes.

With the increase of allocations to financial instruments and the serious deficiencies identified in the management and control of financial instruments during the audits carried out to review the work of audit authorities, a specific **enquiry on the implementation of financial instruments** was launched in 2011. Eight audit missions were carried out in 2012 and four audit missions in 2013 in three Member States (Poland, Czech Republic and Spain). Irregularities were identified at the set-up and implementation phases of the audited instruments. In the case of audits in Portugal (2012) and the Czech Republic (2013), due to the seriousness of some findings, payments were interrupted or pre-suspended and financial corrections were applied. As a result of these audits, Commission guidelines laying down common rules on determining financial corrections to be applied, including for the treatment of errors detected by audit authorities were discussed with the Member States in 2013 and will be issued in 2014.

Results of the Directorate-General's **performance audits** in the water sector and technical assistance are presented in annex 8.

Other audit work carried out in 2013 – contribution to capacity building and preventive actions

Audit work also includes some advisory procedures and capacity building actions at the level of audit authorities, but also managing and certifying authorities, which contribute to preventing and correcting errors and therefore contribute to the assurance process:

- A structured cooperation with audit authorities on methodology and reported audit results through multilateral and bilateral meetings. Multilateral meetings included a technical meeting in Brussels in June 2013 (main issue: feedback on the assessment of Annual Control Reports) and the Homologue Group meeting in Bucharest in October 2013 (main issues: preparation of audit authorities for the 2014-2020 period, audit of public procurement and quality of management verifications and antifraud issues). The annual bilateral audit coordination meetings with each Member State are an opportunity to review the specific issues raised in the assessment of Annual Control Reports and Annual Opinions, implementation of the audit authorities' audit strategy as well as national audit results and to exchange information on planned audit work and respective updated risk assessments. Any significant issues arising from the bilateral coordination meetings have been taken into account in the Audit Directorate's audit opinions for each operational programme in view of the annual activity report.
- Guidance is continuously improved and discussed with audit authorities. In particular guidance on sampling methods for audit authorities was updated in April 2013 and accompanied by detailed sampling training sessions/workshops with most audit authorities in order to clarify any implementation difficulties encountered (practical workshops in November 2012 in Brussels for audit authorities from 22 Member States; on-the-spot seminars in Italy (end 2012), Germany, Spain, Ireland, Slovakia, Nordic and Baltic countries in 2013). Further written clarifications to the guidance notes on annual control reports, audit opinions and the treatment of errors, as a result of the June technical meeting, were also provided to audit authorities in December 2013. Guidelines laying down common rules on determining financial corrections to be applied for financial instruments were discussed with the Member States in 2013 and will be issued in 2014. This will help audit authorities quantify errors detected in the samples of operation they audit in a harmonized way, and thus further reinforce the reliability of reported error rates in this area.
- As a follow-up to its audit work and assessment of Member States' reports on withdrawals and recoveries, the Audit Directorate issued additional horizontal recommendations to all certifying authorities to ensure an improved reporting exercise for 2013, to be received by end March 2014.
- The Audit Directorate also contributes to many capacity building actions for the benefit of managing and certifying authorities, to help address deficiencies found in audits or to prevent such deficiencies. In this framework, several initiatives took place in 2013, including dedicated meetings, workshops or targeted actions related to various areas: public procurement (BG, RO, IT,

ES, CZ and HR), quality of management verifications (BG, RO and CZ), retrospective projects (RO) or implementation of financial instruments (IT, ES).

- The Directorate-General is also actively promoting the use of simplified cost options for ERDF/CF programmes and formulates its opinion on the proposed national schemes which it receives. The Audit Directorate contributes to the analysis of the submitted national schemes, as a way to further reduce the risk of errors in the legality and regularity of the concerned transactions.
- The Audit Directorate has also actively promoted in 2013 the use by programme authorities of ARACHNE, a preventive risk-scoring tool developed by the Commission which can bring significant improvements in the prevention and detection of various risks related to irregularities, suspected fraud or conflicts of interest (see section 2.1.3 below). Presentations of this new tool were made in a total of 12 Member States in 2013.

E. Annual audit opinion of the Directorate-General's Audit Directorate

The Directorate-General's annual declaration of assurance for the part of the budget implemented under shared management is built on different sources and in first place on the audit opinion provided by its Audit Directorate.

Building blocks of the audit opinion are: a) the set-up of systems, b) on-the-spot and desk audit work under the Directorate-General's audit strategy, including the analysis of national audit results, system audit reports, audit opinions contained in the Annual Control Report, c) other relevant Commission services' audit work and d) ECA audit work.[54]

The validated error rates, reflecting the effective functioning of management and controls systems, together with the cumulative residual risk constitute the cornerstone of the assurance process and of the methodology to estimate the amount at risk.

The Audit Directorate's assessment of the effective functioning of the management and control system for each programme is based on the assessment of 15 key regulatory requirements according to a methodology shared with the audit authorities[55]. For illustrative purposes the overall assessment of the functioning of the main key requirement for each of the three programme authorities for all ERDF/CF programmes is provided in annex 8.

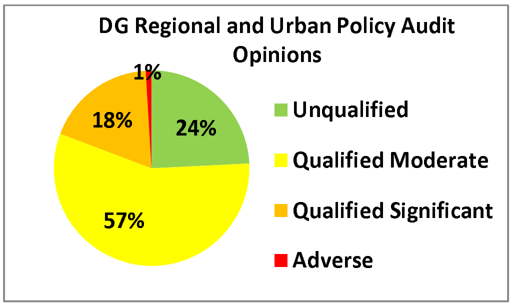
Based on the above blocks of information and on the assessment of the functioning of systems, the Audit Directorate of the Directorate-General expresses an audit opinion for each programme on the level assurance it has that expenditure reimbursed by the Directorate-General in 2013 is legal and regular. These audit opinions are transmitted to the operational units concerned as an input to their management opinion for every programme.

Table and graph: Assessment of management and control systems and Audit Directorate's 2013 audit opinion

[54] The preliminary findings of the Court (under DAS 2013) are taken into account when formally received by the Directorate General. The seriousness of these findings as well as their potential systemic impact is assessed. As these findings are preliminary, they can only be one element contributing to the assurance process. The Directorate-General is however taking appropriate measures to safeguard EUfunds pending clarification of the issues (Italian programme: Energie rinnovabili e risparmio energetico - CCI 2007IT161PO002 and Luxemburg: OP compétitivité CCI- 2007LU162PO001 for which draft statements of preliminary findings have been sent for comments to the Member State by the Court of Auditors in March 2014. The 2013 interim payments made for these 2 OPs amount to approx. EUR 150 million.)

[55] COCOF 08/0019/01 EN

DG REGIO Audit opinion and estimated risk to 2013 expenditure		No. of Programmes	as % of No. of Programmes
No/ low risk	- Unqualified	78	24%
	- Qualified with moderate impact	182	57%
Medium/ high risk	- Qualified with significant impact	59	18%[56]
	- Adverse	3	1%
	TOTAL	**322**	**100%**



F. Interruptions/suspensions of payments

The table below shows key indicators on suspensions and interruptions of payments carried out during the reporting year[57] with further details in the second table below.

ERDF/ CF

Indicator	As of 1/01/2013	New cases 2013	Any time in 2013	Lifted cases during 2013	As of 1/1/2014
OPs affected (warned/ interrupted / suspended)	60	121	181	110	71
Amounts interrupted EUR bn	1.64	4.24	5.88	4.27	1.61
Payment claims interrupted	38	220	258	157	101

IPA

Indicator	As of 1/01/2013	Any time in 2013	As of 1/1/2014
OPs affected (warned/ interrupted / suspended)	3	5	2
Amounts interrupted EUR	7.3 million	43.7 million	0.1 million
Payment claims interrupted	1	4	1

As a result of the Commission supervisory role including the assessment of national audit results, DG Regional and Urban policy has continued in 2013 to apply a strict policy on interruption and suspension of payments in order to safeguard the EU funds. This policy, in force for the 2007-2013 period, operates on a preventive basis, triggering the interruption of interim payments -or the sending of a warning letter if no payment claim is outstanding[58]- 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 to reimburse amounts which might be affected by serious irregularities.

Both procedures provide a mechanism for rapid agreement with the Member State on the complementary verifications to be carried out and, if need be, implementation of appropriate remedial actions, including improvements in the system for future expenditure and timely financial corrections for past expenditure. Whenever necessary, in case of serious weaknesses and where the Commission services consider that no or insufficient action has been taken by the concerned authorities within the regulatory time frame of the interruption (maximum period of 6 months), DG Regional and Urban Policy also launches a formal suspension procedure starting with a pre-suspension letter addressed to the Member State.

[56] Including cases where only part of the programme is affected by weaknesses.
[57] Annex 9 includes details of interruptions/suspensions of 2013 payments per Member State.
[58] Otherwise the submitted payment claim would be interrupted.

In order to ensure a consistent and timely treatment of all cases, DG Regional and Urban Policy established in 2011 an Interruptions Committee, chaired by the Director-General. In 2013, this Committee met on a weekly basis to decide on new interruptions, on the possibility of resuming payments for interrupted programmes based on the assessment of replies and audit evidence provided and actions taken by Member States, or on the need to launch suspension procedures.

In 2013, the number of warning letters, interruptions and pre-suspensions for ERDF/CF programmes has further increased compared to previous years. 61 warning letters have been sent and 130 new interruptions were decided and communicated to Member States in the year. DG Regional and Urban Policy initiated 78 suspension procedures. Two thirds of these interruptions and pre-suspensions are based on audit results reported to the Commission by audit authorities during the year or at year end.

The table below shows the number of programmes affected by a warning or an interruption as well as those which are pre-suspended or suspended.

ERDF/CF

OPs affected by:	As of 31 Dec 2012	New cases 2013	Lifted 2013	As of 31 Dec 2013	New cases 2014	Lifted Cases 2014	Total end of Q1 2014
Interruptions	32	105	81	56	9	17	48
Warnings	28	16	31	13	3	1	15
Total OPs affected	**60**	**121**	**112**	**69**	**12**	**18**	**63**
of which pre-suspended[59]	17	61	46	32	2	9	25
of which suspended[59]	16	2	1	17	0	0	17

IPA

OPs affected by:	As of 31 Dec 2012	New cases 2013	Lifted 2013	As of 31 Dec 2013	New cases 2014	Lifted Cases 2014	Total end of Q1 2014
Interruptions	3	1	3	1	0	0	1
Warnings	0	1	0	1	0	0	1
Total OPs affected	**3**	**2**	**3**	**2**	**0**	**0**	**2**
of which pre-suspended	1	0	0	1	0	0	1
of which suspended	0	0	0	0	0	0	0

Details of the interruption and suspension procedures implemented during the reporting year are presented in the table below.

ERDF/CF

OPs affected at any time during 2013 by:	AT	BE	BG	CZ	DK	DE	EE	CB	FR	GR	HR	HU	IT	LV	PL	RO	SK	SI	ES	SE	UK	Total
Interruptions	8	3	1	4	0	6	0	13	31	0	3	10	9	0	2	3	5	2	16	6	15	**137**
Warnings	0	0	0	10	1	3	1	2	0	8	0	0	1	1	3	1	4	0	7	2	0	**44**
Total OPs affected	**8**	**3**	**1**	**14**	**1**	**9**	**1**	**15**	**31**	**8**	**3**	**10**	**10**	**1**	**5**	**4**	**9**	**2**	**23**	**8**	**15**	**181**
of which pre-suspended	8	2	1	2	0	8	0	14	2	2	0	1	9	0	0	3	0	2	4	8	13	**78**
of which suspended	0	0	0	0	0	1	1	0	0	0	0	0	1	0	0	0	0	0	15	0	0	**18**

[59] Figures referring to (pre)suspension decisions are computed according to the date when the first procedure (interruption/warning/pre-suspension) was open. These include the 2 suspension decisions taken in early 2014.

IPA

OPs affected at any time during 2013 by:	ETC/IPA	FYROM	HR	TOTAL
Interruptions	1	0	0	1
Warnings	0	1	0	1
Total OPs affected	**1**	**1**	**0**	**2**
of which pre-suspended	1	0	0	1
of which suspended	0	0	0	0

In the majority of the cases, the interruption and suspension procedures have worked as an impetus to improve the management and control systems. The authorities took the remedial actions needed. 104 of the 191 cases that were on-going in 2013 were resolved by end of January 2014 and around 2/3 of cases were solved in 9 months or less.

However, at the end of the year outstanding cases affect 71 operational programmes (ERDF, CF and IPA) in 12 Member States (see annex 9 for details on 2013 suspensions/interruptions per Member State).

New cases of the first quarter of 2014 are presented below.

New cases Q1 2014 - OPs affected	AT	BE	BG	DE	ETC	HU	PO	SI	Other MS	TOTAL
Interruptions	0	1	1	0	4	1	0	2	0	**9**
Warnings	1	0	0	1	0	0	1	0	0	**3**
TOTAL OPs affected	**1**	**1**	**1**	**1**	**4**	**1**	**1**	**2**	**0**	**12**
Pre-suspensions	1	0	1	0	0	0	0	0	0	**2**
Suspensions	0	0	0	0	0	0	0	0	0	**0**

G. Financial corrections

Financial corrections as a result of the Commission supervisory work – programming period 2007-2013

The table below shows key indicators on financial corrections and recoveries carried out during the reporting year for the 2007-2013 programming period.

Indicator (ERDF and Cohesion Fund)	2013
Financial corrections for 2007-2013 programmes resulting from Commission supervisory role (decided/confirmed in 2013):	EUR 278 million
Financial corrections for 2007-2013 programmes resulting from Commission supervisory role (implemented in 2013, including from previous years):	EUR 473.8 million
Rate of implementation of corrections for 2007-2013 programmes (cumulatively)	78%
Cumulative financial corrections for 2007-2013 programmes (decided/confirmed till end 2013)	EUR 912.4 million
Cumulative financial corrections for 2007-2013 programmes (implemented till end 2013)	EUR 714.8 million

These amounts of financial corrections confirmed and implemented by Member States at the Commission's request are the result of the Commission's audits and supervisory role, Court of Auditors' audits or OLAF investigations and are reported on a quarterly basis to the European Parliament. The Commission's annual accounts provide the details on an accrual and cash basis.

Financial corrections decided/confirmed in 2013

With reference to all programming periods, EUR 557.2 million of financial corrections have been confirmed in 2013 for ERDF/CF.

Financial corrections for the programming period 2007-2013 only (EUR 278 million) represent half of this amount. This figure is the result of new amounts decided/confirmed in 2013 and adjustments to past reporting. As a result, the cumulative amount of financial corrections for 2007-2013 programmes at end 2013 is above EUR 0.9 billion. This is the result of the strict supervision and interruption policy of the Directorate- General and growing number of action plans including financial corrections decided by Member States and implemented as a result of interruption or pre-suspension letters. Financial corrections confirmed in 2013 concern 17 Member States and in particular the Czech Republic (EUR 128 million), Hungary (EUR 138.7 million) and Slovakia (EUR 55.6 million) as a result of important flat-rate corrections for deficiencies in the implementation of public procurement procedures, and Italy (EUR 49 million).

Financial corrections implemented in 2013

In total, for all programming periods, EUR 898.7 million of financial corrections have been implemented in 2013[60] (93% of all cumulative decided/agreed corrections for ERDF and CF are implemented).

For the 2007-2013 programming period only, an amount of financial corrections of EUR 473.8 million has been implemented[61]. This refers to corrections decided/confirmed in 2013 and previous years and brings the cumulative amount of implemented corrections for 2007-2013 programmes close to EUR 715 million with a rate of implementation of above 78%.

The Member States contributing most to implemented corrections in 2013 for the current programming period are: Hungary (140.2 million), Greece (86 million), Slovakia (65.7 million), Spain (61.8 million), Italy (24.3 million), Czech Republic (21.3 million).

However, it is worth underlining that the reported amounts do not reflect the totality of the amount of financial corrections accepted by Member States as a result of the supervisory role of the Commission. Remedial action plans have a <u>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</u>. For such expenditure, the certifying authority applies the financial correction requested by the Commission prior to declaring expenditure, i.e. expenditure declared is net from irregular amounts. Particularly in the case of extrapolated or flat rate corrections for weaknesses in management and control systems covering a large population of projects, the amounts preventively corrected prior to certification may be significant, as demonstrated in the 2012 AAR for the Czech and the Slovak Republic. This preventive effect of the Commission's supervisory role is not reflected in the official reporting even though it leads to an increased protection of the EU budget compared to the total irregular amounts reported. Warning letters sent out by the Directorate-General when system deficiencies are identified before a payment claim is submitted to the Commission may have the same preventive effect on the protection of the EU budget, but no financial correction is reported by the European Commission/ Member States in this case, either.

---

[60] EUR 621.9 million ERDF and EUR 276.8 million CF

[61] CF: EUR 154.2 million; ERDF: 319.6 million

See in annex 8 the tables showing per Member State the total cumulative decided/confirmed and implemented financial corrections for all programming periods at the end of 2013.

Financial corrections reported by Member States

Indicator (ERDF and Cohesion Fund)	2013
Corrections for 2007-2013 programmes reported by Member States in 2013	EUR 697.7 million
Cumulative Corrections reported by Member States by end 2013	EUR 1,498.5 million

Since the reporting year 2010 and by 31st March of each year, Member States are requested to submit to the Commission through the IT system SFC2007 an annual statement on withdrawals, recoveries, pending recoveries and irrecoverable amounts under the provisions of the Article 20(2) of Regulation (EC) No 1828/2006 for the 2007-2013 programmes. This report refers to financial corrections implemented by Member States (or pending recoveries) following the national verification and audit work carried out by all programme authorities, i.e. including from management verifications in addition to audits, but also financial corrections implemented as a result of EU audit work and Commission requests.

When facing irregular expenditure included in previous payment claims submitted to and reimbursed by the Commission, Member States have two choices according to the regulation:

1) immediately withdraw the irregular expenditure from the programme as soon as they detect the irregularity, by deducting it from the next statement of expenditure and thereby releasing EU funding for other, eligible operations or

2) issue a recovery order from the beneficiary and leave the expenditure in the programme until the outcome of proceedings to recover the unduly paid grant from the beneficiary; once the amount is effectively reimbursed by the beneficiary, deduct the recovered amount from the next statement of expenditure.

The first type of financial corrections should be reported under withdrawals and the second one under recoveries and refer to corrections deducted from payment claims in the previous year.

As at 21 March 2014, some Member States had already reported financial corrections for year 2013 for some programmes, ahead of the regulatory deadline of 31 March. These partial figures for 2013 are indicated in the table below and will be completed once reporting is complete and verified by the Directorate-General in view of the communication on the protection of the EU budget to be published in September and for use in future calculations of the CRR[62].

By 21/03/2014[63], Member States reported the following figures for 2012 and 2013 respectively:

[62] Partial reporting before the regulatory deadline of end March is used for the calculation of the CRR; desk and for some of them on-the-spot verifications of these amounts will be carried out after March 2014, once all reports are received and an updated risk-assessment for audits can be carried out.
[63] Following the provisions set in the guidance note to the Member States ref. COCOF 10/0002 EN ; last official report available covering 2012 expenditure.

DG Regional and Urban Policy (EUR million)	Withdrawals EC Share	Recoveries EC Share	Total withdrawals and Recoveries EC Share	Pending Recoveries EC Share
Reporting at 31/03/2013 for year 2012	550.7	147.0	697.7	
Cumulative reporting at 31/12/2013	1,222.5	276.0	1,498.5	
Partial reporting at 21/03/2014 for year 2013	666.4	70.3	736.7	139.2
Cumulative reporting at 21/3/2014 [64]	1,888.9	346.4	2,235.2	
Out of which additional to the Commission's reporting *at 21/3/2014* [65]			**1,520.4**	

Finally, from the overall cumulative amounts reported by Member States the Commission deducts its own reported cumulative amounts to estimate the additional corrections from Member States only. Cumulatively at the date of this report, Member States reported EUR 2.2 billion of withdrawals and recoveries for ERDF/CF for the 2007-20103 programming period, **out of which EUR 1.5 billion are estimated by the Commission to be additional to its reporting**.

A table providing a detailed picture of withdrawals and recoveries reported by Member State can be found in Annex 8.

H. Cumulative residual risk

Indicator (ERDF and Cohesion Fund)	2013
Cumulative residual risk (average for all programmes)	**1.2%**

Since 2011 the Commission services in charge of Cohesion Policy have established an indicator to assess whether the financial risk for programmes is manageable on a cumulative basis, since the beginning of implementation of programmes.

This cumulative residual risk (CRR), if above the materiality threshold of 2% for each programme or group of programmes, is also used as a criterion for additional reservations when the validated error rate is between 2% and 5% (and no reservation was made in the past).

The CRR is estimated by considering for each programme or group of programmes the multi-annual impact of the validated error rates and calculated since the beginning of the programming period, after deduction of the recoveries and withdrawals reported for each year as well as pending recoveries at the end of the reporting year and withdrawals accepted by certifying authorities and recorded in their accounts prior to the date of signature the annual activity report. The CRR is expressed as a percentage of the value of the cumulative interim payments made for the programming period, up to the date of signature the annual activity report and the average CRR for all programmes is disclosed for information. The CRR calculated at end 2013 is therefore the best estimate of the corrective capacity of each programme or group of programmes at the time of

[64] The 2007-2013 regulatory payment system implies that EU payments or the EU share of withdrawals and recoveries are calculated automatically based on either the declared total or public cost, taking into account the co-financing rate at priority axis level. Amounts of recoveries and withdrawals are therefore calculated on the basis of the latest available financing plan, which means that amounts of EU share for a given year can vary in subsequent years if the co-financing rates were subsequently modified. Reporting can also be subsequently adjusted by the Member State, at the Commission request, when errors are detected.

[65] As a result of comparison for each Member State between national and EU reporting of implemented corrections.

drafting the annual activity report, based on different elements for which the Directorate-General has obtained different levels of assurance. A more comprehensive explanation of the CRR can be found in annex 8.

At the date of this report, out of the 345 error rates reported for 322 programmes, programmes covered by 263 error rates (over 76%) presented a cumulative residual risk below or equal to 2% and programmes covered by 78 error rates (23%) a cumulative residual risk above 2%, including 43 validated error rates between 2-5% (the cumulative residual risk is not applicable for 4 programmes - less than 1%: 3 Croatian and one Italian programme for which no interim payments have been done).

On average for all programmes, the cumulative residual risk at end 2013 is 1.2% compared to 1.3% at end 2012 or around 2% at end 2011, which shows improvements in the corrective actions taken by Member States since the beginning of the programming period.

For five programmes, an adjusted rate has been used for the 2013 risk and the calculation of the CRR as the validated error rate for 2012 expenditure was not considered as the best estimate of the risk[66]. All programmes with a cumulative residual risk above 2% were included in the reservation except for two duly justified exceptions[67] where the necessary financial corrections were made and no further corrective measures need to be proposed.

In addition, for programmes in the Czech Republic (5), in Austria (5), for the national part of Spanish programmes and for 4 ETC programmes, the Directorate-General decided to take into account for the calculation of the CRR pending recoveries or formal agreements reported by the certifying authorities (4 programmes with pending recoveries and 10 programmes and the national part of Spanish programmes with formal agreements) to withdraw the irregular expenditure in the next payment claim. This brought the CRR of these programmes below 2% and taking into account the overall assessment of management and control systems, no reservation was made. Formal agreements will be closely monitored in connection with the next payment claim, to verify that the corresponding corrections have indeed been implemented.

This methodology to assess the cumulative residual risk, despite the inherent limitations of this indicator, therefore reinforces the annual assessment and Commission's supervision for operational programmes in the context of shared management under a multiannual control framework. It also requires a more proactive role by managing and certifying authorities to quickly correct irregular expenditure across the whole programme or concerned population of operations, based on the results and analysis of the audit authorities' work and statistical sampling **and thus increasing the assurance process for the year**.

I. Follow-up of 2012 reservations

AAR reservations[68]	Lifted	Outstanding as of 31 March 2014
85	55	30

[66] ES/OP Andalucía and PL/OP Transport: the estimates of the 2013 risk have been adjusted by excluding specific errors found on projects sampled under the 2012 expenditure which did not affect 2013 EU reimbursement and where the Member States had already withdrawn all concerned expenditure. AT: For three Austrian programmes the 2013 risk of error is assessed at a higher level than the validated 2012 error rate as weaknesses in the management and control systems were detected in 2013 on some intermediate bodies (no impact in 2013 as no payment were made for any of the 3 programmes).

[67] OP Amazonie (2007CB163PO051): the CRR remains above 2% due to previous year error rate (2011). This is due to inherent limitation in the methodology in case of non-statistical samples. For this programme, the financial corrections were made and no further corrective measures can be proposed and the error rate in 2012 is below materiality.
For OP Environment 2007SK161PO002, see footnote 53.

[68] Excludes IPA CBC dealt under section 2.1.1.3.

In the AAR 2012, 85 programmes of the 2007-2013 programming period were under reservation. The actions undergone have led to a total of 55 reservations solved and 30 still outstanding. For each of the case under reservation, DG Regional and Urban policy had identified and agreed with the Member States targeted remedial actions that needed to be carried out by the relevant authorities in order to remedy the deficiencies. DG Regional and Urban Policy has, during the year, supervised that the remedial actions were indeed implemented and, when relevant, audited by the national audit authorities. When necessary, DG Regional and Urban Policy's supervisory role also included on-the-spot audits. The payments were resumed only based on evidence that corrective actions, including financial corrections where necessary, were fully implemented.

The reservations still outstanding concern mainly Spain for which 22 out of the 23 programmes were under partial reservations in the AAR 2012 due to deficiencies at the level of 14 Intermediate bodies (IBs). During 2013, the deficiencies related to 8 out of 14 IBs were addressed[69]. This allowed however to lift at programme level only one of the 22 partial reservations.

Financial corrections have been agreed in 2013 upon for 40 of these 85 OPs, which represents a total amount of EUR 440 million (80% of corrections decided/confirmed in 2013).

Table: Follow up of reservations by Member States for the 2007-2013 programming period:

	Number of reservations in 2012	Lifted by end Q1 2014	Outstanding	N° of financial corrections decided/confirmed in 2013 (number of OPs)	Amount of financial corrections decided/confirmed in 2013 (€ million)
AT	8	8	0		
BE	2	2	0		
CZ	9	7	2	7	128.0
DE	4	4	0	2	6.4
EE	1	1	0	1	0.3
ES	22	1	21	12	64.1
FR	1	1	0		
GR	1	1	0	1	4.2
HU	3	3	0	3	114.1
IT	6	2	4	3	22.3
PL	1	1	0		
RO	3	3	0	2	23.7
SE	8	8	0	4	0.6
SI	2	2	0	2	14.2
SK	1	0	1	1	62.1
UK	2	2	0		
CB	11	9	2	2	0.2
Total	**85**	**55**	**30**	**40**	**440.3**

J. Overall assessment of the functioning of the management and control systems

Indicator	2013
Number of ERDF/CF programmes from the 2007-2013 programming period in reservation	73

The final stage of the evaluation process was a detailed review of all operational programmes in each

[69]The remaining 6 IBs with persistent deficiencies are: DG Comercio Interior (national body), IB DG Innovación y Competitividad (former DGTTDE – national body), IB Agencia IDEA (regional body), IB DG Investigación Científica y Técnica , IB DG Universidades, Investigación e Innovación de Castilla La Mancha and the Regional part of OP Cataluña. 3 are currently suspended and 3 pre-suspended.

Member State and beneficiary country at the highest level of the Directorate-General (meetings chaired by the Director General) in order to ensure the quality and consistency of the management assurance declarations (AOSD), to resolve any cases of discrepancy between the audit opinions and management assurance declarations, to agree on any modifications required as a result of subsequent developments during the first quarter of the current year (subsequent events), and to identify the programmes for which a reservation should be made.

Following the evaluation stage and taking into account the cumulative residual risk, the programmes are classified into four categories in accordance with the level of assurance that they provide as to the legality and regularity of interim payments made during the reporting year.

Final assessment of management and control systems in the annual management opinion:

IMPACT on **Declaration of Assurance** (based on functioning of systems, materiality and legality and regularity criteria)		**Coverage**		
		Nr. of Programmes	as % of Programmes	Payments to Programmes in question as % of 2007-2013 period interim payments in the year
1	**Reasonable assurance**	70	21.7%	8.91%
2	**Reasonable assurance with low risk**	179	55.6%	65.46%
3	**Limited assurance with medium risk**	43	13.4%	19.46%[70]
4	**Limited assurance with high risk**	30	9.3%	6.17%[69]
		322	**100.0%**	**100.0%**

All programmes falling under the categories 'limited assurance – medium risk' and 'limited assurance - high risk' in the table are subject to a reservation. This applies to 73 ERDF/CF programmes from the 2007-2013 programming period.

Reservation

The methodology followed for deciding whether or not a reservation is necessary is detailed in Annex 4. It has been agreed with DG Budget and the family DGs and it has remained stable compared to that used for the Annual Activity report for 2012.

As a general rule, reservations for the 2007-2013 period are made if at least one of the following conditions applies (conditions are assessed in the following order):

1) **First step is the identification of significant weaknesses in the management and control systems** resulting in material risk for the Community budget. 2) Secondly consideration is made of validated error rates above 5% and of the actions taken to mitigate this high level of risk. 3) Third step is the consideration of a cumulative residual risk (CRR) estimated for all programmes since the beginning of the programming period, based on the best available sources of information (see section H above). This is an additional check applied in particular to programmes considered to have system that function subject to some improvements needed (validated error rate is between 2% and 5%), in order to confirm whether the risk for the programme is under control on a cumulative basis i.e. whether corrective measures (withdrawals, recoveries) already implemented by Member States had adequately mitigated the risks of irregularities since the beginning of the programming period. This CRR, if above the materiality threshold of 2% for each programme or group of programmes, is also used as **a criterion for additional reservations**.

This means that in the case that conditions 1) and 2) do not apply (system assessed as functioning well or with some improvements needed, and a validated error rate below 5%), a reservation would

[70] Including cases where only part of a programme is affected by weaknesses

still be made if the CRR remains above 2% at the date of signature of the annual activity report. This criterion introduced in 2011 therefore allows for additional reservations compared to ARR 2010 and previously.

When no interim payments have been made in the year concerned (e.g. because of existing warning/pre-suspension) a reservation could still apply on a reputational basis.

The table on the following page presents the results of the assurance process which can be summarised as follows:

- The overall estimated validated average error rate[71] on 2013 payments for the 2007-2013 programming period is in the range of **2.8% (average risk rate[72]) to an upper limit of 5.3 %[73];**
- The cumulative residual risk of approx. 1.2% confirms that the 2007-2013 programming period is subject to appropriate control and corrective action on a cumulative basis[74];
- DG Regional and Urban policy formulates a reservation for 73 programmes: of which 18 on a reputational basis (including 8 partial reputational) as no interim payment was made for these programmes in 2013 and 30 on a partial basis (specific axis, measures or IBs of OPs);
- The quantification of the estimated financial risk for these programmes, as a percentage of 2007-2013 period interim payments in the year 2013, is at 1%.

The methodology which considers the cumulative residual risk for programmes with a 2013 validated error rate between 2 and 5 % and encourages Member States to apply self-correction has a positive impact on the overall estimated impact. The risk identified is already being mitigated by the strict, effective and timely implementation of a number of corrective measures, in particular interruptions, suspensions and financial corrections either already in place or being launched.

Further details as regards the **reason leading to the reservation for these 73 OPs** are described in annex 7.

[71] This validated error rate is the most comparable with the error rate determined by the ECA for the Cohesion Policy. However they are based on different approaches: on the one hand, an extrapolated error rate (fund specific as from the DAS 2011) based on audits of a sample of programmes and of operations using a statistical approach (ECA approach); and on the other hand, an average error rate based on the audit of operations by the Audit Authorities reported in the ACRs covering all the ESF operational programmes (Commission).

[72] As the error rates reported are related to 2012 operations, this average only represents an estimation of average levels of risk for the 2013 operations. It is primarily based on the (most likely projected) error rates reported in 2013 by the audit authorities if they have been assessed as reliable.

[73] Upper limitof the average risk rate: In order to estimate the risk for 2013 payments, a range is calculated. This is due to the one year time gap inherent in the regulation. The error rates reported by the audit authorities are calculated on 2012 expenditure but the risks have to be estimated on the 2013 expenditure. The calculation of the upper limit has been adjusted compared to previous year. Statistical sampling methods provide a confidence interval to estimate the risk. The upper limits reported by the audit authorities, in case of statistical sampling and reliable error rate, are used, otherwise a flat rate is applied (the flat rate immediately above the reported error rates as reviewed by DG Regional and Urban Policy's auditors). The upper limits thus calculated cannot however be lower than the risk associated with the programme's assessment categories (2%, 5% and 10% for programmes under category 2, 3 and 4 respectively).

[74] i.e.whether corrective measures (withdrawals, recoveries) already implemented by Member States had adequately mitigated the risks of irregularities since the beginning of the programming period

Table indicating by Member State the management's best estimate of the risk of error, presented as a weighted average of the estimation for each operational programme.

	Total Payments in 2013 per level of assurance (in € million)					Programming period 2007 - 2013											
Member States	REASONABLE ASSURANCE	REASONABLE ASSURANCE WITH LOW RISK	LIMITED ASSURANCE WITH MEDIUM RISK	LIMITED ASSURANCE WITH HIGH RISK	Total	2013 Estimated risk			Cumulative residual risk	AAR 2013 reservation					Commission's actions		
	ERDF / CF 2007-13	ERDF / CF 2007-13	ERDF / CF 2007-13	ERDF /CF 2007-13	ERDF / CF 2007-13	Number of programmes	average risk rate 2013 (1) (2)	quantification of global risk on 2013 interim payments (€ million)	% of cumulative interim payments at end 2013	Number of Programmes under whole reservation	Number of Programmes under partial reservation	Number of Programmes under reputational reservation	TOTAL	Quantification of risk for programmes in reservation 2013 (€ million)	Number of programmes affected by a warning or an interruption of payment deadlines in 2013 and Q1 2014	of which number of programmes affected by a pre-suspension in 2013 and Q1 2014	of which number of programmes affected by a suspension in 2013 and Q1 2014
Austria (AT)	0.0	83.7	0.0	6.4	90.1	9	2.93%	2.6	2.01%	1	0	3	**4**	0.4	9	9	0
Belgium (BE)	168.3	0.0	0.0	8.1	176.4	4	1.20%	2.1	0.34%	1	0	0	**1**	0.8	4	2	0
Bulgaria (BG)	6.6	511.2	60.2	0.0	577.9	5	1.71%	9.9	0.87%	1	0	0	**1**	6.0	2	2	0
Croatia (HR)	0.0	0.0	0.0	0.0	0.0	3		-	0.00%	0	0	0	**0**	0.0	3	0	0
Cyprus (CY)	78.6	0.0	0.0	0.0	78.6	1	1.94%	1.5	1.08%	0	0	0	**0**	0.0	0	0	0
Czech republic (CZ)	22.2	1036.0	1436.4	0.0	2494.6	14	1.30%	32.5	1.35%	1	0	3	**4**	0.0	14	2	0
Germany (DE)	1154.1	544.8	625.9	0.0	2324.8	18	1.58%	36.7	0.77%	3	2	0	**5**	22.0	10	8	1
Denmark (DK)	0.0	0.0	0.0	0.0	0.0	1		-	1.79%	0	0	0	**0**	0.0	1	0	0
Estonia (EE)	0.0	293.2	321.1	0.0	614.3	2	0.43%	2.6	1.00%	0	1	0	**1**	8.0	1	0	1
Spain (SP)	0.0	666.8	1165.0	1216.7	3048.5	23	6.18%	188.3	2.12%	0	17	5	**22**	76.1	23	4	15
ETC	763.1	639.0	51.8	0.0	1453.9	73	0.98%	14.3	0.83%	3	0	2	**5**	3.2	19	13	0
Finland (FI)	211.3	0.0	0.0	0.0	211.3	5	0.29%	0.6	0.45%	0	0	0	**0**	0.0	0	0	0
France (FR)	0.0	1317.7	0.0	0.0	1317.7	31	3.42%	45.1	1.51%	0	0	0	**0**	0.0	31	2	0
Greece (EL)	0.0	3251.9	0.0	0.0	3251.9	10	2.62%	85.2	1.20%	0	0	0	**0**	0.0	8	2	0
Hungary (HU)	49.5	955.4	2310.3	0.0	3315.2	13	4.08%	135.4	2.11%	0	8	1	**9**	109.1	11	1	0
Ireland (IE)	0.0	73.1	0.0	0.0	73.1	2	1.24%	0.9	0.70%	0	0	0	**0**	0.0	0	0	0
Italy (IT)	214.9	3714.9	0.0	236.7	4166.5	28	1.31%	54.8	0.75%	1	0	4	**5**	17.0	10	9	1
Lithuania (LT)	0.0	895.5	0.0	0.0	895.5	2	1.58%	14.1	0.63%	0	0	0	**0**	0.0	0	0	0
Luxembourg (LU)	0.0	3.8	0.0	0.0	3.8	1	0.03%	0.0	0.01%	0	0	0	**0**	0.0	0	0	0
Latvia (LV)	0.0	532.1	0.0	0.0	532.1	2	1.58%	8.4	1.94%	0	0	0	**0**	0.0	1	0	0
Malta (MT)	0.0	0.0	82.7	0.0	82.7	1	0.89%	0.7	1.00%	0	1	0	**1**	1.1	0	0	0
The Netherlands (NL)	0.0	79.0	0.0	65.3	144.3	4	3.33%	4.8	2.36%	1	0	0	**1**	4.5	0	0	0
Poland (PL)	979.6	6587.6	1395.4	0.0	8962.6	20	3.05%	273.0	0.10%	0	1	0	**1**	31.3	5	0	0
Portugal (PT)	0.0	2979.4	0.0	0.0	2979.4	10	0.88%	26.1	0.70%	0	0	0	**0**	0.0	0	0	0
Romania (RO)	4.2	2168.9	0.0	0.0	2173.1	5	1.04%	22.6	0.29%	0	0	0	**0**	0.0	4	3	0
Sweden (SE)	0.0	149.3	0.0	0.0	149.3	8	1.70%	2.5	1.68%	0	0	0	**0**	0.0	8	8	0
Slovenia (SI)	0.0	0.0	364.7	0.0	364.7	2	5.00%	18.2	3.48%	2	0	0	**2**	18.2	4	2	0
Slovakia (SK)	0.0	264.7	0.0	947.3	1212.0	9	11.48%	139.2	5.90%	8	0	0	**8**	112.7	10	0	0
The United Kingdom (UK)	1.0	84.9	165.2	48.8	299.9	16	4.35%	13.1	1.35%	3	0	0	**3**	12.4	15	13	0
TOTAL	**3,653.7**	**26,833.0**	**7,978.7**	**2,529.2**	**40,994.5**	**322**	**2.8%**	**1,135.3**	**1.2%**	**25**	**30**	**18**	**73**	**422.8**	**193**	**80**	**18**
Average risk rate								**2.8%**						**1.0%**			

(1) average error rate by Member State is calculated on the basis of weighted validated error rates at operational programme level.

(2) range of OP's error rates for Member States with an important number of OPs: DE: 0.25% to 5%, IT: 0% to 10%, ES: 0% to 38.8% (regional)

2.1.1.2 Shared Management – ERDF and CF 2000-2006

A. Audit work

ERDF 2000-2006

The audit work for ERDF focussed on the analysis of the remaining closure cases and follow-up of audits carried out in previous years. For the Brandenburg programme (DE), the financial corrections resulting from a closure audit were accepted by the Member State. As regards BE/Wallonia (financial engineering matters related to three programmes), a hearing was held in November 2013 with the Member State in the frame of the contradictory process in view of a possible financial correction decision. In the case of Italy, audit work carried out in 2013 comprised the preparation of closure letters for several programmes (Campania, Sicilia, Trasporti, Sardegna and Calabria) and one hearing (Sicilia). For the UK and ETC programmes, follow-up work was carried out for several closure files and two hearings were held for ETC programmes. Spain accepted in 2013 the financial corrections resulting from the Directorate-General's closure audits, thus allowing closure of all Spanish ERDF programmes. As regards Ireland, a technical meeting was held in May 2013 to speed up the closure process for three programmes for which closure audit results are still under contradictory follow-up.

Cohesion Fund 2000-2006

For the Cohesion Fund, a total of 167 winding-up declarations were analysed in 2013 by the Audit Directorate (Latvia: 2, Slovenia: 2, Romania: 24, Bulgaria: 11, Estonia: 7, Hungary 1, Lithuania 12, Greece: 14, Malta 1, Portugal: 41[75], Spain: 17 and Poland 35[76]). Concerning Spain, this means that as at end 2013 all 407 Spanish winding-up declarations for 2000-2006 have now been assessed, paving the way for full closure of the Cohesion Fund in Spain in the near future.

As regards Poland, for all projects to be closed after June 2010, a net correction of 2% will be applied due to five systemic findings in the area of public procurement. In addition, a 5% net correction for technical assistance projects was also imposed. Three hearings (financial correction procedures) were held in June 2013.

B. State-of-play closure

ERDF 2000-2006

In 2013, the number of ERDF programmes closed reached 316 compared to some 250 at end 2012 out of a total of 379 programmes. All remaining Commission proposals for closure (6), from prior year, were sent out in 2013. The remaining 63 programmes represent cases where the Member States contested the financial corrections proposed by the Commission, presented additional information to be considered or requested reimbursement of irrecoverable amounts. These cases are followed up by financial correction procedures (hearings) and decisions on irrecoverable amounts.

Cohesion Fund 2000-2006

At the end of 2012, 53% of the 2000-2006 projects were closed, representing 44% of the final commitments[77]. In 2013, another 222 projects were closed. The situation at the end of 2013 is that

[75] This brings the total number of winding up declarations analysed in relation to Portugal as at 31 December 2013 to 90, out of 103 projects for the programming period 2000-2006.

[76] As regards Poland, this brings the total number of winding up declarations analysed as at 31 December 2013 to 127, out of 130 projects for the programming period 2000-2006.

[77] Under the 2000-2006 period, 1.121 Cohesion Fund projects were accepted for a Fund contribution of EUR 32,545 million.

73% of the Cohesion Fund 2000-2006 projects are closed, representing 60% of the final commitments for this Fund.

The continued implementation of the agreement with the Spanish authorities applied since May 2012 to deduct 2% to all outstanding projects to be closed accelerated the closure process greatly with 95 projects closed during the year. In addition, a large number of Polish (41) and Portuguese (22) projects were closed during the year. In the case of Poland, the closures included financial corrections for underperformance for certain technical assistance projects where the design studies were not converted into actual projects in the 2007-2013 period.

C. Financial corrections

Financial corrections linked to the 2000-2006 closure process and follow-up audit work carried out for both ERDF and the Cohesion Fund as described above are the following (for amounts per programming period, Fund and Member State see detailed table in annex 8):

Indicator	2013
Corrections for 2000-2006 and previous programmes resulting from Commission audit work (decided in 2013, ERDF and Cohesion Fund):	EUR 279.2 million
Corrections for 2000-2006 and previous programmes resulting from Commission audit work (implemented in 2013, ERDF and Cohesion Fund):	EUR 424.9 million
Rate of implementation of corrections for 2000-2006 programmes (cumulatively)	93.5%
Cumulative financial corrections for 2000-2006 programmes (decided/confirmed till end 2013)	EUR 5,875.7 million
Cumulative financial corrections for 2000-2006 programmes (implemented till end 2013)	EUR 5,491.6 million

Financial corrections confirmed in 2013:

With reference to all programming periods, EUR 557.2 million of financial corrections have been confirmed in 2013 for ERDF/CF. This includes corrections of EUR 279.2 million for pre-2007-2013, out of which EUR 20.8 million of post closure corrections for old 1994-1999 programmes in 4 Member States.

For the 2000-2006 programming period, the closure process of both ERDF programmes and Cohesion Fund projects led to total additional financial corrections of an amount of EUR 258.4 million being imposed and accepted by Member States in 2013 (EUR 184.2 million of financial corrections for complex ERDF closure files in 9 Member States and EUR 74.2 million accepted by 11 Member States for Cohesion Fund projects). The most significant amounts concern Italy (EUR 114 million ERDF), Spain (EUR 30.8 million CF / EUR 65.1 million ERDF), Poland (EUR 15.9 million CF), Portugal (EUR 8.6 million CF), Latvia (EUR 8.1 million CF) and Greece (EUR 5.3 million CF).

In April 2013, DG Regional and Urban Policy reported to the Discharge Authority on the overall amount of financial corrections imposed by the Commission at that stage of the closure process for 2000-2006 ERDF programmes (Cohesion Fund excluded)[78]. It estimated that, **at the end of 2012, the rate of financial corrections for 2000-2006** programmes **was at least 5.6% of the ERDF decided allocations** (EUR 7.3 billion out of EUR 129.6 billion)[79]. This rate included an estimate of financial corrections in progress at end 2012 due to the on-going closure process. The new confirmed financial corrections reported for 2013 are part of these corrections in progress. The closure process has been instrumental in ensuring that residual risks are appropriately covered since financial corrections

[78] Ares(2013)689652 12/04/2013

[79] Including a prudent estimate of additional corrections implemented by Member States themselves or 0.74 percentage points out of the reported correction rate of 5.6%

imposed by the Commission at closure represent roughly one third of this rate of correction by end 2012.

Financial corrections implemented in 2013:

Cumulatively, and by end 2013, above 93% of all decided/agreed corrections for ERDF and CF have been implemented, with a total amount of EUR 898.7 million implemented in 2013. This includes EUR 424.9 million of financial corrections implemented in 2013, out of which EUR 23.5 million of post closure corrections implemented (and adjustments) for old 1994-1999 programmes.

For the 2000-2006 programming period, the reported amount of corrections implemented in 2013 is EUR 401.4 million. This corresponds to the closure of further 2000-2006 ERDF programmes in 10 Member States and for Interreg (EUR 278.9 million), following contradictory procedures on more complex cases (in particular in Italy), and the continuation of the closure of Cohesion Fund in 10 Member States (EUR 122.6 million). The implementation rate of financial corrections for ERDF 2000-2006 thus increased to 93% by end 2013 and will further progress with the payment of final balances to programmes that remained open by end 2013.

D. Follow up of 2012 reservation

ERDF 2000-2006

Out of the 9 reservations on operational programmes, 4 were addressed and 5 remain outstanding. These programmes were put under reservation due to the fact that financial corrections above 5% still needed to be applied at closure.

Finally, it should be noted that for a limited number of Greek programmes the ERDF contributions to unfinished projects are still significant and will lead to recoveries[80]. According to the Greek authorities 85 projects remain not completed leading to a recovery of approximately EUR 94 million. DG Regional and Urban Policy will take appropriate measures in 2014 in order to verify the information provided. It will further report about this in the annual report on the protection of the financial interests in September 2014.

Cohesion Fund 2000-2006

In addition, 2 Cohesion Fund reservations were due to suspicion of fraud (in several transport projects in Romania, and at the level of the road agency in Poland). As the corrective measures are still on-going the reservations are maintained.

Table: Follow up of reservations by Member States for the 2000-2006 programming period:

	Spain (ERDF)	Ireland (ERDF)	Italy (ERDF)	Poland (CF)	Romania (CF)	TOTAL (ERDF + CF)
Reservations in AAR 2012	3	3	3[81]	1	1	**11**
Resolved	3	1	0	0	0	**4**
Outstanding	0	2	3	1	1	**7**

E. Conclusion reservation

Indicator	2013
Number of programmes from the 2000-2006 programming period in reputational reservation	5
Number of sector for the Cohesion Fund 2000-2006 in reputational reservation (partial)	2

[80] The deadline to render projects completed and/or operational has been extended to 31 December 2013 by Decision C (2013) 1215.

[81] The 3 Italian programmes are OP Calabria, OP Campania and OP Sicilia for which corrections above 10 % need to be applied. The 2 Irish programmes are OP Productive sector and OP Economic and Social Infrastructure.

The 5 programmes which are not yet closed are included in a reputational reservation as significant financial corrections need to be applied (above 5%). No payment for these 5 programmes has been made in 2013.

The 2 Cohesion Fund sectors remain in reputational reservations pending completion of the remedial actions. No payment has been made in 2013 for the projects at risk.

2.1.1.3 Shared Management – IPA CBC and Solidarity Fund

A. Audit work

IPA CBC

There are eight[82] IPA Cross Border Cooperation programmes (IPA-CBC). These programmes differ from the mainstream ETC programmes as they involve at least one candidate country.

The Directorate-General reviewed the work of the audit authorities responsible for IPA-CBC, except for the Adriatic IPA Cross-border Programme, in 2012 and previous years. The audit conclusions are that the reviewed audit authorities' work well with some improvements needed. No additional on-the-spot audit work was carried out in 2013. The procedure for review and assessment of the annual control reports and reported error rates, as for mainstream programmes, was carried out.

Based on audit results available, the Audit Directorate assessed 7 programmes as functioning well or with some non-material improvements needed (unqualified audit opinions for 3 programmes and qualified audit opinions with moderate impact for 4 programmes). For one programme[83] the audit authority reported an error rate above materiality and moreover the national authorities had not yet implemented the corrective measures linked to last year's high error rate. The Directorate-General therefore expressed a qualified audit opinion with significant impact and the programme is under reservation.

Solidarity Fund

Audit and control of EU Solidarity Fund grants is primarily a responsibility of the beneficiary Member State. The Commission is responsible for desk reviews of 'validity statements" audited by an audit body independent from the authority managing the EUSF grant and can carry out on-the-spot audit work.

In 2013, concerning desk reviews, a total of 11[84] implementation reports and validity statements were submitted to DG Regional and Urban Policy for disasters of 2009 and 2010. Out of these, 9 were submitted for review by the Audit Directorate. For 2 validity statements where the analysis was completedby the Audit Directorate[85], Member States were requested to provide additional information. The remaining seven[86] reports and validity statements are currently being assessed. Moreover, additional information was received from Member States concerning validity statements originally submitted in 2012. For two cases (France Storm Xynthia 2010 and Cyprus 2008) replies are being analysed by the Audit Directorate, for one case (Romania 2008) additional information was requested from the Member State and for the Portugal Madeira 2010 file the analysis has been done so that the Directorate-General can close the file.

[82] Following the accession of Croatia, the 2 former IPA programmes (Slovenia - Croatia and Hungary - Croatia) were replaced on 1/07/2013 by 2 ERDF CBC programmes.
[83] 2007CB161PO001 - Adriatic IPA CBC
[84] Two validity statements have not yet been submitted to the audit directorate.
[85] Romania –2010 and Slovakia -2010
[86] Poland –2010, Czech Republic floods spring 2010, Czech Republic floods September 2010, Croatia floods spring 2010, Croatia Floods September 2010, Hungary 2010 and Slovenia 2010.

An audit in the UK for the flooding of 2007 was carried out in 2011/2012 with serious findings concerning mainly costs related to public servants salaries for normal (non-flood related) tasks. The draft report was sent to the Member State with a proposed financial correction. The reply from the national authorities was analysed in 2013 and a final position letter is being prepared.

Following the audit of the Swedish case relating to Storm Gudrun of 2005 and the detection of irregular expenditure, Sweden accepted to reimburse an amount of SEK 242,660 (approx. EUR 27,000) to the EU budget.

DG Regional and Urban Policy had also carried out an audit of the 2009 EUSF grant to L'Aquila, Italy, immediately after the Court of Auditors' performance audit, in 2012. It finalised the contradictory procedure on audit results with the Italian authorities in 2013, sent the English version of the final audit report to the Italian authorities in May 2013[87] and copied it to the EP/CONT at its request on 15 July 2013[88]. DG Regional and Urban Policy concluded in its audit report that some public contracts were irregular and the corresponding expenditure (EUR 306.9 million) was therefore ineligible[89]. However, the total ineligible amount was compensated by the remaining eligible claimed expenditure[90]. As a result, no recovery was necessary and the Italian authorities are entitled to the full EUSF grant paid in 2010. DG Regional and Urban Policy continues to closely follow the situation in Abruzzi, due to recent accusations of fraud and arrests in the municipality of L'Aquila. The Commission has also proposed a reviewed EUSF regulation to clarify the notion of "temporary accommodation" and to address the question of possible future revenue generation raised by the Court under this particular performance audit (see also section 2.3.1.2 below).

B. Interruptions/suspensions of payments

Information concerning interruptions and suspensions of payments is cumulatively presented under point F. of section 2.1.1.1 above.

C. Follow up of reservation

IPA CBC

One IPA-CBC programme (Adriatic IPA Cross-border) was under reservation in the AAR 2012 due to a high error rate. For this programme which was pre-suspended, the corrective measures have not been fully implemented.

D. Conclusion reservation

Indicator	2013
Number of IPA- CBC programmes from the 2007-2013 period in reservation	1

The programme Adriatic IPA Cross-border remains under reservation due to the on-going pre-suspension of the TA priority axis and the high error rate reported.

2.1.1.4 Indirect Management – IPA/ISPA

ISPA (for Croatia) and IPA (for Croatia, Turkey, the former Yugoslav Republic of Macedonia and Montenegro) are managed under indirect management, with the EU delegations carrying-out ex-

[87] Translated version made available in November 2013
[88] With final English and Italian versions formally sent to the EP/CONT on 10 December 2013 (ARES(2013)3686827)
[89] In addition an amount of EUR 8.3 million of tolls paid by the implementing body to the affected persons was deemed ineligible) for a total of EUR 315 million being rejected.
[90] Total declared expenditure: EUR 920 million; expenditure rejected as ineligible following the Commission audit: 315 million; remaining eligible expenditure: EUR 604 million justifying the EUSF grant of EU 494 million.

ante controls on the tendering of contracts, launch of calls for proposals and the award of contracts and grants. This represents an important mitigating element in the overall assessment of the functioning of management and control systems in candidate countries. There are five[91] IPA programmes.

A. Audit work

IPA

System audit reports were submitted by candidate countries on a regular basis and assessed by Commission services. In the case of Croatia and Turkey, the assessment has not revealed any particular deficiency. In the case of Former Yugoslav Republic of Macedonia (fYRoM), on the other hand, a system audit report submitted in June 2013 has revealed significant weaknesses in the functioning of the management and control system, namely in the areas of control environment (staff), risk assessment and control activities (irregularities procedure). This has triggered an interruption of payments. The remedial actions taken allowed lifting of the interruption at end March 2014.

In addition, the Commission services have analysed the annual audit activity reports and opinions submitted by Croatia, Turkey and fYRoM. The conclusion is that the audit work of audit authorities in candidate countries can generally be fully or partly relied upon. However, some improvements are needed in the determination and quantification of error rates.

With regard to the management of the operational programmes, the audit authority in Turkey has detected serious deficiencies in the Transport OP and provided a qualified opinion. The deficiencies relate to irregular expenditure certified to the Commission for works not carried out, over-declaration of expenditure and material inconsistencies between the content and conclusion of the annual management declaration provided by the NAO and the findings of the audit authority.

As regards Montenegro, one conferral of management mission was carried out in May 2013, which provided reasonable assurance on the adequate set-up of the IPA management and control system.
For Croatia, specific support was provided in the context of the compliance assessment process and key meetings or dedicated trainings were organised with the Croatian audit authority and managing authorities in that respect. Two missions on the spot were also carried out (compliance assessment and public procurement after ex ante removal).

For IPA/ISPA Croatia the national authorities have submitted a request to waive the ex-ante controls. A Commission decision for waiving the ex-ante controls on tendering and contracting for the three Croatian IPA III programmes has been adopted in January 2013, after the auditors had confirmed that the conditions were fulfilled.

ISPA

The three last ISPA operations were closed in 2013.

B. Interruptions/suspensions of payments

Information concerning interruptions and suspensions of payments is cumulatively presented under point F. of section 2.1.1.1 above.

[91] Three programmes in Turkey, one in fYRoM and one in Montenegro. Following the accession of Croatia, the 3 former IPA programmes for Croatia were replaced on 1/07/2013 by 3 ERDF programmes.

C. Conclusion reservation

Indicator	2013
Number of IPA programmes from the 2007-2013 programming period in reservation	1

In the case of Turkey, a full reservation is made for the Transport programme due to certification of irregular expenditure and material inconsistencies between the annual management declaration and the report from the audit authority.

There was no reservation made in 2012.

2.1.1.5. Direct management

In 2013, expenditure managed under direct management (mainly for operational and administrative technical assistance for ERDF and the Cohesion Fund) represented € 63.09 million of which € 28.54 million was granted to the EIB for three of the four joint initiatives developed with the European Investment Group i.e. JESSICA, JASPERS and JASMINE (the JEREMIE initiative being discontinued in 2011 as the initial objectives were met).

The specific difficulties with this type of management were addressed and risks mitigated per the main processes: award of contracts and grants, and payments.

Award of contracts and grants

For the award of contracts and grants, beside the financial circuit in place, DG Regional and Urban Policy has in place an additional ex-ante control, the Internal Committee on Public Procurement and Grants (CIMS). CIMS checks the regularity of the public procurement process based on its internal procedural rules. During the examination of the files the Committee often needed to request clarifications and made observations concerning namely the drafting of the evaluation reports and the letters of information to the tenders.

In 2013, CIMS has constantly and carefully checked the conformity of the files in relation to the public procurement procedures. A total of 11 files have been examined for a total of EUR 8.2 million and were all accepted. More specifically, 8 open procedures, 1 low value negotiated procedure with 3 candidates, 1 restricted procedure following a call for expression of interest and 1 with reopening of competition under Framework contract were conducted.

Secondly, the Resources Directorate and the legal unit train and advise staff (exchanging best practices) as appropriate on the most suitable procedure to follow for specific, or particularly complex public procurement contracts or grants.

In 2013, the Internal Audit of DG Regional and Urban Policy performed an audit on contracts and tenders, without any critical or very important findings.

Legality and regularity of the payments

DG Regional and Urban Policy has adopted the partly decentralised financial circuit. Therefore, the payments are approved following the four-eye principle (each file is double-checked both on operational and financial aspects). In accordance with DG Regional and Urban Policy internal procedures, transactions rejected by operational or financial verifiers due to minor corrections are looped back to the previous step for correction.

This current procedure implemented at the level of DG Regional and Urban Policy ensures compliance and the respect of the sound financial management principles.

The Internal Audit Unit has carried out an audit in 2013 on a sample of both mainstream and direct payments, systematically selected from the different budget lines, to ensure that these were duly authorised, paid to the right beneficiaries, properly accounted for and materially correct. There were no critical or very important findings. The audit provided reasonable assurance to the Director General as regards the legality and regularity of payments made in 2013 from the direct management budget.

2.1.2 Control efficiency and economy

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

As illustrated in the introduction of part 2, DG Regional and Urban Policy manages funds under several management modes:

Management mode	% budget
Shared management	99.3%
Indirect management	0.6%
Direct management	0.1%

2.1.2.1 Shared Management

The table below shows the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2013
Cost of control/financial management of the Commission checks and assessment (as a % of total 2013 payments)	0.14%
% of Commission payments on time	95%
Time to lift interruption of payments *Impacted by the degree of complexity of the issues and of the time required by Member States to react*	2.7 months on average
% interruption of payments notified to MS within 2 months	
• All payments claims interrupted in 2013 *The percentage reported does not take account of days during which the funds were not available, which would increase the compliance rate*	62.4%
• Payment claims submitted in 2013 and interrupted in 2013	98.9%

DG Regional and Urban Policy quantifies the costs of the resources and inputs required for carrying out the controls described in annex 5 and estimates, in so far as possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls.

The estimated annual overall Commission cost is estimated at 0.14% of total payments of the year[92].

When added to the cost at the level of the Member States assessed to be around 2.1% of the ERDF/CF 2007-13 programme budgets, the total estimated cost for the management and control of the ERDF/CF corresponds to 2.2% of the total annual budget.

The costs at the level of the Member States related to control (at national and regional level) are estimated around 2% of the total funding[93]. These costs are related to the following areas of control: 1% is derived from national coordination and programme preparation, 82% relate to programme management, 4% to certification and 13% to audit.

[92] Corresponding to EUR 43,107 million
[93] Study "regional governance in the context of globalisation", 2010

The quantifiable benefits mainly relate to the corrections[94] implemented by DG Regional and Urban Policy following (Directorate-General) audit work. In this context, it must be pointed out that financial corrections are not an objective as such. A decreasing amount of corrections over the years would not solely result from the quality and/or quantity of controls but could also reflect an improvement in sound financial management of the programme by the Member States.

Overall, during the reporting year the controls carried out by DG Regional and Urban Policy for the management of the budget appropriations were cost efficient, as the estimated quantifiable benefits exceeded the cost in a proportion of 17 to 1.

In addition, there are a number of non-quantifiable benefits resulting from the controls operated throughout the various control stages. This includes notably (but not exclusively):

1. An increased level of assurance, resulting from improvements in the management and control systems implemented at DG Regional and Urban Policy request, blocking of payment requests associated with unreliable systems and DG Regional and Urban Policy's adjustments made on the error rates reported by MS.
2. The negotiation procedures on the content of Partnership Agreements and future Operational Programmes. These must be thoroughly analysed by the Commission to ensure the respect of requirements laid down in the Cohesion Policy Regulation (CPR) and the adequate reflection of policy objectives and priorities, notably with the position papers and the follow-up to the relevant 2013 Country Specific Recommendations (CSRs). This work requires considerable efforts both at national and EU level but it is of utmost importance to get the programming right from the start and focus the ESI Funds on the challenges MS and regions are facing as identified in the European semester. Programming, management and monitoring roles carried out by the geographical units are key for all Member States if the ESI Funds are to deliver on the Europe 2020 Strategy. The deterrent effects of ex-post controls also bring unquantifiable benefits.

DG Regional and Urban Policy considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk in case they would not be in place.

In 2013, for the 2007-2013 programming period, the entire control system ultimately allowed that 87% of the credits were paid to programmes with a cumulative residual error rate below 2%.

2.1.2.2 Indirect management

Indicator	2013
Cost of control/financial management of the Commission checks and assessment (as a % of total 2013 payments)	0.77%
% of Commission payments on time (vs Financial Regulation Target)	98%
Budget execution	100%

The estimated annual overall Commission costs amounts to 0.77% of total payments of the year managed under indirect management mode[95].

The cost relates to staff involved in audit activities and part of the geographical staff involved in control and implementation activities for IPA (both in DG Regional and Urban Policy concerned geographical unit and in the delegations). The FTEs corresponding to geographical staff should not be counted in full, as the concerned staff contributes to both control and implementation activities. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in

[94] See point 2.1.1.1.G: As indicated above, the corrections implemented in 2013 at the request of the Commission amount to EUR 1.050,7 million. However, it must be noted that corrected amounts might correspond to expenditure of previous years.
[95] Corresponding to EUR 226.07 million

the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), DG Regional and Urban Policy estimated their involvement in the financial workflow at approximately 33% for the concerned staff in DG Regional and Urban Policy geographical unit and 75% for delegation staff.

The benefits of controls at the programming stage cannot be easily quantified. They mainly relate to the relevance and effective implementation of activities in line with the DG's policy objectives. They also contribute greatly to the improvement of the administrative capacity of the concerned countries.

The quantifiable benefits of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, DG Regional and Urban Policy makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds. The deterrent effects of monitoring and controls also bring unquantifiable benefits.

2.1.2.3 Direct management

Indicator	2013
Cost of control/financial management of the Commission checks and assessment (as a % of total 2013 payments)	4.17%
% of Commission payments on time (vs Financial Regulation Target)	96.0%
Budget execution	92.6%

The estimated annual overall Commission costs are estimated to amount to 4.17% of total payments of the year managed under direct management mode[96].

The cost relates to staff involved in financial advice, initiation, verification tasks and ex-post controls as well as a proportion of the operational staff involved in public procurement and contract management activities. The quantification of human resources involved in such activities is based on an estimation of FTEs needed for implementing the DG's technical assistance actions. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), DG Regional and Urban Policy estimated their involvement in the financial workflow at approximately 25% of their time.

The benefits of controls at the programming stage cannot be quantified. They mainly relate to the relevance and effective implementation of activities in line with the DG's policy objectives.

The quantifiable benefits of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, DG Regional and Urban Policy makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds. The deterrent effects of monitoring and controls also bring unquantifiable benefits.

2.1.3 Fraud prevention and detection

DG Regional and Urban Policy developed a Joint Anti-Fraud Strategy for 2012-2013[97] together with DG

[96] Corresponding to EUR 63.09 million
[97] ARES(2012)1235372 – 19.10.2013

Employment, DG Social Affairs and Inclusion and DG Maritime and Fisheries, with the support of OLAF, as foreseen in the Commission's overall anti-fraud strategy.[98] All the resulting measures have been fully implemented by the end of 2013. The Director-Generals of the DGs and OLAF held a bilateral meeting on 3 October to discuss and conclude on the joint cooperation.

In relation to the 2014-2020 programming period, an important guidance note for the Member States on a methodology for fraud risk assessment and accompanying anti-fraud measures[99] was produced. Managing authorities are recommended to use the guidance when they carry out their fraud risk assessment in 2014 - putting in place effective and proportionate anti-fraud measures is a new key requirement for the management and control systems for the 2014-2020 programming period.

A total of 23 fraud suspicions were transmitted to OLAF. OLAF opened up 9 investigations on the basis of this information and dismissed 2 cases.[100] The other cases are pending a decision by OLAF whether to open up a case or not. OLAF is currently carrying out 131 fraud investigations in relation to DG Regional and Urban Policy's funds. In 2013, the follow-up for eight cases were finalised.

During 2013, several missions were carried out together with DG Employment that aimed at explaining the basic concept and the advantages of the ARACHNE Risk Scoring Tool to the national authorities. These activities involved ten member States. Two Member States reported that the tool is already operational: Portugal and the Czech Republic. The DG has received preliminary technical data to be tested for another six Member States. The aim is to seek to introduce ARACHNE to all Member States.

In addition, DG Regional and Urban Policy in co-operation with other Commission services and Transparency International has organised a conference on anti-fraud and anti-corruption measures in ESI funds. The event took place in December 2013 and was attended by more than 400 participants from 28 Member States. As there was a strong interest for further sharing of hands-on practice, additional awareness raising events will be organised in 2014 in 6 Member States targeting the programmes authorities (AA, MA and CA) and the anti-corruption bodies. The aim of these events is to present the new regulatory framework and guidelines on the subject as well as exchange experience and good practice examples for addressing fraud and corruption risks in ESI funds.

Annex 8 provides more detailed information on cooperation with OLAF.

2.2 Budget implementation tasks entrusted to other services and entities.

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

Cross-sub-delegations

As in previous years, DG Regional and Urban policy has cross-sub-delegated the execution of a very limited part of the budget (EUR 7.3m) to the Directors General of:

- DG Employment, Social Affairs and Inclusions (EUR 2.65m for the development of a risk scoring tool and the Greek task force);
- DG Informatics (EUR 1.15m for IT infrastructure and hosting SFC2007);

[98] COM(2011) 376 24.06.2011
[99] Cf. Article 125(4) c of Regulation (EU) No 2013/2013 of the European Parliament and of the Council
[100] Dismissed cases are treated in accordance with OLAF's guidance on dismissed cases.

- DG Eurostat (EUR 0.14m for regional/urban statistics and geographical information);
- OIB (EUR 0.07m for printshop activities);
- DG Development and Cooperation (EUR 2.65m for salary related costs / overheads for local staff in the delegations);
- DG Enlargement (EUR 0.68m for Implementation of SSTA credits in EU Delegations (IPA)); and
- the Heads of the EU Delegations in Croatia, the Former Yugoslav Republic of Macedonia (fYRoM) and Turkey as regards the ex-ante controls of legal commitments.

The heads of Commission services, the AODs are required to implement the appropriations subject to same rules, responsibilities and accountability arrangements. The cross-delegation agreement requires the AOD of these DGs to report on the use of these appropriations..

None of these reports communicate events, control results or issues which could have a material impact on assurance. They provided reasonable assurance that the resources assigned to the activities described have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

2.3 Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

The DG is audited by both internal and external independent auditors: its internal audit capability (IAC), the Commission internal audit service (IAS) and the European Court of Auditors (ECA).

2.3.1 European Court of Auditors

2.3.1.1 Annual report and DAS 2012

Main conclusions: The European Court of Auditors (the Court) concluded in its 2012 Annual Report that payments for Regional and Urban Policy, Energy and Transport were affected by material errors, with a most likely error of 6.8% and a frequency of error in the audited sample of 180 transactions of 49%. The Court underlined that 56% of the errors it found could and should have been detected by the Member States before declaring expenditure to the Commission. Errors were reported as due to lack of compliance with public procurement procedures (52% of the error rate), ineligible expenditure (19%) and to non-compliance with State aid and incorrect calculation of financing gaps. The Court also reviewed the work of four ERDF/CF/ESF audit authorities, which it found to be partially effective in 3 cases and effective in one case. The Court also reviewed the Commission’s analysis of the annual control reports submitted by audit authorities. On the work performed by DG Regional and Urban Policy to assess the work of ERDF/CF audit authorities, the Court concluded that the Commission did not always have full information to validate the data reported by the audit authorities. Concerning the Directorate-General’s management representation, the Court acknowledges that the estimated amounts at risk reported in the 2012 Annual Activity Report for the 2007-2013 programming period (between 2.2% and 5.0%) is in line with the assessment presented by the Court for 2011.

Impact on assurance: The error rate calculated by the Court in 2012 for regional policy remains less than half of the error rates reported by the Court in the period 2006-2008 for Cohesion policy as a whole. The Commission estimates however that this error rate remains high and continues to work to further reduce it, even if it considers that the yearly error rates will continue to oscillate around this level during implementation. This is due to the multiannual character of the management and control systems and programmes and the fact that not all controls may have been carried out when expenditure is declared to the Commission. At closure, after all foreseen controls have taken place, the residual error should be tolerable.

Management verifications by managing authorities before certifying expenditure to the Commission is the critical first layer of control in the management and control systems. A significant number of errors at this level or insufficiently robust management verifications risk undermining assurance, therefore the Directorate General carries out risk-based audits to detect deficiencies in the functioning of this key element of systems and takes actions to remedy the identified weaknesses (see section 2.1.1.2 D, results of the risk-targeted audit enquiry "Bridge the assurance gap" and section 2.1.1.2 F on "interruptions/suspensions").

Another factor of critical importance for the Directorate General's assurance building process is the effective functioning of audit authorities so that they report reliable audit results for the Commission's use. Therefore, the Directorate General pays particular attention the Court's finding on the audit authorities 'work and integrate the Court's results in its own assessment of the reliance it can place on audit authorities (see section 2.1.1.1 D on the review of the work of audit authorities since 2009 and section 2.1.1.1 E on the audit opinion).

<u>Follow-up of recommendations:</u> The Court recommended in its 2012 Annual Report to:

- *address weaknesses in 'first level checks' carried out by managing authorities and intermediate bodies for the ERDF and the CF, through specific guidance material and, where appropriate, through training measures;*

- *on the basis of its experience gained of the 2007-2013 programming period, carry out an assessment of the use of national eligibility rules in view of identifying possible areas for further simplification and eliminating unnecessary complex rules ('gold-plating').*

- *specify clear rules and provides robust guidance on how to assess the eligibility of projects and calculate the co-financing for revenue-generating ERDF and CF projects under the 2014-2020 programming period.*

- *seek improvement in the work done by audit authorities and the quality and reliability of the information provided in annual control reports and audit opinions.*

The Directorate-General is implementing or has already implemented the Court's recommendations. It has provided guidelines to Member States on the way managing authorities should design and implement their management verifications (cf. 2009 comprehensive guidelines for management verifications and a self-assessment tool for managing authorities, which they can use to improve their functioning). The Directorate-General also disseminated in 2011 to audit authorities its checklists for the audit of management verifications in particularly complex areas such as implementation of public procurement procedures or State aid, which can be used by the managing authorities themselves as a benchmark. General training based on this guidance material has been delivered since 2009/2010 to managing authorities with a responsibility to disseminate further this training material to all levels of projects management. And specific training has been delivered to targeted programme managers and auditors on the proper implementation of public procurement procedures, revenue generating projects or State aid issues. DG Regional and Urban Policy will continue to carry out capacity building actions in this respect. The Directorate-General is also carrying out since 2010 targeted audits to verify the effectiveness of management verifications for high risk programmes where it has identified that deficiencies could remain undetected or not timely detected (see results of the summary report of these audits presented to the EP/CONT in December 2013 and in section 2.1.1.1 D).

Concerning national eligibility rules, the Commission fully shares the need to further simplify them and eliminate unnecessary complex rules but it is not feasible to carry out a systematic assessment of all national and programmes' eligibility rules. Whenever the Commission identifies complex rules at national or programme level it addresses them jointly with the Member States concerned. It will make recommendations to Member States for the next programming period and will encourage them to use simplified cost options, offered in the regulations. The regulation adopted in December 2013 for the 2014-2020 programming period includes simplifications in relation to eligibility rules in many respects and also lays down a simplified mechanism in respect of revenue generating projects.

To improve the work of audit authorities, further guidance on the treatment of errors as well as Commission checklists have already been provided to the audit authorities in 2011 and 2013, in addition to a comprehensive updated guidance on sampling accompanied by numerous targeted and practical seminars organised by DG Regional and Urban Policy in 2012 and 2013 in order to further improve the administrative capacity of audit authorities and the quality of audit results based on sound sampling technics used in preparation of the annual control reports. DG Regional and Urban Policy continues to work with audit authorities to regularly review their work including through on-the-spot re-performance of audits at the level of operations and beneficiaries and to provide further guidance to audit authorities, including on the reporting of audit findings and the treatment of errors (see written clarifications in December 2013 following the assessment of 2012 ACRs).[101]

2.3.1.2 ECA's Performance audits

Main conclusions: The Court published six special reports in 2013. Four of them were thematic reports in relation to policies supported through programmes co-financed by ERDF and the Cohesion Fund under the 2000-2006 and current programing periods, namely: energy efficiency, municipal waste management infrastructure projects, regeneration of industrial and military brownfield sites and roads. The Court's conclusions focused mainly on the setting of investment priorities by the Member States and on the project selection, implementation and evaluation by the managing authorities in the Member States: it reported shortcomings in the conditions for programming and financing of the audited energy efficiency projects in public buildings and long average planned payback periods; it found that the effectiveness of EU structural measures funding for municipal waste management infrastructures under the 2000-2006 programming period was limited and hampered by the poor implementation of supporting measures, and noted significant weaknesses regarding the reporting of achievement of EU targets; it concluded that the polluter-pays principle was not always fully applied for brownfields regeneration projects and that the periods to calculate unforeseen revenues after completion of projects might be too short, taking the view that the Commission should monitor the application of reimbursement clauses in case of unexpected revenues for 15 years after the completion of operations; and finally it found that the audited road projects delivered results and fulfilled their purpose, providing travelling time savings and improved road safety. However, several projects did not deliver the planned returns on investment as forecasted in the cost-benefit analysis, cost effectiveness was not always ensured as the audited projects were affected by inaccurate traffic forecasts and the type of road chosen by the road authorities was not always best suited to the traffic it carried.

Globally, all four thematic Special Reports concluded that expected outputs were achieved and that the projects were implemented as foreseen, with some delays and cost overruns.

One Special Report concerned the Solidarity Fund's response to the 2009 Abruzzi (L'Aquilla) earthquake. The Court questioned the temporary nature of the C.A.S.E. reconstructions, built to last several years until the population could go back to the city, considered these C.A.S.E. apartments unnecessarily costly with shortcomings in the planning and economy of the project and estimated that these apartments are expected to generate revenue in the future, which is not covered by the EUSF regulation.

[101] See ARES (2013) 3718429 of 13/12/2013

Finally, the sixth Special Report published in 2013 covered the issue of 'single audit' and the Commission's reliance on the work of national audit authorities in Cohesion. The Court's conclusions are that Member States and the Commission have made significant efforts in putting in place a better system for auditing Cohesion spending for the 2007-13 programming period; the Commission has made considerable progress in developing a system based on which it can draw assurance on the legality and regularity of the ERDF/CF and ESF expenditure from the work of national Audit Authorities and in providing guidance material which contributes to better consistency in Audit Authorities' approaches and working methods. The Court identifies however a number of risks in the Commission's reliance on error rates reported by audit authorities due to insufficient information available and in the information on financial corrections reported by Member States.

Significant impact on assurance:

The Court's special report dealing with the EUSF support to Abruzzi was an important input into the assurance process for the use of EUSF monies. DG Regional and Urban Policy however confirmed the eligibility of the longer term habitations funded under the C.A.S.E project, and considered that re-construction and re-housing of thousands of families in the Abruzzi area were part of the emergency situation.
With a view to the Special Report on 'single auditing', the functioning of audit authorities and reporting of reliable audit results is of critical importance for the Commission's assurance building process. Therefore, the Directorate-General pays particular attention the Court's findings and closely follows up its recommendations. The Commission, nonetheless, considers that it has overall a thorough process in place to assess and validate or recalculate the reported error rates and audit opinions (see section 2.1.1.2 B on the assessment and validation of audit results reported in annual control reports) and confirms that in its view conditions were in place in 2012-2013 to grant Article 73 status to all concerned programmes.

Follow-up of recommendations: The Court recommends in the thematic reports that the Commission ensures that programme authorities put a stronger focus on the effectiveness, efficiency, and economy of the projects when setting investment priorities, which should be based on sound needs analysis, when selecting projects, which should be cost-effective and when monitoring projects implementation which should be done through suitable and transparent performance indicators. The Commission is implementing the ECA recommendations within the limits of its competencies provided by the legal framework under shared management. There are in the 2014-2020 legislative framework and secondary legislation under approbation new elements that enable it to implement some of the recommendations and ensure better monitoring of some of the aspects raised by the Court in its Special Reports: stronger focus on result-orientation for co-funded programmes with a link between the Common Strategic Framework key actions and country-specific recommendations under the European semester; provision of Partnership Agreements with Member States that will include an analysis of disparities and development needs; ex-ante conditionalities covering e.g. the waste directive to ensure a robust implementation framework from the start of implementation; and an annual reporting of output indicators at priority axis level based on the definition of indicators, e.g. for energy efficiency in the ERDF regulation.

Concerning single auditing, the Commission developed a methodology to closely monitor that audit authorities working on programmes falling under an Article 73 status continue to fulfil all conditions. This methodology includes on-the-spot re-performance of the audit work on operations. Concerning the assessment of error rates reported annually by audit authorities, the Commission provided additional written clarifications and guidance to audit authorities for the 2013 ACR exercise in order to obtain additional information in order to be able to validate the reported error rates (see results under section 2.1.1.1 above).

DG Regional and Urban Policy carried out an audit of the EUSF grant to L'Aquila in 2012-2013 (see more details in section 2.1.1.3 Shared Management – IPA CBC and Solidarity Fund). It has also proposed a revision of the EUSF regulation to clarify the notion of "temporary accommodation" and to address the question of possible future revenue generation raised by the Court.

2.3.2 Internal Audit Service (IAS)

2013 audit:

In 2013, the IAS performed one audit which covered "Performance Measurement Systems". Three very important recommendations were made. DG Regional and Urban Policy should significantly strengthen its performance measurement system put in place to monitor, report and evaluate performance of Regional policy. It should ensure quality and reliability of Member States' performance information (a strategy to improve the reliability of the data should be set up). Finally the Directorate-General should manage the change to a more performance based culture.

DG Regional and Urban Policy is implementing the recommendations.

Follow-up of previous IAS very important recommendations:

As regards the 3 open audits for which the IAS had issued very important recommendations in 2012[102], relevant action plans are being implemented as planned on schedule. There are no recommendations being overdue for more than 6 months. Consequently, the current state-of-play does not lead to assurance-related concerns.

Finally, the very important recommendation made as part of the 2011 audit on "security of outsourced IT development" was closed in 2013.

2.3.3 Internal Audit Capability (IAC)

2013 audits

Based on the results of the audit engagements carried out by the Internal Audit of DG Regional and Urban Policy, the internal auditor expressed the opinion that the internal control system in place provides reasonable assurance[103] regarding the achievement of the business objectives set up for the processes audited, except for issues linked to:

- The informal process for appraisal of the information provided by the Member States regarding the ex-ante conditionalities, in the informal negotiations of Partnership Agreements and Operational Programmes for 2014-2020 programming period;

- The process for preparing the 2012 annual accounts.

DG Regional and Urban Policy has put in place action plans to tackle the identified control weaknesses in the process of appraising the information provided by the Member States regarding the ex-ante conditionalities. Therefore, the implementation of recommendations is ongoing. Regarding the accounts, DG Regional and Urban Policy made the necessary corrections, in order to provide reliable data for the Commission Accounts.

Follow up of previous very important recommendations:

---

[102] "Implementation of the 2007-2013 programming period", "Closure of the 2000-2006 ERDF programming period" and "Cohesion Fund 2000-2006 Closure".

[103] Even an effective internal control system, no matter how well designed and operated, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only *reasonable assurance* to management regarding the achievement of the business objectives and not *absolute assurance*.

In 2013 Internal Audit has also performed follow-up work in order to provide assurance to management that the recommendations made in previous years were effectively implemented and the risks identified were mitigated.

This is the case except for the following very important issues still pending:

- Contribution agreements between DG Regional and Urban Policy and EIB
- Provide assistance and adequate tools to the new Member State
- Increase the number of Major Project Commission decisions adopted and better tackle the blocking issues
- Take a clear decision regarding the monitoring of Major Projects implementation
- Meet the deadlines for the closure of previous programming periods.

For these issues however the risks are mitigated by alternative measures. Consequently, the current state-of-play does not lead to assurance-related concerns.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG Regional and Urban Policy has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

3.1 Risk environment

DG Regional and Urban Policy has operated within several methods of budget implementation in 2013 (Shared management, Indirect management, Direct management) which have specific inherent risks.

For shared management (representing more than 99% of the 2013 payments), the main inherent risks relate to the complexity and diversity of operations and activities financed, which range from large infrastructure projects to small-scale support services for SMEs. The forms of assistance also vary with grants and co-funding of more sophisticated financial engineering instruments. In addition, there is a multiplicity and diversity of management organisations, structures and beneficiaries. The multi-annual nature of the system helps to offset the risk of national controls not functioning effectively to prevent errors, allowing corrections to be made some years after the disbursement of funds by the Member State to the beneficiaries.

In addition, DG Regional and Urban Policy had identified five main risks for 2013 for which risk reduction and mitigating actions were carried out. Despite the actions taken (such as ensuring that OP modifications are done in line with EU priorities, setting up a dedicated competence centre for administrative capacity, identifying programmes at risks for all 27 Member States etc.), one of the risks -related to the fact that some Member State may not be able to implement operational programmes according to the agreed financial profile for 2007-2013- has partially materialised, in particular for Romania. The remaining four risks, of a multiannual nature, have been carried over to 2014 as most of planned actions are still valid and appropriate to mitigate them.

All the inherent risks of DG Regional and Urban Policy outlined above have sound financial management implications. DG Regional and Urban Policy is particularly concerned to keep error rates in spending programmes down to a tolerable level and to balance trust and control. Current error rates are around 2.8% on an annual basis, the residual error being less than 2% (1.2%). An analysis of the main causes of errors led the DG to implement actions to enhance compliance with public procurement procedures in the MS (see part 4.3, overall action plan).

3.2 Source and methodology for the assessment

The DG's annual assessment of its implementation of the Internal Control Standards (ICS- 15) for 2013 consisted of a two-step exercise (a mid-year round of interviews of the ICS Chef de file followed by a self-assessment exercise at the end of the year). The mid-year review allowed identifying areas for which improvements were needed and taking remedial actions when appropriate. The self-assessment exercise at the end of the year aimed at confirming compliance and effectiveness or at identifying further needs for actions, in case of partial effectiveness.

The self-assessment performed by the ICS Chef de file was reviewed by taking into consideration mainly the following:
- The annual AOSD Management Reports;
- The results of the survey made by the Internal Audit on two internal control standards (ICS 8 and 9);
- The results of the 2013 Staff Survey[104];
- The answers provided by staff at the 2013 DG Regional and Urban Policy Staff Assembly;
- The non-compliance events reported and exceptions requested;
- The work performed in the frame of Change REGIO[105];
- The Internal Audit Opinion 2013 on DG Regional and Urban Policy internal control systems;
- The results of the IAA/IAS and ECAs audits and the follow-up of their recommendations.

3.3 Prioritised ICS for the reporting year

DG Regional and Urban Policy had selected three priority standards for which particular challenges were anticipated in 2013: ICS 1 – Mission, part of ICS 2 – Organisation and values and ICS 5 - Objectives and Performance Indicators. In order to ensure their sustained effectiveness, targeted actions were carried out throughout 2013 on these standards. In addition, specific actions were taken for ICS 3 – Staff allocation and mobility as it was assessed as partially effective in 2012. The actions implemented and their positive impact on the effectiveness of these 4 standards are summarised below.

ICS 1 – Mission & ICS 2 – Organisation and values: A renewed[106] corporate identity for the DG Regional and Urban Policy was established through a wide participatory process, in the framework of the Change REGIO process. It aims at better defining the vision and values of the DG and to better communicate them to the external world. All DG Regional and Urban Policy staff, including managers, will have to fully integrate it in their daily activities and to be more aware and engaged in the Change REGIO process.

ICS 5 - Objectives and Performance Indicators: The DG has also significantly strengthened the monitoring of its priorities by introducing a periodic reporting to the senior management. This was done through a simple monitoring tool tracking the progress on the main priorities complemented by a quarterly report at the level of the units. The monitoring allowed for a better and timelier identification of possible difficulties, triggering remedial actions for ensuring the achievement of the DG's objectives (see annex 6). DG Regional and Urban Policy Senior Management has also adopted its new Charter[107] on decision-making and Communication with Staff calling for: more involvement of staff and improved communication actions aimed at ensuring more informed and evidence-based decision-making and better communication with staff.

ICS 3 – Staff allocation and mobility: some significant actions were taken in order to ensure that the DG is better aligning staff allocations with priorities and workload. In 2013, the DG carried out a detailed workload analysis and updated constantly the DG's Human Resources Rolling Plan. The DG possesses, for the first time, a complete mapping of its activities, tasks and related outputs together with the corresponding human resource allocations, collected and presented at unit level and aggregated at DG level. This has provided the DG with a tool supporting the analysis of how the core business and support activities can be conducted and enhanced. These results are now being

[104] DG HR published the results of its Staff Survey in the last trimester of 2013. Within this survey a staff engagement index is calculated. It is a combination of factors including *inter alia*: information to do work well [ICS 12], clear understanding of work expectations [ICS 3 and 4], and line manager helping identifying learning and development needs [ICS 4]. REGIO index is 73, which is above the total for the Commission (71).
[105] See part I section 1.3
[106] A new corporate identity/ mission statement for the DG was adopted early 2013 following the reorganisation of the DG and in the context of REGIO Change process, bringing about impacts on ICS1 and the ICS2 part on organisational values.
[107] The Charter was signed by the senior management in January 2013.

implemented, as part of Change REGIO, in order to assist the DG in search for efficiency gains and potential economies of scale such as simplification of human intensive processes.

3.4 Conclusion on the effectiveness of the entire control system

On the basis of the self-assessment, other sources mentioned above, actions implemented in 2013 particularly for the prioritised standards, the review of the Internal Control Coordinator and taking into account DG Regional and Urban Policy's Internal Audit opinion, the following conclusions can be drawn:

- **No ICS are considered ineffective or partially effective**;

- **ICS generally effective**: Mission (ICS 1), Ethics and Values (ICS 2), Operational Structure (ICS 7), Business Continuity (ICS 10), Document Management (ICS 11); Accounting and Financial Reporting (ICS 13), Evaluation of Activities (ICS 14), Evaluation of the Internal Control System (ICS 15) and Internal Audit Capability (ICS 16);

- **ICS generally effective with some (minor) improvements needed:** Staff Allocation and Mobility (ICS 3); Staff Evaluation and Development (ICS 4); Objectives and Performance Indicators (ICS 5); Risk Management Process (ICS 6); Processes and Procedures (ICS 8); Management Supervision (ICS 9); Information and Communication (ICS 12).

In particular, in view of some upcoming challenges in relation to ICS 11 and 12, these two standards are prioritised for 2014[108].

In conclusion, the internal control standards are effectively implemented.

Further enhancing of the effectiveness of the DG's control arrangements in place is an on-going effort that will continue in 2014 especially in the frame of the Change Regio process.

[108] See: REGIO Management Plan 2014, Annex 3 "Prioritised internal control standards for effective management".

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

The information reported in Parts 2 and 3 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG Regional and Urban Policy.

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

DG Regional and Urban Policy has systematically examined the available control results and indicators, including the results of its own audits, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance (part 2).

In addition, DG Regional and Urban Policy has assessed the effectiveness of its key internal control systems during the reporting year and identified areas for improvements, although in no case the weaknesses identified were leading to assurance-related concerns. DG Regional and Urban policy decided to select two priority ICS standards for 2014 (part 3).

As regards shared management, the Commission has put in place, since 2008, a series of steps with the goal of improving its supervisory role for structural actions.

For the 2007-2013 programming period, 2013 is the fifth year for which the programme audit authorities provided Annual Control Reports (ACRs) and audit opinions. DG Regional and Urban Policy carried out a detailed and thorough analysis of these documents for the fourth year, and could use after its validation process the error rates provided by audit authorities in the ACRs as one of the key elements for building its assurance.

For the 2000-2006 programming period, assurance has been built over the years. In the closure process, final payments are made when DG Regional and Urban Policy is reasonably certain that the error rate is below the materiality threshold of 2% following implementation of additional appropriate financial corrections

4.2 Reservations and overall conclusion on assurance

Regarding **shared management**, the situation is as follows :

As regards the 2007-2013 programming period, the estimated average risk linked to the 2013 payments for ERDF and Cohesion Fund is in the range of 2,8% to 5.3 %. Last year it was between 2.2% and 5%.

Taking into account the corrective measures already implemented by Member States, the average cumulative residual risk for all 2007-2013 programmes is below 2% (1.2%). However this indicator is not looked at ABB level but for each programme or group of programme.

DG Regional and Urban Policy concludes that it has reasonable assurance as regards legality and regularity of transactions except for 74 programmes[109] of the current programming period, due to the deficiencies detected in the management and control systems and / or a cumulative residual risk above 2% at the date of this report for 73 ERDF/CF programmes and 1 IPA -CBC programme.

The quantification of the reservation for these programmes is EUR 422.8 million or 1% of the interim payments made in 2013 for ERDF/CF and IPA-CBC 2007-2013.

As regards the 2000-2006 programming period, a reputational reservation is formulated for ERDF for 5 programmes and for the Cohesion Fund for 2 Member States in the Transport sector. There is no financial risk in 2013 as final payments will be executed only when an agreement reached with the Member States concerned on the level of financial correction to be applied.

Regarding **indirect management**, on the basis of analysis made at programme level DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions except for 1 IPA programme. The quantification of the reservation for this programme is EUR 17.4 million.

Finally for direct **management and for the Solidarity Fund**, no material deficiencies were identified. On this basis, DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions.

Nr.	Title	Type	2013 amount at risk for OPs in reservation	ABB amounts concerned i.e. scope
1	Management and control systems for the programming period 2007-2013 for 75 programmes (68 specific ERDF/CF Operational Programmes in 15 Member States , 5 European Territorial Cooperation programmes, 1 IPA-CBC and 1 IPA programme)	Financial	EUR 440.2 million[110]	EUR 6.105 billion[111]
2	Management and control systems for the programming period 2000-2006 for 5 specific ERDF Operational Programmes in Italy and Ireland and 2 Cohesion Fund sector in Poland and Romania	Reputational	0	0

The reservations were quantified by using the validated error rates reported by the programme audit authorities (if available) or flat rates of 5, 10 or 25% on payments made in 2013 and affected by deficiencies to the programmes concerned.

The total quantification is EUR 440 million (approx. 1% of the 2007-2013 ERDF/CF/IPA paid in 2013). This is overall below the materiality threshold and represents the risk linked to the individual reservations.

[109] Last year a reservation covering 86 programmes was issued.
[110] EUR 422.8 million (ERDF/CF) + EUR 17.4 million (IPA)

[111] EUR 6.035 billion (ERDF/CF) + EUR 70 million (IPA)

1. Reservation concerning ERDF/Cohesion Fund/IPA management and control systems for the period 2007-2013 in several Member States

DG/service	Regional and Urban Policy
Title of the reservation, including its scope	A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2007-2013 for : 73 programmes from the following Member States : Austria, Belgium, Bulgaria, Czech Republic, Germany, Estonia, Spain, Hungary, Italy, Malta, Netherlands, Poland, Slovenia, Slovakia, United Kingdom and ETC programmes B/ Reservation concerning the IPA management and control systems for the period 2007-2013 for : 2 programmes, one for Turkey (Transport) and for one IPA Cross-Border programme (Adriatic) (*detailed list of reservations available page 83-84)*
Domain	Structural and Cohesion Funds and carried out under 'Shared Management Responsibility' and IPA under shared management (CBC) and indirect management
ABB activity and amount	<u>13.03 ERDF, 13.04 Cohesion Fund,</u> 2013 ERDF/CF interim payments made to 2007-2013 OPs : EUR 40.99 billion 2013 ERDF/CF interim payments made to 2007-2013 systems affected by reservations : EUR 6.035,5billion (out of EUR 10.508 billion paid in 2013 for the concerned 73 Ops) <u>13.05 IPA</u> 2013 IPA interim payments linked to IPA and IPA –CB for the 2007-2013 period: EUR 270 million 2013 IPA interim payments made to systems affected by reservations : EUR 70 million (out of 80 million paid for the concerned 2 OPs)
Reason for the reservation	Audit reports and opinions at national level, by the Commission and/or the European Court of Auditors have revealed serious deficiencies in management and control systems for these programmes. In particular, these deficiencies concern one or several of the following key elements: – compliance with public procurement rules and directives/state aids/revenue generated project/real estate evaluation/eligibility rules, – financial engineering sound financial management, – procedures for the selection of operations, – management verifications, – certification activities, – treatment of irregularities, – high error rates following audit of operations, – supervision of the Certifying Authorities/Audit Authorities over respectively Intermediate bodies/Delegated Audit Bodies, – audit work (unreliable error rate due to uncompleted work, incorrect use of sampling methodology, procurement irregularities not detected) – suspicion of fraud
Materiality	Significant deficiencies at the level of the key elements of the management

criterion/criteria	and control systems in the Member States.
Quantification of the impact	Total quantification: EUR 440 million (422.8 million +17.4 million IPA). This is approx. 1% of the 2007-2013 ERDF/CF and IPA paid in 2013). This represents only the risk linked to the reservations.
Impact on the assurance	DG Regional and Urban Policy has not been able to obtain reasonable assurance that key elements of the management and control systems of the programmes concerned functioned effectively, so as to provide reasonable assurance that statements of expenditure are correct and that the underlying transactions are legal and regular. Financial impact is mitigated through precautionary measures taken by the Commission: - interruption/suspension of payments pending the correction of the identified weaknesses by the Member States concerned; - financial corrections applied to past expenditure statements.
Responsibility for the weakness and its correction	The expenditure concerned is under shared and indirect management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).
Corrective action	**1. Significant issues regarding the effective functioning of the management and control systems:** In each case, specific actions have been undertaken or planned which include, if necessary: At Commission level - warning letters / interruption of payment deadlines / launch of suspension and correction procedures, - complementary guidance and support for national authorities, - identification of targeted remedial actions that needs to be carried out by the relevant authorities in the member States in order to remedy the deficiencies, - audit work to check the ability of national auditors to fulfil their obligations, - update of the audit plan based on updated risk-assessments of the Directorate-General and continuous focus on risk-based audits and monitoring of agreed remedial action plans implemented (including through follow-up audits), following the interruption/suspension of payments. At Member State level - implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies, - audit by the audit authority (when considered reliable) of the effective implementation of remedial measures in management and control systems and of financial corrections when required.

2. Reservation concerning ERDF/Cohesion Fund management and control systems for the period 2000-2006 in some Member States

DG/service	Regional and Urban Policy
Title of the reservation, including its scope	Reservation concerning the ERDF and Cohesion Fund management and control systems for the 2000-2006 period: - in Romania and Poland related to the Transport sector (Cohesion Fund) - in Ireland and Italy as regards ERDF programmes
Domain	Structural and Cohesion Funds carried out under 'Shared Management Responsibility'
ABB activity and amount	<u>13.03 ERDF and 13.04 Cohesion Fund</u> Payments in 2013 linked to ERDF/CF of the 2000-2006 programming period: EUR 1.96 billion (1.27 billion ERDF and 0.6 billion CF). Payments linked to the programmes / sectors in reservations: 0[112]
Reason for the reservation	- suspicion of fraud/collusion in the implementation of several projects in the Cohesion Fund (Transport sector in Poland and Romania) - significant corrections to be applied at closure (above 5%) for 5 programmes (Italy and Ireland)
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems.
Quantification of the impact	EUR 0 (as there were no payments made in 2013; the reservations are reputational).
Impact on the assurance	DG Regional and Urban Policy has not been able to obtain reasonable assurance that the suspicion of fraud was addressed and that actions were taken to mitigate the risks.
Responsibility for the weakness and its correction	The expenditure concerned is under shared management, in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional programme authorities are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).
Corrective action	**1. Significant issues regarding the effective functioning of the management and control systems:** In each case, specific actions have been undertaken or planned which include, if necessary: - For the 5 ERDF programmes, the financial correction procedure was launched as part of the closure process. - For the Cohesion fund, the authorities were requested to carry out further checks prior to the winding up of the projects.

[112] The 58 million paid in 2013 were not related to the projects potentially affected by the deficiencies.

4.3 Overall action plan

As a general rule, DG Regional and Urban Policy will continue to rigorously exercise its supervisory role by ensuring that Member States address the weakest points in their management and control systems, by:

- updating its audit risk assessment jointly with Structural actions services taking into account all available cumulative audit results and information;
- targeting its joint audit plan for 2014-2015 on the main risks identified (one third of total audit missions in the audit plan);
- completing the review of the quality of the audits undertaken by the audit authorities and monitoring the single audit status granted so far (more than half of total audit missions in the audit plan) and by
- applying payment interruptions and proposing to the Commission to decide on suspensions of payments and financial corrections whenever necessary.

In addition to the above and to the specific actions defined for each programme under reservation (as described in annex 7), DG Regional and Urban Policy will continue to apply the following three initiatives to mitigate the main risks and weaknesses identified.

<u>Administrative capacity initiative</u>

A new Competence Centre on administrative capacity building was established in DG Regional and Urban Policy at the beginning of 2013 in order to support public administrations managing EU funds to improve their capacity to efficiently and effectively plan, implement and evaluate high quality investment programmes furthering Cohesion Policy. Measures of success are that funds are spent well, on time, without errors, reported accurately and managed according to the principles of good governance. The Competence Centre focuses its activities in order to strengthen these capacities via a range of activities such as guidance, training, knowledge development, networking and pilot projects.

In addition to past and ongoing actions in relation to the assessment of Partnership Agreements and Operational Programmes, several initiatives aimed at increasing the effectiveness of programme authorities in a number of weak areas are foreseen for 2014. They mainly concern: funds management, public procurement (see below), anti-fraud/corruption measures, improved awareness and understanding of State aid by managing authorities, techniques for measuring administrative capacity in the area of Cohesion Policy, transparency and promotion/publicity on good governance for managing the funds, including through the creation of a platform for exchanging good practices and requesting help and short-term support between national peers.

<u>Public procurement initiative</u>

Public procurement is an area with persistently high irregularities and resulting financial corrections that affects all funds, where DG Regional and Urban Policy faces a particular challenge. In order to address weaknesses in administrative capacity to manage public procurement processes identified at Member States level, DG Regional and Urban Policy has established a common Public Procurement Action Plan in coordination with DG Internal Market and the other structural actions / ESI Funds. Its over-arching goal is to reduce risks, build national and local administrative capacity, improve value-for-money and boost competitiveness, whilst increasing transparency towards citizens and the market.

Actions already underway or to be launched in 2014 include among others:

- Based on the analysis of errors reported in this area in the last years, the preparation of Guidance for Practitioners on *"How to avoid common public procurement errors"* together with a strategy for their effective dissemination;

- support to transposition and the training necessary to prepare for the new package of public procurement Directives, which will become applicable in 2016;
- development of an expert exchange system for managing authorities to share experiences and expertise in public procurement capacity building;
- country-specific action plans to address public procurement weaknesses identified in particular in Romania and Bulgaria

Audit capacity initiative

DG Regional and Urban Policy reviewed the work of the most important audit authorities covering around 96% of ERDF and CF allocations and is continuously following-up identified weaknesses and monitoring the situation where the single audit status has been granted. This audit work, that includes on-the-spot re-performance of audits including at the level of beneficiaries and operations, associated with the issuance of continuous audit guidelines and methodological tools by the Commission services, has enabled comprehensive capacity-building for the audit authorities since 2009. By continuing its audit work under this specific audit enquiry in 2014 and beyond, including by monitoring the work of these audit authorities on which it formally relies, DG Regional and Urban Policy will continue to address remaining weaknesses in the Member States' audit work and to ensure capacity-building for those audit authorities that still need it. Reservations were made in the 2013 AAR in particular due to deficiencies or problems still open with 6 audit authorities[113], including lack of compliance with sampling methodology or unreliable audit opinions or reported error rates. For these six audit authorities[114], targeted remedial actions or comprehensive action plans with clear exit points will be developed in order to ensure timely improvements.

In the frame of the organisation of the structured multilateral and bilateral meetings where the Commission meets individually or collectively audit authorities on general and specific issues and where audit issues of common interest are debated extensively, the Directorate-General will pursue the organisation of the following capacity building actions for the benefit of all authorities:

- Delivering specific training sessions on request to fully implement the updated guidance on sampling for those audit authorities who decide or can upgrade their sampling methodology to a statistical one, or, in the case of use of non-statistical sampling, on implementation of the recommended sampling technics allowing for the calculation of a projected error rate to reach conclusive and reliable results.
- Continuing to provide harmonised guidance on treatment of errors to audit authorities following practical cases experienced in the last reporting years, including recommendations to the managing and certifying authorities on the necessary corrective measures they need to implement following the audit work of the audit authorities reported in the ACR.
- Providing feedback to the audit authorities based on a list on the main deficiencies or improvement needs identified by DG Regional and Urban Policy following the analysis of the 2013 Annual Control Reports and their assessment letter for better understanding of the main weaknesses identified across all Member States.
- Continuing to provide guidance and explanations the audit of specific and complex issues (such as public procurement, State Aid etc.).

[113] out of 73 in total for the ERDF/CF mainstream programmes;

[114] the audit authorities concerned are from DE (Mecklenburg Vorpommern, Hessen and Bremen), UK (Wales), Slovak Republic and Italy (Calabria).

DECLARATION OF ASSURANCE

I, the undersigned, Walter DEFFAA, Director-General of the Directorate General for Regional and Urban Policy

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[115].

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

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution

However the following reservations should be noted:

- a reservation concerning ERDF/Cohesion Fund/IPA management and control systems for the 2007-2013 programming period in 15 Member States and 6 European territorial cooperation programmes (see table next page)

- a reputational reservation concerning ERDF/Cohesion Fund management and control systems for the 2000-2006 programming period in 4 Member States (see table next page).

Brussels, 31 March 2014

Walter Deffaa

"Signed"

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

List of operational programmes in the 2013 reservation

2007-2013			
MS	Ref	Title	Reservation
AT	2007AT162PO003	Vorarlberg	Rep-Full
	2007AT162PO004	Wien	Full
	2007AT162PO007	Steiermark	Rep-Full
	2007AT162PO008	Tirol	Rep-Full
BE	2007BE162PO001	Compétitivité régionale et emploi' de la Région de Bruxelles-Capitale	Full
BG	2007BG161PO005	Environment	Full
ETC	2007CB163PO019	Ziel 3-Programm zur grenzüberschreitenden Zusammenarbeit MV/BB - Polen	Full
	2007CB163PO030	Slovenská republika - Česká republika	Full
	2007CB163PO052	Italia/Austria	Full
	2007CB163PO054	Slovenia-Austria	Rep-Par
	2007CB163PO065	Grensregio Vlaanderen - Nederland	Rep-Full
CZ	2007CZ161PO004	Enterprise and Innovations	Rep-Full
	2007CZ161PO007	Transport	Full
	2007CZ161PO009	Central Bohemia	Rep-Full
	2007CZ16UPO002	Integrated OP	Rep-Par
DE	2007DE161PO001	Operationelles Programm EFRE Thüringen 2007-2013	Partial
	2007DE161PO003	Mecklenburg-Vorpommern	Full
	2007DE162PO005	Hessen	Full
	2007DE162PO006	Bremen	Full
	2007DE162PO007	Nordrhein-Westfalen	Partial
EE	2007EE161PO001	Operational Programme for the Development of Economic Environment	Partial
ES	2007ES161PO001	Región de Murcia	Partial
	2007ES161PO002	Melilla	Partial
	2007ES161PO003	Ceuta	Partial
	2007ES161PO004	Asturias	Partial
	2007ES161PO005	Galicia	Partial
	2007ES161PO006	Extremadura	Partial
	2007ES161PO007	Castilla La Mancha	Partial
	2007ES161PO008	Andalucía	Partial
	2007ES162PO001	Cantabria	Rep-Par
	2007ES162PO002	País Vasco	Rep-Par
	2007ES162PO003	Navarra	Partial
	2007ES162PO004	Madrid	Partial
	2007ES162PO005	La Rioja	Rep-Par
	2007ES162PO006	Cataluña	Rep-Par
	2007ES162PO007	Baleares	Partial
	2007ES162PO008	Aragón	Partial
	2007ES162PO009	Castilla y León	Partial
	2007ES162PO010	Comunidad Valenciana	Partial
	2007ES162PO011	Canarias	Partial
	2007ES16UPO001	Investigación, Desarrollo e innovación por y para el beneficio de las empresas	Partial
	2007ES16UPO002	Asistencia Técnica y Gobernanza	Partial
	2007ES16UPO003	Economía basada en el Conocimiento	Rep-Par
HU	2007HU161PO001	Operational Programme for Economic Development	Partial
	2007HU161PO003	West Pannon	Partial

	2007HU161PO004	South Great Plain	Partial
	2007HU161PO005	Central Transdanubia	Partial
	2007HU161PO006	North Hungary	Partial
	2007HU161PO007	Transport	Partial
	2007HU161PO009	North Great Plain	Partial
	2007HU161PO011	South Transdanubia	Partial
	2007HU162PO001	Central Hungary	Rep-Par
IT	2007IT161PO001	POI Attrattori culturali, naturali e turismo FESR	Rep-Full
	2007IT161PO007	Sicurezza per lo sviluppo del Mezzogiorno d'Italia	Rep-Full
	2007IT161PO008	POR Calabria FESR 2007 - 2013	Rep-Full
	2007IT161PO012	Por Basilicata ST FESR	Rep-Full
	2007IT162PO016	Por Sardegna ST FESR	Full
MT	2007MT161PO001	Investing in Competitiveness for a Better Quality of Life	Partial
NL	2007NL162PO002	West	Full
PL	2007PL161PO001	Innowacyjna Gospodarka	Partial
SI	2007SI161PO001	Operativni program krepitve regionalnih razvojnih potencialov za obdobje 2007 - 2013	Full
	2007SI161PO002	Operativni program razvoja okoljske in prometne infrastrukture za obdobje 2007 - 2013	Full
SK	2007SK161PO001	OP Information Society	Full
	2007SK161PO003	Regional Operational Programme	Full
	2007SK161PO004	OP Transport	Full
	2007SK161PO005	Operational Programme Health	Full
	2007SK161PO006	OP Competitiveness and Economic Growth	Full
	2007SK161PO007	OP Technical Assistance	Full
	2007SK162PO001	OP Bratislava Region	Full
	2007SK16UPO001	OP Research and Development	Full
UK	2007UK161PO002	West Wales and the Valleys	Full
	2007UK162PO001	Lowlands and Uplands of Scotland	Full
	2007UK162PO012	East Wales	Full
ETC-IPA	2007CB16IPO001	Adriatic IPA Cross-border Programme	Rep-Par
TR-IPA	2007TR16IPO002	Operational Programme for Transport	Full

2000-2006

MS	Ref	Title	Reservation
IE	2000IE161PO002	PO obj. 1 Productive Sector	Rep-Full
	2000IE161PO004	PO obj. 1 Economic and Social Infrastructure	Rep-Full
IT	1999IT161PO006	PO OBJ 1 CALABRIA	Rep-Full
	1999IT161PO007	PO OBJ 1 CAMPANIA	Rep-Full
	1999IT161PO011	PO OBJ 1 SICILIA	Rep-Full
PL	PL_FDCPT	Transport Project	Rep-Par
RO	RO_FDCPT	Transport Project	Rep-Par