



2014

Annual Activity Report

**Employment,
Social Affairs
and Inclusion**

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List of acronyms

AAR	Annual Activity Report
AA	Audit Authority
ACR	Annual Control Report
AGS	Annual Growth Survey
AIR	Annual Implementation Report
AOD	Authorising Officer by Delegation
AOSD	Authorising Officer by Sub-delegation
CIE	Counterfactual Impact Evaluations
COM	Commission
CWP	Commission Work Programme
DG	Directorate General
EaSI	EU Programme for Employment and Social Innovation
ECA	European Court of Auditors
EC	European Council
EEA	European Economic Area
EEPO	European Employment Policy Observatory
EESI	Electronic Exchange of Social Security Information
EGF	European Globalisation Adjustment Fund
EMCO	Employment Committee
EP	European Parliament
ESDE	Employment and Social Developments in Europe
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EURES	European Employment Services
FEAD	Fund for European Aid to the Most Deprived
FTA	Free Trade Agreements
IAC	Internal Audit Capacity
IAS	Internal Audit Service
ICS	Internal Control Standards
IPA	Instrument for Pre-accession
JER	Joint Employment Report
LFS	Labour Force Survey
LTU	Long Term Unemployment
MA	Managing Authority
MCS	Management and Control Systems
MFF	Multiannual Financial Framework
MLP	Mutual Learning Program
MP	Management Plan
MS	Member States
SCO	Simplified Cost Options
SIP	Social Investment Package
SPC	Social Protection Committee
SPPM	Social Protection Performance Monitor
SWD	Staff Working Documents
TMS	Targeted Mobility Scheme
TTIP	Transatlantic Trade and Investment Partnership
WLA	Workload Assessment
YEI	Youth Employment Initiative
Yfej	Your First EURES Job
YG	Youth Guarantee

INTRODUCTION

The DG in brief

DG Employment, Social Affairs and Inclusion pursues policy, legislative and financial initiatives in order to contribute to the achievement of a highly competitive social market economy in the European Union within the context of the Europe 2020 Strategy. It aims at creating more and better jobs, improving the functioning of labour markets, combatting poverty and social exclusion, promoting social justice, enabling the free movement of workers and promoting workers' rights, health and safety at work.

Mission Statement Management Plan 2014

The activities of DG EMPL are guided by the **Treaty**, which provides that in determining and implementing its policies and activities, the EU has to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion and a high level of education, training and protection of human health (Article 9 TFEU). Other specific responsibilities of DG EMPL enshrined in the Treaty include the implementation of the fundamental right of "Free Movement of Workers" (Article 45 TEU), the coordination of social security systems (Article 48 TEU) and the promotion of social dialogue (Articles 154, 55 and 152 TFEU). DG EMPL is also in charge of the implementation of the European Social Fund in order to improve employment opportunities for workers in the internal market and to contribute thereby to raising the standard of living (article 162 TFEU) and to develop actions leading to the strengthening of the Union economic, social and territorial cohesion (article 174 TFEU).

DG EMPL's policies are also framed by the **Europe 2020 Strategy**. With the overall goal to generate smart, inclusive and sustainable growth, it sets out an overarching policy framework for reforming the labour markets, modernising social Europe, creating job opportunities, ensuring adequate and sustainable social protection systems and social inclusion, and fostering economic competitiveness.

The responsibility for fulfilling the above targets as well as for policy setting in the field of employment, social affairs and inclusion is shared between the EU and its member countries (Article 4 and 5 TFEU). In its Management Plan 2014, DG EMPL translated its mission into four general objectives:

1. Promote a high level of employment in a truly European labour market;
2. Promote improved working conditions in the EU and the dialogue between management and labour;
3. Promote adequate social protection, social inclusion and the fight against poverty;
4. Contribute to strengthening the economic, social and territorial cohesion between MS and regions in the EU.

Managing a budget¹ of EUR 14 600 million in 2014, DG EMPL contributed towards the Europe 2020 Strategy by:

- ensuring effective governance, providing policy guidance and solid analysis as well as helping Member States (MS) coordinate their employment and social policies reforms within the European Semester of economic policy coordination;
- making and continuously adapting laws and monitoring their implementation in areas like "Free movement of workers & coordination of social security"; "Rights at work" and "Health & safety";
- promoting social dialogue at EU and national level;
- empowering civil society organisations and other stakeholders;
- contributing to shaping and implementing international standards, frameworks and actions on employment, social protection and decent work and the social dimension of enlargement and globalisation;
- implementing a wide range of financial instruments: the European Social Fund (ESF), including the Youth Employment Initiative (YEI), European Globalisation Adjustment Fund (EGF), Fund for European Assistance to the most Deprived (FEAD), Instrument for Pre-Accession Assistance – Human Resources Development (IPA-HRD), EU Programme for Employment and Social Innovation (EaSI²) and funds allocated for working in Europe (EURES), social dialogue and mobility.

¹ See annex 3, table 1 for further details.

² EaSI brings together three EU programmes managed separately between 2007 and 2013: PROGRESS, EURES and PROGRESS Microfinance. EaSI is made up of 3 axes: PROGRESS, EURES, and Microfinance and Social Entrepreneurship.

Due to very different regulatory environments, a multiplicity of management methods brings with it specific risks and difficulties. Main ones are:

- **ESF (shared management):** The ESF, representing 93.7% of DG EMPL's budget³, operates under shared management in accordance with Article 58(1) (b) and 59 of the Financial Regulation. This means that MS have the primary responsibility to take all measures necessary to ensure that the funds are used in accordance with the applicable rules and principles and have to protect the Community's financial interests. However, the Commission retains final responsibility for the implementation of the budget under Article 317 of the Treaty. The major inherent risk relates to the complexity of the operations and activities financed under the ESF, the typology and variety of recipients (involving multiple local partners, often of modest size), and the high number of annual interventions. The Commission exercises supervisory controls, mainly by audit of the MS' management and control systems, including transactions tests at beneficiary level. The multi-annual nature of the system helps to offset this risk;
- **FEAD (shared management):** The FEAD is a new fund under the responsibility of DG EMPL that builds on the discontinued EU Programme of aid for the most deprived people and ESF management practice, but at the same time introduces new simplified rules. With a total budget of EUR 3.8 billion its mission is to promote social cohesion, enhance social inclusion and contribute to the objective of eradicating poverty in the Union by providing non-financial assistance to the most deprived persons. The FEAD is also implemented through shared management and, therefore, the responsibilities are shared between the COM and the MS. As the management and control arrangements for the FEAD are very similar to the ones applicable to the ESF, the risk outlined above is also valid for the FEAD. Attention should be paid to the novelty of the operations and the capacity of the beneficiaries and management bodies;
- **IPA-HRD (indirect management-third countries):** Since 2007, DG EMPL has been in charge of the financial instrument, IPA – Human Resources Development (Component IV). This fund is managed in a decentralised manner but with strong similarities to the approach used for the ESF. The inherent risk is related to the ability of the candidate countries to set up and operate the structures and controls necessary for sound management of the allocated appropriations. This risk is however mitigated by the fact that ex-ante verification is carried out by the EC delegations in the candidate countries;
- **Direct management:** It involves (a) the attribution of numerous contracts and grants for specific activities, and (b) the payment of numerous operating grants to non-governmental organisations, associations and trade unions. The main risk related to these activities concerns the capacity of (especially) smaller organisations to effectively control expenditure and ensure the transparency on the operations carried out.

DG EMPL is the supervising authority for **2 Agencies:**

- the **European Agency for Safety and Health at Work** (EU-OSHA in Bilbao); which contributes to DG EMPL long-term policy work, notably in raising awareness on the importance of worker's health and safety as well in promoting prevention of risks at work and thus contributing to improve the competitiveness and productivity of companies in the EU.
- the **European Foundation for the Improvement of Living and Working Conditions** (Eurofound in Dublin) which mainly contributes to the long-term policy work of DG EMPL, particularly relating to industrial relations analysis (country reports), restructuring and monitoring of employment trends, and social policy. The foundation carries out work in support of DG EMPL, notably through Observatories (EIRO, EMCC, EWCO and EurLIFE) and Surveys which provide information for industrial relations and living conditions respectively.

DG EMPL transfers to those agencies the contributions established by the Budgetary Authority (EUR 20.4 million for EUROFOUND and EUR 14.1 million for OSHA). Although agencies have full responsibility for their own management, a number of reporting and supervising arrangements allow DG EMPL to build assurance as regards their management.

DG EMPL also **entrusted budget implementation tasks** to DGs REGIO, DIGIT, ESTAT and ECFIN (commitment EUR 5.4 million). 62% were implemented by REGIO (audit assessment, advisory platform for financial instruments, workflow IT tool WAVE and anti-fraud seminars), 22% by DIGIT (ITIC, system for "Service Management" and other hosting services), 15% by ESTAT in the context of the action plan for improving regional coverage and timeliness of EU-SILC and the remaining 1 % by ECFIN (microfinance).

³ A detailed overview of the 2014 budget figures is provided in Part 2.

Executive Summary: the year in brief

The Annual Activity Report is a management report of the Director-General of DG EMPL 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 by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

Key Performance Indicators (KPIs)

EU 2020 headline targets		Latest known results							
Employment	75% of the 20-64 year-olds to be employed Source : Eurostat (t2020_10)	EU28	2007	2008	2009	2010	2011	2012	2013
			69.8%	70.3%	68.9%	68.5%	68.5%	68.4%	68.4%
Education	(i) Reducing school drop-out rates below 10%; (ii) at least 40% of 30-34 year-olds completing third-level education Source : Eurostat (t2020_40 & t2020_41)	EU28	2007	2008	2009	2010	2011	2012	2013
		(i)	14.9%	14.7%	14.2%	13.9%	13.4%	12.7%	12%
		(ii)	29.9%	31.0%	32.1%	33.4%	34.5%	35.7%	36.9%
Poverty and social exclusion	Reduce by 20 million vs 2008 figure (i.e. to 95.7 million) Source : Eurostat (t2020_50)	EU28	2010	2011	2012	2013			
			118,3	121,7	124,5	122.6			

The responsibility for fulfilling the targets set at EU level as well as for policy setting in the field of employment, social affairs and inclusion is shared between the EU and its MS (art. 4 & 5 TFEU). Therefore, reaching these targets is largely dependent upon Member States policies and is influenced by many external factors.

DG EMPL - KPIs	Target	Latest known results
Adoption of all Partnership Agreements, Operational Programmes and closure decisions in 2014, respecting relevant deadlines, where the Commission has the necessary information (<i>sections 1.1.3 and 2.1.1.1</i>).	100%	100% (all PAs and all OPs that took adequately into account the Commission's observations) -ESF: 128 OPs have been adopted in 2014. 22 OPs are expected to be adopted in carry-over and 37 OPs will be adopted after the MFF amendment. -FEAD: 25 OPs have been adopted in 2014. 3 OPs are expected to be adopted in carry-over.
Youth Guarantee Implementation Plans submitted by MS and assessed by the Commission within 6 weeks (<i>section 1.1.2</i>).	100%	100% - All national YGIPs submitted to COM, assessed, and feedback sent to MS as planned. YGIPs were subsequently revised and final versions sent back to COM. Implementation phase is underway.
New EURES Portal up and running, including online CV facility (<i>section 1.1.2</i>).	NA	The new EURES Portal went live at the end of March with the new features.
All Commission actions foreseen for 2014 under the Roadmap for the implementation of the 2013 Social Investment Package completed (<i>section 1.1.2</i>)	100%	Approximately 90% of the planned activities have been implemented
Cumulative residual error rate in shared management below 2% (<i>section 2.1.1.2</i>)	< 2%	1.2% (OPs 2007-2013)

In 2014, DG EMPL had selected the above 5 KPIs⁴ as a reflection of its key priorities for the year. This set of indicators might evolve across the years along with progresses made in the preparation and implementation of the new programming period. The 2015 selection focuses on: (1) the adoption of remaining programme; (2) the DG's policy responsibilities (CWP and CSRs); and (3) the first YEI results to be reported by MS in 2015.

⁴ DG EMPL Management Plan 2014

Policy highlights of the year

DG EMPL supports the Union's objectives in terms of achieving full employment and social progress and creating a highly competitive social market economy in the European Union in line with the targets set in the Europe 2020 Strategy. It contributes to creating more and better jobs, improving the way the labour markets function at national and EU level by removing obstacles to the free movement of workers, promoting workers' rights and health and safety at work and seeks to combat poverty and social exclusion, foster social cohesion, promote social justice and protection, and solidarity between generations. The main instruments involve EU-level policy coordination, legislation and financial support and social dialogue.

The consequences of the economic crisis are making it very challenging to meet the Europe 2020 targets. Innovative approaches and new instruments for social and employment policies are crucial to achieving economic and social cohesion.

2014 was a transition year for the Commission. DG EMPL was closely involved in preparations for the new Commission headed by President Juncker in the field of employment, social affairs and inclusion. It contributed in particular to smoothing the way to implementing the President's Political Guidelines via the 2015 Commission Work Programme, which provides for a new start for social dialogue, initiatives on labour mobility and preparing for new jobs by focusing on skills. The DG also contributed to drafting the Investment Plan for Europe, which in particular contemplates investments to boost employment and measures to promote youth employment based on the Youth Guarantee.

DG EMPL has made a key contribution to the Commission's growth and jobs objectives by:

- Coordinating employment and social issues under the European Semester process through the draft Joint Employment Report, the country-specific recommendations and the Annual Growth Survey. The DG also contributes to the mid-term review and stocktaking of Europe 2020 Strategy;
- Deepening the social dimension of EMU by monitoring social and employment developments in EMU (notably with the Scoreboard of Employment and Social Indicators) and contributing to the external dimension of EU employment, social affairs and inclusion policies and actions.
- Increasing competitiveness and investing in people in four main priority areas:
 - Initiatives to create jobs and improve resource efficiency at the workplace, in particular the Communication on Green Employment;
 - Initiatives to facilitate the free movement of persons and modernise and bolster public employment services through the proposals for European Parliament and Council Regulation on EURES and Commission Decision on public employment services to achieve a better match between labour supply and demand. DG EMPL also worked on drafting the labour mobility package to be adopted in 2015;
 - Implementing the Social Investment Package, which focuses on investments in human capital and efforts to complete the internal market with social policies and support structural reforms for inclusive growth;
 - Improving working conditions through the proposal on a European Platform against undeclared work, which brings together the authorities concerned in all MS, such as the labour inspectorates and the tax and social security authorities, and in the area of health and safety at work by the adoption of the EU Strategic Framework on Health and Safety at Work 2014-2020, which is based on the results of a public consultation and of the evaluation of the previous EU Strategy 2007-2012 in this field. The EU Strategic Framework seeks to guarantee favourable working conditions and attract and retain workers in a safer, healthier and age-friendly work environment.
- Negotiating and implementing the financial instruments of the new programming period 2014-2020:
 - The first priority was to finalise the negotiations on the European Social Fund (ESF)⁵ partnership agreements (PAs) and operational programmes (OPs) and on the new Fund for European Aid to the Most Deprived (FEAD), by developing guidance and support for DG EMPL

⁵ Section 1.1.3 provides a state of play of the ESF implementation by programming period.

staff and the MS. Public administration reform has become an increasingly important area in terms of meeting the Europe 2020 targets. In cooperation with the national partners in the MS and building on lessons learned, the DG also supported the execution of the 2007-13 ESF operational programmes, which were affected by the debt crisis and the shortfall in national co-financing. DG EMPL also pursued the closure of the remaining 2000-2006 programmes;

- A major challenge was the introduction of the Youth Employment Initiative from the very beginning of the year, in combination with the ESF, to help the MS in implementing the Youth Guarantee;
- The DG also started implementing the European Globalisation Adjustment Fund (EGF) and the EU Programme for Employment and Social Innovation (EaSI), which involves Progress, EURES and Microfinance/Social Enterprise support, in order to make the biggest possible contribution to the DG's initiatives and to Europe 2020 Strategy.

At end 2014, DG EMPL can report on some key results which reflect joint efforts by the Commission, MS and other stakeholders:

- PROGRESS 2007-2013 notably: (1) reinforced EU level initiatives, providing insights and economies of scale and the possibilities of added value through the combination of activities and (2) made available comparative analysis between MS while averting duplication of efforts with national or other international analytical work (section 1.1.2 and annex 9);
- ESF 2007-2013 Operational Programmes are on course to meet the multiannual objective with an average number of participants per year of 11.2 million. Whilst ex-post evaluations are on their way and should bring additional insight to the ESF results, the ESF Expert Evaluation Network report (2007-2013) already provides some useful elements illustrating the added value of the ESF (section 1.1.3 and 1.2.5);
- IPA component IV has contributed to the modernisation of the public employment services for better delivery and monitoring of active employment measures (section 1.1.5);
- The EGF 2007-2013 ex-post evaluation found a re-integration rate of 49 % across the 33 evaluated cases. This indicates that there could be a positive trend towards reaching the desired target of 50% (see section 1.1.6).

Main audit and control matters

DG EMPL further enhanced key elements at the source of its assurance building process regarding ESF notably through:

- improving consistency of Annual Control Reports (ACRs) with further explanations on main issues encountered when analysing the ACR 2013 provided at the Homologues Group meeting in September 2014;
- continuing promoting the use of Simplified Cost Options (SCOs) in 2014, particularly through seminars conducted in several MS, an updated guidance note on SCOs and an Italian case study published in 2014;
- conducting specific action plans aiming at MS with persisting problems to improve their Management and Control Systems (MCS);
- developing a joint audit strategy for 2014-2020 programming period and contributing to the Delegated and Implementing Acts and guidance notes for MS authorities;
- contributing to the fight against fraud through the promotion of the risk scoring tool ARACHNE in the MS and through anti-fraud seminars held in 9 MS in 2014.

Key conclusions on resource management and internal control effectiveness

In accordance with the governance statement of the European Commission, the staff of DG EMPL 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 (ICS), 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 EMPL has thoroughly reviewed and assessed the effectiveness of all ICS during the reporting year. As a result all ICSs were considered as compliant and effective although some improvements were identified to further improve their impact. In no case the weaknesses identified were of a nature to

call into question the reasonable assurance (further detail in part 3).

In addition, DG EMPL has systematically examined the available control results and indicators, including the results of its own audits, 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 (further details in part 2).

In conclusion, management has reasonable assurance that for the EGF, direct and indirect management, suitable controls are in place and work as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

The management has the same assurance that suitable controls are in place and work as intended as regards the ESF. The internal control system allowed detecting deficiencies in the MCS of 36 OPs of the 2007-2013 programming period. The financial risk related to these OPs is estimated to be 1.7 % of the 2007-2013 interim payments executed in 2014. The overall estimated validated average error rate⁶ on 2014 payments for the 2007-2013 programming period, based on the analysis of Annual Control Reports (ACRs), is in the range of 2.8 % to 4.0 % and the cumulative residual error rate over the whole period is estimated at 1.2 %.

DG EMPL continues to apply a strict policy of interruption and suspension of payments to preserve the EU's financial interests. The financial corrections implemented in 2014 amounted to EUR 289 million of which EUR 133.1 million for 2000-2006 and EUR 155.9 million for 2007-2013.

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for all DG EMPL's expenditure is estimated between 2.5% and 3.6% for the reporting year. This is to be compared to the average recoveries and financial corrections implemented since 2009 by DG EMPL (2.8% of the average payments over the same period).

On this basis, the Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by the above-mentioned reservation related to the programming period 2007-2013. A reputational reservation is also maintained for 7 Operational Programmes from the 2000-2006 period for which financial corrections above 5% are still under discussion with MS.

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 Thyssen, responsible for Employment, Social Affairs, Skills and Labour Mobility.

⁶ 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: (1) 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 (2) 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).

1. POLICY ACHIEVEMENTS

As indicated in the "DG in brief", DG EMPL defined 4 general objectives in its MP2014.

DG EMPL dedicates all efforts to deliver on these objectives shared by the EU and the MS. In order to provide insight on the achievement of those expected results and impacts, this document reports on a number of indicators which reflect joint efforts by the Commission, MS and other stakeholders whilst being impacted by other external factors.

Due to the specific nature and/or management mode of the underlying activities, the achievement of those expected results and impacts goes therefore far beyond DG EMPL's area of control but are essential to present a balanced picture of the EU objectives in terms of employment and social policies. Impact indicators are complemented by a narrative which focuses on the evolution of the EU socio-economic situation which many factors influence.

Annex 10 provides a table explaining how DG EMPL, through its policy, legislative and funded actions, can contribute to the achievement of those EU objectives.

1.1 Achievement of general and specific objectives

1.1.1 Progress towards general objectives⁷

The European economy and labour markets have been experiencing signs of recovery from the prolonged downturn. However, there is no reason to celebrate prematurely. While economic output and employment have both started to recover in the last quarters of 2014, they remain below the pre-crisis levels and the foundations of further growth remain fragile. Moreover, the employment and social impacts of the crisis will take years to redress, even under the most optimistic scenarios. At the same time, some MS weathered the crisis better than others and experience a stronger recovery, also in terms of employment.

General objective 1: Promote a high level of employment in a truly European labour market			<input checked="" type="checkbox"/> Spending (EaSI, EGF, ESF, Prerogatives)
			<input checked="" type="checkbox"/> Non-spending
Impact indicator: Employment rate total (age group 20-64)			<i>Source : Eurostat (t2020_10)</i>
<i>Baseline (2012) and latest known results</i>		<i>Milestone (2015)</i>	<i>Target (2020)</i>
2012	2013	70%	75% (EU 2020 target)
68.4%	68.4%		
This indicator is still significantly below the target but quarterly evolution indicates a consistent increase in employment rates and Q3 2014 data is close to the 2015 milestones.			
Impact indicator: Long term unemployment rate			<i>Source : Eurostat (une_ltu_a)</i>
<i>Baseline (2012) and latest known results</i>		<i>Milestone (2015)</i>	<i>Target (2020)</i>
2012	2013	3.5% ⁸	2.5% (Key policy goal for next years)
4.7%	5.1%		
From 2012 to 2013 LTU rate has increased and recent data and trends suggest that it remains well above the target.			
Impact indicator: NEETs rate⁹ (age group 15-24)			<i>Source : Eurostat (edat_lfse_20)</i>
<i>Baseline (2012) and latest known results</i>		<i>Milestone (2015)</i>	<i>Target (2020)</i>
2012	2013	12%	10% (Key policy goal for next years)
13.1%	13.0%		
The NEET rate has been decreasing slowly since the end of 2013 but, as the employment for the young has not seen a major improvement, it is likely that the 2015 milestone won't be reached.			

⁷ Narrative for this section is built using "The fourth annual Employment and Social Developments in Europe (ESDE) Review", "The EU Employment and Social Situation Quarterly Review (December 2014) and "Eurofound Focus" (December 2014)

⁸ Given the evolution of the LTU rates, EMPL has revised this milestone from 3.5 to 4.5% in its Management Plan 2015

⁹ "Not in Education, Employment, or Training"

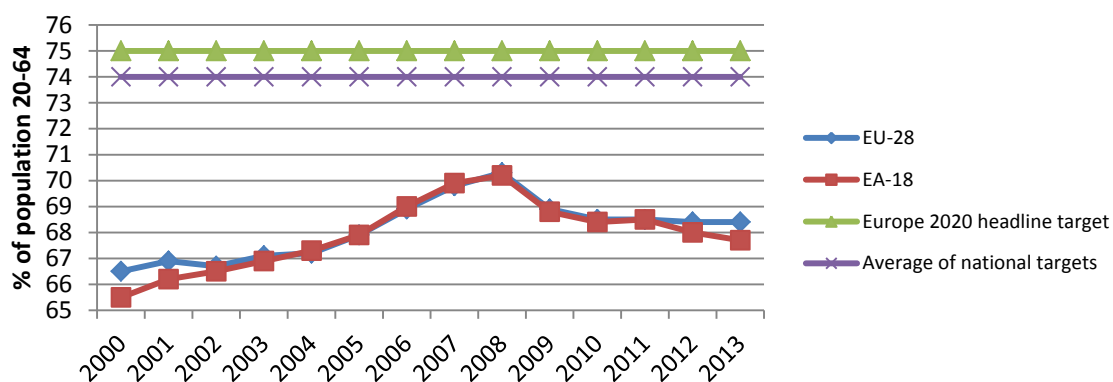
Impact indicator: Share of mobile EU citizens in % of the labour force (EU-28)			
Source: Eurostat, EU-LFS. Mobile EU citizens defined as EU foreigners being economically active			
Baseline (2012) and latest known results		Milestone (2015)	Target (2020)
2012	2013	3.5%	4%
3.1%	3.2%		
The indicator is evolving towards the target.			
Impact indicator: Tertiary educational attainment (age group 30-34)			
Source: Eurostat (t2020_41)			
Baseline (2012) and latest known results		Milestone (2016 ¹⁰)	Target (2020)
2012	2013	38%	Above 40% (EU 2020 target)
35.9%	36.9%		
The indicator's targets/milestones are on track. The evolution shows a steady increase (from 31% in 2008).			
Impact indicator: Early leavers from education and training (age group 18-24)			
Source: Eurostat (t2020_40)			
Baseline (2012) and latest known results		Milestone (2016 ¹¹)	Target (2020)
2012	2013	11.5%	Below 10% (EU 2020 target)
12.7%	12%		
The indicator is moving towards the target (from 14.7% in 2008).			

Against the weak macroeconomic background, **employment** has shown a small but consistent growth in the EU since mid-2013, increasing by 0.3 % both in the second and in the third quarters of 2014. The trend of falling **unemployment** rates which started in September 2013 appears to have lost pace and nearly stopped. The EU unemployment rate was 10.0% in November 2014 (or 24.4 million people), the lowest value since February 2012, but nearly unchanged compared to the period August to September 2014. **Long-term unemployment** is a growing problem in the EU, although the latest data show some modest improvements.

The unemployment rates of **young people** show a significant fall in the EU as a whole and in most MS but remains very high, at 21.9% in November 2014. Several MS with very high youth unemployment rates recorded significantly lower levels compared to a year ago.

In spite of the high levels of unemployment, there is also evidence of **skills bottlenecks** and mismatches, with certain regions or sectors lacking employees who fit their needs. A recent study¹² on bottleneck occupations found that bottleneck vacancies do not only occur in high skilled occupations, such as health, IT, scientific and engineering professionals, but are also found in skilled and low skilled manual occupations, in manufacturing, construction or tourism. This is due both to mismatch in educational choices at high skill level, and to poor wage or working conditions leading to high turnover and difficulties to replace ageing workers at lower skill levels.

Overall, and as illustrated in the chart¹³ below, while major employment progress was achieved in the period up to 2008, a significant part of that progress has been wiped out by the crisis.



¹⁰ The selected milestone year differ from the other impact indicators to ensure alignment with DG EAC

¹¹ The selected milestone year differ from the other impact indicators to ensure alignment with DG EAC

¹² <http://ec.europa.eu/social/BlobServlet?docid=12625&langId=en>

¹³ Source: Eurostat, LFS [lfsa_ergan] and Europe 2020 objectives. Note: ER for 2000 and 2001 are for EU-27 instead of EU-28.

General objective 2: Promote improved working conditions in the EU and the dialogue between management and labour		<input checked="" type="checkbox"/> Spending (EaSI, ESF, Prerogatives)	
		<input checked="" type="checkbox"/> Non-spending	
Impact indicator: Incidence rate of non-fatal serious accidents at work for all economic sectors and EU-27 (number of accidents per 100,000 workers)			
<i>Source: Eurostat (hsw_n2_01)</i>			
<i>Baseline (2011) and latest known results</i>		<i>Milestone (2015)</i>	<i>Target (2020)</i>
2011	2012	<1500 accidents	<1350 accidents
1699.6 accidents	1522.5 accidents		
The indicator's latest result evolves towards the target.			
Impact indicator: Share of working age employees involuntarily in temporary contracts			
<i>Source : Eurostat (lfsa_etgar)</i>			
<i>Baseline (2012) and latest known results</i>		<i>Milestone (2015)</i>	<i>Target (2020)</i>
2012	2013	<55%	<50%
61.0%	61.9%		
Although recent figures show some reduction in labour market segmentation, the indicator is still worsening despite improvements in employment because the recovery is mainly driven by creation of temporary jobs. While over half of the new jobs created in the year to the second quarter of 2014 continue to be temporary, permanent contracts are on the increase, a trend which has started in the first quarter of 2014. Also, the increase in part-time employment in the year to the second quarter of 2014 has been accompanied by an increase in full-time employment for the second consecutive quarter, after nine consecutive quarters of continuous deterioration.			
Impact indicator: Satisfaction with working conditions			
<i>Source: Eurofound European Working Conditions Survey 2000, 2005, 2010, 2015, 2020</i>			
<i>Baseline (2010) and latest known results</i>		<i>Milestone (2015)</i>	<i>Target (2020)</i>
25% very satisfied		27% very satisfied	30% very satisfied
Next survey is planned for 2015.			
Impact indicator: Share of the working poor (in-work at-risk-of-poverty-rate for population aged 18-64)			
<i>Source : Eurostat (ilc_iw01)</i>			
<i>Baseline (2012) and latest known results</i>		<i>Milestone (2015)</i>	<i>Target (2020)</i>
2012	2013	8%	6%
9.0%	8.9%		
There has been no improvement in 2013 and the indicator remains far from the milestone level and even from 2008 level (EU27 – 8.5%) reflecting the exceptional deterioration of the labour market during the crisis and a recovery based on worse quality jobs (temporary, part-time)			

One of the main challenges of work in the future is to ensure that workers are **able to work over the course of their lives**. European countries are undergoing a demographic shift that could create an imbalance between the active versus inactive populations. At current employment levels, the result will be a rapid increase in the proportion of retirees relative to workers and a consequent need to either reduce social spending or expand taxation significantly. To avoid either of these alternatives, the Europe 2020 strategy calls for increasing the labour force participation rates of all. Making work sustainable over the life course involves improving the conditions of work over the life course and reorganising social and employment policies to facilitate a better work–life balance, hence adapting work to the worker in a dynamic way. High quality jobs that offer safe and healthy working conditions are essential for people to be able to work longer.

General objective 3: Promote adequate social protection, social inclusion and the fight against poverty			<input checked="" type="checkbox"/> Spending (EaSI, ESF, FEAD)
			<input checked="" type="checkbox"/> Non-spending
Impact indicator: Population at risk of poverty or social exclusion (total population – in million)¹⁴			
<i>Source: Eurostat (ilc_peps01)</i>			
Baseline (2012) and latest known results		Milestone (2015)	Target (2020)
2012	2013	Reduce by 5 million vs 2008 figure (i.e. to 110.7 million)	Reduce by 20 million vs 2008 figure (i.e. to 95.7 million) (EU 2020 target)
124.1	122.9		
Though a decline has been registered in 2013, the indicator remains above the 2008 initial levels reflecting the exceptional depth of the crisis.			
Impact indicator: Children in formal childcare i) % of children aged 0-3; ii) % of children 3 to mandatory school age			
<i>Source: Eurostat (ilc_caindformal)</i>			
Baseline (2012) and latest known results		Milestone (2015)	Target (2020)
	2012	i) 31%, ii) 87%	i) 33%, ii) 90%
i)	27%		
ii)	83%		
Over the most recent years where information is available, these indicators have been fairly stable overall in Europe, though trends can have been different at national levels.			
Impact indicator: Duration of working life (in years)			
<i>Source: Eurostat (lfsi_dwl_a)</i>			
Baseline (2011) and latest known results		Milestone (2015)	Target (2020)
2011	2012	35 years ¹⁵	36 years
34.7	35.0		
	2013		
	35.1		
The milestone has been reached and the indicator is increasing towards the 2020 target.			
Impact indicator: Income distribution (as measured by the Income quintile share ratio¹⁶)			
<i>Source: Eurostat (ilc_di11)</i>			
Baseline (2012) and latest known results		Milestone (2015)	Target (2020)
2012	2013	4.8	4.5
5.0	5.0		
The indicator remains stable above the milestones, but may show some improvement by 2015.			

The latest figures on **living and income conditions** in the EU show that despite the slight improvement over the last year, the EU MS are collectively not achieving the Europe 2020 poverty and social exclusion target of lifting at least 20 million people from poverty and social exclusion by 2020. In 2013 there were 4.8 million more people living in poverty or social exclusion in the EU28 compared to 2008, and a total of 122.6 million or close to 1 in 4 Europeans.

Integrated policy approaches are instrumental for strengthening EU competitiveness and for sustaining its social welfare model. Social protection systems should represent an investment in human capital by effectively activating and enabling those who can participate in the labour market, protecting those (temporarily) excluded from the labour market and/or unable to participate in it, and preparing individuals for potential risks in their lifecycles, in particular for children and the elderly. Well-functioning welfare systems and well-designed social investments are instrumental in supporting Europe's main source of international competitive advantage in the form of its highly skilled and productive human capital.

¹⁴ At risk of poverty or social exclusion, abbreviated as AROPE, refers to the situation of people either at risk of poverty, or severely materially deprived or living in a household with a very low work intensity. The AROPE rate, the share of the total population which is at risk of poverty or social exclusion, is the headline indicator to monitor the EU 2020 Strategy poverty target.

¹⁵ Given the evolution of this indicator, EMPL has revised this milestone from 35 to 35.3 in its Management Plan 2015

¹⁶ Measure of the inequality of income distribution. It is calculated as the ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile).

General objective 4: Contribute to strengthening the economic, social and territorial cohesion between MS and regions in the EU					<input checked="" type="checkbox"/> Spending (ESF)	
					<input checked="" type="checkbox"/> Non-spending	
Impact indicator: Number of regions with employment rate <60% (age group 20-64)						
<i>Source: Eurostat (lfst_r_lfe2emprrt)</i>						
Baseline (2012) and latest known results			Milestone (2015)	Target (2020)		
2012	2013		35/272	20/272		
44/272	47/272					
The indicator remains below the target or milestones in spite of some improvement in overall employment rates as reflected in the latest quarterly data (Q42014).						
Impact indicator: Dispersion (variance) of employment rates between regions (NUTS II) of the population 20-64 years						
<i>Source: Eurostat (lfst_r_lfe2emprrt)</i>						
Baseline (2012) and latest known results			Milestone (2015)	Target (2020)		
2012	2013		Reduction to 60 (by increasing the employment rates)	Reduction to 50 (by increasing the employment rates)		
71.7	79.3					
The indicator remains below the target or milestones in spite of some improvement in overall employment rates as reflected in the latest quarterly data (Q42014).						
Impact indicator: Dispersion (variance) of employment rates between EU countries and between Euro Area countries (of the population 20-64 years)						
<i>Source: Eurostat (lfsi_emp_a)</i>						
Baseline (2012) and latest known results			Milestone (2015)	Target (2020)		
	2012	2013	EU countries: Reduction to 32 Euro area: Reduction to 27	EU countries: Reduction to 25 Euro area: Reduction to 20		
EU	40.0	41.3				
EURO (EA-19)	33.5	37.2				
The indicator remains below the target or milestones in spite of some improvement in overall employment rates as reflected in the latest quarterly data (Q42014).						
Impact indicator: Dispersion (variance) of at-risk-of-poverty or social exclusion (AROPE) rates between EU countries						
<i>Source: Eurostat (ilc_peps01)</i>						
Baseline (2012) and latest known results			Milestone (2015)	Target (2020)		
	2012	2013	Reduction of the variance to 65 ¹⁸ by 2015	Reduction of the variance to 55 by 2020		
EU	68.0 ¹⁷	62.7				
The indicator remains above the target but close to the reviewed target in the MP2015 and most recent trends show some improvement.						

Looking back to the experience of the crisis, different MS showed different levels of resilience to the economic shock of the recession, which can be linked to both their initial institutional and policy setting, and the policies implemented during the recession years. The fourth annual Employment and Social Developments in Europe (ESDE) Review finds, inter alia, that the transmission of economic shocks to employment and income was smaller in countries in which there were more open and also less segmented labour markets; more efficient social protection systems, a greater availability and use of short-time working arrangements; a stronger investment in lifelong learning and activation; as well as unemployment and other social benefits that were widely available, linked to activation, and responsive to the economic cycle, in other words policy and institutional setups focused on providing stronger employment security over working life, rather than in a single job.

An important task facing the EU following the crisis years concerns the ways in which it can promote and support the return to an upward socio-economic convergence of its MS. This particularly concerns Southern and peripheral EU 15 MS, since most of the post-2004 MS managed to continue to converge even during the crisis. The factors behind the divergence included, not only the sheer size of the economic shock, but also the underlying structural imbalances in the affected countries in the period before the crisis (notably weak productivity growth, lack of human capital investment, divergent unit labour cost growth, banking sector weaknesses and property bubbles).

¹⁷ Calculation reviewed in MP2015

¹⁸ Milestone reviewed from 65 to 63 in MP2015

1.1.2 ABB activity " Employment, Social Affairs and Inclusion "

This ABB activity includes DG EMPL's:

- Actions to support the Europe 2020 Strategy and to provide policy guidance and coordination, notably in the context of the European Semester;
- Actions to support co-operation with the MS as provided for by the Treaties in the framework of the Open Method of Coordination
- Actions financed through the Programme for Employment and Social Innovation (EaSI), the 2014-2020 EU umbrella programme for employment and social policy,¹⁹ and the Autonomous Budget Lines (by virtue of the powers conferred by the Treaty) which support policy-making, mobility and social dialogue.

1.1.2.1 Specific Objective 1: Support EU policies and law

Financially supported by the PROGRESS axis of the EaSI programme (representing 61% of its budget), this objective covers DG EMPL's activities relating to:

1. Ensuring effective governance and guidance as well as help MS coordinate their employment and social policies reforms within the European Semester of economic policy coordination;
2. Making and continuously adapting laws and monitoring their implementation in the area of working conditions.

Specific objective 1: Support the development, implementation, monitoring and evaluation of the Union's instruments, policies (promoting a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions) and relevant law and promote evidence-based policy-making, social innovation and social progress, in partnership with the social partners, civil society organisations and public and private bodies.			<input checked="" type="checkbox"/> Spending (EaSI)
			<input checked="" type="checkbox"/> Non-spending
Employment and social policy			
Result indicator: Monitoring and follow-up on the implementation of the previous year's CSRs			
<i>Source: DG EMPL Dir. C, D, E, F</i>			
<i>Baseline (2013)</i>	<i>Latest know results (2014)</i>	<i>Target (2015)</i>	
100%	100%	100%	
<p>The indicator's target has been achieved. This indicator reflects the effectiveness of the Commissions' services to follow-up on the implementation of CSRs.</p> <p>The Commission considers that the implementation of the employment and social policy reforms as provided for in the CSRs is instrumental in ensuring the implementation of EU priorities. In order to provide a provides an indicator on the effectiveness of the policy guidance, coordination and governance by the European Commission, DG EMPL replaced this indicator in its MP 2015 by the "Level of implementation of the employment and social policy components of the CSRs, based on a disaggregation by priorities of each CSR". It indicates the percentage of CSRs from the previous year in the field of employment and social policies which have been partially or completely complied. The MP2015 reported the following results for 2014:</p>			
	Number CSRs	Some or full progress (%)	
More & better jobs	105	55%	
Skills	48	46%	
Mobility	16	25%	
Social protection systems	72	37%	

¹⁹ EaSI (2014-2020) is made up of 3 axes: PROGRESS, EURES, and Microfinance and Social Entrepreneurship.

Legislation on working conditions						
Result indicator: Effectiveness of application of EU law relating to (1) Labour law and (2) Health & Safety. Source: <i>Semestrial coherence exercise - DG EMPL B2/B3</i>						
Baseline (2012) and latest known results					Target (2020)	
	2012		2013		2014	
	(01)	(02)	(01)	(02)	(02)	(02)
Complaints	82%	95%	62%	100%	90%	97%
EU-Pilot	22.2%	20%	84.4%	33%	58.3%	57%
Infringements	84.3%	100%	81%	88%	81.3%	75%
100% of cases concluded within the benchmark set by Legal Service						
The indicator's targets are on track. The selected indicator reflects the percentage of complaints, EU-Pilot cases and Infringement proceedings concluded within the benchmark set by the Secretariat General. It therefore reflects the effectiveness of the Commission's services in relation to both monitoring of the transposition and application of the EU law. The only significant decrease vs 2013 results concerns the EU-Pilot for labour law cases (from 84.4% to 58.3%). This was caused by a wave of multiple and linked complaints on Fixed-Time-Work Directive received in 2013 and 2014. However, it remains a significant improvement to the baseline level (22.2%). Overall, progresses are visible and the indicators are well on track to reach the 2020 targets.						
Promote evidence-based policy-making, social innovation and social progress						
Result indicator: Declared gain of better understanding of EU policies and legislation (% of respondents) Source: <i>EaSI survey (every two years) - DG EMPL 01²⁰</i>						
Baseline (2012) and latest known results				Milestone (2017)		Target (2020)
2012	2013			Maintain results over 85%		Maintain results over 85%
92%	92%					
The indicator's targets are achieved. This indicator reflects the objective of PROGRESS to assist national stakeholders in gaining a better understanding of EU policy objectives and challenges through conferences, seminars, peer reviews and other information-sharing and learning events. The vast majority of respondents to the Annual survey (92 %) indicated that they gained such better understanding by participating in PROGRESS-funded events. The events provided them with an opportunity to better align their policy activities with EU objectives.						
Result indicator: Active collaboration and partnership between government institutions of the EU and MS ²¹ Source: <i>EaSI survey (every two years) - DG EMPL 01</i>						
Baseline (2012) and latest known results				Milestone (2017)		Target (2020)
2012	2013			Maintain results over 85%		Maintain results over 85%
87%	91%					
The indicator's targets/milestones are on track. Effective partnerships are a precondition and a facilitating factor for the achievement of both the compliance in the MS with EU law and shared understanding and ownership of EU policy objectives. The extent to which PROGRESS-funded activities and outcomes have contributed to the effectiveness of partnerships cannot be measured directly, but only through indirect indicators such as a sense of collaboration and partnership between different stakeholders. The indicator shows a strong sense of collaboration and partnership between different types of actors at the beginning of PROGRESS and throughout its operating period.						
Result indicator: Declared use of social policy innovation in the implementation of social CSRs and the results of social policy experimentation for policy making Source: <i>EaSI survey (every two years) - DG EMPL 01</i>						
Baseline				Milestone		Target (2020)
None as new area of intervention. Will be defined in the frame of the new EaSI survey.				Will be defined on the basis of the results of the first survey		Over 2/3 of involved participants

²⁰ EaSI's first performance monitoring report is due by spring 2015. Results shown come from the last 2013 PROGRESS (2007-2013) annual performance monitoring report.

²¹ As declared by officials working in national, regional, or local government institutions who responded to the annual survey.

The PROGRESS axis of the EaSI Programme:

The PROGRESS axis of the 2014-2020 EaSI Programme aims at supporting the modernisation of policies and legislation in the following three areas: (1) employment; (2) social protection & social inclusion and (3) working conditions.

In 2014, it supported the aforementioned processes (governance, development and improvement of EU policy and legislation) via actions aiming to:

- **Develop and disseminate high-quality comparative analytical knowledge**, e.g. by providing financial assistance for studies, information and data collection, common methodologies and classifications, joint-work with international organisations and with well-established research networks, etc.;
- **Facilitate effective and inclusive information-sharing, mutual learning and dialogue**, e.g. by supporting networks of independent experts, exchanges of information and dissemination of success stories and best practices, organisation of peer reviews, mutual learning events, conferences and seminars while involving as many as possible (European) social partners in these activities and the policy debate;
- **Provide financial support to test social and labour market policy innovations**. Support is foreseen through grants to public authorities and organisations to test innovative social and active labour market policy reforms aiming also to the modernisation of the welfare states in line with Europe 2020 and the policy priorities supported by the EaSI Programme.
- **Provide organisations with financial support to increase their capacity** to develop, promote and support the implementation of EU instruments and policies, e.g. by supporting key EU level NGO networks.

The **ex-post evaluation** of the 2007-2013 PROGRESS Programme showed its contribution to both the Lisbon Strategy and the Europe 2020 flagship initiatives, in particular “Agenda for New Skills and Jobs”, “Youth on the Move” and the “European Platform against Poverty and Social Exclusion”.

More specifically:

- Its activities targeted the challenges faced by the EU such as youth unemployment, the social impact of the crisis and demographic changes;
- It was a key instrument enabling to inform policy and support related EU action (on youth guarantees, restructuring, the gender pay gap, homelessness or discrimination based on sexual orientation);
- It contributed to the active participation of candidate and pre-candidate countries by funding activities that have helped to align the policies and practices of these countries with EU MS.

Main effects were:

- Reinforced EU level initiatives, providing insights and economies of scale and the possibilities of added value through the combination of activities;
- Enabled to implement and develop EU legislation;
- Catalyst for sharing and learning amongst policy makers and practitioners;
- Made available comparative analysis between MS while averting duplication of efforts with national or other international analytical work;
- Maintained European level networks;
- Allowed to reach out to a variety of relevant actors and organisations (public authorities, social partners, civil society organisations, research institutions and experts) and help to shaping the opinions of key persons and organisations at EU and national (and sometimes sub-national) levels;
- Helped EU level messages reached a wider audience than would otherwise be the case through the involvement of a variety of persons and organisations. In some cases relatively strong effects at national and EU level have been identified.

The impacts of EU level activities are however often indirect, depending on further actions at the MS level.

Key 2014 achievements relating to effective governance and guidance

In 2014 DG EMPL ensured that economic governance through the **European Semester** would fully reflect the assessment of the employment and social situation. To this aim, full monitoring of implementation of previously adopted Country-Specific Recommendations (CSRs) and proposals for new CSRs have been laid out to reflect this goal.

Supported by the work of the Employment Committee (EMCO) and the Social Policy Committee (SPC), DG EMPL significantly contributed to the following:

- The Annual Growth Survey 2015 (AGS - adopted by the Commission in November 2014) and the Alert Mechanism Report which provide guidance for social and employment policies to MS and duly take account of social and employment indicators in assessing the risks and consequences of macro-economic imbalances;
- The accompanying "Economic governance Package" which is made up of the Draft Joint Employment Report (which fully monitors the implementation of CSRs across MS and reports on the Scoreboard of Employment and Social Indicators), the Social Protection Performance Monitor – SPPM and the Annual Employment and Social Development Review.
- The issuance of CSRs 2014 and Staff Working Documents (SWDs) that were made on the basis of priorities set in policy guidance, and the examination of draft National Reform Programs (NRPs) which were submitted by national governments.

Through the Multilateral Surveillance exercised by EMCO and SPC, the Commission has sought MS ownership in the implementation of reforms. This has allowed adoption of the CSRs in June 2014 offering tailored advice to MS on how to boost growth and jobs, while maintaining sound public finances.

In the **employment policy field**, DG EMPL delivered on the following key 2014 objectives:

- Quality Framework for anticipation of change and restructuring: which consists of good practices to reduce the social impact of company restructuring by better anticipating change and managing restructuring;
- Quality Framework for Traineeship: The Council Recommendation, adopted in March 2014, calls on MS to ensure that national law or practice respects the principles set out in the guidelines, and to adapt their legislation where necessary;
- Communication "Green Employment Initiative: Tapping into the job creation potential of the green economy": Adopted in July 2014, the Communication outlines the employment challenges and opportunities of the current transition towards a green, low carbon, energy and resource-efficient economy.

Complementary policy contributions were provided through the activities of:

- The **Mutual Learning Program** (MLP) to help advance the implementation of CSR related aspects. The MLP notably included a Thematic Event on "Job creation incentives: how to better integrate policies to create sustainable jobs Brussels (25 June 2014); a peer Review on "Flexicurity" (Copenhagen, 20-21 Nov. 2014), a Dissemination Conference "'Lessons and insights to work towards the goals of the European Employment Strategy' (Brussels 2 Dec. 2015);
- The **European Employment Policy Observatory** (EEPO) which published a Policy Review on Activating Job-Seekers through Entrepreneurship: Start-Up Incentives in Europe, along with 29 individual country articles (EU-28 plus Iceland), serving as policy guidance for MS.

In relation to the implementation of the **Youth Guarantee** (YG):

- All MS submitted their YG Implementation Plans to the Commission in 2014, feedback was provided by Commission services and implementation is now well under way at national level;
- EMCO – in its preparation of Council deliberations- also pursues its multilateral surveillance on the YG implementation. To underpin YG schemes by credible data and support monitoring with the European Semester, EMCO developed an Indicator Framework for Monitoring the Youth Guarantee. Key messages on the Indicator Framework were endorsed by the EPSCO Council on 11 December 2014;
- The European seminar "Evaluating and Monitoring Apprenticeship and Traineeship Schemes" (Brussels, 4-5 February 2015) provided an overview of the role of monitoring and evaluation in improving the effectiveness of traineeship and apprenticeship programs, this being a key component of the YG.

In the **social policy field**, DG EMPL made significant progress on the objective to complete all Commission actions foreseen for 2014 under the Roadmaps for the implementation of the **2013 Social Investment Package (SIP) and White Paper on Pensions** (approximately 90%).

In line with the 2013 SIP objectives, considerable efforts have been devoted to develop **policy guidance on the modernisation of social protection systems**. The results thereof are visible at the level of the Commission (Semester) and Council (EPSCO conclusions). Operational guidance has been given to MS (e.g. through CSRs and through joint work with SPC) on how to increase effectiveness and efficiency of these systems and to make them oriented towards activation, where appropriate. Proposals have also been made on how to support MS attain the poverty targets, in line with promoting a deeper and fairer EMU. Furthermore, the Commission strengthened the capacity of public authorities to put in place effective minimum income schemes, notably in Greece, and supported the integrated delivery of social services through EaSI financed projects (social policy innovation).

DG EMPL together with the SPC continued its **work on methodologies** to assess the effectiveness and efficiency of social protection systems, focusing notably on pensions, health and long-term care, and on reference budgets to assess the adequacy of minimum income schemes. Within the SPC, in-depth thematic reviews on several social trends were carried out (e.g. depth of poverty, long-term labour market exclusion and youth exclusion), with a special focus on their social and economic impact and the policy measures to prevent and mitigate them in line with the social-investment approach.

In particular, DG EMPL worked on the development of a **better evidence base** on the adequacy of social protection against the risk of dependency (major report on long-term care adopted by the SPC). In the area of pensions it notably prepared a major assessment of future pension adequacy (spring 2015) and cooperated with key stakeholders to improve supplementary pensions, making them in particular more mobility-friendly.

DG EMPL also held a series of **policy debate initiatives** gathering MS around EU policy objectives. In 2014 DG EMPL organised or supported major outreach events including the EPAP Convention, the Conference on the Poverty Target, the 13th European Meeting of People Experiencing Poverty, Organisation, a conference on minimum income and national seminars on the implementation of the Recommendation on Investing in Children and of a conference taking stock of the implementation of the ROMACT project.

Key 2014 achievements relating to working conditions and health and safety at work

The **effective application of EU law** creates a level-playing field as it guarantees a common level of legal protection to all workers. This effectiveness is largely determined by its implementation at national, sectoral and company levels.

Actions for better implementation of **Occupational Safety and Health (OSH) policies** and enforcement of EU legislation involved activities of the two consultative bodies active in this area, the Advisory Committee on Health and Safety at Work (ACSH - e.g. opinions on self-employed or on the EMF guide) and Senior Labour Inspectors' Committee (SLIC - e.g. the launching of the enforcement campaign on falls on the same level). In 2014 important actions have been carried out to support employers to apply OSH Directives, such as the publication of 2 guidances on nanomaterials, the finalisation of the non-binding guide to good practice for implementing Directive 2013/35/EU on electromagnetic fields by the contractor or the finalisation of an external study on mental health.

Actions for a better implementation and application of **labour law** were undertaken inter alia through the high-level working group of Directors General for Industrial Relations responsible for the monitoring of the development of policies in the area of labour law and industrial relations as well as the cooperation concerning awareness raising, application and revision of EU acquis in the area of labour law. Also, the Committee of experts on posting of workers was active in identifying and exchanging experience and good practice as well as examining difficulties which have arisen in the practical implementation and enforcement of the posting of workers legislation and highlighting relevant CJEU Judgments. In addition, a new expert group TREND (Commission Expert Group on the Transposition of the Enforcement Directive 2014/67/EU of the Posting of Workers Directive) was established in 2014, with the first meeting taking place in December 2014.

A Eurobarometre survey on **Working Conditions** was finalised, and presented at a conference on Working Conditions organised on 28 April 2014. The Transnational Company Agreements Database was updated by ILO with the international developments, thus enhancing analytical knowledge and dissemination of the comparative information in the EU. The European Labour Law network delivered monthly reporting on relevant legal developments in the national context and national law with regards to EU labour law and European Court of Justice case law (legislation, case-law, relevant political developments, etc.), which was instrumental to monitor the transposition, application and enforcement of about 20 Directives. Ad-hoc reporting was essential to investigate a specific issue in the context of complaint, including a systematic assessment of the labour law aspects of the CSRs. The European Labour Law Network (ELLN) also organised an important seminar concerning the overview of new forms of employment (including new phenomena such as civil law contracts, etc.) and the identification of loopholes and grey zones in this area.

Finally, two calls for proposals were launched and finalised: for information, consultation and participation of representatives of undertakings (contracting in 2014), and for posting of workers (contracted in the first two months of 2015).

The **quality of legislation** is another determining factor of the effectiveness of EU law. In 2014, DG EMPL therefore pursued its mission to review and adapt the EU legal 'acquis'.

In the field of **labour law**, the EU complements policy initiatives taken by individual EU countries by setting minimum standards. In accordance with the Treaty of the Functioning of the EU – particularly Article 153 – it adopts laws (directives) that set minimum requirements for working and employment conditions, as well as informing and consulting workers. With over 240 million workers in Europe, EU labour law rights benefit large numbers of citizens directly and have a positive impact on one of the most important and tangible areas of their daily lives. EU labour law also benefits employers and society as a whole by providing a clear framework of rights and obligations in the workplace, protecting the health of the workforce and promoting sustainable economic growth. Equal opportunities for women and men and protection against discrimination are also major concerns when developing policies and legislation in the area of rights at work.

In 2014 DG EMPL progressed or delivered on the following key achievements:

- Adoption (15 May 2014) of Directive 2014/67/EU on the enforcement of Directive 96/71/EC concerning the posting of workers in the framework of the provision of services;
- Proposal for a Directive to include seafarers in several labour law Directives: the Council reached a general agreement in December 2014 and the European Parliament is expected to take a position in Q2 2015;
- Evaluation of Directive 91/533/EEC of 14 October 1991 on employers' obligation to inform employees of the conditions applicable to the contract or employment relationship for which a public consultation should be launched in Q2 2015;
- Consolidation of three Directives in the area of information and consultation of workers: the consultation of Social partners will be launched in Q1 2015;
- Establishment of an EU Platform on undeclared work: The European Council reached a general agreement in October 2014 and the EP is expected to take a position in Q2 2015;
- Evaluating Directives 99/70/EEC (Fixed-Term Work), 97/81/EEC (Part-Time work) and 2008/104/EC (Temporary Agency Work): one report adopted and the others are in preparation;
- Preparing a position on the revision of the Working Time Directive 2003/88/EC: the public consultation is ongoing and terminates on 15 March 2015.

Health and safety at work is one of the areas where the EU has had the biggest impact with a solid legal framework covering a maximum number of risks with a minimum number of regulations.

To better protect workers in the EU from work-related accidents and diseases, very significant progress was done with the following legislative files:

- The Commission adopted on 6 June 2014 the EU Strategic Framework on Health and Safety at Work 2014-2020 (COM (2014) 332) which identifies the key challenges and strategic objectives in this policy area and mentions specific actions and instruments to address those key challenges. It outlines a framework for action, cooperation and exchange of good practice that can only be successfully implemented with the active cooperation of the national authorities and the social

partners. It will be reviewed in 2016 in the light of the findings of the ex-post evaluation of the EU acquis and of progress in implementing it;

- Adoption of Directive 2014/27/EU aligning 5 EU OSH directives to Regulation (EC) No 1272/2008 on classification, labelling and packaging of substances and mixtures;
- Development of an impact assessment for the amendment of Directive 2004/37/EC on the protection of workers from the risks related to carcinogens or mutagens at work: significant progress was made despite the fact that several problems already identified in 2013 remained unchanged (e.g. significant data gaps in particular with regard to the potential economic impact of the initiative, lack of quality of the available information, outdated data);
- Preparatory work on a Directive on the 4th list of indicative occupational exposure limit values: adoption of an opinion by the Advisory Committee on safety and health at work (ACSH) after discussion in the Working Party on Chemicals;
- Adoption of Commission Decision 2014/113/EU on the Scientific Committee on Occupational Exposure Limits for Chemical Agents (SCOEL) which aligned SCOEL to the rules applicable to the other Commission Scientific Committees.

In 2014, DG EMPL also continued working on the ex-post evaluation of 24 EU OSH Directives. The external study entered into the crucial finalisation phase including a validation seminar for national and European stakeholders.

1.1.2.2 Specific Objective 2: Mobility

Specific objective 2: Promote workers' voluntary geographical mobility on a fair basis and boost employment opportunities by developing high-quality and inclusive Union labour markets that are open and accessible to all, while respecting workers' rights throughout the Union, including freedom of movement.			<input checked="" type="checkbox"/> Spending (EaSI, Prerogatives)						
			<input checked="" type="checkbox"/> Non-spending						
Promote mobility through EURES									
Result indicator: Number of visits of the EURES platform (monthly average in million)									
Source: Indicator measured by the SAS WebHound / SAS Web Report Studio tool - DG EMPL C3									
Baseline (2012) and latest known results		Milestone (2016)	Target (2020)						
<table border="1"> <tr> <td>2013</td> <td>2014</td> </tr> <tr> <td>0.85</td> <td>0.7</td> </tr> </table>	2013	2014	0.85	0.7		1.5 million	2 million		
2013	2014								
0.85	0.7								
<p>The indicator's targets/milestones are not on track. Cookies are used to track the number of visitors on the EURES portal. The introduction of the cookie policy on the EURES portal corresponds with a sharp drop in the number of visitors that can be tracked, indicating that the lower number of reported visitors is due to the implementation of this policy rather than an actual drop in visitors. The 2014 figures therefore only include the visitors who accepted cookies, leading to lower reported number of "visits". Work on a solution to more accurately measure the number of visits will be completed in the first half of 2015.</p>									
Result indicator: Number of youth job placements achieved or supported under the Preparatory Action Your First EURES Job (YfEj) as well as under Targeted Mobility Schemes (cumulative figure) ²²									
Source: Preparatory action monitoring - DG EMPL C3									
Baseline (2013) and latest know results		Milestone (2015)	Target (2020)						
<table border="1"> <tr> <td>2013</td> <td>2014 (Q3)</td> </tr> <tr> <td>1950</td> <td>3200</td> </tr> </table>	2013	2014 (Q3)	1950	3200		5000	15.000		
2013	2014 (Q3)								
1950	3200								
<p>The indicator's targets/milestones are on track. YfEj aims to facilitate 5000 job placements with three calls. By the third quarter of 2014, all projects together achieved 64% of the YfEj overall target. Following this successful preparatory action, targeted mobility schemes are now an integral part of the EURES axis and is fully implemented by EURES organisations.</p>									
Result indicator: Number of individual personal contacts of EURES advisers with jobseekers, job changers and employers									
Source: Eures Advisors' Monthly Reports - DG EMPL C3									
Baseline (2012) and latest know results			Milestone (2016)						
<table border="1"> <tr> <td>2012</td> <td>2013</td> <td>2014 (Jan-Nov)</td> </tr> <tr> <td>1.019.852</td> <td>1.055.936</td> <td>855.177</td> </tr> </table>			2012	2013	2014 (Jan-Nov)	1.019.852	1.055.936	855.177	1.200.000
2012	2013	2014 (Jan-Nov)							
1.019.852	1.055.936	855.177							
			1.400.000 ²³						
<p>The indicator's targets/milestones are on track. With the changes in operational priorities initiated as part of the reform of 2012, aimed at refocusing EURES more on matching, placement and recruitment activities, Eures Advisers are encouraged to move away from group activities with the purpose of providing general information on working and living in another MS to individualised assistance in matching jobseekers and employers. Providing this targeted service would primarily be done in separate sessions with each client, leading to a reduction in the number of clients interacted with when primarily offering information sessions to a group audience. The reduced number of contacts may thus indicate progress in terms of the implementation of the reform.</p>									

²² The previously used indicator "Number of placements made through the EURES Job Mobility Portal" was an estimate based on a survey carried out as part of the external evaluation of EURES between 2006 and 2008. As this information cannot be reported in a reliable manner to the Commission, it was decided to replace this indicator by the number of youth job placements achieved under "Your first EURES Job", a targeted mobility scheme which is now an integral part of the EURES axis and is fully implemented by EURES organisations. As this action is monitored on a regular and reliable basis, this will better reflect the contribution of the EURES axis in terms of job placements.

²³ Strategic goal of the Commission – target set on the assumption that the 2012 EURES Decision is properly implemented as from 01/01/2014)

EURES axis of the EaSI Programme

The **European Employment Services (EURES)** is a cooperation network between the European Commission, Public Employment Services (PES) of the EEA MS and other partner organisations. The purpose of EURES is to provide information, advice and recruitment, matching and placement services for the benefit of workers and employers as well as any citizen wishing to benefit from the principle of the free movement of workers.

Whereas after the recent EURES reform national EURES activities will be eligible for funding under ESF, horizontal activities will be funded under EaSI (EURES axis represents 18% of total budget). Such activities will include maintenance and development of the EURES Job Mobility Portal, support for the cross-border partnerships (supported and developed aiming to meet the need for information and coordination connected with labour mobility in the border regions) and targeted mobility schemes (to fill job vacancies in certain sectors, occupations, countries or a group of countries or for particular groups of workers and job seekers, e.g. young people), and a common training programme and network activities.

In the framework of EaSI, EURES will have two objectives:

- Ensure that job vacancies and applications and corresponding information and advice, as well as any related information, are made transparent for the potential applicants and the employers.
- Support the provision of EURES services for the recruitment and placing of workers in quality and sustainable employment through the clearance of job vacancies and applications. This support will cover all phases of placement, from pre-recruitment preparation to post-placement assistance.

Key 2014 achievements:

Firstly, in line with the Commission Work Programme for 2013, DG EMPL prepared a proposal for a **new Regulation on a European Network of Employment Services**, workers' access to mobility services and the further integration of labour markets which was adopted on 17 January 2014. The Regulation was prepared on the basis of questionnaires to MS (EURES Managers and IT correspondents) on the shortcomings of the EURES network and of an independent analysis of the Commission as regards the progress on the EURES reform and the activities of the EURES network.

There has been some reluctance to implement certain aspects of the EURES Reform in some MS, in particular the opening up of the network to private employment services. DG EMPL has pro-actively engaged with the National Coordination Offices in these countries, ensuring that the reform agenda is progressing towards the achievement of a modernised EURES. A workshop was organised in December 2014 to allow the National Coordination Offices to discuss the challenges of the practical implementation of the EURES reform and exchange best practices and strategies on the opportunities of a reformed EURES. This work will continue in 2015.

Negotiations with the Council (Working Party on Social Questions) during 2014 concluded with the EPSCO Council reaching general approach on the proposal on 11 December 2014.

In parallel DG EMPL supported the implementation of Commission decision 2012/733/EU and of the revised EURES charter, two key elements in the process of the EURES reform. The network has been re-established with the appointment of the national coordination offices, EURES partners and associated partners. In addition, a programming cycle has been launched with the preparation of the EURES national activity plans 2015. The catalogue of services provided by the EURES partners has been revised and MS have prepared a new national service catalogue following the template of the EURES charter.

Secondly, DG EMPL launched the **“targeted labour mobility schemes”** (TMS) in the second half of 2014 as a successor to “Your first EURES job”. The main aim of this new initiative is to fill jobs in bottleneck sectors and occupations by enabling greater labour mobility. TMS help young jobseekers between 18-35 to find a job, apprenticeship or traineeship and gain working experience abroad. Employers will receive help in finding the right people for vacancies that they cannot fill. TMS schemes focus on specific activities such as the provision of information, advice, job search, matching, post-placements assistance. A small financial support for the jobseekers and the employers is provided in order to help ease the recruitment and settling process. The whole program is currently financed through EaSI grants and delivered by EURES partners.

The interim evaluation of preparatory action Your First EURES Job²⁴ found that the scheme fulfils the need to provide tailor-made services to help young people find a job in another EU country. It plays in particular a relevant role in facilitating the transition from education to work. At the end of the evaluation (2013Q4), the action had achieved 1649 placements; in 2014Q4 this figure is almost twice as high. Around 75% of the jobseekers have secondary and tertiary education and more than 70% are above 23 years old. The top five recruiting countries are UK, DE, IT, IE, ES and the top five sending countries are ES, SE, PL, DK, IT.

Many of the evaluation recommendations have been included in the 2014 and subsequent calls for proposals (e.g. candidates' age break increased up to 35, minimum two years project duration, strengthened quality control and risk containment procedures, EURES members as lead applicants). The Commission is examining the possibilities for further development of the scheme in the future.

Thirdly, DG EMPL released a **new version of the EURES portal** in 2014. Making it more user-friendly and attractive, the following modifications were implemented: (1) a brand new look and feel; (2) an improved CV online application which allows jobseekers to use easy-to-select keywords to describe their skills and previous employment and employers to find jobseekers' CVs regardless of the language they have used; (3) an improved job search engine; and (4) a skills passport application which will make it easier for jobseekers to describe and employers to search for the specific skills needed in a particular sector, including where and how they were acquired.

State of play at end 2014

In 2014 DG EMPL set the foundation for a more effective promotion of a voluntary geographical mobility in the context of EURES, supported the transition from a direct management funding scheme to ESF/national sources and guaranteed the continuity of some activities that are now funded by EaSI: targeted mobility schemes and cross border partnerships.

Coordination of social security schemes and implementation of the fundamental right of "Free movement of workers"				
Result indicator: Number of visitors of the Coordination website per month				
<i>Source: DG EMPL G3 - DG EMPL B4</i>				
<i>Baseline (2012) and latest know results</i>			<i>Milestone (2017)</i>	<i>Target (2020)</i>
2012	2013 (Aug. to Dec.)*	2014 (Jan. to Aug.)*	105 100	150 000 ²⁵
68 900	24.888	41.569		
* Please note that there has been a change in the data gathering tool and there is no data in Europa Analytics before Aug. 2013 and between Aug. 2014 and Dec. 2014 inclusive. This indicator will be revised in the next Management Plan.				
Result indicator: Effectiveness of application of EU law relating to the free movement of workers²⁶				
<i>Source: Semestrielle coherence exercise -: DG EMPL B4</i>				
<i>Baseline (Jan-Oct 2013) and latest known results</i>			<i>Target (annual target)</i>	
	Jan-Oct 2013	2014	100% files meeting the benchmarks for complaints, EU-Pilots and infringement cases set out by the Secretariat General	
Complaints	81%	80%		
EU PILOT	42%	42%		
Infringements	33%	75%		
The indicator's targets/milestones are on track. The discrepancy between the target of closing all files within the benchmark and the actual results is due to the relatively high number of individual complaints generated by sudden policy changes in certain MS as well as the high visibility and political sensitivity of the field. The coherence review progress reports have, for the last two coherence exercises, given very positive feedback on the evolution in achieving the target of closing all files within the benchmarks before 2020.				

Legislative and policy work sought to strengthen the exercise of the **fundamental right of freedom of movement for workers**. This right entails in particular the right not to be discriminated against on the grounds of nationality as regards access to employment, remuneration and other conditions of work.

²⁴ <http://ec.europa.eu/social/main.jsp?langId=en&catId=993&newsId=2136&furtherNews=yes>

²⁵ Target set on the basis of historical data

²⁶ This indicator was aligned to the ones used for labour law and health and safety.

In 2014, DG EMPL progressed on the following files:

- **"Labour mobility package":** All the elements of the package were finalized for adoption in Q2/2014 but it was decided to postpone till the new Commission given its political sensitivity. The mobility package is now part of the CWP 2015 and aims at supporting labour mobility and tackling abuse by means of better coordination of social security systems, the targeted review of the Posting of Workers Directive and an enhanced EURES. An Impact Assessment is ongoing;
- **Close governance of Regulation (EC) No 883/2004** in relation with the Administrative Commission which adopted two new decisions and one new recommendation (published in the Official Journal in 2014). In June 2014, following the TrESS Think Tank report²⁷, the Administrative Commission approved the establishment of a Reflection Forum on "EU social security coordination 2020 and beyond" and held an successful inaugural meeting in December 2014 on the relationship between the Social Security Coordination Regulation and the Residence Directive facilitated by representatives of DG EMPL and DG JUST. Other activities were new guidelines for national contact points to assist cooperation on fraud and error in the correct implementation of the Regulations (March), a Working Party on Posting Issues in June (leading to the establishment of an ad hoc group to continue this work) and a Working Party on Cross Border Healthcare in October to assess preliminary experiences of the interaction between the Regulation and the Patients' Directive.
- **Council Decisions concerning social security aspects of association agreements** for Montenegro, Morocco, FYROM and Israel are in the final stage of preparation whilst discussions for San Marino, Serbia, Albania, Turkey, Algeria, Morocco and Tunisia are still ongoing;
- **Monitoring of the transitional arrangements related to Croatia.** Preparatory work for the Commission report on the functioning of the transitional arrangements was underway. The report, envisaged by the Accession Treaty with Croatia, is scheduled for adoption by the College in May 2015.
- **Electronic Exchange of Social Security Information (EESSI) project.** After a period of reflection with stakeholders to define necessary requirements and to identify the most suitable choice in terms of technology, the EESSI project was re-launched at the start of 2014 based on two fundamental principles. Firstly, the project is delivered in close collaboration with relevant experts from MS. Secondly, the IT solution is developed over several iterations (called "Pilot Builds"), each one being tested and agreed with the stakeholders before moving on to the next Build until the content meets the requirements agreed for the social security coordination activity at EU level. A new governance structure with the EESSI stakeholders was put in place to support the monitoring and management of the project in accordance with industry standards.
During 2014 the project completed the first two of four phases required to deliver the project in accordance with the European Commission project management methodology. This activity included the delivery of a number of important project and management documents which have all been approved by the relevant governance bodies. Good progress was made in the development of the first Pilot Build (out of the 3 Builds proposed) and preparing its testing due to start in 2015. In addition, an updated version of the Structured Electronic Documents (SEDs) to be used in the EESSI process (approximately 300 forms) was finalised and agreed by the relevant stakeholders. A strategy for documenting business processes to be used at EU level for the exchange of data and verifying whether these processes are fit for purpose was defined and initiated: experts from the MS are currently utilising a special technology platform to verify and confirm business rules applicable for each respective process.
- Several strands of work have been launched to collect data and evidence to support the assessment of a possible revision of EU rules on Social Security Coordination, notably (1) Launch of ad-hoc questionnaires to collect administrative data from MS to analyse the economic impact of different options; (2) Launch of a tender for a study on administrative burden and potential secondary effects of different options; (3) Preparation of the mandate for a study on the legal and policy impact of the different options.

²⁷ "Key challenges for the social security coordination Regulations in the perspective of 2020"

1.1.2.3 Specific Objective 3: Microfinance

Specific objective 3: Promote employment and social inclusion by increasing the availability and accessibility of microfinance for vulnerable people who wish to start up a micro-enterprise as well as for existing micro-enterprises, and by increasing access to finance for social enterprises.				<input checked="" type="checkbox"/> Spending (EaSI)	
Result indicator: Number of business created or consolidated that have benefitted from EU support²⁸ (cumulative figures)					
<i>Source: Progress Microfinance implementation reports - DG EMPL C2</i>					
Baseline (2012) and latest know results			Milestone (2017)		Target (2020)
	2012	2013	2014		
Progress Microfinance	6.089	12.690	30.473	Progress Microfinance	40.000 ²⁹
EaSI	NA	NA	0	EaSI	21.000
				Progress Microfinance	46.000
				EaSI	41.000 ³⁰
Progress Microfinance: After a slow take-off, Progress Microfinance experienced a steady growth and the indicator is on track to meet the final target.					
EaSI: The delegation agreement with the EIF for EaSI will be signed early 2015. Therefore no microloans have been disbursed in 2014 under EaSI. It is estimated that the milestone and target may still be reached.					
Social Enterprises:			500 social enterprises ³²		1350 social enterprises
2012	2013	2014			
0 ³¹	0	0			
The EaSI delegation agreement with the EIF will be signed early 2015. Therefore no investments into social enterprises have been disbursed in 2014. It is estimated that the milestone and target may still be reached.					
Result indicator: Proportion of beneficiaries that have created or further developed a business with EU microfinance that are unemployed or belonging to disadvantaged groups					
<i>Source: Progress Microfinance implementation reports - DG EMPL C2</i>					
Baseline (2011) and latest know results			Milestone (2017)		Target (2020)
2011	2012	2013			
40% ³³	32% ³⁴	59% ³⁵	45%		50%
The indicator's targets/milestones have been met. The provided information only relates to Progress Microfinance as the delegation agreement with the EIF will be signed early 2015. Therefore no microloans have been disbursed in 2014.					

This programme aims at increasing access to finance for the vulnerable groups, including unemployed, and to social enterprises that could help various vulnerable groups in finding their way to employment. As such, it directly contributes to the Employment and the Fighting poverty and social exclusion targets of Europe 2020.

²⁸ For Progress Microfinance, the target is in microloans, not final recipients.

²⁹ 46.000 is the official target for Progress Microfinance by 2020, i.e. when the facility closes. The milestone of 40.000 is an estimate which is not officially established.

³⁰ The target has been based on the past experience with Progress Microfinance. Milestone and target are both subject to change, as the final budget, the required leverage and the potential co-investments are unknown at this stage.

³¹ There was no such support offered by the European Commission to social enterprises in the past.

³² The calculation of the milestone/target is based on the total volume of the guarantees and funded instruments funds, multiplied by the expected leverage and divided by an average investment size of 200.000 euros per social enterprise. For the funded instruments, an expected co-investment of 20 million euros was taken into account. In addition, this target is set taking into account a slower take-off of the instruments and a more accelerated disbursement after the first three years. Please note that the target is subject to change, as the final budget, the required leverage and potential co-investments are unknown at this stage.

³³ In September 2011, 40% of beneficiaries were disadvantage (27% of them were unemployed or inactive and 13% were over the age of 54).

³⁴ In September 2012, 32% of reported recipients were unemployed or inactive.

³⁵ In September 2013, 59% of reported recipients were unemployed or inactive.

The European Progress Microfinance Facility (programming period 2007-2013)

The European Progress Microfinance Facility consists of a guarantee part, implemented by the European Investment Fund and of a debt and equity part (including quasi-equity instruments), implemented by means of a specialized investment Fund (FCP-FIS).

After a slow take-off, Progress Microfinance experienced a steady growth and presents the following results:

EPMF Guarantee facility: as of 30 September 2014, 14 973 micro-credits had been included in the guarantee portfolio and 35 guarantee agreements had been signed in 18 countries. The Facility supported 14 448 final beneficiaries and helped the creation of 21,939 jobs (including the self-employed).

FCP-FIS (Fonds Commun de Placement – Fonds d'Investissement Spécialisé): As of 30 September 2014, 16,922 micro-credits had been included in the guarantee portfolio and 27 agreements in 12 countries had been signed. The Facility supported 16,025 final beneficiaries and helped the creation of 25,347 jobs (including the self-employed).

The EIF expects that the offer of new EU programmes (e.g. COSME and EaSI Financial Instruments) will not have a negative influence on the demand for Progress Microfinance which will initially run in parallel with these. An Interim evaluation will be published early 2015.

The third axis of EaSI – Microfinance (programming period 2014-2020)

The third axis of EaSI, representing 21% of total budget, will aim to: (1) Increase access to microfinance; (2) Support capacity-building activities for microfinance and social entrepreneurship; and (3) Develop the new financial instrument for social entrepreneurship to promote social entrepreneurship by making available hybrid financing for social enterprises in the form of a combination of equity, quasi-equity, loan instruments and grants.

Two studies which serve as ex-ante evaluations have been prepared for both the microfinance and the social entrepreneurship financial instruments. It has been decided that the two instruments will be implemented with the European Investment Fund. The negotiations with the EIF are progressing well and the delegation agreement should be signed early 2015.

State of play at end 2014

The European Progress Microfinance Facility is on course to meet its multiannual objective. Despite the fact that EaSI Microfinance is not yet established, it is estimated that its milestone and target may still be reached as planned. It is however worth noting that, for EaSI, these objectives are subject to change, as the final budget, the required leverage and the potential co-investments are unknown at this stage.

1.1.2.4 Specific Objective 4: Social Dialogue

Specific objective 4: Strengthen the role of social dialogue and promote the adoption of agreements between the social partners			<input checked="" type="checkbox"/> Spending (Prerogatives)
			<input checked="" type="checkbox"/> Non-spending
Result indicator: Share of the workforce covered by sectoral social dialogue committees³⁶			
<i>Source: DG EMPL-B1 calculations based on representativeness studies</i>			
<i>Baseline (2013) and latest known results</i>		<i>Milestone (2017)</i>	<i>Target (2020)</i>
2013	2014	Around 76% of the workforce covered	78%
75% ³⁷	75%		
Result indicator: Social dialogue outcomes³⁸			
<i>Source: DG EMPL B1 database</i>			
<i>Baseline (total period 2007-2013) and latest known results</i>			<i>Target (total period 2014-2020)</i>
2007-2013	2014		300
284	38		

When taking up office in November 2014 the new Commission has committed itself to strengthening social dialogue and enhancing the role of social partners in economic governance.

In 2014, DG EMPL delivered on the following key achievements:

- Involvement of social partners in economic governance: as in previous years social partners were consulted before the adoption of the Annual Growth Survey (AGS) and their positions published on the Commission's website together with the AGS;
- On 10 March 2014, the Council, in its Employment, Social Policy, Health and Consumer Affairs configuration, reached agreement in principle on the proposal by the Commission on the revision of the Council Decision regarding the tripartite social summit for Growth and Employment. The adoption is expected in the course of 2015;
- Representativeness study for the cross-industry social dialogue (carried out by Eurofound);
- A second stage consultation (Art 154 TFEU) took place on an initiative to enhance EU cooperation in the prevention and deterrence of undeclared work. The platform against undeclared work which will be established following a proposal by the Commission foresees an observer status for European social partners, both from the cross-industry level and sectors particularly affected by undeclared work.
- Ministers of Employment and Social Affairs adopted in Autumn 2014 the Commission proposal to implement the Social Partner Agreement on Working Time in Inland Waterways.

No new sectoral social dialogue committees were established in 2014.

³⁶ The aim is to increase the share of the workforce covered by sectoral social dialogue committees while seeking economies in the operation of social dialogue.

³⁷ There are currently 43 SSDC

³⁸ This includes procedural texts, follow-up reports, tools, declarations, joint opinions, policy orientations, codes of conduct, guidelines, frameworks of actions, autonomous agreements, agreements Council Decisions.

1.1.2.5 Specific Objective 5: International dimension

Specific objective 5: Contributing to shaping and implementing international standards, frameworks and actions on employment, social protection and decent work and the social dimension of enlargement and globalisation <input checked="" type="checkbox"/> Non-spending						
Result indicator: Inclusion of sustainable development chapter and follow-up mechanism with labour provisions in Free Trade Agreements (FTAs) and Investment Agreements <i>Source: DG EMPL/DG TRADE</i>						
<i>Baseline (2013) and latest known results</i>		<i>Milestone (2017)</i>	<i>Target (2020)</i>			
<table border="1"> <tr> <td>2013</td> <td>2014</td> </tr> <tr> <td>In FTAs with South Korea, Peru, Colombia, Central America, Cariforum, Georgia, Republic of Moldova</td> <td>Significant progress was made in TTIP³⁹, Japan, Republic of Korea, Mexico and Myanmar.</td> </tr> </table>	2013	2014	In FTAs with South Korea, Peru, Colombia, Central America, Cariforum, Georgia, Republic of Moldova	Significant progress was made in TTIP ³⁹ , Japan, Republic of Korea, Mexico and Myanmar.	<p>In FTAs and Investment Agreements with TTIP, Canada, India, Japan, Malaysia, Morocco, Mercosur, Thailand, Vietnam and in the investment agreement negotiations with China and Myanmar.</p>	<p>100% FTAs and Investment Agreements should have labour provisions and follow-up mechanism. EMPL will contribute to the follow-up of their implementation.</p>
2013	2014					
In FTAs with South Korea, Peru, Colombia, Central America, Cariforum, Georgia, Republic of Moldova	Significant progress was made in TTIP ³⁹ , Japan, Republic of Korea, Mexico and Myanmar.					
<p>Negotiations on Trade and Sustainable Development chapters are on track but pace of progress is mostly dependent on international partners' preparedness to progress.</p>						
Result indicator: Outcomes of international negotiations, debates and dialogues reflect EU objectives on employment, social affairs and inclusion <i>Source: DG EMPL</i>						
<i>Baseline (2013)</i>		<i>Milestone (2017)</i>	<i>Target (2020)</i>			
<table border="1"> <tr> <td>2013</td> <td>Commission contributions to preparatory work and positions on UN post 2015 framework for poverty eradication and sustainable development reflect importance of employment, social protection and decent work objectives. EU competences and policies on employment, social affairs and inclusion are taken up in preparatory discussions for the negotiation of international instruments, frameworks and outcomes and in bilateral dialogues with EU strategic partners.</td> </tr> <tr> <td>2014</td> <td>Significant progress (see below).</td> </tr> </table>	2013	Commission contributions to preparatory work and positions on UN post 2015 framework for poverty eradication and sustainable development reflect importance of employment, social protection and decent work objectives. EU competences and policies on employment, social affairs and inclusion are taken up in preparatory discussions for the negotiation of international instruments, frameworks and outcomes and in bilateral dialogues with EU strategic partners.	2014	Significant progress (see below).	<p>UN Post 2015 framework for poverty eradication and sustainable development includes objectives, targets, indicators on employment, social protection and decent work.</p>	<p>EU objectives on employment, social affairs and inclusion are reflected in outcomes of discussions within international fora - in particular in G20, ILO, OECD and the UN Commission for Social Development - and with strategic partners.</p>
2013	Commission contributions to preparatory work and positions on UN post 2015 framework for poverty eradication and sustainable development reflect importance of employment, social protection and decent work objectives. EU competences and policies on employment, social affairs and inclusion are taken up in preparatory discussions for the negotiation of international instruments, frameworks and outcomes and in bilateral dialogues with EU strategic partners.					
2014	Significant progress (see below).					
<p>The indicator's targets/milestones are on track or have been met. In the work with international organisations and in international fora, results were achieved as planned (e.g. ILO, G20), although Council did not agree in 2014 on the COM proposal on the forced labour protocol.</p>						

³⁹ Transatlantic Trade and Investment Partnership

Work progressed as planned both in relation to free trade agreements (FTAs) and international forums and international organisations.

As regards FTAs, the Commission made significant progress in the following areas:

- **TTIP:** the EU made publicly available its position paper on an ambitious TSD chapter.
- **Japan:** negotiations on an ambitious TSD chapter have taken place with progress for a joint EU-JPN template for a TSD chapter.
- **Republic of Korea:** in a Joint Statement Korea committed on deliverables to ratify fundamental ILO conventions.
- **Mexico:** The EU proposal for a Joint Report on the options for modernising the existing EU–Mexico Agreement include comprehensive and ambitious labour provisions.
- **Myanmar:** The EU proposal for a legal text of the future agreement sent to Myanmar in December 2014 includes a balanced chapter on "Investment and Sustainable Development"

As regards international forums and organisations, the Commission progressed as follows:

Post - 2015 Agenda: In 2014, the EU continued providing key inputs and engaging actively with partners at all levels. The COM Communication of 2 June 2014 "A Decent Life for All: from Vision to Collective Action" and the Council Conclusions of 16 December 2014 "A Transformative Post-2015 Agenda" showcase the EU's vision for a transformative post-2015 agenda that needs to be global and universal, applying to all countries and incorporates all three dimensions of sustainable development: social, economic and environmental. The new Commission's priority objective is to make Europe a stronger global actor and the post 2015 framework is singled as a key deliverable for 2015.

G20: The Commission contributed to the G20 Task Force on Employment, which prepared the G20 Labour and Ministerial Meeting. With the elaboration of the Employment Plans, the G20 work on monitoring commitments in the area of growth and employment has moved closer to the EU's approach on policy guidance and surveillance through the European Semester. The Commission supported the G20 commitment to improving occupational safety and health in the G20 economies and across the globe. The Commission supported the renewed commitment by G20 to reduce youth unemployment. The Commission supported the G20 goal to increase female labour force participation by 25 % by 2025.

Protocol of 2014 to the Forced Labour Convention of the International Labour Organisation (ILO) and of a related Recommendation: The Commission proposed that MS are authorised to ratify the Protocol and do so by end 2016.

Adaptation and ratification of ILO standards: two Council decisions were adopted in 2014 on Commission proposals of 2012 as regards the ratification of the ILO Domestic Workers Convention and the ILO Chemicals Convention by EU MS. An EU position established in May 2014 on a Commission proposal of March 2014 to approve amendments to the Maritime Labour Convention providing seafarers with protection in case of abandonment and financial security in case of work-related death or invalidity

103rd ILC: the ILO adopted conclusions on employment policies for sustainable recovery and development, conclusions on a future Recommendation on transitions from informal to formal economy and new standards on forced labour (see above). It further discussed the application on international labour standards in a number of countries. In order to secure a strong EU input to the ILC, the Commission held preparatory meetings with MS, social partners and the ILO Office in April 2014. It further contributed to define EU positions and supported EU coordination at ILC in June 2014.

1.1.3 ABB activity "European Social Fund" and "Youth Employment Initiative"

1.1.3.1 Specific Objective 1: Programming period 2014-2020

Specific objective: Prepare the conditions for effective implementation and monitoring of the ESF programmes of the 2014-2020 programming period		<input checked="" type="checkbox"/> Spending (ESF/YEI)
Result indicator: Number of partnership agreements (PAs) adopted within the four months legal framework provided that all observations made by the Commission have been adequately taken into account <i>Source: DG EMPL E1</i>		
<i>Baseline (2013)</i>	<i>Latest known results (2014)</i>	<i>Target (2014)</i>
NA	100%	100%
The target has been met.		
Result indicator: Number of Operational Programmes (ESF and YEI specific – monofund and multifund) approved within the six month legal framework provided that all observations made by the Commission have been adequately taken into account <i>Source: DG EMPL E1</i>		
<i>Baseline (2013)</i>	<i>Latest known results (2014)</i>	<i>Target (2014)</i>
NA	100%	100%
The indicator's targets/milestones are on track. All OPs that adequately took into account the Commission's observations have been adopted in 2014. 128 OPs have been adopted in 2014. 22 OPs will be adopted in carry-over and 37 OPs will be adopted after the MFF amendment.		

Support to Member States

The COM has worked actively with MS to meet this objective since 2012. Informal dialogue started before the adoption of the Regulations with the **Commission Position Papers** and Commission desk officers have been in continuous contact with Managing Authorities during these two years.

To ensure the smooth implementation of this objective, **guidance notes** (e.g. on programming, performance framework, monitoring and evaluation, data collection and validation in the context of the expert groups, the ESF Committee or the ESF evaluation partnership meeting) were drafted with the other ESIF DGs and presented to MS.

The Commission also issued a specific detailed guidance on YEI implementation⁴⁰ and organised a one-day seminar event for ESF Managing Authorities (MAs) implementing YEI. An extra day of the **ESF technical working group** was organised to answer additional questions from MS related mostly to the YEI and audit matters.

The Commission has also undertaken a number of initiatives aiming at strengthening MS evaluation culture, in particular to encourage them to carry out more impact evaluations required by the new 2014-2020 regulations:

- In the framework of the two calls for proposals on **Pilot Projects to carry out ESF related Counterfactual Impact Evaluations (CIE)**, the Commission is funding nine projects involving ESF MAs from HU, IT (two projects), ES, LT, PO (two projects), EE and SK. The aim is to produce a solid evidence base on the net impacts of ESF programmes in the area of vocational training, self-employment measures, traineeships and supported employment. The projects will also serve as good practice examples for knowledge sharing and promotion of using CIE. A launch event networked the different pilots;
- The **DG EMPL-JRC Centre for Research on Impact Evaluations (CRIE)** has been building the capacities of MS through: (1) supported training activities in several MS to build their capacity to conduct and use CIE; and (2) the production of a report on the *Knowledge gaps in evaluating labour market and social inclusion policies - Use of counterfactual impact evaluation reviewing evidence* which confirms that the measurement of causal effects of labour market policies using CIE has received too little attention so far and recommend to plan data collection ex-ante, perform recurrent counterfactual evaluations and disseminate information and data of past CIE. An **ESF data collection and validation support centre** was set up to further support the MS in implementing ESF;

⁴⁰ <http://ec.europa.eu/esf/BlobServlet?docId=457&langId=en>

- CRIE organised a **Conference on Counterfactual Methods for Policy Impact Evaluation (COMPIE)** in Rome on 27-28 November 2014. The Conference, attended by researchers, policy makers and fund managers, presented a large number of concrete examples of counterfactual evaluations on labour market and social inclusion programmes and demonstrated the added value of such evaluations and helped to further familiarise fund managers and authorities with the support that CRIE can provide.
- DG EMPL leads, together with DG REGIO, the organisation of a seminar in the context of the Open Days (12.10.2014) - Week of Regions and Cities on the use of impact evaluation methods.

Commission procedures to reach the objective

To prepare the conditions for effective implementation and monitoring of the ESF, DG EMPL drafted several **roadmaps**; one for the assessment of PAs and four related to OPs, including for the YEI OPs. These roadmaps covered the steps to draft observations⁴¹ (177 decisions on Commission observations were sent to MS) and adopt PAs & OPs.

In the context of the OP assessment particular attention was paid to the link between the **country-specific recommendations (CSRs) and the investment priorities (IPs)** selected to ensure the highest possible contribution of ESF to Europe 2020 objectives.

The **Stock-taking group**⁴² (STG) has also been a major actor to ensure the effective implementation of this objective. Indeed, it allowed action to be taken quickly and consistently across all 5 ESI Funds. One of its achievements was its swift response to the multi-annual framework (MFF) constraint which implies that OPs not ready for adoption by end 2014 would have to wait until the MFF amendment to be adopted. Internal procedures were modified as of 1st December 2014 and the inter-service consultation was shortened from 10 days to 5 days to allow for the adoption of a maximum of OPs in 2014 and prepare the carry-over lot.

As previously mentioned, in discussion with the MS through the ESF Partnership for Evaluation, the Commission has elaborated a number of guidance notes related to ESIF **monitoring and evaluation**, as well as specific guidance on ESF, YEI and evaluation plans. These documents are publically available and have been disseminated to the MS.

The **YEI** has been on the agenda of the ESF Technical working group and ESF Committee throughout the year. A seminar was organised by the Commission in July 2014 to provide support to MS and speed up the adoption of the YEI OPs. A fast-track procedure for the adoption of YEI-dedicated OPs was also created. Only 2 MS used the opportunity to programme YEI in a dedicated OP whilst the others programmed it in one or several YEI/ESF OPs.

Throughout the negotiations, DG EMPL desks, with the support of the evaluation unit, ensured that the **intervention logic of the OP** was robust. Particular attention was paid to the formulation of the specific objectives, the definition of target groups and the use of relevant common output and result indicators, targets and baselines with view to strengthen the result-orientation of the programmes.

State of play at end 2014

The Commission has adopted all PAs. It also adopted 128 OPs and subsequently paid all related pre-financing. This number includes 28 out of the 34 OPs in which YEI resources are programmed: thus the Commission respected its commitment to prioritise adoption of YEI OPs and speed up the process to the extent feasible.

Out of the one third of OPs that were not ready on time for adoption, 22 should be adopted in carry-over (February-March 2015). The remaining 37 OPs will be adopted after the MFF amendment. By the end of Q1 2015, 80% of the OPs should be adopted. All remaining OPs will be adopted within the 6 month deadline foreseen in the Regulation.

To reach this result, significant efforts have been undertaken by COM services and MS. These efforts will continue to ensure speedy adoption of quality programmes both in carry-over and after the MFF amendment.

⁴¹ These steps include, amongst others, intra and inter-service consultations to gather comments, the consolidation of those comments and the final intra and inter-service consultations before sending observations.

⁴² This group gathers each week representatives from the four ESIF DGs either at Deputy-director General level or at coordination level.

1.1.3.2 Specific Objective 2: Programming period 2007-2013

Specific objective: Ensure continued effective implementation and monitoring of the ESF programmes of the 2007-2013 programming period.										<input checked="" type="checkbox"/> Spending (ESF)	
Result indicator: Average number of ESF participants per year ⁴³											
<i>Source: DG EMPL E1</i>											
Baseline (2012)			Latest known results (2013)							Target (2014)	
9.9 million participants (annual average 07-11)										10.8 million participants ⁴⁴	
i) Total (million)										(Annual average is at least equal to the 2000-2006 average) ⁴⁵	
ii) Women (%)											
iii) Unemployed or inactive (million)											
	Avg 00-06	2007	2008	2009	2010	2011	2012	2013	Avg 07-13		
i)	10.8	1.4	5.5	11	15.3	15.1	15.4	14.7	11.2		
ii)	52%	54.7%	53.5%	49.6%	51.6%	52.3%	51.6%	53.4%	52.4%		
iii)	5	1	4	7	9.5	9.6	10.3	10.4	7.4		
<p>The indicator's targets have been met. The target for the average number of participants per year is 10.8 million. After a slow start in 2007 the successive years have been marked by significant increases culminating at 15.4 million participants in 2012. 2013 shows however the first decrease in number of participants since the beginning of the programming period; even though participation rates remain high. This decrease corresponds to the life-cycle of the OPs, some programmes coming to their end. The average number of participants per year currently stands at 11.2 million (period 2007 to 2013) of which 52.4% are women. The number of unemployed or inactive participants has steadily increased each year. In average for the 2007-2013 programming period 68.2% of ESF participants are unemployed or inactive. This shows the ability of ESF to target those who have been particularly impacted by the economic and financial crisis.</p>											
Result indicator: Reasonable assurance on the management of ESF expressed as the cumulative residual error rate											
<i>Source: DG EMPL H</i>											
Baseline (2012) and latest known results						Target (2014)					
2012	2013	2014				Maintain < 2%					
0.9%	1.1%	1.2%									
The indicator's target is met.											

Work is in progress on the three thematic ex-post evaluations for 2007-2013 (social inclusion, human capital, access to employment), which will deliver results during 2015. An evaluation on delivery systems is ongoing together with DG REGIO. A final synthesis of these reports, with updated information based on 2014 AIRs, will be produced early 2016. This synthesis will provide evidence on the contribution of ESF to Europe 2020, as well as lessons learned regarding monitoring and evaluation.

The COM has endeavoured to summarise on a regular basis evaluations and good practices in the MS through a series of five successive reports from the ESF Expert Evaluation Network (EEN) in order to gather information on ESF achievements by 2012. The network brings together experts from 27⁴⁶ MS to collect, analyse, aggregate and synthesise evaluations and other relevant studies on the nature and contribution of the ESF in each MS. The experts compile an inventory of evaluation plans, activities, studies and key findings as well as reports on specific themes. This final synthesis report is based on 27 country reports organised around the 6 policy fields for the ESF. The emphasis was put on assessing the overall achievements of the ESF in the 2007-2013 programming period.

⁴³ MS report on the number of participations to ESF projects and therefore one participant could take part in several actions.

⁴⁴ Reporting on the number of "participants" is in line with Member States' reporting which complies with the requirements of Annex XXIII of the ESF Regulation (EC) No 1828/2006.

⁴⁵ Due to the multiannual nature of the programme and the large annual variances, comparing to a full programming period is the most relevant indicator

⁴⁶ Croatia is not included as the network covered the programming period before Croatia's entry in the EU.

Although the ex-post evaluations mentioned above should bring additional insight to the ESF results, the EEN report allows to highlight some key elements of the ESF contribution by policy field and target group up to end of 2012⁴⁷:

- In the area of Access to Employment (mostly active labour market policies):
 - There were 19.6 million participations in ESF actions to support access to employment through training or other forms of assistance;
 - Two thirds of all participants were inactive or unemployed;
 - As a result in this area, 3.3 million found a job soon after completing the intervention, a significant achievement given the economic downturn.
- In the area of Social Inclusion:
 - Over 14.5 million final recipients were covered so far and a broad range of target groups reached (participation of some 1.3 million people with a migrant or minority background);
 - 18% of participants were from groups which are particularly vulnerable on the labour market;
 - Though the situation varies, UK and AT seem to be particularly successful in reaching out to people with some form of disability. Others, notably AT, CY, NL and LV are successful in using the ESF to support people from a minority or with migrant background.
- In enhancing Human Capital:
 - Just under 13.9 million participations involved women - 54% of all participations;
 - Over 10.3 million participations (40%) were young people aged 15-24. This reflects the high proportion in education and training with many of these young people still in school or university. In contrast, just under 915,000 participations involved older people aged 55-64;
 - A smaller proportion of participations came from disadvantaged groups with nearly 758,000 migrants, nearly 752,000 minorities, around 970,000 disabled – with almost 913,000 involving other disadvantaged groups.
- In increasing Adaptability:
 - In the area of lifelong learning (LLL), the ESF supported around 5 million young people;
 - Regarding the education profile, 5.5 million participants had low skills.
- In promoting Capacity Building: About 700,000 participants, notably civil servants, have upgraded their skills with ESF support. Four MS (BG, GR, HU, and RO) implement a programme explicitly dedicated to institutional capacity building.

The EEN report on ESF achievements 2007-2013 emphasises that many of the interventions funded by the ESF were focused on returns to employment which are harder to achieve in depressed labour markets, with the result that ESF implementation over the 2007-2013 programming period has been extremely challenging. Nevertheless, the results reported for the period 2007-2012 have been impressive with over 5.7 million job entries (results for all ESF priorities) and almost 8.6 million qualifications gained.

In many MS the ESF has proved adaptable and flexible, allowing more resources to flow towards those activities, such as promoting access to employment and supporting new enterprise starts, which can make the most significant contribution to the recovery. Similarly, many MS, in responding to the dramatic rise in youth unemployment, have been able to redirect ESF resources towards interventions to young people.

On effectiveness, the main achievements of the ESF include extensive reach of the programmes funded, with 68 million individual participations by the end of December 2012. 19.6 million of these participations and 3.3 million of the job entries are attributed to actions under access to employment, together with almost 0.5 million qualifications gained.

Where evaluations have been conducted significant net differences in terms of employment and unemployment are associated with the ESF activity. These show, for example, that individuals in ESF-supported interventions are more likely to find employment than control groups – with some evidence that this effect is more marked for more disadvantaged groups of people. A number of evaluations also highlight the ‘soft’ results associated with access to employment interventions, including such things as more independent and effective job search, greater self-confidence, higher

⁴⁷ EEN - "Final synthesis report: Main ESF achievements, 2007-2013" (March 2014). Data for 2007-2012.

level of motivation towards work and more social integration generally.

State of play at end 2014

Although the 2007-2013 programming period is on course to meet the multiannual objective with an average number of participants per year of 11.2 million, the financial situation of the ESF worsened considerably in 2014. The ESF has a roll-over to 2015 in the amount of 5.8 billion euros (out of this roll-over currently 2.8 billion euros are payable immediately, while 3.0 billion euros are interrupted/suspended).

This back-log amount represents 79 % of the ESF budget planned for this period for 2015. This is the highest ever ratio since 2011 – from 2013 to 2014 this ratio was "only" 40 %.

An amending budget reinforcement of the initial 2015 budget will be necessary to keep the payment delays at a reasonable level.

1.1.3.3 Specific Objective 3: Programming period 2000-2006

Specific objective: Complete the closure process for the remaining programmes of the 2000-2006 programming period.		Spending (ESF)
Result indicator: Assessment of the legality and conformity of expenditures of OPs co-financed by the ESF under the 2000-06 programming period is finalized.		
<i>Source: DG EMPL F1</i>		
<i>Baseline (2013)</i>	<i>Latest known results (2014)</i>	<i>Target (2014)</i>
233 out of 239 programmes have been closed (of which 33 have only been closed in part).	All 239 programmes have been closed leaving 30 programmes closed partially.	100% Except programmes for which legal procedures are on-going
The indicator's target is on track or has been met.		

DG EMPL proceeded to the **closures of all the remaining 2000-2006 programmes** by completing complex closure analysis and issuing final balance statement to MS in the closure proposal. All 239 programmes under 2000-2006 programming period are closed: **30 partial and 209 full closures** leaving a remaining RAL of EUR 493 million.

The COM paid the final balance or has issued a recovery order only after the qualitative analysis of closure documents have been completed and final balance calculated. Closure proposals have to be accepted by MS in order to de-commit the remaining RAL.

This remaining RAL represents:

- suspended operations following judicial proceedings amounting to EUR 86 million for Italy and Germany and EUR 9.5 million for other countries;
- not yet accepted financial corrections for Italy (Sicily, Calabria and Abruzzo - EUR 364 million) as well as for Spain (Lucha Obj.1, Obj.3 and Galicia - EUR 33.5 million).

No payment appropriations were foreseen in the 2014 budget for the 2000-2006 programming period. Closure payments were made with appropriations coming from cashed recoveries.

Regarding the estimated error rates in the winding-up declarations, the Commission ensured that the error rate in the population (expenditure 2000-2006) will not exceed 2%. To this end, a **mechanism of financial correction based on the residual error rate** provided by the MS and recalculated by the responsible Commission services has been implemented. A common methodology between all Structural Funds DG's has been adopted.

As a result of the Commission supervisory role, at the end of 2014 a cumulative amount of EUR 1810.8 million of financial corrections has been accepted/decided for the programming period 2000-2006 out of which EUR 133.1 million has been accepted/decided in 2014.

Concerning MS with persisting problems, the aim of DG EMPL is to move further from the need to correct errors to a situation where errors are avoided. This is particularly important for MS where financial corrections have been the highest in recent years, such as Spain and Italy. This had an impact especially in the approach used for the 2007-2013 programming period and the **new regulation for 2014-2020** where **annual closure process** should simplify and speed up the implementation of the corrective and preventive mechanism.

1.1.4 ABB activity "Fund for the European Aid to the most Deprived"

Specific objective (definition): Alleviating the worst forms of poverty in the Union by providing non-financial assistance to the most deprived persons <input checked="" type="checkbox"/> Spending (FEAD)		
Result indicator: Number of persons receiving assistance from the Fund (cumulative figures)		
<i>Source: annual implementation reports - DG EMPL E1</i>		
<i>Baseline</i>	<i>Milestone (2017)</i>	<i>Target (2020)</i>
0 ⁴⁸	8 million	14 million

The objective of the FEAD is to **promote social cohesion, enhance social inclusion** and therefore ultimately contribute to the objective of eradicating poverty in the Union. There is a clear link with the EU2020 strategy as it contributes to achieving the poverty reduction target of at least 20 million of the number of persons at risk of poverty and social exclusion, whilst complementing the Structural Funds. It shall do so by providing non-financial assistance to the most deprived persons by food and/or basic material assistance, and social inclusion activities aiming at the social integration of the most deprived persons.

The founding step for achieving this specific objective was made on 11 March 2014 with the **adoption of the FEAD Regulation** (Regulation (EU) 223/2014), the legal basis for the implementation of the FEAD during the 2014-2020 period.

The second step towards this objective was to **adopt OPs**. To this end, the Commission organised two training sessions on programming for national authorities and provided guidance on a bilateral basis. It also strived to conduct all the administrative phases leading to adoption in a swift manner. These efforts, combined with the simplifications introduced in the Regulation for programming FEAD, produced impressive results: all Inter-Service Consultations were concluded positively, 25 out of 28 OPs were adopted by the end of 2014, and the three remaining OPs have been included in the carry over. Thus all FEAD programmes will be adopted at the latest by end of March.

In addition to the programming exercise, efforts were made to achieve progress with the secondary legislation, related to FEAD:

- In March 2014 the **COM delegated regulation 532/2014** was adopted, containing information about 5 FEAD empowerments related to the information to be recorded and stored in computerised form, the minimum requirements for the audit trail, the scope and content of audits, the use of data during audits, and the detailed rules containing serious deficiencies;
 - In May 2014 the **COM implementing regulation 463/2014** was adopted, laying down the terms and conditions applicable to the electronic data exchange system between the MS and the COM;
 - In July 2014 the **Delegated regulation (EC) No 1255/2014** was adopted defining FEAD reporting requirements and common input, output and result indicators for each type of OP;
 - Two **COM implementing acts** on the technical specifications of the system to record and store data on each operation and on the models for submission of certain information to the COM were prepared and underwent an inter-service consultation;
 - In October 2014, a FEAD ad hoc expert group meeting discussed with MS the draft **guidance note on monitoring and indicators**.
- The preparation and adoption of the delegated and implementing Regulations implied the consultation of ad hoc expert groups and the FEAD Committee, respectively. Within this context, 3 meetings were held in 2014.

In order to ensure adequate understanding of this new instrument's specific provisions, the COM has taken steps to provide MS, as well as its own staff, with the necessary guidance and trainings, notably on programming. An internal note on FEAD eligibility rule and a Q&A functional mailbox are also at the disposal of desk officers. Further work is ongoing for the elaboration of additional guidance documents, notably on monitoring.

⁴⁸ The FEAD is a new Fund, hence with a baseline at 0. The figures used in the framework of the existing Food assistance programme are established through a methodology which does not yield figures that could be comparable to the one of the new FEAD, thus they cannot be used as a baseline.

1.1.5 ABB activity "Instrument for pre-accession assistance – Human Resources Development (IPA-HRD)"

Specific objective 1: Support Candidates Countries to achieve the necessary <input checked="" type="checkbox"/> Spending (IPA-level of administrative capacity for the future ESF implementation HRD)			
Result indicator: Level of rejection of proposed operations / projects			
<i>Source: Bi-annual Report of the EU Delegations - DG EMPL A4</i>			
Baseline (06/2013) and latest known results			Target (2017)
	06 2013	06 2014	Less than 10% rejection
Turkey	19.6%	19.2%	
FYROM	8.33%	12%	
<p>In the case of the HRD OP Turkey the rejection rate remains at high level. The highest rate was recorded for contract notices, tender dossiers and calls for proposals. The majority of files are rejected due to lack of quality as well as for legality and regularity reasons. In the case of the HRD OP FYROM, despite a slight deterioration, the level of rejection remains close to the 2017 target.</p>			
Result indicator: Quality of the implementation			
<i>Source: Audit reports - DG EMPL A4</i>			
Baseline (2013 – status December)	2014 – status December	Target (2017)	
Turkey: "Works, but some improvements are needed" (category 2)	Category 2	Effective functioning of the management and control system	
FYROM: "Works, but some improvements are needed" (category 2)	Category 2	Effective functioning of the management and control system	
MONTENEGRO: The implementation has not yet started.	Implementation started with the conclusion of the Financing Agreement in December 2014.	Start of the implementation	
The indicator's targets/milestones are on track.			

Specific objective 2: Ensure efficient concrete assistance to Candidate <input checked="" type="checkbox"/> Spending Countries for the implementation of IPA HRD component in employment, (IPA-HRD) social affairs and equal opportunities policy areas			
Result indicator: Fulfilment level of initial procurement planning			
<i>Source: Procurement planning - DG EMPL A4</i>			
Baseline (06/2013) and latest known results			Target (2017)
	06 2013	12/2014	100% of the procurement planning
Turkey	EUR 150.15 million (26.9%)	EUR 298 million (55%)	
FYROM	EUR 15.1 million (23.6%)	EUR 22.4 million (34%)	
<p>The procurement plans are not efficiently implemented by the national authorities. Frequent delays occur in the processing of procurement procedures and in contracting, particularly due to the lack of administrative capacity of the managing authorities.</p>			
Result indicator: Level of certified expenditure in relation to the automatic de-commitment horizon			
<i>Source: Applications for payment - DG EMPL A4</i>			
Baseline (2013) and latest known results			Target (2017)
	11/2013	12/2014	Zero automatic de-commitments
Turkey	EUR 0* (target: EUR 63.4 million)	EUR 49.3 million (target: EUR 77.6 million)	
FYROM	EUR 1.3 million* (target: EUR 8.4 million)	EUR 2.05 million (target: EUR 8.8 million)	
<p>The expenditure declared to the Commission for reimbursement in 2014 did not achieve the level of the 2011 financial commitments and therefore the n+3 automatic de-commitment rule had to be applied (EUR 28.3 million are de-committed from the HRD OP Turkey and EUR 6.7 million from the HRD OP FYROM by end 2014).</p>			

In 2014 the Commission has continued to **support the capacity building process** in IPA institutions in Turkey, FYROM and Montenegro.

In **Turkey** the Ministry of Labour and Social Security, managing authority for the HRD OP, has further enhanced its administrative capacity through the recruitment of additional monitors, procurement

assistants and tendering experts. It allowed achieving important progress in the identification of operations for co-financing which led to significant improvements in terms of programming. However, mainly due to new staff inexperience in EU financial cooperation, the delays in executing the procurements and calls' procedures remained a matter of concern and caused absorption problems.

In **FYROM**, according to the workload assessment made by the Operating Structure, there is no need for additional staffing in order to process the files and to monitor the implementation of the operations. Nevertheless, the overall capacities to address problematic issues in a timely manner remain weak. The ownership and leadership of the Operating Structure needs to be improved. Lack of strategic guidance and planning and ineffective inter-institutional coordination considerably hampered the implementation of the programme.

Since their adoption in 2007 the HRD OPs for Turkey and FYROM faced **absorption problems** which increased steadily the risk of automatic de-commitment. These absorption problems are the consequence of: (1) a late start of the programmes' implementation due to the setting up of the management and control system; (2) the initially slow identification of operations and implementation of procurement procedures; and (3) the lack of efficient administrative capacity. Substantial de-commitment risks and related warnings have been signalled to the national authorities early 2014. Since then, joint **efforts to mitigate the de-commitment risk** were undertaken by DG EMPL, the EU Delegations in Ankara and Skopje and the national authorities concerned. Mitigating actions upon the initiative of the COM included the negotiation and implementation of action plans and an analysis of procurement plans. Based on intensive efforts, de-commitment amounts could be reduced although the application of the n+3 automatic de-commitment rule by end 2014 could not be avoided for these two OP.

With regard to the HRD OP **Montenegro**, the management and control system has been established and implementation has started with the conclusion of the Financing Agreement in December 2014. An operation pipeline has been established and the preparations for launching the first procurement procedures are well advanced.

An **interim evaluation** of IPA assistance is being carried out by external consultants. One of the specific objectives of this evaluation is to provide a qualitative and quantitative assessment of the performance of IPA. According to the draft interim evaluation report, the impact of IPA assistance is considered undeniable and depends a lot on government commitment. The outputs and results of IPA projects are considered relevant for the beneficiaries. In the employment and labour area, both in Turkey and in FYROM, IPA component IV has contributed to the modernisation of the public employment services for better delivery and monitoring of active employment measures. Employment policies are better planned and active labour market measures are more diversified and better tailored to the needs of various categories of disadvantaged people than before IPA assistance. Good results have been reported by the projects addressing women job seekers in Turkey and persons with disabilities in FYROM. IPA has contributed to the increased participation of disadvantaged groups to the labour market and to the development of more inclusive labour markets and education systems. In the area of education and training, school enrolment of girls from disadvantaged backgrounds has boosted in Turkey. Additional positive results, to a large extent attributed to the HRD OP, have been registered in the participation rate in lifelong learning in Turkey.

State of play at end 2014

Although not all targets are achieved with regard to the level of certified expenditure and implementation of procurement plans, the programmes are on course to meet the multiannual objectives related to IPA implementation under component IV. Important results have been obtained through the assistance provided to candidate countries in the implementation of HRD programmes. The capacity building process has been enhanced in Turkey, Montenegro and to a lesser extent also in FYROM. It is therefore expected that implementation will accelerate and loss of funds will be limited in the remaining years until programme closure.

1.1.6 ABB activity "European Globalisation Adjustment Fund"

Specific objective: To contribute to economic growth and employment in the Union by enabling the Union to show solidarity towards workers made redundant as a result of major structural changes in world trade patterns due to globalisation and global financial and economic crisis, and to provide financial support for their rapid reintegration into employment. Spending (EGF)

Result indicator: Proportion of redundant workers reintegrated into employment following EGF supported measures

Source: EGF Annual Report - DG EMPL C2

Baseline (2012) and latest known results		Milestone (2017)	Target (2020)
2012	2013	49%	>50 % ⁵¹
47% ⁴⁹	(47%) ⁵⁰		

The indicator's milestone and target are on track. As no Annual Report for EGF is due in 2014, updated results on the proportion of redundant workers reintegrated into employment following EGF measures will be reported on next year. The ex-post evaluation of the EGF 2007-2013, finalised in December 2014, found a re-integration rate of 49 % across the 33 evaluated cases. This indicates a positive trend towards reaching the desired target.

COM's role is to create better conditions to achieve the above mentioned specific objective. To that aim, DG EMPL provides advice to MS on how to manage their applications for EGF funding and the resulting activities. This is achieved by regular meetings of EGF Contact Persons and by the annual Networking Seminar where best practices are exchanged and peer learning is promoted. The COM keeps an internal database on EGF applications and implementation and also carries out site visits to projects both for monitoring and audit purposes. An online application form is being created and the EGF will be incorporated into SFC, the electronic tool for exchanging information concerning shared Fund management between MS and the COM, which should additionally help the information exchange with the MS.

In contributing to the objective of supporting redundant workers back into employment, the Commission has assessed 18 applications submitted by the MS in 2014 for personalised services for 13 972 workers and 1 893 NEETs.

The usefulness of EGF support to workers made redundant has been demonstrated through the final reports on EGF cases implemented, the closing conferences in which the Commission participated, audit visits and the recent ex-post 2007-2013 evaluation.

This evaluation identifies a number of achievements:

- analysis of added value suggests that while EGF action is not 'novel' in terms of the content of action, it does boost national restructuring efforts at a time of budgetary discipline and high unemployment;
- EGF cases achieve an average redeployment rate of 49% although this varies depending on a complex set of factors, and broadly in line with nationally funded redeployment projects. In the majority of cases there was an increase in the re-employment rates achieved in the short and medium term, indicating a high level of sustainability in outcomes (or at least an enhanced employability of beneficiaries);
- aside from direct effects on individuals (re-employment, higher employability, greater empowerment, improved self-esteem and better ability to navigate labour market opportunities), EGF assistance made a positive contribution to addressing significant social and labour market problems in the locality after large-scale redundancies, increasing social cohesion;
- EGF also generates positive side effects in terms of reducing budgetary drain on unemployment funding, and supports a culture of planning and coordination in areas that are strongly affected by unemployment;
- EGF also generates examples of good practice which have since been mainstreamed within MS.

⁴⁹ Percentage of workers targeted that were re-employed at final reporting time. This is an average figure based on the five annual reports available (2008 to 2012)

⁵⁰ Next EGF Biennial Report due in 2015

⁵¹ The initial results were heavily influenced by the global financial and economic crisis. It is expected that the positive tendency shown in the reintegration rate results since 2011 will continue.

1.2 Examples of EU added value of spending programmes

1.2.1 PROGRESS (programming period 2007-2013) : the added value of analytical activities

The ex-post evaluation of PROGRESS which was completed in 2014 found that a wide range of analytical activities supported by the Programme involved comparative analysis between MS which have led to new insights and improved the knowledge base available to policy makers and practitioners. It was reported by users as an added value, where a topic or issue has been looked at in a range of, or all, EU MS. In that respect duplication of efforts with national or other international analytical work was averted by the EU-wide scope of PROGRESS analytical activities. Their further use by practitioners, professionals and policy-makers has been evidenced by the evaluator in EU and non EU documents demonstrating thereby the Programme being a catalyst for sharing and learning amongst those stakeholders; among them:

- the EUROMOD tax benefit model (Data and statistics, Social Inclusion and Social Protection) and the European Union Statistics on Income and Living Conditions (EU-SILC) (Data and Statistics, Working Conditions) have been cited in many academic articles, books and working papers on econometric theory, as well as other resources such as OECD reports, European Networks (European Anti-Poverty Network), websites of national statistical offices and national data archives, government agencies (such as the Health Information and Quality Authority in Ireland) or even Wikipedia;
- the PROGRESS European Employment Observatory report on 'Self-employment in Europe 2010' (Studies, analyses and surveys, Employment) was cited in four different research articles and book chapters, on topics such as the effects of entrepreneurship on Eastern European Economies, wage inequality or new social risks for young people. Several networks, such as the European Microfinance Network, also featured information related to this report.

The comparative character of PROGRESS analytical activities supports benchmarking and the improvement of national policies. The European added value of PROGRESS based on political arguments is strong, and is based first, on the priority currently being given to employment, social protection and related aspects in the context of the current economic crisis and second on the link between the areas researched by PROGRESS and key political objectives of the EU, as expressed in the Europe 2020 Agenda.

Regarding legal factors, PROGRESS analytical activities respect the principle of subsidiarity. They cover problems that are common to European countries. Nationally funded research would be likely to have a more limited geographical scope and would not enable comprehensive European benchmarking and comparisons. The analytical activities funded by PROGRESS provide evidence that would not have been generated without EU action.

1.2.2 Your First EURES Job: the added value of financial services⁵²

YfEj project beneficiaries provide a wide array of services to young jobseekers, job-finders and SMEs. Some of these services were already provided by project beneficiaries before their engagement in YfEj. As an example, one of the beneficiaries, GI Group, already provided large scale labour market information to (young) jobseekers during their 'GI Days'. In addition, matching and recruitments constitute the core elements of the business of GI Group. The prior provision of intra-EU labour market information is even more evident for the EURES project beneficiaries.

The main distinctive feature of YfEj is the provision of financial support for trainings, interviews abroad and relocation allowances. YfEj financial support proved relevant in the light of the situation in which many young Europeans unfortunately find themselves nowadays.

During the project visits all project beneficiaries stressed that financial support provides young people a 'final push' to start seriously considering a job abroad. Project beneficiaries indicated that many of these youngsters would not have looked for a job abroad if such YfEj support wouldn't exist.

1.2.3 2012 European Year for Active Ageing and Solidarity between generations⁵³

The evaluation found multiple instances where the EY2012 was clearly complementary to policies implemented in MS. The EY2012 helped refining the national policy agendas on active ageing and

⁵² Evaluation of the Your first EURES job preparatory action – Published May 2014

⁵³ Evaluation 2012 European Year for Active Ageing and Solidarity between generations – Published April 2014

stimulated the exchange of good practices between countries. The EU added value of the Year is demonstrated by the evidence of volume, process, scope, agenda setting, innovation and learning effects. The EY2012 increased the number of initiatives for promoting active ageing in the MS and strengthened the knowledge and skills of stakeholders involved in the organisation of the Year. Furthermore, the EY2012 offered organisations and individuals from different MS the opportunity to become involved in national activities of another country. In countries with an existing national agenda on active ageing and intergenerational solidarity, the EY2012 strengthened the level of policy commitment and brought added value by introducing and disseminating innovations. The scope of active ageing policies was broadened in a large number of participating countries through the inclusion of new topics and a more holistic approach to active ageing and intergenerational solidarity. Whereas the issue of active ageing was previously mainly confined to health policies and/or employment policies, the issue is now addressed via multiple policy areas.

The active ageing approach promoted in the context of the EY2012 contributes to raising employment and reducing poverty and social exclusion and thus helps to meet the targets of the Europe 2020 Strategy. In the course of the EY2012 several tools have been developed for future policy development:

- Guidance for the development of better policy responses to ageing was provided through the Guiding Principles on Active Ageing, endorsed by the EU's Social Affairs Ministers on 6 Dec. 2012⁵⁴;
- Another tool for promoting the continued pursuit of the goals of the EY2012 was the development of an Active Ageing Index (AAI)⁵⁵ which measures different dimensions of active ageing and quantifies untapped potentials for each country. The Index main objective is to help policy makers to identify challenges and unrealized potentials for a more active participation of older people in the economy and society and allow the monitoring of progress.

1.2.4 The added value of ESF

Examples of concrete added-value of projects for citizens will be provided in 2015 once the ex-post evaluations are finalised. The "ESF achievements 2007-2012 - Final Synthesis Report (2014)", based on evaluation evidence or, failing this, on AIRs does provide us with some useful elements regarding the added value of the ESF in the period 2007-2013.

- **Volume effects** where ESF funding adds to existing actions. Based on the examples provided, it appears that the ESF played an important role to tackle the economic crisis in several MS as, without the additional funding, important measures would not have been developed and the mitigation of the crisis would not have been possible. Of the 27 country reports, 20 reported positive volume effects, two indicated some potentially negative displacement effects and six were unable to provide any evidence based on robust sources. In the UK, the volume effects identified include: (1) Increasing and complementing mainstream employment and training provision, including providing earlier access than would otherwise be the case; (2) Increasing the number of unemployed claimants that are able to access support (e.g. to cater for individuals not eligible for mainstream provision); and (3) Getting more claimants into employment and increasing the qualifications and skills of claimants and the existing workforce.

A key element of the volume effects was the ability of the ESF to boost provision in relation to changing needs, with a substantial increase in support for shorter term unemployed people who became unemployed at the onset of the recession;

- **Scope effects** – ESF action broadens existing action by supporting groups or policy areas that would not otherwise receive support. Out of the 27 country reports, 22 reported scope effects and 5 were unable to identify any. The country examples provided suggest that the ESF guidelines help tackling gender equality, focussing on target groups which would not otherwise be supported (such as older people (50+), ethnic minorities, prisoners, Roma people). The AIR 2012 for OP England and Gibraltar argues that ESF funding is broadening the scope of provision by: (1) Targeting groups that are not eligible for mainstream provision – or are eligible but currently have low levels of take-up; (2) Broadening the range of activities and interventions available; (3) Providing more intensive support to those individuals with the most severe barriers; (4) Providing ongoing support to enable individuals to sustain employment;

⁵⁴ Council Declaration on the European Year for Active Ageing and Solidarity between Generations (2012): The Way Forward, Brussels, 7 December 2012.

⁵⁵ <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1837&furtherNews=yes>

- **Role effects** – ESF action supports local/regional innovations that are taken up at national level or national innovative actions that are then ‘mainstreamed’. Out of the 27 country reports, 13 reported evidence of role effects and 14 could find no or little evidence. An example is Ireland where the experience of the Labour Market Activation Fund (LMAF), co-financed by the ESF, is being rolled out more widely in current and new active labour market interventions. Another example is Belgium where the MA has established a transnational exchange project to identify effective labour market interventions which are then used to develop a series of tools and models that can be mainstreamed by companies and organisations to respond to labour market issues;
- **Process effects** – ESF action influences MS administrations and organisations involved in the programmes. Of the 27 country reports: 20 generated evidence of process effects and 7 could find no or only limited evidence. Several examples suggest improved services (more client-centred), greater use of monitoring and evaluation, the influencing of administrative reforms or strengthened networks and partnerships.

1.3 Economy and efficiency of spending and non-spending activities.

According to the financial regulation (art. 30), the principle of economy required 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. 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).

DG EMPL is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented:

1.3.1 Acceleration of the Youth Employment Initiative (YEI)

The YEI followed a proposal from the COM and a high-level political call from the EC of February 2013 to address unprecedented youth unemployment in certain regions of the EU. A dedicated budget has been set aside for the YEI worth 3.2 billion, which requires no co-financing at national level. An additional 3.2 billion will originate from the ESF allocations to the MS for the 2014-2020 programming period.

It was decided that resources allocated to the YEI should be committed (frontloaded) in the first two years of the 2014-2020 period to allow speedy and substantial mobilisation of youth measures and for immediate results. Any further delays in implementation are likely to compromise actions undertaken by MS to combat youth unemployment.

The initial pre-financing rate set out in the rules for the ESF OP proved to be inadequate for the YEI, in particular as the YEI budget is frontloaded to 2014 and 2015 and it has to be absorbed at a faster rate than the ESF. The budgetary constraints faced by MS and the lack of available funding at the initial stage of the programming period caused delays in the implementation at national and regional level. Many countries raised the issue that they don't have the national budget necessary to pay advance funding to projects working with young people.

The COM worked hard to present a legislative proposal that would increase the pre-financing rate for the 3.2 billion YEI specific allocations in 2015 in order to ensure quick mobilisation of the funds. If agreed by the EC and EP, the increased pre-financing will thus amount to around 1 billion euros (30% of the specific allocation) instead of the original 1-1.5% of the specific allocation.

1.3.2 Workload Assessment within EMPL

Following the IAS audit on "DG EMPL's Performance Measurement Systems" (Dec 2013), DG EMPL initiated and completed a workload assessment (WLA) across the whole DG in 2014. The WLA: (1) provides an overall picture of the resource allocation per major type of activity; (2) ensures transparency about the current allocation of resources to activity areas and tasks at Unit level, as a basis to ensure alignment with priorities; (3) offers a better understanding of the workload related to certain processes/types of activities, e.g. EU Semester, briefings and EP questions, financial and contractual management, missions; (4) supports the measurement of the "cost of controls", presented in Section 2.1.2 of the AAR; and (5) supports the move towards improved "performance management", notably allowing to better relate resources and outputs and contributing to the efficiency and cost effectiveness analysis.

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 bi-annual reports by Authorising Officers by Sub-delegation;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from management/audit authorities in MS in shared management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the reports on control results from entrusted entities in indirect 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 managements' assurance on the achievement of the internal control objectives⁵⁶. 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.

⁵⁶ 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).

The table below presents an overview of the financial resources managed by DG EMPL in 2014:

		Commitments made		Payments made		Comments
		M€	% (execution)	M€	% (execution)	
Title 04 Employment, Social Affairs and Inclusion						
Shared Management	ESF (0402)	9445.2 (93.7% of commitment budget)	69.1%	10609,3	99.8%	The execution of 2014 commitment appropriations is significantly lower than in 2013 (96.2%) due to the ESF 2014-2020 and YEI delayed approval of some OPs. However, considering the requested non-automatic carry-over to 2015 of commitment credits related to OPs ready for adoption by the end of 2014 ⁵⁷ (EUR 2.1bn), the final consumption level of 2014 commitment appropriations will be 87.6%. The unused 2014 commitment appropriation will not be lost, but re-programmed to 2015 ⁵⁸ . The execution of the ESF annual payment budget is very high as it was last year (99.5%). A very high backlog (EUR 5.8bn) of unpaid ESF claims is transferred to 2015. 2014 interim payments made to 2007-2013 OPs amounted to EUR 9926.5 million.
	FEAD (0406)	502.0 (3.5% of commitment budget)	97.6%	409.5	100%	EUR 502m have been committed by 31 December 2014 in relation to all but 3 OPs (SE, DE, UK), for which the ISC have been closed by the end of 2014 and a carry-over request have been submitted to BUDG (EUR 12m). Initial pre-financings in the amount of €409.5m have been paid (100% of 2014 final budget after amending budget reinforcement of EUR 99m). All the FEAD OPs were adopted or ready for the adoption by the end of 2014.
	EGF (0404)	63.6 (1.2% of commitment budget)	37.8%	63.6	47.3%	EUR 45m have been committed and paid by 31 December 2014 for projects already adopted in 2014. Similar to the previous year, due to the late adoption of 4 further cases by the Budgetary Authority, the related commitments and payments could not be made by the end of the year. Therefore, a non-automatic carry-over to 2015 request for the amount of EUR 35.4m was submitted to DG BUDG on 8 January 2015.
Direct and indirect Management	Administrative expenditure (0401)	23.5 (0.2% of commitment budget)	97.2%	21.7	60.5%	The non-differentiated appropriations committed in 2014 can still be used for payments in 2015. The real execution of 2014 administrative payment appropriations will only be known at the end of 2015.
	IPA (0405)	0 (0% of commitment budget)	/	62.5	100%	All 2014 payment appropriations (after release of €7.4m for end-of-year transfer) have been consumed in 2014. At this stage of implementation, IPA II budget is completely managed by DG ELARG. Consequently, there were no new 2014 commitment appropriations for DG EMPL.

⁵⁷ OPs for which Inter-Service Consultation have been closed early in January 2015 without negative opinion

⁵⁸ MFF will be adjusted by May 2015 according to art.19 of the MFF Regulation 1311/2013

	Employment Social Affairs and Inclusion (0403)	205.2 (1.5% of commitment budget)	95.2%	167.1	96.4%	The execution of direct management commitments is higher than last year (94%). Significant improvement of payment times for direct management can be noted this year in comparison to 2013. This is reflected especially in the % use of payment credits and in the considerable reduction in the number of pending invoices. The contributions paid to the 2 agencies supervised by EMPL amounted to EUR 20.4 million for EUROFOUND and EUR 14.1 million for OSHA.
Title 13 Regional and Urban Policy						
Direct Management	Task Force for Greece (TFGR) and the Support Group for Cyprus (SGCY)	11.33 (0.1% of commitment budget)	100%	0		DG EMPL is responsible for the management of financial transactions related to the activities of the Task Force for Greece (TFGR) and the Support Group for Cyprus (SGCY) including the experts reimbursement and the contractual procedures for the implementation of the related budget.
	TOTAL	10250.9	70.1%	11333.7	99.0%	

The above table illustrates the respective importance of the different management modes within DG EMPL. Funds under shared management represent 98.4% of DG EMPL budget.

2.1 Management of human and financial resources by DG EMPL

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

For each management mode/programming period DG EMPL 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.

2.1.1.1 ESF and FEAD 2014-2020

A. Adoption of programmes and payments made in 2014

Indicator	2014
% of OPs adopted / approved (ESF)	68%
% of OPs adopted / approved (FEAD)	89%

As detailed in the above section 1.1.3, all OPs that adequately took into account the Commission's observations have been adopted in 2014. It resulted in the adoption of 128 OPs.

B. Setting up of Management and Control Systems and audit activity

Management and Control Systems

As stated in Regulation No 1303/2013 laying down common provisions on ESIF 2014-2020, in order to start with the implementation of the programmes, MS must adopt adequate measures to guarantee the proper set up and functioning of their Management and Control Systems to give assurance on the legal and regular use of the ESI Funds.

Compared to the previous programming period, this involves some new responsibilities: (1) An independent audit body must assess the fulfilment of the designation criteria⁵⁹ by the designated Managing and Certifying Authorities based on the specific criteria for internal control environment, risk management, management and control activities and monitoring; (2) Managing Authorities must draw up a management declaration and an annual summary to be reviewed and approved by the Audit Authority; (3) Audit Authorities must audit annually the accounts submitted by the Certifying Authorities and provide an opinion on whether the accounts provide a true and fair view whether the certified expenditure is legal and regular and whether the control systems put in place function properly ; and (4) Intermediate Bodies must now be formally designated.

DG EMPL, in liaison with other ESIF DGs, is currently setting up the internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions.

⁵⁹ The aim of the designation procedure is to ensure that the Managing Authority and the Certifying Authority have the necessary and appropriate Management and Control Systems' set up from the start of the period to ensure that they can fulfil the responsibilities assigned to them under Articles 125 and 126 CPR respectively and Articles 23 and 24 ETC.

Delegated and Implementing Acts, Guidance notes

Following the adoption of the Common Provisions Regulation (CPR) at the end of 2013, a substantial amount of work was done in 2014 to prepare the secondary legislation required by the CPR and guidance notes required to assist MS in the preparation of their national arrangements.

The Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 covering a number of empowerments relevant for the Management and Control System (MCS) entered into force on 5 May 2014. It notably covers the data to be recorded and stored in the IT on operations, MCS for financial instruments, methodology for selection of samples, and the criteria for determining serious deficiencies in the effective functioning of MCS and financial corrections.

Two Commission Implementing Regulations **covering empowerments on MCS provisions** have been adopted in 2014. These cover rules on (1) the terms and conditions applicable to the electronic data exchange system between the MS and the Commission and on the exchange of information between beneficiaries and Managing Authorities (e-cohesion), (2) the models for the description of systems and Independent Audit Body report and opinion for the designation process, payment applications, accounts, management declaration, audit strategy, annual report and audit opinion. However, substantial work in the preparation of other implementing acts was also made, such as on the preparation of the Implementing Regulation (EU) 2015/207 of 20 January 2015 laying down detailed rules on the management declaration, the audit strategy, the audit opinion and the annual control report.

In addition, several working groups with auditors from Directorates General EMPL, REGIO and MARE have been set up to produce guidance notes on various topics of interest for the Managing and Audit authorities. These guidance notes have been discussed with MS Authorities at the EGESIF meetings.

In 2014, three guidance notes have been adopted concerning Fraud risk assessment, Designation of authorities and Systems assessment. The other guidance notes, to be adopted in 2015, cover Audit strategy, Management verifications, Accounts, Management declaration/annual summary, Annual Control Report and audit opinion, financial corrections and Simplified cost options.

Further to the simplification seminars already conducted in the large majority of MS since 2012, DG EMPL has already started in 2014 a new series of targeted seminars in order to further encourage MS to fully leverage the utilization of the enhanced simplified cost options and Joint Action Plans in the 2014-2020 programming period, which should result in lower administrative burden for beneficiaries, improved implementation and focus on results and lower error rates. This new series of seminars has already taken place in Italy, France, Ireland and Malta in 2014. Further seminars are planned for 2015, focusing particularly on MS where simplification has not been fully used in the previous programming period and those experiencing recurring high error rates.

Regarding FEAD, the Commission delegated regulation 532/2014 was adopted in March 2014, containing information about 5 FEAD empowerments, related to the information to be recorded and stored in computerised form, the minimum requirements for the audit trail, the scope and content of audits, the use of data during audits, and the detailed rules containing serious deficiencies.

Audit strategy

The single audit strategy for the ESF, FEAD, ERDF, Cohesion Fund and EMFF for the 2014-2020 programming period has been agreed in April 2014⁶⁰.

During the preparation and first years of implementation of the 2014-2020 programming period (2014-2015), the audit plan will focus on the designation process and the reliability of the performance data, which is essential in order to support effective performance measurement and monitor the achievement of results.

⁶⁰ For further details on the 2014-2020 single audit strategy, see DG EMPL AAR 2013 (Annex 8): Extracts from the outline for a single audit strategy for ERDF, ESF, CF and EMFF for the programming period 2014-2020 and joint audit plan 2014-mid 2015.

Based on a risk assessment, the designation packages to be requested by the Commission for a desk review have been identified. Depending on the results of the desk review, fact finding missions or early preventive system audits will be launched in 2015. This audit work will take place in 2015 as soon as the MS have communicated the designation of the programmes authorities and intermediate bodies to the Commission.

As the regulation largely focuses on outputs and results, MS need to implement systems capable of providing complete and accurate performance indicators and demonstrate the achievement of the milestones agreed in the operational programmes. DG EMPL has planned audits on the reliability of the systems for reporting performance data in the very early stage of the programming period. A first audit took place in December 2014 for the Youth Employment Initiative programme in France. This audit was launched in order to assist the Managing Authority in identifying at an early stage any areas of risk or non-compliance. A draft report has been sent to the MS issuing certain important recommendations and close follow-up will be assured.

As from 2016, the audit activity will then mainly focus on obtaining assurance on legality and regularity of expenditure included in the accounts from the assessment of the "assurance package", due annually, starting from 15 February 2016. This will be achieved in two steps, a first one focusing on the examination of the accounts, to be completed by 31 May each year, and a second step focusing on risk based audit work to be conducted in the second half of each year in order to ensure legality and regularity.

C. Conclusion

The adoption of those OPs resulted in the payment of initial pre-financing amounting to EUR 613 million (of which EUR 34 million on YEI) for the ESF and EUR 409.5 million for FEAD. As those amounts only refer to initial pre-financing, they shall be totally cleared from the Commission accounts not later than when the programme is closed, and therefore no risk is attached to those payments made in 2014.

2.1.1.2 ESF 2007-2013

Materiality criteria (control objective) and reservation

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. 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 (as validated by DG EMPL) calculated since the beginning of the programming period, after deduction of recoveries and withdrawals resulting from both MS and COM audit work, 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 of the annual activity report⁶¹. 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. Furthermore, reservations are made for programmes where the validated error rate for the year concerned equals or exceeds 5%. Exceptions, if any, are disclosed and the underlying reasons explained.

⁶¹ Only ex-post corrections are taken into account for the calculation of the CRR

Procedures and controls for optimizing economic, efficient and effective implementation of programmes

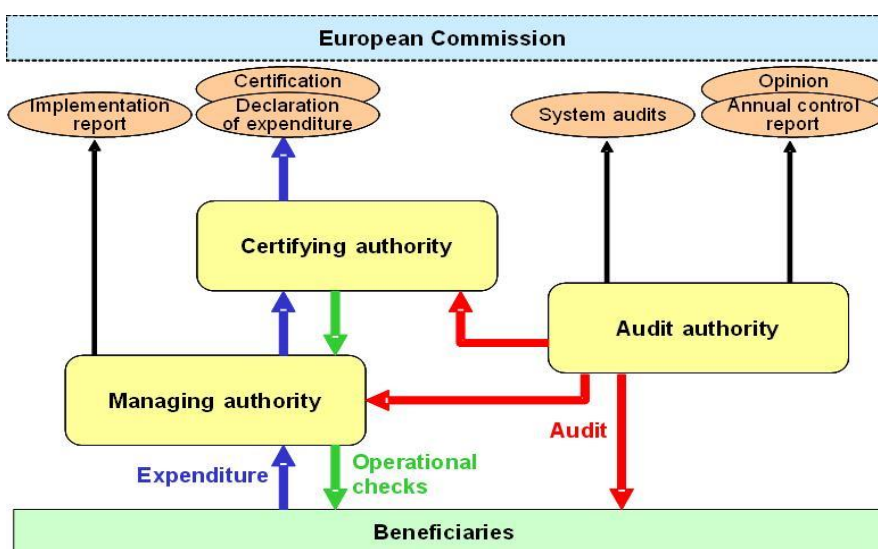
Different sources of information are used to build up the Director-General's annual declaration of assurance that the resources assigned to the activities have been used for the intended purpose and in accordance with the principle of sound financial management, and that the control procedures put in 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 programme⁶².

For shared management and the ESF in particular, the control system is built on a multiannual and multilevel control whereby one level of control may rely on the work of previous controls performed by other bodies (single audit approach).

The assurance as regards the legality and regularity of operations is built on work carried out at two levels:

1. At Member States level, the daily control framework is the following:



- The Managing Authority performs management verifications, both documentary on all payment claims and on the spot checks on sampled operations;
 - The Certifying Authority relies on this first level of verification before certifying the legality and regularity of expenditure declared to the Commission. It takes steps to satisfy itself that adequate controls have been made by the Managing Authority, including carrying out its own checks when necessary;
 - The Audit Authority has the responsibility to develop an audit strategy in order to perform audits of the management and control systems and audits of representative samples of operations. The Audit Authority provides the Commission with its results on an annual basis in an Annual Control Report, which includes an annual audit opinion on the functioning of the systems and the error rate resulting from sampling.
2. At Commission level, the way in which DG EMPL defines its assurance for the management and control systems for each operational program is a process based on the internal control procedures implemented within DG EMPL (role of the geographical desks and ESF Financial Cell) and the analysis and evaluation of information acquired through various sources:

⁶² Assurance derives from the combination of controls exercised of which a more detailed description can be found in Annex 5.

From the various audit sources, based on the application of the single audit approach:

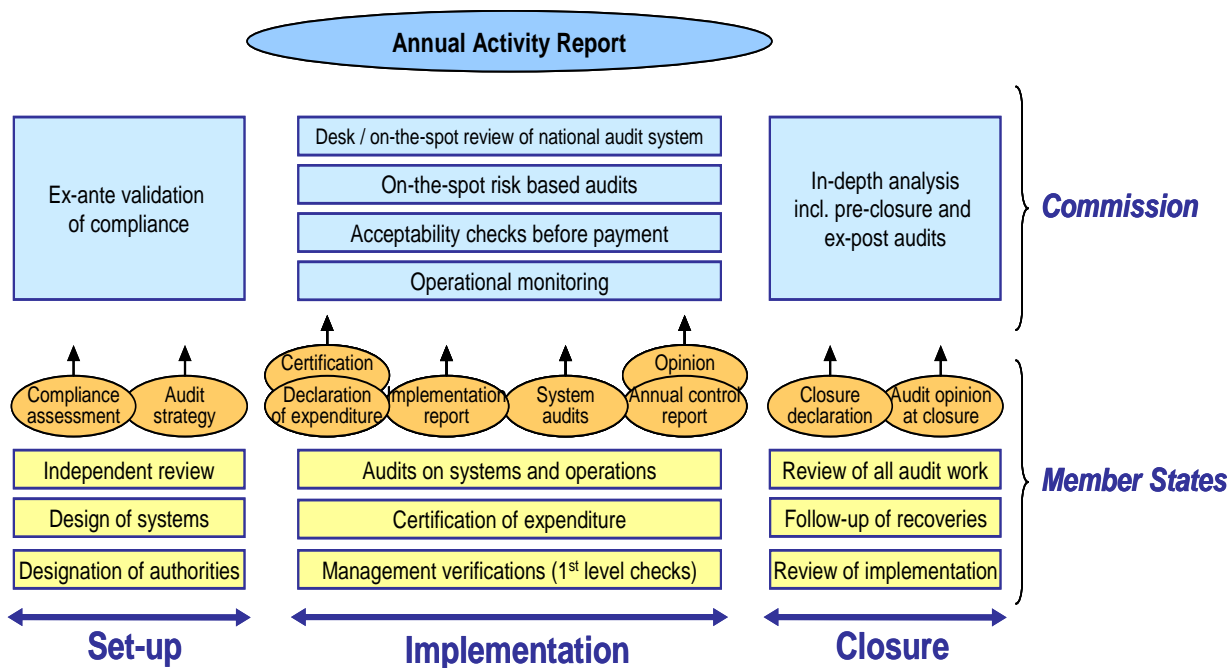
- National audit reports;
- The National Annual Control Report and Audit Opinion;
- DG EMPL's audit work on the review of the quality of the Audit Authorities;
- DG EMPL's system audits;
- Relevant audit information received from DG REGIO, DG MARE and/or the ECA;
- OLAF.

From any other source of information, formal or informal, acquired by the geographical units in the context of their day-to-day management of the programmes, for example:

- Annual implementation reports from the MS;
- Monitoring committees and annual meetings;
- Contacts with regional and national programme managers.

Through the **single audit approach**, notably with the Annual Control Reports and Audit Opinions from the national/regional Audit Authorities for each operational programme, all OPs are covered by audit activities. The entire audit work and the analysis of national audit reports and other guidance activities result in an Annual Audit opinion for each Operational Programme. They form the basis for management opinions by the Authorising Officers by Sub-Delegation.

Schematically, the following diagram outlines the Assurance building process:



The following points form the building blocks behind the assessment of DG EMPL's management towards reasonable assurance:

A. Analysis of the Member States' Annual Control Reports (ACRs)

Indicator	2014
Number of programmes with a reported error rate assessed as reliable (unchanged or re-calculated)	104 (88.1%)
% of the expenditure on which the Commission can rely on the work of the audit authorities (based on ACRs unchanged or recalculated error rates)	77.9% of 2014 payments
Weighted average error rate as reported by MS	1.9%
Weighted average error rate after Commission analysis	2.8%

Analysis of the ACR audit opinions⁶³

The first sources of information are the Annual Control Reports (ACRs) and the opinions submitted by the programmes' audit authorities (AAs) and covering all programmes.

Up to date, ACRs were received for 116 ESF programmes, the ACRs for DE-Bremen and ES-Andalucía being still missing. The ESF Audit Directorate analyses these reports and opinions within 2 months of the date of submission. Following an analysis of the report, a reply is transmitted to the National Authorities.

The objectives of the assessment of the ACR and annual audit opinion are:

1. to determine whether the audit opinion and report are prepared following the format set out in Commission Regulation (EC) No 1828/2006 annex VI and VII;
2. to obtain relevant information concerning the implementation of the audit strategy and gain an understanding of the level of assurance allocated to the management and control systems and corresponding annual audit opinion for the relevant OP;
3. to confirm that the above level of assurance and the opinion are consistent and based on reliable audit work;
4. to enable the auditor to prepare the annual audit opinion, which will in turn contribute to the management opinions to be included in the DG's Annual Activity Report;
5. to update the risk assessment.

Generally it can be concluded that a significant number of ACRs and Audit Opinions received are of acceptable quality and have been prepared in line with the guidance issued by the Commission.

The AAs expressed the following audit opinions⁶⁴ in their ACRs:

- unqualified for 76 programmes (65.5% of programmes and 57.3% of the amount of 2014 interim payments);
- qualified for 36 programmes (31.0% and 41.3% respectively);
- adverse for 4 programmes (3.5% and 1.4% respectively).

Analysis of the ACR error rates

The MS have reported error rates below 2 % in 84 cases (71.2%); 20 error rates between 2 % and 5 % (16.9%); and 14 error rates above 5 % (11.9%).

DG EMPL's Audit Directorate thoroughly reviewed the calculations made by the AAs so as to ensure reliability, consistency with the guidance and provide representative consolidated figures.

In order to improve the capacity of the Audit Directorate to analyse the ACRs and ensure a consistent approach, as in previous years, a training on sampling was organised for DG EMPL's auditors in December 2014 and the trainer was also present 2 days in January 2015 during the period of analysis of the ACRs in order to help the auditors to tackle specific issues related to statistical sampling.

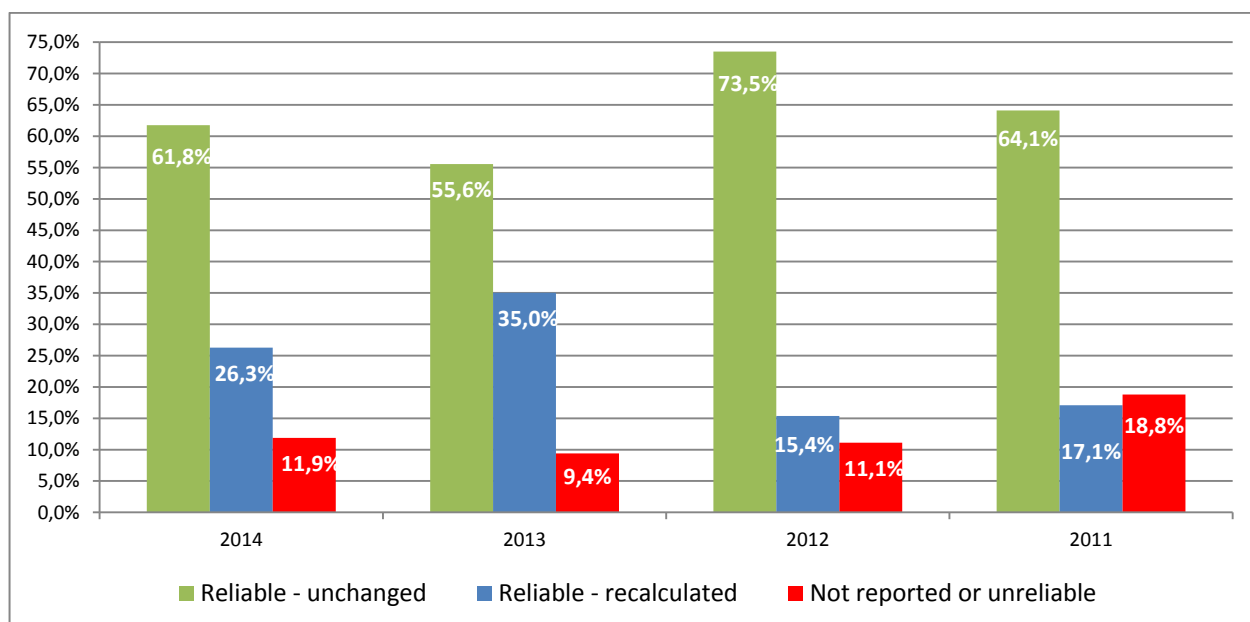
Following a desk review of all the ACRs received, 22 fact finding missions took place in February/March 2015 in order to clarify issues detected and to validate the results provided by the Audit Authorities concerned. These fact finding missions took place in BE, BG, CZ (2), DE (3), ES (5), FR, GR, HU, IT (4), PT, SK and UK-England. They covered 37 operational programmes representing 55.9 % of the payments made by the Commission in 2014. In addition, 1 audit mission in PL reviewed the work of the AA regarding the ACR 2014 and 1 fact-finding mission by DG REGIO's auditors in LV covered also the ESF programme. Some bilateral meetings also took place in January with the AAs of LT, NL and RO. Taking into account these additional meetings and fact-finding missions, 44 programmes from 17 MS representing 75.5 % of the 2014 payments have been covered.

DG EMPL assessed the reliability and correctness of all projected error rates reported by the AAs, based on data and detailed information provided in the ACRs or subsequently requested from AAs.

⁶³ In accordance with Article 62 (1)(d) of Council Regulation (EC) No 1083/2006, the Audit Authorities are responsible for submitting to the Commission, by the 31st of December each year (2008 to 2015), an Annual Control Report accompanied by an audit opinion

⁶⁴ Annex 10: Table showing the Member States' national audit opinions (in the ACR) per MS

The results of this assessment are represented in the chart below:



The Commission has in place a robust and thorough process to analyse the error rates reported by MS. When it cannot validate or recalculate error rates, the Commission estimates the level of risk by using flat rates (2-5-10-25 %) instead of unreliable reported error rates for the purposes of its assurance process. It is the case for 14 OPs in 2014.

In addition, 31 error rates have been adjusted. However, this does not imply that the Audit Authorities carried out their audit work incorrectly. Indeed, the ACRs were providing all the necessary information but the error rates had to be adjusted for purely technical reasons in a complex environment of statistical rules (clerical mistakes, inappropriate statistical extrapolation method used, treatment of some 'anomalous errors' wrongly excluded ...). It has to be noted that among these 31 cases, the adjustment of the error rate was rather low in 17 cases (between - 0.16% to +0.21%)⁶⁵.

The resulting range of the best estimate of the error rates following Commission adjustments (validated error rates) is disclosed in the table below:

RESULTS	Best estimate Error rates					
	Number of programmes			2014 interim payments		
<=2%	68	57.6%		5.455.177.566	55.0%	
2-5%	23	19.5%		1.961.652.030	19.8%	
5-10%	16	13.6%	22.9%	2.164.527.311	21.8%	25.2%
>=10%	11	9.3%		345.128.036	3.4%	
	118	100.0%		9.926.484.943	100.0%	

Based on the analysis of the 2014 ACRs, the programmes with an error rate above 5% represent 22.9% of the number of programmes and 25.2% of the 2014 interim payments.

This represents an increase compared to last year:

	ACR 2014		ACR 2013	
Error rates - number of programmes				
<=2%	57.6%		50.4%	
2-5%	19.5%		30.8%	
5-10%	13.6%	22.9%	7.7%	18.8%
>=10%	9.3%		11.1%	

⁶⁵ See annex 10 (section G) for further details.

	100.0%		100.0%	
Error rates – interim payments				
<=2%	55.0%		59.2%	
2-5%	19.8%		29.6%	
5-10%	21.8%	25.2%	7.6%	11.2%
>=10%	3.4%		3.6%	
	100.0%		100.0%	

It should be noted that the increase in the volume of payments in 2014 to OPs with error rate higher than 5 % is mainly due to the Greek and Hungarian programmes. The Greek programmes represent 11 % of the 2014 ESF payments, for which flat rates of 5 % have been applied. This is due to the fact that the Greek authorities, as allowed by the regulations, have grouped all ESF, ERDF and CF operational programmes under one single statistical sample in order to limit the amount of audit work required to produce the Annual Control Report and Audit Opinion for those OPs. Whilst this single statistical sample has produced an overall representative error rate of 1.9 % for all OPs of the three Funds concerned, the specific coverage of the 4 ESF OPs, for which payments in 2014 have totalled nearly €1.1bn (and €3.3bn on a cumulative basis), is limited. Therefore, and taking also into account the different nature and risk factors of the ESF operations, beneficiaries and intermediate bodies for these OPs, DG EMPL has decided to take a precautionary position and apply flat rates of 5% for the ESF OPs for the purposes of its own 2014 AAR assurance process. The ESF coverage requirements and other related issues are being discussed and addressed in close cooperation with the Greek authorities in order to solve them in 2015, in particular in view of the need to achieve sufficient audit assurance for the declarations to be provided at closure for each operational programme. Similar issues are being addressed in a limited number of other OPs which have been covered by the relevant Audit Authorities under joint statistical samples in order to ensure sufficient coverage for those OPs at closure. The Hungarian programme represents 8.5 % of the 2014 ESF payments for which a 5 % flat rate has also been applied on the basis of a national audit report indicating a potential systemic issue at the level of the selection of projects in the MA.

From the above ACR analysis, DG EMPL concludes to the following:

- The **impact of the Commission analysis of error rates** reported by the AAs leads to an increase of 0.9 % of the 2014 weighted average error rate (on 2014 payments). It results in a validated weighted average error rate of 2.8 %.
- Applying the calculation of the upper limit with a confidence level of 98 % gives a precision interval of 1.2 %. This results in an average error rate for ESF in the **range of 2.8 % to 4.0 %** for 2014.

As the error rates reported in the 2014 ACRs relate to the 2013 declared expenditure, when applied to 2013 interim payments, the validated average error rate amounts to 3.1 % which is in the range previously disclosed in the 2013 AAR (2.6 to 3.5%). This is fully consistent with the error rate of 3.1 % reported by the ECA in its 2013 report for the Employment and Social Affairs chapter, which confirms the reliability of the methodology applied by DG EMPL.

B. Annual summaries and national declaration

Annual summaries

The submission of annual summaries of payments and audit results by 15 February each year is an obligation for MS under the previous Financial Regulation. This requirement runs until the end of the implementation of the 2007-2013 programming period. The Commission strongly recommended MS 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 MS level, diagnosis of problems and their solutions and description of best practices). MS are reluctant to provide such information in the annual summaries since it is a duplication with what is provided in the annual control reports for each individual programme.

For 2014, all 28 MS have complied with the minimum requirements of the Financial Regulation regarding the information to be provided. Some MS have followed the Commission's recommendations by providing a voluntary overall analysis at MS level (19) 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 MS. Information per MS is disclosed in Annex 10.

National declarations

Four MS - **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 MS 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 MS more transparent and help identify changes which are needed to make the system more effective, where necessary⁶⁶.

A national declaration from **the Netherlands** was issued in March 2015. The Directorate-General notes that the reference period for the national declaration is 1 January 2013 to 31 December 2013 for the functioning of systems and therefore provides some additional assurance for the 2013 AAR. The declaration thus confirms the assessment made by the Directorate-General in its 2013 AAR.

The national declarations of Sweden and Denmark relate to 2013 expenditure. **Sweden** submitted the 2013 national declaration in June 2014. The information in the national declaration is consistent with the information in the annual summary received in February 2014. The national declaration for 2014 is due to be submitted by July 2015. A national declaration for 2013, published in November 2014, has been produced by **Denmark**. An unqualified opinion was issued in relation to the general financial statement of EU revenue and expenditure for 2013. The national declaration provides additional assurance on top of the audit work carried out by the national audit authority and the Commission auditors for the 2013 expenditure. For year 2014 expenditure the national declaration is expected in November 2015. No national declaration from the **UK** has been issued since 2012 (see details on the 2012 national declaration in the AAR 2013).

C. Audit Activity of the DG

Indicator (programming period 2007-2013)	2014
Audit coverage of Audit Authorities (number of AAs – cumulative basis 2007-2013)	94.6%
Commission assessment of reliance on Audit Authorities	86.4%

Audit missions

DG EMPL's audit strategy aims to provide reasonable assurance that the management and control systems established by MS comply with the requirements of the regulations and are functioning effectively (see annex 8 for a summary of the audit strategy).

In 2014, the audit plan was fully implemented with 87 missions performed by EMPL auditors for the ESF 2007-2013 programming period.

⁶⁶ 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 has introduced recommendations in 2014 for these declarations as well as the elements they should as much as possible include in order to make them useful for the Commission's own assurance process (see these recommendations in COM(2014)688 – *Communication from the Commission to the European Parliament and the Council and to the European Court of Auditors on the adoption of the inter-institutional working group recommendations for the establishment and use of national declarations*).

Below is an overview of audit missions carried out over the last four years.

EMPL audit missions		2014	2013	2012	2011
2007-2013	System audits	6	16	14	11
	AA review + ACR re-performance	18	20	22	42
	Article 73	9			
	Financial corrections	14	1	9	6
	FEIs	1		3	4
	Management Verifications	9	8		
	Fact findings ACR	20	15	10	
	Follow-up and Other	10	10	11	6
	Total 2007-2013	87	70	69	69

The audit missions performed in 2014 focused on the following main topics:

- The enquiry related to the Audit Authority review and the ACR re-performance is one of the key elements providing assurance to DG EMPL that the results of the ACRs from the AAs are reliable and to apply the single audit principle, so that reliance can be placed on those results. In 2014, 18 missions took place.
- A new specific enquiry has been developed for the review of Audit Authorities to which Article 73 has been granted in previous years in order to check that the Commission could continue to rely on the AA concerned. In 2014, 9 missions were performed of which 3 related to AAs to which DG EMPL gave the article 73 and 6 for which the Art 73 status was granted by DG REGIO DG EMPL participated in these missions in order to review the work of the AA with a view of a possible granting of the article 73.
- For 25 (out of 36) programmes in the 2013 AAR reservation, an audit mission was performed in 2014. Depending on the issues identified for each programme, the nature of the audit work carried out related either to (i) fact-finding, (ii) follow-up, (iii) system and projects audit, (iv) recovery audit or (v) a review of the AA. For some programmes, the deficiencies had been cleared without the need of conducting a new audit (financial correction applied for BE-Wallonia). For 4 OPs, the audit took place in the fourth quarter of 2013 and the follow-up is already planned in early 2015 for another 5 programmes.
- The management verifications conducted by MS, which constitute the first line of defense in order to ensure legality and regularity of the underlying transactions, are one of the main weaknesses of the Management and Control systems identified by both the Commission and the Court of Auditors in their annual reports. The thematic audit on management verifications, initiated in 2013, has been pursued in 2014 with 9 additional missions. Recommendations and, where applicable, interruption and suspension procedures⁶⁷ have been initiated for those programmes showing areas of non-compliance or weak verifications.
- As the financial corrections (withdrawals and recoveries) are an important element taken into account to calculate the residual risk of error of each operational programme, and in view of the preparation for the closure of the programming period, 14 audit missions took place in 2014 to check the reliability of the information reported by the certifying authorities. An audit report, summarising the main findings of these missions, will be issued in 2015.

⁶⁷ **An interruption** (article 91 of Reg 1083/2006) is a preventive measure made by the AOD following an audit report for each payment claim. Payments have to be proceed after the 6 months interruption period or a suspension has to be taken in due time. / **A suspension** (article 92 of Reg 1083/2006) is a formal Commission decision covering all or part of an operational programme on the basis of serious deficiencies detected in the management and control system.

- And finally, a specific mission, jointly with DG REGIO, took place regarding the Financial Instrument set up in Poland.

For the main Enquiry Planning Memorandums, the results are:

Input	Realised	Results	
			opinions
AA review /ACR re-performance and article 73	27	Unqualified	7
		Qualified with minor observations	17
		Qualified with significant observations	3
		Adverse	
System audits	6	Unqualified	
		Qualified with minor observations	3
		Qualified with significant observations	2
		Adverse	1
Financial corrections	14	Unqualified	3
		Qualified with minor observations	11
		Qualified with significant observations	
		Adverse	
Management Verifications	9	Unqualified	
		Qualified with minor observations	5
		Qualified with significant observations	4
		Adverse	

On a multiannual basis, almost all the Audit Authorities have been covered through AA reviews and **ACR re-performance audits**. At the end of 2014, 87 AAs out of 92 have been audited (94.6 %). They cover 113 out of 118 operational programmes representing 99.1 % of the financial programming of the 2007-2013 period.

Using also the results of other sources of assurance, it allows for an assessment of most AAs in the annual audit opinion:

Reliance on AA	Number of programmes	
Unqualified	19	16.1%
Qualified, minor observations	83	70.3%
Qualified, significant observations	13	11.0%
No opinion	3	2.6%
	118	100.0%

The results of the audit work are used by the Commission to assess whether it can rely principally on the opinion of the Audit Authority with regards to the effective functioning of the systems, so that it will carry its own on-the-spot audits only if there is evidence to suggest shortcomings in the system affecting the expenditure certified to the Commission. In application of the article 73 of the Regulation 1083/2006, DG EMPL has informed in 2014 two additional Audit Authorities (LV, PT) that it will mainly rely on their opinion. In total, 12 Audit Authorities fulfil the conditions for article 73 (BE (2 AAs), DE (4), ES (1), IT (2), NL (1), LV (1) and PT (1)). In addition, 1 Audit Authority (IT-PON GAS) has been granted the same reliance on the basis of the article 74 of the Regulation 1083/2006.

The decision under article 73 does not prevent the Commission from carrying out audit work on the spot for these programmes and Audit Authorities as it remains responsible for ensuring the legality and regularity of the underlying transactions. A specific enquiry on **monitoring of article 73** has been developed and 9 missions took place in 2014 of which 7 were common with DG REGIO. 3 Audit Authorities to which DG EMPL has granted the article 73 have been audited and the results confirm that these AAs continue complying with the key requirements. For the other missions, DG EMPL accompanied DG REGIO which had already granted articles to the AAs concerned, with the aim for DG EMPL to check if the AAs fulfilled the conditions for article 73 also for the ESF. On this basis, the PT audit authority has been granted the article 73 at end December and possibly 2 additional AAs will be granted the article 73 in 2015 after the review of the ACR.

In line with the single audit principle, the ACRs are an important source of assurance. However, the Commission auditors may not, in line with International Audit Standards, solely rely on these reports, and must confirm the national results with their own audits.

For programmes which continue to show high risks, DG EMPL's Audit Directorate carries out **system audits** – possibly with a limited scope – to bridge any assurance gaps which may exist and

also to determine the measures needed to counter identified weaknesses. This is determined on the basis of the risk-analysis at OP level in combination with an evaluation of the level of assurance obtained from the national auditors.

The main findings in system audits concern: selection of operations, inadequate management verifications, lack of audit trail, unreliable IT systems, flaws in the certification process, insufficient reliability of the national system audit reports, breaches in public procurement and ineligibility of expenditure.

Management verifications conducted by MS continue to be a key issue. As highlighted by the ECA in their 2013 Annual Report, for 1.3 % (41%) of DG EMPL's 2013 error rate, managing authorities could have detected and corrected the errors if effective management verifications had been made. The **Management Verifications audits** performed in 2014 by DG EMPL confirmed the following main weaknesses, already identified in 2013, in the execution of these controls: the formal nature of management verifications, insufficient verifications of public procurement procedures, insufficient structure/organization of the managing authority or intermediate body, lack of training and supervision in case of delegation of responsibilities, management verifications carried out after the certification of expenditure and insufficient guidance and training for beneficiaries. The 'overview report on the results of the thematic audit on management verifications conducted by MS', published end 2013, was presented to the MS during the ESF Technical Working Group in 2014.

The aim of the audits on **Financial corrections** (withdrawals and recoveries) is to obtain the assurance that the information reported by the MS is reliable, as this information is used for the calculation of the Cumulative Residual Risk (CRR) and therefore contributes to the Director General's assurance declaration, reflecting the corrective actions taken by the MS as a follow-up of deficiencies detected through national and EU audits. The 14 missions performed in 2014 covered more than 80 % of the amounts reported by MS. From the 14 missions, various minor issues were identified, some concerning the reporting of withdrawals and recoveries, some insufficient or lacking documentation and some weaknesses in the relevant procedures.

A mission on **Financial Instruments** took place in Poland, jointly with DG REGIO, focusing on the compliance with regulations and guidelines as well as compliance with the sound financial management principles.

All this DG EMPL's audit work has been taken into account in addition to the analysis of the ACRs to build the audit opinion for each programme.

Other audit activities

- The **bilateral coordination meetings** with MS are an opportunity to review the ACR and Annual Opinion, as well as national audit reports and to exchange information on planned audit work and update of the risk assessment. Any significant issues arising from the bilateral coordination meetings have been included in the audit opinions for each OP.

Furthermore, DG EMPL's Audit Directorate also analyses system audit reports of national audit authorities. In 2014, 309 **national audit reports** were received. The results are taken into account in DG EMPL's audit opinions.

- Concerning **MS with persisting problems**, the aim of DG EMPL is to move further from the need to correct recurring errors to a situation where errors are avoided. This is particularly important for MS where financial corrections have been the highest in recent years, such as **Spain, Italy and Romania**.
 - Considering the important and recurring number of reservations related to the Spanish programmes, in 2011 DG EMPL decided to launch a targeted action plan towards the Spanish ESF implementing authorities, in particular to stimulate the full use of all simplification opportunities offered by the EU regulation and to remove unnecessarily more stringent national eligibility rules ("gold plating"). A working group composed of audit staff and geographical desk officers was created to monitor the effective implementation of the agreed actions. Additionally, seminars on State Aid, simplified cost options and anti-fraud were organised in 2014. Andalucía authorities were strongly encouraged to use Arachne, a data-mining IT system developed by the Commission in order to support MS in their antifraud activities, which they agreed to, and the implementation of the tool is on-going with the assistance of DG EMPL audit and IT staff. In addition, Andalucía has decided to create an anti-fraud office;

- Similar activities have been undertaken in Italy where a seminar on simplified costs and an anti-fraud seminar were organised in 2014 in cooperation with the national authorities. It is anticipated that during the course of 2015, a capacity building action will be undertaken focusing on State Aid;
- In order to address the root causes of the recurring problems identified in Romania, DG EMPL is working together with national authorities in order to strengthen their management and control systems and closely following up on the implementation of the agreed action plan. DG EMPL is also supporting the RO authorities in the implementation of simplification and the use of Arachne.
- Following the update of **the Guidance on sampling methods for audit authorities** and on the basis of the analysis by the Commission of the 2013 ACRs, further clarifications have been provided on sampling issues and treatment of errors at the Homologues Group meeting in September 2014 and in a note to the AAs issued in the beginning of 2015.
- In 2014, DG EMPL continued to actively promote the use of **Simplified Cost Options (SCOs)**. Seminars took place in Italy, France (Paris and Guadeloupe), Ireland and Malta to promote the use of Simplified Cost Options, as a way to further reduce the risks of errors in the legality and regularity of the transactions, notably in the context of the preparation of the next 2014-2020 programming period. To give a complete view of the impact of using such simplified cost options, the Audit directorate also explained during these seminars the impact on the audit work when using simplified costs and the significant potential they have to further contribute to a reduction of the error rate. In addition, an updated guidance note for the MS on SCOs was finalised in September 2014 and an Italian case study on the implementation of SCOs in the 2007-2013 programming period was published in 2014. DG EMPL intends to continue supporting MS in 2015 in order to optimise the use of SCOs in the current programming period.

D. Annual audit opinion of the DG

Based on the above blocks of information, and as a result of the Commission desk and on the spot audit work (detailed under section B), the Audit Directorate of DG EMPL expresses an audit opinion on the effective functioning of each programme so as to ensure legality and regularity of expenditure paid by the Directorate General in 2014. These audit opinions are transmitted to the geographical units concerned as a key input for their management opinion which is also formulated for every programme.

On the basis of the analysis of the ACRs received at end 2014, in addition to the audit work performed, EMPL auditors have provided the management with their audit opinion for 2014:

EMPL Audit opinion	No. of OPs	as %	
		of No. of OPs	of 2014 payments
- unqualified	21	17.8%	11.5%
- qualified with moderate impact	63	53.4%	58.7%
- qualified with significant impact	29	24.6%	28.0%
- adverse or disclaimer	5	4.2%	1.8%
	118	100.0%	100.0%

E. Interruptions/suspensions of payments

In 2014, DG EMPL continued to apply the strict policy on interruption and suspension of payments decided by the Commission in the framework of the 2008 Action plan to strengthen the Commission's supervisory role under shared management of structural actions⁶⁸ in order to safeguard EU funds. Under this policy, in accordance with DG EMPL's Vade-mecum of operational procedures on "*Interruption of the payment deadline, suspension of interim payments and financial corrections*"⁶⁹, the detection of serious system deficiencies or irregularities immediately triggers the interruption of the legal deadline for executing the related interim payments or the suspension of payments to all or part of the affected OP.

⁶⁸ COM(2008) 97

⁶⁹ Adopted by the PMB at 8 November 2012

While the AAR reflects a management evaluation of programmes, the follow-up to reservations is the result of a legal assessment, made on each file individually, which could result in a decision to interrupt or suspend interim payments, leading, where necessary, to a financial correction implemented by the MS or decided upon by the Commission.

Interruptions and suspensions are only terminated on the basis of reasonable assurance on the implementation of an action plan including corrective measures and/or after financial corrections have been implemented. Financial corrections need to be included in a payment claim submitted to the Commission or agreed with DG EMPL, in particular on the basis of audit evidence provided by the national audit authority or by an DG EMPL (follow-up) audit, and after examination of the case by the Senior Management of DG EMPL, to ensure consistency, transparency and equal treatment.

Within DG EMPL, this process is formalised through the work of the Interruptions-Suspensions-Financial Corrections Committee (ISFCC), chaired by the Director-General and of which the two ESF Directors and the Audit Director are members. The committee meets on a monthly basis, analyses the cases brought to its attention, takes the appropriate decisions and monitors their effective implementation.

The tables below show details of the interruptions and suspensions procedures decided during the reporting year:

Number of Decisions in 2014				
	Warning letters	Interruptions of payment	Pre-suspension letters	Suspension decisions
BE	1		1	
CZ		1		1
DE	1	1	1	
EE	1			
ES	4	13	10	9
FR		3	1	
IE	1			
IT		9	3	1
SK		2		
UK	3	2	2	
Total	11	31	18	11

Number of Decisions in first quarter of 2015 (state of play 20/03/2015)				
	Warning letters	Interruptions of payment	Pre-suspension letters	Suspension decisions
DE		3		
ES		8	1	
FR		1	1	
HU		2		
IT		2	1	
RO		1		
SK		2		
UK		5		
Total		24	3	

The two tables above show the number of decisions taken in 2014 and 1Q 2015 by type of decision and MS.

In 2014, DG EMPL decided to lift suspensions of payments for 2 OPs (concerning suspensions decided in previous years), to discontinue procedures without adopting a suspension decision for 6 OPs for which pre-suspension letters had been previously sent, to lift interruptions of payment deadlines decided for 3 OPs and warning letters sent for 4 OPs without the need to proceed to a pre-suspension.

The following table shows the state of play at the end of 2013, 2014 and 1Q 2015, according to the stage that a procedure has reached by that moment. The numbers reflect the latest state of play of

each procedure. When, for example, for a suspended OP, several decisions to interrupt payment deadlines had been taken prior to the adoption of the suspension decision, these decisions are not reported in the table as they relate to the same weaknesses as the subsequent suspension decision. In this way, the total shows precisely the number of OPs affected by a known problem of the management and control system at the given moment in time.

Number of OPs affected by procedures at a moment in time:

	End 2013	End 2014	State of play 20/03/2015
Warning letter	3	1	0
Interruptions	2	3	11
Pre-suspensions	6	4	4
Suspensions	10	18	16
Total	21	26	31

The detail of the interruptions of payment deadlines decided by DG EMPL in 2014 and 2015-Q1 as well as of suspension decisions adopted during the same reference periods are listed in Annex 10.

F. Financial corrections⁷⁰, withdrawals and recoveries 2007-2013

Indicator	2014
Corrections made resulting from Commission audit work (accepted/decided)	EUR 209 million
Corrections made resulting from Commission audit work (implemented)	EUR 155.9 million

The purpose of financial corrections is to restore a situation where all the expenditure declared for co-financing from the Structural Funds is in line with applicable regulations.

Financial corrections carried out by the Member States at the Commission request

A financial correction must be based on evidence. The Commission bears the (initial) burden of proof for systems deficiencies, irregularities and breaches of the obligations under Articles 98 and 15(4).

The principal sources of evidence are:

- DG EMPL audits (audits by the Audit Directorate or on its behalf);
- Reports by national audit bodies (annual control report and audit opinion submitted according to Article 62(1)(d)(i) and (ii) of Regulation (EC) No 1083/2006 ; national audit reports);
- Audits by the European Court of Auditors (ECA);
- OLAF final case reports.

Following this methodology the reporting of financial corrections provide only information on amounts of financial corrections carried out by the MS at the Commission request resulting from EU bodies audit work.

Financial corrections accepted/decided in 2014 relating to the 2007-2013 programming period

Financial corrections are reported as "accepted/decided" on accrual basis after the commitment of the MS to correct the payment claim by deducting the irregular amount from the declared expenditure or when a financial correction is decided by a Commission decision. The MS agrees wholly or partially with the correction proposed by the Commission, it must confirm its agreement in writing stating clearly the scope of the agreement, the amount of the agreed correction and how it will be implemented.

EUR 209 million represents MS's commitment or confirmation of deduction of irregular expenditure from an interim payment claim during the programming period.

Total cumulative accepted/decided amount of financial corrections for the 2007-2013 programming period stands at the end of 2014 at EUR 1.029.1 million. There were no financial corrections decided by a Commission decision in 2014.

⁷⁰ Prepared on the basis of information from provisional accounts (March) and subject to modifications following adjustments for final accounts.

Financial corrections implemented in 2014 relating to the 2007-2013 programming period

Financial corrections are reported as "implemented" on cash basis once the financial transaction including the correction has been processed and can be referenced by an ABAC key of payment order, recovery order or de-commitment.

88,5 % of financial corrections accepted/decided during the year 2014 and previous years for the programming period 2007-13 have been implemented, leaving an amount of EUR 118.2 million still to be implemented. Total amount of financial corrections implemented in 2014 is EUR 155.9 million out of which EUR 95.1 million decided in 2014 and EUR 60.8 million in previous years.

Among these financial corrections implemented in 2014, EUR 63.5 million are 'à la source' financial corrections, meaning that these financial corrections are applied by the MS authorities at the same time the expenditure is declared to the Commission by application of flat rate corrections following Commission audits.

Total cumulative implemented amount of financial corrections for the 2007-2013 programming period stands at the end of 2014 at EUR 910.9 million.

Detailed tables showing cumulative financial corrections (accepted/decided and implemented) for all programming periods can be found in the Annex 10.

Member States reporting on withdrawals, recoveries and pending recoveries

For the programming period 2007-2013, since the reporting year 2010 and by 31st March of each year, MS are requested to submit to the Commission 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 referring to the financial corrections effected by MS following their own national audit work but also financial corrections effected following EU audit work.

When facing irregular expenditures, the MS have two choices:

- 1) withdraw the irregular expenditure from the programme immediately when they detect the irregularity, by deducting it from the next statement of expenditure and thereby releasing EU funding for commitment to other operations or;
- 2) leave the expenditure in the programme for the time being, pending the outcome of proceedings to recover the unduly paid grant from the beneficiaries, and deduct the expenditure from the next statement of expenditure only once recovery has been effected.

The first type of financial corrections should be reported under withdrawals and the second one under recoveries.

At 31/03/2014⁷¹, MS reported the following figures regarding the 2007 – 2013 programming period:

- ESF amount of the withdrawals stands at EUR 225 million for the year 2013 and EUR 749.1 million in cumulative figures since the beginning of the reporting for this programming period;
- ESF amount of the recoveries stands at EUR 30.5 million for the year 2013 and EUR 92.9 million in cumulative figures since the beginning of the reporting for this programming period;
- ESF amount of the pending recoveries stands at EUR 67.9 million.

The cumulative amount of the financial corrections reported by MS stands at EUR 842 million of financial corrections implemented at the end of 2013.

A table providing a detailed picture of 2013 withdrawals and recoveries can be found in Annex 10.

G. Cumulative residual risk

Indicator	2014
Cumulative residual risk (average for all programmes)	1.2%

The CRR⁷² is used by DG EMPL to assess, OP by OP, the multi-annual impact of the annual validated error rates. As explained in annex 4, these individual rates by OP are part of the elements leading to the decision on reservations.

⁷¹ Following the provisions set in the guidance note to the Member States ref. COCOF 10/0002 EN

⁷² Further explanation can be found in point 2.1.1.2. "Materiality criteria (control objective) and reservations" and in annex 4.

These CRRs at OP level are 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, 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 report⁷³. 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.

At the date of this report, 102 programmes (86.4 %) presented a cumulative residual risk below or equal to 2% and 16 programmes (13.6 %) a cumulative residual risk above 2%, including 9 programmes for which the Commission has applied a flat error rate for 2014.

For the ESF 2007-2013, the ratio of cumulated amounts at risk vs cumulated payments made since the beginning of the programming period represent an average annual error rate of 2.7%. When considering the cumulated financial corrections made during the same period, this leads to a CRR for ESF of 1.2% at end-2014. This CRR at end 2014 is the best estimate of the corrective capacity of each programme at the time of drafting the AAR, based on different elements for which the Directorate-General has obtained different levels of assurance.

This CRR is similar to last year which shows constant efforts in the corrective actions taken by MS since the beginning of the programming period.

All programmes with a cumulative residual risk above 2% are included in the reservation.

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.

H. Follow-up of 2013 reservation

The ISFC Committee regularly reviews the state of play of programmes with interruption or suspension procedures and decides on lifting reservation on the basis of the assessment by the Commission of the implementation of the requested actions by the MS authorities.

Out of the 36 reservations on operational programmes adopted with the AAR 2013 for the 2007-2013 programming period, 19 cases were closed and financial corrections have been agreed upon for 20 of the 36 OPs.

	Number of reservations in 2013	Lifted at end Q1 2015	N° of financial corrections implemented or accepted in 2014 (number of OPs)	Amount of financial corrections implemented or accepted in 2014 (€M)
BE	5	4	5	18.8
CZ	2	1	1	9.1
DE	2	1	1	0.0
ES	11	2	6	55.8
FR	1	0	1	20.4
IE	1	1		
IT	6	4	2	0.0
PL	1	1	1	32.8
RO	1	0	1	42.9
SK	2	2	2	5.9
UK	4	3		
Total	36	19	20	185.7

⁷³ Only ex-post corrections are taken into account for the calculation of the CRR

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

Indicator	2014
Number of programmes from the 2007-2013 programming period in reservation	36

As required in paragraph 4.8 of the charter of Authorising Officers by Sub-Delegation, and as part of the Annual Activity Report assurance process, the AOSDs formally produce annual **management opinions** for each operational programme. They report on a description of measures taken to determine to what extent the MS have put in place appropriate management and control systems which give a satisfactory assurance concerning the regularity of the underlying operations in terms of the law applicable, ensure the accuracy of the amounts declared and carry out financial corrections where the management and control systems have proved inadequate.

The management opinions **rely mainly on the audit opinions** with the possibility for the AOSDs to integrate other information, formal or informal, acquired by the geographical units on their day-to-day management of the programmes, which could lead to a different opinion than the one expressed by the auditors.

The final stage of the evaluation process is a detailed review of all operational programmes at high level within the DG (**peer-review** meeting chaired by the Deputy 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 and management opinions, to agree on any modifications required as a result of subsequent developments during the first quarter of the current year, and to identify the systems for which a reservation should be made. This results in a single DG EMPL opinion for each ESF programme.

As a precautionary approach, all payments were frozen from the beginning of the year until this peer-review meeting took place on 13 February 2015 in order to avoid the risk of processing payment requests for programmes that would subsequently be included in the 2014 AAR reservation.

As a result, 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. All programmes falling under the categories 'reasonable assurance with low risk, with partial reservation', 'limited assurance – medium risk' and 'limited assurance - high risk' (in the table below) are subject to a reservation. This applies to 36 programmes from the 2007-2013 period.

Final assessment of management and control systems in the annual management opinion⁷⁴:

IMPACT on Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)		Coverage		
		# of Programmes	as % of Programmes	Payments to Programmes as % of 2007-2013 period interim payments in the year
1	Reasonable assurance	13	11.0%	2.2%
2a	Reasonable assurance with low risk	69	58.5%	70.4%
2b	Reasonable assurance with low risk, with partial reservation	2*	1.7%	0.0%
3	Limited assurance with medium risk	33**	28.0%	26.2%
4	Limited assurance with high risk	1	0.8%	1.2%
		118	100%	100%

* of which 2 reputational

** of which 11 reputational

⁷⁴ Overall assessment of Programmes by Member State can be found in Annex 10

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 OP.

Member States	Total Payments in 2014 per level of assurance (in € million)					Programming period 2007 - 2013											
	REASONABLE ASSURANCE	REASONABLE ASSURANCE WITH LOW RISK	LIMITED ASSURANCE WITH MEDIUM RISK	LIMITED ASSURANCE WITH HIGH RISK	Total	2014 Estimated risk				Cumulative residual risk	AAR 2014 reservation				Commission's actions		
	ESF 2007-13	ESF 2007-13	ESF 2007-13	ESF 2007-13	ESF 2007-13	Number of programmes	average risk rate 2014 (1) (2)	quantification of global risk on 2014 interim payments (€ million)	% of cumulative interim payments at end 2014	Number of Programmes under whole reservation	Number of Programmes under partial reservation	Number of Programmes under reputational reservation (3)	Total	Quantification of risk for programmes in reservation 2014 (€ million)	Number of warnings and interruptions of payment deadlines in 2014 and Q1 2015	Number of pre-suspension letters in 2014 and Q1 2015	Number of suspension decisions in 2014 and Q1 2015
Austria (AT)	-	50,4	-	-	50,4	2	2,3%	1,2	1,1%			0	-				
Belgium (BE)	1,7	35,6	21,2	-	58,5	6	3,2%	1,9	0,9%	1		1	2	1,1	1	1	
Bulgaria (BG)	-	288,3	-	-	288,3	2	1,2%	3,4	0,4%			0	-				
Cyprus (CY)	-	31,7	-	-	31,7	1	1,2%	0,4	0,7%			0	-				
Czech republic (CZ)	-	308,7	-	-	308,7	3	2,6%	8,1	1,2%			1	1	-	1	1	
Germany (DE)	42,3	962,0	68,8	-	1.073,1	18	1,6%	16,7	0,9%	3		1	4	8,5	5	1	
Denmark (DK)	-	58,1	-	-	58,1	1	0,2%	0,1	0,4%			0	-				
Estonia (EE)	-	20,0	-	-	20,0	1	0,1%	0,0	0,7%			0	-		1		
Spain (SP)	55,5	123,4	157,3	-	336,2	22	5,5%	18,4	1,8%	5		6	11	15,0	25	11	9
Finland (FI)	81,4	-	-	-	81,4	2	0,3%	0,2	0,4%			0	-				
France (FR)	-	800,5	18,5	-	819,0	5	2,7%	21,9	1,0%	1			1	0,5	4	2	
Greece (EL)	-	-	1.088,7	-	1.088,7	4	5,0%	54,4	3,0%	4			4	54,4			
Croatia (HR)	-	26,0	-	-	26,0	1	0,8%	0,2	0,5%			0	-				
Hungary (HU)	-	48,3	846,2	-	894,5	2	4,8%	42,7	1,9%	1			1	42,3	2		
Ireland (IE)	-	24,1	-	-	24,1	1	0,0%	-	0,0%			0	-		1		
Italy (IT)	40,5	894,5	71,3	-	1.006,4	24	2,7%	27,1	1,4%	3		2	5	9,1	11	4	1
Lithuania (LT)	-	166,1	-	-	166,1	2	0,5%	0,8	0,8%			0	-				
Luxembourg (LU)	-	3,9	-	-	3,9	1	1,9%	0,1	0,0%			0	-				
Latvia (LV)	-	-	-	-	-	1	0,9%	-	0,0%			0	-				
Malta (MT)	-	16,0	-	-	16,0	1	0,6%	0,1	0,6%			0	-				
The Netherlands (NL)	-	129,1	-	-	129,1	1	4,6%	6,0	0,5%			0	-				
Poland (PL)	-	1.532,2	-	-	1.532,2	1	0,5%	7,7	0,0%			0	-				
Portugal (PT)	-	819,2	-	-	819,2	4	1,5%	12,3	1,0%			0	-				
Romania (RO)	-	117,8	-	-	117,8	2	2,7%	3,2	0,0%	1			1	-	1		
Sweden (SE)	-	211,3	-	-	211,3	1	1,4%	2,9	1,2%			0	-				
Slovenia (SI)	-	134,9	-	-	134,9	1	3,6%	4,8	1,6%			0	-				
Slovakia (SK)	-	190,3	-	121,9	312,2	2	7,9%	24,8	2,6%	1		1	2	22,8	4		
The United Kingdom (UK)	-	-	318,9	-	318,9	6	4,9%	15,6	2,0%	3		1	4	15,6	10	2	
TOTAL	221,3	6.992,3	2.591,1	121,9	9.926,5	118	2,8%	274,8	1,2%	23	0	13	36	169,4	66	21	11
														1,71%			

(1) average error rate by MS 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:

BE: from 0 to 6,03 % ; DE: from 0,03 to 25 % ; ES: from 0 to 25 % ; IT: from 0 to 32,89 % ; UK: from 0,2 to 10,74 %

(3) of which partial: 3 (ES; IT; SK)

total payments made on OPs in reservation:	2.713,0
	6,2%

J. Conclusion

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

- The overall estimated validated average error rate⁷⁵ on 2014 payments for the 2007-2013 programming period is in the range of 2.8 % to 4.0 %;
- The cumulative residual risk of 1.2% confirms that the 2007-2013 programming period is under control on a cumulative basis⁷⁶;
- DG EMPL formulates a reservation for 36 programmes: of which 13 on a reputational basis (including 3 partial reputational⁷⁷) as no interim payment was made for these programmes in 2014;
- The quantification of the estimated financial risk for the 23 programmes, as a percentage of 2007-2013 period interim payments in the year 2014, is at 1.7 %.

The methodology which considers the cumulative residual risk for programmes with a 2014 validated error rate between 2 and 5 % and encourages MS to apply self-correction has a positive impact on the overall estimated financial risk. 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** are described in Annex 10.

2.1.1.3 ESF 2000-2006 and previous periods

A. Audit work 2000-2006

EMPL audit missions		2014	2013	2012	2011
2000-2006	Closure audits and fact finding	1	5	3	6

The closure process being at its end, only one fact finding mission took place in 2014 in IT-Abruzzo. The audit confirmed that the Winding-Up Body had performed insufficient and uneven checks on the operations during the programming period, that the management and control system of the WUB provides insufficient audit trail and that there was a risk of double financing of some projects. On this basis a flat rate correction has been recommended and is under discussion with the MS.

B. State of play closure

The Commission's objective is to ensure that the residual error rate in the population (expenditure 2000-2006) will not exceed 2%. To this end, a mechanism of financial corrections, based on the residual error rate provided by the MS and recalculated by the Commission has been implemented. In order to ensure equal treatment, a common methodology has been adopted for all Structural Funds.

DG EMPL has closed all 239 programmes proceeding to 30 partial and 209 full closures leaving remaining RAL of EUR 493 million which corresponds to:

- suspended operations following judicial proceedings EUR 86 million in Italy and Germany

⁷⁵ 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).

⁷⁶ Whether corrective measures (withdrawals, recoveries) already implemented by Member States had adequately mitigated the risks of irregularities since the beginning of the programming period

⁷⁷ A reservation is "partial reputational" when only a distinct part of the programme is concerned by significant deficiencies and no payments were made on this part of the programme in 2014.

and EUR 9.5 million for other countries.

- not yet accepted financial corrections for Italy (Sicily, Calabria and Abruzzo) - EUR 364 million) as well as for Spain (Lucha Obj.1, Obj.3 and Galicia - EUR 33.5 million). This amount will be disclosed under financial corrections in progress. It is based on audit findings of the Commission and those of ECA or OLAF and reflects on-going contradictory procedures with the concerned MS resulting from the closure exercise being disclosed in the closure letters to the MS. In the context of closure of these programmes the indisputable amount due by the Commission has been paid leaving an ineligible amount of irregular expenditure deducted from the final payment claim and subject to de-commitment or recovery order in case of Abruzzo, Galicia and Lucha obj. 1.

C. Financial corrections (2000-2006 and previous programming periods)

Indicator	2014
Corrections made resulting from Commission audit work (accepted/decided)	EUR 133.1 million
Corrections made resulting from Commission audit work (implemented)	EUR 133.1 million

Financial corrections accepted/decided in 2014 relating to past programming periods

1994-1999: no financial corrections have been reported in 2014 for pre-2000 funds.

2000-2006: EUR 133.1 million have been reported representing deduction of irregular amounts from the final statements of expenditure by the Commission services in closure proposal and have been accepted by MS.

Financial corrections implemented in 2014 relating to past programming periods

1994-1999: no financial corrections have been reported in 2014 for pre-2000 funds.

2000-2006: 99.99 % of financial correction accepted/decided during the year 2013 and previous years for the programming period 2000-2006 have been implemented leaving an amount of EUR 0.3 million not yet implemented. The remaining corrections represent financial corrections for which the MS did not accept yet the closure proposal. The total amount of financial corrections implemented for the year 2014 is EUR 133.1 million.

By the end of 2014 including 2000-2006 ESF closure process DG EMPL has imposed or formally proposed to MS, as a result of its supervisory role, financial corrections for a total of circa EUR 1.810,5 million.

D. Follow up of 2013 reservation

Assurance on the 2000-2006 programming period has been built over the years. A reputational reservation had been maintained last year for the last 6 OPs not closed at end 2013, as no payment had been made in 2013 and as final payments are processed when DG EMPL is reasonably certain that the error rate is below the materiality threshold of 2% and upon agreement on appropriate financial corrections. In 2014, the closure was finalised for the 6 OPs.

E. Conclusion

The 30 OPs partially closed have been subject to a proposal by the Commission of a financial correction which is still under discussion with the MS authorities concerned or under judicial procedure. The final payment (or recovery) will be processed only when agreement is reached on the financial correction to be applied. For 7 programmes, the proposed correction is above 5 % and, on a precautionary basis, due to the significant corrections required, a reputational reservation is made covering these 7 OPs.

In addition, as a result of national, Commission or ECA audits which should still be carried out on closed programmes, if necessary, additional financial corrections could still be applied.

2.1.1.4 EGF

Procedures and controls for optimizing economic, efficient and effective implementation of programmes

Various 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 case. MS report, for each EGF case, information as regards the type of actions and main outcomes, the names of the bodies delivering the package of measures; the characteristics of the targeted workers and their employment status and a statement justifying the expenditure.

Commission staff also carries out on the spot visits, both for monitoring and for auditing purposes.

In 2014, the Commission has assessed 18 new applications submitted by the MS in 2014. It committed and paid EUR 45 million for 14 contributions adopted in 2014 and requested a non-automatic carry-over to 2015 of EUR 34.5 million due to the late adoption of 4 further contributions by the Budgetary Authority. 10 MS reported on the implementation of the EGF by providing the Final Reports on 21 cases targeting initially about 15 656 redundant workers.

A. Audit work

Indicator	2014
Error rate	0.09%

Regulation (EC) No 1927/2006 establishes the EGF, which supports workers affected by trade-related redundancies from 1 January 2007 onwards. The Regulation (EC) No 546/2009 included also the global financial and economic crisis as a reason for EGF support (only for the applications submitted before 31 December 2011) and among others it increased the implementation period from one year to two years (for all applications received from 1 May 2009).

In 2014, the Commission finalized five audits, two initiated in 2013 and three performed in the first half of 2014. They identified minor deficiencies mainly relating to the management and control arrangements and the budget presentation in the final report.

B. Conclusion

On the basis of the finalized ex-post financial audits in 2014, the amount audited was EUR 35 251 604 and the total correction proposed was EUR 32 430. This resulted in an error rate of 0.09%, thus leading to no reservation for the EGF.

2.1.1.5 IPA

Procedures and controls for optimizing economic, efficient and effective implementation of programmes

One of the primary objectives of "IPA HR component" is to step up the institutional capacity of the candidate countries to prepare them for managing the future ESF in accordance with the principles of sound financial management.

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.

For IPA, as for the ESF, the control system is built on multiannual and multilevel control whereby one level of control may rely on the work of previous controls performed by other bodies.

The following points form the building blocks behind the assessment of DG EMPL's management towards reasonable assurance

A. Analysis annual audit activity reports

For IPA, following the decision to confer management of aid to Montenegro in 2014, 3 countries, namely Turkey, Montenegro and FYROM needed to submit the annual audit activity Reports (AAARs) and annual audit opinions (AAOs). For the 3 countries, the reports have been received in due time for the 3 IPA programmes.

As for the ESF, DG EMPL Audit Directorate analyses these reports and opinions within 2 months of their submission and transmits a reply to the National Authorities.

For the 3 AAARs, it can be concluded that the AAARs and AAOs received are of acceptable quality and have been prepared in line with the guidance issued by the Commission.

Nevertheless, DG EMPL had to recalculate the error rate for the Turkish programme, following some methodological mistakes made by the Audit Authority (AA) in one of the three strata used to calculate the total projected error rate for the reference year. As a consequence, the accepted total projected error rate was revised upwards (from 0.49%) for Turkey, but at 1.72% remains under the materiality threshold.

B. Audit work and financial corrections

Indicator	2014
2014 validated error rate	1.68%
Cumulative residual risk	0.81%
Financial corrections (decided)	EUR 1.95 million

In the framework of IPA, DG EMPL auditors were also involved, together with DG NEAR, AGRI and REGIO, in the monitoring of the assistance to the candidate countries.

To verify the effective functioning of the management and control systems in place in the IPA beneficiary countries in 2014, two audit missions were carried out for IPA:

- One audit mission concerned the review of the effective functioning of the AA in Turkey: The AA re-performance mission on a sample of IPA Component IV operations took place in Turkey in the period March to May 2014, and revealed some minor deficiencies, in particular regarding Key requirement 14 (“Adequate audit of operations”), thus yielding overall positive results.
- In July 2014, a follow-up audit mission to Montenegro to assess whether the required minimum institutional and procedural set-up and basic administrative capacity are in place concluded that the three significant issues raised in 2013 during the initial Conferral of Management verification audit have been satisfactorily addressed since. As a result, the Commission decided on 28 July 2014 to confer management of aid to Montenegro for IPA Component IV (Human Resource Development).

C. Interruptions/suspensions of payments

In 2014, no payment was interrupted.

D. Conclusion

For assessing the level of assurance for IPA, the same process as for ESF is applied, whereby the auditors send their audit opinion to the AOSD who provides the management opinion for each of the three IPA countries. It results in:

IMPACT on Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)		Coverage		
		# of Programmes	as % of Programmes	Payments to Programmes in question as % of interim payments in the year
1	Reasonable assurance			
2	Reasonable assurance with low risk	3	100%	100%
3	Limited assurance with medium risk			
4	Limited assurance with high risk			

On the basis of the assessment described above, DG EMPL has reasonable assurance as regards the management of IPA programmes.

2.1.1.6 Direct Management

Procedures and controls for optimizing economic, efficient and effective implementation of programmes

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.

Concerning economy and effectiveness, the implementation of procedures in line with the rules defined in the Financial Regulation for grants and contracts ensures the respect of sound financial management principles for the actions directly managed by DG EMPL.

Detective and corrective controls are also implemented at initial and at final phases (project implementation checked by operational officers via the interim and final reports, cost claims checked by financial officers and on the spot checks prior to payment where necessary). Preventive and corrective controls take place through the verification of all transactions (grants and public procurement) by financial agents. Commission staff and outsourcing company carry out on the spot audits for grants following a risk-analysis approach.

Efficiency is notably ensured through an internal Service Level Agreement defining the responsibilities between the Operational and Resource Directorates within the DG, workflows and check-lists.

The following points form the building blocks behind the assessment of DG EMPL's management towards reasonable assurance:

A. Programming, evaluation, selection of proposals and contracting

Indicator	2014
Grants and procurement	
Validation of actions in the annual work programme (relevance and compliance)	100%
Number litigation cases	1 ⁷⁸
Grants	
Validation of calls for proposals by the Financial Unit prior to publication	100%
Formal opinion given by the Financial Unit before award	100%
Procurement	
Formal opinion given by the Financial Unit before award	100%

DG EMPL produces annual **Financing Decisions** which specify the activities which will be undertaken to implement the budget in support of policy objectives defined in legal bases.

The programming process starts with a top-down definition of policy priorities. Specific activities subsequently proposed by AOSDs are consolidated and examined by central units (coordination and financial) from two perspectives: their relevance as regards policy priorities and their compliance with the rules defined in the Financial Regulation for grants and contracts. This thorough analysis also allows identifying opportunities of simplification and rationalisation across the DG's wide range of activities.

In order to be implemented, Financing Decisions must be followed by award decisions. DG EMPL designs and implements procedures aiming at ensuring that the **evaluation and selection of projects** complies with the sound financial management principles foreseen in the Financial Regulation and will effectively meet policy objectives.

⁷⁸ One case submitted to OLAF

DG EMPL exercises control through the following elements:

1) Grants

The terms of reference of call for proposals are written by the AOSDs with the support of adequate guidance and using the available models. In respect of a pre-defined workflow, the Financial Unit is systematically consulted and issues formal opinions (completeness, correctness, compliance) prior to the publication of each call.

Allowing for effective management, the evaluation process has been standardised via the IT application DEFIS Evaluations. Ensuring the respect of grants principles, the rules for evaluating proposals foresee the appointment of evaluation committees.

After verification, a formal opinion is issued by the Financial Unit on the evaluation and selection procedure prior to budgetary and legal commitments. The publication on Europa of the grants awarded takes place only after control by the Financial Unit.

2) Procurements

Prior Information Notices and invitations to tender are checked for compliance with the Financial Regulation and Financing Decision by the Financial Unit before publication. To ensure the respect of procurement principles, opening and evaluation committees are appointed by the AOSDs.

In March 2014, DG EMPL decided to suspend the consultative internal committee CIAME (Commission Interne des Achats et Marchés) which used to issue formal advisory opinion on the conformity of procurement rules and the application of selection and award criteria for calls above EUR 134 000. From a cost-benefit analysis it was assessed that controls ensured by the Financial Unit do provide the necessary assurance as regards compliance with the rules.

As regards framework contracts with reopening of competition and negotiated procedures, a formal opinion is issued after verification by the Financial Unit on the evaluation and selection procedure prior to budgetary and legal commitments.

B. Monitoring the execution

Indicator	2014
Grants	
Verification of transactions by operational and financial agents	100%
Ex-ante in depth check of final cost claims (error rate)	1.97%
Procurement	
Verification of transactions by operational and financial agents	100%

DG EMPL agents carry out detective, preventive and corrective controls at the various phases of implementation of projects:

- At initial phases, interim reports are checked by operational officers to verify how projects are implemented and financial officers review interim cost claims. All transactions are checked.
- At closure phases, final reports are analysed by operational officers to verify conformity of the implemented actions / deliverables with the contractual provisions. These analyses include cross-checking the final accounts and the final report on the implementation of the action to verify the coherence of the costs declared with the action actually implemented. Final cost claims are checked by financial officers to verify the eligibility of the costs, arithmetical checks, conformity with the initial budget, co-financing rate, etc. If necessary, on the spot checks are carried out prior to payment of the balance (always in case of irregularity/fraud presumption).

C. Ex-post controls - Audit work

Indicator (*)	2014
Ex-post audits finalised	20 Commission audits / 12 outsourced audits
% amount controlled by ex-post audit vs. total amount	9.30 %
Error rate Grants	2.72%
Error rate Public Procurement	0-2%

(*) based on audit procedures finalised between 01/02/2014 and 31/01/2015.

Approximately 30% of payments made under centralised direct management are contracted through public procurement which by nature and in view of the ex-ante control procedures are considered free of errors and therefore below the materiality threshold of 2%.

The majority of payments concern grant agreements which DG EMPL concludes directly with beneficiaries who co-finance the project costs. The period of execution of the subsidised projects is usually between one and two years. Budgets allocated at the award stage are indicative only, and the amounts paid are always provisional and subject to recovery if they are not in line with actual costs. Ex post controls relate only to grant aided projects which have been closed by the Operational Units.

As regards grants, for selecting the sample of transactions to be controlled on the spot, DG EMPL applies a risk based approach rather than a statistical random method that would comply with the criteria of samples' representativeness. The risk based approach is considered more cost-effective given the heterogeneity and relatively small size of DG EMPL's audit population.

When measuring against the 2% materiality level, DG EMPL calculates the weighted average error rate from the audited sample (grants) and complements the information by a qualitative analysis of the origin, nature, impact and coverage of the errors found before issuing any reservation.

In 2014, the error rate for grants amounts to 2.72%. This rate is considered as acceptable considering that:

- The sample includes the results of one audit selected on a risk basis which is considered exceptional (error in the method for allocating overhead costs). If the result of this audit was excluded, the overall error would be 1.93%;
- On a 5-year basis for grants, the weighted average error rate is estimated at 1.66% of payments made.

D. Conclusion

The assessment described above and the estimated overall error rate being under the materiality threshold (1.85%) provide reasonable assurance to DG EMPL as regards centralised direct management.

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 DG EMPL manages several funds of which ESF accounts for 93.7%.

2.1.2.1 ESF

Indicator	2014
Cost of control/financial management of the Commission checks and assessment (as a % of total payment appropriations)	0.23%
% of ESF Commission payments on time	86%
Time to lift interruption of payments <i>Impacted by the degree of complexity of the issues and of the time required by MS to react</i>	9 months on average
% interruption of payments notified to MS within 2 months <i>For 4 out of 5 interruption of payments for which deadline has been missed, the delay was less than 4 days.</i>	84%
% suspensions of payments notified to MS within 6 months <i>Impacted by the time required by MS to react and strong concentration in one MS.</i>	18%

DG EMPL 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 annual overall Commission cost is estimated at 0.23 % of total payment appropriations of the year. When added to the cost at the level of the MS assessed to be around 4.8 %⁷⁹ of the ESF 2007-13 programme budgets, the total estimated cost for the management and control of the ESF corresponds to 5 % of the total annual budget.

Approximately 1/5 of the Commission cost is made up of the annual cost of audit work (internal & outsourced audit, IT tools supporting audit process) which covers the assessment by the Commission of management and control systems in MS, including analysis of Audit Authorities reports and ACRs, own audit work⁸⁰ and the monitoring of the interruption & suspension process.

The remaining annual Commission costs relate to Commission staff which carries out controls throughout the different design, implementation and monitoring phases. This includes the negotiation of Partnership Agreements and Operational Programmes, the setting-up of the management and control systems in the MS, the Commission ex-ante checks of the periodic expenditure declarations (financial circuits), the ongoing monitoring and coaching for effective programme implementation and the setting-up of monitoring and evaluation systems to evaluate the programme results.

One way to look at quantifiable benefits would be to consider the corrections⁸¹ implemented by MS following (Commission) 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 programmes by the MS.

Overall, during the reporting year the controls carried out by DG EMPL for the management of the budget appropriations were cost efficient. The estimated quantifiable benefits, expressed as the corrections implemented in 2014⁸², exceeds the overall estimated annual cost in a proportion of 12 to 1.

⁷⁹ "Study Measuring Current and Future Requirements on Administrative Cost and Burden of Managing the ESF"VT/2010/112

⁸⁰ Systems audit, re-performance of annual control reports (ACR), follow-up of audit authorities, closure audits, fact finding audits, etc.

⁸¹ See point 2.1.1.1.G

⁸² ESF Financial Corrections implemented in 2014 and covering all programming periods (see annex 10)

In addition, there are a number of non-quantifiable benefits resulting from the controls operated throughout the various control stages. This includes notably the negotiation procedures on the content of Partnership Agreements and Operational Programmes. These were 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 Country Specific Recommendations (CSRs). Most of this work, completed in 2014 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 MS if the ESI Funds are to deliver on the Europe 2020 Strategy. The deterrent effects of ex-post controls also bring unquantifiable benefits.

DG EMPL 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 2014, for the 2007-2013 programming period, the entire control system ultimately allowed that **97.1% of the credits were paid to programmes with a cumulative residual error rate below 2%**.

2.1.2.2 Direct and Indirect Management

Indicator	2014
Estimation of cost of control of the Commission (as a % of total payment appropriations)	4.4%
Cost of evaluation and selection procedure/value contracted (%)	1.3%
Costs of control from contracting and monitoring the execution up to payment included / amount paid	2.6%
Cost of control ex post audits / value audited	6%
% of Commission payments on time (vs FR Target)	71%
Budget execution (payment - direct management)	96.4%
Time-to-inform (days) ⁸³	144
Time-to-grant (days) ⁸⁴	62

The annual Commission **cost** is estimated to represent around 4.4% of DG EMPL total payment appropriations (funds under direct and indirect management⁸⁵ by DG EMPL). Last year estimates were refined using the workload assessment completed by DG EMPL in 2014. It includes the staff involved in (1) project management; (2) financial advice, initiation and verification tasks and (3) ex-post audits. The analysis by stage allows concluding that DG EMPL has a reasonable cost structure.

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 and contributing towards the achievement of Europe 2020 Strategy. The deterrent effects of monitoring and controls also bring **unquantifiable benefits**. At the selection, implementation and monitoring stages, by ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, DG EMPL 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 and that the underlying operations are legal and regular. DG EMPL considers that the benefits of the controls in place are demonstrated by the error rates being consistently below the materiality threshold.

⁸³ Average time to inform applicants of the outcome of the evaluation of the application. (Art. 128.2 FR – maximum 6 months)

⁸⁴ Average time to grant (Art. 128.2 FR – maximum 3 months)

⁸⁵ See table in the introduction of Part 2

The above indicators demonstrate the relative **efficiency** of DG EMPL services, with improved statistics for payments on time (following the deterioration due to the centralisation of financial services, it evolved from 53% in 2013 to 71% in 2014 and even reached 93% in the last quarter) and time-to grant within the delays set by the Financial Regulations.

DG EMPL considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate.

2.1.3 Fraud prevention and detection

Indicator	2015 (Q1)
Number of MS implementing ARACHNE	16

I. Implementation of actions for the prevention and detection of fraud in the Structural Funds and Direct Management

1. DG EMPL had developed an anti-fraud strategy (in common with DG REGIO) already in 2008, well before the Commission's overall anti-fraud strategy⁸⁶ was put in place. The "Joint Fraud Prevention Strategy for ERDF, ESF and CF 2008-2009" was subsequently reviewed for the period 2010-2011 (covering henceforward also the EFF) and for the period 2012-2013.

Following the discussions launched end of 2013 regarding the revision of the "**Joint Anti-Fraud Strategy (JAFS) for ERDF, ESF, CF and EFF 2012-2013**", the DGs concerned decided to extend the JAFS for an additional year (2014). They agreed that a substantial revision of the JAFS will be made at a later stage, when the results of the fraud risk assessment that MS have to carry out under the 2014-2020 legislative provisions for the funds covered will be available.

Actions that have already been implemented in 2013 in accordance with the action plan part of the JAFS have been brought forward further in 2014:

- The development by DG EMPL of the **risk scoring tool ARACHNE** was presented in 22 MS. So far, 16 MS have sent programme data and the roll out of the system is continuing. Eight MS already use the ARACHNE tool and DG EMPL continues to monitor its use. Eight other MS will have access in the first quarter of 2015. Further presentations to the remaining six MS will take place in 2015. ARACHNE aims at establishing a comprehensive database of financial and operational data on projects and beneficiaries in order to carry out, on the basis of objective criteria, a risk scoring allowing the identification of the most risky projects and the most risky operational programmes.

DG EMPL, in its own audit work, has modified its internal procedures in order to include, during all phases of the audit work, the use of the ARACHNE tool. Also, dedicated training sessions on the correct and complete use of the ARACHNE were provided to all auditors in 2014. As a result of the use of ARACHNE, several cases of conflict of interest have been discovered and the awareness of auditors and MS, on the presence of fraud in operations, has been raised.

Further developments of ARACHNE are currently underway in DG EMPL. In this respect, the DG has finalised two audits, one in Greece and one in Spain, based on a pilot project aiming to develop a "predictive model for fraud in public procurement".

The results of these audits brought evidence on potentially fraudulent wrongdoings of some of the beneficiaries selected. All instances of suspected fraud have been notified by DG EMPL to OLAF. Where the DG concluded that irregularities had been committed or acquired sufficient evidence to consider that the underlying management and control

⁸⁶ COM(2011) 376 24.06.2011

systems were gravely deficient, financial corrections procedures have been initiated. Amounts of around EUR 115Mio could be affected, subject to the final outcome of the cases concerned.

The **fraud risk assessment guidance and tool** for MS in view of putting "in place effective and proportionate anti-fraud measures" (as requested under article 125.4 c) of the new legislation for Cohesion Policy for 2014-2020) was clarified and further disseminated (in collaboration with DG REGIO and OLAF);

- **Awareness raising actions** addressed to MS' authorities have been further developed. Following the anti-fraud/anti-corruption conference in December 2013 in Brussels, several Commission services, including DG EMPL, jointly organised in 2014 anti-fraud seminars in selected MS (Greece, Slovakia Czech Republic, Bulgaria, Croatia, Romania, Italy, Slovenia and Spain). Furthermore, in the first quarter of 2015 anti-fraud seminars have also been conducted in Poland and the Baltic States.

These events have provided positive results; for instance, the region of Andalucía (Spain) has decided to start using the ARACHNE fraud risk scoring tool already for the 2007-2013 programming period. DG EMPL is providing the necessary support to set up the system and assisting the regional authorities in creating the relevant data files required. The Andalusian authorities also committed (written communication of December 2014) to have a dedicated anti-fraud agency carrying out detection and prevention activities.

2. In autumn 2014, DG EMPL also initiated the revision of its "**Anti-Fraud Strategy for Direct Management**" of 2010, which is foreseen to be finalised by end of the first half of 2015. The purpose is to bring the strategy in line with the "Methodology and guidance for DG's anti-fraud strategies" issued by OLAF in July 2012, in particular by determining – on the basis of the results of a fraud risk assessment to be carried out – the anti-fraud measures and actions DG EMPL will implement in addition to those already existing in this area.

3. The controls by DG EMPL aimed at preventing and detecting fraud are similar to those intended to ensure the legality and regularity of the transactions. DG EMPL carries out in-depth controls and/or audits on the basis of the annual audit strategies (for both its shared and direct management area) revised in consideration of risk assessments made to check the regularity and legality of transactions and include the detection of (suspected) fraud, if any.

Hence, in 2014, DG EMPL transmitted to OLAF information with regard to 10 new suspected fraud cases (all in the area of ESF). After having assessed this information, OLAF has to date decided to open for one of the cases an investigation.

The total number of on-going OLAF investigations concerning DG EMPL's fields of activity amounts to 37 ESF related cases at the end of 2014 (2 in AT, 1 in BG, 2 in DE, 1 in EE, 3 in EL, 2 in FR, 1 in HU, 4 in IT, 2 in NL, 1 in PL, 4 in PT, 9 in RO, 4 in SK and 1 in UK). Around one fifth of them were cases which have been initiated by OLAF during that year (selection and investigation phases carried out during 2014).

II. Implementation of the communication and guidelines on the division of responsibilities between OLAF and the authorizing officer by delegation

In 2014, DG EMPL has continued the implementation of the 2007 Commission decision on the division of responsibilities between OLAF and the authorizing officers by delegation and the follow-up of the financial aspects of OLAF investigations and irregularity cases.

The treatment of open ESF irregularity cases of programming periods 1989-1993 and 1994-1999 was pursued in 2014 in close collaboration with OLAF, DG REGIO and other horizontal services. For cases where the irregular amounts are considered as irrecoverable the MS concerned have presented "article 5.2 requests" for the EU budget to bear the financial consequences.

End of January 2014, in the context of the implementation by DG EMPL of financial recommendations issued by OLAF, the DG reported to OLAF and DG BUDG the amounts that it had recovered in 2013 with regard to the cases concerned.

III. Detected (suspected) fraud in ESF as reflected by OLAF's 2013 report concerning the protection of the European Union's financial interests and the fight against fraud

The annual report established by OLAF on the protection of the financial interests of the EU and the fight against fraud (the so-called Article 325 or PIF Report) contains important information and indicators on the level of fraud and irregularities in EU policy sectors for the previous year.

According to OLAF's 2013 PIF Report, published in 2014, 1492 ESF irregularity cases were communicated to OLAF by MS in 2013. Out of these, 106 cases were reported in 2013 as cases of suspected fraud in ESF. It is at this moment in time impossible to know how many out of the 106 suspected fraud cases notified in 2013 represent a case of established fraud, as the related criminal proceedings leading to a conviction for fraud may take several years.

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.

As mentioned in "The DG In Brief", DG EMPL has entrusted parts of its budget for indirect management implementation by a number of cross-delegations and Decentralised Agencies. In all these cases, the DG's supervision arrangements are based on the principle of controlling 'with' the relevant entity.

2.2.1 Cross-delegations

DG EMPL has cross-delegated EUR 5.4 million to REGIO, DIGIT, ESTAT and ECFIN.

62% of this amount was implemented by REGIO and relates to the preparation for effectively implementing ESIF funds in the period 2014-2020. More specifically, the funds were dedicated to: (1) an independent external validation assessment of the audit functions of DG REGIO, EMPL and MARE; (2) the implementation of fi-compass, the technical advisory platform for financial instruments (formerly called FI-TAP); (3) the development and management of WAVE, the workflow IT tool for the programming period 2014-2020; and (4) for the organization of anti-fraud seminars in 4 MS.

The remaining 38% were implemented as follows: 22% by DIGIT (ITIC, system for "Service Management" and other hosting services), 15% by ESTAT in the context of the action plan for improving regional coverage and timeliness of EU-SILC and 1 % by ECFIN (microfinance).

These AODs are required to implement the appropriations subject to the same rules, responsibilities and accountability arrangements as DG EMPL's AOD. The cross-delegation agreements require the AODs 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.

2.2.2 Decentralised agencies – EUROFOUND and EU - OSHA

As regards the decentralised agencies, DG EMPL relies on EUROFOUND (European Foundation for the Improvement of Living and Working Conditions) and EU - OSHA (European Agency for Safety and Health at Work) to meet its policy objectives. DG EMPL transfers to them the contributions established by the Budgetary Authority (€20.4 million for EUROFOUND and €14.1 million for OSHA).

EUROFOUND: this agency delivers important knowledge on work-related and social matters in a view to contribute to sound and evidence-based policies in those fields. Its core activity relates to research in the areas of employment, working conditions, industrial relations and quality of life. 2014 marked the second year of implementation of Eurofound's four-year work programme (2013–2016), "From crisis to recovery: Better informed policies for a competitive and fair Europe". The activities (mainly research and communication) based upon the following four priorities contributed importantly to the work of DG EMPL: (1) Increasing labour market participation and combating unemployment by creating jobs, improving labour market functioning and promoting integration; (2) Improving working conditions and making work sustainable throughout the life course; (3) Developing industrial relations to ensure equitable and productive solutions in a changing policy context; and (4) Improving standards of living and promoting social cohesion in the face of economic disparities and social inequalities.

Key projects concluded in the course of 2014 were the joint project with EU-OSHA on "Psychosocial risks in Europe" as well as two key reports ("Labour mobility in the EU: Recent trends and policies" and "Social cohesion and well-being in the EU"). The agency also conducted preparatory work for the next European Working Conditions Survey (to be launched in 2015). 2014 also saw the merge of EIRO and EWCO (Eurofound long-established observatories on industrial relations and working conditions) into the new observatory EUR-Work (European Observatory of Working Life).

EU – OSHA also contributes to DG EMPL long-term policy work, notably in raising awareness on the importance of worker's health and safety for European social and economic stability and growth and in promoting prevention at work. In 2014, it has actively contributed to DG EMPL's policy objectives and in particular to the implementation of the EU Strategic Framework on Health and Safety at Work 2014-2020. Main actions in this regard are the Pan-European Awareness Campaign "Healthy Workplaces Manage Stress and Psychosocial Risks", the publication of the report "The business case for safety and health: Cost-benefit analyses of interventions in small and medium-sized enterprises" (September), the workshop on the burden of occupational diseases (October) and the publication of 42 new OiRA (Online interactive Risk Assessment) tools.

Although agencies have full responsibility for their own management, a number of **reporting and supervising arrangements** allow DG EMPL to build assurance as regards their management:

- **EUROFOUND:** The Commission and DG EMPL in particular participate at all levels of governance within the agency. From the governing board and bureau to the four advisory committees which follow more in detail the activities related to the aforementioned four policy priorities. The Commission comments and validates the budgetary and staff-related planning documents of the agency (Budgetary fiche and Multi-annual staff policy plan). The Commission follows-up the discharge process by participating and if necessary intervening in the relevant parliamentary debates.
- **EU – OSHA:** DG EMPL actively participates in the Governing Board and Bureau of EU-OSHA, as well as in the different consultative and technical groups (Prevention and Research Advisory Group – PRAG, Advisory Group on Communication and Promotion – AGCP – Steering Committee of OiRA, among others) in order to ensure that the activities of the Agency are well aligned with the policy objectives of the Commission and respect the principles of sound financial management as well as the legality and regularity of the operations. The Commission also comments and validates the budgetary and staff-related planning documents of the agency (Budgetary fiche and Multi-annual staff policy plan) and follows-up the discharge process by participating and if necessary intervening in the relevant parliamentary debates.

DG EMPL has not been aware of any issue related to the legality & regularity, sound financial management or fraud affecting its contribution payments. DG EMPL has actively supported the adoption of Eurofound and EU-OSHA Anti-fraud Strategy and Action Plans, which were adopted by the respective Governing Boards in October and November 2014.

2.2.3 Conclusion

In view of DG EMPL residual responsibility as “Parent DG” for the indirect management of the parts of our budget via the cross-delegated AODs mentioned above, we can conclude that there are no control weaknesses affecting the assurance building in terms of the 5 Internal Control Objectives.

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.

2.3.1 European Court of Auditors

2.3.1.1 ECA Annual Report for 2013 (DAS 2013)

The results of the audits done by the ECA contribute to the single audit approach and the Court's findings (particularly deficiencies) are treated in the same way as audit results from MS and the Commission.

In the Annual Report for the budgetary year 2013 of the European Court of Auditors, chapter 6 was dedicated to Employment and Social Affairs.

The chapter is based on an audit by the Court of a representative sample of 182 transactions (175 for the ESF and 7 for EGF and direct management), an assessment of DG EMPL's accounts, of the 2013 AAR and of the Commission's supervision of Audit Authorities.

Concerning the ESF, 24 payments have been selected related to 20 OPs in 13 MS: Bulgaria, Czech Republic, Germany, Greece, Spain, France, Italy, Latvia, Hungary, Poland, Portugal, Romania and the UK. Two OPs were in relation to the 2000-2006 programming period (DE – Thüringen and Spain – Fomento del Empleo) and 18 in relation to the 2007-2013 programming period. Furthermore, Chapter 5 ("Cohesion") also jointly covers DG EMPL and DG REGIO's supervision of national audit authorities.

According to the Court (§6.39 of its Annual report) the supervisory and control systems are partially effective in ensuring the legality and regularity and overall audit evidence indicates that accepted expenditure is affected by material error (3.1%).

A relatively low error rate of 3,1% (MLE⁸⁷) in line with 2013 AAR

However, Employment and Social Affairs remains one of the best performing policy areas in the Commission, having the lowest error rate in shared management. Despite the significant increase in the volume of payments (€14.1bn in 2013 vs €11.7bn in 2012), the error rate remained stable and even slightly decreased (from 3.2% in 2012 to 3.1% in 2013). Moreover for the fourth year in a row, it is in line with the Commission's own assessment published in the Annual Activity Report (where DG EMPL disclosed an error rate in the range of 2.6%-3.5%).

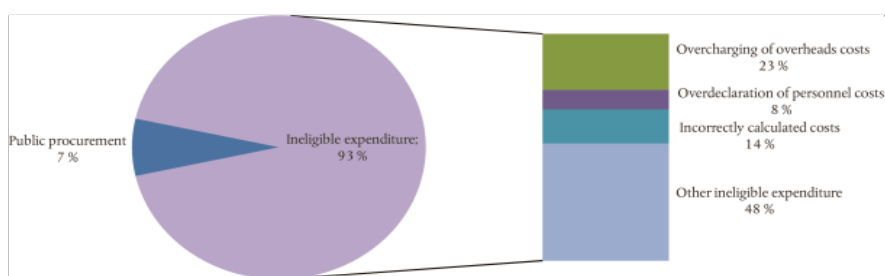
A lower frequency of errors (27%)

The frequency of errors (rate of projects affected by at least one error) decreased from 35% in 2012 to 27% in 2013 for ESF operations.

⁸⁷ MLE = Most Likely Error rate

Main source of ESF errors

As in previous years the main source of errors is found in **eligibility issues**.



The Court states that eligibility errors contribute up to 93% to the most likely error rate. The most common types of eligibility issues detected are the following: overcharging of overhead costs (CZ, ES, RO), over-declaration of personnel costs (PT, DE, ES, IT, PL and UK), incorrectly calculated costs (DE, PL and PT), other ineligible expenditure (ES, PL).

Breaches of public procurement only count for 7% of all quantifiable errors and contribute to 7% of the estimated error rate for this policy area. The two examples of breaches of public procurement are the following: non-respect of principle of equal treatment (FR) and contracting of services outside the scope of the framework agreement (HU).

The share of projects affected by at least one non-quantifiable error has decreased (11% of the sampled transactions in 2013 versus 18% in 2012). It represents 42% of all the errors found.

The non-quantifiable errors consist of a series of formal issues with no impact on the EU budget such as late payment to beneficiaries, contract award notice sent late or not send at all, non-verification of compliance with state aid rules.

DG EMPL is following-up all errors reported by the Court and ensure that corrective measures take place.

The Court also identified excessive costs in the payment claims that did not lead to errors. The Court could not quantify the error either because the national or the EU regulations were not sufficiently clear or allowed for such practice. The examples given in the report are the following: excessive salaries (RO), inflated costs (PT), accumulation of additional pre-financing (FR).

These issues had already been raised in several audit reports issued by DG EMPL. For certain MS, where the problem is of a systemic nature, action plans have been requested addressing specifically these phenomena.

Positive finding on Simplified Cost Options and the need for extending their use

For the second successive year, the Court reported on the impact of the use of Simplified Costs Options. In the Court's sample, 31 transactions, relating to 14 of the 24 payments to operational programmes included simplified cost options (standard scale of unit costs and flat rates for indirect costs).

In paragraph 6.16, the Court notes that **it did not detect any errors related to the specific use of SCOs**, and draws the conclusion that "projects using SCOs are less likely to be prone to errors than the ones using actual costs".

This confirms the Commission's analysis that an extensive use of SCOs by MS should be encouraged.

Furthermore, the Court recommends that the Commission ensures when approving the operational programmes for the current programming period, that MS have considered all simplification possibilities allowed by the 2014-2020 European Structural and Investment Funds regulations.

Implementation of SCOs on the ground will follow the adoption of operational programmes. The Commission continues to work intensively with the MS and will report on progress in

implementation of SCOs on the basis of a dedicated survey in the run-up to the discharge 2014.

Weak national verification procedures before certification and the need to strengthen the management verifications

Compared to last year where "for 67 % of the transactions affected by error, sufficient information was available for the MS authorities to have detected and corrected at least one or more errors before certifying the expenditure to the Commission", this indicator seems to have decreased. This year (§ 6.24 of the Annual report), the Court found that for cases which make up 1.3 percentage points (i.e. 41% of the error rate) national authorities could have detected and corrected the error. In addition, the Court found that for 3 cases, the error detected by the Court was made by the national authorities. These errors contributed 0.1 percentage points to the most likely error estimated.

The Commission will strictly follow up these cases to ensure that appropriate action plans are implemented in the concerned systems in order to prevent such errors in the future.

As reported by the Court in its report, the Commission carried out in 2013 thematic audits on the effectiveness of first level checks in order to evaluate and verify, on a risk based approach, the extent to which the verification process functions effectively to prevent, detect and correct errors. The Commission published in November 2013 an overview report of the results. Based on an in-depth analysis of the root causes of this problem, DG EMPL committed itself to continuing its capacity building actions (simplifications seminars and action plans) together with a stringent interruptions and suspensions policy.

Assessment of the Commission's supervision of Audit Authorities and review of DG EMPL Annual Activity Report

Concerning ESF, minor issues were identified, which did not put into question the number and impact of the reservations formulated by DG EMPL in its 2013 Annual Activity Report. Altogether the Court identified weaknesses in the Commission's assessment of the error rates and audit opinion reported by the Audit Authorities in 7 out of 54 examined ESF OPs. As indicated by the Court, those problems did not put into question the number and impact of any reservations formulated by DG EMPL in 2013.

The Court considers that for one OP the Commission should have disclosed the reasons for not making a reservation.

2.3.1.2 Performance audits (special reports) by the Court in 2014

In 2014, ECA issued no special reports concerning Employment and Social Affairs. However, the Court launched the following special reports, which are ongoing:

- "Have EU microfinance initiatives been effective and efficient?"
- "Was the Commission's support to MS for two initiatives tackling youth unemployment, Youth Action Teams and Youth Guarantee, effective?"
- Special report on EU support to Roma
- Special report on Education
- Special report on Public procurement
- Special report on State aid.
- Follow-up audit on the recommendations made in the Special Report "Are tools in place to monitor the effectiveness of European Social Fund spending on older workers?"

State of play and details on these special reports can be found in Annex 10.

2.3.2 Internal Audit Service

The Internal Audit Service presented three final reports in 2014 and one early 2015 (Gap assessment phase II) of which recommendations are currently being implemented by DG EMPL. Five of these recommendations were classified as very important and are being addressed by the relevant services with action plans. A short summary of those audit and recommendations is provided below:

Audit on "Gap Analysis Review of Regulation 2014-2020 for European Structural and Investment Funds - Phase I": The main objective of the Phase 1 review was to highlight additional risks the Commission is facing as a result of the co-legislative process for the Common Provisions Regulation (CPR), taking account of the need for an appropriate balance between reducing the administrative burden and maintaining the necessary level of control for exercising its supervisory responsibilities under shared management. The audit covered the ESI Funds and the DGs responsible (DG REGIO, DG EMPL and DG MARE).

Audit on "Gap Assessment Phase II in DG EMPL": The main objective of this review was a more in depth examination of the design of the systems for the management of the 2014-2020 programming period of the ESI funds by DG REGIO (ERDF/CF) and DG EMPL (ESF), and to the extent possible in this early phase of the programming period, the implementation of these in practice.

This audit led to four **very important recommendations**. The **first** one relates to the supervision of MS management and control systems where the IAS, although it acknowledges that it is still very early in the programming period, identified a number of issues to be addressed in the definition of the "Single audit strategy for the ESI funds programming period 2014-20 and related audit plan 2014-mid 2015" (still work in progress). It therefore recommended to further develop/clarify the audit strategy. The **second** recommendation relates to the negotiations and adoption processes of OPs for the 2014-2020 programming period. Although the IAS notes that it was overall well prepared, it notably recommended DG EMPL and REGIO to carefully monitor the final phases before Operational Programmes' (OP) adoption, to update and finalise the guidance documents, to ensure consistency in the action plans for non-fulfilled Ex-ante Conditionality and in their assessment and monitoring. The **third** recommendation relates to the results orientation and performance framework. Although the IAS underlines the efforts to address the new requirements on the results orientation of OPs included in the regulations for the 2014-2020, it notably recommended ensuring consistency in the quality/level of detail of information provided and to further develop checks made on indicators. The **fourth** recommendation relates to the IT systems supporting the management of the programming period 2014-2020 processes. This recommendation notably concerns the need to ensure that new business processes are sufficiently defined, stable and agreed in time for the development, update the Vision document for WAVE to integrate a multi-DG approach and to ensure a stable platform.

DG EMPL has reasonable assurance in these regards as the necessary actions are taken to tackle the different issues brought up by this audit.

Audit on "Preparations for use of Financial Instruments": The main objective of the audit was to assess the readiness of DG EMPL to monitor and supervise the financial instruments under the new legal framework and to highlight in advance any weaknesses in the DG's control system, which could jeopardise the achievement of objectives of the increased use of financial instruments in the new Multiannual Financial Framework (MFF). The audit covered the financial instruments set up under the European Structural and Investment Funds (ESIF) and the ESIF Operational Programmes (OPs).

In view of the complexity of Financial Instruments and of the delays in launching the Financial Instruments Technical Advisory Platform (FI-TAP), the IAS issued one important recommendation in this regards: (1) in cooperation with DG REGIO, to define a schedule for the preparation and drafting of legal interpretation and guidance documents covering all aspects which are relevant for effective monitoring and control of the financial instruments implementation; (2) to ensure sufficient training possibilities for both geographical desk officers and auditors; (3) to ensure that ESF needs are addressed by final FI-TAP work programme; (4) Depending on the take-up of the financial instrument in the 2020-2014 period, further develop the in house knowledge needed and/or cooperation arrangements with DG REGIO to ensure appropriate audit and control coverage. The action plan is well underway and DG EMPL has reasonable assurance in this regards.

Audit on "Administrative processes supporting the implementation of the European Semester (ES) across the Commission": As the SG is responsible for leading and coordinating the overall ES process and to check for the overall consistency in line with the goals as specified in the Europe 2020 strategy, the audit report with the horizontal recommendations was addressed to the SG.

Another 5 very important recommendations from audits finalised before 2014 are being implemented by DG EMPL. They concern the "Audit of DG EMPL Performance Measurement Systems" and "DG EMPL Closure of the 2000-2006 ESF programming period". All of these are being closely followed up and are in progress of being implemented.

The implementation of the recommendations from the "Audit of DG EMPL Performance Measurement Systems" notably led to the re-shaping of the Management Plan 2014, significant improvement of the 2013 AAR section on policy achievement, the introduction of Unit Management Plans, the completion of a workload assessment across the whole DG, the update of the DG's HR plan and Learning & Development Framework (LDF) and actions supporting the preparation for the future assessment of the ESF performance framework.

Concerning the audit on the 2000-2006 closure, significant progress was made as to the implementation of the first recommendation on the preparation for closure (planning, methodology and guidance); guidelines for the 2007-2013 were issued and seminars were held with MS (2013-2014-planned for 2015). Notably due to revision of the initial guidelines, some actions aimed at staff training and the finalisation of the Manual of procedure will be completed in 2015. The second outstanding recommendation relates to the development of the methodology for checks on key closure document. Its implementation is currently on-going in the frame of the manual of procedures. As regards supervisory arrangements, the definition of the business requirements for the closure process in relation with the work-flow system RDIS has been achieved and meetings with the IT developers are on track whilst the development of an IT tool for the closure process is in the preliminary phase.

2.3.3 Internal Audit Capacity

The IAC contributed to the preparation of this AAR by addressing a document stating its opinion on the DG' "state of the Internal Control" to the Director General of DG EMPL. It concluded that the internal control system in place provides reasonable assurance regarding the achievement of the business objectives set up for the process audited, except for one issue concerning the NOAH tool (see below).

In 2014, the IAC adopted four audit reports and followed up on 4 audits carried out in 2012 and 2013 which covered a total of 36 recommendations. It also adopted two audit reports early 2015.

The 2014 audit reports covered the following topics "Expert Groups", "Impact Assessment", "Financial transactions under direct centralised management including the revised financial circuit" and "Performance measurement". The 2015 audit reports concerned "Closure and Accounting processes" and "Business Continuity procedures in DG EMPL".

Some areas for improvement were identified (33 important recommendations) and addressed by relevant services with action plans. All audits but one concluded that the internal control system in place in DG EMPL provide reasonable assurance regarding the achievement of the business objectives set up for the processes audited.

The audit on "Business Continuity procedures in DG EMPL" was assessed as partially effective and one "very important recommendation" was issued and concerns the need to update the NOAH tool, used to assist in managing the consequences of a major disruption to activities. This issue relates to procedural matters to improve efficiency and effectiveness. It is however not a critical remark which would require a reserve, since there are no financial consequences and the issue does not put DG EMPL policies as such at risk.

The four follow-up reports carried out in 2014 showed that all 36 recommendations had been fully implemented. All very important observations raised in audit reports issued prior to 2014 with a date of implementation in 2014 have been adequately and effectively implemented.

Following a Commission Decision (2104th meeting, 5th November), all internal audit functions will be centralised within the Internal Audit Service (IAS) as from March 2015.

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 at ensuring the achievement of policy and operational objectives. As regards financial management, compliance with these standards is a compulsory requirement.

DG EMPL 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 Prioritised ICS for the reporting year

Based on an analysis performed end 2013, DG EMPL had identified five priority standards in its Management Plan 2014:

- ICS 3 Staff Allocation and Mobility: linked to the staff reduction process
- ICS 5 Objectives and Performance Indicators: linked to the IAS audit on performance measurement
- ICS 7 Operational structure: linked to the reorganisation of 1.1.2013 and to IT governance
- ICS 11 Document management: linked to the migration to ITIC
- ICS 12 Information and communication: linked to internal and external communication.

The following actions were taken in the reporting year with respect to these standards:

On Staff allocation, a comprehensive Human Resources Strategy 2014-16 was approved by senior management in the first quarter, assessing the current staffing situation and outlining key strategic priorities and practical responses. Staff reductions were implemented via a linear tax applied to all directorates and each vacant post was screened at DG level to ensure the necessary internal redeployment in line with priorities. The newly agreed DG EMPL Mobility Policy was implemented throughout the year, representing a major effort of internal staff redeployment. The rate of completed e-CVs reached the DG's target of 70% in December 2014.

With respect to *Objectives and Performance Indicators*, a number of actions were taken to improve the DG's performance framework as a response to new guidelines from SG and BUDG and to the IAS audit of December 2013.

Firstly, the **Management Plan for 2014** was completely re-shaped to present a balanced and integrated view of the DGs core activities and a strong emphasis has been placed on indicators and intervention logics for programmes. The 2013 AAR section on policy achievements was further improved and was also positively commented by the SG. Unit Management Plans, providing key information per unit (mission, challenges, priorities, resources), were introduced for the whole DG.

Secondly, EMPL initiated and completed a **workload assessment** covering all services (see 1.3.2 above), updated its **HR Strategy** and adopted a **Multiannual Learning & Development Framework** (LDF).

Thirdly, to improve the evaluation of results and impact of actions supported through the **ESF**, DG EMPL will review and update its **Evaluation Strategy** by the end of 2015, in co-ordination with the other ESI Fund DGs to ensure that evidence is gathered based on programmes evaluations.

On *Operational Structure* substantial progress was achieved towards effective processing of transactions under direct and indirect management following the centralisation which entered into force on 1/1/2013. This was the result of an internal re-organisation of the central financial transactions team, of a number of information/training initiatives on

financial, contractual and grant management for both operational and financial units, improvements of the information on procedures and workflows accessible on the intranet, and initiatives to simplify the procedures for low value transactions.

On **document management** the systems and related procedures must comply with relevant compulsory security measures, provisions on document management and rules on protection of personal data. Major efforts have been made to train newcomers as well as existing staff on the filing procedures. Newcomers edomec training became compulsory and presentations on edomec procedures and principles have been organised by Directorate. Individualised training and specific coaching sessions to units was given where required.

Finally, with regard to **internal communication**, the Intranet was reviewed and a number of actions were launched to ensure that staff and management have the possibility to exchange freely, brainstorm collectively and come up with proposals on policy and work environment related issues. A participatory community of practice on Communication was created and meets regularly (6 times in 2014). Two punctual large-scale participatory leadership events were organised and a meeting with the Director General open to all staff was also held.

The **external communication** strategy 2014 was prepared in cooperation with units and a reflexion was held on how to improve our communication under the new Commission, which lead to DG EMPL 2015 Communication Plan.

DG EMPL considers that appropriate action has been taken in relation to 2014 priority standards. Three of them will remain as priority standards in 2015 due to the need for further action (see next paragraph).

3.2 Effectiveness of the internal control standards

In 2014, DG EMPL has thoroughly reviewed and assessed the effectiveness of all internal control standards (ICSs).

All managers as well as 100 staff appointed by the Directorates were invited to participate in the online survey provided by DG BUDG (ICAT) – as adapted by the internal Working group on ICS. There was a participation rate of over 85% from both groups and many useful comments.

The effective implementation of each ICS was thoroughly reviewed and assessed (ICS fiches placed on Intranet), based on the results of the ICAT survey, as well as audits from the IAS and IAC (all recommendations of the two IAC audits on ICS as well as the IAS audit on performance management have been completed), and other relevant elements such as BUDG "requirements". As a result all ICS were considered as compliant and effective although some possible steps were identified to further improve their impact. In no case the weaknesses identified were of a nature to call into question the reasonable assurance.

On the basis of the Working Group's analysis, the senior management decided in December 2014 to maintain three of the five priority ICS standards for 2015 as for 2014 (N° 3,7,11), as they are especially related to the planned reorganisation.

As regards exception and non-compliance reporting, DG EMPL has a centralised recording of all cases within the Financial Unit. There was a notable decrease in the number of exceptions (from 67 to 36) as well as of non-compliance cases (from 10 to 4) in 2014 compared to the previous year.

3.3 Conclusion on the effectiveness of the internal control system

Taking into account the above information and the analysis of the available control results and indicators disclosed in Part 2, it can be concluded that the internal control system of DG EMPL is functioning well, risks are adequately managed and the Internal Control Standards are respected.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draws 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 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 EMPL.

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

DG EMPL 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 of a nature to call into question the reasonable assurance. DG EMPL decided to maintain three priority ICS for 2015 (part 3) which are especially concerned by the planned reorganisation.

In addition, DG EMPL has systematically examined the available control results and indicators, including the results of its own audits, 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 (part 2).

For **EGF**, the overall estimated error rate is 0.09% and therefore below the materiality threshold. Concerning **IPA**, the analysis made at programme level (as for the ESF) allowed to conclude to a reasonable assurance with a cumulative residual error rate of 0.81%. On the basis of this assessment, management has reasonable assurance that suitable controls are in place and work as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

For **centralised direct management**, although the error rate for grants was assessed at 2.72%, DG EMPL concludes to a reasonable assurance. The analysis made to support that conclusion considers (1) the fact that the sample is selected on a risk based and targeted approach; (2) the nature of the major cases identified (3) the existing ex-ante and ex-post control procedures and (4) the weighted average error rate detected for grants over the last 5 years (1.66%).

As regards the **ESF**, 2014 is the sixth year for which the national Audit Authorities provided Annual Control Reports (ACRs) and audit opinions. DG EMPL carried out a detailed analysis of these documents and, for the fourth year, could use the error rates provided by the national Audit Authorities in the ACRs as one of the key elements for building its assurance.

The overall internal control system allowed detecting deficiencies in the management and control systems of 36 Operational Programmes of the 2007-2013 programming period which are included in the 2014 reservation. The financial risk related to these OPs is estimated to be 1.7 % of the 2007-2013 interim payments executed in 2014 and the cumulative residual error rate over the whole period is estimated at 1.2 %.

DG EMPL continues to apply a strict policy of interruption and suspension of payments to preserve the EU's financial interests. The financial corrections implemented in 2014 amounted to EUR 289 million of which EUR 133.1 million for 2000-2006 and EUR 155.9 million for 2007-2013.

DG EMPL concludes to a reasonable assurance that suitable controls are in place and work as intended for the ESF as the overall internal control system allows detecting and correcting deficiencies in some management and control systems of the 2007-2013

programming period.

As regards the 2000-2006 programming period, assurance has been built over the years. In the closure process, final payments are made when DG EMPL is reasonably certain that the error rate is below the materiality threshold of 2% following agreement on appropriate financial corrections. Due to the late closure, and following the precautionary principle, a reputational reserve is made for 7 OPs for which the proposed correction is above 5 %.

4.2 Reservations and overall conclusion on assurance

4.2.1 Reservations

DG EMPL management therefore concludes to an overall assurance qualified by a reservation concerning thirty-six 2007-2013 and seven 2000-2006 ESF Operational Programmes.

The overall estimated validated average error rate⁸⁸ on 2014 payments for the 2007-2013 programming period is in the range of 2.8 % to 4.0 %. The financial risk related to these OPs⁸⁹ is estimated to be 1.7 % of the 2007-2013 interim payments executed in 2014.

As regards the 2000-2006 programming period, a reputational reservation is formulated by DG EMPL for 7 programmes for which the proposed correction is above 5 %. There is no financial risk in 2014 as final payments will be executed only when all problems are solved and an agreement reached with the MS concerned on the level of financial correction to be applied.

DG EMPL therefore decides on the following two reservations:

No	Title	Type	2014 amount at risk	ABB amount concerned i.e. scope
1	Management and control systems for 36 specific ESF Operational Programmes in Belgium, Czech Republic, France, Germany, Greece, Hungary, Italy, Romania, Slovakia, Spain and the United Kingdom for the programming period 2007-2013. <i>(of which 13 OPs are affected by a reputational reservation as no payments were made in 2014 to these OPs)</i>	Financial ⁹⁰	EUR 169.4 million	EUR 2 713 million
2	Management and control systems for 7 specific ESF Operational Programmes in France, Italy and Spain for the programming period 2000-2006	Reputational	0	0

In addition to applying a strict policy of interruptions and suspensions to protect EU funds, DG EMPL will continue to actively promote the benefits of using simplified cost options for the European Social Fund for the programming period 2014-2020. DG EMPL will maintain its focus on anti-fraud strategy notably through the organisation of awareness raising seminars addressed to MS' authorities and promoting the utilisation of ARACHNE as a benchmark in order to support MS in implementing effective and proportionate fraud prevention and detection controls.

The main new issue in 2014 concerns Greece for which the error rate for ESF OPs has been set at a provisional flat rate of 5% for the 4 OPs, totalling payments for EUR 1089 million:

- Limited coverage of ESF programmes in the common ESF-ERDF sample;

⁸⁸ 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: (1) 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 (2) 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).

⁸⁹ 13 of these 36 OPs are affected by a reputational reservation as no payments were made in 2014 to these OPs

⁹⁰ The reservation concerning the 2007-2013 programming period is a financial reservation although it contains individuals OPs subject to a reputational reserve only. The detail can be found on last page

- Following DG EMPL audit report Arep1699 issuing a Cat. 3 opinion, deficiencies were found in selection of operations and management verifications performed by IB OAED for the call "structural adjustment" of the "Human Resource Development" OP. The CA stopped declaring expenditure for this call;
- Taking also into account the preliminary audit findings DAS(2014) PF-6296 on "Education and lifelong learning" (2007GR05UPO002) and the preliminary information provided by ECA "Administrative Reform", all Greek programmes are currently included in the draft reservation list and payments have been interrupted on a precautionary basis until the ongoing discussions with both ECA and the Greek authorities are concluded.

DG EMPL	
Title of the reservation	Management and control systems for 36 specific ESF Operational Programmes in Belgium, Czech Republic, France, Germany, Greece, Hungary, Italy, Romania, Slovakia, Spain and the United Kingdom for the programming period 2007-2013. These include partial/full and reputational/financial reservations. Detail at OP level is to be found on last page
Domain	Shared management of ESF
ABB activity and amount affected	04.02 ESF (2007-2013) 2014 interim payments made to 2007-2013 OPs: EUR 9 926.5 million 2014 interim payments made to 2007-2013 OPs affected by the reservation: EUR 2 713 million
Reason for the reservation	Deficiency of the management and control systems set up in relation to the requirements of Regulation 1083/2006 (ESF 2007-2013).
Materiality criterion	Significant deficiencies at the level of the key elements of the management and control systems.
Quantification	EUR 169.4 million corresponding to 1.7 % of the interim payments of the year for 2007-2013 period ⁹¹ .
Impact on assurance	The weakness affects the legality and regularity of the payments concerned and the management systems in place. Financial impact is mitigated through precautionary measures taken by the Commission: - interruption/suspension of payments pending the correction of the identified weaknesses by the MS concerned; - financial corrections applied to past expenditure statements.
Responsibility for the weakness and its remedy	The expenditure concerned is under shared management, in which the MS is responsible for implementing the management and control systems. The Commission supervises the national authorities in this respect.
Corrective action	For each programme included in the reservation, in the aim to obtain assurance that the required corrective measures have been completed, the Commission has undertaken or planned specific actions which include, if necessary: <ul style="list-style-type: none"> ▪ interruption of payments following article 91 of Regulation 1083/2006 ▪ launch of suspension and financial corrections procedures ▪ complementary guidance and support for national authorities especially on the coverage and quality of the audit activities ▪ audit work to check the ability of national auditors to fulfil their obligations ▪ on the spot audits of operations or on systems on a risk-based approach.

⁹¹ The reservation concerning the 2007-2013 programming period is a financial reservation although it contains individuals OPs subject to a reputational reserve only. The detail can be found on last page

DG EMPL	
Title of the reservation	Management and control systems for 7 specific ESF Operational Programmes in France, Italy and Spain for the programming period 2000-2006 (reputational reserve).
Domain	Shared management of ESF
ABB activity and amount affected	04.02 ESF (2000-2006) 2014 final payments made to 2000-2006 OPs: EUR 41.8 million. 2014 final payments made to 2000-2006 OPs affected by the reservation: EUR 0
Reason for the reservation	Deficiency of the management and control systems set up in relation to the requirements of Regulation 438/2001.
Materiality criterion	Significant deficiencies at the level of the key elements of the management and control systems
Quantification	EUR 0 (no payment was made for these 7 programmes in 2014)
Impact on assurance	The weakness affects the legality and regularity of the payments concerned and the management systems in place. Financial impact is mitigated through precautionary measures taken by the Commission: no final payment till agreement on financial corrections to be applied at closure of the programme.
Responsibility for the weakness and its remedy	The expenditure concerned is under shared management, in which the Member State is responsible for implementing the management and control systems. The Commission supervises the national authorities in this respect.
Corrective action	For the programmes concerned, on-going discussions with the national/regional authorities on the financial corrections proposed by the Commission.

4.2.2 Overall conclusion

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the expenditure authorised is estimated between 2.5% and 3.6% for the reporting year (implying an amount at risk of estimated between 278 and 403 million).

	Scope: payments made (2014; EUR Million)	Average Error Rate (AER;%)		Amount at risk (2014; EUR Million)	
		Most likely	Upper	Most likely	Upper
FSE 2007-2013–Interim Payments	9.927	2,77%	3,99%	274,8	396,1
FSE 2007-2013 - Others	49	0,00%	2,00%	0,0	1,0
FSE 2000-2006	42	0,00%	0,00%	0,0	0,0
FSE 2014-2020	614	0,00%	0,00%	0,0	0,0
FEAD	410	0,00%	0,00%	0,0	0,0
EGF	64	0,09%	2,00%	0,1	1,3
IPA	63	1,68%	2,00%	1,1	1,3
Centralised	167	1,00%	2,00%	1,7	3,3
Overall	11.334	2,45%	3,55%	277,6	402,9

The internal control strategy foresees the implementation of further controls during subsequent years aimed to detect and correct errors. It is not possible to identify the specific errors and amounts which will be effectively corrected in the coming years, yet the implementation of these corrective actions since 2009 have resulted on average in recoveries and financial corrections representing EUR 317.3 million or 2.8%⁹² of the average payments over the same period. This provides the best available indication of the corrective capacity of the ex-post controls systems implemented by the DG.

Taking into account the conclusions of the review of the elements supporting assurance and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the internal controls systems implemented by DG EMPL provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes and despite the reservations outlined, which concern exclusively legality and regularity risks. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance with regards to the achievement of the other internal control objectives.

⁹² This average includes only ex-post Financial Corrections in order to avoid double counting. The average including the ex-post and 'à la source' FC would be 3.4 %.

DECLARATION OF ASSURANCE

I, the undersigned, Michel Servoz, Director-General of the Directorate General for Employment, Social Affairs and Inclusion

In my capacity as authorising officer by delegation,

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

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 examination of the management and control systems of the Member States highlights the following elements:

- There are deficiencies of key elements of the management and control systems set up in relation to the requirements of Regulation 1083/2006 (2007-2013 period) for identified ESF Operational Programmes in Belgium, Czech Republic, France, Germany, Greece, Hungary, Italy, Romania, Slovakia, Spain and the United Kingdom which have not been subject to sufficient control and corrective measures by the national authorities;

- There are deficiencies of key elements of the management and control systems set up in relation to the requirements of Regulation 438/2001 (2000-2006 period) for identified ESF Operational Programmes in France, Italy and Spain which have not been subject to sufficient corrective measures by the national authorities and that are treated in the closure process.

For the programmes concerned, DG EMPL has a reservation on the legality and regularity of the underlying transactions for expenditure declared.

[Signed]

Michel Servoz

Brussels, 31 March 2015

List of operational programmes in the 2014 reservation

2007-2013 programming period			
Member State	OP number	OP Name	Reservation
BELGIUM	2007BE052PO003	Etat fédéral	full
	2007BE052PO005	Vlaanderen	reputational
CZECH REPUBLIC	2007CZ052PO001	Praha Adaptabilita	reputational
FRANCE	2007FR051PO003	Guyane	full
GERMANY	2007DE051PO002	Mecklenburg-Vorpommern	full
	2007DE052PO003	Berlin	reputational
	2007DE052PO004	Bremen	full
	2007DE052PO005	Hambourg	Full
GREECE	2007GR051RV001	Reserve programme	Full
	2007GR05UPO001	Développement Ressources humaines	Full
	2007GR05UPO002	Education, formation	Full
	2007GR05UPO003	Développement administration	Full
HUNGARY	2007HU05UPO001	Revitalisation sociale	Full
ITALY	2007IT051PO002	Calabria	Full
	2007IT052PO001	Abruzzo	partial reputational
	2007IT052PO006	Lombardia	Full
	2007IT052PO009	Bolzano	Reputational
	2007IT052PO010	Trento	Full
ROMANIA	2007RO051PO001	Human Resources Development	Full
SLOVAKIA	2007SK05UPO001	Education	Full
	2007SK05UPO001	Employment and Social Inclusion	partial reputational
SPAIN	2007ES051PO005	Andalucia	Reputational
	2007ES052PO002	Castilla y Leon	Full
	2007ES052PO003	Comunidad Valenciana	Reputational
	2007ES052PO004	Aragon	Reputational
	2007ES052PO005	Baleares	Reputational
	2007ES052PO007	Cataluna	Reputational
	2007ES052PO008	Madrid	partial reputational
	2007ES052PO010	Pais Vasco	Full
	2007ES05UPO001	Adaptabilidad y Empleo	Full
	2007ES05UPO002	Lucha contra la Discriminación	Full
	2007ES05UPO003	Asistencia Tecnica	Full
UNITED KINGDOM	2007UK051PO001	Highlands and Islands of Scotland	Full
	2007UK052PO002	Lowlands and Uplands of Scotland	Reputational
	2007UK052PO003	Northern Ireland	Full
	2007UK05UPO001	England and Gibraltar	Full

2000-2006 programming period			
Member State	OP number	OP Name	Reservation
FRANCE	1999FR053DO001	Objectif 3 national	Reputational
ITALY	1999IT161PO006	Calabria	
	1999IT161PO011	Sicilia	
	1999IT053PO012	Abruzzo	
SPAIN	2000ES161PO011	Galicia	
	2000ES051PO016	Lucha contra la Discriminación – objective 1	
	2000ES053PO312	Lucha contra la Discriminación – objective 3	