European Commission

2017

Annual Activity Report

Employment, Social Affairs and Inclusion

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List of acronyms

AAR	Annual Activity Report
AA	Audit Authority
ACR	Annual Control Report
AD	Administrators
AGS	Annual Growth Survey
AIR	Annual Implementation Report
ALMP	Active labour market policies
AOD	Authorising Officer by Delegation
AOSD	Authorising Officer by Sub-delegation
AST	Second for assistants
BR	Better Regulation
CEDEFOP	European Centre for the Development of Vocational Training
CIE	Counterfactual Impact Evaluations
COM	Commission
CPR	Common Provision Regulation
CSR	Country Specific Recommendation
CWP	Commission Work Programme
DG	Directorate General
EA	Euro Area
EaSI	EU Programme for Employment and Social Innovation
ECA	European Court of Auditors
EC	European Council
EEA	European Economic Area
EEPO	European Employment Policy Observatory
EESSI	Electronic Exchange of Social Security Information
EGF	European Globalisation Adjustment Fund
EMCO	Employment Committee
EP	European Parliament
EPM	Enquiry Planning Memorandum
EPSA	Early Preventive System Audits
EPSCO	Employment and Social Affairs Council
EQF	European Qualifications Framework
ERDF	European Regional Development Fund
ESCO	European Skills/Competences, qualifications and Occupations
ESDE	Employment and Social Developments in Europe
ESF	European Social Fund
ESI	European Structural and Investment Funds
EURES	European Employment Services
FEAD	Fund for European Aid to the Most Deprived
FTA	Free Trade Agreements
IAC	Internal Audit Capacity
IAS	Internal Audit Service
ICS	Internal Control Standards
ILO	International labour organization
IPA	Instrument for Pre-accession
ISFCC	Interruptions-Suspensions-Financial Corrections Committee
ISG	Indicators' sub-group
JER	Joint Employment Report
LABREF	Labour market reform database
LFS	Labour Force Survey
LLL	Lifelong learning
LT	Lithuania
LTU	Long Term Unemployment

MA	Managing Authority
MCS	Management and Control Systems
MFF	Multiannual Financial Framework
MISSOC	Mutual Information System on Social Protection database
MLP	Mutual Learning Program
MP	Management Plan
MS	Member States
NEET	Not in employment, education or training
OECD	Organisation for Economic Cooperation and Development
OIB	Office for Infrastructure and Logistics in Brussels
OP	Operational priority
OSH	EU Occupational Safety and Health
PES	Public Employment Services
REC	Rights, Equality and Citizenship
RSB	Regulatory Scrutiny Board
SCO	Simplified Cost Options
SIP	Social Investment Package
SME	Small and medium-sized enterprises
SPC	Social Protection Committee
SPPM	Social Protection Performance Monitor
SWD	Staff Working Documents
TMS	Targeted Mobility Scheme
TTIP	Transatlantic Trade and Investment Partnership
VET	Vocational and educational training
WB	Web accessibility
WLA	Workload Assessment
YEI	Youth Employment Initiative
YfEj	Your First EURES Job
YG	Youth Guarantee

THE DG IN BRIEF

The Employment, Social Affairs and Inclusion DG pursues policy, legislative and financial initiatives to build a highly competitive social market economy in the European Union. Through the implementation of the Europe 2020 Strategy it aims to create more and better jobs, promote skills and entrepreneurship, improve the functioning of the labour markets, confront poverty and social exclusion, modernise social protection systems including pensions, health and long-term care, facilitate the free movement of workers, promote workers' rights, health and safety at work, and protect against discrimination in the work place, as well as the rights of persons with disabilities.

Mission Statement Strategic Plan 2016-2020

The **Treaty** provides that in determining and implementing its policies and activities, the EU has to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion and a high level of education, training and protection of human health (Article 9 TFEU). Other specific responsibilities of EMPL enshrined in the Treaty include the implementation of the fundamental right of "Free Movement of Workers", the coordination of social security systems and the promotion of social dialogue and of improved living and working conditions. EMPL is also in charge of the implementation of the European Social Fund in order to improve employment opportunities for workers in the internal market and to contribute to raising the living standards, as well as to develop actions for strengthening the Union economic, social and territorial cohesion. EMPL also promotes the external dimension of these policies and contributes to the employment and social dimension in enlargement, neighbourhood and trade policies.

EMPL's policies are framed by the **Europe 2020 Strategy**, intended to help the EU to move from crisis-effect management to longer-term structural growth. With the goal to generate smart, inclusive and sustainable growth, it sets out a framework for reforming labour markets, modernising social Europe, creating job opportunities, ensuring adequate and sustainable social protection systems and social inclusion, and fostering economic competitiveness. Furthermore the **European Pillar of Social Rights** promotes upwards social convergence and strengthens the social dimension of European integration. It sets out 20 principles to be used as a policy compass for fair and dynamic labour markets, and for well-functioning and sustainable welfare systems.

Guided by the Treaty, EMPL's mission and political priorities are further defined on the basis of **President Juncker's political guidelines**[1] set for the Commission 2014-2019 and its translation in Commissioner Thyssen's mission letter[2].

The responsibility for fulfilling the above-mentioned objectives as well as for policy setting in the field of employment, social affairs and inclusion is shared between the EU and its member countries.

EMPL's main **areas of intervention** towards the attainment of those objectives are:

(1) Policy activities of guidance, coordination and governance towards employment and social policies reforms;

(2) Regulatory activities in the areas of working conditions (labour law, health & safety), workers' rights and free movement of workers;

(3) Management of a wide range of funding instruments under different management modes:

[1]A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change Political, http://ec.europa.eu/priorities/docs/pg_en.pdf
[2]President Juncker's Mission Letter to Marianne Thyssen, Commissioner Employment, Social Affairs, Skills and Labour Mobility, http://ec.europa.eu/commission/sites/cwt/files/commissioner_mission_letters/thyssen_en_1.pdf

- **Shared management**: European Social Fund (ESF), including the Youth Employment Initiative (YEI), European Globalisation Adjustment Fund (EGF), Fund for European Aid to the Most Deprived (FEAD);
- **Direct management**: EU Programme for Employment and Social Innovation (EaSI[3]), part of Erasmus+ and of the Rights, Equality and Citizenship Programme (REC) and funds allocated by virtue of the powers conferred by the Treaty (so-called "Prerogatives") for social dialogue, mobility, analysis of the social situation, demographics and the family; and contributions to 4 decentralised Agencies (EU-OSHA, Eurofound, Cedefop & ETF[4]).
- **Indirect management**: Instrument for Pre-Accession Assistance – Human Resources Development (IPA-HRD 2007-2013) which is phasing out. Its successor is managed by NEAR.

The table below shows the total commitment and payment appropriations authorised in 2017[5]:

2017 (in EUR Mios)	Commitments appropriations authorised	Payments appropriations authorised	Share in overall amount of payments
The European Social Fund and the YEI	15 074.6	10 838.2	94.6 %
The Fund for European Aid to the Most Deprived	552.3	297.4	2.6 %
The European Globalisation Adjustment Fund	58.9	41.1	0.4 %
The Instrument for Pre-Accession Assistance – Human Resources Development	0.0	40.5	0.4 %
Direct Management (EaSI, prerogatives, REC, Erasmus+) and agencies	327.0	245.5	2.1 %
TOTAL	**16 012.8**	**11 462.7**	**100.0 %**

EMPL has also entrusted budget implementation tasks to RTD, REGIO, ESTAT, AGRI, ECFIN and DGT for a total of EUR 11.6 million.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of EMPL to 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 takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[6].

a) Key results and progress towards the achievement of general and specific objectives of the DG

EMPL delivered on several headline actions in the Commission's 2017 Work Programme, thereby contributing to progress on jobs, growth and investment, and a deeper and fairer EMU.

[3] EaSI is made up of 3 axes: PROGRESS, EURES, and Microfinance and Social Entrepreneurship.

[4] (1) The European Agency for Safety and Health at Work (EU-OSHA); (2) The European Foundation for the Improvement of Living and Working Conditions (Eurofound); (3) The European Centre for the Development of Vocational Training (Cedefop); and (4) The European Training Foundation (ETF)

[5] Commitment/payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue). See annex 3 for details.

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

The DG focused its work on the 8 specific objectives of its 2017 Management Plan and delivered the following main achievements:

Effective support to Member States in their structural reforms in the context of the European Semester

In 2017 EMPL contributed significantly to the annual European Semester process, further reinforcing the social dimension of the Semester. This was achieved through the following actions:

- Further improvement of the assessment capacity linked to the Semester, including by developing new and regular analysis to underpin the evaluation of policy developments.
- Examining draft 2017 National Reform Programmes, contributing to the drafting of Country Reports and (draft) Country Specific Recommendations, and proposing benchmarking frameworks (some of which still to be agreed with Member States).
- Contributing to the launch of the 2018 cycle. The European Pillar of Social Rights was fully integrated in the different documents of this package, including the application of the social scoreboard.

Stronger social dialogue

- In 2017, EMPL continued activities on the 'new start for social dialogue'. Social Partners signed joint statements at the occasion of the tripartite social summit in Rome marking the 60th anniversary of the Treaty of Rome and at the following Social Summit for Fair Jobs and Growth in Gothenburg in November 2017.
- The involvement of the Social Partners in the European Semester on both the EU and the national level was further promoted.
- The Commission launched consultations with social partners on the Written Statement Directive[7] and on access to social protection (both implementing the European Pillar of Social Rights[8]), on the Carcinogens and Mutagens Directive, as well as a first stage consultation on the Road Transport Working Time Directive.
- Following the Commission' proposal a Directive which gives legal effect to an agreement between EU social partners in the maritime sector was adopted.

Better functioning labour markets

- A comprehensive report assessing the EU European network of Public Employment Services Network was adopted by the Commission in June 2017. The second two-year phase of benchlearning (creating a systematic and integrated link between benchmarking and mutual learning activities) support to Public Employment Services was successfully launched.
- Youth unemployment as a challenge to tackle and the implementation of the Youth Guarantee as one of the tools to address it remained high on the agenda.
- The adoption of the legislative proposal on the European Solidarity Corps in May 2017 was a milestone. Alongside volunteering, a framework was proposed for the development of the occupational dimension of this initiative, focusing on jobs and traineeships and their quality.
- The efforts on addressing long-term unemployment were continued in the context of the respective Council Recommendation. An evaluation process was launched mid-year with the publication of a roadmap in June 2017.

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[7] European Commission (2017). Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on transparent and predictable working conditions in the European Union. See: https://ec.europa.eu/info/law/better-regulation/initiatives/com-2017-797_en

[8] Social Partners decided not to enter into negotiations between themselves on these two proposals.

Decent and safe working conditions for all

- The Commission presented a proposal for Directive on transparent and predictable working conditions in the European Union (the former revision of the Written Statement Directive). The proposal remains to be agreed and adopted by the European Parliament and Council.
- Another key deliverable in 2017 was the non-legislative proposal to reinforce the Implementation of the Working Time Directive.
- Substantial progress was made as concerns the evaluation of the European Works Council Recast Directive, with a view to its publication in early 2018.
- In the area of occupational safety and health (OSH) the Commission set out its new policy priorities in the Communication on the Modernisation of the EU Occupational Safety and Health Legislation and Policy adopted in January 2017. The proposal remains to be agreed and adopted by the European Parliament and Council.
- In the fight against occupational cancer and dealing with chemicals at work, a second legislative proposal to amend the Carcinogens and Mutagens Directive was adopted in January 2017.
- A peer-review on the use of web-based tools for risk assessment helped businesses (especially SMEs) to comply with occupational safety and health rules.
- A first round of consultation of experts from Member States on the six directives identified in the OSH Communication contributed to the removal or update of outdated provisions in the EU occupational safety and health Directives

A skilled and more entrepreneurial workforce

- In 2017, as part of the New Skills Agenda for Europe, the revised European Qualifications Framework was adopted.
- Political agreement was reached in December 2017 on the proposal to revise the Europass framework, and on 12th April, 2018, EU Member States adopted the Commission's proposal.
- The Commission launched the Skills Profile tool for third country nationals to support early identification of skills of asylum seekers, refugees and other migrants.
- Further actions on mobility and quality of apprenticeships were developed by adopting the Commission proposal for a Council recommendation on a European framework for quality and effective apprenticeships. A new activity under Erasmus+ was launched to support the ErasmusPRO initiative aimed at boosting vocational education and training/apprenticeship work placements abroad.

Greater social inclusion and effective social protection

- The Work-Life Balance Initiative was adopted as part of the European Pillar of Social Rights package in 2017. The proposal for a Directive remains to be agreed and adopted by the European Parliament and Council.
- The preparation of the Initiative on Access to Social Protection made considerable progress toward an adoption in early 2018 (a proposal adopted in March 2018 as part of the Social fairness Package).
- A general approach was reached in the Council on the Commission's proposal for the European Accessibility Act. The proposal remains to be agreed and adopted by the European Parliament and Council.
- EMPL continued working on the implementation of key recommendations of the Pension Adequacy Report adopted in 2015, and worked intensely to prepare the upcoming Pensions Adequacy Report 2018.

Improved conditions for geographic and professional mobility whilst tackling risks of distortions and abuses

- In 2017, the focus was on the follow-up of labour mobility initiatives from 2016, notably the targeted review of the Posting of Workers Directive (with the European Parliament and Council entering negotiations and aiming to conclude in the first half of 2018), the revision of the rules on social security coordination (which still needs to be agreed and adopted by the European Parliament and Council) and the Regulation strengthening the European job search network (EURES).
- The Administrative Commission (AC) on the Coordination of Social Security Systems declared the central system for Electronic Exchange of Social Security Information (EESSI) fit for purpose to start national implementation activities. An improved version of EESSI was made available to the Member States in the end of 2017.
- The European Platform tackling undeclared work contributed to achieving practical cooperation between Member States in its first full year of operation.
- Two new initiatives announced by the President in September 2017 were under preparation with a view to adoption by the Commission in spring 2018: the European Labour Authority (a proposal adopted in March 2018 as part of the Social Fairness Package) and the European Social Security Number.

Strengthened social dimension of the EMU

- In 2017, the DG delivered the European Pillar of Social Rights, promoting upwards social convergence and strengthening the social dimension of European integration. The Pillar sets out 20 principles to be used as a policy compass for fair and dynamic labour markets, and for well-functioning and sustainable welfare systems. Reaffirming the common goal of strengthening the social dimension of the European Union and the Economic and Monetary Union, the Pillar Proclamation was also signed at the Social Summit in Gothenburg in November 2017 by the European Commission, the Council and the European Parliament.
- During 2017, EMPL also set out on implementing the principles underpinning the Pillar. This work included legislation, policy steer and monitoring through the European Semester (incl. through the dedicated social scoreboard), as well as policy guidance involving benchmarks.

EMPL's policy objectives are supported by the following funds

- Each year the European Social Fund (ESF) helps millions of Europeans improve their lives by learning new skills and finding better jobs. After an initial slow start, all operational programmes marked a strong acceleration in 2017, though important disparities between Member States and programmes persist. The Annual Implementation Reports (AIR) for 2016 showed that 7,8[9] million participants had already been supported, of whom 4.2 million were unemployed and 2.1 million inactive. By September 2017 Member States had declared that 1.7 million young people had already benefitted from the Youth Employment Initiative (YEI). Complete data on 2017 will be presented in the AIR in May 2018.
- The European Globalisation Adjustment Fund (EGF) provides support to workers made redundant and to self-employed persons whose activity has ceased as a result of major structural changes in world trade patterns due to globalisation or as a result of the continuation of the global financial and economic crisis. Between 2014 and 2017 EGF funding has supported 40 310 targeted workers and NEETs[10] in 25 different economic sectors.

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[9] One individual may have participated in several ESF funded activities

[10] NEET stands for "Not in Education, Employment, or Training"

The EGF mid-term evaluation conducted in 2017 provided evidence for the positive effects arising from EGF support, in terms of supporting beneficiaries back into employment, offering a wider scope of services, transfer of good practices from regional to national level. The evaluation also identified a few areas for improvement for the next programming period, such as the need for a more precise definition of the scope and criteria triggering the support applied, as well as enhanced monitoring framework at Member State level. It showed that some Member States that would have had a potential EGF case refrained from applying for EGF assistance due to lack of institutional capacity, which could be addressed with enhanced technical assistance.

- The Fund for European Aid to the Most Deprived (FEAD) contributes to alleviating the worst forms of poverty in the EU by providing assistance to the most deprived persons. Support from the FEAD may take the form of food, basic goods or social inclusion activities. The Annual Implementation Reports for 2016 showed that 15.3 million persons benefitted from food support operations, over 660 000 persons received basic material assistance and close to 23 000 people were involved in social inclusion activities. Over 377 000 tonnes of food co-financed by FEAD were distributed to the most deprived. Data on 2017 will be presented in the AIR in June 2018.

  The preliminary results of the FEAD mid-term evaluation confirm that the fund is effective at alleviating food deprivation and contributing to social inclusion and cost-efficient (as mostly based on NGOs relying on volunteers). Low thresholds allow aid to be provided to persons not reached by the social services such as homeless, new or undocumented migrants or elderly people at risk of poverty. It also allows responding quickly to emerging needs and crisis situations. However the evaluations shows that food and material assistance delivered through FEAD alone is not sufficient to lift end recipients out of poverty and therefore accompanying measures are considered useful. Another area identified by the evaluation as having a high potential is the support to the collection, storage and distribution of food donations.

- To promote jobs and growth in Europe and guarantee adequate social protection, in 2017 the Employment and Social Innovation programme (EaSI) awarded financing to 34 projects through 7 calls for proposals for EUR 30.9 million. The implementation of the EaSI Guarantee continued: by the end of 2017, 49 Microfinance and 13 Social Entrepreneurship operations were signed in 24 countries for a total of EUR 105.1 million. They are expected to unlock more than EUR 1.3 billion of financing for micro- and social enterprises thanks to a leverage effect. These positive results led to a EUR 100 million top-up from the European Fund for Strategic Investments (EFSI).

  The preliminary findings of the mid-term evaluation confirm the relevance of the EaSI programme. Its added value is widely acknowledged with regards to the exchange of good practices, social policy innovations, cross-border partnerships, support to social enterprises, as well as regarding the provision of loans to vulnerable people. The evaluation provides evidence that EaSI delivers good quality outcomes, but in limited quantity given its limited resources. For instance, the scaling-up of projects is hindered by the absence of concrete mechanisms to encourage an effective cooperation between EaSI and ESF, the complexity of the ESF management and delivery system, as well as the absence of a dedicated earmarked budget allocation. The issue will be addressed in the Regulation of the future 'Invest in people' post 2020. Other improvements recommended include enhanced flexibility and targeting groups in need of specific support, simplification of procedures, improved internal coherence and linkages with other funds.

- The prerogative budget lines finance the activities in support of the functioning of European social dialogue. In particular they sustain the 43 EU sectorial social dialogue committees and of the EU cross-industry social dialogue committee. They also fund negotiations and projects to implement the work programme of the social partners, as well as the exchange of information and good practice between social partner organisations at EU and/or transnational level; capacity building actions in support of workers' and employers' organisations in a European perspective; analysis on industrial relations and evaluation studies. These outcomes concern among others employment and social policy, energy union, digital single market, migration policy and therefore feed into the main priorities of the Junker Commission.

b) Key Performance Indicators (KPIs)

EMPL - KPIs	Target	Latest known results
Degree of implementation of EMPL's initiatives of the Commission Working programme (CWP)	100%*	2017: 83% *5 of 6 CWP items adopted[11] and the 'Access to social protection' has been postponed to 1st Q 2018 (and adopted on 13 March, 2018).*
Participants (unemployed or inactive) in employment, including self-employment, upon leaving European Social Fund operation	24% (2023)	16.5% (2016)
Participants gaining a qualification upon leaving European Social Fund operation	48% (2023)	21.1%[12] (2016)
Residual risk rate in shared management	< 2%	2016: 0.7% (OPs 2007-2013) 0.9% (OPs 2014-2020) 2017: 0.7% (OPs 2007-2013) 1.2% (OPs 2014-2020)

* annual target

c) Key conclusions on Management and Internal control

In accordance with the governance arrangements of the European Commission, the staff of EMPL conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

Due to very different regulatory environments, a multiplicity of management methods is used by EMPL and brings specific risks and difficulties. The main ones are:

- **Shared management (ESF, FEAD and EGF):** Member States have the primary responsibility to take all measures necessary to ensure that the funds are used in accordance with the applicable rules and principles and protect the Community's financial interests although the Commission retains final responsibility for the implementation of the budget. The Commission exercises supervisory controls, mainly by audit of the MS' management and control systems, including transactions tests at beneficiary level. For ESF, representing 94% of EMPL's 2017 budget[13] the major inherent risk relates to the complexity of the operations and activities financed, the typology and variety of recipients (involving multiple local partners, often of modest size), and the high number of annual interventions. For FEAD the selection of partners and public procurement rules present also a difficulty.
- **Indirect management-third countries:** the **IPA-HRD** fund is managed in a decentralised manner but with strong similarities to the approach used for the ESF. The inherent risk relates to the ability of the candidate countries to set up and operate the structures and controls necessary for sound management of the allocated

[11] Quality Framework for Apprenticeships, the Social Pillar, Work-Life Balance, implementation of Working Time Directive, Transparent and Predictable Working Conditions (former revision of Written Statement Directive). There are two other CWP initiatives, which have a bearing on EMPL's work during 2017: the European Solidarity Corps and the proposal for improved tracking of outcomes for graduates and young people who have followed vocational education and training. DG EAC is in the lead for these. These two initiatives have not been taken into account when calculating the degree of implementation.

[12] Under thematic objective 10 'investing in education, training and vocational training for skills and life-long learning'.

appropriations. This risk is however mitigated by the fact that ex-ante verification is carried out by the EC delegations in the candidate countries.

- **Direct management (EaSI and prerogatives):** it involves the attribution of numerous contracts and grants and the payment of numerous operating grants to non-governmental organisations, associations and trade unions. The main risk related to these activities concerns the capacity of (especially) smaller organisations to effectively control expenditure and ensure the transparency on the operations carried out.

The Commission has adopted a set of internal control principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. EMPL has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended. Please refer to section 2.1.3 for further details.

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

In conclusion, management has reasonable assurance that for European Globalisation Adjustment Fund (EGF), Instrument for Pre-Accession Assistance (IPA), direct and indirect management, suitable controls are in place and work as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

The management has also the assurance that suitable controls are in place and work as intended as regards the European Social Fund (ESF) and Fund for European Aid to the Most Deprived (FEAD). The internal control system allowed detecting deficiencies in the Management and Control Systems of 18 ESF operational programmes of the 2007-2013 programming period as a measure of prudence, based on an in-depth assessment of the closure documents received on 31 March 2017 and on audit work performed in 2017. The financial risk is estimated at 0.0% of the relevant expenditure of the year for 2007-2013 period, the reservation for 2007-2013 being of a reputational nature, as the final payments will be executed only when all the open issues are solved. The cumulative residual error rate over the whole period is estimated at 0.7%.

For the 2014-2020 programming period, 13 ESF/YEI and 2 FEAD programmes are also part of the reservation due to material deficiencies in some key elements of the systems as well as for legality and regularity issues revealed by an audit of EMPL. The financial risk is estimated at 0.3% for the programmes included in the reservation. The residual risk is estimated at 1.2% for ESF/YEI and 1.3% for FEAD.

EMPL continues to apply a strict policy of interruption and suspension of payments to preserve the EU's financial interests. The financial corrections decided to date for the whole 2007-2013 programming period (both by Member States and at Commission's request) amount to EUR 2.739 million (3.5% of the declared expenditure). For the 2014-2020 programming period, financial corrections resulting from the audit work of the audit authorities for an amount of EUR 190 million were implemented in the annual accounts for 2016-2017 sent to the Commission in February 2018.

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for all EMPL's expenditure authorised during the year is estimated at 1.1 % at the time the payment is made.

On this basis, the Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by the above-mentioned reservation related to the ESF for both 2007-2013 and 2014-2020 programming periods.

d) Information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Thyssen, responsible for Employment, Social Affairs, Skills and Labour Mobility.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES

This section should be read in connection with annex 12 where a number of indicators are presented in order to provide insight on the achievement of those expected results and impacts.

1.1. The employment and social situation in the EU[14]

The policies pursued by the Commission in this area are shaped by many other factors with strong effects. Furthermore, most policy levers are in the hands of the Member States and subject to many sometimes conflicting demands including fiscal constraints. Notably due to the specific nature and/or management mode of the underlying activities, the achievement of expected results and impacts goes therefore far beyond EMPL's area of control[15].

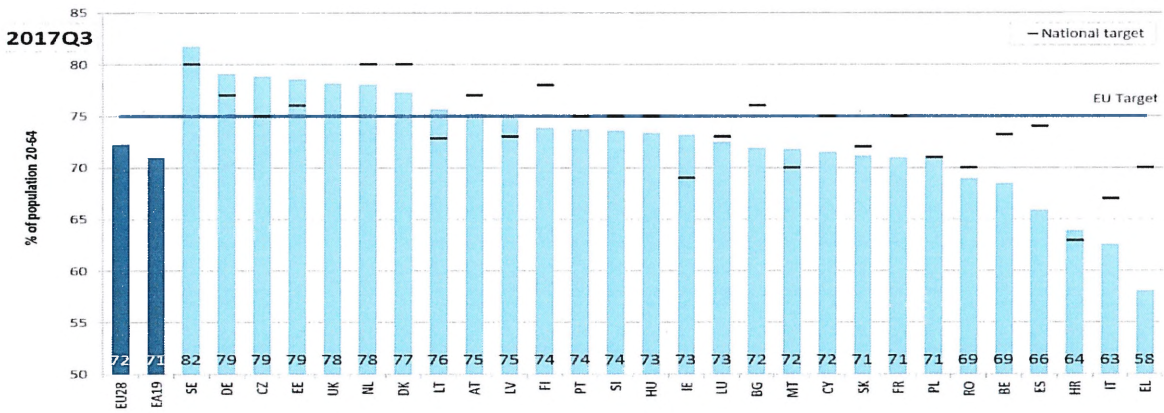
Major changes were brought to the Strategic Planning and Programming (SPP) cycle in 2016 with the introduction of a multiannual Strategic Plan and an annual Management Plan. On this occasion, a scorecard of key impact indicators for the whole Commission was defined. In its "Strategic Plan 2016-2020"[16], EMPL identifies three Commission general objectives and impact indicators to which it contributes.

Below is a snapshot of progress made towards those EU objectives[17], as illustrated by the three impact indicators chosen by EMPL in its strategic plan 2016-2020, put into context with more general socio-economic indicators.

(1) A New Boost for Jobs, Growth and Investment

Employment in the EU continued its expansion surpassing expectations. The EU employment rate[18] for 20 to 64 years-old reached 72.3% in the third quarter of 2017, the highest ever reached, but still 2.7 points below the Europe 2020 target of 75%. Nonetheless, large disparities in employment rates remain among Member States, ranging from 58 % in Greece to 82 % in Sweden. In around half of the Member States, employment rates are still lower than in 2008.

Chart 1: Employment rate (20-64) in the EU Member States, 2017Q3[19]



[14] Sources: " Employment and Social Development in Europe - Quarterly Review – February 2018 ", "Draft Joint Employment report from the Commission and the Council, accompanying the Communication from the Commission on the Annual Growth Survey 2018"
[15] For additional information, please refer to the section 'External factors' of the 2016-2020 Strategic Plans (SP) (page 6)
[16] Published on Europa http://ec.europa.eu/atwork/key-documents/index_en.htm
[17] The employment and social situation is closely monitored throughout the year in the Quarterly and annual reviews of Employment and Social Developments (ESDE) as well as in the context of the European Semester with the Draft Joint Employment Report.
[18] Indicator 1 – see annex 12.
[19] Source: Employment and Social Development in Europe - Quarterly Review – February 2018

The unemployment rates in the EU and Euro area are approaching their pre-crisis values at a steady pace. In December 2017, they stood at 7.3 % in the EU and 8.7 % in the Euro area. This has been the fourth consecutive year with reductions in the unemployment rate, and 2017 registered the highest annual decrease since the start of the recovery.

In the same period, the youth unemployment rate (those aged 15-24) continued to decrease gradually in the EU and in the Euro area. The rate declined in the EU to 16.1% and 17.9% in the Euro area.

The long-term unemployment rate also decreased at a steady pace. However, the share of long-term unemployment in total unemployment remained high at around 45 %. The reduction was significant among those in very long-term unemployment (unemployed for at least two consecutive years), lowering their rate by 0.4%.

Chart 2: Unemployment rate (total and youth) - EU and Euro Area (EA)[20]

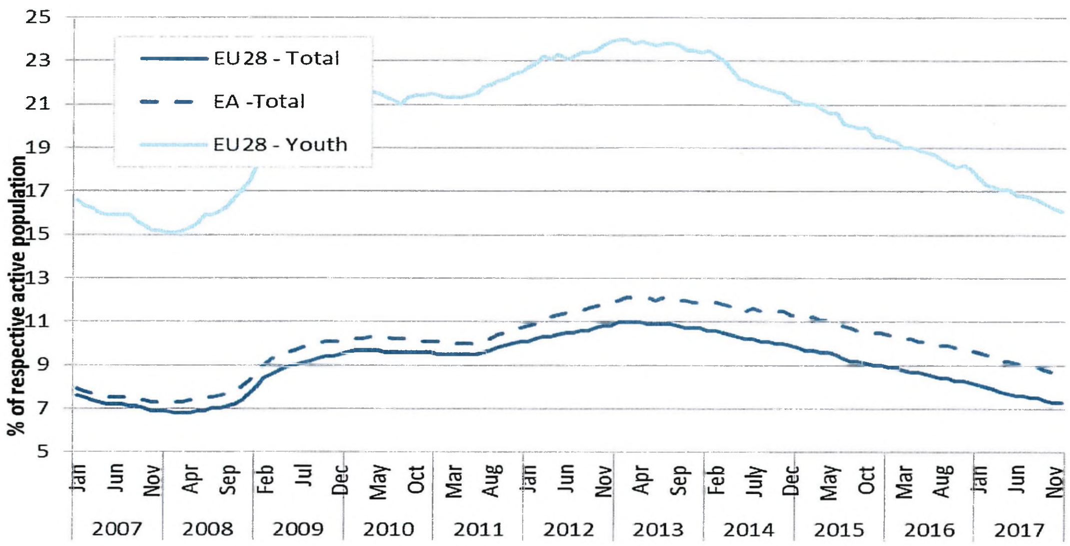
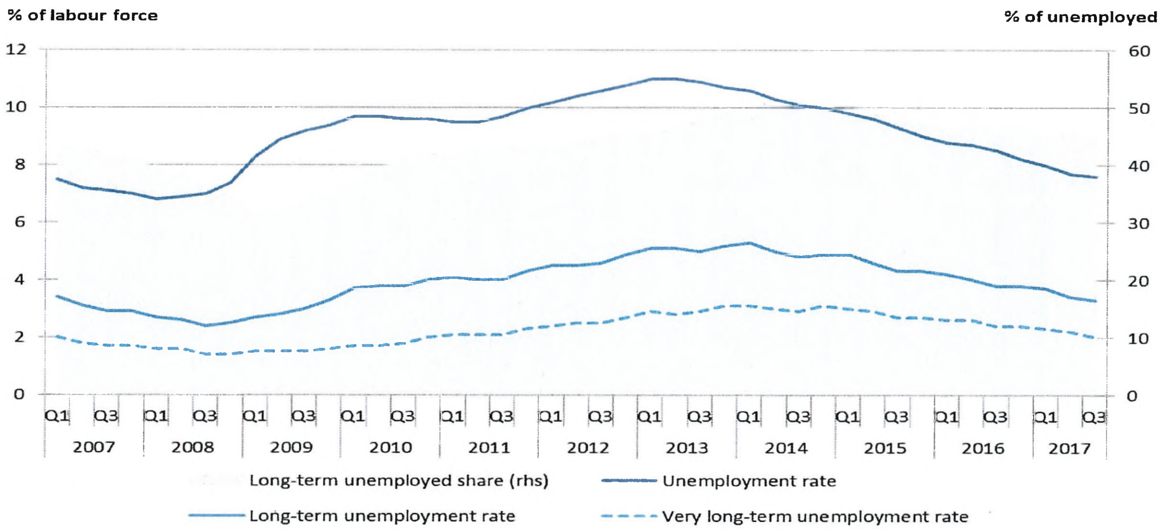


Chart 3: Unemployment and long-term unemployment rates and share in the EU[21]



[20] Source: Eurostat, series on unemployment [une_rt_m] Data seasonally adjusted
[21] Source: Eurostat, LFS [une_rt_q, une_ltu_q] Data non-seasonally adjusted

Employers report difficulties in finding candidates with the right skills, notably technical or transversal skills or work experience among job candidates. This is also related to labour market tightness in some countries. To improve abilities and to keep reducing unemployment and increasing EU competitiveness, it is crucial to keep investing in education and training to remain on track towards the target set in the Europe 2020 Strategy[22].

Chart 4: Early leavers from education and training23

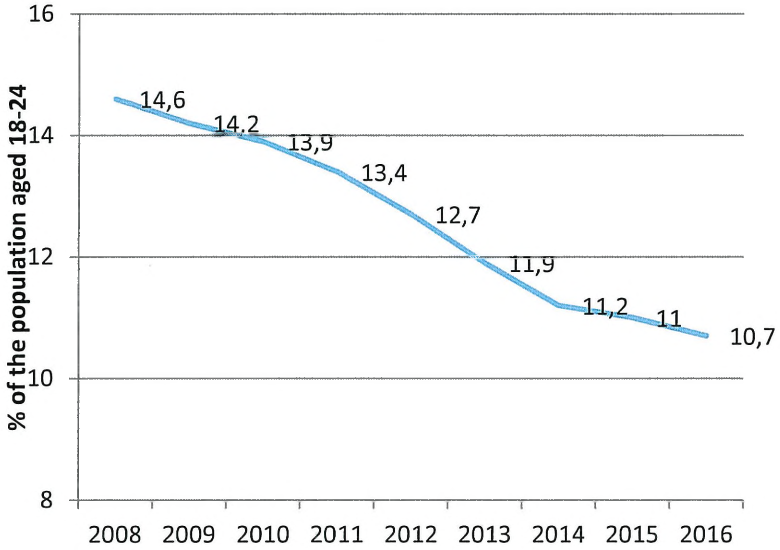
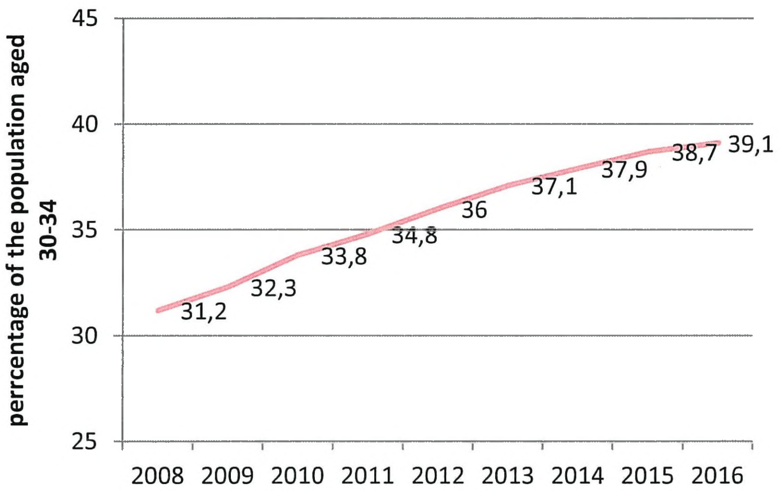


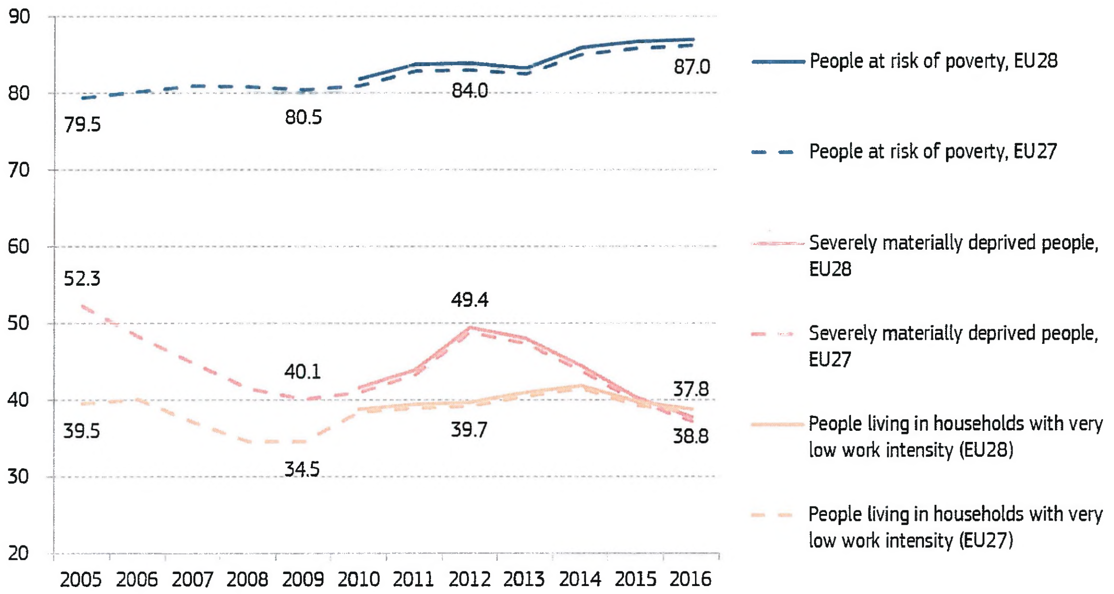
Chart 5: Tertiary educational attainment



[22] Reducing school drop-out rate below 10% and exceeding 40% of 30-34 year-olds who completed a third level education are key objectives of the Europe 2020 Strategy.
[23] Source: Eurostat, LFS (lfsi_emp_a, tespm080, edat_lfse_20, edat_lfse_14,une_rt_a)

The economic recovery that started in 2013 has also been accompanied by a continuous reduction in poverty: the number of people at risk of poverty[24] has dropped from 122.7 million in 2013 to 118 million people in 2016. Still, progress towards achieving the Europe 2020 strategy headline target – of lifting at least 20 million people out of poverty compared to 2008 – remains insufficient.

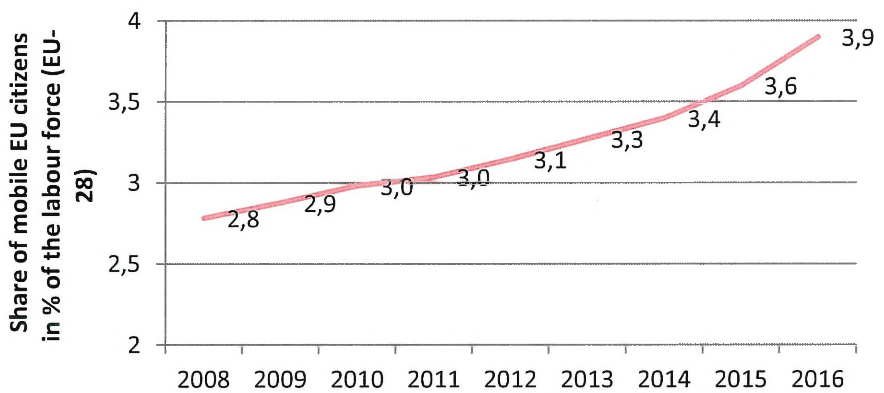
Chart 6: Subindicators 'people at risk of poverty or social exclusion' [25]



(2) A Deeper and Fairer Internal Market with a Strengthened Industrial Base

Investments to improve the conditions for geographic and professional mobility while tackling risks of distortions and abuses have contributed to the progressive increase in the mobility rate within the EU, which reached 3.9% of the population in 2016.

Chart 7: Share of mobile EU citizens in % of the labour force (EU-28)[26]



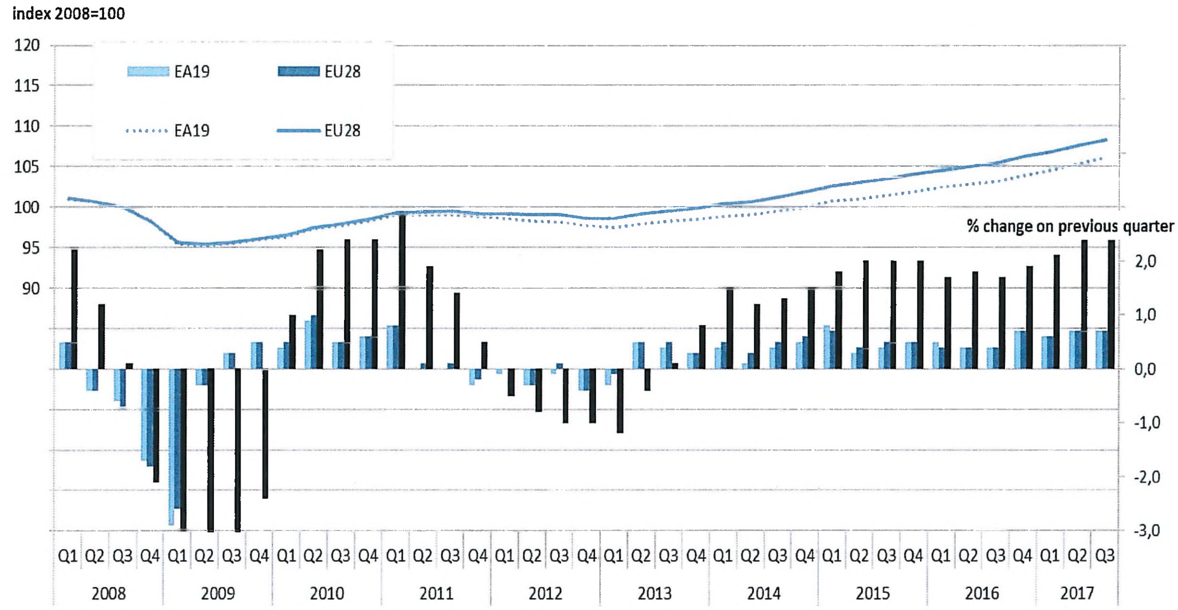
[24] Indicator 15 – see annex 12
[25] Source: Draft Joint Employment Report 2018.
[26] Individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation and/or living in households with zero or very low work intensity; people can belong to more than one group. Source: Eurostat, EU-LFS (lfsa_pganws)

(3) A Deeper and Fairer Economic and Monetary Union

The following two impact indicators aim to demonstrate progress towards the objectives set by President Juncker for a fairer EMU, by identifying common principles and reference benchmarks which can serve greater convergence of employment and social performance over time and an increase of fairness.

Real Gross Domestic Product (GDP) has been increasing since 2013, measuring how fast the economy is growing through its four components: personal consumption, business spending, government spending and the total of exports minus imports. GDP levels in the EU and EA have now returned to and surpassed 2008 levels. In 2017 EU's economy continued its expansion at a robust and higher than expected pace. Year-on-year growth was positive in all Member States and improved to 2.8 % in both areas.

Chart 8: Real GDP growth - EU, Euro Area (adapted)[27]



[27] Source: Eurostat, National Accounts [naidq_10_gdp] Data seasonally-adjusted

1.2. Progress towards policy priorities

EMPL's initiatives, as defined in the 2017 Commission Work Programme[28] and in its Management Plan 2017, focused on the following priorities.

COMMISSION GENERAL OBJECTIVES	EMPL SPECIFIC OBJECTIVES	CONTRIBUTION THROUGH EMPL INSTRUMENTS *
1. A New Boost for Jobs, Growth and Investment	1.1. Effective support to Member States in their structural reforms in the context of the European Semester 1.2. Stronger social dialogue 1.3. Better functioning labour markets 1.4. Decent & safe working conditions 1.5. A skilled & more entrepreneurial workforce 1.6. Greater social inclusion & effective social protection	Policy guidance, coordination and governance Regulatory process Funded actions to improve the law- and policy making process (EaSI-PROGRESS, REC, ERASMUS+, prerogatives)
2. A Deeper and Fairer Internal Market with a Strengthened Industrial Base	2.1. Improved conditions for geographic and professional mobility whilst tackling risks of distortions and abuses	Funding instruments with direct effect on citizens ESF: employment & labour mobility; social inclusion; education, skills & lifelong learning; institutional capacity and effective public administration, YEI: specific support to young people FEAD: assistance to most deprived EGF: reintegration into employment
3. A deeper and fairer Economic and Monetary Union	3.1. Strengthened social dimension	EaSI-Microfinance: accessibility and availability of microfinance EaSI-EURES: geographic and professional mobility

* A list of acronyms is presented on page 3

This section will report on progress made towards achievement of each specific objective focussing first on policy and regulatory priorities and then on the most significant outcomes obtained thanks to funding by EMPL instruments.

General Objective 1: A New Boost for Jobs, Growth and Investment

Specific Objective 1.1. Effective support to Member States in their structural reforms in the context of the European Semester

In 2017, EMPL contributed significantly to the annual **European Semester** process, further reinforcing the employment and social dimension of the Semester. This was achieved through the following actions:

Providing analysis and evidence-based advice

- Improving the assessment capacity linked to the Semester by: a) developing further and making more regular use of various monitoring tools including the Joint Assessment Framework, the Joint Assessment Framework Health, the Employment Performance Monitor and the Social Policy Performance Monitor (EPM/SPPM), and the LABREF database reviewing policy developments in the labour market area; b) complementing these tools with guidance notes and thematic fiches, several of which have been published on-line as part of the European Semester package; c) organising a comprehensive training programme on EMPL related issues for desk officers (from EMPL and other DGs); d) further strengthening the consultation of social partners and initiating informal consultations of civil society organisations to harness their knowledge and expertise on semester related issues.

- Developing analysis to underpin the assessment of policy developments through the annual and quarterly Employment and Social Development Reviews and the annual Labour Market and Wage Developments review (LMWD), which were published in July 2017 and October 2017 respectively. The Employment and Social Developments in Europe (ESDE) Annual

[28] http://ec.europa.eu/atwork/key-documents/index_en.htm

review focused on Intergenerational fairness and solidarity in Europe covering topics, such as generations and demographic change, labour market divides, retirement and social dialogue. The LMWD review described the EU and the Member States labour market challenges in the context of the economic recovery and provided a focus on the structural and institutional determinants of labour market segmentation.

- Contributing to the elaboration of the 2018 cycle of the "Economic Governance Package" which includes the Annual Growth Survey, the Alert Mechanism Report, the Euro area recommendations, drafting the Joint Employment Report and proposed revised guidelines for Member States' employment policies.

For the first time, the European Pillar of Social Rights has been fully integrated in the different documents of this package. In particular the Joint Employment Report used the Social Scoreboard as a monitoring tool and the Employment Guidelines were amended to align the text with the principles of the European Pillar of Social Rights, for example where it concerns precarious working conditions, the abuse of atypical contracts, social dialogue or access to adequate social housing assistance. The package was adopted by the Commission on 22 November 2017.

- EMPL contributed in particular through Country Reports and Country Specific Recommendations (CSRs) on the basis of priorities set in policy instruments and evidence gathered through detailed analysis. The table below provides an overview of CSRs in the Semester domains for which EMPL has a direct coordination role.

MS	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	SE	RO	SI	SK	UK	
Active Labour Market Policies & Public Employment Services		x	x	x	x				x	x			x	x	x	x						x		x	x	x		
Employment Protection Legislation & Segmentation						x			x											x	x	x						
Undeclared Work			x																					x				
Tax Wedge on Labour						x					x		x					x		x								
Wages and Competitiveness			x			x		x		x	x	x			x					x		x		x				
Labour Market Participation of Women	x					x		x	x					x	x						x			x		x		
Integration of People with a Migrant Background	x	x									x																	
Pensions & Older Workers	x				x							x				x	x			x	x	x		x	x			
Education, Skills, VET and Adult Learning	x	x	x	x				x	x		x	x	x	x		x		x			x			x	x	x		
Roma inclusion			x										x											x		x		
Social Inclusion & Social Benefits			x					x	x			x	x	x	x	x		x						x		x		
Healthcare	x		x	x						x						x		x				x		x	x	x		
Total number of components:	3	2	6	3	2	4	0	4	5	5	4	5	4	2	4	5	3	4	0	4	2	4	0	6	4	5	1	91

Note: The total number of components per given Member State does not always correspond to the number of crosses in the table (policy areas covered) as there might be several components in one policy area and some components can address more than one policy area.

However reforms in the labour market and welfare systems are complex and take time to design and implement. Successful reforms require ownership at national level, and very often the involvement and buy-in by social partners and other stakeholders. Engaging the necessary actors and building the necessary consensus requires time. Reform options are often a compromise balancing different interests, found in order to move forward. Therefore, the implementation rate of the Country Specific Recommendations in the short term remains relatively low. The analysis though from the multiannual perspective shows that the implementation rate increases over time.

Assisting Member States in designing reforms

- Examining draft 2017 National Reform Programmes submitted by national governments.

- Developing benchmarking frameworks (unemployment benefits and ALMPs, education, training and skills, minimum income schemes), with a view to supporting reforms in Member States and identifying best policy practices.

- Providing strong support to the multilateral surveillance and country peer-reviews that took place in the Employment and Social Protection Committees. In 2017, 7 reviews and a Country Exam took place. The following topics were covered: youth guarantee, Active Labour Market Policies (ALMPs) and Public Employment Services (PES), youth and labour market segmentation, education, skills, vocational education and training (VET), adult learning, labour market participation, wages and competitiveness / labour taxation and social dialogue. Also the Mutual Learning Programme provided important support in this context (please see below).

Beyond these policy and regulatory achievements, some significant outcomes were obtained owing to funding by EMPL instruments as illustrated in the graph below.

Specific Objective 1.1. Effective support to Member States in their structural reforms in the context of the European Semester [29]

Funding instrument for this specific objective	What the programmes finance*	Examples of a few outcomes
EaSI-PROGRESS	• Actions developing and disseminating comparative analytical knowledge • Improvement of information sharing, mutual learning and dialogue	- A key event in 2017 was the conference on "Employment and Social Developments in Europe: Intergenerational Fairness and Solidarity" organized with the European Economic and Social Committee, which examined efforts for improving intergenerational fairness and ensuring better working conditions in the labour market. - European Centre of Expertise (network of labour market and labour law experts): an expert meeting on social dialogue was organised in September 2017 and a thematic review on inequality has been completed. Two thematic reviews have been launched (on emigration of skilled labour and concerning employment policies, social situation and education in EU enlargement countries). The ECE was also used to support the semester with analysis on ad hoc requests to fill in some knowledge gaps. - The Mutual Learning Programme (MLP) under the European Employment Strategy organised 4 mutual learning events on topics such as undeclared work, collective bargaining, profiling of unemployed and long term unemployment.
ESF	• Support Member State's efforts to improve the capacity of public administration and governance	

* Although all programmes tackle employment and social matters, their scopes are complementary and do not overlap.

[29] For more information regarding programmes, please refer to the Programme Statements and the Annex 12.

Specific Objective 1.2. Stronger social dialogue

2017 was marked by the continued activities on the 'new start for social dialogue' and on setting up and implementing the European Pillar of Social Rights. Social Partners signed joint statements at the occasion of the tripartite social summit in Rome marking the 60th anniversary of the Treaty of Rome and at the following Social Summit for Fair Jobs and Growth in Gothenburg in November 2017.

As regards CWP 2017 initiatives:

- In 2017 the Commission launched first and second stage consultations of social partners on the Written Statement Directive, on access to social protection (both implementing the European Pillar of Social Rights), on the Carcinogens and Mutagens Directive and a first stage consultation on the Road Transport Working Time Directive.
- During the year the Commission organised several meetings with social partners at political level (on Energy Union and Mobility Package) and at technical level (on the Working Time Directive in January, on apprenticeships in March and June and on the European Labour Authority and the European Social Security Number in December).

As regards social partner agreements:

- On 27 July the Commission adopted a proposal for a Directive which gives legal effect to an agreement between EU social partners in the maritime sector (Agreement aimed at implementing into EU law the amendments to the ILO Maritime Labour Convention). The Council approved the Directive on 7 December 2017.
- In 2017 the assessment on how to proceed with the social partner agreements in personal services and central government administration as well as regarding hairdressers continued.

The attention to social dialogue and the involvement of social partners in the European Semester was further reinforced. The Commission and the Employment Committee organized a multilateral review on the social partners' involvement in the European Semester on 22 November 2017 with the presence of European and national social partners. This year's review focused on a selection of 12 Member States. The Employment committee (EMCO) conclusions have been adopted on each of the reviewed Member States. The finding of this review will feed into Country Reports and into a general reflection regarding Country Specific Recommendations.

A chapter dedicated to the contribution of social dialogue to intergenerational fairness was included in the Employment and Social Developments in Europe review 2017, published in July.

The Commission has followed-up on the work of the co-legislators revising the Founding Regulations of Eurofound, EU-OSHA and Cedefop. While the Council and the European Parliament have adopted their positions, so far procedural issues prevented the trilogues from starting. Furthermore the Commission monitored Eurofound by participating in the governing board, the bureau and the advisory committees. In 2017 an evaluation on the Agencies under the remit of EMPL was conducted. The external evaluation of the EMPL Agencies has been completed and the final report approved by the Commission in March 2018. EMPL is now working on the Staff Working Document, to be discussed with the Regulatory Scrutiny Board by 30 May and afterwards published in the last quarter of the year.

Beyond these policy and regulatory achievements, some significant outcomes were obtained owing to funding by EMPL instruments as illustrated in the graph below.

Specific Objective 1.2. Stronger social dialogue [30]

Funding instrument for this specific objective	What the programmes finance*	Examples of a few outcomes
Prerogatives	• Support negociations • Exchange of information • Good practice between social partner organisations and EU and/or transnational level • Capacity building actions in support of workers' and employers' organisations • Analysis on industrial relations • Evaluation studies	- Actions supporting negotiations, common projects, exchange of information and good practice between social partner organisations at EU and/or transnational level; capacity building actions in support of workers' and employers' organisations; analysis on industrial relations; and evaluation studies - Two meetings of the Tripartite Social Summit on Growth and Employment (March and October). DG EMPL also facilitated 43 sectoral social dialogue committees (three
ESF	• Capacity building of social partners	

* Although all programmes tackle employment and social matters, their scopes are complementary and do not overlap.

[30] For more information regarding programmes, please refer to the Programme Statements and the Annex 12.

Specific Objective 1.3. Better functioning labour markets

The proclamation of the Social Pillar set in motion a new momentum at EU level aimed at supporting fair and well-functioning labour markets (and welfare systems). It lays the ground for ensuring more effective and fair labour markets and social protection systems for all, which are at the basis of the flexicurity[31] approach. A deeper reflection on the future of work, looking at the broader impacts of digitalisation on labour markets was initiated in this context and will be taken forward in 2018.

A comprehensive report was adopted by the Commission and presented to the other EU institutions in June 2017, on the achievements of the EU Public Employment Services Network and its Benchlearning activities. Furthermore, the second two-year phase of benchlearning support (2017-2018) to Public Employment Services was successfully launched, building on the achievements of the first phase (2015-2016). The Network continued to run smoothly and providing important contributions to key EU policy debates: the Skills Agenda, the Future of Work, youth, as well as the European Solidarity Corps and refugee integration into the labour market.

Youth unemployment and the implementation of the Youth Guarantee continued to remain high on the agenda. Discussions between Member States have been pursued to improve the uptake of the national schemes and bring the hardest-to-reach young people closer to the labour market. A new phase, focusing on mutual learning opportunities was launched in cooperation with Youth Guarantee Coordinators. A discussion on the quality of the Youth Guarantee offers took place within the Employment Committee, followed by a review of implementation of the Recommendation in all 28 Member States in December. A focus on the quality of traineeships was put in 2017, also in connection with the development of the European Solidarity Corps. These steps were crucial in keeping the key actors on board and steering the policy agenda further.

The adoption of the legislative proposal on the European Solidarity Corps in May 2017 was a key milestone. Alongside volunteering, a framework was proposed for the development of the occupational dimension of this initiative, focusing on jobs and traineeships and their quality (18,000 placements will be available for 2018-2020).

The efforts on addressing long-term unemployment continued in the context of the respective Council Recommendation. An evaluation process was launched mid-year with the publication of a roadmap in June 2017 and will culminate in a report on implementation due early 2019. The first yearly collection of data took place, allowing for a discussion of measures being taken by Member States within the Indicators Group of the Employment Committee.

Beyond those policy and regulatory achievements, some significant outcomes were obtained owing to funding by EMPL instruments as illustrated in the graph below.

[31] Flexicurity is an integrated strategy for enhancing, at the same time, flexibility and security in the labour market. It attempts to reconcile employers' need for a flexible workforce with workers' need for security – confidence that they will not face long periods of unemployment. See: http://ec.europa.eu/social/main.jsp?catId=102

Specific Objective 1.3. Better functioning labour markets [32]

Funding instrument for this specific objective	What the programmes finance*	Examples of a few outcomes
EaSI - PROGRESS	•Policy-making process •Actions to support the labour market integration of long-term unemployed and monitoring •Analytical and awareness-raising in the area of youth employment	- The EU PES Network was supported, including mutual learning events and reviews, as well as via the benchlearning project. A number of analytical papers and toolkits were produced as a follow-up to the mutual learning activities and in support of policy development (e.g. future of work, reaching out to the inactive, etc.); - Targeted technical assistance was provided to the PES in Romania, Italy and Cyprus aiming at tailoring the Commission's support to the needs of these Member States on the ground, such as on Active Labour Market Policies - A Mutual Learning Conference on the Youth Guarantee took place in October bringing together key stakeholders, accompanied by the launch of a database with good practices; dedicated mutual support programmes for Cyprus and Spain were initiated to help them address Youth Guarantee implementation challenges -An event on quality traineeships took place in November 2017 on the challenges of the current legal frameworks and to promote the traineeship opportunities under the European Solidarity Corps
EGF	• Actions to support workers made redundant and self-employed persons whose activity has	- four Member States (BE, IE, EL, ES) **targeted a total of 3069 NEETs** through EGF applications
ESF & YEI	•Actions in support of job creation •Improvement of the employability of people •Education and training to prevent futur labour market segmentation	- In **Spain**, by the end of 2017, more than 1 million young people, or 80% of the Spanish NEET population had registered in the Youth Guarantee. In Malta in 2017, the "Youth Guarantee 2.0" supported nearly 2000 young people through various types of interventions tailored to their needs, including the NEET activation scheme, IT courses, or work exposure. - In Bulgaria, support was granted to some 600 unemployed and inactive to start a new business. Training was delivered to about 15,000 unemployed and inactive

* Although all programmes tackle employment and social matters, their scopes are complementary and do not overlap.

[32] For more information regarding programmes, please refer to the Programme Statements and the Annex 12.

Specific Objective 1.4. Decent and safe working conditions for all

Modernising and addressing the gaps in existing social policy legislation

In the area of labour law work continued on systematic evaluation of existing legislation and, in the context of the setting up of the European Pillar of Social Rights, priority was given to drafting proposals to modernise and address the gaps in existing social policy legislation.

As part of the Social Pillar package of 26 April 2017 the Commission presented the results of a REFIT evaluation of the **Written Statement Directive**[33]. The evaluation confirmed that the Directive remains fit for purpose and fulfils its objectives to a significant extent. However, given the new developments in EU labour markets, the evaluation found scope for further strengthening the Directive (e.g. through removing some or all the exceptions and options it currently provides).

Following the evaluation, the Commission launched a formal two-stage consultation of the Social Partners on the revision of the Written Statement Directive. The social partners did not engage in negotiations and on 21 December 2017 the Commission presented a proposal for Directive on transparent and predictable working conditions in the European Union. This proposal aims to improve the effectiveness of the provisions of the Written Statement Directive in the context of current labour market realities and proposes a number of new basic rights for workers, notably those in new and non-standard forms of employment, in line with the principles of the Social Pillar.

Another key deliverable in 2017 was the non-legislative proposal to reinforce the Implementation of the Working Time Directive 2003/88/EC. An Interpretative Communication together with an Implementation Report and Staff Working Document (SWD) were published on 26 April 2017. The aim of the Communication is to support Member States in the correct implementation of the acquis and avoid further infringements in line with a growing body of complex case law.

Substantial progress has been made as concerns the evaluation of the **European Works Council Recast Directive**, with a view to its publication in Q1-2018. The evaluation of the Fixed-Term Work and Part-Time Work Directives was postponed to 2018.

Throughout 2017 EMPL followed up on Social Partner Agreements. With reference to the International Labour Organization (ILO) Maritime Labour Convention, a proposal for a Council Directive implementing a Social Partner Agreement was presented on 27 July 2017 leading to an adoption of the Directive on Maritime Labour Convention (implementing a Social Partner Agreement) on 17 January 2018. The Commission also worked towards a decision on the 2015 social partners' agreement on information and consultation of workers in central government administrations following the request of social partners to implement the agreement in EU law.

Further enhancing the protection of workers (Occupational health and safety)

The Commission set out its new policy priorities in the Communication on the Modernisation of the EU Occupational Safety and Health Legislation and Policy adopted in January 2017 and accompanied by the results of the REFIT evaluation of the Occupational Safety and Health acquis and a Guidance for Employers.

Regarding fight against occupational cancer and dealing with chemicals at work a second legislative proposal to amend the Carcinogens and Mutagens Directive was adopted in January 2017. Intensive preparatory works took place for subsequent amending proposals, including social partners' consultation and impact assessment report for the adoption of the 3rd wave of amendments in early 2018. The development of the 3rd amendment superseded the need to amend Annex II of the Directive which had been planned for 2017.

The Commission adopted a directive establishing a 4th list of indicative limit values for chemical agents adopted on 31 January 2017 (Commission Directive (EU) 2017/164) and the

[33] Written Statement Directive 91/533/EEC (SWD(2017)205

preparatory work for the development of a 5th list of indicative limit values was launched.

EMPL worked towards helping business (especially SMEs) to comply with OSH rules by organising a peer-review hosted by Ireland on the use of web-based tools for risk assessment. Progress was made towards the development of supporting guidance for addressing psychosocial risks and risks related to musculoskeletal disorders and diversity sensitive risk assessment guidance.

Efforts continued towards removing or updating outdated provisions in the EU OSH Directives and ensuring better and broader protection, compliance and enforcement on the ground. A first round of consultation of experts from Member States on the six directives identified in the OSH Communication led to the adoption of recommendations on possible approaches for their modernization by the Advisory Committee on Safety and Health at Work (ACSH).

Beyond those policy and regulatory achievements, some significant outcomes were obtained owing to funding by EMPL instruments as illustrated in the graph below.

Specific Objective 1.4. Decent and safe working conditions for all [34]

Funding instrument for this specific objective	What the programmes finance*	Examples of a few outcomes
EaSI - PROGRESS	•Actions supporting the implementation of the EU legislation in Health and Safety, and in labour law •Development of impact studies •Development and dissemination of high-quality evidence based analytical work	- The Scientific Committee for Occupational Exposure Limit provided scientific assessments for a number of substances, e.g. cadmium and its inorganic compounds and beryllium and its inorganic compounds. - **The Senior Labour Inspectors Committee (SLIC)** adopted the new common principles for labour inspection on health and safety. - Organisation of two Presidency Conferences on Occupational Health & Safety that contributed to support the implementation of EU legislation (on "Safeguarding vulnerable groups" and on "New forms of work and OSH"). - The "European Centre of Expertise" project joins the experts networks for European Labour Law and Labour Market policies and provides analytical work in these two areas. - Annual labour law conference with the attendance of about 200 stakeholders in April 2017 on the Personal Scope of Labour Law in Times of Atypical Employment and Digitalisation, and a seminar on enforcement and redress in October 2017. - Initiatives aimed at the reinforcement of monitoring tools such as the OSH information system, or at improving the evidence based in this policy area, e.g. the grants to International bodies or the European occupational diseases statistics pilot project.
Prerogatives	•Raise awareness and contribution to the application of EU law and policies •Implementation of EU law on employee involvement at transnational level	

* Although all programmes tackle employment and social matters, their scopes are complementary and do not overlap.

[34] For more information regarding programmes, please refer to the Programme Statements and the Annex 12.

Specific Objective 1.5. A Skilled and More Entrepreneurial Workforce

As part of the New Skills Agenda for Europe, the Council adopted the revised **European Qualifications Framework** in May 2017. The Commission is now working with Member States, social partners and other stakeholders to implement the new Recommendation, supporting better understanding of qualifications and making better use of all available skills in the European labour market.

Political agreement was reached in December 2017 by Council and Parliament on the proposal to revise the **Europass** Decision. and adoption is expected in February 2018. On 12th of April, 2018, EU Member States adopted the Commission's proposal to revise the Europass framework. The future Europass will offer people better and easier-to-use tools to present their skills and obtain useful information on skills needs and trends to help with their career and learning choices.

As scheduled in the 2017 Management Plan, the **Skills Profile tool for third country nationals** was launched in June to support early identification of skills of asylum seekers, refugees and other migrants. Work on analysing and sharing best practice to manage the movement of highly skilled or qualified people between countries ("brain flow") is underway to identify policies and measures to better manage this phenomenon.

In 2017 the Commission made significant progress in facilitating the implementation by Member States of the Council Recommendation 'Upskilling Pathways: new opportunities for adults', adopted in December 2016. The aim is to assist national and regional public authorities in the implementation of the Recommendation by organising targeted mutual learning workshops for selected Member States.

The 2017 Commission Work Programme called on EMPL to develop further actions on mobility and quality of apprenticeships. These have been implemented through the adoption of the Commission proposal for a Council recommendation on a **European framework for quality and effective apprenticeships** in October 2017, and the launch of a new activity under Erasmus+ to support the ErasmusPRO initiative aimed at boosting vocational education and training/apprenticeship work placements abroad for a period ranging from 3 to 12 months.

The 2017 Management Plan indicated the intention to table proposals for a revision of the European Quality Assurance Reference Framework for Vocational Education and Training (EQAVET) and the European Credit System for Vocational Education and Training (ECVET). A decision was taken at the political level not to pursue this action for the time being. This decision is related to the ongoing work to prepare proposals for EU vocational education and training (VET) policy coordination post-2020. The possible revision of EQAVET and ECVET will be considered within that context.

As a contribution to the discussion on VET post-2020, a study has been launched in November 2017, on the instruments supporting the EU vocational education and training policy. This study is about the interaction of VET instruments legally established at European level - EQAVET and ECVET - and the policy development at national and European level, which is carried out in compliance with Article 166 of the Treaty on the functioning of the European Union. It also looks at how the VET specific instruments interact with horizontal instruments such as EQF, EUROPASS or the Validation Recommendation and other sector specific instruments in the European Higher Education Area.

Beyond those policy and regulatory achievements, some significant outcomes were obtained owing to funding by EMPL instruments as illustrated in the graph below.

Specific Objective 1.5. A Skilled and More Entrepreneurial Workforce [35]

Funding instrument for this specific objective	What the programmes finance*	Examples of a few outcomes
EaSI-PROGRESS	• Analytical activities in the area of entrepreneurship and job creation • Mutual learning support in the area of the social enterprise finance markets,	- Development of ESCO classification (European Skills, Competences, qualifications and Occupations) - projects aiming to facilitate and assist national and regional public authorities and training providers to implement the Council Recommendation 'Upskilling pathways: new opportunities for adults' - Mutual learning support in the area of the social enterprise finance market and the support to networks active in the promotion of microfinance and social enterprise ; - 25830 microenterprises and 250 social enterprises supported in 2016-2017 - 1,9 million participants in the EU taking part in ESF measures aimed at investing in education, training and vocational training for skills and life-long learning - Second edition of the European Vocational Skills Week with more than 1500 events reaching out to around 1 million individuals all across the EU and beyond - development of reference competence frameworks to support assessment of digital, entrepreneurship and other transversal skills - the first Blueprint projects for Sectoral Skills started work in December 2017 in the following 5 sectors: maritime, tourism, textiles, automotive, and geo-space information
EaSI - Microfinance	• Support to microfinance and social enterprises	
ESF	• Initiatives encouraging a high level of education and training for all • Supporting the transition between education and employment for young people	
Erasmus+ Programme	• Support to Vocational Training and Adult Education policy	

* Although all programmes tackle employment and social matters, their scopes are complementary and do not overlap.

[35] For more information regarding programmes, please refer to the Programme Statements and the Annex 12.

Specific Objective 1.6. Greater Social Inclusion and Effective Social Protection

As part of the package on the European Pillar of Social Rights, the Commission adopted in April 2017, the **Work-Life Balance Initiative**, which aims at promoting the participation of women in the labour market and discussions in the Council and in the Parliament subsequently begun. The Commission also published on this occasion two Staff Working Documents, one on the state of implementation of the **2013 Commission Recommendation on Investing in Children and** the other analysing the implementation of the **2008 Commission Recommendation on the active inclusion of people excluded from the labour market**. These documents identify the areas in which some progress has already been achieved and those where there is still room for improvement.

The preparation of the **Initiative on Access to Social Protection**, which aims at improving the social protection of all in the labour market, in particular for the self-employed and the non-standard workers, made considerable progress, towards an adoption in early 2018. The European Commission has adopted a proposal for Council recommendation on 13th March, 2018. Two external studies and six external country case studies were conducted to prepare the impact assessment. A two-stage Social Partners[36] consultation and an Open Public Consultation to the general public[37] were also carried out.

Assessing the adequacy of pensions

Further progress regarding Pensions Adequacy was also made. EMPL continued working on the implementation of key recommendations of the **Pension Adequacy Report** adopted in 2015, and worked intensely to prepare the upcoming Pensions Adequacy Report 2018 jointly with the Social Protection Committee with a view to the adoption of the report in early 2018. The Commission decision[38] setting up a High Level Group of Experts on Pensions was adopted on 18 December 2017.

Ensuring that persons with disabilities fully enjoy their rights

The Council decided in January 2017 on the withdrawal of the European Commission from the EU-level Surveillance Framework required by article 33(2) of the UN Convention on the Rights of Persons with Disabilities. In this way it implemented a recommendation of the UN Committee, aimed at decoupling the Commission roles as focal point and member of the monitoring mechanism. The Commission reported on the implementation of the three main UN recommendations through a detailed letter sent to the UN Committee in January 2018.

The Commission adopted on 2 February 2017 a Staff Working Document detailing the mid-term implementation of the European Disability Strategy, including the state of play of implementation of the various recommendations of the UN Committee

The Employment Council adopted on 7 December 2017, a general approach on the Commission's proposal for the **European Accessibility Act**. As the European Parliament adopted its report in September 2017, this will allow for the launch of the trilogue process in early 2018.

Working on social inclusion actions

In the context of the European Semester, work continued to monitor **progress with regard to social inclusion**. Key inputs made by the DG into the Annual Growth Survey and the Joint Employment report, as well as the Social Protection Committee annual report underpin and support EMPL's country specific analysis in the Country reports on issues relevant to the achievement of social inclusion objectives (adequacy and efficiency of social protection systems, active inclusion of disadvantaged groups, work life balance, long term care, pensions, healthcare and access to social protection). This analysis, which is at an advanced

[36] C(2017) 2610 final and C(2017) 7773 final

[37] Available online

[38] (C)2017 8523 final

stage, forms the basis for the monitoring of existing and issuance of Country Specific Recommendations to Member States in the area of Social Protection and Social inclusion.

EMPL participated in the implementation of the commitments taken by the European Union within the UN 2030 Agenda for Sustainable Development, notably in relation to the poverty, gender and inequality goals.

Work on Benchmarking continued, with a partial agreement on benchmarking minimum income that was reflected in the draft Joint Employment Report.

Beyond those policy and regulatory achievements, some significant outcomes were obtained owing to funding by EMPL instruments. As an example, the Commission selected 5 social innovation projects aiming at the fast-track integration of refugees into the labour market. The graph below provides a full overview.

Specific Objective 1.6. Greater Social Inclusion and Effective Social Protection [39]

Funding instrument for this specific objective	What the programmes finance*
EaSI-PROGRESS	• Evidence-based analytical activities • Social innovation • Building capacity • Action on pensions • Long term care • Dialogue with civil society
REC	• Awareness and dissemination activities focused on people with disabilities
ESF	• Projects promoting employment, social inclusion, combating poverty and discrimination • Education • Institutional capacity • Social innovation
FEAD	• Participation in social inclusion measures

Examples of a few outcomes

- development of minimum income schemes in the Member States through awareness raising activities

- in cooperation with the WB and the OECD, analysis of the paths for the reintegration in the labour market of those furthest away from it

- organisation of the 2nd Annual Convention on Inclusive Growth, focussing on Youth and Social Inclusion
- Conclusion of new multiannual Framework Partnership Agreements with NGOs

- Co-organisation with DG RTD the high level conference 'Opening up to an Era of social innovation' in November in Portugal.

- 5 projects that promote the fast-track integration in the labour market of refugees

- organisation of Accessibility Workshop (2-3 February 2017), the Access City Awards and European Day of Persons with Disabilities (4-5 December 2017)

- Disability Card project was fully implemented in the 8 Member States that volunteered for participating in it

- organization of two peer reviews on "Labour Market Integration of Female Refugees" (Vienna) and "Integration of refugees into the labour market" (Berlin)

- repository of evidence-based best practices to support the implementation of the 2013 Investing in Children Recommendation

- 40.4% of the participants under ESF belong to disadvantaged groups: Disabled persons, Migrants, Minorities & Others

[39] For more information regarding programmes, please refer to the Programme Statements and the Annex 12.

General Objective 2: A Deeper and Fairer Internal Market with a Strengthened Industrial Base

Specific Objective 2.1. Improved conditions for geographic and professional mobility whilst tackling risks of distortions and abuses

In 2017, the focus was on the follow-up of labour mobility initiatives from 2016, notably the targeted review of the **Posting of Workers Directive**, the revision of the rules on social security coordination and the Regulation strengthening the European job search network (EURES).

During 2017 the Administrative Commission on the Coordination of Social Security Systems continued providing social security institutions with tools to facilitate their understanding and application of Regulations (EC) No 883/2004 and 987/2009

In June 2017 the Administrative Commission declared the central system for Electronic Exchange of Social Security Information (EESSI) fit for purpose to start national implementation activities as of 3 July 2017. Member States have two years from that date to connect their social security institutions to the central platform and start live cross-border electronic exchanges. An improved version of EESSI, containing additional functionalities to further facilitate national implementation efforts, was made available to the Member States on 22 December 2017.

In all areas, there was also a strong focus on enforcement and practical cooperation between Member States, in particular because new relevant legislation entered into application (enforcement directives on freedom of movement and) and new cooperation activities were launched.

The European Platform tackling undeclared work contributed to achieving this objective with a number of activities in its first full year of operation. For EURES the Commission prepared and adopted three implementing acts, including an act on formats for the use of the exchange system on job vacancies and CVs across the Union. This act prepares the ground for Member States to comply with the new obligations relating to a better transparency for the European labour market by May 2018.

Moreover, two new initiatives announced by the President in September 2017, were under preparation with a view to adoption by the Commission in spring 2018: the European Labour Authority (ELA) and the European Social Security Number (ESSN).

Beyond those policy and regulatory achievements, some significant outcomes were obtained owing to funding by EMPL instruments as illustrated in the graph below.

Specific Objective 2.1. Improved conditions for geographic and professional mobility whilst tackling risks of distortions and abuses [40]

Funding instrument for this specific objective	What the programmes finance*	Examples of few outcomes
EaSI-PROGRESS	• studies on mobility • enhancing the implementation, application and enforcement of the Directive "Posting of workers" (call for proposals) and of the UE and national law in the area of undeclared work (EU platform on undeclared work)	- Calls for proposals in the fields of Posting of Workers and Undeclared Work resulted in the selection of 8 projects in the field of Posting of Workers and 2 in the field of Undeclared Work - support to the EU platform on undeclared work - cross border placements under the occupational strand of the European Solidarity Corps started in May 2017 and will run for two years - Call for proposals on EURES Cross-border partnerships to continue efforts to promote workers' geographical mobility, boosting employment opportunities and support the implementation of the EURES reform in border regions. - 7 349 youth job placements achieved or supported under the Preparatory Action Your First EURES Job (YfEJ) as well as under Targeted Mobility Schemes between 2014 and 2017 - analyses and evaluation of major trends in national legislation on free movement of
EaSI-EURES	• Actions fostering cooperation between European Public Employment Services through the EURES network, seeking to facilitate voluntary geographical mobility for workers on a fair basis	
Prerogatives	• Analyses and evaluation of major trends in national legislation on free movement of persons • Promotion of the coordination of national social security systems	
ESF	• Activities supporting worker mobility • Helping companies recruit abroad	

* Although all programmes tackle employment and social matters, their scopes are complementary and do not overlap.

[40] For more information regarding programmes, please refer to the Programme Statements and the Annex 12.

General Objective 3: A Deeper and Fairer Economic and Monetary Union

Specific Objective 3.1. Strengthened social dimension of the EMU

In 2017, EMPL delivered the **European Pillar of Social Rights**, promoting upwards social convergence and strengthening the social dimension of European integration. The Pillar sets out 20 principles to be used as a policy compass for fair and dynamic labour markets, and for well-functioning and sustainable welfare systems. Reaffirming the common goal of strengthening the social dimension of the European Union and the Economic and Monetary Union, the Pillar Proclamation was also signed at the Social Summit in November 2017 by the European Commission, the Council and the European Parliament.

During 2017, EMPL also set out on implementing the principles underpinning the Pillar. This work included legislation, policy steer and monitoring through the European Semester, as well as policy guidance involving benchmarks.

Legislative initiatives proposed in 2017 as specific deliverables of the Pillar include an initiative to address the challenges of work-life balance faced by working families, an Interpretative Guidance of the Working Time Directive, and a Proposal for a Directive on Transparent and Predictable Working Conditions (formerly referred to as revision of the Written Statement Directive). The negotiations on the European Accessibility Act and on the protection of workers from the risks related to exposure to carcinogens or mutagens at work progressed well. The first batch of revisions of the Carcinogens and Mutagens Directive was adopted in 2017. During 2017, work on the initiative on access to social protection in today's fast-changing labour markets continued, including a two-stage social partners consultation.

Substantial communication efforts to show value added of the Pillar were launched and continued throughout the year.

Beyond those policy and regulatory achievements, some significant outcomes were obtained owing to funding by EMPL instruments as illustrated in the graph below.

Specific Objective 3.1. Strengthened social dimension of the EMU [41]

Funding instrument for this specific objective

What the programmes finance*

Examples of a few outcomes

EaSI-PROGRESS

- Actions supporting the development of a pillar of social rights

- organisation of the Social Summit in Gothenburg and communication activities on the Social Pillar

- organization of external EMCO and SPC meetings, as well as journalist seminars

* Although all programmes tackle employment and social matters, their scopes are complementary and do not overlap.

[41] For more information regarding programmes, please refer to the Programme Statements and the Annex 12.

1.3. Managing funds towards delivery of policy results (focusing on ESF)

1.3.1 ESF 2007-2013

1.3.1.1. ESF 2007-2013 ex-post evaluation

After the publication of the Staff Working Document "Ex-post evaluation of the ESF 2007-2013 programming period" on 12 December 2016, many dissemination activities took place, including a press presentation, presentations at the relevant committees in Council, EMCO and in a number of Member States and conferences.

As the ex-post relied on achievements till 2014, while operations were possible till the end of 2015, a follow-up contract was launched end of 2017 following the acceptance of reports from MS to update the data on the ESF performance, and the results are expected for the first semester of 2018.

1.3.2. ESF 2014-2020

1.3.2.1. Implementation of EMPL 2017 operational priorities

In order to improve reporting on the management aspects related to shared management, EMPL identified 6 operational priorities and 42 associated indicators for the ESF 2014-2020, its largest instrument. This framework was set up to move towards a more performance-based culture.

By the end of 2017, approximatively more than 90 % of the actions for which indicators were defined are reported to be on track or completed, and the rest are either slightly delayed or expecting confirmation on the basis of pending data.

One important deviation concerns the postponement of the impact assessment of the future funds under the 'Investing in people' umbrella to accommodate the timeline for the next MFF proposals.

With regards to the two deviations highlighted in the 2016 Annual Activity Report (AAR), i.e. ex-ante conditionalities and designation of authorities, there has been major progress. Almost all ex-ante conditionalities linked to ESF investments were fulfilled at the end of 2017. The designation of authorities was still pending for only 2 European Social Fund (ESF)/Youth Employment Initiative (YEI) programmes and one programme of the Fund for European Aid to the Most Deprived (FEAD)..

83% of the ESF and/or multi-fund operational programmes (OP) amendments covered by Commission decision for which EMPL is responsible were adopted on time in 2017.

In 2017, EMPL contributed to the negotiations on the Omnibus negotiations and Common Provisions Regulation (CPR), which led to the increase of the Youth Employment Initiative (YEI). EMPL also supported the negotiations on the mid-term review of multi-annual financial framework.

In order to ensure better communication of results, EMPL contributed in 2017 to the 7th Cohesion Report, the ESIF Strategic Report and the FEAD Summary Report. A thematic report on the support of the ESF to the New Skills Agenda was also published. In parallel, the open data platform was updated and enriched, allowing the citizens to see and compare achievements of programmes in each Member State.

Activities to celebrate the 60th anniversary of the ESF were carried out in all Member States in 2017. The ESF Presidency Conference 'Investing in People – the way forward', which took place in Sofia on 15-16 February 2018, has brought these celebrations to a close.

In 2017, EMPL together with the Centre for Research on Impact Evaluation (CRIE) continued to promote a Counterfactual Impact Evaluation (CIE) as a method to deliver the ex-post impact evaluations of interventions funded by ESF and other spending programmes.

Key activities included: i) continuation of the data fitness ready initiative where the winning Managing Authorities are offered by CRIE a CIE study for their ESF intervention together with a data fitness future initiative to help Member States to prepare their data sets in order to carry out an impact evaluation; ii) staging two Community of Practice meetings on CIE (CoP-CIE) – a collaboration network between EMPL, CRIE, ESF Managing Authorities (MAs) and other stakeholders involved in the planning and conduct of the CIE, with direct day-to-day contact through Counterfactual Impact Evaluation Network (CIE-NET) on Yammer; iii) trainings by CRIE to EMPL and Managing Authorities on fundamentals of CIE with additional video tutorials available online. IV) Feasibility and impact study of the overall impact of ESF, where CRIE estimated the overall impact of the ESF spending on variables related to youth and long term unemployment.

In the same spirit, within the evaluation help desk run jointly with DG REGIO, a number of ESF evaluations were peer reviewed to increase the evaluation capacity in Member States. In 2017, two German counterfactual impact evaluations on ESF operations were peer reviewed. Differently from previous years, the Managing Authority and the evaluators also participated. The findings were disseminated to the ESF evaluation partners.

Finally, the work on the post-2020 programming period intensified in 2017 with three studies, which will feed into the impact assessment.

1.3.2.2. Assessment of the performance of programmes

Methodology

As indicated in the 'EMPL strategy for a performance-based culture for the ESF 2016-2023' EMPL has developed in 2017 a methodology to yearly assess the performance of programmes.

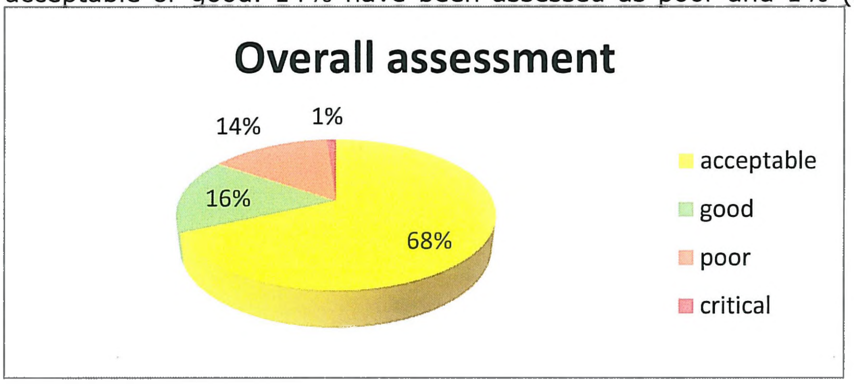
This methodology is based on section II of the quality assessment checklist for the annual implementation reports (AIRs) analysis, which is common to ESF and European Regional Development Fund(ERDF)/Cohesion Fund (CF) programmes.

These checklists are filled out by desk officers in the geographical units for each operational programme and focus around five main criteria: financial implementation (project selection, payments declared by beneficiaries and EU payments), ex ante conditionalities, support to the country-specific recommendations (CSRs), outcome of evaluation activities and administrative and corrective capacity. There is also an overall assessment of the programme performance. The desk officers' assessment is categorised according to four categories: Good, Acceptable, Poor or Critical[42].

The assessment of programme performance detailed below is based on programme implementation in 2014, 2015 and 2016 as reported in the Annual Implementation Reports submitted by June 2017.

Assessment

The overall assessment suggests that 84% of the programmes have been assessed as acceptable or good. 14% have been assessed as poor and 1% (2 programmes) as critical.



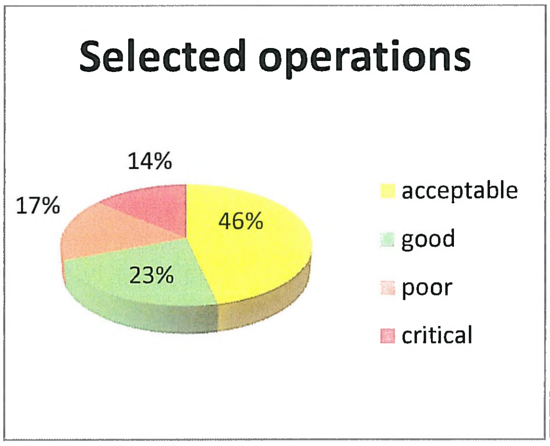
[42] With the exception of ex ante conditionalities (low risk or high risk), EU payments (acceptable or poor) and support to CSRs (good/acceptable or poor/critical).

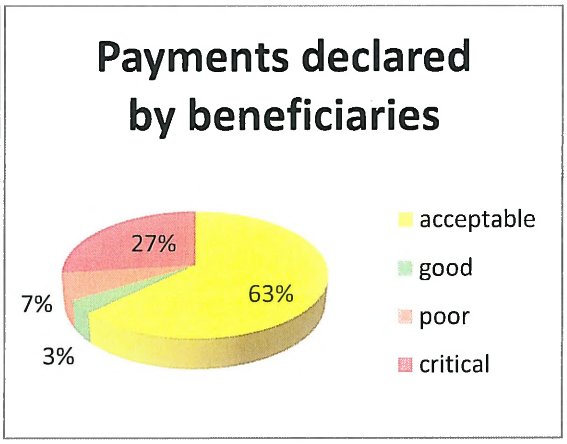
As regards the 5 specific areas of assessment, the main difficulties are linked to financial implementation with 31% of programmes assessed as poor or critical with regards to selected operations, 34% with regards to payments declared by beneficiaries and 30% with regards to EU payments. It is also the area with the largest disparities. These delays in financial implementation are strongly linked with delays in the designation of authorities. However the trend is improving with a strong increase of the level of selection of operations (see below 1.3.2.3)

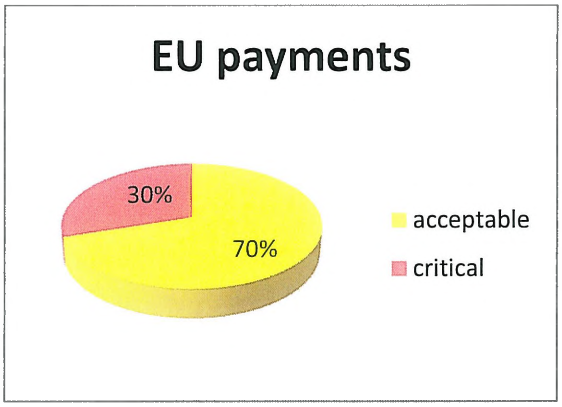
Regarding the support to CSRs criteria and the outcome of evaluation activities the assessment is positive with respectively 87% and 95% of programmes assessed as good or acceptable. It therefore shows that implementation is in line with EU priorities and delivers results despite the low amount of declared expenditure at EU level.

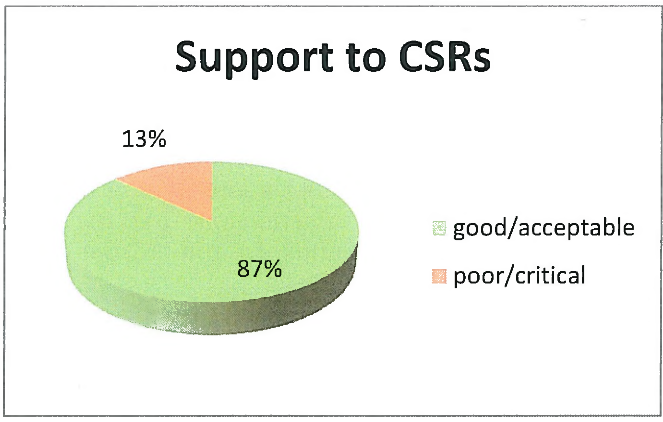
For ex ante conditionalities progress was assessed very positively since 98% of all action plans affecting ESF investments had been completed. Member States had until 31 December 2016 to fulfil all ex ante conditionalities but had to report to the Commission on their fulfilment at the latest by June 2017 in the AIR or August 2017 in the Progress Report. Only 3 action plans were still open at the end of 2017. The risks linked to these ex ante conditionalities were considered as low.

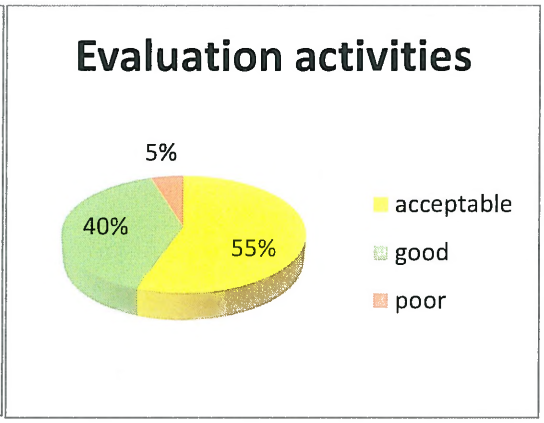
Finally, the administrative and corrective capacity was also assessed as satisfactory with 87% of the programmes assessed as good or acceptable. Only 3 Italian programmes were assessed as critical.

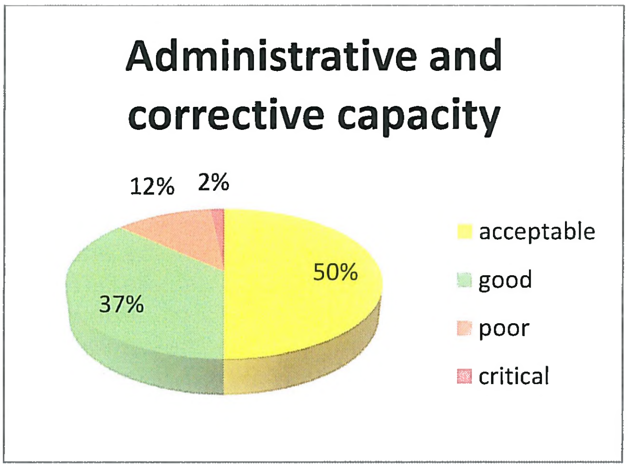












1.3.2.3 Status of programme implementation & key programme achievements to date

Status of programme implementation (2014-2017)

The year 2017 has marked a strong acceleration of implementation for all operational programmes despite important disparities between Member States and programmes. The ESIF 2017 Strategic Report[43] of the programme's annual implementation reports and progress reports covering implementation up until end 2016 was published and transmitted to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on 13 December 2017. The document is accompanied by a Staff Working Document, which contains more detailed information on implementation and on evaluations. This report underlines that the European structural and investment funds provide a stable, long-term investment framework for Member States and their regions. It also shows that the number of projects selected in 2016 rose sharply, indicating that Member States are reaching full speed in turning the ESI Funds into concrete results and improving people's lives in Europe. However, despite this sharp increase in project selection rates, actual spending and payment applications were still lagging behind. These are expected to catch up in 2018.

The first years of a programming period require efforts from the managing authorities to set up programme structures and processes in order to ensure sound and quality investments. They include the designation of intermediate bodies, the mobilisation of stakeholders, the setting-up of IT systems, the establishment of monitoring committees, the definition of selection criteria and the launch of calls for proposals. By end 2017, designation packages

[43] http://ec.europa.eu/regional_policy/en/policy/how/stages-step-by-step/strategic-report/

are still expected for approximately 2% of programmes. The lack of designation prevents Member States from sending payment applications to the Commission; it however does not prevent implementation on the ground.

During 2017 more than EUR 7 billion has been paid by EMPL for the 2014-2020's ESF programmes (including pre-financing) and by the end of 2017 the absorption rate (interim payments vs. 2014-2020 allocation) for the ESF was 8.25%[44]. Despite a low level of certified expenditure of the ESF by November 2017, the average project selection rate had exceeded 42%, paving the way for a strong contribution of the ESI Funds to the Europe 2020 objectives in these areas.

In 2017, Member States reported on the fulfilment of ex ante conditionalities, which are pre-conditions for efficient and effective spending. Out of all action plans for ex ante conditionalities affecting ESF investments, 99% of them had been completed by end 2017.

Concerning the Youth Employment Initiative (YEI), implementation in 2016 and 2017 sped up. By end-September 2017 the total eligible cost of YEI operations selected for support was over €6.3 billion and over €1.7 billion had been declared by beneficiaries. By end 2017, the Commission had received around €2.7 billion in YEI payment applications from the Member States (including interim payments and initial and annual pre-financing). By September 2017, around 1.7 million young people had been included in YEI-supported measures.

Climate change expenditure within ESF can be tracked through the ESF secondary theme 01 'supporting the shift to a low-carbon, resource efficient economy' indicated in the Implementing Regulation (EU) No 215/2014. As a result, by end of December 2017, already above EUR 542 million of eligible ESF expenditure declared (EU share) were reported by Member States as having contributed to the shift to a low carbon, resource efficient economy. This represents 46% of the amount set in the operational programmes. In terms of projects selected, the EU amount was already EUR 2.9 billion, which is more than double the amount set in the programmes.

Simplified Cost Options - Following the adoption of Delegated Regulation 2015/2195 in July 2015, the Commission adopted four amendments of the regulation and should adopt two further amendments by end 2018. The forthcoming fifth amendment would extend to eighteen the number of Member States covered by unit costs set in the delegated regulation. These Member States will benefit from the legal certainty of having their simplified cost methodology and amount defined in advance and also from the consequent reduction in the administrative burden associated with reduced documentation that need to be retained for management verification. The total European Social Fund (ESF) expenditure expected to be covered by the simplified costs under the regulation would be approximately EUR 9 billion.

Key programme achievements to date

While implementation greatly varies between Member States and operational programmes, in aggregate terms the ESF and YEI actions delivered by end 2016:

- 7.8 million participants[45], including 4.2 million unemployed and 2.1 million inactive;
- 1.6 million participants were long term unemployed;
- Amongst those participants 787 000 were in employment following an ESF or YEI operation, 820 000 had gained a qualification upon leaving an ESF or YEI operation;
- 276 000 participants were in education or training thanks to ESF or YEI support;
- 458 000 disadvantaged participants, including people with a migrant background,

[44] Being consistent with the previous data provided the effects of the OP Amendments adopted in Q3-Q4/2017 were not reflected in the calculation of the end-2017 absorption rate.

[45] One individual may participate in several ESF funded operations and therefore 'participants' should be understood as participations.

in ESF or YEI-funded operations were engaged in job searching, education/training, gained a qualification or were in employment, including self-employment.

By September 2017 Member States had already declared that 1.7 million young people had benefitted from the YEI.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers the question *how* the achievements described in the previous section were delivered by the DG. It is divided in two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the DG.

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. Its results are explicitly documented and reported to the Director-General.

The reports produced are:

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

This section reports the control results and other relevant elements that support management's assurance. It is structured into, (1) Control results, (2) Audit observations and recommendations, (3) Effectiveness of the internal control system and (4) Conclusions as regards assurance.

2.1.1. Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives[46]. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

Activity		Payments 2017	% EMPL	ICO indicators available at this level	Reservation
2014-2020 programming period	ESF/YEI	7 731.0	74.6%	RER = 1.2 %	13 OPs
	FEAD	290.0	2.8%	RER = 1.3 %	2 OPs
	EGF	17.8	0.2%	- ER = 0.2% - 5 year basis = 0.5%	No
2007-2013 programming period	ESF	2 038.5	19.7%	- RRR = 0.7%	18 OPs
	IPA	40.5	0.4%	- ER = 0.7% - RRR = 0.5%	No
previous programming periods	ESF	0.0	0.0%	NA	No
Direct management	Grants & procurement	167.6	1.6%	- ER grants = 1.4%% - ER procurement < 2%	No
Indirect management	Subsidies to agencies	71.7	0.7%	NA	No
		10 357.1	**100,0%**		

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

Management has also reasonable assurance that suitable controls are in place and work as intended as regards the ESF, YEI and FEAD.

Based on the in-depth review of the data provided by the Audit authorities in the Final Control Reports received by the Commission on 31 March 2017 and on the audit work performed during the year, there are 18 2007-2013 ESF programmes for which a reservation without financial impact is made as either additional audit work is requested or potential important additional financial corrections may need to be requested.

For the 2014-2020 programming period, EMPL reviewed the assurance packages received by 15 February (or 1 March) and the audit reports submitted by the national Audit Authorities. In addition EMPL carried out its own audit work. Where possible, EMPL also took account of the results of the European Court of Auditors' work. This allowed EMPL to have reasonable assurance and to conclude that the management and control systems of the operational programmes worked as intended in 2017 with the exception of 13 ESF/YEI and 2 FEAD programmes which presented material deficiencies of some key elements of the systems.

2.1.1.1. Control effectiveness as regards legality and regularity

EMPL has set up internal processes aimed at ensuring adequate management of risks related to the legality and regularity of underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

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

A. Shared management

An introduction to shared management and Structural Funds and to the Control architecture is provided in Annex 10.

A.1. Shared management – ESF/YEI/FEAD 2014-2020

Materiality criteria (control objective) and reservation

Regarding the legality and regularity of the underlying transactions, the objective is to ensure that the estimated residual risk of error is less than 2% for each accounting year.

The Directorate-General therefore assesses each operational programme in order to identify reservations and corrective measures to be applied. Reservations or partial reservations are made for programmes with:

- a total error rate above 10%;
- material legality and regularity issues and insufficient level of financial corrections implemented i.e. the annual "residual total error rate" remains above 2%;
- deficiencies in key elements of the systems, which could result in/lead to irregularities above 10% and for which no adequate corrective measures to remedy the deficiencies have yet been implemented;
- material issues on the completeness, accuracy and veracity of the accounts.

The detailed methodology is described in annex 4;

Source of information used to build up the assurance

For the 2014-2020 programming period, in addition to the main general audit sources listed above, the main source of information is the **assurance package** that national authorities must provide each year by 15 February (or 1 March) from 2016 to 2025, included. This package includes:

- **Management Declaration and Annual Summary**, prepared by the Managing Authority;
- **Certified Accounts**, prepared by the Certifying Authority, which according to Art 137(1) of the CPR must include: a) the total amount of eligible expenditure for the accounting year concerned, the total amount of corresponding public expenditure incurred and the total amount of corresponding payments made to beneficiaries; b) the amounts withdrawn and recovered during the accounting year, the amounts to be recovered as at the end of the accounting year and the irrecoverable amounts; c) the amounts of programme contributions paid to financial instruments under Article 41(1) and the advances of State aid under Article 131(4); d) for each priority, a reconciliation between the expenditure, stated in the accounts and the expenditure declared in the same accounting year, with an explanation of any differences;
- **Annual Control Report and Audit Opinion**, prepared by the Audit Authority, based on the main findings of the system audits carried out on the functioning of the management and control system and on an appropriate sample of operations on the basis of the declared expenditure, as well as on the accounts prepared by the certifying authority.

A.1.1. *The assurance basis: solid and supervised management & control systems in Member States*

Setting up a robust management and control system

Member States are, in first instance, responsible to prevent and detect irregularities, to report total extrapolated and residual error rates and to make at their own initiative the required financial corrections.

Acceptance of the accounts and assessment of legality and regularity: two separate, but complementary processes

The architecture for the programming period 2014-2020 entails a new process of annual examination and acceptance of accounts by the Commission. This process leads to the closure of an annual block of expenditure for each programme.

The acceptance of accounts is a separate process from the assessment of legality and regularity, as foreseen in the regulation. However the block of expenditure certified in the accounts should not contain any remaining material level of irregularities. If a material level of irregularities is still identified in the accounts, either as reported by the audit authority (for ex. because of an annual residual error rate above 2%) or as identified through Commission audits, the Commission has to launch financial correction procedures. The Commission may also decide to interrupt the payment of the final annual balance. These corrections will be net, either if the Member State does not accept the corrections (as for 2007-2013), or (new for 2014-2020) if they are due to serious deficiencies not previously detected / corrected or reported by the Member State. As a result, at the end of the assurance process, the Commission's assessment of assurance packages, its compliance audits and the resulting application of net financial corrections, where necessary, should allow to provide assurance that the residual risk of error – after all corrections are applied – is below 2% for each programme, year on year.

The detailed description of the control architecture can be found in annex 10.

Setting up a robust system: the designation process

Indicator (programming period 2014-2020)	End March 2018
% of managing and certifying authorities designated (compared to total number of **ESF/YEI** programmes) including multi-fund programmes with an ERDF/CF component	99 % (186 out of 187)
% of managing and certifying authorities designated (compared to total number of **FEAD** programmes)	96 % (27 out of 28)

The first layer of assurance is provided by the "designation" process aiming to ensure that the managing and certifying authorities in charge of each operational programme (OP) have the appropriate management and control system set up from the start of the period, in line with assessment criteria set in the regulation.

For the 2014-2020 programming period, the designation process is solely a national responsibility. According to Articles 123 and 124 of CPR, and based on a report and an opinion of an independent audit body, Member States shall notify to the Commission of the date and form of the designation of the managing authority and the certifying authority, prior to the submission of the first application for interim payment to the Commission.

The designation process, which is a key step towards the effective implementation of new operational programmes, has continued to be closely monitored by EMPL. End 2017, 98 % of ESF/YEI programmes and 96 % of FEAD programmes have notified the designation of their programme authorities. End March 2018, the level of designation reaches 99 % for ESF/YEI and 96 % for FEAD (see detail by Member State in annex 10).

Upon notification, the Commission is required by the Regulation to assess designation packages only by exception, for programmes which exceed EUR 250 million in Fund contribution. The Commission, on the basis of its risk assessment, can request the designation package on which it may make observations. The Member State on a voluntary basis may also submit the designation package to the Commission for observation when certain conditions are met.

At end 2017, EMPL's Audit Directorate has reviewed 29 designation packages in addition to 5 packages voluntarily transmitted by the Member States. The Audit Directorate conducted desk reviews with the possibility to conduct on-the-spot fact-finding missions to collect additional information or clarifications before drawing a conclusion.

In case an interim payment claim has already been submitted, it may be decided to carry out an 'early preventive system audit' (EPSA) which will focus on the effective functioning of the management and control system at an early stage of implementation. Such audits are planned to be implemented jointly by EMPL/REGIO audit teams for multi-fund OPs (see Audits below).

A system under constant monitoring

The single audit strategy for the funds managed by REGIO, EMPL and MARE for the 2014-2020 programming period foresees a constant supervision of audit authorities by the Commission's audit services, completed by capacity building actions and thematic/targeted audits to ensure that no serious deficiencies remain uncovered or uncorrected by Member States in the programme annual accounts. The overall objective of the single audit strategy is to obtain reasonable assurance that the management and control systems established and implemented by Member:

- comply with the requirements of the relevant EU Regulations;
- are functioning effectively to prevent and detect errors and irregularities and fraud and to ensure the legality and regularity of the expenditure declared to the Commission as well as effective and reliable reporting; and
- ensure the quality and reliability of the systems in place for reporting performance data.

The 2014-2020 Single Audit Strategy builds upon all efforts and achievements in previous programming periods, for a robust and coordinated control and audit framework between the Commission and the Member States. In particular, the assurance process will continue to take into account the single audit concept, whereby the Commission may rely principally on previous controls performed by the audit authorities (as 95% of these authorities remain unchanged since 2007-2013), thereby benefitting from the extensive audit work already carried out by the ESIF Directorates General under the 2007-2013 programming period to ensure reliability on the work of audit authorities in the Member States.

This strategic approach is followed by the Commission in its assurance process which will be built up each year combining:

✓ desk review: assessment of the designation process after programme adoption; examination of the 'assurance package' to be provided by 15 February (or 1 March) each year by the Member State in relation to the programme annual accounts (including the annual control report and audit opinion); and assessment of system audit reports (61 received in 2017 for the 2014-2020 programming period) and information obtained from Member States and beneficiary countries and from other EU sources.

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

✓ on-the-spot risk based audit work:

  - review of audit authorities' work, including regular monitoring when reliance has been obtained (at least two thirds of the audit capacity on the spot);
  - annual fact finding missions to assess the quality and reliability of audit information reported in the annual control reports;
  - thematic / targeted audits on specific areas, covering for example the reliability of systems for reporting performance data, essential key requirements of systems such as selection of projects and management verifications, financial instruments or the setting of proportionate and effective anti-fraud measures.

✓ preventive and capacity building actions for the operational programmes audit authorities, by providing early advice and feedback to authorities on the functioning of management and control systems, including anti-fraud.

The Single Audit Strategy presents an overall vision on how to obtain assurance year on year for the whole programming period.

Audits

The table below offers an overview of the audit missions carried out over the last three years for the 2014-2020 programming period:

EMPL audit missions		2017		2016	2015
		EMPL CdF	REGIO CdF		
2014-2020	Designation fact finding	1		5	1
	Early Preventive System Audit	9	3	8	
	YEI Performance audit			2	10
	Performance data reliability	2	8		
	Compliance audit	3			
	ACR 2015-2016 fact-finding	4			
	Other	1		1	
	Total 2014-2020	**20**	**11**	**16**	**11**

It follows from the above table that the assurance obtained from EMPL's own audit work is derived mainly from the EPSA missions and from further compliance audits. The compliance audit work has been delayed because only few programmes had to submit annual accounts in 2017 and hence a decision was taken to increase the emphasis on system audits at this stage in the programming period in order to prevent and detect system deficiencies at an early stage.

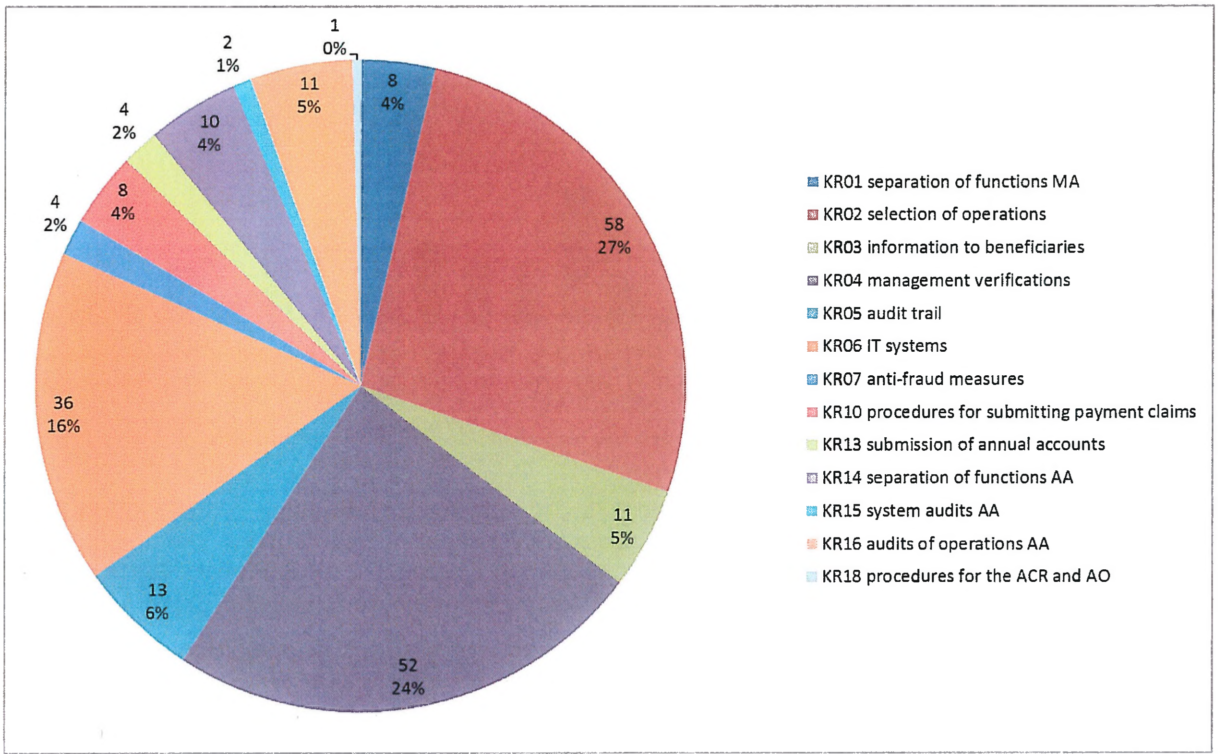
The EPSA audit missions have been selected based on a risk analysis. In this respect, it should be noted that the risk analysis carried out is common with REGIO.

In terms of compliance audits, EMPL's auditors carried out three audit missions. This type of audit work aims to re-perform the audit work carried out by the national audit authorities in order to confirm the legality and regularity of the expenditure declared in the annual accounts.

Finally, the increased importance of the programmes' performance has also triggered considerable audit work in relation to the reliability of the performance data declared by the programme authorities. In total (also joint with REGIO), 10 audit missions were carried out with a view to seeking assurance on the correctness, completeness, accuracy and veracity of performance data. This type of audit work was carried out at this early stage in order to detect flaws in the (micro-) data reporting systems and to ensure that the performance reserve would be allocated on the basis of reliable performance information.

Apart from the audit work where EMPL is "chef de file", a number of joint audits were carried out with REGIO on multi-fund programmes. As such, additional assurance was obtained from those audits. To summarise, an additional 11 audits can be counted towards the assurance process due to the multi-fund character of the programmes audited jointly with REGIO. Of these 11 audits, 3 related to early preventive system audits while the other 8 concern the reliability of performance indicator (micro-) data.

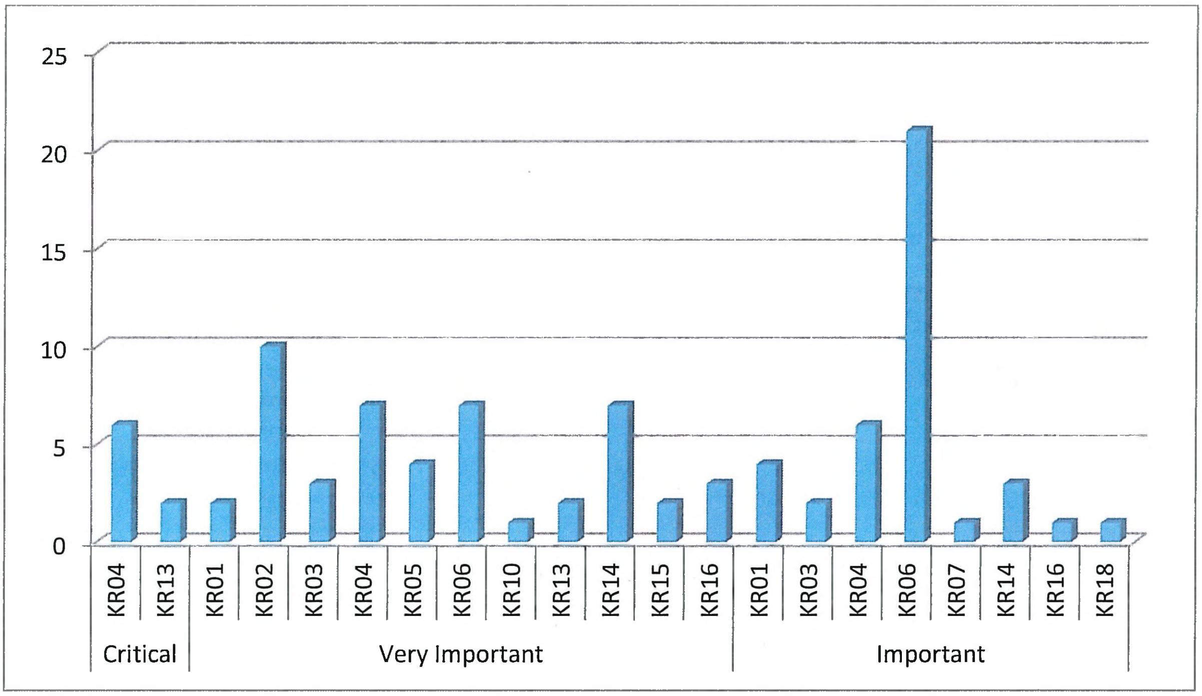
In terms of results, the audits carried out led to the identification of 218 observations at the level of the key requirements[47] of the management and control systems. Most of the findings related to breaches in the selection of operations and flaws in the management verifications, which continue to remain an issue in certain programmes. The following graph shows the breakdown of the findings over the various key requirements:



Each of the findings leads to a recommendation, which can differ in importance. The three categories of importance are "critical", "very important" and "important". Although the number of "critical" recommendations has dropped considerably over the last years, some programme authorities continue to have difficulties in the implementation of robust management and control systems. For each of these, close follow up of the implementation of recommendations by EMPL services is ensured and (financial) corrective action is taken where needed.

An overview of the breakdown of the importance of the recommendations per key requirement can be graphically displayed as follows:

[47] The definition of the key requirements (KR) can be found in annex 10.



In total, the EMPL Audit directorate audited 170 projects for a total value of EUR 195 million. The irregularities detected during this audit work originate mainly from the inclusion of ineligible expenditure and from breaches in public procurement procedures. Furthermore, errors have mainly been found in relation to performance indicator data and State Aid.

The table below shows the breakdown of errors found in the audits of operations:

	Data	
Category	Number	Proportion
Other Ineligible expenditure	30	26,79%
Public Procurement - Contract notice and tender specifications	12	10,71%
Performance indicators	12	10,71%
Accounting and calculation errors at project level	11	9,82%
State Aid	6	5,36%
Public Procurement - Contract implementation	6	5,36%
Sound Financial Management	5	4,46%
Public procurement – National rules	5	4,46%
Missing supporting information or documentation	5	4,46%
Management and control systems	5	4,46%
Public Procurement - Evaluation of Tenders	5	4,46%
Supporting information or documentation	3	2,68%
Standard Cost Options	3	2,68%
Information Systems	2	1,79%
Ineligible project	1	0,89%
Information and publicity measures	1	0,89%
Grand Total	112	100,00%

EMPL also carried out in 2017 a performance audit to review if Member States are using European Social Fund (ESF) funding efficiently, effectively and economically to support social inclusion and combat poverty and discrimination[48]. To answer this question, individual audits of selected Operational Programmes (OPs) with a particular focus on social inclusion in eight Member States (CZ, DK, FR, GR, IE, IT, PL and PT) were carried out.

The audit covered two areas:

(i) the audit of performance directly (inputs, outputs, results and impacts); and

(ii) the adequacy of the policies and procedures for promoting, monitoring and evaluating performance.

The main findings concerning the audit of performance directly were:

- There has been relatively poor implementation progress in several OPs, with the key barriers to implementation being:
    - Lack of staff capacity / capability at Managing Authority (MA) or Intermediate Body (IB) level.
    - Lack of potential beneficiaries with capacity and capability to deliver social inclusion programmes.
    - Use of innovative / untested social inclusion interventions.
    - Issues with IT systems required to support implementation.
- All Member States in the sample appeared to be on track to spend at least 20% of ESF resources on social inclusion. However, slow implementation progress in some OPs suggests that there are risks to financial implementation that will need to be managed.
- Migrants and refugees are potential recipients of support from all the OPs we audited. There are also a few social inclusion projects and interventions aimed specifically at migrants/refugees, although ESF is not the main source of funding for these. MAs do not collect or report data separately on this group, making it difficult to gauge the exact extent of the support provided to them.

The main findings concerning the adequacy of the policies and procedures for promoting, monitoring and evaluating performance were:

- Most of the MAs audited have effective systems for selecting social inclusion projects to receive funding, although there is scope to improve governance and oversight of the selection process in some cases.
- Most MAs have only sporadic and informal procedures for monitoring OP performance in delivering outputs and results, often comparing key data against just two sets of milestones (or fewer). This means that MAs have only limited assurance that their OPs are on track to deliver intended benefits.
- MAs' arrangements for carrying out and/or commissioning evaluations of their OPs are generally fit-for-purpose, with just a small number of possible improvements to bring them into line with the Commission's official guidance and best practice.

Capacity Building actions

EMPL continued in 2017 to actively promote the use of the **Simplified Cost Options** with the target of 50% of the ESF implemented through SCOs:

- In 2016 and 2017, EMPL has continued to support Member States to develop simplified costs under a Delegated Act (Article 14.1 ESF). There are now 14 Member States (Sweden, France, Belgium, the Czech Republic, Malta, Italy, Slovakia, the Netherlands, Germany, Lithuania, Austria, Poland, Romania, Cyprus) with Simplified Cost Options set

[48] In the 2014-2020 Programming Period, the European Structural and Investment Funds (ESIF), including the European Social Fund (ESF), are supporting 11 Investment Priorities, also known as Thematic Objectives (TOs). TO9, which is the focus of the current audit, relates to 'Promoting social inclusion, combating poverty and any discrimination'.

out in the delegated act, covering an estimated €7bn of expenditure. Furthermore, EMPL has already developed an EU wide level SCO covering the activities in the field of education. These options also fall under the Delegated Act under Art 14.1 ESF.

Given that the first Simplified Cost Options were adopted under the act only 2 years ago, this shows great progress and the popularity of the instrument due to the legal certainty it gives Member States in implementing the defined unit costs or lump sums.

- The Commission has published guidance on SCOs and regularly gives written feedback to national bodies on issues encountered during implementation. This guidance is currently being reviewed in light of the changes made under the Omnibus regulation.

  The Commission is also giving practical support to Member States through training seminars aimed at all national bodies involved in implementation. For the ESF, the Commission and Member States maintain regular dialogue at technical level in a transnational network on simplification.

- Results from the study on implementation of SCOs, conducted in 2017, show that Managing Authorities estimate an overall uptake of 35% SCOs for 2014-2020 which represents a great improvement compared to the estimated 7 % of 2007-2013 expenditure reimbursed with SCOs. The survey also shows that a large majority of ESF projects (on average 65%) are fully or partially implemented through SCOs, and that more developed regions are expected to declare costs under SCOs over the 50% target. Moreover, and at this stage, it appears that eight Member States will reach the target. Based on these results, the Commission will continue and further intensify its efforts with the Member States to increase even further the use of simplified costs towards the target of 50% of expenditure.

- For the mid-term review of the Multi-annual Financial Framework, a political agreement has been reached for the ESF, including:

  - Increase the threshold for making the use of SCOs obligatory for small operations from 50,000 to 100,000 Euro.
  - the use of a 'draft budget' methodology and;
  - the extension of pre-defined flat rates.

  The proposal also introduces a new form of financing of operations linked to the achievement of pre-defined 'conditions'. This option is a totally new form of financing because it is not linked to the costs of operations.

  The proposed amendments to the CPR and the ESF Regulation are expected to significantly simplify the life for beneficiaries and public authorities and help tackle situations of gold plating by Member States.

- Finally, further work is being finalised in order to reach EU-wide level SCOs for training for the unemployed, pathways to employment and for employment training.

Regarding **fraud prevention**, EMPL also continued to provide support and guidance to Member States to put in place anti-fraud measures, notably for the implementation of the IT risk scoring tool Arachne:

- The prime focus of EMPL has been on assisting Member States in the set-up of the transfer of data and on the training of programme authorities' staff;
- In terms of state-of-play, there are 21 MS involved in the implementation of Arachne. Furthermore, 4 Member States have not yet officially communicated their willingness to use or not the Arachne system. These are Denmark, Poland, Cyprus and Greece. Finally, Germany, Sweden and Finland have informed the Commission they will not use Arachne.

Safeguarding the EU budget by preventive and corrective actions

In view of the regulatory changes for 2014-2020, in particular, the articulation between Article 83 CPR on interruption, Article 142 CPR on suspensions and two novelties of the CPR, the annual closure of accounts and the 10% retention on reimbursement of interim payments (Articles 130, 139 of the CPR), EMPL and REGIO agreed to follow a common approach regarding interruption of payments, as a balanced solution that protects the EU budget against serious irregularities, while ensuring a residual error rate below 2% and the possibility for the Commission to apply net financial corrections should serious deficiencies be identified by the Commission's Audit Directorates (or the European Court of Auditors) subsequent to the submission of the accounts, not identified, reported or corrected by the Member State.

Under the agreed approach, an interruption is necessary only where the serious deficiency in the management and control system would require a financial correction higher than 10% – in application of paragraphs a) or b) of Article 83 (1) of Regulation 1303/2013; if, however, the financial risk is below 10% or the Member State has submitted no payment claim to be interrupted, a warning letter is to be sent.

The two tables below show that no interruption/suspension of payment has been adopted in 2017 and in Q1 2018.

In 2017, 4 warning letters were sent to the Member States concerned and in Q1 2018 5 warning letters.

	Number of Decisions in 2017 – PP 2014-2020			
	Warning / Clarification letters	Interruptions of payment	Pre-suspension letters	Suspension decisions
BG	1			
FR	1			
GR	1			
HR	1			
Total	**4**			

	Number of Decisions in first quarter of 2018 – PP 2014-2020			
	Warning / Clarification letters	Interruptions of payment	Pre-suspension letters	Suspension decisions
HU	1			
IT	1			
LT	1			
RO	1			
UK	1			
Total	**5**			

The following table shows the state of play at the end of 2015, 2016 and Q1- 2017, according to the stage that the relevant procedure has reached by that moment. The numbers reflect the latest state of play of each procedure. When, for example, for a suspended OP, several decisions to interrupt payment deadlines had been taken prior to the adoption of the suspension decision, these decisions are not reported in the table as they relate to the same weaknesses as the subsequent suspension decision. In this way, the total shows precisely the number of OPs affected by a known problem of the management and control system at the given moment in time.

	End 2016	End 2017	State of play 31/03/2018
Warning letter	2	4	9
Interruptions	1		
Pre-suspensions			
Suspensions			
Total	**3**	**4**	**9**

Details of the warning letters, interruptions of payment deadlines decided by EMPL in 2017 and 2018-Q1 are listed in Annex 10.

A.1.2) review of the assurance packages

2015-2016 annual accounts – audit work performed regarding legality & regularity

EMPL completed its assessment of the assurance packages submitted by the Member States by 15 February 2017 (or 1st March 2017). For the 57 programmes having submitted annual control reports, the assessment focused on the validation of the reported audit opinions and error rates / residual error rates, following a full desk review of the information contained in the annual control reports and of other information received during the year (mainly system audit reports) and taking account of results from any EU re-performance audit work carried out during the year by the auditors from EMPL and REGIO. Where possible, EMPL also took account of the results of the European Court of Auditors' work. EMPL paid special attention to the sampling methodology used by audit authorities, analysis and treatment of errors and the reporting of financial corrections that would affect the calculation of the residual error rate.

When needed, on-the-spot compliance audits were also carried out on a risk basis. The main objective of the on-the-spot compliance audits carried out was to seek reasonable assurance that no serious system deficiency remained undetected or unreported by Member States and that the reported audit opinions (on the effective functioning of systems and on legality and regularity of the expenditure declared) and residual error rates were reliable. The scope of such audits could cover the last accounting year, as well as the expenditure included in previous accounts, within the regulatory limits of the period for keeping documents available.

For accounting year

2015- 2016:

49 ESF/YEI and 8 FEAD *certified accounts received*

Updated Residual error rate of ***0.7 % for ESF/YEI and 0.5 % for FEAD***

The ECA decided to carry out a pilot exercise and amended its approach in order to contribute to the overall statement of assurance and to assess the new control and assurance framework and the extent to which it can be relied upon. The Commission welcomes this new approach. This evolution is made possible thanks to the new features of the current programming period but also the continuous improvement of the reliability of the information provided by audit authorities and validated by the Commission.

Based on the results of the compliance audits available at the date of signature of the 2017 AAR, the Residual Error rate for the 2015-2016 annual accounts is revised at 0.73 % for ESF/YEI and 0.55 % for FEAD compared to respectively 0.64 % and 0.55 % reported last year.

Based on the findings of the Court for the 2015-2016 accounts (pending completion of the clearing procedure with the concerned Member States) and reviewed by the

Commission at this stage, additional financial corrections may be necessary to bring the residual risk to 2% in three cases. If confirmed upon completion of the ongoing clearing procedure, these corrections will be implemented. The 3 Polish programmes concerned have been included in the reservation list.

2016-2017 annual accounts – acceptance of accounts and first review of legality & regularity

For all programmes, the Commission received by 15 February 2018 (or, exceptionally, 1 March) a full assurance package including the accounts, the Annual Control Report and the Audit opinions on the accounts, the management and control system and the legality and regularity of the underlying transactions, and the assurance declaration and annual summary.

1/ acceptance of accounts

115 ESF/YEI have certified expenditure for a total amount of EUR 4.449 million and 26 FEAD programmes for a total amount of EUR 485 million. This is a difference of respectively EUR 369 million and EUR 1,6 million compared to the related final interim applications submitted in July 2017, of which EUR 188,7 million and EUR 1,3 million represents deductions made by the Member States from the accounts as a result of financial corrections following audits (see table in annex 10).

For 6 programmes, audit authorities issued qualified or adverse audit opinions on the completeness, accuracy and veracity of the submitted accounts.

Following its assessment of the work carried out by the audit authorities to substantiate their audit opinions on the accounts[49], EMPL accepted the accounts for 115 ESF/YEI programmes and for 25 FEAD programmes. For 6 cases (5 ESF/YEI and 1 FEAD), the accounts were returned for corrections. It mainly concerns France (5 ESF/YEI OPs) in order to address some methodological issues. For the Czech FEAD programme, the audit of operations covered less than 10 % of the expenditure declared, which is insufficient to allow the Audit Authority to provide a reliable opinion, and therefore the Commission is not in a position to accept the accounts.

2/ first review of Legality and Regularity

Assurance packages provide also the basis for the audit opinions on the management and control system in place and on the legality and regularity of underlying transactions.

Upon receipt of the assurance packages, EMPL has carried a preliminary assessment based on a desk review to confirm that the information disclosed in the annual control report and audit opinion is in line with the information gathered by the Commission in particular through their own audit work. In particular, the following elements have been analysed:

- that audit conclusions reported by the audit authorities are in line with the national system audit reports issued during the period and with the results of the Commission's on-the-spot audit work;
- that the Member States authorities have taken appropriate preventive and corrective actions to follow-up the interruptions and warnings issued by the Commission;

[49] Following the regulatory framework (Article 139(2) CPR), the audit authority's opinion on the accounts is the key criterion to decide on the acceptance of the accounts.

- that there are no technical or clerical mistakes made for the calculation of the total projected error and residual error rates;
- that the expenditure under on-going assessment has been deducted from the accounts in accordance with article 137(2) CPR and was appropriately treated by the programme authorities when calculating the residual error rate.

As a result, regarding the legality and regularity, the analysis of the Annual Control Reports allows EMPL to accept at a first stage the total extrapolated error rates and residual error rates communicated by the Audit Authorities, except in 18 where revised rates have been recalculated or flat rates applied, before further Commission audit work is subsequently conducted during the year to assess the quality and reliability of the work done by the Audit Authorities.

The residual error rates are below the materiality threshold of 2% for all programmes except for 4 ESF/YEI and 1 FEAD programmes for which an additional financial correction is requested (see details per programme in annex 10).

For the annual accounts 2016-2017, the weighted average total projected error rate is estimated at 1.43 % for ESF/YEI and 1.82 % for FEAD.

For accounting year

2016-2017:

115 ESF/YEI and 26 FEAD certified accounts received

Estimated Residual error rate of **0.9 % for ESF/YEI and 1.6 % for FEAD**

Taking into account the financial corrections and adjustments made by the Member States when submitting the annual accounts, the weighted average residual error rate for 2016-2017 is estimated at 0.92 % for ESF/YEI and 1.62 % for FEAD.

ECA reported in its 2016 Annual Report that the error rate and residual error rate are calculated against both incurred expenditure and advances paid into financial instruments (and to a limited extent to State aid). When taking out such advances to financial instruments and including the incurred expenditure through financial instruments, the adjusted residual error rate for ESF/YEI is estimated at 0.94 %. The impact of such financial instruments is therefore less than 0.02 percentage point for ESF/YEI for the 2016-2017 accounting year.

Assurance on 2017 Commission's expenditure

In 2017, an amount of EUR 5.831 million of expenditure declared by the Member States for ESF/YEI was paid at 90 % by the Commission. For the FEAD, EUR 321 million was declared.

	Number of Programmes		2017 relevant expenditure	
	ESF/YEI	FEAD	ESF/YEI	FEAD
1. programmes with annual accounts	115	26	4.829	321
2. programmes with zero accounts, but expenditure in S2 2017	35	-	1.002	-
3. programmes with no expenditure declared	37	2	-	-
	187	28	5.831	321

For the annual assurance for 2017, there are 3 categories of operational programmes:

1. Programmes for which expenditure was declared during the accounting year (1/7/2016 to 30/6/2017);

   In this case the extrapolated error rates and residual extrapolated error rates are the ones reported for the annual accounts 2016-2017 which are applied to the full calendar year. The analysis of the Annual Control Reports allows EMPL to accept at a first stage the extrapolated error rates and residual error rates communicated by the Audit Authorities, revised, where appropriate, before further Commission audit work is subsequently conducted during the year to assess the quality and reliability of the work done by the Audit Authorities.

2. Programmes with zero accounts, but with expenditure declared and paid during the 2nd semester of 2017;

   The audit authorities gave in some cases an audit opinion on the management and control system based on their first system audits but did not yet perform any audit of operations as no expenditure was declared during the accounting year.

   EMPL auditors used these opinions of the Audit Authorities as well as the results of their audit work performed since the beginning of the programming period (analysis of the designation packages and early preventive system audits) to determine their audit opinion.

   In case no information was available, a disclaimer is given. As no audit work was done so far because the risk analysis considered that the programmes were at low risk, mainly based on the experience of the previous programming period, the programmes were classified as 'Reasonable Assurance with low risk'. Depending on the audit opinion, the error rates are a flat rate of 2 or 5 % and residual error rates are fixed at 2 % as the Commission is protected by the 10 % retention till the acceptance of the accounts of the next accounting year (in 2019) where the Member States will have made the necessary corrections to have a residual error rate below the materiality threshold of 2 %.

3. Programmes with zero accounts

   As for the previous category of programmes, some audit work on systems may have already been performed by the Audit Authorities as well as some review of the designation packages by the EMPL auditors. But in most cases the audit opinion is a Disclaimer. The programmes are classified as 'Reasonable Assurance with low risk' as no expenditure has been declared yet to the Commission.

Overall result of the analysis – EMPL audit opinion

Based on the error rates accepted to date and the flat rates used for the relevant expenditure of programmes with zero accounts, the weighted average total projected error rate is estimated at 1.8 % for ESF/YEI and 1.9 % for FEAD.

> For **2017**:
>
> Estimated Residual error rate of **1.2 % for ESF/YEI and 1.3 % for FEAD**

The weighted average residual risk rate is estimated at 1.2 % for ESF/YEI and 1.3 % for FEAD.

The following tables show for the ESF/YEI and for the FEAD programmes the EMPL audit opinion for the acceptance of the annual accounts, for the management and control systems and for the legality and regularity of the transactions, as well as the overall opinion for each operational programme.

For ESF/YEI:

ESF/YEI	EMPL opinion on annual accounts	EMPL opinion on OP	EMPL opinion on L&R	EMPL opinion on systems
Disclaimer	72	52	63	52
Acceptable	115			
Not Acceptable	-			
Unqualified		29	86	25
Qualified with minor observations		64	32	71
Qualified with significant observations		38	5	35
Adverse		4	1	4
	187	**187**	**187**	**187**

For FEAD:

FEAD	EMPL opinion on annual accounts	EMPL opinion on OP	EMPL opinion on L&R	EMPL opinion on systems
Disclaimer	2	2	3	2
Acceptable	25			
Not Acceptable	1			
Unqualified		9	23	5
Qualified with minor observations		13	-	17
Qualified with significant observations		4	2	4
Adverse		-	-	-
	28	**28**	**28**	**28**

The audit opinions and the error rates detailed by programmes are available in annex 10.

A.1.3) Conclusion

Indicator	2017
Number of ESF/YEI programmes from the 2014-2020 programming period in reservation	13
Number of FEAD programmes from the 2014-2020 programming period in reservation	2

The final stage of the evaluation process is a detailed review of all operational programmes which took place during the ISFC Committee (chaired by the Director General) on 10 April 2018 in order to ensure the quality and consistency of the opinions and to identify the operational programmes for which a reservation should be made. This results in a single EMPL opinion for each ESF/YEI and FEAD programme.

As a general rule, taking into account the 10 % retention on payments and the annual accounts that include the necessary financial corrections to reach a residual error rate below the materiality threshold of 2 %, a programme is included in the reservation list if at least one of the following conditions applies:

- A total projected error rate above 10 %;
- A residual error rate above 2 %;
- Material issues concerning the completeness, accuracy and veracity of the accounts;

- Deficiencies in key elements of the management and control system with a material risk of the EU budget.

For the cases for which the total projected error rate is below 10 % and the audit opinion is qualified with significant observations, no reservation is issued provided that adequate financial corrections have been implemented, meaning residual risk below 2 %. Exceptions may be decided on the basis of professional judgement.

As a result, the programmes are classified into five categories in accordance with the level of assurance that they provide as to the legality and regularity of the expenditure paid during the reporting year. All programmes falling under the categories 'qualified opinion with significant observations – risk for the EU budget' and 'adverse opinion (in the tables below) are subject to a reservation.

In the Annual Control Reports, the Audit Authorities also provide an opinion on the management and control systems. Based on the review of these opinions and on the result of the audit work performed by the EMPL Audit Directorate (review of designation, early preventive system audits), EMPL concludes it has reasonable assurance that the management and control systems function effectively to ensure the legality and regularity of the 2017 expenditure certified by the Member States in the annual accounts with the exception of 13 ESF/YEI and 2 FEAD programmes where there are significant systemic issues justifying a reservation.

Final assessment of management and control systems in the annual management opinion[50]:

ESF/YEI

IMPACT on Declaration of Assurance (based on functioning of systems, and legality and regularity criteria)	materiality	Coverage		
		number of OPs	% of OPs	% of 2017 paid expenditure
1	Unqualified opinion	29	15.5 %	19.1 %
2	Qualified opinion with minor observations	116	62.0 %	57.4 %
3a	Qualified opinion with significant observations	29	15.6 %	15.4 %
3b	Qualified opinion with significant observations – risk for the EU budget	9	4.8 %	7.5 %
4	Adverse opinion	4	2.1 %	0.6 %
		187	100%	100%

FEAD

IMPACT on Declaration of Assurance (based on functioning of systems, and legality and regularity criteria)	materiality	Coverage		
		number of OPs	% of OPs	% of 2017 paid expenditure
1	Unqualified opinion	9	32.2 %	37.6 %
2	Qualified opinion with minor observations	15	53.6 %	36.1 %
3a	Qualified opinion with significant observations	2	7.1 %	17.1 %
3b	Qualified opinion with significant observations – risk for the EU budget	2	7.1 %	9.2 %
4	Adverse opinion	-	-	-
		28	100%	100%

[50] Overall assessment of Programmes by Member State can be found in Annex 10

A.2. Shared management - ESF 2007-2013

At end 2017, the closure process is still ongoing and the following paragraphs give an overview of the state of play of the closure, the estimated residual risk rate and the level of financial corrections for the whole programming period.

State of play of closure at end 2017

Indicator	2017
Number of programmes closed in 2017	45
RAL at 1/1/2017 (in EUR million)	4.104
RAL at 31/12/2017 (in EUR million)	2.512

EMPL has received in due time (31/03/2017) the closure packages (Final Implementation report, Closure declaration and Final payment Claim) for 117 operational programmes from all Member States with the exception of Croatia (deadline 31/03/2018). As a result of the final declaration of expenditure at closure, 14 operational programmes will be subject to a recovery order (total amount of EUR 240.3 million) and the remaining will lead to payments estimated at EUR 3.3 billion.

At the end of December 2017, EMPL has sent 45 closure letters (2 programmes with an amount to recover and 43 to be paid) leading to payments of EUR 1.3 billion.

Concerning the programmes with under execution (RAL of 680 million EUR), EMPL has issued the relevant letters and got the agreement to decommit the unused RAL for 19 programmes. The amount decommited at the end 2017 was EUR 260 million. Globally taking into account the final payments made and the decommitments, the RAL has been reduced in 2017 by EUR 1.6 billion. During the first quarter 2018, 6 closure letters have been sent resulting in payments of EUR 49.5 million. At the end of March 2018, an additional amount of EUR 32.5 million (3 OPs under execution) has been decommited leaving a RAL of EUR 2.430 billion."

Closure package submitted by the Audit Authorities

The programme authorities have submitted by end of March 2017 the closure documents for all ESF programmes (except for Croatia which is due by end March 2018).

In 2016, the audit authorities have focused their audit activities in preparing the final control report and closure declaration by finalising system audits, following up all open audit recommendations and carrying out audits of representative samples of operations for expenditure declared to the Commission in 2015 and 2016 as well as on the validity and accuracy of the statements of withdrawals and recoveries. The audit authorities calculated, on the basis of the above mentioned information, the Operational Programmes' residual risk rates.

The Audit Directorate has reviewed the Final Control Reports in 2017 and validated the error rates communicated by the Audit Authorities or requested additional information or audit work to be performed.

2007-2013

programming period:

Estimated Residual error rate of **0.7 %**

The residual risk rates (RRR) communicated by the Member states in the closure declarations are all below 2 %. In case of significant scope limitation relating to additional expenditure claimed in the final payment claim, the residual risk rate has been set at 2% on a precautionary approach. Applied to the certified expenditure declared for the whole programming period, the average RRR for ESF is estimated at 0.7%. This Residual Risk Rate for the whole 2007-2013 programming period will have to be confirmed next year taking into account the result of the additional audit work requested to some Audit Authorities and the agreement on the additional financial corrections requested.

As the final payments made in 2017 concern only programmes for which the Commission has the assurance that the residual risk rate is below the materiality threshold of 2%, the estimated risk on these payments is also 0.7 %.

The Court of Auditors has carried out audits of 4 programmes closed in 2017 following the same approach as for the 2014-2020 programming period, re-performing the work done by the audit authorities for the Final Control Report. Depending on the results of these ongoing audits, the residual error rate could be marginally impacted and some additional financial corrections requested, if necessary.

Audit Activity of the DG on closure

In 2017, EMPL's Audit Directorate has performed 14 audit missions in relation to the closure of the 2007-2013 programming period.

EMPL audit missions		2017	2016	2015	2014	2013	2012
2007-2013	System audits		1	1	6	16	14
	AA review/ACR re-performance	8	1	6	18	20	22
	Article 73			2	9		
	Financial corrections		1	3	14	1	9
	FEIs		2		1		3
	Management Verifications		1	9	9	8	
	Fact findings ACR N-1		23	22	20	15	10
	Fact findings ACR N	5		7			
	Follow-up and Other		1	1	10	10	11
	Preparation for closure audits	1	15				
	Total 2007-2013	**14**	**45**	**51**	**87**	**70**	**69**

Five fact-finding missions took place in order to clarify some issues before validating the information in the Final Control Reports and 8 audit missions at the level of the Audit Authorities to re-perform the audit work. In 2 cases the conclusion of the audits was to request additional financial corrections (still under discussion with the Member States concerned).

An audit mission for preparation of the closure took place in Croatia as the closure package for Croatia was due by 31 March 2018.

Safeguarding the EU budget by preventive and corrective actions

Interruptions/suspensions of payments

At the time of closure, there were 5 operational programmes (ES – Baleares; DE – Bremen; IT – Bolzano, Calabria and Lombardia) for which a suspension decision had been adopted by the Commission.

The independence from each other of suspension and closure means that closure does not affect the formal existence of suspension decisions adopted before closure. The principles of good administration and loyal cooperation require the Commission to inform the concerned Member State that the suspension decision has become redundant and that the underlying deficiencies or irregularities will be dealt with in the course of the closure procedure. In order to ensure a common approach, EMPL and REGIO agreed not to send separate letters informing national authorities about the status of the pending suspension decisions but only to include a reference in the pre-closure letter.

These existing but redundant suspension decisions will have to be removed by means of a Repeal Decision after closure of the operational programme concerned. Final payments will be processed as soon as all outstanding issues have been dealt with. At end 2017, the final payment could be made for one case concerned by a suspension (ES – Baleares).

Financial corrections[51], withdrawals and recoveries 2007-2013

Indicator	2017
Corrections made resulting from Commission audit work (accepted / decided)	64, 8 million
Corrections made resulting from Commission audit work (implemented)	23 million

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

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

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

The principal sources of evidence are:

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

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

Financial corrections accepted/decided in 2017 relating to the 2007-2013 programming period

Financial corrections are reported as "accepted/decided" on accrual basis after the agreement of the Member State to correct the payment claim by deducting the irregular amount from the declared expenditure already certified to the Commission (ex-post) or while being certified to the Commission (ex-ante) or when a financial correction is decided by a Commission decision. If the MS agrees wholly or partially with the correction proposed by the Commission, it must confirm its agreement in writing stating clearly the scope of the agreement, the amount of the agreed correction and how it will be implemented.

EUR 45.1 million (out of 64,8 million) represents the amount of financial corrections accepted by Member States in the context of closure of the programme, deducted from the final payment claim for the programming period 2007-2013. EUR 19,7 million are financial corrections accepted in the context of interim payments submitted before closure package by 31/03/2017.

Total cumulative accepted/decided amount of financial corrections for the 2007-2013 programming period stands at the end of 2017 at EUR 1.518,8 million. There was one financial correction decided by a Commission decision in 2017 for Czech Republic.

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

Financial corrections implemented in 2017 relating to the 2007-2013 programming period

Financial corrections are reported as "implemented" on a cash basis once the financial transaction including the correction has been processed and can be referenced by an ABAC key of payment order, recovery order or de-commitment. Standalone clearing transactions are not accounted for the implementation of the financial corrections.

83 % of financial corrections accepted during the year 2017 and previous years for the programming period 2007-2013 have been implemented, leaving an amount of EUR 255,4 million still to be implemented. Total amount of financial corrections implemented in 2017 is EUR 23 million out of which EUR 4,6 million decided in 2017 and EUR 18,4 million in previous years.

Among these financial corrections implemented in 2017, EUR 2,2 million are ex-ante financial corrections from the previous years for Poland. The MS authorities apply these financial corrections at the same time the expenditure is declared to the Commission reflecting flat rate corrections following Commission audits.

Total cumulative implemented financial corrections for the 2007-2013 programming period stand at the end of 2017 at EUR 1.263 million, including EUR 496 million of ex-ante financial corrections[52].

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

Member States reporting on withdrawals, recoveries and pending recoveries

For the programming period 2007-2013, since the reporting year 2010 and by 31st March of each year, MS are requested to submit to the Commission an annual statement on withdrawals, recoveries, pending recoveries and irrecoverable amounts under the provisions of the Article 20(2) of Regulation (EC) 1828/2006 referring to the financial corrections effected by MS following their own national audit work but also financial corrections effected following EU audit work.

When facing irregular expenditures, the Member States have two choices:

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

2) leave the expenditure in the programme for the time being, pending the outcome of proceedings to recover the unduly paid grant from the beneficiaries, and deduct the expenditure from the next statement of expenditure only once recovery has been effected.

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

At 31/03/2017[53], Member States reported the following figures regarding the ex-post financial corrections for the 2007 – 2013 programming period:

- ESF amount of the withdrawals stands at EUR 2.055,7 million in cumulative figures since the beginning of the reporting for this programming period;
- ESF amount of the recoveries stands at EUR 187,5 million in cumulative figures since the beginning of the reporting for this programming period;
- Total amount of the pending recoveries stands at EUR 78,2 million.

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[52] The amount of financial corrections reported by Member states reflect only the ex-post corrections resulting from the Commission's supervisory role. But remedial action plans also have a preventive impact on expenditure already incurred by beneficiaries and registered at national level in the certifying authorities' accounts but not yet declared to the Commission. For such expenditure, the certifying authorities apply the financial correction requested prior to declaring expenditure (ex-ante).

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

Total financial corrections for the whole 2007-2013 programming period implemented at end 2017

The cumulative amount of the ex-post financial corrections implemented at Member States' initiative stands at EUR 1.476 million and those implemented at Commission's request stands at EUR 767 million.

2007-2013 programming period:

Implemented Financial Corrections at end 2017: 3.5 % of the declared expenditure

In total including ex-post and ex-ante corrections, the total amount of the implemented financial corrections stands at end 2017 at EUR 2.739 million, representing around 3.5 % of the declared expenditure.

The process of closure of the 2007-2013 programming period is still on-going and additional financial corrections will have to be implemented for the closure of some programmes in 2018.

Follow-up of 2016 reservation

For the AAR 2016, on a precautionary basis as the Final Control Reports were received end March not allowing enough time for an in-depth analysis before the signature of the AAR, the operational programmes with an error rate for 2015-2016 above 5% or with a significant scope limitation on the expenditure certified for these years resulting in a qualified Audit Authorities' audit opinion were included as part of the 2007-2013 reservation list, together with those already subject to ongoing legal proceedings, resulting in 23 programmes in reservation.

Following the in-depth analysis of the Final Control Reports and the audit work performed in 2017, the reservation could be lifted for 12 operational programmes. The other 11 programmes remain in reservation.

Conclusion

Indicator	2017
Number of programmes from the 2007-2013 programming period in reservation	18

As a result of the review of the Final Control Reports, there are 18 programmes for which the Audit Authorities still need to provide additional information to clarify some issues or to perform additional audit work on expenditure declared at the end of the eligibility period.

For these programmes, further financial corrections may need to be implemented to reach a residual risk below the materiality threshold of 2%.

The reservation is without financial impact in 2017 as the final payment for these programmes will take place only when the relevant level of financial correction is agreed.

Further details as regards the reason leading to the reservation for these 18 programmes are described in annex 10.

A.3. Shared management – ESF 2000-2006 and previous periods

Follow up of 2016 reservation

One operational programme (IT – Sicily) was still in reputational reservation as a judicial procedure was on going due to the disagreement by the Member State on the amount of the financial correction to be applied following the Commission decision.

Following the judgement of the European Court of Justice delivered on 25 January 2018, the reservation can be lifted as the European Court of Justice ruled in favour of the Commission. The case will nevertheless need further follow-up as the Italian authorities have appealed the decision.

Financial corrections (2000-2006 and previous programming periods)

Indicator	2017
Corrections made resulting from Commission audit work (accepted/decided)	0,2 million
Corrections made resulting from Commission audit work (implemented)	0,0 million

Financial corrections accepted/decided and implemented in 2017 relating to past programming periods

2000-2006: EUR 0,2 million has been reported for Spain and Italy representing financial corrections implemented at or post closure.

By the end of 2017 including 2000-2006 ESF closure process EMPL has imposed or formally proposed to MS, as a result of its supervisory role, financial corrections for a total of EUR 2.110,9 million

EUR 265,8 million of financial corrections are in progress for the OP Sicily.

No financial corrections have been reported for the pre-2000 programming periods.

Conclusion

No reservation is needed anymore for the 2000-2006 programming period.

B. EGF

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

Various sources of information are used to build up the Director-General's annual declaration of assurance that the resources assigned to the activities have been used for the intended purpose and in accordance with the principle of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

The assurance is built on a comprehensive assessment by all parties involved in the management and control of every case. MS report, for each EGF case, information as regards the type of actions and main outcomes, the names of the bodies delivering the package of measures; the characteristics of the targeted workers and their employment status and a statement justifying the expenditure.

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

Audit work

Indicator	2017
Error rate	0.2%

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

In 2017, the Commission finalized six audits selected on a risk-based approach, three initiated in 2016 and three performed in the first half of 2017. They identified deficiencies relating to the functioning of the management and control system in place and in one case ineligible expenditure.

Conclusion

Based on the finalized ex-post financial audits in 2017, the amount audited was EUR 40 237 359 and an amount of EUR 95 461 was rejected.

This resulted in an error rate of 0.2%. On a 5-year basis, the average error rate is estimated at 0.5%.

The assessment described above provides reasonable assurance to EMPL as regards EGF.

C. IPA

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

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

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

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

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

Analysis annual audit activity reports

For the 3 countries (Turkey, Montenegro and fYRoM), the annual audit activity Reports (AAARs) and annual audit opinions (AAOs) have been received in due time.

From the analysis of the annual audit activity reports, the EMPL's audit directorate concluded that for Turkey, fYRoM and Montenegro there are no significant issues

Audit work and financial corrections

Indicator	2017
2017 validated error rate	0.1%
Cumulative residual risk	0.1%
Financial corrections (decided in 2017)	--

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

In 2017, no audit mission by EMPL auditors took place, as the Audit Authorities are considered reliable.

Interruptions/suspensions of payments

No interruption or suspension was decided in 2017.

Conclusion

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

It results in:

IMPACT on Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)		Coverage		
		# of Programmes	as % of Programmes	Payments + clearing PF as % of relevant expenditure in the year
1	Reasonable assurance			
2a	Reasonable assurance with low risk	3	100%	100%
2b	Reasonable assurance with low risk, with partial reservation			
3	Limited assurance with medium risk			
4	Limited assurance with high risk			
		3	100%	100%

Based on the assessment described above, EMPL has a reasonable assurance on the legality and regularity of the underlying transactions for IPA programmes in Turkey, fYRoM and Montenegro.

D. Direct management

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

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

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

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

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

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

Programming, evaluation, selection of proposals and contracting

Indicator	2017
Grants and procurement	
Validation of actions in the annual work programme (relevance and compliance)	100%
Number litigation cases	0
Grants	
Validation of calls for proposals by the Financial Unit prior to publication	100%
Formal opinion given by the Financial Unit before award	100%
Procurement	
Formal opinion given by the Financial Unit before award	75%

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

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

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

EMPL exercises control through the following elements:

1) Grants

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

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

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

2) Procurements

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

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

Monitoring the execution

Indicator	2017
Grants	
Verification of transactions by operational and financial agents	100%
Ex-ante in depth check of final cost claims (error rate)	1.3%
Procurement	
Verification of transactions by operational and financial agents	100%

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

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

Ex-post controls - Audit work

Indicator (*)	2017
Ex-post audits finalised	11 Commission audits / 17 outsourced audits
% amount controlled by ex-post audit vs. total amount	12 %
Error rate Grants	1.4 %
Error rate Public Procurement	0 - 2 %

(*) based on audit procedures finalised between 01/02/2017 and 31/01/2018

Approximately 37% of payments made under centralised direct management are contracted through public procurement which by nature and in view of the ex-ante control procedures are considered free of errors and therefore below the materiality threshold of 2%.

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

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

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

In 2017, the error rate for grants amounts to 1.4%. On a 5-year basis for grants, the weighted average error rate is estimated at 1.8% of payments made. This rate is considered as acceptable.

Conclusion

The assessment described above and the estimated overall error rate being under the materiality threshold (0.9%) provides reasonable assurance to EMPL as regards centralised direct management.

E. Budget implementation tasks entrusted to other services and entities

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

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

Decentralised agencies

DG EMPL acts as parent DG for four agencies which received budget implementation tasks from the legislative authorities. EMPL provides an annual subsidy to these agencies and has not delegated budget for programme management implementation.

The table below summarizes the payments made for each agency in 2017:

EU contribution	Amount paid in 2017 (in EUR million)
EUROFOUND	20,37
EU-OSHA	14,68
CEDEFOP	17,43
ETF	20,14
Total	72,62

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

- **EUROFOUND**: The Commission and EMPL in particular participate at all levels of governance within the agency. From the governing board and bureau to the advisory committees. The Commission comments and validates the budgetary and staff-related planning documents of the agency (Budgetary fiche and Multi-annual staff policy plan). The Commission follows-up the discharge process by participating and if necessary intervening in the relevant parliamentary debates.
- **EU – OSHA:** EMPL actively participates in the Governing Board and Bureau of EU-OSHA, as well as in the different consultative and technical groups (Prevention and Research Advisory Group – PRAG, Advisory Group on Communication and Promotion – AGCP – Steering Committee of OiRA, among others) in order to ensure that the activities of the Agency are well aligned with the policy objectives of the Commission and respect the principles of sound financial management as well as the legality and regularity of the operations. The Commission issues annually an opinion on the draft Programming Document of the Agency. Furthermore, it comments and validates the budgetary and staff-related planning documents of the agency (Budgetary fiche and Multi-annual staff policy plan) and follows-up the discharge process by participating and if necessary intervening in the relevant parliamentary debates. In 2017 completed the 'Pilot Project - Health & Safety at Work of Older Workers' under a delegation agreement with EMPL with a final cost of EUR 1 900 043.
- **CEDEFOP:** EMPL participates in the annual meeting of CEDEFOP Governing Board and meetings of CEDEFOP Bureau. The progress report, the annual report and the consolidated annual activity report are discussed with the Governing Board, besides the regular reporting to the Bureau/Governing Board on the results of audits, budget implementation, transfers of appropriations. 2017 was the second year of implementing the new programming procedure, requiring the adoption of a Commission opinion on the draft Programming Document, including the annual Work Programme, therefore allowing more structured consultation on financial and human resources management and

planning with horizontal DGs. Bureau members are also systematically informed on key changes in the implementation of the work programme. All significant decisions to be taken by CEDEFOP Governing Boards are validated by written procedures. In addition, frequent contacts and meetings at working level take place between EMPL services and CEDEFOP.

- **ETF:** EMPL carries out a proactive and continuous monitoring of ETF activities, including the organisation of structured dialogue meetings and chairing of ETF Governing Board meetings. In addition, frequent contacts and meetings at working level take place between EMPL services and ETF, including with its liaison office which is located within EMPL's premises.

The declarations of assurance of the directors of the four agencies in their latest available consolidated annual activity reports (2016) contain no reservations.

EMPL has not been aware of any issue related to the legality & regularity, sound financial management or fraud affecting its contribution payments.

Cross sub-delegations

EMPL has cross sub-delegated EUR 11.6 million in Commitment appropriations and 11.4 million in Payment appropriations in 2017. From Commitment appropriations, 65% was consumed by RTD, 26% by ESTAT, 5% by REGIO and the remaining 4% by ECFIN & SRSS. 66% of payment appropriations were used by RTD, 17% by ESTAT, 13% by REGIO and the remaining 4% by ECFIN & SRSS. These AODs are required to implement the appropriations subject to the same rules, responsibilities and accountability arrangements as EMPL's AOD. The cross sub-delegation agreements require the AODs to report on the use of these appropriations.

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

F. Conclusion as regard control results

For EMPL, the estimated overall amount at risk for the 2017 relevant expenditure is EUR 91 million. This is the AOD's best conservative estimation of the amount of relevant expenditure during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This is the amount of errors that EMPL conservatively estimates to identify and correct from controls that it will implement in successive years.

As the 2007-2013 programming period is at the stage of the closure, final payments are processed when the Commission is of the opinion that all the necessary financial corrections have been made and that the residual risk is below the materiality threshold of 2%, meaning that no additional future corrections should be estimated. Therefore, the estimated amount at risk at payment is based on the estimated residual risk after financial corrections.

For the 2014-2020 programming period, as the relevant corrections have been implemented by the Member States in the relevant annual accounts, the estimated amount at risk at payment/accounts is also based on the residual risk calculated by the Audit authorities taking into account the financial corrections applied by the Member States.

This expenditure (2007-2013 final payments and 2014-2020 annual accounts) may be subsequently subject to ex-post controls by the Commission and the Court of Auditors and some additional errors may be detected and corrected in successive years.

	2017 relevant expenditure [54] (M€)	Average Error Rate at payment/ accounts (%)	Estimated amount at risk at payment/ accounts (M€)	Average Recoveries and Corrections (%)	Estimated future corrections (M€)	Estimated overall amount at risk at closure (M€)
ESF 2007-2013	2.235	0,7%	14,8	0,0%	0,0	14,8
ESF/YEI 2014-2020	5.831	1,2%	70,6	0,0%	0,0	70,6
FEAD	321	1,3%	4,0	0,0%	0,0	4,0
ESF 2000-2006 and before	0	0,0%	0,0	0,0%	0,0	0,0
EGF	33	0,2%	0,1	0,0%	0,0	0,1
IPA	50	0,1%	0,1	0,0%	0,0	0,1
Centralised	209	0,9%	1,9	0,0%	0,0	1,9
Overall	8.679	1,1%	91,5	0,0%	0,1	91,5

The average error rate at payment is estimated at 1.1 %. In previous years, the average error rate at payment was around 3 % and the risk rate at closure after future corrections was estimated around 1 %. This evolution reflects the change of the management and control system put in place for the 2014-2020 programming period, notably the 10 % retention on payments and the annual accounts that already include the necessary financial corrections to have a residual error rate below the materiality threshold of 2 %.

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

2.1.1.2. Cost effectiveness and efficiency

Based on an assessment of the most relevant key indicators and control results, EMPL has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.

This section outlines the indicators used to monitor the efficiency of the control systems, including the overall assessment of the costs and benefits of controls.

As illustrated in the executive summary, EMPL manages funds under several management modes:

2017	Share in overall amount of payments
Shared management	97.5 %
Direct and Indirect management	2.5 %
TOTAL	**100.0 %**

[54] The relevant expenditure represents the payments made during the year minus the prefinancings paid plus the prefinancings cleared. For the 2014-2020 programming period, the relevant expenditure includes in addition the 10% of the payment claims retained by the Commission till the acceptance of the annual accounts minus the adjustments made by the Member States when submitting their annual accounts in February n+1.

A. ESF

Indicator	2017
Cost of control/financial management of the Commission checks and assessment (as a % of total payment made)	0.27%
% timely interruption and suspensions of payments notified to MS *Impacted by the time required by MS to react and strong concentration in one MS.*	100%

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

The annual overall Commission cost is estimated at 0.27% of total payment appropriations of the year, which is slightly lower than last year due to a higher volume of payments made in 2017 (in 2016, it was 0.3%) and despite the increased unit costs for staff as per the corporate guidance. Hence the result has to be considered as a proof for efficiency gains in the reporting year.

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

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

One way to look at quantifiable benefits would be to consider the corrections implemented by MS following (Commission) audit work. In this context, it must be pointed out that financial corrections are not an objective as such. A decreasing amount of corrections over the years is not solely result from the quality and/or quantity of controls but could also reflect an improvement in sound financial management of the programmes by the MS.

The estimated quantifiable benefits, expressed as the corrections implemented in 2017[55], are approximately equal to the overall estimated annual cost. This is rather exceptional and is explained by the fact that the last reports for the 2007-2013 Operational programmes were submitted in March 2017, whereas no financial corrections have been applied for the 2014-2020 period yet. The ratio is expected to improve as of 2018.

In addition, there are a number of non-quantifiable benefits resulting from the controls operated throughout the various control stages. This includes notably the negotiation procedures on the content of Partnership Agreements and Operational Programmes. These were thoroughly analysed by the Commission to ensure the respect of requirements laid down in the Cohesion Policy Regulation (CPR) and the adequate reflection of policy objectives and priorities, notably with the position papers and the follow-up to the relevant Country Specific Recommendations (CSRs). Most of this work, completed in 2014 is of utmost importance to get the programming right from the start and focus the ESI Funds on the challenges MS and regions are facing as identified in the European Semester. Programming, management and monitoring roles carried out by the geographical units are key for all MS if the ESI Funds are to deliver on the Europe 2020 Strategy. The deterrent effects of ex-post controls also bring unquantifiable benefits.

EMPL considers that the necessity of these controls is undeniable, as the totality of the

[55] ESF Financial Corrections implemented in 2017 and covering all programming periods (see annex 10)

appropriations would be at risk in case they would not be in place.

As regards costs incurred at the level of Member States, a study "New assessment of ESIF administrative costs and burden" was launched in 2017 to assess the cost at Member State level for the 2014-2020 period. The first interim report was issued in September 2017 and it contains estimated values that are still expected to change following more complementary data work and quality control. The final Report is expected for July 2018 and the results will be considered in the AAR for 2018.

B. Direct and Indirect Management

Indicator	2017
Estimation of cost of control of the Commission (as % of total payments made)	3.9%
Cost of evaluation and selection procedure/value contracted (%)	1.1%
Costs of control from contracting and monitoring the execution up to payment included / amount paid	2.2%
Cost of control ex post audits / value audited	4.3%
Budget execution (payment - direct management)	96%
Time-to-inform (days) [56]	137
Time-to-grant (days)[57]	59

The annual Commission **cost** is estimated to represent around 3.9% of EMPL total payment appropriations (funds under direct and indirect management by EMPL). This is similar to the results from the previous two years: 3.1% in 2016 and 3.9 % in 2015. It includes the staff involved in (1) project management; (2) financial advice, initiation and verification tasks and (3) ex-post audits. The analysis by stage allows concluding that EMPL has a reasonable cost structure.

The benefits of controls at the programming stage cannot be quantified. They mainly relate to the relevance and effective implementation of activities in line with the DG's policy objectives and contributing towards the achievement of Europe 2020 Strategy. The deterrent effects of monitoring and controls also bring **unquantifiable benefits**. At the selection, implementation and monitoring stages, by ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, EMPL makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds and that the underlying operations are legal and regular. EMPL considers that the benefits of the controls in place are demonstrated by the error rates being consistently below the materiality threshold.

The above indicators demonstrate the relative **efficiency** of EMPL services. Time-to inform and to grant indicators are within the limits set by the Financial Regulations. The variation from last year (45 days in 2016) in the time to grant is due to the change in the reporting method: as of this year it calculates the date of the signature of the last grant agreement and not the average time per call. The time to inform shows a slight increase compared to the previous year (119 days in 2016), mainly due to one call for proposals, which was a pilot call and took longer to process.

EMPL considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate. This conclusion is supported by the error rates being consistently below the materiality threshold and by positive values of efficiency indicators.

Finally, the efficiency is demonstrated by the average time to pay indicator (average for all management modes):

[56]Average time to inform applicants of the outcome of the evaluation of the application. (Art. 128.2 FR–max 6 months)
[57] Average time to grant (Art. 128.2 FR – max 3 months)

Indicator	2017
Payments on time	94,55 %

C. Initiative to improve efficiency and economy

In 2017 EMPL ran a pilot exercise consisting in the centralisation of the management of one call for proposal in the finance unit. Several potential improvements were identified for the templates, instructions, training material and are already in place. Further suggestions will be discussed at management level.

EMPL also tested the possibility to extend the RDIS2 workflow tool to direct management, simplifying the approval of invoices and cost statements. It will be rolled over in 2018 starting with IT invoices. The IT tool to invite and reimburse experts has been rolled over in the DGT, simplifying the management of committees.

The implementation of eTendering - an electronic platform for the publication of certain procurement procedures - took place in January 2017 and has been in use since then for all open calls for tenders published by EMPL.

2.1.1.3. Fraud prevention and detection

Indicator	1Q 2018
Number of Member States implementing ARACHNE	21

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

EMPL has developed jointly with REGIO and MARE its anti-fraud strategy for 2015-2020 adopted on 23/12/2015 and its own direct management anti-fraud strategy adopted on 30/09/2016, elaborated on the basis of the methodology provided by OLAF.

The main activities in view of the prevention and detection of fraud that EMPL carried out in 2017 were:

- Accompanying (under the lead of REGIO and in collaboration with MARE) an external contractor in charge of the provision of a *study on the prevention of fraud and corruption in the European Structural and Investment Funds*; the study report to be provided by mid-2018 will include the outcome of the analysis of Member States' fraud risk assessments in respect of a sample of 50 Operational Programmes under the ESF, FEAD, ERDF, CF and EMFF. The results will be used by the DGs in order to further underpin and update the objectives and action plan of the JAFS 2015-2020;

- The development of the risk scoring tool ARACHNE helping the national authorities among others to identify the risk of fraud, as well as further actions to increase the effective use by Member States of the **ARACHNE** tool to detect potential fraud.

  ARACHNE aims at establishing a comprehensive database of financial and operational data on projects and beneficiaries in order to carry out, on the basis of objective criteria, a risk scoring allowing the identification of the most risky projects and the most risky Operational Programmes.

  Currently, 21 Member States are involved into ARACHNE (20 are testing the tool for at least one Operational Programme, 1 is finalising its data files for upload and subsequent testing), 4 Member States are still in 'reflexion phase' and 3 Member States have decided not to use the tool. In total there were 755 active users in 2017 (for Cohesion as a whole) and the number of connections to the tool in 2017 amounted to 12.257, both figures more than doubled compared to 2016 and demonstrate the success of the system.

  EMPL (together with REGIO) has further supported Member States to increase the number of Operational Programmes – which currently stands at 162 for 2014-2020 - for which data can be sent to the Commission, following the positive results from an inspection carried out by the European Data Protection Supervisor and the adoption of the Charter for the introduction and application of the Arachne Risk Scoring tool in the management verifications.

EMPL, possibly joined by REGIO, is currently verifying the possibility to launch a performance audit to test the effectiveness of the implementation of anti-fraud measures by the Member States.

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

Hence, in 2017, EMPL transmitted to OLAF information with regard to 5 new suspected fraud cases (4 in the area of ESF and 1 concerning Direct Management). After having assessed this information, OLAF has to date decided to open an investigation for 3 of these cases.

The total number of on-going OLAF investigations concerning EMPL's fields of activity amounts to 15 ESF (1 CZ, 1 DE, 2 EL, 6 HU, 4 PL and 1 PT) and 1 centralised expenditure related cases at the end of 2017.

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

In 2017, EMPL has continued the implementation of the 2007 Commission decision on the division of responsibilities between OLAF and the authorizing officers by delegation and the follow-up of the financial aspects of OLAF investigations and irregularity cases.

The treatment of open ESF irregularity cases of programming periods 1989-1993, 1994-1999, 2000-2006 and 2007-2013 was pursued in 2017. For cases where the irregular amounts are considered as irrecoverable the Member States concerned have presented "article 5.2 requests" for the EU budget to bear the financial consequences.

End of January 2018, in the context of the implementation by EMPL of financial recommendations issued by OLAF, the DG reported to OLAF and BUDG the amounts that it had recovered in 2017 with regard to the cases concerned.

In order to further improve the handling of the before mentioned activities a EMPL internal network of anti-fraud correspondents was set up in June 2016. This network met twice in 2017 and will continue to meet up on a regular basis throughout the coming year(s). More important is the routine communication made inside this network for specific issues and cases, such as the follow-up of OLAF investigations.

Detected (suspected) fraud in ESF as reflected by OLAF's 2016 report concerning the protection of the European Union's financial interests and the fight against fraud

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

2.1.2. Audit observations and recommendations

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

A. European Court of Auditors

ECA Annual Report for 2016 (DAS 2016)

The results of the audits done by the ECA and the Court's findings (particularly deficiencies) are treated in the same way as audit results from Member States and the Commission.

For the third time in a row, the ECA published a common chapter corresponding to the budgetary domain of "Economic, social and Territorial Cohesion" (Chapter 6) in its Annual Report. For the second time in a row, the ECA has not reported a specific error rate for ESF expenditure, but it has integrated the ESF related errors in the global error rate for Cohesion spending.

Regarding EMPL, this chapter is based on the audit of 40 ESF transactions (i.e. projects), 1 financial instrument under shared management, an assessment of the EMPL accounts, the 2016 Annual Activity Report and EMPL's supervision of Audit Authorities.

Concerning EMPL, 10 ESF OPs related to the 2007-2013 programming period and 1 financial instrument under shared management were selected in 8 Member States: BG, CZ, ES, GR, HU, IE, IT and RO as well as 4 direct management transactions.

A slight decrease in the 2016 global error rate for Cohesion spending

For Cohesion as a whole, the final DAS 2016 error rate of 4.8% has slightly decreased compared to the previous year (5.2%), but remains higher than the Commission's global error rate of 3.1%. Cohesion expenditure is this year the area of spending mostly affected by errors.

For the second time in a row, the ECA has not reported a specific error rate for ESF expenditure, but EMPL 2016 audits confirm the positive tendency of previous years, when the ESF's error rate has been rather stable, around 3% on average, and systematically below the average Commission's error rate. This is still the case in 2016 even though, as mentioned above, the 2016 DAS results reported by the Court include certain errors related ESF operations sampled by the Court in Spain, Hungary, Ireland and Romania.

Any direct comparison with the previous years is difficult given the fact that the Court has published for the five previous years, 2 specific error rates, one for EMPL and one for REGIO. Until the 2010 DAS, the ECA has published a global Cohesion policy error rate, which stood at 7.7% in 2010. Taking into account the 4.8% error rate for DAS 2016, it is fair to state that the global Cohesion error has decreased considerably (7.7% versus 4.8%).

The limited contribution of the ESF to the overall Cohesion 2016 DAS error rate above mentioned is also in line with the error rate range of between 3.9% and 4.3% disclosed in the 2016 EMPL Annual Activity Report (page 64), based on EMPL's own estimate, which remains stable compared to previous years. Hence, as in previous years, the above confirms the overall reliability of the methodology applied by EMPL to estimate its own error rate, based on the improved quality of the Annual Control Reports submitted by the Member States and the thoroughness of their review (and revision, when appropriate) by EMPL.

Main sources of ESF errors in DAS 2016

As in previous years, the main source of errors is the inclusion of ineligible expenditure in the beneficiaries' cost declarations. The most common types of eligibility issues detected are the following: partly ineligible projects (ES), exaggerated hours charged to the ESF-project not substantiated by timesheets (IE), exaggerated salary costs charged to the ESF-project (RO), ineligible invoices (ES) or breach in national public procurement rules (HU).

Non-quantifiable errors

The non-quantifiable errors consist of a series of formal issues with no impact on the EU budget (late and/or partial transfer of funds to beneficiaries, non-payment of daily allowances to participants, failure to comply with the national regulatory (procurement) framework as well as inconsistencies at the level of unit costs and certified amounts).

Insufficient reliability of management verifications

In 18 cases of the 25 quantified ERDF/ESF errors (72%) made by beneficiaries, national authorities had sufficient information to prevent or detect and correct the errors before declaring the expenditure to the Commission. If all this information had been used to correct errors, the estimated level of error for the Chapter would have been 3,7 percentage points lower.

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

For the fifth successive year, the ECA reported on the impact of the use of Simplified Costs Options. **The ECA noted that it did not detect any quantifiable error related to the use of SCOs, implicitly drawing the conclusion that "projects using SCOs are less prone to error than the ones using actual costs**, which is especially relevant for the 2014-2020 programming period".

This confirms the Commission's analysis that an extensive use of SCOs by Member States should be encouraged. Therefore, the Commission continues to work intensively with the competent national authorities to ensure that Member States have considered all simplification possibilities allowed by the 2014-2020 European Structural and Investment Funds Regulations.

Furthermore, the Commission has presented propositions for extended possibilities of their use in the Commission's proposal to revise the Regulations ("Omnibus Regulation") – compulsory for all ESF projects worth under 100 000 euro.

Encouraging Performance assessment

Since three years, the Court also checked whether and to what extent a performance measurement system was in place to assess whether the completed examined projects have achieved their planned output and result objectives. This year the Court examined 168 completed ERDF/CF and ESF projects.

The Court concluded that of the 90 projects with a performance measurement system for outputs and results, 43 (48%) fully achieved both the output and the result objectives set by the managing authorities. Another 45 projects (50%) partially achieved their output and result objectives. Only two projects did not achieve any of their objectives.

Furthermore, the Court also concluded that for 70 projects only output indicators were defined. 54 of these 70 projects (77%) had fully achieved the managing authorities' output objectives, another 12 (17%) had partially achieved those objectives and the remaining four (6%) had not achieved any of them.

For eight projects, the Court was unable to make an assessment because of the absence of output and result indicators (four projects) or because the projects were non-functioning (four projects).

Assessment of the Commission's Annual Activity Reports (AARs) and other governance issues

In 2016, the Court examined the 2016 annual activity reports (AARs) and accompanying declarations of REGIO and EMPL. In particular, they checked the consistency and accuracy of the Commission's calculation of the amounts at risk and whether the level of error was in line with their estimate. These AARs give provisional information on the amounts at risk and the residual risk, both for the closure of the 2007-2013 period and for the annual assurance package developed for the 2014-2020 period.

Concerning the Commission's assurance for the 2007-2013 programming period, the Court observed that while the final deadline for the submission of closure documentation for the 2007-2013 programming period was 31 March 2017, the Commission's assessment of the closure documentation was not due until 31 August 2017. If the Commission identified significant issues in its assessment, this deadline could be extended. Therefore, the Commission will report the outcome of its assessment of the residual rates communicated by audit authorities only in its 2017 AARs.

In a recently published special report on preparations for the closure of 2007-2013 programmes, the Court observed that the Commission had made adequate arrangements for Member States to close their Cohesion OPs. In another special report, on the financial corrections implemented by the Commission in Cohesion during the 2007-2013 programming period, the Court also concluded that the Commission had made effective use of the measures at its disposal to protect the EU budget from irregular expenditure.

Concerning the Commission's assurance for the 2014-2020 programming period, the Court observed that Member States submit an 'assurance package' which includes the accounts after certification by the certifying authorities. With the package, Member States confirm the effectiveness of the management systems and internal controls for an OP and the legality and regularity of the certified expenditure, and disclose the residual rates calculated by the audit authorities. The residual rate includes financial corrections applied and registered in the accounts to mitigate the risks identified by audits of operations.

The Court observed that for the 2014-2020 period, the Member States have designated 77% of the programme authorities responsible for Cohesion policy funds (responsible for 88 % of the total Cohesion policy allocations) until 31 December 2016. Until 1 March 2017, 18 Member States submitted accounts with expenditure in respect of 71 of the 419 approved OPs, worth a total of 3,3 billion euro. The Commission accepted 69 accounts by the regulatory deadline of 31 May 2017. The Court detected a number of methodological risks which would need to be addressed to ensure the transparency and reliability of the reported residual rates (AAR reporting period is not identical to that for the annual accounts submitted by Member States, remind the audit authorities that Article 137(2) amounts must be clearly identifiable and not taken into account for the calculation of the residual rates, The reporting forms for the accounts do not include a detailed section for individual withdrawals and Article 137(2) amounts.

EMPL's follow-up of errors reported by the ECA

EMPL is following-up all errors reported by the ECA and ensures for all cases that corrective measures take place or that appropriate action plans are implemented in the concerned systems in order to prevent such errors in the future.

EMPL has committed itself to continuing its capacity building actions (simplification seminars promoting the use of Simplified Cost Options and action plans) together with its strict interruptions and suspensions policy.

EMPL's follow-up of previous ECA recommendations

EMPL is following-up all DAS 2014-2016 recommendations reported by the ECA and ensures that they are implemented by the deadlines set by the ECA. The Commission notes with satisfaction that, according to the Court's analysis in its 2016 AR, all 2013 Cohesion related recommendations were either fully or in most respects implemented.

Only 6 ECA recommendations addressed to ECA are open in RAD by the beginning of March 2018. One, from the Annual report 2014, concerns national eligibility rules and will be implemented by the end of 2018. The other five refers to special reports (4 from 2016 and 1 from 2017). For most of them, the ECA requests to be taken into consideration in the provisions for the new programming period +2020 which are under preparation.

There are no open recommendations from ECA which have a material impact on the achievement of the internal control objectives.

The ECA's recommendations for EMPL

The Court issued 3 recommendations in Chapter 6 of the 2016 AR. The Commission shares the Court's opinion for all of them, and will take the necessary actions to follow the accepted recommendations up:

Recommendation 1: the Commission should pay particular attention, when closing the 2007-2013 programmes, to areas in which there is a higher risk of ineligible expenditure or of the disclosure of inaccurate information that may lead to an over-reimbursement in the areas of financial instruments, State Aid and major projects. The Commission has accepted this recommendation and is already taking into account, among others, the particular areas pointed out by the Court.

Recommendation 2: the Commission should address, for the 2014-2020 period, issues that may affect the reliable calculation of the residual rate, by introducing robust checks and guidance in relation to the audit population of financial instruments and state aid advances as well as to the audit coverage for financial instruments managed by the EIB. The Commission has accepted this recommendation and has committed to work jointly with the audit authorities and the ECA to ensure that a common understanding is applied for the treatment of financial instruments and state aid advances. Furthermore, the Commission has proposed in the Omnibus Regulation, which it has adopted in September 2016, to clarify the existing situation related to the audit coverage.

Recommendation 3: the Commission should when reconsidering the design and delivery mechanism for the ESI funds post-2020, strengthen the programme focus on performance and simplify the mechanism for payments by encouraging, as appropriate, the introduction of further measures linking the level of payments to performance instead of simply reimbursing. The Commission has accepted this recommendation, as it fully agrees to consider alternative design and delivery mechanisms including the one recommended by the Court, but it cannot commit yet to a detailed position concerning its proposals for the post 2020 ESI funds.

Performance audits (special reports) by the Court in 2017

While for the years 2013-2014, the Court published three Special Reports covering EMPL policy areas, in 2015 it adopted five such reports, seven in 2016 and six in 2017. At the beginning of 2018, there are twelve performance audits ongoing. While EMPL is not always the lead DG for these audits, they require a significant involvement at all stages from its staff.

Special reports adopted by ECA in 2017 concerning Employment and Social Affairs related to (1) Preparations for Closure 2007-2013; (2) Financial Corrections; (3) Negotiation of 14-20 Partnership Agreements & Operational Programmes; (4) Youth Unemployment; (5) Ex-ante conditionalities & Performance framework; (6) Commission intervention on the Greek financial crises. Further details, summary conclusions and/or main recommendations on these special reports can be found in Annex 10.

Impact of the ECA findings on EMPL's assurance

The Commission notes that the estimated level of error presented by the Court remains stable and is also consistent with the error rates reported in the previous AARs of EMPL. The Commission also notes that the ECA's conclusions and recommendations in its 2017 annual and special reports do not affect EMPL's internal control systems and do not have a material impact on the achievement of the internal control objectives. The Commission will continue to focus its audits and actions on the most risky programmes/Member States and implement corrective measures when needed through a strict policy of interruptions and suspensions of payments up to closure, and to apply strict procedures at closure to exclude any remaining material risk of irregular expenditure.

B. Internal Audit Service

All audit recommendations made by the IAS in 2017 were accepted by the auditees, and EMPL's management committed to implement the corresponding action plans. No 'critical' recommendations were made.

Audits performed by the IAS in 2017

In 2017, the IAS performed the following audits in EMPL:

Audit on 'Monitoring of the implementation and performance of FEAD OPs'

The overall objective of the audit was to assess whether EMPL monitors effectively the implementation and performance of FEAD OPs in the early stages of the 2014-2020 programming period.

In its audit conclusion the IAS recognises the challenges the DG faces in finding the right balance between the need to obtain assurances on the performance of the fund while at the same time limiting the administrative burden for the beneficiaries and Member States.

Nevertheless, it also identified a very important weakness in the current monitoring arrangements and formulated one very important recommendation relating to (i) performance measurement and reporting. The IAS issued two further important recommendations, related to: (ii) monitoring arrangements; and (iii) Efficiency and simplification of monitoring processes.

The implementation by EMPL is ongoing and the related action plans for the above recommendations will be completed in 2018.

Audit on 'amendments of 2014-2020 OPs in DGs REGIO, EMPL and MARE'

The overall objective of the audit was to assess whether the design of the DGs' internal control systems for approving requests for European Structural and Investment Fund (ESIF) OP amendments is adequate and is effectively implemented in a consistent and timely manner at this early stage of OP implementation.

The IAS concludes that the audited process is overall working well and DGs REGIO, EMPL and MARE have made considerable efforts to ensure a coordinated approach in each DG and across the DGs. However, it also identified a significant weakness and formulated one very important recommendation on (i) the consistency, effectiveness and timeliness of the OP amendment process. The IAS issued two further important recommendations, related to: (ii) internal methodology and horizontal aspects of the OP amendment process; and (iii) IT systems supporting the management and monitoring of OP amendments.

The implementation by REGIO, MARE and EMPL is ongoing and the related action plans for the recommendations will be completed in 2018.

Audit on 'policy and funding for Youth Employment in DG EMPL'

The overall objective of the audit was to assess whether EMPL has put in place effective mechanisms that ensure consistency between policy initiatives and objectives and EU funding in the area of youth employment.

The IAS concludes that EMPL has made significant efforts to ensure internal coordination between policy and funding functions, in particular by adapting its organisational structure and through country teams bringing together desk officers and policy officers in the context of the work on the European Semester. Nevertheless, the IAS concludes that there are still significant weaknesses in the mechanisms to ensure consistency between policy initiatives and funding in the area of youth employment. The IAS formulated three very important recommendations, related to: (i) policy preparation; (ii) implementation of funding for youth employment and (iii) reprogramming (Article 23.1 CPR). Two further important recommendations were issued, related to: (iv) organisational structure and (v) implementation of policy for youth employment.

An action plan to implement the recommendations was transmitted to the IAS on 22 February 2018.

Conclusion

The IAS concludes that the internal control systems audited are partially effective since a number of 'very important' recommendations remain to be addressed, in line with the agreed action plans or by submission and implementation of an agreed action plan. The residual risks related to these recommendations may affect one or several internal control principles and/or components.

Particular attention should be given to the combined effect of firstly, the very important recommendations related to the design and implementation of the ESIF control strategy 2014-2020, showing that certain elements of the overall control strategy need to be further strengthened, including the assurance building process and some new control related requirements introduced by the 2014-2020 legal base and secondly, the very important recommendation aimed at mitigating the risks associated with Simplified Cost Options (SCO).

EMPL considers that the risks are mitigated and the necessary improvements and reinforcements are being made, and that the above findings will not impact on the assurance provided in the AAR given the fact that the action plans are being implemented in accordance with the foreseen planning. It is correct that the implementation of parts of recommendations n° 7 on 'Early Preventive System Audits' and n° 9 on 'Audits on Performance Data Reliability' relating to the audit on the 'Implementation of the ESIF control strategy 2014-2020' is delayed (until 30/06/2018), but other recommendations have already been fully implemented and the remaining ones will be implemented in accordance with the action plans agreed with the IAS. Recommendations n° 1and 2 of the Audit on the effectiveness of simplification measures under 2014-2020 ESI Funds in EMPL, REGIO and MARE on 'Uptake and Impact of Simplification Measures and the DGs' Processes to promote and monitor these measures' and 'Mitigating risks associated with Simplified Cost Options' will be implemented by 31/12/2018 as agreed with the IAS. Finally, all very important recommendations relating to all other IAS audits carried out before 2017 have been implemented by EMPL or marked as 'ready to be reviewed by the IAS', with the exception of recommendation n° 3 relating to the audit on the management of the EESSI project in EMPL. 2 of the 5 tasks included in the action plan relating to this recommendation are still to be implemented in 2018.

2.1.3. Assessment of the effectiveness of the Internal Control Systems

The Commission adopted the Communication on the Revision of the Internal Control Framework on 19/04/2017 and it will be fully applicable as from 1st January 2018.

The internal control principles (ICP) laid down in the new Framework are based on international good practice, and are aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these principles is a compulsory requirement.

To assure a smooth transition to the new internal control framework EMPL is using as far as possible the existing structures and approach. EMPL has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the principles and having due regard to the risks associated with the environment in which it operates. The methodology used was based on the "Implementation Guide of the Internal Control Framework of the Commission" taking into consideration that this is a transitional year and the base and target values for the indicators of the Internal Control Principles (ICP) were identified with help of the ICAT (Internal Control Self-Assessment Tool) survey.

To assess the perception of the effectiveness of the internal control principles a survey, ICAT (Internal Control Self-Assessment Tool), was conducted in October 2017. EMPL developed indicators for each of the Internal Control Principles (ICP) in its existing working group for internal control, which is composed of representatives of each Directorate. The working group selected a series of questions for the ICAT survey of this year. These questions were chosen also with the objective of identifying the base and target values for the indicators of the ICPs. All managers of the DG, as well as 100 staff, who were appointed by the Directors, were invited to participate in the survey. The results of the survey were analysed by the ICP working group taking into consideration other factors such as audits.

Based on the results of the ICAT survey a final selection of indicators, baselines and targets was made, as well as suggestions for follow-up actions. These were all presented to and approved by the Coordination Management Meeting on December 4^{th}.

Recommendations from ECAS and IAS as well as exception and non-compliance reporting in 2017 were another source for the assessment of the effectiveness of the internal control systems. EMPL has a centralised recording of all cases within the Financial Unit. The number of exceptions in 2017 compared to the previous year stayed almost the same (10 versus 9 in 2016) and the number of non-compliance cases halved from eight to four.

EMPL has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and functioning as intended. As mentioned above, improvements recommended by audits are being implemented in accordance with the foreseen planning.

2.1.4. Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1.1, 2.1.2, 2.1.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported above stems from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of EMPL.

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

EMPL has assessed the effectiveness of its key internal control systems during the reporting year and concluded that they are overall working satisfactorily.

In addition, EMPL has systematically examined the available control results and indicators, including the results of its own audits, those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives.

For **direct management**, the assessment described above and the estimated overall error rate for centralised direct management under the materiality threshold (0.9%) provides reasonable assurance to EMPL.

For **EGF**, the overall estimated error rate is 0.2%. Based on this assessment, management has reasonable assurance that suitable controls are in place and work as intended, risks are being appropriately monitored and mitigated and necessary improvements and reinforcements are being implemented.

Concerning **IPA**, the analysis made at programme level allowed to conclude to a reasonable assurance. The overall estimated error rate is 0.1%% of the 2017 IPA relevant expenditure.

For the **ESF 2007-2013** programming period, the closure packages were received by 31 March 2017. Based on an in-depth review of the Final Closure Reports performed in spring 2017 and on audit work along the year, a reputational reservation is made for 18 programmes for which additional audit work is requested or potential significant additional financial corrections may need to be requested. The overall residual risk for the whole programming period is estimated at 0.7%.

As regards the **ESF/YEI and FEAD**, 2017 is the second year for which the national Audit Authorities provided assurance packages for the **2014-2020 programming period**. EMPL carried out an analysis of these documents and, notably a first review of the error rates provided by the national Audit Authorities in the ACRs that are one of the key elements for building its assurance. The residual financial risk related to these OPs is estimated to be 1.2 % of the 2017 relevant expenditure. For FEAD the residual financial risk is estimated at 1.3 % of the relevant expenditure.

The overall internal control system allowed detecting deficiencies in the management and control systems of 13 ESF/YEI and 2 FEAD Operational Programmes of the 2014-2020 programming period that are included in the 2017 reservation.

In conclusion, EMPL management has reasonable assurance that, overall, suitable controls are in place and working as intended, that risks are being appropriately monitored and mitigated and that 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 reservations concerning 14 2014-2020 ESF/YEI and FEAD programmes and 18 ESF 2007-2013 programmes.

2.1.5. Declaration of assurance and reservations

I, the undersigned, Joost KORTE, Director-General of the Directorate General for Employment, Social Affairs and Inclusion

In my capacity as authorising officer by delegation,

Declare that the information contained in this report gives a true and fair view[58].

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 observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

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

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

- There are deficiencies of key elements of the management and control systems set up in relation to the requirements of Regulations No 1303/2013 and No 223/2014 (2014-2020 period) for identified ESF/YEI operational programmes in France, Hungary, Italy, Poland and the United Kingdom and for identified FEAD operational programmes in Czech republic and Italy.

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

Brussels, 25 April 2018

Joost KORTE

[signed]

[58] True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

EMPL	
Title of the reservation, including its scope	Management and control systems for 18 specific ESF Operational Programmes in Austria, Czech Republic, France, Germany, Hungary, Italy, Romania, Slovakia and the United Kingdom for the 2007-2013 programming period.
Domain	Shared management of ESF
Programme in which the reservation is made and total (annual) amount of this programme	04.02 ESF (2007-2013) 2017 relevant expenditure - to 2007-2013 OPs: EUR 2.235 million - to 2007-2013 OPs affected by the reservation: EUR 8.6 million 2017 payments to 2007-2013 OPs affected by the reservation: EUR 0 million
Reason for the reservation	Deficiency of the management and control systems set up in relation to the requirements of Regulation 1083/2006 (ESF 2007-2013).
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems.
Quantification of the impact (= actual "exposure")	EUR 0.9 million.
Impact on the assurance	The weakness affects the legality and regularity of the payments concerned and the management systems in place. The Commission will make the final payment once the Member states' authorities will have agreed all necessary additional financial corrections.
Responsibility for the weakness	The expenditure concerned is under shared management, in which the MS is responsible for implementing the management and control systems. The Commission supervises the national authorities in this respect.
Responsibility for the corrective action	For each programme included in the reservation, the Commission has requested Member States to perform additional audit work and/or apply additional financial corrections.

EMPL	
Title of the reservation, including its scope	Management and control systems for 13 ESF/YEI operational programmes in France, Hungary, Italy, Poland and the United Kingdom and 2 FEAD operational programmes in Czech republic and Italy for the programming period 2014-2020
Domain	Shared management of ESF and FEAD
Programme in which the reservation is made and total (annual) amount of this programme	04.02 ESF/YEI (2014-2020) 04.06 FEAD (2014-2020) 2017 relevant expenditure: to ESF/YEI OPs: EUR 5.831 million to FEAD OPs: EUR 321 million to ESF/YEI OPs affected by the reservation: EUR 472 million to FEAD OP affected by the reservation: EUR 30 million 2017 payments to ESF/YEI 2014-2020 OPs affected by the reservation: EUR 440 million; to FEAD OP: EUR 27 million
Reason for the reservation	Deficiency of the management and control systems set up in relation to the requirements of Regulations 1303/2013 and 223/2014.
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems
Quantification of the impact (= actual "exposure")	Depending of the situation of each programme, the quantification is based on the following principle: 1st semester: residual (if >2%) * expenditure of the semester 2nd semester: max of (gross rate-10%; residual)*expenditure of the semester ESF/YEI: EUR 13.5 million; FEAD OP: EUR 7.6 million
Impact on the assurance	The weakness affects the legality and regularity of the payments concerned and the management systems in place.
Responsibility for the weakness	The expenditure concerned is under shared management, in which the Member State is responsible for implementing the management and control systems. The Commission supervises the national authorities in this respect.
Responsibility for the corrective action	For each programme included in the reservation, with the aim to obtain assurance that the required corrective measures have been completed, the Commission has undertaken or planned specific actions which include, if necessary: ▪ Warning letters ▪ interruption of payments ▪ launch of suspension and financial corrections procedures ▪ complementary guidance and support for national authorities especially on the coverage and quality of the audit activities ▪ audit work to check the ability of national auditors to fulfil their obligations ▪ on the spot audits of operations or on systems on a risk-based approach.

List of operational programmes in the 2017 reservation

2014-2020 PROGRAMMING PERIOD, ESF/YEI and FEAD

Res. No.	MS	CCI	Title	Reserve AAR 2017
1	CZ	2014CZ05FMOP001	potravinové a materiální pomoci - FEAD	Full
2	FR	2014FR05M0OP001	ERDF-ESF Ile-de-France et Seine	Full
3	FR	2014FR16M0OP007	Regional programme Midi-Pyrénées et Garonne	Full
4	FR	2014FR16M2OP005	Regional programme Franche-Comté et Jura	Full
5	FR	2014FR16M2OP009	Regional programme Poitou Charentes	Full
6	HU	2014HU16M2OP001	Territorial and settlement development OP	Full
7	IT	2014IT05M9OP001	National on Youth Employment	Full
8	IT	2014IT05SFOP002	Systems for Active Employment Policies	Full
9	IT	2014IT05SFOP005	POR Lazio ESF	Full
10	IT	2014IT05SFOP021	POR Sardegna ESF	Full
11	IT	2014IT05FMOP001	Programma Operativo FEAD 2014-2020	Full
12	PL	2014PL16M2OP001	ROP 1 Regional for Dolnośląskie Voivodeship	Full
13	PL	2014PL16M2OP007	ROP 7 Regional for Mazowieckie Voivodeship	Full
14	PL	2014PL16M2OP010	ROP 10 Regional for Podlaskie Voivodeship	Full
15	UK	2014UK05M9OP002	Scotland	Full Non-fin

2007-2013 PROGRAMMING PERIOD, ESF

1	AT	2007AT052PO001	Beschäftigung	Full Non-fin
2	CZ	2007CZ05UPO001	Lidské zdroje a zaměstnanost	Full Non-fin
3	DE	2007DE052PO004	Bremen	Full Non-fin
4	DE	2007DE05UPO001	Bund	Full Non-fin
5	FR	2007FR052OP001	National ESF	Full Non-fin
6	FR	2007FR051OP001	Martinique	Full Non-fin
7	FR	2007FR051OP002	Guadeloupe	Full Non-fin
8	FR	2007FR051OP003	Guyane	Full Non-fin
9	FR	2007FR051OP004	Réunion	Full Non-fin
10	HU	2007HU05UPO001	Revitalisation sociale	Full Non-fin
11	IT	2007IT051PO002	Calabria	Full Non-fin
12	IT	2007IT051PO003	Sicilia	Full
13	IT	2007IT051PO005	Puglia	Full Non-fin
14	IT	2007IT052PO004	Lazio	Full Non-fin
15	RO	2007RO051PO001	Human Resources Development	Full Non-fin
16	RO	2007RO051PO002	Administrative Capacity Development	Full Non-fin
17	SK	2007SK05UPO002	Employment and Social Inclusion	Full Non-fin
18	UK	2007UK052PO002	Lowlands and Uplands of Scotland	Full Non-fin

2.2. Other organisational management dimensions

2.2.1. Human Resource management

The **HR Modernisation project** implemented according to the Communication on Synergies and Efficiencies brought substantial changes to the delivery of HR services. In February 2017 EMPL joined the second pilot of the reform, whereby the implementation of standard HR operations were taken over by an Account Management Centre (AMC) inside DG HR, while the HR Business Correspondent (BC) with a small team remained responsible for defining HR strategy and taking HR decisions, in consultation with the management of the DG. Adapting to this new model while maintaining business continuity and the quality of services to the DG was a key challenge throughout the year.

In order to improve organisational efficiency, services were regrouped physically following the major reorganisation that took place in 2015. Some adjustments were made in June 2017 to further increase efficiency in the field of financial management. This smaller reorganisation also led to the disappearance of the Resources Directorate. Further efforts were made as well to align staff allocation with priorities.

Concerning talent management and mobility, the 2017-2020 **Multi-Annual Learning and Development Strategy** was adopted and the internal mobility scheme was continued with a more personalised approach in its application. Two EMPL Days were organised with the purpose of bringing insight into the main activities of the DG and facilitating informal exchanges between colleagues. These events contributed to increase job satisfaction and staff engagement. The Re-thinking EMPL group formulated further recommendations to this end, half of which were endorsed by Senior Management and are being implemented. This includes for example the active participation of colleagues in the weekly Senior Management meetings. The new Director General will consider what further follow-up could be given to the work done by the Re-thinking EMPL group.

With the arrival of two female Heads of Unit and with a new nomination the representation of women in middle management increased to 58% by the end of the year. There was one first female appointment as Head of Unit in 2017, towards the target set by DG HR of two first women appointments for the period 2017-2019. In the context of inter-DG mobility of Heads of Unit, 8 Heads of Unit from other DGs joined DG EMPL in 2017. Each of them was allocated one informal mentor amongst the experienced Heads of Unit of the DG.

Following the inconclusive vote by the Cedefop Governing Board on the renewal of the mandate of the Centre's Director in October 2017, the Commission's services advised that a new recruitment procedure should be launched. Divergences of views between the Director and the Governing Board, as well as within the agency, persisted however leading to an overall deterioration of working relations in the Centre. The Director recently informed the Governing Board of his decision to resign with effect of 1 June which is before the end of his contractual duration. The Governing Board accepted this decision and also appointed the current Deputy Director to Acting Director until the recruitment of a successor. EMPL is closely monitoring the situation, with the support of DG HR, as relevant, and cooperates closely with the secretariat of the Pre-selection Committee in moving quickly forward with the Director's recruitment procedure in accordance with the agreed roadmap so as to come to a stable situation as soon as possible.

2.2.2. Better regulation

Impact Assessments (IAs)

The RSB issued a first opinion on two EMPL Impact Assessments in 2017, of which one was positive with reservations (IA to support a proposal for a Transparent and Predictable Working Conditions Directive).

The other IA related to a proposal for a Directive on work-life balance for parents and carers and repealing Council Directive 2010/18/EU report received a positive opinion upon resubmission, thus not delaying the initiative unduly. The issues addressed related to the EU legal and policy framework, the identification of problem drivers and need for EU action, the scope of the initiative, the lessons learned from the different systems existing in Member

States, the substantiation of the impacts for Member States and firms. More generally, it turned out that when responsibilities are shared with another DG (JUST in this case), this needs to be taken into account at the earliest stage, in particular regarding the planning of the time and resources necessary to ensure a good quality result.

The milestone set for the IA was maintained thanks to intensive and proactive work in raising awareness about the BR requirements (e.g. training, checklists) and the very strong involvement in the preparation of the IA reports and supporting studies. The early association and the take-up of the comments on draft IA before submission to the ISG were instrumental in the success of the Transparent and predictable working conditions IA.

Regulatory acquis

The indicator is based on the evaluation of policy related legislation without taking into account financial instruments; therefore the ESF ex-post evaluation, as well as the EasI, EGF and FEAD mid-term evaluation are not reflected in this ratio. The positive trend in the coverage of regulatory acquis through evaluation was reached thanks to two evaluations, one relating to transparent and predictable working conditions in the EU and another one related to the European Works Councils.

2.2.3. Information management aspects

Sharing of information and knowledge

In 2017, EMPL put in place the following actions, in accordance with the Communication on "Data, Information and Knowledge Management at the European Commission" of 18 October 2016 to promote better gathering, sharing and use of information and knowledge among staff and with other DGs.

The work on development of EU Results website, especially the development of automated project transfer from external websites, continued in much slower pace due to delays on DG BUDG side. EMPL contributed by manual integration of EaSI projects to showcase other funds than ESF. The pace was resumed towards the end of the year, when DG BUDG launched a series of workshops on future data model, which will continue well into 2018.

In terms of use of collaborative sites and joint calendars as a way to enhance work style and information flows within the DG most of the units continued to use mainly the SharePoint corporate solution on MyIntraComm. As use of Connected Platform is spreading in the Commission, EMPL needs to revise the general approach in this area. This, however, was put on hold due to Re-thinking EMPL exercise, which suggested changes to EMPL Intranet. The communication unit launched the Intranet improvement exercise in the second half of 2017 and the project will be completed in spring 2018.

Document management

EMPL launched an internal review of the visibility of its electronic files at the end of 2017 in cooperation with EMPL services to enlarge the visibility within the Commission of all files that should not be protected on the basis of EC or national rules and legislation. Currently EMPL is receiving replies from different directorates/units and expects to complete the analysis of replies by the end of the second quarter 2018. As a result, the share of visible files will gradually increase.

This review was accompanied by the continuous monitoring of document filing and by the follow-up on non-filed documents, as both are instrumental in enabling access to and sharing of documents. As a result, non-filed documents have been reduced to almost 0%.

Furthermore, EMPL continued to gradually move towards a paper-less Commission, with a reduction of use of parallel paper signatories by 27% compared to 2016; the implementation of new procedures for the preservation of original paper documents that allow a correct treatment (transfer, elimination) of paper complementary files, as foreseen by e-Domec rules; the development of a new application for the automatic registration of invoices, to be launched in production in 2018, and by continuously adapting the SFC2014 and RDIS2 applications for the electronic exchange and management of documents related to Cohesion Funds.

2.2.4. External communication activities

In 2017 EMPL's external communication focused on two policy areas:

Key priority #1 "jobs, growth, investment"

EMPL developed targeted information and awareness raising activities (such as factsheets, social media actions, audio-visual material and online content) on the employment strand of the European Solidarity Corps, reinforcing the Youth Guarantee and the Youth Employment Initiative, and on new opportunities to enhance the mobility of apprentices under ErasmusPro.

Furthermore, under the New Skills Agenda for Europe, EMPL promoted the quality and excellence of apprenticeships, in particular during the second European Vocational Skills Week in November, and implemented communication activities on skills & qualifications, including labour market integration of migrants.

In addition, EMPL contributed to the implementation of the corporate communication campaigns "investEU" and "EU empowers" with a focus on the impact on peoples' lives of the opportunities supported by the European Social Fund, the European Globalisation Adjustment Fund, the EU Programme for Employment and Social Innovation and the Fund for European Aid to the Most Deprived.

Key priority #5 "deeper and fairer EMU"

EMPL organised a major conference on the European Pillar of Social Rights in January and developed communication activities (such as press package, journalist seminar, leaflets/factsheets, social media actions, stakeholder events etc.) to promote the adoption of the Pillar and the new initiative on work-life balance in April; the proclamation of the Pillar at the Social Summit in Gothenburg in November and the proposal of revision of the Written Statement Directive in December. The key messages focused on strengthening the social dimension of European integration and bringing forward a Union built on fair and well-functioning labour markets and welfare systems. EMPL raised awareness on the increased role of social partners in Member States and the social dialogue at EU level and promoted the European Day of Persons with disabilities and the Access City Award.

The 2017 external communication actions contributed to the strategic communication plan's objective to regaining citizens' trust in the sustainability of the European economic and social model. The percentage of EU citizens having a positive image of the EU increased to 40% (2016: 35%). The adoption and proclamation of the European Pillar of Social Rights contributed to this positive development. Stakeholders and citizens perceive to a growing extent that President Juncker's objective of "a social triple A for Europe" is taken seriously by the EU. Also contributing to this are "general public" activities such as social media information campaigns on EHIC or promotion of mobility via EURES.

2.1.5. Declaration of assurance and reservations

I, the undersigned, Joost KORTE, Director-General of the Directorate General for Employment, Social Affairs and Inclusion

In my capacity as authorising officer by delegation,

Declare that the information contained in this report gives a true and fair view[58].

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 observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

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

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

- There are deficiencies of key elements of the management and control systems set up in relation to the requirements of Regulations No 1303/2013 and No 223/2014 (2014-2020 period) for identified ESF/YEI operational programmes in France, Hungary, Italy, Poland and the United Kingdom and for identified FEAD operational programmes in Czech republic and Italy.

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

Brussels, 25 April 2018

Joost KORTE

[signed]

[58] True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.