



2019

Annual Activity Report

SRSS
Structural Reform
Support Service



*In 2019, four years since its establishment, the SRSS consolidated and strengthened its **support to Member States**, expanding its work to 26 Member States and over 760 technical support projects.*

The support measures implemented under the SRSP have significantly improved the capacity of Member-State authorities to implement institutional, administrative and growth-enhancing reforms, thus directly contributing to one of the Juncker Commission's political priorities to boost "Jobs, Growth and Investments".

*In parallel, we continued to strengthen our **cooperation with the Member States**, with a special focus on the strategic orientation of their requests and on the role of the Coordinating Authorities.*

The launch of the fourth round of the SRSP cycle for 2020 confirmed Member States' interest in the programme: by October 2019, the SRSS had received 609 requests from 27 Member States for an estimated amount of EUR 250 million. We selected 228 requests, but the demand still outstripped the available means.

*The Service also continued to coordinate the Commission's efforts to **support the Cyprus Settlement process** under the auspices of the United Nations and to support the Turkish Cypriot community through the Aid Programme. We focused our efforts on bringing the two communities closer through relevant bi-communal measures and by expanding green line trade.*

*Moreover, looking towards the future, we pursued negotiations with the co-legislators on the Commission proposal for a **new Reform Support Programme** under the post-2020 Multiannual Financial Framework package.*

*Finally, the Service faced the organisational challenge of **becoming a Directorate-General**: on December 2019, the College of Commissioners took an administrative decision to transfer, as of January 2020, the Service from the Commission's Secretariat-General (SG) and to establish it as the Directorate-General for Structural Reform Support (DG REFORM).*

While being appointed in December 2019, as the new Director-General (DG) of the Directorate-General for Economic and Financial affairs (DG ECFIN), I have continued to manage DG REFORM as acting DG until my successor takes up his/her duties.

This last Annual Activity Report gives me the opportunity to close my mandate in the SRSS by expressing my satisfaction with the achievements of the Service in the last four years and to wish DG REFORM staff success in all their future endeavours.

Maarten VERWEY

Acting Director-General of DG REFORM (ex- SRSS)

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THE DG IN BRIEF

Effective implementation of structural reforms, timely and adequate transposition of the Union acquis and efficient and effective use of the EU funds are vital for encouraging investment, unlocking the growth potential, raising living standards and supporting the process of convergence in the EU.

To help EU Member States address the implementation challenge, the European Commission set up the Structural Reform Support Service (SRSS) in July 2015. The SRSS has a mandate to help EU member countries prepare, design and implement growth-generating reforms. The focus is on providing tailor-made support on the ground.

Since 2017, the SRSS has been managing a dedicated programme — the Structural Reform Support Programme (SRSP) — with a budget of EUR 222.8 million for 2017-2020. Under the programme, Member States can also transfer to SRSS a part of their unused technical assistance funds attached to their EU funds for use on their behalf. So far, two Member States (Greece and Bulgaria) have made use of this possibility. The programme is the main source of funding of technical support projects in EU countries and does not require co-financing by the countries concerned.

Furthermore, the SRSS coordinates the Commission's efforts to support the process led by the United Nations for the reunification of Cyprus. In this context, it is responsible for the implementation of the EU Aid Programme for the Turkish Cypriot community (EUR 240 million for 2014-2020) and for monitoring the application of the Green Line Regulation.

The SRSS relies on a flexible and service-oriented way of working, involving cross-unit teams working on specific projects. The units represent the division of technical support provision by policies areas, while Country Coordinators, appointed by the Director General, ensure a country-oriented perspective.

In 2019, the SRSS included eight Units. It is headquartered in Brussels and it has two decentralised offices - one in Athens (Greece) and another in Nicosia (Cyprus) - as well as a representative staff in Bucharest and Zagreb. In 2019, the SRSS maintained its presence on the ground in Greece through its Athens office, considered necessary due to the large volume of projects undertaken there by SRSS.

On 4 December 2019, the College of Commissioners took an administrative decision to transfer, as of January 2020 the Service from the Commission's Secretariat-General (SG) and establish it as a new Directorate-General for Structural Reform Support (DG REFORM). Until the end of 2019 the SRSS continued to be administratively part of the SG. A Memorandum of Understanding was agreed with DG REGIO on 20 December 2019 to establish shared support functions from January 2020 in the areas of data protection management, document management, external communication, information technology, and activities related to financial management and budgetary preparation and reporting.

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of SRSS for the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it makes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties¹.

The executive summary has four subsections:

- a) Key results and progress towards the achievement of the Commission's general objectives and the DG's specific objectives (executive summary of section 1; *what* we have delivered);
- b) The most relevant Key Performance Indicators (KPIs) to illustrate the policy highlights identified in the SRSS 2016-2020 Strategic Plan;
- c) Key conclusions on Financial Management and Internal control (executive summary of section 2.1; *how* we have delivered), and
- d) Information for the Commissioners.

a) Key results and progress towards the achievement of the Commission's general objectives and the DG's specific objectives (executive summary of section 1)

The implementation of administrative and structural reforms is essential to strengthen the adjustment capacity of an economy and to help it move to and/or remain on a sustainable growth path. In 2019, the SRSS was on track when it came to delivering on its **general objective** to help Member States prepare and implement administrative and structural reforms for building more effective institutions, stronger governance frameworks and efficient public administrations.

By supporting such reforms, the SRSS contributed directly to "Jobs, Growth and Investment", one of the Commission's ten political priorities and the general objective for the SRSS. Moreover, due to its broad range of activities, the SRSS contributed to other Commission priorities, including the Energy Union, the Digital Single Market, the Capital Market Union, and the Country-Specific Recommendations under the European Semester. In addition, the SRSS has ensured that its support has a strong European added value through complementarity and synergies with other programmes and policies at national, Union and international levels.

The **first specific objective** of the SRSS is to help Member States, through the provision of technical support, to prepare and implement reforms, in particular in the context of EU economic governance processes. In this respect, all the main challenges for 2019 were addressed and achieved: the technical support projects

For the year 2019, 27 Member States submitted 580 requests for support, for a total value of EUR 194 million (as estimated by the Member States). Two hundred and sixty-three requests were proposed for selection for funding – following a thorough prioritisation exercise carried out by the Commission.

¹ Article 17(1) of the Treaty on European Union.

agreed with the Member States under SRSP 2017, SRSP 2018 and SRSP 2019 were delivered in a timely manner, ensuring the relevance and high quality of this support. Moreover, negotiations with the co-legislators on the proposal to establish the Reform Support Programme under the comprehensive post-2020 Multiannual Financial Framework were pursued.

In 2019, following requests from Member States, the SRSS provided support to 26 Member States in a wide range of policy areas such as public administration, business environment, labour markets, health care, education, taxation, public financial management, access to finance, and legal and institutional policies of financial institutions. The target set for the number of technical support projects being delivered was reached and surpassed: 100% of the projects selected for funding under SRSP 2017 and SRSP 2018, and 99% of the projects selected for funding under SRSP 2019 were started. Notwithstanding the provision of support, it must be noted that overall ownership and responsibility for the policies and reforms developed and implemented remain with the Member States themselves.

The support provided ranged from the presence of resident experts on the ground in Member States, expert missions, and study visits to Member States to expertise provided by the Commission, other international organisations and Member States and the private sector. In 2019, the SRSS increased the activities implemented under the Technical Assistance and Information Exchange instrument (TAIEX), which is managed in cooperation with DG NEAR, reaching a total of 108 capacity-building events.

The second Annual Monitoring Report on the implementation of the 2018 Structural Reform Support Programme (SRSP) shows that the support provided by the SRSS can make a significant contribution to Member States' national authorities in their efforts to identify and overcome structural weaknesses in the design and implementation of institutional, administrative and growth-enhancing reforms. In 2019, DG REFORM launched the mid-term evaluation of the SRSP, which results will be published in 2020.

The SRSS delivered on its **second specific objective** by continuing to lead the inter-service coordination mechanism to steer and coordinate the support provided to Member States across thirty-one Commission services. The strong coordination mechanism helped to position the Commission as a unique technical support provider, with the SRSS acting as a coordinator and entry point for Member States. In fact, the Service coordinated the work with other external actors in the field, in particular the Member States' authorities. Moreover, the Service strengthened its cooperation with international organisations such as the EBRD, the OECD, the World Bank and the Council of Europe.

Finally, under its **third specific objective**, the SRSS continued to assist the Turkish Cypriot Community under Council Regulation (EC) No 389/2006 (the "Aid Programme")² and coordinated the Commission's effort to support the process of reunification of Cyprus, remaining actively engaged in supporting a resumption of settlement talks under the UN framework. Moreover, the SRSS continued to monitor the implementation of the Green Line Regulation and prepared the Annual Report from the Commission on the implementation of the Green Line Regulation in 2018³.

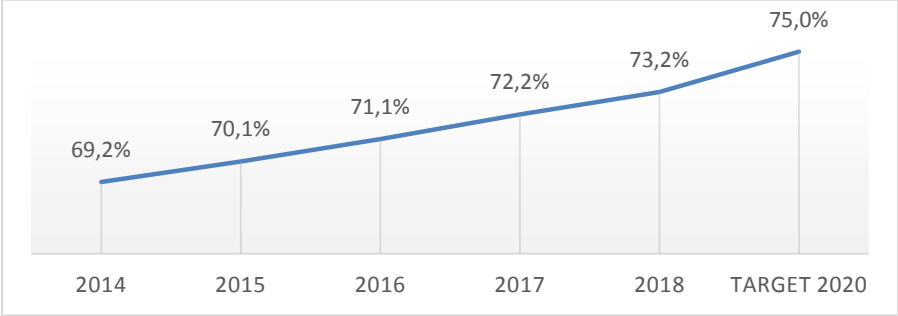
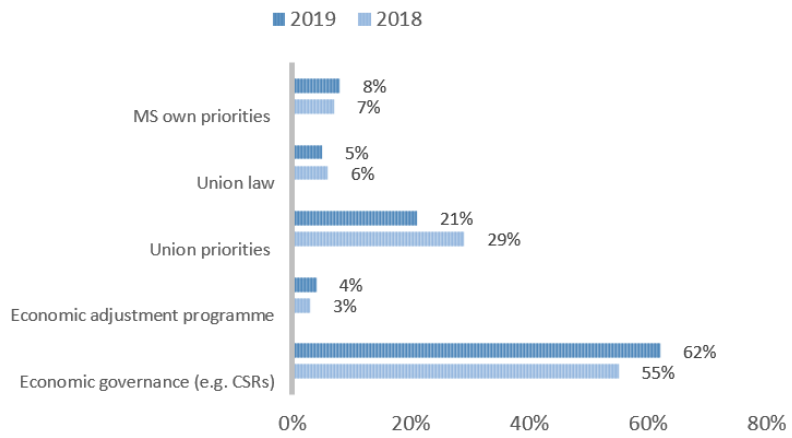
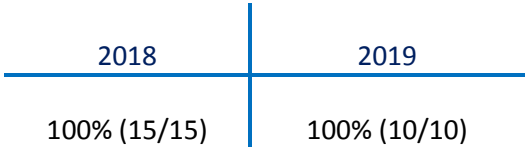
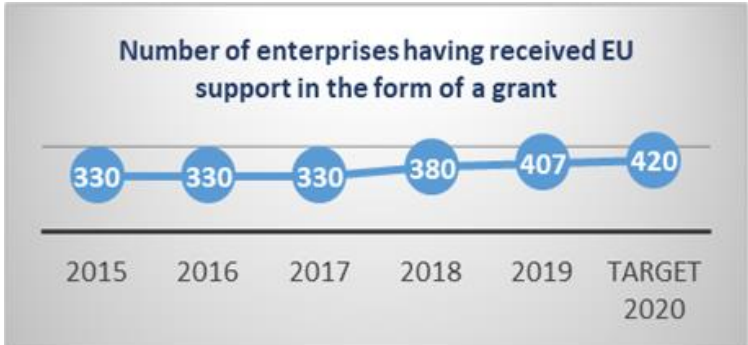
Under the Aid Programme, the Service fostered the development and restructuring of infrastructure, social and economic development, and reconciliation, confidence-building measures and support to civil society. Moreover, the Service worked actively to bring the Turkish Cypriot community closer to the EU and to prepare the Turkish Cypriot community for the introduction and implementation of the *acquis communautaire*.

² Council Regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community and amending Council Regulation (EC) no 2667/2000 on the European Agency for Reconstruction, OJ L 65 of 7.3.2006, p.5.

³ The 15th Annual Report, covering 2018, was published on 05/04/2019 (COM(2019) 323 final).

b) Key Performance Indicators (KPIs)

The following KPIs refer to those identified in the 2016-2020 Strategic Plan.

Impact /result indicator (description)	Target (or milestones)	Latest known results																		
KPI 1- Employment rate population aged 20-64 (Eurostat)		 <table border="1"> <caption>Employment rate population aged 20-64</caption> <thead> <tr> <th>Year</th> <th>Employment Rate (%)</th> </tr> </thead> <tbody> <tr> <td>2014</td> <td>69,2%</td> </tr> <tr> <td>2015</td> <td>70,1%</td> </tr> <tr> <td>2016</td> <td>71,1%</td> </tr> <tr> <td>2017</td> <td>72,2%</td> </tr> <tr> <td>2018</td> <td>73,2%</td> </tr> <tr> <td>TARGET 2020</td> <td>75,0%</td> </tr> </tbody> </table>	Year	Employment Rate (%)	2014	69,2%	2015	70,1%	2016	71,1%	2017	72,2%	2018	73,2%	TARGET 2020	75,0%				
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2016	71,1%																			
2017	72,2%																			
2018	73,2%																			
TARGET 2020	75,0%																			
KPI 2- Circumstances for technical support -SRSP 2018/2019		 <table border="1"> <caption>Circumstances for technical support -SRSP 2018/2019</caption> <thead> <tr> <th>Circumstance</th> <th>2019 (%)</th> <th>2018 (%)</th> </tr> </thead> <tbody> <tr> <td>MS own priorities</td> <td>8%</td> <td>7%</td> </tr> <tr> <td>Union law</td> <td>5%</td> <td>6%</td> </tr> <tr> <td>Union priorities</td> <td>21%</td> <td>29%</td> </tr> <tr> <td>Economic adjustment programme</td> <td>4%</td> <td>3%</td> </tr> <tr> <td>Economic governance (e.g. CSRs)</td> <td>62%</td> <td>55%</td> </tr> </tbody> </table>	Circumstance	2019 (%)	2018 (%)	MS own priorities	8%	7%	Union law	5%	6%	Union priorities	21%	29%	Economic adjustment programme	4%	3%	Economic governance (e.g. CSRs)	62%	55%
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KPI 3- Feedback on the efficiency of the coordination mechanism – graph (2018 and 2019 data)		 <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>100%</td> <td>15/15</td> </tr> <tr> <td>2019</td> <td>100%</td> <td>10/10</td> </tr> </tbody> </table>	Year	Percentage	Count	2018	100%	15/15	2019	100%	10/10									
Year	Percentage	Count																		
2018	100%	15/15																		
2019	100%	10/10																		
KPI 4- Number of enterprises having received EU support in the form of a grant (graph 2015- 2020)		 <table border="1"> <caption>Number of enterprises having received EU support in the form of a grant</caption> <thead> <tr> <th>Year</th> <th>Number of Enterprises</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>330</td> </tr> <tr> <td>2016</td> <td>330</td> </tr> <tr> <td>2017</td> <td>330</td> </tr> <tr> <td>2018</td> <td>380</td> </tr> <tr> <td>2019</td> <td>407</td> </tr> <tr> <td>TARGET 2020</td> <td>420</td> </tr> </tbody> </table>	Year	Number of Enterprises	2015	330	2016	330	2017	330	2018	380	2019	407	TARGET 2020	420				
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c) Key conclusions on financial management and internal control (executive summary of section 2.1)

In accordance with the governance arrangements of the European Commission, (the staff of) the SRSS 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.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. The SRSS has assessed its internal control systems during the reporting year and has concluded that that it is integrated, effective and the components and principles are present and functioning well overall, but some improvements are needed. Please refer to AAR section 2.1.3 for further details.

In addition, the SRSS has systematically examined the available control results and indicators, including those for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that: overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and the necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation concerning grant direct management (agreements signed with non-pillar assessed beneficiaries) under the Technical Support budget lines (cf. section 2.1.4 for further details).

d) Provision of information to the Commissioners

In the context of the annual reporting activities, the main elements of this report and assurance declaration, including the reservation envisaged, have been brought to the attention of Commissioner Elisa Ferreira, who is responsible for Cohesion and Reforms⁴ since 1 December 2019.

The report was also sent for information to the Executive Vice President Commissioner Valdis Dombrovskis, who was responsible for the Euro and Social Dialogue and in charge of the SRSS, Financial Stability, Financial Services and Capital Markets Union from 1 November 2014 until 30 November 2019.

⁴ College 2019-2024

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF THE COMMISSION'S GENERAL OBJECTIVES AND DG'S SPECIFIC OBJECTIVES

The implementation of administrative and structural reforms is essential to strengthen the adjustment capacity of an economy and helps it move to and/or remain on a sustainable growth path. The Commission recognises the importance of such reforms, while acknowledging the challenges that Member States face in preparing and implementing them.

In 2019, the Commission, through the SRSS, supported Member States in preparing and implementing reforms for building more effective institutions, stronger governance frameworks and efficient public administrations. The SRSS provides support, based upon requests from Member State, only after specific projects are mutually agreed between the Commission and the Member States concerned.

While it is not within the remit of this report to illustrate the ultimate effects of the reforms⁵ on which a Member State may have embarked and for which some support may be or is being provided under the SRSP, it can be stated that the SRSP is on track when it comes to delivering on its general objective.

By supporting the implementation of administrative and structural reforms in Member States, the SRSS has contributed to the EC general objective of boosting "Jobs, Growth and Investment". The SRSS has ensured that its support has a strong European added value through complementarity and synergies with other programmes and policies at national, Union and international levels, and through their contribution to the promotion of mutual trust and cooperation between beneficiary Member States and the Commission. Actions also aimed to allow for the development and implementation of solutions that not only address national challenges but also have a positive impact on cross-border or Union-wide challenges.

In 2019 the Service focused on the following specific objectives and related outputs. The main achievements and challenges per area of support are reported below.

Specific objective 1.1. 'Help Member States to prepare and implement growth-enhancing administrative and structural reforms, in particular in the context of EU economic governance processes, through the provision of relevant technical support'.

The actions selected and implemented by the SRSS are designed to make a significant contribution to Member States' national authorities in their efforts to identify and overcome certain structural weaknesses that impede the design and implementation of reforms.

The support measures implemented under the SRSP have provided assistance to national authorities in the design and implementation of a whole range of institutional, administrative and structural reforms. The activities under the programme and the outputs already delivered under the SRSP help strengthen the overall capacity and sound governance of the requesting Member States. However, while the support measures are designed to contribute to the reform process, effective follow-up of the actions, in terms

⁵ According to Article 16 of the SRSP Regulation, the Commission shall provide an independent mid-term evaluation report with information on the achievement of the programme's objectives, the efficiency of the use of the resources and the programme's European added value, as well as the continued relevance of objectives and actions.

of actual implementation of the reforms, remains the prerogative of the recipient Member State.

With respect to specific objective 1.1, the main challenges for 2019 were addressed and the achievements can be summarised as follows:

- *the technical support projects agreed with the Member States under SRSP 2017, SRSP 2018, and SRSP 2019 were delivered in a timely manner;*
- *the relevance and high-quality of this support was ensured; and*
- *the negotiations with the co-legislators on the proposal to establish the Reform Support Programme under the comprehensive post-2020 Multiannual Financial Framework were pursued.*

For the year 2019, 27 Member States submitted 580 requests for support, for a total value of EUR 194 million (as estimated by the Member States). The available amount of EUR 79.3 million was oversubscribed by a factor of 2.4. Two hundred and sixty-three requests were proposed for selection for funding – following a thorough prioritisation exercise carried out by the Commission. The requests proposed for funding cover all policy areas indicated in Article 5(2) of the SRSP Regulation.

***TAIEX-SRSP Peer 2 Peer** is an instrument managed in cooperation with DG European Neighbourhood Policy and Enlargement Negotiations (DG NEAR) to implement the Structural Reform Support Programme (SRSP).*

The instrument is available for SRSP projects and the technical support provided covers growth-enhancing reforms, from inception to completion. The instrument provides short-term and tailor-made expertise exchanges through Expert Missions, Study Visits and Workshops of technical assistance between public sector experts of Member States' administrations in order to build more effective institutions, stronger governance frameworks and efficient public administrations.

In 2019, the target set for the number of technical support projects delivered was reached and surpassed: 100% of the projects selected for funding under SRSP 2017 and SRSP 2018, and 99% of the projects selected for funding under SRSP 2019 were started.

The technical support provided by the SRSS takes the form of:

- expert and fact-finding missions on the ground to assess the situation;
- diagnostic analyses and provision of recommendations on how to address the situation, and sharing of relevant best practices through seminars, conferences & workshops; and
- development and implementation of targeted solutions to address the situation.

TAIEX⁶ (Technical Assistance and Information Exchange instrument) has also been available

for SRSP activities since 2017. In 2019, the SRSS increased its number of requests to DG NEAR (from 67 requests in 2018 to 75 requests) to organise TAIEX SRSP events. Out of these, 42 applications requested more than one activity (series of events).

As result, in 2019, a total of 108 TAIEX activities were implemented: 26 Expert Missions, 56 Study Visits, 19 Workshops and 7 Work from Home.

⁶ TAIEX is the Technical Assistance and Information Exchange instrument of the European Commission. TAIEX supports public administrations with regard to the approximation, application and enforcement of EU legislation as well as facilitating the sharing of EU best practices.

The feedback from experts on the overall quality of the events organised is positive. This confirms that TAIEX exchanges remain an efficient and effective instrument for sharing best practices among Member States' public administrations.

In 2019, the SRSS published the second Annual Monitoring Report on the implementation of the 2018 Structural Reform Support Programme (SRSP). The report showed that the SRSP can make a significant contribution to Member States' national authorities in their efforts to identify and overcome structural weaknesses in the design and implementation of institutional, administrative and growth-enhancing reforms which to a great extent (93%) relate directly to the EU's strategic priorities.

A detailed analysis of the activities carried out in 2019 under the SRSP, by policy area, is provided in the following sections.

Efficient, modern, service-oriented public administrations and public procurement practices

ROMANIA – MINISTRY OF FINANCE
SUPPORT TO IMPROVE THE
COORDINATION OF INTERNAL AUDIT

A stronger internal audit function at central and local level was the objective of the project that supported the Central Harmonisation Unit for Internal Audit in the Ministry of Finance. This aimed to prevent fraud and corruption and to improve the utilisation of available resources. The support delivered by Austrian experts led to:

- a) A Public Internal Audit Strategy 2020-2024;
- b) Increased professional capacity of internal auditors;
- c) Strengthened financial control framework and environment;
- d) Stronger internal audit culture in the public administration, notably at local level.

The implementation of the Internal Audit Strategy has triggered a number of further reforms, which aim at enhancing governance and transparency at central and local level.

In 2019, the SRSS continued to contribute to administrative and structural reforms for efficient, modern, service-oriented public administrations and public procurement practices, through an extensive set of actions in a wider range of Member States (twenty-three, compared to 19 in 2018).

In the area of governance and public administration, the SRSS consolidated the support provided on administrative reforms with a focus on human resources management, regulatory governance, internal audit and e-government. Examples of such support include: assistance for the reform of human resources management systems in Croatia, Cyprus, and Ireland; helping Croatian and Bulgarian authorities design a system of performance indicators for monitoring and evaluation of public administration reforms; consolidated support for the reform of public internal audit in Romania and in Bulgaria, and support to projects fostering public sector innovation and digitalisation of public administrations in Italy and Latvia.

In the area of public procurement, the SRSS continued to assist Member States to identify the systemic challenges and barriers in its public procurement system and to develop recommendations for improvement.

Furthermore, the SRSS helped Member States strengthening their public authorities' capacity to implement the European Structural and Investment Funds (ESIF), by focusing on how to achieve better programme and project design, as well as higher performance in the management of these funds. For example, the SRSS assisted the Greek authorities in maturing ESIF ICT projects and in developing the regional policy for Greece post-2020.

In 2019, the SRSS had an important supporting role in the area of Digital Public Administration and e-Government, which saw a substantial increase in the Member States' interest, mainly due to the penetration of ICT in all aspects of public administration and the interest in emerging technologies. The results of the SRSS support, in line with the EC general objective of the Digital Single Market, include the implementation of the Digital Strategy in Greece and Cyprus, with horizontal and domain specific actions. Additionally, the SRSS provided direct technical advice on digital transformation plans and identification of relevant reform needs. In Malta, the digital transformation advanced further, while the digitalisation process was initiated or further reinforced in Estonia, Germany, Austria, Czech Republic, France, Portugal and Spain.

Effective rule of law, combatting corruption and judicial systems

In 2019, the SRSS continued in its efforts to assist Member States with their reform efforts, aimed to ensure the effective rule of law, combat corruption and make judicial systems more efficient.

In Greece, the SRSS maintained its support in the area of Anti-Corruption, assisting the Greek Authorities in the implementation of the National Action Plan and new Anti-Corruption training programme. In Italy, operational expertise and coaching was provided to the National Anti-Corruption Agency for the management of complaints by whistle-blowers.

In the area of judicial reform, the SRSS support to Greece focused on the reduction in the backlog of cases, the implementation of e-justice, the enhancement of mediation, the establishment of a prison academy and the preparation of detainees for release. In Cyprus, past SRSS activity directly triggered reforms in a number of justice-related areas, including court proceedings and the recruitment and promotion of judges. Furthermore, with SRSS support, the Maltese justice developed an HR strategy and recommendations on reducing the length of criminal procedures and the procedures before the Court of Appeals. In Spain, change management and improvement of data collection further promoted cyber justice. In Estonia, the SRSS supported fight against cybercrime. In Latvia and the Slovak Republic, SRSS provided support in strengthening the access to justice through mediation, state-ensured legal aid services and higher standards of operation of the judicial administration. In Portugal, it financed a training-needs analysis for the judicial sector, in order to improve the training programmes of the staff of the judiciary as well as the prosecutors and judges. Finally, in Bulgaria, advice was given on improving the Payment Order Proceedings and support was provided to the Inspectorate to the Supreme Judicial Council.

Coordination for public administration and governance

In 2019, the Competence Centre for Public Administration further developed its policy coordination, analytical and knowledge development work. By chairing the Commission's Inter-Service Group on Public Administration Quality and Innovation (IGPA), the SRSS promoted an active and collaborative inter-service approach in order to achieve more policy coherence. In collaboration with DG ECFIN and thirteen other DGs, the SRSS developed a draft framework for the assessment of public administration, in order to enhance quality and consistency of the Commission's analysis in the European Semester. On this basis, the SRSS contributed to the analysis of public administration in the European Semester's country reports, supported the application of the assessment framework, and provided updated reports on recent public administration reform dynamics in Member States.

Business environment, investment, innovation, competition, trade, energy, regulation and privatisation

In 2019, the SRSS maintained its support to many Member States in the area of the business environment, innovation and competition. This included activities to encourage competition by strengthening the capacity of competition authorities such as improving their capacity to detect infringements of competition rules and assess the impact of state aid schemes. The SRSS helped in the field of technology and innovation, by providing support on the simplification of institutional structures and the design of a more effective and harmonised approach to the evaluation of research projects for public financing.

Furthermore, the SRSS supported Member States to improve the quality of economic data for policy-making purposes, and to underpin the work of Competitiveness Councils and National Productivity Boards.

In addition, the SRSS mobilised strategic advice to support the development of cultural industries, based on a review of statistical information and data gaps, as well as supporting the impact assessment process of current policy measures. This will result in tailored recommendations for enhanced policies and financial instruments to attract investments in the sector. Moreover, the SRSS supported authorities through the provision of operational guidance to develop destination management organisations and to promote a more inclusive, competitive and sustainable tourism.

In the area of the digital economy and construction, the SRSS supported authorities in the introduction of a Building Information Modelling processes for building permits. This was a part of a wider e-construction strategy that aims to create more efficient public services and provide open access to public data related to the building environment. The SRSS supported authorities and relevant stakeholders in identifying and analysing best practices in the sector, as well as contributing to the standardisation of related activities and the development of data flows in the processes of building and civil engineering work life cycle. In addition, the SRSS assisted authorities in moving towards digitalising environmental legislation with a view to making it open access and more user-friendly.

During the year, the SRSS provided support to Member States in the area of investment and public assets. This included assistance in the field of Public-Private Partnerships (PPP) to develop guidance and capacity for the preparation and launch of PPP projects across sectors, such as wastewater treatment plants.

Furthermore, the SRSS supported authorities in their efforts to enhance the corporate governance structure of state-owned enterprises through appropriate reporting and monitoring of the performance of assets. The SRSS supported authorities in developing their ex-ante evaluation capacity on investment projects. This involved the provision of training and the development of guidelines, templates and other documentation that can be used by project promoters for preparing investment projects for Union and national funds.

The SRSS continued to provide support in the area of investment attraction by strengthening the institutional framework through an assessment and recommendations on current business processes, roles and responsibilities of competent authorities, and introducing a more proactive approach to attract investors in priority sectors through the identification of investment opportunities and training of officials. In addition, the SRSS provided support to authorities in the area of investment promotion by developing an investment coordination framework and reforming the strategic investment framework by streamlining regulatory processes governing entry for strategic investments. The SRSS also supported the development of capacity to undertake investment and the carrying out of a regulatory policy review aiming to enhance investment policy, and reduce administrative burden and obstacles to investment.

In the area of better regulation, the SRSS helped authorities to reduce the administrative

burden, assess the financial impact of the transposition of EU law, and improve the regulatory impact assessment process. In addition, the SRSS supported Member States in identifying the most complex and frequent regulations affecting small and medium enterprises and in developing business-friendly tools to assist them with regulatory compliance.

During the past year, the SRSS supported authorities in preparing regions for a transition out of coal and diversification of regional economic development. This support involved the preparation of action plans and recommendations envisaging phasing out coal mining and coal-fired electricity generation.

Furthermore, in 2019 the SRSS continued to support Member States in the implementation of the principles set in the Energy Union Strategy and the related

BULGARIA – DEVELOPING TOOLS TO ASSIST SMES WITH REGULATORY COMPLIANCE

The SRSS mobilised support for the Ministry of the Economy in Bulgaria to develop web-based, user-friendly tools for small-and-medium-sized enterprises (SMEs) and to help them to better understand and comply with the regulatory framework.

The support helped to identify the most complex and common regulations affecting businesses in their interaction with the administration (surveys, interviews and consultations) Moreover, it helped to develop simple, business-friendly web-based descriptions of the 120 most complex and common regulations, which are available in Bulgarian and English languages.

As follow-up measure, the SRSS is providing further support to develop an evidence-based national strategy for SMEs in Bulgaria for the period 2021-27, which will provide a coordinated framework for future policy interventions and funding, including from EU funds and programmes.

appropriate, permitting, duties in an effective, efficient and safe manner that is fully aligned with the EU's environmental acquis.

The SRSS also provided support to several Member States in the transport sector. It assisted authorities in developing a long-term national transport plan and in carrying out capacity-building activities to strengthen strategic transport planning. In addition, the SRSS supported authorities in streamlining administrative procedures for building transport infrastructure, with the aim of ameliorating the investment environment in key parts of the TEN-T network. Furthermore, the SRSS provided support to enhance the coordination of inland navigation and modernise inland waterways, and to strengthen the management of the railway system as well as the flow of freight in port areas.

legislation, thus contributing to the EC general objective of a resilient Energy Union. In particular, the SRSS supported a number of Member States to refine, detail, finalise and assess the impacts of their National Energy Climate Plans. Support in this area contributed to reinforcing the security of energy supply, ensuring harmonisation of the national rules for Projects of Common Interest, and promoting the penetration of renewable energy sources and energy efficiency. Moreover, activities included the promotion of more competitive energy markets and self-production/consumption.

Agriculture, rural development, environment and transport

In 2019, the SRSS supported Member States with capacity-building activities regarding international and national climate policies. It helped Member States in the areas of sustainable management of water resources, waste management, coastal protection, spatial planning and smart cities. In addition, the SRSS supported Member States in strengthening the enforcement and monitoring of environmental law and activities to combat pollution. Amongst other actions, this involved establishing a comprehensive training and development programme to support authorities in carrying out environmental inspection and, where

Health, labour market, migration, pensions, education and training

In 2019, the SRSS continued to provide technical support in the area of health systems and long-term care. It assisted Austria in the setting-up of multidisciplinary primary care units, according to national reform targets. In the area of eHealth, Bulgaria and Croatia were supported in developing eHealth strategies, and Spain in developing telemedicine programmes. Thus, the SRSS support contributed to allowing access by a significant numbers of patients to the benefits of eHealth. In Greece, the SRSS assisted the authorities in setting up a more efficient, activity-based, hospital reimbursement system, as well as in designing a national eHealth interoperability framework. France received support to tailor public health pilot actions for sexually transmitted diseases, targeting at-risk and vulnerable populations groups. To improve the overall performance of the health systems and quality of care, the SRSS supported Croatia in setting up a health system performance assessment, Sweden in improving the quality of care in nursing homes, and Lithuania in improving the performance of the hospital sector. In the field of **labour**

CYPRUS AND MALTA – SUPPORT TO DEVELOP THE NATIONAL ENERGY AND CLIMATE PLANS

In 2019, the SRSS supported Cyprus and Malta in developing their integrated National Energy and Climate Plan (NECPs), required by Regulation 2018/1999 on the Governance of the Energy Union and Climate Action.

In Cyprus, the support involved a comprehensive assessment of the energy, macroeconomic, environmental and social impacts of the planned policies and measures foreseen in the NECPs.

In Malta, the activities included assistance from resident experts who helped with developing the Plans by preparing the input data set and running the needed energy and climate scenarios. Further to this, on-site guidance and training ensured sustainability in the use of the tools that are necessary for the regular biannual reporting required by the Regulation.

In the area of **pensions**, support was provided to Spain, Ireland and Lithuania for a review of their respective national pension systems, and for the development of measures to strengthen supplementary pension savings. Belgium and Latvia were supported in developing new disability assessment methodologies, in view of increasing the overall supply of labour and strengthening the social integration of disabled persons.

market policies, the SRSS assisted Estonia in re-designing its Active Labour Market Policy (ALMP) schemes, with a view to reaching the most difficult-to-access groups of unemployed. In Slovenia and Spain, the SRSS has supported the improvement of policies targeting youth and long-term unemployment, most notably through the development of better targeting and profiling techniques. In the field of labour exploitation, the SRSS assisted Italy in its fight against undeclared work, specifically through inter-institutional collaboration in this domain.

In the field of **migration policies**, assistance was provided to support the creation of a new and efficient state-run system of migrant reception in Greece. In Portugal, similar assistance was provided to strengthen the processing and analytical capacity of the national migrant support centres.

In the field of **education and training**, the SRSS assisted Bulgaria, Spain, and the

LATVIA AND SLOVENIA – DEVELOPING
NEW A METHODOLOGY TO ASSESS
HEALTH SYSTEMS

National health authorities in Latvia and Slovenia wished to develop tailored methodologies to assess the performance of their health systems and to apply them to monitor and evaluate upcoming health reforms. The SRSS provided technical support to identify key domains for assessment and to develop explanatory indicators for each domain, involving and mobilising relevant stakeholders in the implementation of the assessments. In parallel, study visits abroad and training of civil servants and health professionals were organised to help them apply the new methodologies.

The project succeeded in developing new assessment frameworks in both countries and supported their operational introduction for assessing the performance of the health systems, thus actively contributing to the national reform agendas.

Netherlands in effectively monitoring their respective Vocational Education and Training (VET) schemes and in the design of new quality assurance strategies. The DG also assisted Hungary, Belgium and Portugal in the re-design and modernisation of their dual-learning and adult education programmes, with a view to improving participation rates among low-skilled adults, and updating training curricula to meet evolving labour market needs. In Cyprus, support was provided towards the early identification of student disengagement, and the development of early-detection strategies aimed at teachers in particularly deprived areas. More broadly, the SRSS has provided and continues to provide support towards the modernisation and digital transformation of school

curricula in Croatia and Belgium. In Portugal, Poland, Greece, and Cyprus, the SRSS has provided ample assistance in the area of inclusive education. The design of new framework legislation helped to raise awareness and change attitudes, and the concrete recommendations to special educators and trainers are improving the efficiency of inclusive education.

In the area of migration management, the SRSS has supported the Greek authorities in strengthening the administrative and operational capacity of the Reception and Identification Service (RIS) and the Department for the Protection of Asylum Seekers (DPAS). The services provided include training for the relevant staff on public procurement procedures, setting up standard operating procedures, and providing manuals and coordination tools.

Public financial management, budget, revenue administration and taxation

In 2019, the SRSS strengthened and broadened its activity in public financial management and revenue administration to cover a wider range of Member States. Technical support in these fields was provided to 24 Member States. This support has had a direct impact on securing tax revenues, reallocating spending towards more growth-enhancing policies, and developing stronger economies. Overall, it has contributed to enhancing the capacity of Member States to manage their economic policies and financial affairs more effectively.

In the field of **public financial management**, the SRSS continued to provide technical support to build capacity for use of spending reviews, including support to conduct both comprehensive and sectoral reviews, with the objective of contributing towards improving the efficiency, effectiveness and sustainability of public spending. Such support was delivered to five Member States in 2019. Moreover, support to improve the quality of the budget preparation process expanded in 2019 and covered six Member States. Support measures in this area mainly focused on enhancing performance-based budgeting and strengthening the medium-term budget framework. Furthermore, support to improve the budget implementation process also expanded in 2019, in particular through actions to modernise public accounting systems and to transition towards accrual accounting in the context of IPSAS/EPAS (6 Member States) as well as via improvements in cash management and budget execution processes (3 Member States). Finally, the SRSS continued to provide support to strengthen the fiscal framework, mainly through actions to improve the design of national fiscal rules and to enhance the institutional and technical capacities of Independent Fiscal Institutions.

IRELAND - EUROPEAN PUBLIC SECTOR ACCOUNTING STANDARDS

The Irish Department of Public Expenditure and Reform (DPER) requested technical support to prepare effectively for the implementation of harmonised European Public Sector Accounting Standards (EPSAS).

The support measures delivered consisted of assessing the current accounting and fiscal reporting framework at central government level and analysing its gap with international standards (IPSAS). Moreover, an action plan with the steps, duration and cost of the transition was developed. In parallel, a number of study visits were organised to other Member States (United Kingdom, Italy, Sweden) that have adopted or are in the process of adopting accrual accounting.

The Irish DPER used the project deliverables to prepare a government decision to gradually implement accrual accounting in the central government. The SRSS continues to provide support to the Irish DPER for the implementation of the first steps of the action plan.

In the field of **revenue administration**, improving tax administration efficiency and effectiveness remained an important area of technical support provision. Actions in this area focused on building capacity within Tax and Customs Administrations to improve their operations and core functions, enhance the quality of taxpayers' services and reduce the cost of tax compliance. Support measures also focused on helping Tax and Customs Administrations modernise and keep up with the use of digital technologies – a support area that largely expanded to cover seven Member States in 2019. Moreover, the SRSS continued to provide support to build capacity for tackling aggressive tax planning and tax evasion. Such support was delivered to eight Member States in 2019 and focused on measures to build capacity for identifying areas of non-compliance and conducting tax audits more effectively. Finally, in the field of **tax policy**, the SRSS expanded its provision of technical support, covering six Member States in 2019, with actions focusing on improving the instruments used to conduct tax gap analysis and to assess the impact of tax reforms.

Capital markets in Poland are still relatively underdeveloped, lacking a comprehensive strategy for development, and causing potential economic losses. The project focused on a comprehensive analysis of both external and internal, structural and institutional challenges to the development of the capital markets, with the aim of formulating recommendations on how to solve them.

In parallel, a working group with representatives from the Ministry of Finance, Ministry of Economic Development, the Polish Development Fund and the Warsaw Stock Exchange was established to consult on the report and its recommendations.

The outcome of the project was the adoption of the Capital Market Development Strategy by the Polish government in August 2019. The Strategy includes a comprehensive overview of tools and legal changes that would allow the most burdensome problems of the market to be solved, which would in turn contribute to the long-term development of Poland's capital market.

structured products was finalised in Latvia; and a project was delivered on the improvement of investment environment for institutional investors in Lithuania, together with a project undertaking a capital market diagnostic in Estonia. In addition, thanks to SRSS support, Lithuania started developing a strategy on sustainable finance. The overall outcome of the project is to encourage businesses and institutional investors, as well as public authorities, to contribute to sustainable development by creating and implementing the "Lithuanian Strategy on Sustainable/Green Investment".

In putting in place the technical support in 2019, the SRSS has worked with a wide range of interlocutors to ensure the necessary expertise tailored to each project. Alongside the SRSS in-house expertise, the SRSS delivered support in the financial sector by collaborating with other parts of the Commission, national agencies, international organisations and providers from the private sector.

Specific objective 1.2. 'Efficient steering and coordination of technical support provision to Member States across different Commission services as well as with respect to external actors in the field'

The SRSS is mandated to steer and coordinate the technical support provided by the Commission to the Member States, with the objective of supporting "the preparation and implementation of growth-enhancing administrative and structural reforms, in particular in the context of economic governance, including through assistance for the efficient and effective use of the European Structural Funds".

Financial Sector & Access to Finance

In 2019, the SRSS continued to respond to the needs of Member States for assistance with reforms in the financial sector, including actions contributing to the EC general priority of the Capital Markets Union. This led to an expansion of both the topics covered and the number of Member States supported: during the year, the SRSS supported 19 Member States with 84 projects. The support provided related to a wide range of financial sector issues including those relevant to credit institutions (e.g. supervision and resolution), access to finance (e.g. Capital Markets Union), insolvency (practical, legal and institutional reforms), insurance undertakings (e.g. supervision and regulation), and promotional banks (e.g. legal and institutional matters).

A particular focus of the year was that of supporting the work of the Commission and Member States to put in place the Capital Markets Union (CMU). The SRSS has supported Member States in their work to develop their local capital markets as part of the Commission's wider efforts to stimulate capital markets in Europe. During 2019, this has involved working with 19 Member States on 51 projects. Of particular note in 2019 is the SRSS support in the Baltics. For example, the legal and regulatory framework for the creation of

In 2019, the SRSS continued to lead an inter-service coordination mechanism to coordinate the technical support provided by the Commission to Member States, in particular through the Structural Reform Support Programme (SRSP).

The coordination mechanism's operates through a '**technical support working group**' (TSWG), which meets regularly to exchange information on the provision of technical support, to optimise cooperation among the services, and to prepare the consultation process on requests for support received under the SRSP (to ensure alignment with policy priorities and prevent funding overlaps among various Union funds and programmes).

The TSWG is also the main forum for information exchange between the SRSS and other Commission services and prepares the work of the '**high level steering committee**' (HLSC) which meets at senior management level to provide guidance and recommendations on the technical support projects and the funding priorities. In addition, the SRSS cooperates closely with the Commission's representations in Member States to define a common external communication strategy and ensure a unified communication on the SRSP projects. '**Technical support country teams**' share information on SRSP requests submitted by the Member States and the implementation of ongoing SRSP projects. The technical support country teams have been integrated into the European Semester country teams.

In 2019, 31 Commission services were represented in the coordination mechanism (DG ECHO and the Legal Services formally joined the coordination mechanism in 2019). Four meetings took place during the year at the level of the TSWG. Significant improvements were made throughout 2019 in developing an internal IT system to facilitate the assessment of SRSP requests from Member States and the monitoring of ongoing SRSP projects. The SRSS also developed a strategy for sharing deliverables of SRSP projects with the TSWG and the European Semester country teams. Another strategy was drawn up and implemented to strengthen the involvement of the SRSS in the European Semester country teams.

In 2019, the SRSS also continued to coordinate the work with other external actors in the field, in particular the Member States. Ahead of the submission of SRSP 2019 requests, the SRSS organised strategic missions to 27 Member States (lead by the SRSS management or the SRSS country coordinators). The objective of these missions was to prepare the submission of new requests and encourage Member-State coordinating authorities and beneficiary ministries to submit a coherent set of requests linked to EU or national reform priorities. In 2019, Member States continued to submit their requests for support for the SRSP 2020 selection round through the SRSS platform, which enabled them not only to follow the status of the requests submitted, but also to follow the implementation of ongoing technical support projects.

The SRSS continued to strengthen its cooperation with international organisations such as EBRD, OECD, the World Bank and the Council of Europe (cf. 2.1.1). The agreements signed with these international organisations continue to facilitate significantly the work of the SRSS and enable swift delivery of technical support on the ground.

Regular bilateral meetings continued to be organised between the European Commission and the Member States to inform them about the technical support provided, mobilise expertise and discuss support in specific reform areas.

A strong coordination mechanism helps to position the Commission as a unique technical support provider, with the SRSS acting as a coordinator and entry point for Member States. Consequently, Member States may benefit from a coordinated, coherent and effective support to prepare and implement structural growth-enhancing reforms, including those in response to the Country-Specific Recommendations under the European Semester.

Specific objective 1.3 'Provision of assistance to the Turkish Cypriot Community and efficient coordination of the Commission's effort to support the process of reunification of Cyprus'.

In 2019, the SRSS continued to be actively engaged in supporting the resumption of settlement talks under the UN framework. The Service also continued to deliver assistance to the Turkish Cypriot community under Council Regulation (EC) No 389/2006 (the "Aid Programme")⁷ and monitoring the implementation of the Green Line Regulation⁸. The SRSS also prepared the Annual Report from the Commission on the implementation of the Green Line Regulation in 2018⁹.

The Aid Programme pursues the objective of facilitating the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community with particular emphasis on the economic integration of the island, on improving contacts between the Turkish and Greek Cypriot communities and on preparation for the acquis. It is implemented in the areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control and where the application of the acquis is temporarily suspended, pursuant to Protocol 10 of the Treaty of Accession. This implies that the Commission operates in a unique political, legal and diplomatic context.

The Commission reports annually on implementation of the Regulation¹⁰. During the year 2019, the Aid Programme to the Turkish Cypriot community continued to target all the objectives laid down by Regulation (EC) 389/2006. The main outputs during 2019 are outlined below.

Development and restructuring of infrastructure:

- The SRSS concluded a contract for the remedial works of the Famagusta sewerage network for an amount of EUR 20.5 million. The entry into force of this contract is subject to obtaining clearance from the Republic of Cyprus on the use of the land and validation of the "design visa" by the Turkish Cypriot chamber of civil engineers.
- Furthermore, the SRSS concluded contracts for a value of EUR 1.9 million to set up a sustainable integrated waste management plan. The plan will allow for collection and transport of solid waste to the central landfill and recycling of valuable resources.

Promoting social and economic development:

- The SRSS continued to support the development of a more performing business environment, with the conclusion of 27 grants agreements for a total of EUR 5 million. This support aims at enhancing the competitiveness of SMEs and the quality of their goods and services to comply with EU standards. It also provides support to develop technical, innovative and administrative skills within the SMEs.

⁷ Council Regulation (EC) No 389/2006 of 27 February 2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community and amending Council Regulation (EC) no 2667/2000 on the European Agency for Reconstruction, OJ L 65 of 7.3.2006, p.5.

⁸ Council Regulation (EC) No 866/2004 of 29 April 2004 on a regime under Article 3 of Protocol 10 to the Act of Accession, OJ L 206, 9.6.2004, p.51

⁹ The 15th Annual Report, covering 2018, was published on 05/04/2019 (COM(2019) 323 final).

¹⁰ The 13th Annual Report, covering 2018, was published on 05/07/2019 (COM(2019) 322 final).

- Funding for the work of the World Bank was reinforced by EUR 3 million for fiscal and macroeconomic analysis, including a study on the promotion of competitiveness and economic development.

Fostering reconciliation, confidence-building measures and support to civil society:

- The programme continued to fund the activities of the Committee on Missing Persons and the bi-communal Technical Committee on Cultural Heritage. A new EUR-1-million support facility to all the bi-communal Technical Committees was concluded with the UNDP. This facility will help the Technical Committees overcome structural and practical obstacles faced in their daily operations.
- Support for civil society included technical assistance to increase capacity of civil society organisations and to strengthen their role and democratic engagement in the Turkish Cypriot community. The four grant contracts signed in 2019 with different civil society organisations (CSO) are under implementation and aimed to raise awareness on trafficking in human beings.

Bringing the Turkish Cypriot community closer to the EU:

- The Programme funded 161 scholarships for Turkish Cypriot students to attend a university in the rest of the EU, under a scheme managed by the British Council.
- A pilot bi-communal scholarship programme was launched for high-potential scholars from Cyprus to jointly attend the United World College (UWC) in Mostar, Bosnia and Herzegovina. The programme aims at educating future civic leaders from both communities and creating an alumni network for a wide range of ex-scholars.
- The EU Info point, which the SRSS manages together with the Representation of the European Commission in Cyprus, has undertaken a wide range of activities, including 343 visibility and communication actions organised in 2019.

Preparing the Turkish Cypriot community to introduce and implement the acquis:

- Assistance continued in 2019 under 17 areas, or "sectors", of the acquis, in order to facilitate the reunification of Cyprus. In total, 142 TAIEX events were organised.

In 2019, an evaluation of the Aid programme was contracted and is expected to be finalised in the course of 2020.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains *how* the DG delivered the achievements described in the previous section. It is divided into two subsections.

The first subsection reports the control results and other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives¹¹. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive. It covers all activities, programmes and management modes relevant to the Service.

The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

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. The results are explicitly documented and reported to the Director-General. The reports produced are:

- The Authorising Officers by sub-delegations' (AOSD) annual declarations on the 2019 operations;
- Available pillar-assessment reports for which the SRSS relies on DG DEVCO compliance reports on international organisations and national agencies¹²;
- The reports on control results (management declarations and audit opinions) from entrusted entities (International Organisations and Development Agencies) in indirect management, as well as the result of the Commission supervisory controls on the activities of these bodies;
- The contribution by the Director in charge of Risk Management and Internal Control, including the results of internal control monitoring at the DG level;
- The reports on recorded exceptions and non-compliance events referring to the activities of 2019;
- The limited conclusion of the Internal Auditor on the state of internal control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- The observations and the recommendations reported by the European Court of

¹¹ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

¹² Pillar assessment is an ex-ante assessment of the internal control system of an international organisation or national agency allowing them to sign a pillar-assessed grant or delegation/contribution agreement governed, as appropriate, by a specific administrative and financial framework signed by the Commission and the relevant organisation.

Auditors (ECA);

- The ex-post control reports based on internal desk reviews made on a sample of transactions and the ex-post control reports following the external auditors' on-the-spot checks;
- The expenditure verification reports submitted by the grant beneficiaries in support of cost claims and conducted by external auditors.

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of the SRSS.

This section is for reporting the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) Conclusions on the assurance.

2.1.1 Control results

This section reports and assesses the elements identified by management, which support the assurance on the achievement of the internal control objectives¹³. The DG's assurance building and materiality criteria are outlined in Annex 4 of the AAR. Annex 5 outlines the main risks together with the control processes aimed at mitigating them and the indicators used to measure the performance of the relevant control systems.

The SRSS total budget for 2019 (commitment credit appropriations) was EUR 124.7 million including operational credits, support expenditure and global envelope. The 2019 SRSS operational commitment credit appropriations amount to a total of EUR 117 million. Almost 100% of these credits were committed for expenditure.

In 2019, payments were made for an amount of EUR 83.1 million of **which 59% for the European Structural and Investment Funds (ESIF) and the Structural Reform Support Programme (SRSP)**, and about **41% for the Aid Programme**.

In accordance with the management modes established in the relevant work programmes, the SRSS implemented its funds mainly by direct management (procurement and grants) and indirect management.

1. PROVISION OF TECHNICAL SUPPORT

In 2019, the SRSS continued to provide technical support to Member States in application of:

- the **Structural Reform Support Programme (SRSP)**¹⁴ and related work programmes (C (2018)1358¹⁵ and C (2019)1542);

¹³1) Effectiveness, efficiency and economy of operations; 2) *reliability of reporting*; 3) *safeguarding of assets and information*; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) 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 36.2). *The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.*

¹⁴ Regulation (EU) 2018/1671 of 23 October 2018 amending Regulation (EU) 2017/825 to increase the financial envelope of the SRSP and adapt its general objective (EUR 40 million for 2019 and EUR 40 million for 2020).

¹⁵ Amended C(2019)2207 referring to the changed management mode of an action from indirect management to grant direct management.

- the **Common Provision Regulation – Art. 25 (Resources)**¹⁶ in respect of the implementation of the remaining share of the EUR 30 million transferred in 2016 to the Commission by the Hellenic Republic (**C(2016)3835**);
- the **Regulation on the SRSP – Art. 11 (Other financial contributions to the budget of the Programme)** based on the voluntary requests of the Hellenic Republic (**C(2018)3748**) and Bulgaria (**C(2018)5435**)¹⁷ to entrust resources¹⁸ to the Commission to support actions contributing to the delivery of the Union strategy for smart, sustainable and inclusive growth.

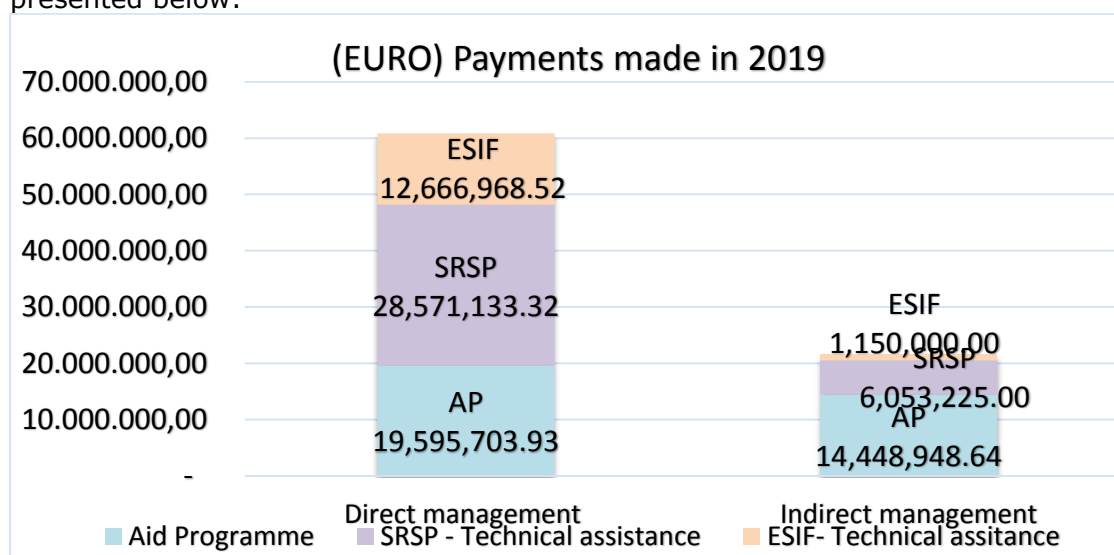
The SRSS implemented almost the totality of the SRSP and ESIF payment operational credit appropriations under direct management (85%), in the following proportion: grant direct management (69%) and procurement (31%). Fifteen percent of the operational credits were used under indirect management. (Cf. graphs under annex 10)

2. AID PROGRAMME

In 2019, the SRSS adopted its **annual work programme (C(2019)6531)** establishing assistance initiatives to facilitate the reunification of Cyprus, by encouraging the economic development of the Turkish Cypriot community, with particular emphasis on the economic integration of the island, the improvement of contacts between the two communities and with the EU, and preparation for the *acquis*. The SRSS also continued the implementation of the previous work programmes C(2016)6688), and C(2017)7156 and C(2018)6695.

Forty-two percent of the operational payment credit appropriations were used under indirect management and 58% under direct management, mainly through procurement contracts (72%) and grants agreements awarded following calls for proposals (28%).

An overview of the **SRSS payments made in 2019 under the operational credits** is presented below:



The tables below present the **control results** related to the SRSS activities as carried out in 2019 and in respect of **all payments made**.

¹⁶ Regulation (EU) 1303/2013 of the European Parliament and of the Council of 17 December 2013.

¹⁷ Amended C(2019)7707 including a new objective and results on the 'strengthening the administrative capacity to monitor and control e-commerce'.

¹⁸ A financial envelope of EUR 20 million from the Hellenic Republic, and EUR 1.5 million from Bulgaria.

Activity	Direct management	Indirect management	Cross-delegations to other DGs (EUR)	Internal control objectives – indicators available			Independent information from IAS, ECA on assurance available	Reservation
	Grants and procurement (EUR)	Delegation/contribution agreements (EUR)		Legality and regularity	Sound financial management	Fraud prevention and detection		
Provision of technical assistance under the ESI Funds (Technical Support)	12,666,968.52 (operational expenditure)	1,150,000		RER=0.5% under indirect management	✓	✓	✓	No
	4,191,448.94 (Procurement)			RER=1.99%				
	7,288,912.12 (Grants Pillar- Assessed)			RER=0.5%				
	1,186,607.46 Grants Non-Pillar- Assessed)			RER=3.58%				Yes
	0 (support expenditure)			N/A				No
SRSP (Technical Support)	28,571,133.32 (operational expenditure)	6,053,225		RER=0.5% under indirect management	✓	✓	✓	No
	8,434,147.67 (Procurement)			RER=1.99%				
	13,678,384.07 (Grants Pillar-Assessed)			RER=0.5%				
	6,423,601.58 (Grants Non-Pillar- Assessed)			RER=3.58%				Yes
	35,000 (Administrative arrangements)			RER= 0.5%				No
	694,252.12 (support expenditure)			RER=0.5%				No
Aid Programme	19,595,703.93 (operational expenditure)	14,448,948.64		RER=0.5% under indirect management	✓	✓	✓	No
	14,059,656.24 (Procurement)			RER=1.99%				
	3,900,000 (Grants Pillar- Assessed)			RER=0.5%				
	1,636,047.69 (Grants Non-Pillar- Assessed)			RER=0.5%				
	0 (support expenditure)			RER=0.5%				
Total (coverage)	61,528,057.89	21,652,173.64						
Grand total payments	EUR 83,180,231.53							

A. Control effectiveness as regards legality and regularity of the transactions

The SRSS is using internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

In 2019, the SRSS continued to process its financial transactions in accordance with the principles of sound financial management and legality and regularity by applying **ex-ante controls** placed in the operational and financial Units and ensuring respect of the 'four eye principle' and segregation of duties. In all instances, in line with the set financial circuits, controls were performed by two operational and financial agents, responsible respectively for the initiation and verification of the files, before authorisation. All operations performed in 2019 were reviewed ex-ante by the financial sector; this allowed the required quantifiable corrections to be made during the transactions' process.

In May 2019 the SRSS modified the model of its financial circuits, moving from a centralised financial circuit into a partially decentralised financial circuit with counterweight for all its (SRSP and Aid Programme) operational transactions with a view to managing the increased volume of its operations more efficiently. The financial initiation and verification of transactions has been kept in the financial cell. The modification of the financial circuits was made following a comprehensive risk analysis, taking into account the values and related risk of transactions, as well as cost-effectiveness considerations. The control systems for budget implementation continue to apply by reflecting the risks of the different management modes applied to the operations of the SRSS programmes (Annex 5).

In 2019, the SRSS improved and established further procedures, guidelines, procedural templates and workflows particularly under the direct (procurement and grant) management mode:

- ✓ to help ensure common implementation and respect of the EC legal framework, aimed at avoiding instances of deviations; and
- ✓ to streamline the financial operations linked to the projects of technical support under the SRSP and the projects financed by the Aid Programme.

The following main indicators also demonstrate the quantifiable and unquantifiable benefits generated by the effective functioning of SRSS ex-ante and ex-post controls as featuring in the SRSS control strategy (Annex 5).

Most relevant 'Effectiveness' indicators	Values in 2019	Benefits
Number of litigation cases/ official complaints filed following calls for proposals/calls for tenders/awarding of direct grants	0 (zero)	Unquantifiable costs of Court cases saved, including the time and cost of resources needed to deal with them. Mitigation of reputational risks affecting the mission of the Service.
Value of cost claims rejected	EUR 12,512.53 (vs EUR 1,318.40 in 2018)	Effective application of legality and regularity provisions and prevention of potential financial loss (cf. Annex 3, table 8)
Value of credit notes issued	EUR 513,78 (vs EUR 2,142.39 in 2018)	
Value of recoveries issued	EUR 77,830.71 (vs EUR 13,419.19 in 2018)	
Value of ineligible cost claims in recovery context	EUR 246,651.19 (vs EUR	

	40,518.41 in 2018)	
Value of credit notes in recovery context	EUR 1.070,868.05 (vs EUR 605,127 in 2018)	
% of payments suspensions (made for requesting clarifications/additional information before final payment)	17% (vs 23% in 2018 and 29% in 2017)	
% of the operational budget commitment appropriations made	98%	Above the target of 95% and stable from 2018 (98%)
% of the operational budget payment appropriations made	98.77%	Above the target of 85% and compared to 90% in 2018
% of implementation of ex-ante controls (additional sampled based detailed reviews of beneficiaries' evidence supporting selected cost claims categories) as in the ex-ante control desk check strategy ¹⁹ applying to grant agreements under Technical Support	100% as planned. Verification of interim and final payments (related to grant agreements) of a value of EUR 0.42 million. Total of EUR 43,354.69 rejected amount.	Effective use of resources and prevention of financial errors in grant direct management.
Number of legal proceedings following complaints in procurement/grant procedures	0 (zero)	Effective use of resources in accordance with legality and regularity and sound financial management; mitigation of reputational risk affecting the mission of the Service.
Number of audit recommendations not implemented or pending	0 (zero)	
Number of critical audit recommendations received	0 (zero)	
Number of initial negative opinions to our inter-service consultations for the adoption of the annual financing decisions	0(zero)	

Finally, the main control objective in the area of legality and regularity is to ensure that the estimated residual error rate (the amount that remains uncorrected after the corrections of the errors in the audited payments) does not exceed 2% of the total annual expenditure for each activity (Annex 4 – Materiality criteria).

The residual error rate was calculated in accordance with the ex-post control strategy that the SRSS developed in 2018 (cf. Annex 10.2.1). Moreover, since this is the second year that the error rate is calculated for the SRSS expenditure, the results refer now to the multiannual approach specified in the SRSS ex-post control strategy, and, therefore they take into account the relevant (population/audited) amounts and the error rates identified in 2018 and 2019. The results of the ex-post controls and the conclusions

¹⁹ Targeting particularly non-pillar-assessed beneficiaries of grants (for which the risk of errors is higher than for pillar-assessed organisations). It consists of: a) continuing to carry out ex-ante controls on beneficiaries' estimated budget items before grants are awarded; and b) on a sample basis, asking beneficiaries to provide documented evidence supporting the sampled cost claims, with a view to ensuring that the amounts finally paid out are in accordance with the applicable contractual conditions on the eligibility of costs.

reached in respect of the SRSS error rates feature below, under each expenditure management mode.

a.1. DIRECT MANAGEMENT

Procurement - direct management

In 2019, the SRSS implemented a total of EUR 27.4 million in payments²⁰ and EUR 65.6 million in new commitments under procurement direct management.

Further to the **technical support expenditure** implemented through procurement, the SRSS made extensive use (about 70% of contract implementation) of its 'Multiple framework contracts'²¹ for providing support for structural reforms in EU Member States' and other EC framework contracts by signing 122 new specific contracts mainly following re-openings of competition. The risks linked to the implementation of an established framework contract are considered to be minor, and, in any case, these were offset by a systematic re-opening of competition, which ensured an assessment of offers responding better to each technical support initiative. Moreover, the SRSS developed some specific guidance on the use of the Opening and Evaluation Committees and templates to support staff for an optimal (rapid and effective) implementation of the framework contract

The SRSS also established a large number (52) of contracts for middle and low values, below the Directive threshold of EUR 144,000²² including for the provision of rapid mobilisation of technical support expertise. The SRSS awarded such middle- and low-value contracts on the basis of a systematic assessment of the established eligibility selection and award criteria. Furthermore, the SRSS has demonstrated its commitment to strictly adhering to the principle of wider competition and transparency applying to procurement procedures, by establishing by ensuring systematic ex-ante publicity on the planned middle- and low-value contracts.

The SRSS applied the same operational and financial ex-ante controls to all procedures leading to the signature of a legal commitment or an authorisation of payments, and continued to monitor from an operational and financial perspective the projects and contracts milestones through JIRA (IT tool). A system of regular data-quality checks and reports was also performed to ensure that the Service works on reliable information. By the end of 2019, the rate of incorrect data entries had consistently decreased (e.g. 360 errors in January 2019 to 131 errors in November 2019) due to a more regular usage of the IT tool by all SRSS users.

Further to the implementation of the **Aid Programme** work programmes, the SRSS managed various types of procurement procedures²³ for establishing service and work contracts (10) and signed 7 specific contracts under established EC framework contracts²⁴. Examples include the provision of technical assistance for modernisation of TCc schools, assessing animal identification registration systems, and assessing and improving structural, or the operational and hygiene conditions in slaughterhouses. Some specific contracts were executed also for carrying out the evaluation of the Programme, perform audit verifications, or for ensuring IT Support Service and maintenance for EU Programme Support Office (EUPSO). The Service made a limited number of amendments resulting in an increase of the value of the work contracts signed in 2017 and 2018 to

²⁰ Including administrative arrangements and administrative expenditure.

²¹ SRSS/P2017/FWC001 (total value of EUR 29 million) with five contractors signed on 16/10/2017 and SRSS/2018/01/FWC/002 (total value of EUR 100 million) with seven contractors signed on 19 July 2019.

²² Directive 2014/24/EU on public procurement.

²³ Between open, restricted, negotiated, etc.

²⁴ DG DEVCO and DG DIGIT.

face works required under unforeseen circumstances²⁵. Only one procedure was cancelled because the SRSS considered it appropriate to redraft the technical specifications following the several requests for clarifications.

In 2019, the SRSS focused more on the implementation of contracts following the many procedural, workflow and organisational developments made in 2018. The financial checklists were extensively reviewed to capture the novelties under the 2018 Financial Regulation, and the updates in PRAG and DEVCO Companion guidance.

Ex-post controls

In line with the SRSS ex-post control strategy and the 2019 desk review plan, desk reviews were performed to check the legality and regularity of the procurement procedures completed by the SRSS and to identify areas for improvement. The checks included the review of procedures closed in 2019 in order to verify any improvements made following the 2018 ex-post results and mitigating actions put in place.

The SRSS reviewed ten procurement procedures²⁶ (for a total contract value of EUR 2,314,117) referring to the **Technical Support** and (all) 9²⁷ procurement procedures (for a total contract value of EUR 20,738,991.20) closed by the SRSS in 2018 under the **Aid Programme**.

The results of the checks performed revealed still some weaknesses, such as the use of: incorrect templates, or legal basis references in procurement procedures relaunched; unaligned scores and criteria in the evaluation reports. Moreover, the selection criteria used under negotiated procedures were not always appropriate; the choice of candidates was not punctually explained; and instances of unsystematic filing and registration of offers were also detected. The SRSS took rapid action to address such instances by defining precise checks within the updated checklists.

Nonetheless, improvements were noted in respect of the ex-ante publicity of negotiated procedures for awarding middle- and low-value contracts and systematic opening records, as a result of the 2018 ex-post checks and the guidance developed.

In light of these comprehensive considerations and while the identified weaknesses do not affect the procurement award decisions nor do they create any reputational risk for the Service, the SRSS makes, as in 2018, a best conservative estimate of the error rate for procurement of 1.99% with a view to improving further its procurement processes.

Grant - direct management

In 2019, the SRSS implemented a total of EUR 34.1 million in payments and EUR 44.1 million in new commitments under grants direct management.

More than seventy percent of the total payments under direct grant management were made to organisations, which undergo an overall European Commission's ex-ante assessment (called "pillar assessment"), which guarantees a level of protection and assurance (e.g. in accounting, internal control, audit and procedural terms) of the

²⁵ Art. 172 3 (b).

²⁶ Majority of negotiated procedures for the awarding of middle- and low-value contracts, (1) negotiated procedure without prior publication of a contract notice and (3) specific contracts implementing the multiple framework contract for support provided for the implementation of structural reforms in the EU Member States. 3 procedures were closed in 2018 and the rest concluded in 2019.

²⁷ Out of a total of 10 among open(2), restricted (4), competitive (1) and negotiated procedures (2), and excluding (1) negotiated procedure for the extension of contract 2018/365-105 -Support to civil society organisation in the Turkish Cypriot community-as this procedure was reviewed last year.

financial interests of the Union equivalent to that required under the Financial Regulation.

The majority of payments processed in 2019 under direct grant management concerned initial pre-financing. Initial pre-financing payments did not expose the SRSS to risks since the amounts are still considered assets of the Commission, which are only transferred to the beneficiaries when the final cost claims are accepted by the Commission.

With respect to the **Technical Support**, in 2019, the SRSS awarded 62 direct grants. Compared to last year, a limited majority (56%) of these direct grants were provided to 'non-pillar-assessed' grant beneficiaries, including Member-State public bodies and other bodies with a public service mission, which, in view of the nature of the technical support action, have a recognised and relevant technical competence, and a high degree of specialisation. The rest were 'grant agreements' with pillar-assessed organisations such as the International Bank for Reconstruction and Development (IBRD) or the International Monetary Fund (IMF)

The SRSS also continued to contribute to the implementation of the Commission's strategy 'EU budget expenditure focused on results', by implementing interventions according to a 'logical framework approach' (LFA) based on robust planning, outputs, outcomes and performance indicators for the implementation of the SRSP funds in both direct and indirect management (see below). It is considered that such an approach contributes to efficiency and effectiveness of financial activities (e.g. improved resources planning and programming, appropriate budget allocation in the course of implementation of projects, etc.).

No calls for proposals were organised in 2019 under the SRSP.

Finally, in 2019, the SRSS continued to implement its control strategy for ex-ante desk checks applicable to payments under grant agreements. The SRSS performed a verification on final and interim payments of grant agreements of a value of EUR 0.42 million. The implementation of this strategy is considered to be effective for a further reduction of the error rate in the area of payments (cf. benefits of controls).

Under the **Aid Programme**, the SRSS awarded a total of 31 action grant agreements for a total amount of EUR 5.7 million under 2 concluded²⁸ calls for proposals. In 2019 the SRSS continued to manage one call for proposals from 2018²⁹, which is in its awarding phase (March 2020).

Moreover, the SRSS awarded a direct grant under art. 195 (f) of the Financial Regulation for EUR 0.2 million to the Deutsche Stiftung United World College and funded by an amount of EUR 3 million the ongoing administrative agreement between the EC and IBRD for concerning the Part II Europe 2020 Programmatic Single-Donor Trust Fund - Economic Analysis Programme for Growth and Sustainable Development in the Turkish Cypriot community.

In terms of payments, 70% of the payments under grant direct management was made to pillar-assessed grant beneficiaries (IBRD) and the rest to grant beneficiaries under the terms of the grant agreements awarded following calls for proposals.

Operational and financial monitoring has been carried out during the life of the contracts, generally through verification of deliverables (e.g. interim, final reports) submitted by the relevant beneficiaries. Moreover, action grant (non-pillar-assessed) agreements for a value higher than EUR 100,000 were subject to verification of the action's expenditure³⁰

²⁸ 'EuropeAid/156-332' 'Competitive enterprises, clusters and business support organisations' and EuropeAid/152-154 'Together against trafficking in human beings'.

²⁹ Europaid /161357/H/ACT/CY Support for investment in agriculture is currently ongoing.

³⁰ Art. 15.6 of the General Conditions applicable to European-Union-financed grant contracts for external actions

by external auditors. The objective of this expenditure verification was to assist the Contracting Authority in evaluating, before final payments were made, whether the fees and expenditure claimed by the beneficiaries on the invoices and financial reports were eligible, and in accordance with the terms and conditions of the signed grant agreements.

Ex-post controls

In accordance with its ex-post control strategy, the SRSS outsourced the audit reviews of the grant payments made under the Technical Support and the Aid Programme.

Grants with pillar assessed organisations

For the pillar assessed grants the SRSS obtained the necessary level of assurance from i) the ex-ante pillar assessments, demonstrating that those beneficiaries have a level of financial management and protection of the EU's financial interest equivalent to that of the Commission and ii) from the results of previous audits concluded on GIZ and ENABEL, which reported 0% error rate.

Nevertheless, in order to have also pillar-assessed grants sufficiently represented in the audit plan, two pillar-assessed grant³¹ payments (under the Technical Support) for EUR 2.1 million were also reviewed. The audit of the grant agreement with the OECD was coordinated by DG NEAR in line with the "Agreement on the verification provision between the European Commission and OECD".

The external auditors and the OECD Internal Audit reported no financial findings or recommendations following the verification of the selected files.

Grants with non-pillar assessed organisations

The SRSS arranged the following on-the-spot audits to review:

- four grant agreements of a total of EUR 2.1 million which represent 100% of the payments made under grants with non-pillar-assessed organisations closed in 2018 and 15% of the payments made under all grants closed in 2018 under **Technical Support**, and.
- three grant agreements of a total value paid of EUR 0.8 million, representing 26% of the audit population of the grant agreements³² under the **Aid Programme**.

The auditors concluded that for two (non-pillar-assessed) grant agreements made under the **Technical Support**, the error found was <2% (in respect of the audited amount of EUR 806,158.07) and 10.5% (in respect of the audited amount of EUR 504,612.3). DG REFORM is notifying the overpaid amount (total EUR 53,024.77) to the relevant beneficiary.

The audit results referring to the grant agreements made under the Aid Programme confirmed no material error. For the Aid Programme, a best conservative estimate of the error rate is set at 0.5%.

Based on these detected error rates, the SRSS is of the opinion that the control procedures in place give the necessary guarantee for the legality and regularity of the underlying transactions, **except for** a limited area of non-pillar-assessed grants under the funds for Technical Support (SRSP and ESIF), for which the residual error rate - calculated on a multi-annual approach- is at **3.58%** (cf. 2.1.4 Conclusions on the assurance).

³¹ Signed with AFETI and the OECD.

³² Grant agreements whose final payment were made in 2018.

a.2. INDIRECT MANAGEMENT

In 2019, the SRSS implemented a total of EUR 21.6 million in payments and EUR 22.4 million in new commitments under indirect management.

Under the **Technical Support**, the SRSS signed, for instance, new delegation agreements with the European Bank for Reconstruction and Development (EBRD) and the Council of Europe (cf. Annex 6). The SRSS also established operational guidelines, for instance, with these organisations to guide and monitor the implementation of the individual projects foreseen in the delegation/contribution agreements.

The SRSS continued to select entrusted entities in alignment with the legal framework, i.e. either the entrusted entity is already identified in the Commission's financing decisions or the choice of the selected entity is justified by compliance with the criteria already established in the annual Work Programme.

Under the **ESIF and SRSP** funds, the SRSS made EUR 7.2 million in payments to pillar-assessed international organisations, such as the European Bank for Reconstruction and Development or the Council of Europe.

In 2019, a share of the **Aid Programme** resources for the Turkish Cypriot community (TCc) were implemented by indirect management (EUR 14.4 million in payments to the British Council³³, the EBRD³⁴, NiCO³⁵ and the UNDP³⁶, and EUR 11.3 million in new commitments mainly with the UNDP (78%), and the British Council (22%)).

Delegation/contribution agreements are considered to be low-risk operations because the entrusted entities apply their own established controls on their own accounting, internal control and audit systems, which have been positively assessed already in the ex-ante pillar assessment to manage the EU entrusted budget, and they are moreover bound by an obligation of detailed reporting, including final audit reports/opinions. In 2019 the SRSS received the EBRD, the UNDP, the British Council's positive management declarations and audit reports related to the implementation of four delegation agreements for a total payment value of EUR 4.2 million.

The SRSS ensured appropriate supervision of the entrusted tasks by applying operational and ex-ante financial controls similar to the controls over the expenditure under direct management. The SRSS controls include a thorough examination and approval of the progress and final reports, the entrusted entities' management declarations and, if any, the audit or control opinions provided under the relevant agreements.

The SRSS has reasonable assurance about the legality and regularities of the transactions processed under indirect management. Based on these elements, the SRSS best conservative estimate of the error rate under indirect management is set at 0.5%.

a.3. Exceptions, non-compliance events and other deviations

The SRSS recorded a very limited number (4) of exceptions in 2019 compared to the year 2018. The number of non-compliance events (6) remains limited and in the range of previous years. The significance of the majority of exception requests and non-

³³ For the Scholarship Programme 2016-20 for the TCc.

³⁴ For the Implementation of an SME competitiveness integrated finance for the TCc.

³⁵ Northern Ireland Cooperation Overseas (NI-CO Ltd) - for the Innovative Entrepreneurship and dialogue for the TCc.

³⁶ For the Support to the Committee on Missing Persons in Cyprus (phase 11); the support to Cultural Heritage Monuments; for Local infrastructure facility (phase 1); for the support to the bi-communal technical committees.

compliance events signed is low in quantitative and medium in qualitative terms, and in the area of missions, procurement and contract management. Such instances did not undermine the principle of sound financial management.

The Service took some corrective actions to prevent future non-compliance events, for instance by prompting: a more systematic consultation and use of JIRA as repository of contractual information; and a more rigorous application of the mission guide and the management of received offers.

In 2019, the SRSS recorded no case of:

- 'Confirmations of instructions' related to irregularities or cases contrary to the principle of sound financial management to be reported to the Authorising Officer (art. 92.3 FR). The SRSS Authorising Officers by sub-delegation confirmed this, as part of their annual declaration on the operations authorised by them in 2019;
- 'Derogations from non-retroactivity principle' (art. 193.2 FR);
- 'Financing not linked to costs' (Art.125.3 FR, *i.e. when contributions are based on the fulfilment of conditions or the achievement of results*);
- 'Financial Framework Partnership established and longer than 4 years' (Art. 130.4 FR);
- 'Flat rates above 7% for indirect costs' (Art 181.6 FR) paid under grant management.

Having regard to the completeness and reliability of the factual information described under the above sections, the SRSS concludes on the overall effectiveness of its control results regarding the legality and regularity of its operations in 2019. **However**, considering

- the error rate resulting from the external auditors' findings and referring to a limited area of non-pillar-assessed grants (3.58%) under the funds for Technical Support (SRSP and ESIF), and its impact on the amount at risk, although limited to non-pillar-assessed grants,

the SRSS makes conservative conclusion on the need to maintain a reservation on direct grant management under the Technical Support funds (cf. 2.1.4 – Conclusion on the assurance).

✓ **Amount at risk at payment and at closure**

In the context of the protection of the EU budget, the Service's estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level. The SRSS data are shown in the table below and its accompanying notes.

The estimated overall risk at payment for 2019 expenditure is EUR 0.83 million. This is the AOD's best, conservative estimate of the amount of *relevant expenditure* during the year (EUR 67.9 million) not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in successive years. The conservatively estimated future corrections for 2019 expenditure are EUR 67,932.67. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in successive years.

The difference between those two amounts leads to the estimated overall risk at closure for the 2019 expenditure of EUR 0.76 million.

The SRSS amount at risk at payment has increased from EUR 0.15 million in 2017 to 0.83 million in 2019, proportionally to the increased operations and related payments processed. In addition, it should be considered that the SRSS ex-post capacity to make corrections is functioning for a few years. In fact, the SRSS established its first ex-post

control measures in 2017 (e.g. annual audits on grant direct management and annual ex-post checks on procurement) and has overtime reinforced its ex-ante controls (e.g. ex-ante strategy on grant payments) in the areas where errors were detected (i.e. grant direct management with non-pillar-assessed organisations). As a result of such mitigating measures, the SRSS has demonstrated to have an established corrective capacity, which is functioning well and whose results are progressively showing in terms of amounts to be recovered.

Notes to the table 'Estimated overall risk at closure'

- (1) Differentiated for the relevant portfolio segments at a level, which is lower than the DG total.
- (2) Payments made or equivalent, e.g. expenditure registered in the Commission's accounting system, accepted expenditure or cleared pre-financing. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle. In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs.
- (3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department).
- (4) Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption').
- (5) For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to legality & regularity errors (*see the ECA's Annual Report methodological Annex 1.1*), our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out, and adds the previous pre-financing actually cleared. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.
- (6) In order to calculate the weighted Average Error Rate (AER) for the total relevant expenditure in the reporting year, the residual error rates have been used.
- (8) Based on the 7 years Historic Average of Recoveries and financial Corrections (ARC), which is the best available and most conservative indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years.
- (10) For some programmes with no set *closure* point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

Estimated overall risk at closure

SRSS (1)	"Payments made" (FY; m€) (2)	<i>minus</i> new prefinancing (m€) (3)	<i>plus</i> cleared prefinancing (4)	relevant expenditure (for the FY; m€) (5)	Average Error Rate (<i>weighted AER</i> ; %) (6)	Estimated overall amount at risk at payment (FY; m€) (7)	Adjusted Average Recoveries and Corrections - ARC; % (8)	Estimated future corrections (9)	Estimated overall amount at risk at closure (m€) (10)
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5= 2-3+4</i>	<i>6</i>	<i>7=5*6</i>	<i>8</i>	<i>9=5*8</i>	<i>10=7-9</i>
TECHNICAL SUPPORT	49,135,578.96	31,391,106.86	22,788,657.05	40,533,129.15					
Procurement	12,625,596.61	9,411.88	61,285.00	12,677,469.73	1.99%	252,281.65	0.1%	12677.47	239,604.18
Grant PA	20,967,296.19	18,317,836.52	20,566,209.36	23,215,669.03	0.50%	116,078.35	0.1%	23215.67	92,862.68
Grant non PA	7,610,209.04	5,860,633.46	1,737,748.69	3,487,324.27	3.58%	124,846.21	0.1%	3,487.32	121,358.88
Administrative Arrangement	35,000.00	-	-	35,000.00	0.50%	175.00	0.1%	35.00	140.00
Support expenditure	694,252.12	-	-	694,252.12	0.50%	3,471.26	0.1%	694.25	2,777.01
Indirect Management	7,203,225.00	7,203,225.00	423,414.00	423,414.00	0.50%	2,117.07	0.1%	423.41	1,693.66
AID PROGRAMME	34,044,652.57	19,951,541.84	13,306,430.31	27,399,541.04					
Procurement	14,059,656.24	2,404,654.51	1,424,229.23	13,079,230.96	1.99%	260,276.70	0.1%	13079.23	247,197.47
Grants PA	3,900,000.00	1,500,000.00	2,761,028.00	5,161,028.00	0.50%	25,805.14	0.1%	5161.03	20,644.11
Grant non PA	1,636,047.69	1,597,938.69	3,756,817.08	3,794,926.08	0.50%	18,974.63	0.1%	3794.93	15,179.70
Indirect management	14,448,948.64	14,448,948.64	5,364,356.00	5,364,356.00	0.50%	26,821.78	0.1%	5364.36	21,457.42
Support expenditure	-	-	-	-	0.50%	-	0.1%	0.00	-
Overall, total	83,180,231.53	51,342,648.70	36,095,087.36	67,932,670.19	1.22%	830,847.78	0.1%	67,932.67	762,915.11

B. Fraud prevention, detection and correction

In July 2017, the SRSS formally adopted its first Anti-fraud Strategy (AFS) covering the period 2017-2019. The SRSS AFS includes an action plan with a series of activities on fraud prevention, detection, reporting and correction, which has been implemented and regularly reported to senior management. The SRSS postponed to 2020 the organisation of a dedicated fraud risk assessment for updating its AFS covering the period 2020-2023. This is justified by the reorganisation of the Service into the new DG REFORM, the ongoing negotiations for the new instruments under the Reform Support Programme and related processes, and the related increase of human and financial resources.

In 2019, the Service has carried out the following main activities:

- internal control reviews of: the staff 'Ethics and Integrity' training attendance; declarations on potential conflicts of interests;
- annual assessments of: the potential fraud risks as part of the annual risk assessment exercise; sensitive functions in the Service; the results of the ex-post (desk reviews and external audit reports) control activities;
- regular reminders and presentations to staff (including newcomers) on the Commission's rules and standards on ethics and integrity, and red flags of fraud and irregularities;
- regular updates of an online repository of information dedicated to preventing fraud and open to all staff;
- timely and effective in-depth analysis of cases of exclusions (in the context of the award of contracts) and follow up on cases of suspension of contracts because of detected irregularities.

In 2019 the SRSS did not have to follow up on any OLAF financial recommendations.

Having regard to the above-mentioned activities, **the SRSS concludes that:**

- its level of awareness in the Service about irregularities and anti-fraud issues at the Commission continues to increase;
- the controls in place, including the anti-fraud activities featuring in the SRSS anti-fraud strategy, are working effectively and that the risks linked to the legality and regularity of operations, also including the possible impact on the reputation of the Service, are adequately mitigated.

C. Control efficiency

The table below presents the most relevant indicators on the efficiency of controls and their values in 2019.

Most relevant 'Efficiency' indicators	Values in 2019
Average time taken <u>to inform</u> beneficiaries on grant award decisions (Art 194.2(a) FR), referring to grants under the Aid Programme	174 days in 2019 (349 days in 2018)
Average time taken <u>to sign</u> grant agreements (Art 194.2(b) FR), referring to grants under the Aid Programme	58 days in 2019 (105 days in 2018)
% of timely execution of payments (Financial Regulation Art. 116.1)	91.4% in 2019 (95.2% in 2018)
Average number of days taken to make a payment	30 days vs 27 days in 2018
Value of interest paid on late payments	EUR 1021.79 vs EUR 3000 in 2018

Compared to 2018, major improvements are observed in respect of the average time to manage calls for proposals under the Aid Programme.

The % of timely execution of payments is in last year's range, considering the increased number of payments. The SRSS average number of days taken to make a payment has slightly increased by a few days compared to 2018. In 2019, the SRSS recorded 8.6% of its payments as late. Such increases are not deemed to be substantial considering the number of increased payments in 2019 (+22% compared to 2018). Nevertheless, the Service has taken measures to further decrease the number of late payments. A decreasing amount of interest was paid on late payments.

Further to the **implementation of the projects under the SRSP**, the SRSS made further considerable progress over the past year in providing technical support rapidly to Member States by establishing a framework contract with re-opening of competition.

In May 2019, the Service also **revised its financial circuits** from a centralised model into a partially decentralised model with counterweights (i.e. financial initiation and verification ensured by the financial cell) and implemented paperless signatories for all financial transactions, except for the cases where a blue ink signature is required. Such a decision was taken to balance in particular the increased volume of technical support projects with the need to ensure correct procedures and the rapid technical support interventions requested by the Member States. The Service continues recording and monitoring deadlines - by step - under each procurement/grant procedure in the IT tool (JIRA), which tracks MS requests and the project/contract implementation from beginning to end. Deviations are reported to Senior Management for follow-up, as appropriate. This established practice is considered to be an indicator of efficiency considering that, with the current tools, the Service cannot reduce much further the duration of procurement procedures since these require mandatory "regulatory" checks connected with the evaluation of offers, the award decisions, the budgetary and legal commitments, etc. Further streamlining of the processes (e.g. automatized procurement templates and contracts, etc.) is expected to be achieved also with the use of the corporate electronic tools e-grants and e-procurement as of the second quarter of 2020.

Finally, the SRSS implemented, as planned, the following additional initiatives³⁷ of efficiency in the area of a) evaluation and b) budget programming and implementation:

a) The SRSS deployed an automatised **Feedback Mechanism (Module 3 –in JIRA)** to manage systematic evaluation exercises for the purpose of collecting lessons learned on the performance of projects. This mechanism gathers information and produces questionnaires, which are automatically sent to the relevant stakeholders following the receipt and approval of final contract deliverables. This new module is completing the cycle of the project implementation, by adding the result components gathered in qualitative and quantitative terms. Aggregate results/data can be filtered and reported through a new reporting tool Qlik Sense, which is plugged directly to JIRA.

b) the SRSS introduced an **IT tool to facilitate budget programming** of the Service and to monitor the efficiency and accountability of the implementation of budgetary resources related to the technical support activities. This system offers

³⁷ Cf. page 13 of the SRSS Management Plan 2019

the possibility for line Units to manage funds per task, record forecasts for commitments/payments on the contracts/agreements for which they are responsible, and produce reports.

Having regard to the completeness and reliability of the factual information described above and to the initiatives on efficiency implemented in 2019, **the Service concludes positively overall with respect to the efficiency of its controls.**

D. Economy: the cost of controls

The SRSS conforms with Art. 74.9 of the Financial Regulation by quantifying and assessing the resources and the input required for carrying out its controls.

In accordance with the corporate methodology³⁸ developed in 2018, the SRSS has made **estimates of the annual costs of controls for all its relevant control systems, distinguished by ex-ante and ex-post controls.**

The SRSS overall cost of controls is estimated to be EUR 3.9 million, that is 4.8% of the payments executed in 2019. Compared to last year, the estimated costs of controls over the total annual payments has decreased (6.7% in 2018) considering the increased value of the total payments made in 2019 (83.1 million in 2019 and 54.8 million in 2018). Annexes 10.1 includes the details of the corporate methodology applied since 2018 and of the estimated ex-ante and ex-post costs of controls under each relevant control system.

The overall estimated costs of controls performed on indirect management operations refer to the remuneration fees³⁹ in 2019 paid to the entrusted entities under the Technical Support and the Aid Programme contribution/delegation agreements. In 2019, such fees amount to EUR 1.2 million, which is 5.7% of the payments made under indirect management. The percentage of this cost of controls has been stable since 2018 (5.3%).

The SRSS reaches a positive conclusion as to the proportionality and economy of its controls considering the mitigation of risks under the relevant operations, the frequency and depth of the checks performed under the control strategy and the level of funds managed in 2019. The efficiency of the SRSS ex-ante controls is demonstrated particularly by the high gains in terms of better value for money, deterrence of error/irregularity or fraud, and regulatory compliance. The efficiency of the ex-post controls is demonstrated particularly by the lower costs (compared to the value of the detected errors) of the external audits, which have allowed the SRSS to identify future financial recoveries, and to reinforce future controls where errors have emerged.

E. Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, the SRSS has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of its controls for which it is responsible.

Overall, the SRSS controls of budget appropriations in 2019 remains cost-effective, considering:

³⁸ Cf. annex 10 – 2.1.1 D. Control economy: the cost of controls

³⁹ These fees cover broader elements than only controls in the strict sense.

- *the overall cost of controls reviewed in 2019, whose ratio to the payments made has decreased since last year;*
- *the number and complexity of technical support/assistance activities and those carried out under the Aid Programme (part I of this report);*
- *the type of controls over the high diversity of operations/files managed;*
- *that controls on procurement and grant management are mandatory and a significant proportion of the appropriations concerned would be at risk if they were not in place;*
- *the cost-effective functioning of the ex-ante and ex-post controls and the generated financial benefits (e.g. recoveries, rejected amounts claimed; credit notes issued) and non-financial benefits, including better value for money, deterrence, efficiency gains and regulatory compliance;*
- *the very low value of late interest payments and the overall relatively low average time taken to make payments;*
- *the lack of complaints filed or litigation cases filed with the SRSS in respect of the procurements and grants managed in 2019;*
- *the good rate of implementation of the operational budget in respect of the actual duration of operations of the Service since its full establishment in 2016;*
- *the error rates detected and referring only to a limited area of grant direct management (non-pillar-assessed grant agreements) and the continued corrective actions already commenced in 2018; and*
- the positive progress and final reports from the entrusted entities on the use of the received funds and the activities carried out.

2.1.2 Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are included, as appropriate, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

European Court of Auditors (ECA) - In February 2019, the ECA sampled one transaction (i.e. a pre-financing payment) for substantive testing within the **DAS⁴⁰ 2018**. The Court of Auditors reviewed the evidence related to the financial file selected and closed the review with no comments. The review of one sampled commitment made in the context of the **DAS 2019** was also completed with no findings.

In 2019, the ECA also concluded the Follow-up of the recommendations in the **Special Report No 19/2015: "More attention to results needed to improve the delivery of technical assistance to Greece"**. In its annual report on the implementation of the budget concerning the financial year 2018 the ECA mentioned that *the Commission had been particularly responsive to its recommendations* and quoted the SRSS as having implemented all recommendations in full⁴¹.

In 2019, the ECA also commenced an **audit of the effectiveness of the Commission's actions so far to build the Capital Markets Union (CMU)⁴²**. This audit involves the SRSS as the Commission service department whose main responsibility in respect of the CMU is to provide technical support to reinforce the capacity of Member States' domestic capital markets. This audit is currently ongoing.

Internal Audit Service (IAS) - In 2019, the IAS launched a comprehensive audit on the **SRSS' processes for coordinating technical support to the Member States** (including contributions of the Directorates-General for Regional and Urban Policy (DG REGIO) and for Employment, social affairs and inclusion (DG EMPL) to the coordination mechanism). This audit is currently ongoing.

Based on all work undertaken in the period 2017-2019⁴³, namely, the Audit on the financial management of the SRSS (2017) and taking into account that: - management has accepted all the recommendations issued in 2017-2019 and has adopted an action plan to implement all the accepted recommendations. The IAS considers that this action plan is adequate to address the residual risks identified by the auditors; - the implementation of this action plan is monitored through reports by management and follow-up audits by the IAS; **the IAS has concluded⁴⁴** that the internal control systems in place for the audited processes are effective.

⁴⁰ Reliability of the Annual Accounts of the European Union.

⁴¹ OJEU, 8 October 2019

⁴² The CMU was launched in June 2015 as a major EU initiative (part of the "Juncker Plan") to lay the building blocks of an integrated capital market in the EU by 2019. (ECA's Audit Preview 'Building an effective Capital Markets Union' –October 2019)

⁴³ Final audit reports issued in the period 01/02/2017 – 31/01/2020.

⁴⁴ IAS limited conclusion as a contribution to the 2019AAR (13/02/2020).

2.1.3 Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework⁴⁵ based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

The SRSS uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and pays due regard to the risks associated with the environment in which it operates.

In 2019, the SRSS continued to increase the level of awareness of the Internal Control Framework by informing and communicating on internal control matters to staff in the format of presentations and lunchtime seminars on dedicated topics, such as 'exceptions and non-compliance reporting'; 'red flags' in the area of anti-fraud; 'ethics and integrity' matters.

Business owners, as the first control line of defence for the organisation, ensure functioning and supervision of the internal control systems applicable to their operations. On such a basis, they determine whether such controls work as intended or if there are control weaknesses in the system that need to be reported for improvement. In addition, management monitors on an ongoing basis whether the internal control systems and their components are present and functioning.

The 2019 overall assessment of the internal control system also included the following main assessments exercises performed on:

- *the control actions carried out by the Service in 2019 in respect of the IC principles and results of the internal-control monitoring criteria established in the context of the Management Plan 2019 . These results stem from the internal-control mid-term and annual checks, reviews and surveys, including the deficiencies or serious matters communicated to management for timely correction;*
- *the non-compliance events reported and exceptions requested during the year;*
- *the audit recommendations (cf. section 2.1.2);*
- *the state of implementation of the mitigating actions to address the reservation made on grant direct management (under ESIF and SRSP funds) in the Annual Activity Report 2018 (cf. annex 10.3); and*
- *the state of implementation of the remedial actions to address the weaknesses in public procurement identified by the ex-post control since 2018.*

Based on the assessment of the above-mentioned results, **the SRSS has assessed⁴⁶ its internal control system during the reporting year and has concluded that it is integrated, effective and the components and**

⁴⁵ Communication to the Commission from Commissioner Oettinger: Revision of the Internal Control Framework (C(2017)2373.

⁴⁶ Methodology established in the "Implementation Guide of the Internal Control Framework of the Commission" for carrying out the internal control assessment process

principles are present and functioning well overall, but some improvements are needed as minor deficiencies were identified in the following areas. The deficiencies identified are compensated (i.e. control indicators targets achieved or even surpassed) by other control results under the relevant principles; the remedial measures will be continued to be implemented in the context of the new reorganisation of the Service (new DG REFORM).

I. Control environment: the deficiencies (e.g. a lower % of women in management positions compared to the EC target⁴⁷; a low percentage of validated objectives and job descriptions for staff; non-systematic preparation/recording of handover files) identified under principles 4 and 5⁴⁸ have no major impact on the IC objective - sound financial management.

Further reminders to staff and the overall re-organisation of the Service in 2020 are expected to mitigate adequately the deficiencies that emerged in this area.

II. Risk assessment: the deficiency identified under principle 6⁴⁹ which is related to the % of error rate > 2% referring to some financial transactions. The SRSS maintains a conservative reservation on grant direct management, although the error rate above 2% affects only a limited area of grant direct management. A remedial action plan is already in place.

III. Control activities: the impact of the deficiencies (e.g., number and significance of the non-compliance events signed in a year)- as identified under principle 10⁵⁰ - on the IC objective – legality and regularity - is considered to be mitigated by the corrective actions⁵¹ already started by the Service in 2019.

IV. Information and communication: the impact of the deficiency related to the ongoing development of data privacy statements and notifications for each activity - as identified under principle 13⁵² - on the IC objective – legality and regularity - is considered to be mitigated by the corrective actions (e.g. presentations to staff on the IDPR Regulation⁵³ and developed implementation guidance already started in 2019).

⁴⁷ cf. 2.2.1 Human resources management.

⁴⁸ Principle 4 'The Commission demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives' and Principle 5 'The Commission holds individuals accountable for their internal control responsibilities in the pursuit of objectives'

⁴⁹ Principle 6 'The Commission specifies objectives with sufficient clarity to enable the identification and assessment of risks related to objectives'.

⁵⁰ Principle 10 'The Commission selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels'

⁵¹ Cf. 2.1.1, point a.3 Exceptions and non-compliance events.

⁵² Principle 13 'The Commission obtains or generates and uses relevant quality information to support the functioning of internal control'

⁵³ REGULATION (EU) 2018/1725 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC

2.1.4 Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

The information reported stems from the results of management - and auditors - monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of the SRSS.

Legality and Regularity

The SRSS concludes positively on the effectiveness of its control results regarding the legality and regularity of its operations in 2019. However, having regard to:

- the error rate resulting from the external audits and referring to a limited area of non-pillar-assessed grants (3.58%) under the funds of Technical Support (SRSP and ESIF). The error rate in this specific area is persistent but not high and does not substantially exceed the materiality threshold.
- the reservation that the SRSS made in the Annual Activity Report 2018, referring also to grant management (under the funds of Technical Support), and the corrective actions already started in 2019 (cf. grant direct management and annex 10.3); and
- the existing (cost effective) ex-ante controls, and the corrective capacity of the ex-post controls, i.e. the planned external audits in 2020 of cost claims under grants agreements signed with non-pillar-assessed beneficiaries and paid in 2019,

the SRSS concludes conservatively on the need to maintain the 2018 reservation on direct grant management referring to the Technical Support funds (ESIF and SRSP); this is still limited in scope to reflect that the error rate is targeted only to the limited areas of non-pillar-assessed grants whose payments account (in monetary terms) only for 27% of all the payments made under grant direct management. (cf. section on grant direct management and reservation (Cf. 2.1.1))

Moreover, under the new 'de-minimis rule'⁵⁴, the residual error rate (i.e. 3.58%) remains above the threshold set: the value of the payments (EUR 7.6 million) made under direct grant management to non-pillar-assessed organisation under technical support is higher (i.e. 9%) than 5% of the payments made in 2019. The exposure of the amounts at risk under the relevant expenditure⁵⁵ is well below EUR 5 million (i.e. EUR 121,358.88).

⁵⁴ The 'de minimis rule' introduced in the 2019 AAR instructions provides that: *quantified reservations related to residual error rates above the 2% materiality threshold are deemed **not substantial** if they are related to segments representing, in €, **less than 5%** of a DG's portfolio **and** if their financial impact is **lower than EUR 5 million**. In such cases, reservations are no longer to be reported.*

⁵⁵ Payments made for Technical Support under the non-pillar assessed grants, minus pre-financing, plus clearings

Sound financial management

Considering the ex-ante and ex-post controls in place, the key indicators and the 2019 control results on effectiveness, efficiency and economy, plus the initiatives to further improve the efficiency of the Service, the SRSS can conclude positively on the cost-effectiveness of its controls and overall on the achievement of the objective on sound financial management. (Cf. 2.1.1)

Fraud prevention, detection and correction

No instances of alleged fraud were detected in 2019. This demonstrates that adequate controls were implemented to prevent, detect and correct fraud and irregularities. The Service maintains the awareness among staff about the EC policy and procedures on reporting and countering fraud (Cf. 2.1.1).

Audit results

In 2019, no audit recommendations were received from the European Court of Auditors and the Internal Audit Service, and all audit recommendations received in the context of the past audits have been implemented in a timely and effective manner. The IAS concluded that the internal control systems in place for the audited processes are effective (Cf.2.1.2).

Effectiveness of the Internal control systems

Finally, the SRSS has assessed its internal control system during the reporting year and has concluded that it is effective and that the components and principles are present and functioning as intended, with some improvements needed. The deficiencies identified do not lead to assurance-related concerns, because some of the expected improvements have already started in 2019 (Cf.2.1.3).

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation on grant direct management (agreements signed with non-pillar-assessed beneficiaries).

2.1.5 Declaration of Assurance and reservations

"I, the undersigned,

Director-General of the SRSS,

In my capacity as Authorising Officer by Delegation,

Declare that the information contained in this report gives a true and fair view⁵⁶;

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 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 or those of the Commission".

However, a reservation on direct management grants signed with non-pillar assessed organisations should be noted for the activities under the following budget lines:

04.026301 and 04.026302: ESF
13.036502: ERDF
13.046102: Cohesion Fund
13.080100 and 13.080200: SRSP

In Brussels, 31 March 2020

(signed)

Maarten Verwey

⁵⁶ True and fair in this context means a reliable, complete and correct view on the state of affairs in the Directorate-General.

Reservation 1

DG	SRSS (new DG REFORM)
Title of the reservation, including its scope	Reservation concerning the rate of residual error under direct management – grant agreements signed with non-pillar assessed (NPA) beneficiaries under the Technical Support funds (ESIF and SRSP)
Domain	"Direct management – grants with non-pillar-assessed beneficiaries
Programme in which the reservation is made and total (annual) amount of this programme	Budget lines: 04.026301 and 04.026302: ESF 13.036502: ERDF 13.046102: Cohesion Fund 13.080100 and 13.080200: SRSP The corresponding total amount of payments made in 2019 is EUR 48.33 (operational expenditure as in Annex 3). The total amount of payments made in 2019 affected by the reservation is EUR 7.6 million (grants to NPA under Technical Support).
Reason for the reservation	The residual error rate above 2%. The RER was calculated on the basis of the multi-annual results (audits in 2018 and 2019). The number of the grant payments -related to NPA beneficiaries- being audited is increasing and therefore the proportionate likelihood of detecting errors increases as well.
Materiality criterion/criteria	The legality and regularity-related criterion of 2% breached. One of the two conditions (i.e. value of the segmented payments under reservation/total payments made in 2019 is < 5%) under the 'de minimis rule' is not met. Nevertheless, the financial impact of the relevant expenditure is below EUR 5 million.
Quantification of the impact (= actual "exposure")	The maximum impact is calculated by multiplying the residual error rate (i.e. 3.58%) by the relevant expenditure in 2019 (payment minus pre-financing, plus clearings) under Technical Support (non-pillar assessed grants), i.e. EUR 3,487,324.27). This yields EUR 124,846.21 (amount at risk at payment) and EUR 121,358.88 as the maximum potential impact on payments for NPA grants under Technical Support during 2019. The total amount of corrections was EUR 34,997.95.
Impact on the assurance	The legality and regularity of financial transactions at stake. Nevertheless, considering the limited amount at risk (EUR 121,358.88), the assurance is still possible provided this reservation is made.
Responsibility for the weakness	The responsibility of errors sits both on the SRSS (for executing the payments) and the grant beneficiaries (for having claimed the wrong amounts).
Responsibility for the corrective action	The SRSS will implement the following remedial actions in 2020: <ul style="list-style-type: none"> ✓ continue to audit final payments to NPA beneficiaries in 2020 according to the ex-post strategy methodology; ✓ continue the practice of instructing beneficiaries on the eligible actions for final cost claim. DG REFORM is also considering, under the future e-grant mechanism, to reduce the thresholds (currently > EUR 325,000 for grants under the Technical Support) for audit certificates to support request for final payments. This should reduce the likelihood of errors in the claimed amounts; ✓ continue the ex-ante desk reviews on sampled grants to NPA organisations; ✓ continue to enforce appropriate financial training for operational initiating agents and financial agents to prevent/detect errors.

2.2 Other organisational management dimensions

For an extensive reporting on all components below, please refer to Annex 2.

2.2.1 Human resource management

The SRSS grew progressively from 130 staff members in December 2016 to 184 in December 2018 and 205 in December 2019, as a result of the increased number of operations and the budget allocated to the SRSP. The majority of the SRSS staff is based in Brussels, while some colleagues work in offices based in Athens and Nicosia. Since 2019, two members of staff are also located in Bucharest and Zagreb.

In 2019, the SRSS continued to promote a more efficient and effective way of collaborating across units by establishing project teams responsible, for instance, for improving the SRSS' analysis of the technical support requests, establishing operational guidelines with some international organisations, and for providing, in selected cases, technical support to Member States with its in-house resources. In line with its mandate, in 2019, the SRSS continued to ensure a strong country focus through the appointment country coordinators for all Member States⁵⁷ of its operations.

In the field of equal opportunities, until end-November 2019 the % of women in management positions remained stable as compared to 2018. Overall, the SRSS is comprised of a majority of female⁵⁸ staff.

In 2019, the overall positive results of the 2018 Commission Staff Opinion Survey were nonetheless analysed with a view to increasing further the staff satisfaction and meeting staff career expectations. A permanent 'Sounding Board', reporting to Senior Management and already established in 2018, continued to promote ways of increasing, for instance, the visibility of staff by clearly acknowledging individual contributions and results; organising meetings with senior and middle managers; and ensuring regular monitoring of workload. A talent management strategy, including initiatives for mapping job profiles, is currently being developed.

2.2.2 Better regulation

Ex post evaluation of the technical assistance provided by the Task Force for Greece (TFGR) 2011-2015

The Staff Working Document was published in February 2020⁵⁹. The postponing of the publication is due to the internal consultation and validation process.

The outputs planned in the Management Plan 2019 are delayed.

Mid-term evaluation of the Structural Reform Support Service

⁵⁷ Except for UK.

⁵⁸ 61% as of 31 December 2019.

⁵⁹ <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/1195-Evaluation-of-the-technical-assistance-provided-by-the-Task-Force-for-Greece-TFGR-2011-2015>

The publication of the Staff Working Document is postponed to mid-2020. This is due to the long data-gathering process required to deal with data protection requirements⁶⁰, and the prolongation of the online survey and interviews schedule to achieve a statistically representative sample.

Evaluation of Aid Programme for the Turkish Cypriot community

The publication of the Staff Working Document originally planned for end-2019 was postponed to 2021, after the completion of the evaluation exercise, which is expected by the end 2020. The need for rescheduling this activity is justified by the overlap of the evaluation activities – including the feedback exercise – which are carried out by a limited number of resources.

Furthermore, in 2019, the Service put in place a feedback mechanism on the completed SRSP projects, after a pilot phase aimed at fine-tuning the questionnaires in use. Three rounds of online questionnaires were sent out (in March, May and July), addressed to the beneficiary Authorities concerned, the providers of the support and the project officers in the SRSS in charge for the support.

In 2019, 23 projects were evaluated. The response rate was on average over 65% for beneficiary authorities and providers and 100% for the policy officers.

The degree of satisfaction of the support provided was excellent. In general, the feedback from stakeholders was mostly positive, e.g.: significant contribution of the SRSS during the design and implementation phases of the evaluated projects; the projects were designed and implemented in such a way as to address the local needs; and excellent quality of the projects.

2.2.3 Information management aspects

In order to contribute to the implementation of the Commission's Data Protection Action Plan⁶¹, in 2019, the SRSS developed internal procedures on **data protection** and for reporting on data breaches, and updated the contractual templates containing the new provisions as approved by the EDPS⁶². Finally, the Service reviewed and updated the list of data processing operations whose respective privacy statements will need to be developed under the new DG REFORM in 2020. A series of awareness activities are planned for 2020 in order to increase staff awareness about the rules on data protection and ultimately to mitigate the likelihood of breaches.

While a **draft internal communication strategy is still pending**, in 2019, the SRSS prioritised the organisation of several internal communication activities, such as 22 Knowledge Hours⁶³ and training for clearer writing, with a view to improving internal communication and specific knowledge among staff.

⁶⁰ Art. 5, paragraph b) and c) of [Regulation \(EU\) 2018/1725](#)

⁶¹ (C(2018)7432)

⁶² European Data Protection Supervisor.

⁶³ The Knowledge Hour is a series of lunch-time information events and tailor-made training sessions designed to facilitate exchange of technical/professional knowledge, best practices, insights and experience amongst SRSS colleagues and to generate discussions with external experts and the rest of the Commission.

2.2.4 External communication activities

In 2019, the main goal of the external communication activities of the Structural Reform Support Service (SRSS) was raising awareness about the SRSP Programme and demonstrating the added value of the technical support offered by the Service to Member States.

The SRSS updated its corporate brochure on the **SRSP**⁶⁷ and published an updated version of a dedicated factsheet⁶⁸ brochure. The visibility of the Service increased during the presentation of the SRSP annual work programme for 2019, the second Annual Monitoring Report⁶⁹ on the implementation of SRSP projects and missions of SRSS senior management to Member States.

Throughout 2019, the SRSS continued to develop specific case studies⁷⁰ illustrating the support that the SRSS provides to Member States. Communication activities around kick-off and closing events of SRSP projects also helped to illustrate the support measures and the added value provided by the Service.

Finally, the SRSS continued to work closely with Commission Representations in EU Member States to enhance the visibility of the Programme.

With respect to the **Aid Programme for the Turkish Cypriot community**, 343 visibility and communication actions took place in 2019. Success stories and other booklets on boosting skills for employment, the green line regulation and environment were prepared.

The EU Infopoint is managed by the EU Programme Support Office together with the Representation of the European Commission in Cyprus, and is financed by the Aid Programme. A new service contract for EUR 1.8 million was signed in December 2019.

The EU Infopoint generated a higher level of visibility for the EU and the Aid Programme. It has covered more than 20 EU-related themes, including environment-related school visits to EU-funded waste-water treatment plants, health and safety training for vocational school students, food safety, animal health, human rights, gender equality, etc.

The EU Infopoint organised 48 events (36 in Nicosia and 12 outside of Nicosia), including Europe Day, European Week Against Racism, European Youth Week & International Youth Day, European Night of Researchers, European Music Days, and EU Anti-Trafficking Day. These events attracted over 9,700 participants in 2019. The number of events with schools and students was increased to ensure outreach to a wider section of the Turkish Cypriot community.

During 2019, 6,164 information products and 14 newsletters were distributed. In addition, 495 news articles and 84 TV spots appeared on local media organs. The registered traffic on the Facebook page "Abbilgi" also confirms the popularity of the activities.

The EU Infopoint has been supporting the promotion of all Aid Programme and EC Representation initiatives, calls for proposals, EU-funded projects and events since the beginning of the project. This has been done via Facebook posts/reminders, front-shop poster displays, and local events. Strategic partnerships have also been established with other EU-funded grant projects and technical assistance projects, such as Civic Space, Private Sector, Animal Disease Eradication, and Waste Management, as well as with relevant local bodies and civil society organisations in the Turkish Cypriot community.