



**2017**

# **Annual Activity Report**

**SRSS  
Structural Reform  
Support Service**

## Foreword

*2017 was a year of further development and growth for the Structural Reform Support Service: we continued to build the foundations of the Service, extended support activities from eight to 16 Member States and broadened its scope of action.*

*The Commission stepped up the funding that is available for all EU Member States to support the implementation of growth-enhancing reforms – through the Structural Reform Support Programme (SRSP) which entered into force on 20 May 2017. The SRSP, managed by the SRSS, is set to provide financing for reform support in Member States that request it. The programme is designed to support economic growth in the EU, strengthen competitiveness, and encourage investment and employment. In 2017, 158 projects from 16 Member States were selected to receive funding from the SRSP (out of 271 proposals submitted for EUR 83 million – an amount four times the available budget for 2017). The Service was able to start delivering first support on the ground already within four months of the SRSP entering into force.*

*The Service also continued to coordinate the Commission's efforts to support the Cyprus Settlement process under the auspices of the United Nations. The Service is also responsible for delivery of the assistance to the Turkish Cypriot community (management of the "Aid Programme") and for monitoring the implementation of the Green Line Regulation.*

*The Service also maintained its major role in the implementation of the EU-Turkey statement on migration management.*

*During 2017, the SRSS continued to strengthen its internal organisation (structures and procedures) to provide support to the Member States in the most effective way.*

*Following the 2017 State of the Union speech and the letter of intent from President Juncker to President Tajani and Prime Minister Ratas, on December 6 2017, the Commission adopted a package of proposals to deepen the Economic and Monetary Union, including a roadmap of steps to be taken over the next 18 months. Two elements in the package are directly related to the work of the SRSS - the amendment of the SRSP Regulation and the Communication on new budgetary instruments for a stable euro area within the Union framework. The proposal to amend the SRSP Regulation will be discussed with the co-legislators in 2018.*

*This is my second report and I am confident that it will give you a comprehensive overview of the SRSS activities.*

*Maarten VERWEY*

# Table of Contents

<b>THE SRSS IN BRIEF</b>	<b>4</b>
<b>EXECUTIVE SUMMARY</b>	<b>5</b>
A) KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE SRSS (EXECUTIVE SUMMARY OF SECTION 1) .....	6
B) KEY PERFORMANCE INDICATORS (KPIs) .....	8
C) KEY CONCLUSIONS ON FINANCIAL MANAGEMENT AND INTERNAL CONTROL (EXECUTIVE SUMMARY OF SECTION 2.1) .....	10
D) PROVISION OF INFORMATION TO THE COMMISSIONER(S) .....	11
<b>1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL SPECIFIC OBJECTIVES</b>	<b>12</b>
<b>2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL</b>	<b>27</b>
2.1 FINANCIAL MANAGEMENT AND INTERNAL CONTROL .....	27
2.1.1 CONTROL RESULTS .....	28
2.1.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS .....	40
2.1.3 ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS .....	43
2.1.4 CONCLUSIONS AS REGARDS ASSURANCE .....	45
2.1.5 DECLARATION OF ASSURANCE [AND RESERVATIONS] .....	46
2.2 OTHER ORGANISATIONAL MANAGEMENT DIMENSIONS .....	50
2.2.1 HUMAN RESOURCE MANAGEMENT .....	50
2.2.2 INFORMATION MANAGEMENT ASPECTS .....	50
2.2.3 EXTERNAL COMMUNICATION ACTIVITIES .....	50
<b>ANNEXES</b>	<b>52</b>
<b>ANNEX 1: STATEMENT OF THE RESOURCES DIRECTOR</b> .....	<b>52</b>
<b>ANNEX 2: REPORTING – HUMAN RESOURCES, BETTER REGULATION, INFORMATION MANAGEMENT AND EXTERNAL COMMUNICATION</b> .....	<b>53</b>
<b>A. HUMAN RESOURCES MANAGEMENT</b> .....	<b>53</b>
<b>B. FINANCIAL MANAGEMENT: INTERNAL CONTROL AND RISK MANAGEMENT</b> .....	<b>54</b>
<b>C. BETTER REGULATION</b> .....	<b>55</b>
<b>D. INFORMATION MANAGEMENT ASPECTS</b> .....	<b>56</b>
<b>E. EXTERNAL COMMUNICATION ACTIVITIES</b> .....	<b>56</b>
<b>ANNEX 3: DRAFT ANNUAL ACCOUNTS AND FINANCIAL REPORTS</b> .....	<b>57</b>
<b>ANNEX 4: MATERIALITY CRITERIA</b> .....	<b>57</b>
<b>ANNEX 5: INTERNAL CONTROL TEMPLATE(S) FOR BUDGET IMPLEMENTATION (ICTs)</b> .....	<b>66</b>
<b>ANNEX 7: EAMR OF THE UNION DELEGATIONS</b> .....	<b>74</b>
<b>ANNEX 8: DECENTRALISED AGENCIES</b> .....	<b>75</b>
<b>ANNEX 9: EVALUATIONS AND OTHER STUDIES FINALISED OR CANCELLED DURING THE YEAR</b> .....	<b>76</b>
<b>ANNEX 10: SPECIFIC ANNEXES RELATED TO "FINANCIAL MANAGEMENT"</b> .....	<b>77</b>
<b>ANNEX 11: SPECIFIC ANNEXES RELATED TO "ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS"</b> .....	<b>78</b>
<b>ANNEX 12: PERFORMANCE TABLES</b> .....	<b>79</b>

## THE SRSS IN BRIEF

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

To help EU Member States address the implementation challenge, the funding to support Member States in the implementation of growth-enhancing reforms was stepped up with the creation of the Structural Reform Support Programme – or in short SRSP – which entered into force on 20 May 2017. Through the SRSP, the Commission provides financing for reform support in all EU Member States that request it. The overarching objective of the SRSP is to support economic growth in the EU, strengthen competitiveness, and encourage investment and employment. In 2017, 158 projects from 16 Member States were selected to receive funding from the SRSP.

Reform support under the SRSP is coordinated and provided by/through the Structural Reform Support Service (SRSS). The Service is responsible for steering and coordinating technical support for individual Member States (MS) in cooperation with other Commission services, other Member States and/or other international organisations. The emphasis is on the provision of support for the preparation and implementation of growth-enhancing institutional, structural and administrative reforms in the Member States, in particular in the context of economic governance processes, and including assistance for the efficient and effective use of the Union Funds. Since October 2015, the SRSS has been assisting the Greek authorities with the management of the migration crisis. This mandate was further reinforced in March 2016 when the Head of the SRSS was nominated as EU-coordinator for the implementation of the EU-Turkey statement. The Service stepped up its efforts towards assisting the Greek authorities in 2017

Furthermore, since February 2016, the SRSS has been carrying out a special assignment of coordinating all the Commission's efforts to support the Cyprus Settlement process, under the auspices of the United Nations, for the reunification of Cyprus, ensuring the implementation of EU Aid Programme for the Turkish Cypriot Community, and monitoring the application of the Green Line Regulation. In the first half of 2017, 12 missions of the Commission services to Cyprus were coordinated by the SRSS with the participation of more than 50 experts engaged. Moreover, the Service manages the EU Aid Programme for Turkish Cypriot community, which is implemented in a unique environment: the territory of a Member State in which its Government does not exercise effective control and where the application of EU acquis is suspended.

In 2017, the administrative architecture of the SRSS evolved further with the creation of 3 additional units while, at the same time, the Service maintained its country-specific focus, using expertise across the teams to develop tailor-made technical support programmes in response to the specific needs of each Member State.

## EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General, Head of the SRSS to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitutes the basis on which the College assumes 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<sup>1</sup>.

The executive summary has four subsections:

- a) Key results and progress towards the achievement of general and specific objectives of the SRSS (executive summary of section 1; *what* we have delivered)<sup>2</sup>
- b) The most relevant Key Performance Indicators (KPIs) for the illustration of policy highlights identified in the SRSS 2016-2020 Strategic Plan
- c) Key conclusions on Financial Management and Internal control (executive summary of section 2.1; *how* we have delivered)
- d) Information to the Vice President

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<sup>1</sup> Article 17(1) of the Treaty on European Union.

<sup>2</sup> An Executive Agency uses as heading: "Implementation of the Agency's Annual Work programme - Highlights of the year".

## a) Key results and progress towards the achievement of general and specific objectives of the SRSS (executive summary of section 1)

The implementation of administrative and structural reforms is essential to strengthen the adjustment capacity of the economy and to help move to and/or remain on a sustainable growth path.

The general objective of the Structural Reform Support Service (SRSS) is to help EU countries build more effective institutions, stronger governance frameworks and efficient public administrations. In 2017, following Member States' requests, the Commission, through the SRSS, supported Member States in preparing and implementing reforms. The Commission has responded to the demand from the Member States and provided practical support to them through the SRSS technical support activities. For the 2017 cycle, 271 requests for support were submitted by 16 Member States for an estimated amount equal to 4 times the available annual SRSP 2017 budget of EUR 22.5 million. The high demand from the Member States indicates that there is a significant gap in addressing administrative and structural reforms.

By supporting such reforms the SRSS contributed directly to achieving "**Jobs, Growth and Investment**", one of the Commissions ten political priorities and the general objective of the SRSS. In addition, due to its broad ranges of activities, the SRSS contributed indirectly to eight of the other Commission priorities.

The first specific objective of the SRSS is to help Member States, through the provision of technical support, to prepare and implement reforms, in particular in the context of EU economic governance processes. Notwithstanding the provision of support, overall ownership and responsibility for the policies and reforms developed and implemented remain with the Member States.

The SRSS provided support to Member States through various modes: from ensuring the presence of resident experts on the ground in, through expert missions and study visits and by deploying expertise from the Commission, other international organisations, EU Member States and/or the private sector.

In 2017, following requests from Member States, the SRSS provided support to 16 Member States in a wide range of policy areas such as public administration, the business environment, labour markets, health care, education, taxation, public financial management, access to finance legal, institutional issues and policies of financial institutions, and, last but not least, migration management.

The activities can be summarised as follows:

- A total of 108 new technical support projects were undertaken in 2017, through grant agreements with international organisations and national agencies and through contracts with private organisations.
- In addition, the SRSS organised and funded 70 working visits mobilising more than 220 external experts (from national authorities and the private sector).
- At the same time the SRSS continued to manage or completed the support projects started in years 2014 to 2016 and began negotiations with Member States and providers for some of the activities that will start formally in 2018.

These activities supported public authorities in 16 Member States (from 8 in 2016) in, amongst others, adopting best practices, modernising legal frameworks, developing capacity and streamlining their internal processes. Such support helps Member States to become more efficient and effective in the delivery of services to EU citizens.

EU added value was created through the provision of assistance on the ground in areas where the Member States lacked the capacity to respond and/or other EU policy areas and programmes were not able to meet the need identified. The SRSS ensured complementarities and synergies with other Union programmes and policies, contributed to the implementation of EU law and the exchange of good practices, promoted mutual

trust between Member States and the Commission, and helped address national challenges impacting on cross-border or EU-wide challenges.

To ensure a well-coordinated provision of the support across different Commission services and with respect to external actors in the field, the SRSS continued to run in 2017 the coordination mechanism set up in 2016. The mechanism is fully operational and well-functioning; under the guidance of a Steering Committee, the technical support country teams now meet regularly and coordinate their work in line with the objectives agreed by the Commission services.

In 2017, the SRSS continued to manage the assistance to the Turkish Cypriot community under Council Regulation (EC) No 389/2006 (the "Aid Programme") as well as to monitor the implementation of the Green Line Regulation. The SRSS prepared the Annual Reports from the Commission on the implementation of the Green Line and Aid Regulations. Under the Aid Programme, the SRSS provided assistance to facilitate the reunification of Cyprus by preparing the beneficiaries for a settlement (e.g., support to the private sector and rural development), and to support civil society. It funded the work of the World Bank on economic monitoring, focusing on fiscal analysis. The Aid Programme continued to fund the activities of the Committee on Missing Persons and the bi-communal Technical Committee on Cultural Heritage, and provided the funds for the construction works necessary for the opening of two new crossing points over the Green Line (works that are implemented by the United Nations Development Programme).

Furthermore, the SRSS continued to provide support for migration management in Greece, in line with the Joint Action Plan on the implementation of the EU-Turkey Statement endorsed by the European Council in December 2016, to help the Greek government implement priority actions, such as: accelerating the processes applicable to irregular migrants arriving at the Greek islands from Turkey (asylum processing and returns to Turkey); scaling up the Assisted Voluntary Return and Reintegration programme; supporting the establishment and upgrading of reception capacity on the islands; and putting in place the necessary structures to absorb the migration funds available to Greece under the national programmes of DG HOME's financing instruments for migration (AMIF and ISF). In addition, special attention was paid to implementing a "winterisation" programme on the islands to ensure protection of migrants against weather conditions ahead of the winter months, as well as to establishing additional up to standard reception facilities for unaccompanied minors. The SRSS coordinated the Commission's efforts to put in place, together with the Greek authorities, a Financial Plan in support of actions in the field of migration. Finally, the SRSS provided - in close cooperation with other Commission services (notably DG HOME and DG ECHO) - support for capacity building measures for the Asylum Service and the Appeals Authority, as well as the Reception and Identification Service, which are expected to have a long-lasting effect on the migration management capacity of Greece.

## b) Key Performance Indicators (KPIs)

Under Specific objective 1.1- (*Help Member States to prepare and implement growth-enhancing administrative and structural reforms, in particular in the context of EU economic governance processes, through the provision of relevant technical support*): The extent to which the support provided helps Member States to prepare and implement structural reforms, inter alia, reforms related to Country-Specific Recommendations.

This indicator measures – for each Member State concerned – the help of technical support in the preparation and implementation of reforms (notably but not exclusively those indicated in the CSRs) based on the assessment carried out by the SRSS. The assessment may also benefit from the feedback of the Member States and of the "country support teams", which are part of the Commission coordination mechanism.

<b>Baseline*</b> (2015)	<b>Interim Milestone in 2018</b>	<b>Target 2020</b>
The baseline cannot be estimated as this is a new service, providing a new typology of activities. The SRSS started providing support to Member States (other than Greece/Cyprus) in 2016.	Increasing extent (baseline and methodology are being developed)	Increasing extent

*Source of data: Country support teams (quantitative and qualitative information); consultation with Member States, missions and reporting on support projects, other data.*

An interim evaluation of the Structural Reform Support Programme will be finalised by mid-2019 and an ex-post evaluation by the end of December 2021 as provided for in the Regulation on the SRSP.

Under Specific objective 1.2 - (*Efficient steering and coordination of technical support provision to Member States across different Commission services as well as with respect to external actors in the field*): Feedback on the efficiency of the coordination mechanism.

<b>Baseline</b> (2015)	<b>Interim Milestone in 2017</b>	<b>Target 2020</b>
The baseline cannot be estimated as this is new service providing a new typology of activities	the majority of DGs satisfied with the coordination mechanism	Positive assessment (by internal and/or external stakeholders) of the efficiency of the coordination mechanism

*Source of data: SRSS monitoring data, information available from Commission coordination mechanism, other data.*



Under Specific objective 1.3 – (Provision of assistance to the Turkish Cypriot community and efficient coordination of the Commission's efforts to support the process of reunification of Cyprus): Number of enterprises in the Turkish Cypriot community having received EU support in the form of a grant.

Year	Milestone (and target for 2020)	Result
<b>2015</b>		330
<b>2016</b>		330
<b>2017</b>	370	330
<b>2018</b>	370	
<b>2019</b>	420	
<b>2020</b>	420	

Source of data: KOBIGEM/EUPSO<sup>3</sup>

Under Specific objective 1.3: Tendency to trust the EU as an institution (category: Turkish Cypriot community (TCc))

Year	Milestone (and target for 2020)	Result (%)
<b>2015</b>		51
<b>2016</b>		52
<b>2017</b>	56	52
<b>2018</b>	56	
<b>2019</b>	57	
<b>2020</b>	60	

Source of data: Eurobarometer

<sup>3</sup> KOBIGEM: Turkish Cypriot SME development body

EUPSO: European Union Project Support Office

## **c) Key conclusions on financial management and internal control (executive summary of section 2.1)**

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

The Commission has adopted a set of internal control standards/principles, based on international good practice, aimed at ensuring 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/principles. The SRSS assessed the internal control systems during the reporting year and has concluded that the internal control standards/principles were implemented and functioned as intended with the exception of some standards, which need further improvement or actual development; this is due to the recent creation of the Service.

In addition, the SRSS has systematically examined the available control results and indicators, including those aimed at supervising 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 were assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please see Section 2.1 for further details.

In conclusion, management has reasonable assurance that: overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation, has signed the Declaration of Assurance, albeit qualified by a reservation concerning: 04.02 European Social Fund, 13.03 European Regional Development Fund, 13.04 Cohesion Fund, 13.08 Structural Reform Support Programme, and 01.02 Preparatory Action.

## **d) Provision of information to the Commissioner(s)**

In the context of the regular meetings during the year between the Service and the Commissioner on management matters, also the main elements of this report and assurance declaration, including the reservation envisaged, have been brought to the attention of Vice-President Valdis Dombrovskis, responsible for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union.

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

A sound regulatory and institutional environment and a smoothly functioning economy are essential for making gains in competitiveness, encouraging investment, fostering jobs creation and investment, raising living standards and delivering sustainable growth across the EU. Implementation of administrative and structural reforms is essential to strengthen the adjustment capacity of the economy and help move to and/or remain on a sustainable growth path. The Commission recognises the importance of such reforms, while acknowledging the challenges that Member States face in preparing and implementing such reforms.

The SRSS general objective is to help EU countries to build more effective institutions, stronger governance frameworks and efficient public administrations. In 2017, the Commission, through the SRSS, supported Member States in preparing and implementing reforms.

The SRSS provides support, based upon requests from Member States, only after specific projects are mutually agreed between the Commission and the Member States concerned.

By supporting the implementation of administrative and structural reforms in Member States, the SRSS has contributed directly to **"Jobs, Growth and Investment"**, one of the Commission's ten political priorities and the general objective for the SRSS. In addition, due to its broad range of activities, the SRSS has contributed indirectly to eight of other Commission priorities (Digital Single Market, Energy union and climate, Internal Market, A deeper and fairer economic and monetary union, Justice and fundamental rights, Migration, A stronger global actor, and Democratic change).

In contributing to the general objective, the work of the SRSS focused on three specific objectives as identified in the Strategic Plan 2016-2020:

- 1) Help Member States to prepare and implement growth-enhancing administrative and structural reforms, in particular in the context of EU economic governance processes, through the provision of technical support;
- 2) Efficient steering and coordination of technical support provision to Member States across different Commission services as well as with respect to external actors in the field; and
- 3) Provision of assistance to the Turkish Cypriot community and efficient coordination of the Commission's efforts to support the process led by the United Nations for the reunification of Cyprus.

## **Help Member States to prepare and implement growth-enhancing administrative and structural reforms, in particular in the context of EU economic governance processes, through the provision of technical support**

In 2017, the SRSS received 271 requests for support under the SRSP from 16 Member States. The requests related to the implementation of reforms in the context of economic governance processes, in particular in response to the Country Specific Recommendations issued in the context of the European Semester (51%), to the Union priorities (27%) and to relevant actions related to the implementation of EU law (7%). Several requests were linked to economic adjustment programme in Greece (4%). A small number of requests referred to the implementation of reforms undertaken at the initiative of Member States (11%).

While providing support to Member States, the SRSS has no direct ownership or responsibility for the policies and reforms that are developed and implemented by the

Member States. The role of the SRSS is to contribute actively to strengthening the overall capacity of Member States, which request support to prepare and implement growth-enhancing institutional, structural and administrative reforms. In this context, the SRSS contributes to the achievement of its general objective of "Jobs, Growth and Investment".

In achieving this specific objective, the SRSS created added value through provision of support on the ground in areas where the Member States lacked the capacity to respond and/or other EU policies could not meet the need identified. The SRSS ensured complementarity and synergies with other Union programmes and policies, contributed to the implementation of EU law and the exchange of good practices, promoted mutual trust between Member States and the Commission and addressed national challenges impacting on cross-border or EU-wide challenges.

In line with the need to tailor the support to the specific circumstances of each request from a Member State, the support provided by the SRSS took many different forms. It ranged from the placing resident experts on the ground in Member States, expert missions, and study visits, to the delivery of expertise by the Commission, other international organisations, Member States and/or the private sector.

In this context, and following requests from the Member States, the SRSS, provided support to 16 Member States in 2017.

The SRSS technical support actions were financed through financial resources from the centrally-managed technical assistance budget of the European Structural and Investment Funds (ESIF)<sup>4</sup>, the Preparatory Action for "Capacity development and institution building to support the implementation of economic reforms" and the SRSP, which entered into force on 20 May 2017.

The support provided covered the following policy areas:

- Public financial management, budget, revenue administration and taxation;
- Business environment, investment, innovation, competition, trade, energy, regulation and privatisation;
- Employment, social inclusion, training, health care, education, pensions and social welfare systems;
- Efficient, modern, service-oriented public administrations and public procurement practices;
- Effective rule of law and combatting corruption, anti-money-laundering and anti-fraud, judicial systems;
- Access to finance, insolvency frameworks, legal and institutional issues related to financial institutions and financial sector policies;
- Agriculture, rural development, environment and transport; and
- Migration and border control.

A detailed analysis of the activities carried out, by policy area, is provided below. The activities can be summarised as follows:

-A total of 108 new technical support activities were undertaken in 2017, through grant agreements with international organisations and national agencies and through contracts with private organisations.

-In addition, the SRSS organised and funded 70 working visits, mobilising more than 220 external experts (from national authorities and the private sector).

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<sup>4</sup> These included financial resources transferred by Member States receiving Union financial assistance (Greece) to the Commission under Article 25 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013, laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006).

-At the same time, the SRSS continued to manage or concluded the support activities, which had started in the years 2014 to 2016, and began negotiations with Member States and providers for some of the activities that will start formally in 2018.

### **Public financial management, budget, revenue administration and taxation**

In 2017, following the entry into force of the SRSP on 20 May, the SRSS has notably strengthened and broadened its support on public financial management and taxation to cover a wider array of subjects and countries, all having a direct impact on securing tax revenues, reallocate spending towards more growth-enhancing policies and developing stronger economies. Overall, this support has also enabled Member States to develop enhanced capacities to manage their economic policies and financial affairs effectively.

Based on Member States requests, the support in this area has maintained its focus on the delivery of assistance for spending reviews and budget preparation as well as for independent fiscal institutions, in the context of the Economic Governance EU framework.

The assistance for conducting spending reviews has been largely extended, covering in 2017 five countries. Enhancing Member States' capacity to conduct both comprehensive and sectoral spending reviews fulfils objectives of improving budget preparation, ensuring better quality of public expenditure and increasing the efficiency of public spending, thus contributing to a sustainable expenditure-based consolidation of the budget.

Additionally, more support was provided for transition towards accrual accounting which represents an important tool for improving the accuracy and reliability of financial information. Cash management reforms have also been supported in Member States.

In the field of taxation and revenue administration, the SRSS continued its technical assistance to programme countries with projects covering all the dimensions of the Revenue Administration Reform to make the tax administration more efficient and effective in these Member States.

This assistance has been provided through a mix of SRSS in-house staff expertise (Brussels- or Athens- based), expertise from Member States or contracts with Member States agencies (BTC in Greece), international organisations (IMF in both Cyprus and Greece) and providers from the private sector. In Greece, thanks to a strong resident-advisor team, the SRSS has continued playing a key role in sustaining the revenue-administration reform process, particularly in the area of debt collection, the reorganisation of the customs administration, the design and implementation of a comprehensive IT strategy, as well as the assistance for the establishment of a tax and customs academy. In Cyprus, the SRSS continued to support the integration of the administrations in charge of indirect and direct taxes into a single Cyprus Tax Department. This has contributed, inter alia, to building the professional and ethics capacity of the tax officials, strengthening the information security of the existing IT systems and supporting the procurement procedure for a new integrated tax administration system.

Assistance has also been provided to Member States to help them improve their tax administration structure and processes with the view to helping ensure a system of fair taxation across the EU, which, inter alia, requires efficient tax administrations.

The main areas in which the SRSS has been providing support in 2017, in this respect, are debt collection, risk analysis, tax gap analysis, voluntary tax compliance, e-commerce, the fight against tax fraud and tax evasion, tax audits and taxpayers' services. The SRSS has also provided support for strengthening the management capacity of the tax administrations towards improved strategic planning, change management, business-process management and project management. The support provided is aligned with Country-Specific Recommendations under the European Semester to improve tax compliance, tax administration and tax collection in Member States. When dealing in particular with capacity-building in Member States and the fight against tax evasion, the support measures under the SRSP have been closely coordinated with actions under the FISCALIS 2020 Programme.

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

In 2017, the SRSS support in this policy area was delivered in eight countries.

In Greece, the SRSS assisted the authorities on trade facilitation and export promotion. The support contributed to the setting up of an Information Portal for businesses. Substantial steps were made in implementing the trade facilitation road map, including an action plan for establishing a single window that is expected to serve traders as an online one-stop-shop.

Assistance continued to be provided in the area of privatisation with a focus on supporting the set-up and operations of the Hellenic Corporation of Assets & Participations with a view to contribute to the implementation of Greece's investment policy and reduction of its financial obligations. More specifically, support was provided to draft Ministerial Decisions and rules of procedure for the internal operations of the fund and its direct subsidiaries. In addition, the SRSS helped the Greek authorities in the identification of the best practices and governance rules with the view to improve the governance of State Owned Enterprises (SOEs) and Services of General Economic Interest.

Moreover, the SRSS assisted the authorities in the implementation of the action plan to reform the investment licencing. This assistance focussed on the simplification of the licensing framework in several areas such as mining and logistics.

In the area of tourism, the SRSS provided support to the Greek authorities for the development of a strategy and new products in the tourism sector in order to extend the tourist season. In addition, following recommendations provided by the OECD, the SRSS assisted with an impact assessment for removing barriers to competition and the administrative burden in tourism.

SRSS support also covered Public Procurement Partnerships (PPPs). This support included the delivery of reports and the organisation of workshops on PPP affordability issues, the review of the national PPP processes and institutional arrangements, Value for Money methodologies and the monitoring of PPP performance.

Furthermore, the SRSS supported the Greek authorities with reforms in the field of cadastre and land use, in particular through the preparation of a law establishing a new joint registration and cadastral entity, aimed at speeding up the completion of the national cadastre and improving the quality of services provided to the citizens.

In addition to Greece, the SRSS assisted the public authorities in Cyprus to review the legislative framework on planning and construction in an effort to streamline the issuance of building permits and title deeds.

The Cypriot authorities also benefited from assistance to assess and develop the non-credit cooperative sector and to develop social entrepreneurship. As part of this support, an action plan on social entrepreneurship was developed which will be funded by the European Social Fund.

In 2017, the SRSS continued to support the Cypriot authorities in carrying out projects in the area of culture, with a view to enriching and diversifying the tourism product, and extending the tourism season. Also, the authorities continued to benefit from capacity building of local stakeholders (e.g. local authorities, NGOs, businesses, government departments) to participate in EU competitive programmes (e.g. Horizon 2020, Erasmus+, Life, COSME, etc.). The first signs concerning the participation of Cypriot stakeholders in such EU programmes are encouraging.

During 2017, the SRSS continued assisting the Cypriot authorities in the area of public investment through providing support for the practical application of a manual for the pre-selection and appraisal of public investment projects which was recently developed by the World Bank. Slovenia is another Member State that benefited from assistance to develop its capacity on evaluating public investment projects. Furthermore, the SRSS began offering support to the Romanian authorities to implement World Bank recommendations on the public investment process. This programme aims to strengthen

the capacity of civil servants in applying specific mechanisms, principles, tools, techniques and methodologies in the context of public investment management, evaluation and monitoring.

In Croatia, the SRSS supported the national authorities in the area of better regulation, in the establishment of a central business registry and on improving the governance on SOEs. The support for SOEs focused on setting up a unified reporting and monitoring framework on SOEs and enhancing the competencies of supervisory boards on the corporate governance of SOEs.

The SRSS supported the Italian national authorities in their efforts to establish special economic zones, to develop a 5G laboratory and to upgrade the national State Aid Registry.

In line with the Council Conclusions of September 2016 on establishing national productivity boards in all EURO area Member States, the SRSS began to offer support to the Lithuanian authorities to establish a National Productivity Board.

In the area of energy, support was provided to the Greek authorities to promote renewable energy sources and energy efficiency, inter alia by supporting the market integration of renewables and demand response, and designing schemes on renewable energy tendering, national energy audits and energy efficiency obligations. Moreover, the support helped towards the development of a national energy registry for public buildings. The SRSS helped the Greek authorities improve the framework conditions for further development of renewable energy and energy efficiency in Greece. In addition, the SRSS supported the transition to a new electricity market model in compliance with the EU Electricity Network Codes and Guidelines. This included active support in drafting the regulatory basis of the new market segments. Finally, work began in late 2017 to support Greece in elaborating its integrated national energy and climate plan for 2021-2030 and in establishing operational electricity markets on the non-interconnected islands.

The Cypriot authorities also benefited from significant SRSS support in the area. These activities were mainly addressed at strengthening the energy efficiency policies through a series of actions, including identifying the energy efficiency potential, studying the deployment of individual consumption meters, assessing the current energy needs in the agriculture sector, designing a national energy efficiency awareness campaign, providing capacity building for the assessment of district heating and cooling potential, and supporting the early-stage development of a code of practice for heat networks. The support also targeted renewable energy policy by defining a strategic framework for the penetration of alternative fuels in the transport sector and providing assistance to help the functioning of the electricity market. The support helped to define and approve electricity tariffs, draft the new market rules, and prepare the actions required for setting up the market and the electricity market operation.

### **Agriculture, rural development, environment and transport**

In 2017, support was provided to Cyprus in the area of waste management, reporting on Land Use, Land Use Change and Forestry (LULUCF), strengthening the enforcement of environmental law and developing a national contingency plan for combating oil pollution. Also, the SRSS began offering support to the Maltese authorities to develop a national action plan on alternative fuels in transport.

### **Employment, health care, education, pensions and social welfare systems**

In 2017, support for reforms in these areas was provided to Member States.

In Greece, the SRSS continued to support the reform of the social protection system through a number of initiatives. The review of the social welfare system was completed and detailed recommendations were presented to the government to identify options for a more effective allocation of the social budget. Assistance was also provided for the design and implementation of the national roll-out of the Guaranteed Minimum Income (GMI), which ensures a more effective safety net by providing adequate coverage of the



most vulnerable members of society. Further, several support initiatives focused on institutional reorganisation and capacity building for social security and health agencies. For instance, continued technical support was provided for the establishment of a modern, single social security agency, ΕΦΚΑ (Ενιαίος Φορέας Κοινωνικών Ασφαλίσεων), and its cooperation with other government agencies, including the tax administration. A project to strengthen the administrative capacity of the Greek Ministry of Labour, Social Securities and Social Solidarity (MLSSSS) resulted in an in-depth assessment of the Greek labour administration, based on which business process reviews were piloted. In Croatia, the SRSS supported the government to increase the efficiency and transparency of the social protection system by strengthening the management information system underpinning social benefits and building capacity for the collection, classification and analysis of the data collected.

In the area of pensions, support has been provided to the Lithuanian government on the reform of special pension schemes and the strengthening of supplementary pension coverage.

Several projects were initiated in 2017 on the reform of disability assessment systems. Workshops to exchange international best practices were organised in three countries. Follow-up measures to support reform implementation are under preparation.

In the field of labour market and employment, the SRSS has provided several streams of support. In Greece, the Ministry of Labour, Social Security and Social Solidarity received expert advice to develop a unified and more transparent Labour Law Code which will consolidate worker rights and assist administrative bodies in the performance of their duties. Support was provided to the implementation of a new generation of public work schemes (Kinofelis) to help the re-integration of long-term unemployed into the labour market. Technical support was provided on the implementation of the national roadmap to fight undeclared work.

In the field of Active Labour Market Policies (ALMPs) in Greece, international expertise mobilised through the SRSS contributed to provide recommendations on a more efficient delivery model and on the reengineering of the Public Employment Services (PES) business model. Support was also provided on the redesigning of major ALMPs such as training, public works and wage-subsidies, on defining quality specifications for ALMP service providers, on developing an effective monitoring and evaluation system and on improving the management information system.

The SRSS supported also the Ministry of Labour, Social Security and Social Solidarity in Greece in their efforts to develop a thriving and diverse social economy, initially with the mapping of the sector, the definition of financial tools to support it and the design of monitoring methods. In Italy, work has begun to support the authorities in the creation of policy tools to monitor and assess the effect of large investment schemes aimed at sustaining innovation (i.e. Industry 4.0) for the absorption of high-skilled individuals into the labour market. In Poland, the SRSS supported the implementation of a new labour migration strategy and tools to steer labour migration. The SRSS also supported the strengthening of the Ministry of Finance's in-house modelling team's capacity to design and simulate the macroeconomic impact of labour market reforms using a powerful Computable General Equilibrium (CGE) model. A similar initiative was provided in Slovenia to help the authorities develop a labour market model, which will allow the macroeconomic impact of changes in labour market policies or other policy reforms or external factors to be assessed.

In the field of education, the SRSS assisted the Cypriot authorities with the development of an IT School Management System and the improvement of the teachers' professional learning initiative. In the area of higher education, the SRSS provided support for the introduction of the performance based funding and for assessing the advantages and the disadvantages of the introduction of a student loan scheme. The SRSS also supported the decentralisation reform of the education system through the reorganisation of the School Boards system, the public entities charged with financial management and infrastructure management of school buildings. The student loan scheme and the school boards projects will continue in 2018. In Romania, the SRSS provided the authorities with technical expertise for the development of a system to reduce early school leaving. In

Lithuania, experts' support was provided to test a pilot forecasting model of future needs for teachers, which will in turn improve budget allocation and planning accuracy of higher education programmes for initial teachers' education. Direct expert support was provided to the Ministry of Education in Croatia on the introduction of the curricular reform based on learning outcomes. Finally, in Greece, the ongoing education review contributed to the modernisation of the education system.

In 2017, in the area of health, the SRSS provided further capacity development support to the Greek Ministry of Health for the implementation of reforms to enhance the universal coverage of the health sector. In a joint project with Slovenia and Latvia, the SRSS supported national authorities in their efforts to develop and implement frameworks for assessing the performance of their health systems and to apply them to monitor and evaluate upcoming health-care reforms. In Slovenia, the SRSS provided expert advice to the public administration to improve the quality and safety of health-care services. Three, still ongoing, initiatives are focusing on the cost-effective management of the public healthcare network, on the modernisation of service quality and safety monitoring tools and on the implementation of new methodologies to use patient feedback to improve treatment processes and outcomes. Finally, expert advice was provided to the Ministry of Health to pilot the implementation of the Long Term Care Act and the transition to the new long-term care system.

In Romania, the SRSS supported capacity building of the Ministry of Health in the management of a complex project to build three regional hospitals to be co-financed with the European Structural and Investment Funds. Expert advice was provided to the Ministry of Health in Slovakia to overhaul inefficiencies and to help set future priorities in the health system by optimising the hospital network, increasing transparency in procurement of medical devices, and re-profiling the competences of general practitioners and payment mechanisms. In Croatia, expert advice to the Ministry of Health on the reorganisation of non-clinical services led to the adoption of standards and guidelines based on international best practice. Finally, Cyprus benefitted from assistance to implement the IT systems and business processes, which will support the implementation of the National Health Insurance System bringing universal health coverage to the population.

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

In 2017, the SRSS support in the area of governance and public administration developed was provided to Member States. The SRSS continued its support to Greek authorities for the administrative reform at central and local level. Assistance provision in the area of improved governance was maintained in the form of additional technical support that kicked-off in November 2017. Support was also delivered in Cyprus to help create and redesign forms and internet communication of administration departments and to prepare and promote legislative reforms concerning the business registry.

In the area of local government, support in Greece continued through a project related to the revision of the Kallikratis reform and aimed at improving the performance of Greek local authorities in delivering quality services to citizens. Policy advice activities were provided, aimed at improving intergovernmental fiscal relations and fiscal supervision system utilized by the central government. A comprehensive training needs analysis underpinned the project and the promotion of the Council of Europe principles of good governance (ELOGE). The role of local government in Greece was further upgraded through capacity-building activities in the fields of local economic development (tourism and new technology), public ethics, inter-municipal cooperation, strategic municipal planning and civil participation.

In the area of public procurement, 2017 was a year of capitalising and consolidating the impact of the assistance already provided. Additional technical support requests in the field of public procurement were received by the Greek, Lithuanian and Maltese authorities. The roll out of the respective projects, which concern respectively e-procurement, professionalization of public procurement workforce and review of procurement processes, will start in the first quarter of 2018.

The SRSS continued supporting the Greek authorities in the implementation of European Structural and Investment Funds (ESIF). In particular, through the MoU monitoring process (joint action by SRSS-ECFIN-REGIO) and the close cooperation with the Greek authorities, substantial progress has been achieved in critical areas of ESIF implementation in Greece. Moreover, the SRSS assists the Greek authorities in carrying out a more efficient monitoring of the Public Investment Programme.

In the field of Digital Public Administration and eGovernment, the SRSS continued to provide assistance to Greece for the implementation of the Digital Strategy with horizontal actions (IT Procurement, Government Cloud, IT methodologies) and domain specific actions (support for eJustice, revenue administration, eHealth and Labour Market). Similarly in Cyprus, the SRSS supported both horizontal actions (Government IT Function review, eID and eAuthentication) and domain specific ones (eJustice, National Health Insurance, School Management System, revenue administration). The SRSS launched a number of actions in Lithuania for the support of the IT consolidation reform, in Croatia for improving data exchanges of social benefits information and in Romania for managing the early drop-out from school. In 2017, the interest of Member States for support in the area of Digital Public administration became more apparent as some ¼ of all submitted requests were relevant to this particular area.

### **Effective rule of law and combatting corruption, anti-money-laundering and anti-fraud, and judicial systems**

The SRSS provided continuous direct assistance in the area of Anti-Corruption in addition to planning, designing and monitoring the implementation of the OECD technical support.

During the year, the SRSS coordinated active direct support to Greek authorities for the implementation of the Anti-Corruption Training programme (by the Ministry of Foreign Affairs and HAUS International from Finland). In the field of Anti-Money laundering the SRSS provided direct support to Greece in addition to monitoring the implementation of the World Bank support for a National Risk Assessment on Money Laundering and Terrorism Financing. In addition, in Latvia, the SRSS is directly involved in the roll-out of an 18 months training programme on Anti-Money Laundering and monitors the implementation of the support by The Netherlands (FIOD) and the World Bank.

In the area of judicial reform, the SRSS continued with the implementation of a major project in Greece, which focuses on provision of support in the fields of the implementation of a new procedure on e-auctions and e-dockets, as well as the implementation of e-justice with more emphasis on the extension of the system of electronic submission of legal documents. In addition, the SRSS provided support to the Greek Ministry of Justice in relation to the prison system reform and the preparation of detainees for release.

In Slovenia, the SRSS delivered support in the area of judicial operations involving court mapping processes, and assisted with the mapping and organisation of court processes. In addition, communication was established with the Ministry of Justice and Supreme Court to support the preparation of the Action Plan for the implementation of the Judicial Reform Strategy.

In Croatia, the SRSS supported the improvement of Human Resources Management field of management of Court Administration. Additionally, support from the SRSS contributed to the finalisation of the design of several laws currently being prepared by the Ministry.

SRSS support for judicial reform in Cyprus has directly triggered reform activities in a number of related areas: the review of the operations of the Court systems, the review of the rules of civil procedures, the review of the operations of the Attorney General Office, the design of training programmes for judges and the preparation of the e-justice programme. Furthermore, an additional project on the selection and promotion of the judges is foreseen.

### **Access to finance, insolvency frameworks, legal and institutional issues related to financial institutions, and financial sector policies**

In 2017, the SRSS engaged with authorities in several Member States, including the public sector, central banks and supervisory authorities, to facilitate structural reforms to

improve the functioning of the financial sector. The support covered issues related to financial and credit institutions (e.g. legal and institutional issues, supervision, resolution, competition), access to finance (e.g. Capital Markets Union, micro-finance, credit mediation, venture capital, etc.), insolvency (legal and institutional issues), and insurance undertakings (e.g. legal and institutional issues, supervision, regulation, etc.).

In addition, within the area of the financial sector, the SRSS continued to work on the delivery of support related to the Capital Markets Union, non-performing loans and financial stability. This includes developing policy priorities internal to the Commission with the relevant line DGs, as well as engaging in a discussion with support providers who are active in these areas, in particular international organisations. These work-streams have led to the raising of awareness with stakeholders of the SRSS financial sector work and contributed to an increased number of higher quality requests for support.

In 2017, the SRSS launched a number of projects related to the Capital Markets Union, including capital market assessments in two countries, as well as developing a common pan-Baltic covered bonds framework.

The SRSS continued supporting national supervisory authorities, working with them on developing regulation and internal processes supporting them in their work. Within this work stream a project on consolidating risk-based supervision in the insurance sector was launched in Romania, a review and evaluation of the governance framework and performance of the Board of Directors of the Greek Systemic Banks in Greece and projects developing guidelines for banks in the area of risk management and management of non-performing loans in small and medium enterprises sector in Slovenia.

The SRSS launched technical support projects for developing insolvency frameworks and practices in three countries.

### **Migration Crisis Management in Greece**

The SRSS, in close collaboration with the relevant Commission services and EU agencies, continued supporting the Greek Authorities on migration management. The Director General of the SRSS also continued to act as the EU Coordinator for the implementation of the EU-Turkey Statement, which aims at ending irregular migration from Turkey to the EU.

As EU Coordinator for the implementation of the EU-Turkey Statement, the Director General of the SRSS coordinates support provided by EU Member States and EU Agencies to Greece, as well as actions of Member States for the implementation of the Syrian refugees' resettlement programme from Turkey. He is assisted by staff based in Athens and Brussels, the Greek hotspot islands and Ankara.

In 2017, the SRSS continued to provide support for migration management in Greece, in line with the Joint Action Plan on the implementation of the EU-Turkey Statement endorsed by the European Council in December 2016, to help the Greek government implement priority actions, such as: accelerating the processes applicable to irregular migrants arriving at the Greek islands from Turkey (asylum processing and returns to Turkey); scaling up the Assisted Voluntary Return and Reintegration programme; supporting the establishment and upgrading of reception capacity on the islands; putting in place the necessary structures to absorb the migration funds available to Greece under the national programmes of DG HOME's financing instruments for migration (AMIF and ISF). In addition, special attention was paid to implementing a "winterisation" programme on the islands to ensure protection of migrants against weather conditions ahead of the winter months, as well as to establishing additional up to standard reception facilities for unaccompanied minors. The SRSS coordinated the Commission's efforts to put in place, together with the Greek authorities, a Financial Plan in support of actions in the field of migration.

Also in 2017, the SRSS provided - in close cooperation with other Commission services (notably DG HOME and DG ECHO) - support for capacity building measures for the Asylum Service, the Appeals Authority, as well as the Reception and Identification

Service, which are expected to have a long-lasting effect on the migration management capacity of Greece.

SRSS intervention relied primarily on different coordination mechanisms which include:

- A Steering Committee for the implementation of the EU-Turkey Statement, chaired by the Head of the SRSS with the participation of the Greek authorities, the European Asylum Support Office (EASO), European Border and Coast Guard Agency (Frontex), the European Union Agency for Law Enforcement Cooperation (Europol), and representatives of the Council Presidency, France, the United Kingdom and Germany, which continues to meet on a bi-weekly basis to oversee the implementation of the EU-Turkey Statement and address bottlenecks; and
- Thematic coordination meetings chaired by the SRSS with the participation of the Greek authorities and other actors concerned, which meet on a bi-weekly basis or as needed, which aim at exchanging information on day-to-day operations and addressing specific operational challenges. Issues addressed included asylum processing, returns, hotspot management and data transparency.

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Following the 2017 State of the Union speech and the letter of intent from President Juncker to President Tajani and Prime Minister Ratas, On 6 December 2017, the Commission presented a Roadmap for deepening Europe's Economic and Monetary Union, including a roadmap of steps to be taken over the next 18 months. Two elements in the package are directly related to the work of the SRSS - the amendment of the SRSP Regulation and the Communication on new budgetary instruments for a stable euro area within the Union framework. The proposal to amend the current SRSP Regulation envisages an increase in the SRSP budget in 2019-2020 by EUR 80 million and adjusts its general objective to also add support for preparation for euro-area membership to the Programme's objectives. The amendment of the SRSP Regulation is now being discussed in the European Parliament and in the Council.

The communication on new budgetary instruments for a stable euro area discusses four specific essential functions for the euro area, which also include support for structural reforms identified in the European Semester through a new reform delivery tool and strengthened technical support at the request of Member States and a dedicated convergence facility for Member States on their way to joining the euro area.

### **Efficient steering and coordination of technical support provision to Member States across different Commission services as well as with respect to Member States**

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

Against this background, the SRSS implements and leads an inter-service coordination mechanism to coordinate the technical support provided by the Commission to Member States that have requested such support.

Following the set-up of the coordination mechanism in 2016, in 2017, the SRSS focused on operationalising it. After extensive discussions with other Commission services and in particular with those responsible for the provision of assistance under Union Funds, the following components are now in place:

- a clear identification of the objectives of the coordination mechanism;
- its relation with other existing instruments: i.e. with other governance mechanisms or actions plans, including those related to European economic

governance and the existing mechanism for the implementation of the European Structural and Investment Funds (ESIF);

- a stable structure for the coordination mechanism, with three entities:
  - a "high level steering committee" (HLSC), meeting at senior management level, which can make recommendations and provide guidance on all aspects of the technical support provided to Member States, including funding priorities;
  - "technical support country teams" which share information and coordinate the support provided to all Member States that have submitted request for support under SRSP. The technical support country teams work in close cooperation with the European Semester country teams and their meetings usually take place back-to-back with the Semester country team meetings;
  - a "technical support working group" (TSWG) in charge of the consultation process for coordinating technical support to Member States under the SRSP at a technical level. The TSWG meets regularly to optimise internal consultation procedures, provide feedback, and define a common external communication strategy, amongst others. The TSWG is also the main forum for information exchange between the SRSS and other Commission services and prepares the work of the HLSC. The TSWG ensures i) alignment of the technical support with the policy priorities of the Commission and reform priorities of the Member States; ii) enhancement of synergies and complementarities with other EU funding programmes and iii) improvement of technical support capacities of the Commission services (creation of databases of external and Commission experts, shared online platforms and IT tools, common methods for evaluating and monitoring technical support projects, etc.).

At its beginning, the coordination mechanism involved 26 Commission services. In 2017, it was extended to cover 29 Commission services. Three High Level Steering Committee meetings (March, June and December 2017) and five meetings (March, June, September, October, December) at the level of the TSWG took place in 2017 to kick off the SRSP and decide on the proposal for selection of requests for support in its first two rounds – 2017 and 2018. Strengthening the consultation procedure on the selection of the SRSP requests for technical support within the coordination mechanism was yet another important step undertaken in 2017. Two progressive technical solutions were put in place to make the consultation procedure more efficient, through SharePoint and Jira.

In 2017, the SRSS continued also to coordinate the work with other external actors in the field, in particular the Member States.

Regular meetings were organised bilaterally with the Member States within the coordination mechanism to inform them about the state of play of the technical support provided by the Commission, mobilise expertise and discuss support in specific reform areas. High level meetings and video-conferences were also organised with the Coordinating Authorities of all Member States participating in the SRSP Programme and the Commission's European Semester Officers, in order to ensure a smooth roll-out of the SRSP Programme and to assist with the application procedure.

Close contacts with Member States were ongoing throughout 2017 in light of the preparation of the procedure for triggering the transfer of funds under the Article 11 of the SRSP Regulation in 2018 (resources for technical assistance under the European Structural and Investment Funds can be transferred to be used for technical support under the SRSP).

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

## Provision of assistance to the Turkish Cypriot community and efficient coordination of the Commission's efforts to support the process led by the United Nations for the reunification of Cyprus

Since the beginning of this Commission, the Cyprus settlement issue has been under the direct political responsibility of President Juncker. He appointed Mr Pieter Van Nuffel as his Personal Representative to the UN Good Offices Mission in Cyprus in July 2015. In 2017, the Structural Reform Support Service (SRSS) continued to support the Personal Representative. The Service also continued to deliver the assistance to the Turkish Cypriot community under Council Regulation (EC) No 389/2006 (the "Aid Programme")<sup>5</sup> and to monitor the implementation of the Green Line Regulation<sup>6</sup>.

### Support to the Cyprus settlement process under the Juncker Commission

In 2017, the SRSS continued to be actively engaged in supporting the settlement talks including at the meetings of the Conference on Cyprus in Switzerland in January and June of 2017. The main conduit of Commission support has been the bi-communal ad hoc committee on EU preparation under UN auspices (AHC) which was established in autumn 2015. The AHC is mandated "to better prepare the future Turkish Cypriot Constituent State for the implementation of the EU *acquis* upon settlement". Since October 2015, more than 200 Commission experts provided close to 300 presentations in the context of 44 Acquis Seminars, Fact Finding Missions and related events.

In 2017, the SRSS prepared the Annual Report from the Commission on the implementation of the Green Line Regulation in 2016.<sup>7</sup>

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

The Commission reports annually on implementation of the Regulation<sup>8</sup>. During the year 2017, the Aid Programme to the Turkish Cypriot community continued to target all the objectives laid down by Regulation (EC) 389/2006. The main outputs during 2017 were the following:

- Development and restructuring of infrastructure: the SRSS launched the implementation of a key environmental project relating to the capacity increase of a sanitary landfill in Koutsoventis/Güngör. The SRSS has also worked on the preparation of the tender dossiers for the waste disposal of animal by-products as well as for the new trunk sewer connecting the northern area of greater Nicosia with the Nicosia Wastewater Treatment Plant. Extensive work continued to identify the repairs to the Famagusta Networks so that the tender procedure can be launched in 2018.
- Promoting social and economic development: technical assistance is being provided in a number of key areas, namely support for the private sector, rural development, metrology, and education, including vocational education and training to better meet the labour market needs. The programme reinforced the funding for the work of the

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

<sup>6</sup> Council Regulation (EC) No 866/2004 of 29 April 2004 on a regime under Article 3 of Protocol 10 to the Act of Accession, OJ L 206, 9.6.2004, p.51

<sup>7</sup> COM(2017) 371 final of 7.7.2017

<sup>8</sup> The 11th annual report, covering 2016, was published on 07.07.2017 (COM(2017) 372 final).

World Bank to expand it to fiscal and macroeconomic analysis, including study promoting competitiveness and economic development.

- Fostering reconciliation, confidence-building measures and support to civil society: the programme continued to fund the activities of the Committee on Missing Persons and the bi-communal Technical Committee on Cultural Heritage. The Aid Programme provided the funds for the construction works necessary for the opening of two new crossing points over the Green Line (works are implemented by the United Nations Development Programme). Support for civil society included technical assistance to increase capacity of civil society organisations and to strengthen their role and democratic engagement in the Turkish Cypriot community.

The EU is the main donor to the Committee on Missing Persons. In December 2017, the Commission extended the Delegation Agreements with the UNDP to provide funding for the operations of the CMP over one year, until the end of 2018.

- Bringing the Turkish Cypriot community closer to the EU: the Programme has funded 152 scholarships for Turkish Cypriot students to attend a university in the rest of the EU, under a scheme managed by the British Council. The EU Infopoint, which the SRSS manages together with the Representation of the European Commission in Cyprus, has undertaken a wide range of activities, including 120 visibility and communication actions organised in 2017.
- Preparing the Turkish Cypriot community to introduce and implement the acquis: assistance continued in 2017 around the same 16 areas, or "sectors", of the acquis as in previous years, in order to facilitate the reunification of Cyprus.



## 2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question *how* the achievements described in the previous section were delivered by the SRSS. This section 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 report by AOSDs (Authorising Officer by Sub-Delegation) produced by the Director and the Heads of Unit having received a sub-delegation from the Director General;
- Reports from Authorising officers in other DGs managing budget appropriation in cross-delegation;
- Management declaration and audit opinions from International organisations and Development agencies;
- Available Pillar Assessment reports. the SRSS relies on DG DEVCO compliance reports on international organisations and national agencies<sup>9</sup>;
- Contributions of the Internal Control Coordinator including results of internal control monitoring;
- Observations and recommendations from auditors: Internal Audit;
- Ex-post control based on desk review made on a sample of transactions and ex-post control performed by external auditors on the spot; and
- Expenditure verification reports submitted by the beneficiaries in support of payments claims and conducted by external auditors.

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

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<sup>9</sup> Pillar assessment is an ex-ante assessment of the internal control system of an international organisation or national agency allowing them to sign a pillar assessed grant or delegation agreement governed by a specific administrative and financial framework signed by the Commission and the organisation

General of SRSS.

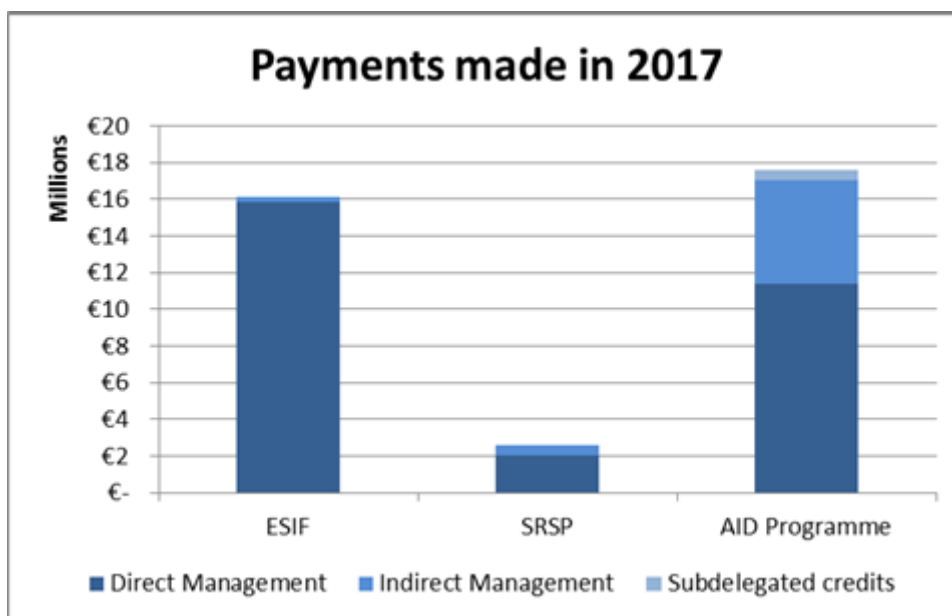
## 2.1.1 Control results

The SRSS total budget for 2017 (commitment credits appropriations) was EUR 63.78 million including operational credits, support expenditure and global envelope). Almost 100% of credits were committed for expenditure.

The 2017 SRSS operational commitment credits appropriations amount to a total of EUR 57.33 million.

In 2017 payments were made for an amount of EUR 36.4 million of which 51.6% for the European Structural and Investment Funds (ESIF) and the Structural Reform Support Programme (SRSP) and 48.4% for the Aid programme (AID).

An overview of the SRSS operational funds in 2017 is presented below:



### 1. Provision of Technical Assistance

#### 1.1 ESIF (European Structural and Investment Funds)

Under the 'Common Provision Regulation' (Regulation (EU) 1303/2013) – Art. 25 (Resources), upon the request of a Member State with temporary budgetary difficulties, part of the technical assistance resources provided for under the ESIF 2014-2020 may be transferred to technical assistance to the Commission for implementation of measures in the relevant Member State. Implementation can be made either by direct or indirect management. Measures include the identification, prioritisation and implementation of structural and administrative reforms in response to economic and social challenges in Member States. Under the work programmes C(2014)1458 and C(2014)8556, the SRSS awarded grants without calls for proposals to entities identified in the relevant financing decisions and procured services through middle- and low-value contracts. Commission Decision C(2016)3835 ensured the implementation of the actions financed from the resources (i.e. EUR 30 million) transferred by Greece to the Commission in application of Article 25 of Regulation 1303/2013. Grants were awarded without calls for proposals under direct management to bodies foreseen in the work programme

A Commission Decision (C(2016)3746) as amended by (C(2016)8445) was adopted to

fund technical assistance activities for Cyprus in the year 2016. This decision was reviewed to include new priorities for Cyprus (e.g. public administration, tax administration and environment), as well to update the actions to be financed.

## 1.2 PREPARATORY ACTIONS

In 2016, the Budgetary Authority allocated a Union budget of EUR 3 million to the SRSS under a Preparatory Action (C(2016)4011) for developing capacity and institution building to support the implementation of economic reforms of Member States and to strengthen their public institutions. This work programme established implementation of:

- technical support programmes and projects (including preparatory phases, monitoring and control) by private actors, national and international public organisations, which have a strong expertise in such a field; and
- short-term technical support, twinning-type arrangements between public authorities, and support activities such as training meetings, seminars, etc.

The SRSS committed all funds and implemented such initiatives through procurement and grant direct management (without calls for proposals) and indirect management.

## 1.3 SRSP (Structural Reform Support Programme)

The Structural Reform Support Programme entered into force in May 2017, with the objective of providing technical support to all EU Member States, upon their request, to carry out institutional and administrative reforms. Under the SRSP Annual Work Programme for 2017 (Commission decision C(2017)5780), the SRSS ensured the implementation of the SRSP 2017 budget allocation (EUR 22.5 million) by means of direct grants, indirect management and procurement. Resources were fully committed for contracting in 2017 and 2018 and about 30% of the budget was contracted in 2017.

## 2. AID PROGRAMME

In 2017, the SRSS continued the implementation of the work programmes C(2014)9366; C(2015)8757 and C(2016)6688), and C(2017)7156 establishing assistance initiatives to facilitate the reunification of Cyprus, by encouraging the economic development of the Turkish Cypriot Community, with particular emphasis on the economic integration of the island, on the improvement of contacts between the two communities and with the EU, and on preparation for the *acquis*.

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

## 3. CROSS SUB-DELEGATION

**In 2016, the Service Level Agreement (SLA) signed between the SRSS and DG NEAR for the logistical and financial arrangements** of assistance provided to the TCC through TAIEX was extended. The SLA sets out the main conditions governing the cross-sub-delegation between the SRSS and DG NEAR.

In 2017, the SRSS signed a new SLA with DG NEAR for the provision of technical support through TAIEX, in the context of the Structural Reform Support Programme, to the Member States to carry out institutional, administrative and structural reforms, to improve capacity to design, formulate and implement reforms, to define and implement processes and methodologies and to enhance the efficiency and effectiveness of human resources management. Following the establishment of a cross sub-delegation, EUR 1 million was transferred to DG NEAR for TAIEX.

DG NEAR reported that the TAIEX-SRSP Peer to Peer Programme came into effect on 25 August 2017 and became fully operational on 16 November 2017. During the reporting period a total of thirteen (13) requests to organise TAIEX SRSP activities, were submitted by the SRSS to NEAR C3. All related sub delegated resources were managed in the same manner as all other financial resources allocated to NEAR C3 in order to implement activities. A separate Budget Line has been included in the Taiex Management System to ensure that the sub- delegated resources are appropriately allocated.

The SRSS deems the information reported by DG NEAR to be reliable and sufficient to draw conclusions on the use of the resources for their intended purpose, in accordance with the principle of sound financial management. The control procedures established by DG NEAR give the necessary guarantee concerning the legality and regularity of the underlying transactions. No irregularity, audit finding or other issue was raised in the context of the report on the implementation of the entrusted funds.

## 5. INDIRECT MANAGEMENT

For the resources entrusted to other entities distinct from the Commission, please refer to 'Indirect Management' under section 2.1.1.2 and Annex 6.

Management concludes that the controls results presented below cover all the internal control objectives relevant to SRSS. Therefore the results presented below can be used as a source of assurance on the achievement of internal control objectives. The results on legality and regularity on three budget lines indicate the need to issue a reservation limited to the scope of grant-direct management. The reservation has no impact on the other activities managed by the service.

The table below presents the control results related to SRSS activities as carried out in 2017 and in respect of all payments made.								
Activity	Direct management	Indirect management	Cross-delegations to other DGs	Internal control objectives				Reservation
	Grants and Procurement	Delegation agreements with Entrusted Entities		Legality and regularity	Cost-effectiveness and efficiency	Fraud prevention and detection	Independent info from IAS, ECA on assurance	
Provision of Technical assistance under ESF, ERDF, CF and Preparatory action	€15,814,080.51 (operational expenditure)	€325.000,00		RER=2-4% for grants RER=0% for procurements	OK (see section b)	OK (see section c)	Y	Yes (for grants direct managements) <sup>10</sup>
	€10.626,44 (support expenditure)			RER=0.5%				
SRSP	€2.021.655,78 (operational expenditure)	€607.000,00		RER=0,5%	OK (see section b)	OK (see section c)	Y	no
	€2.076,40 (support expenditure)			RER=0.5%				
Aid Programme	€ 11.412.403,14 (operational expenditure)	€5.628.684,78	€582.387,98	RER=0,5%%	OK (see section b)	OK (see section c)	y	no
<b>Total (coverage)</b>	€ 29.260.842,27	€ 6.560.684,78	€ 582.387,98					
<b>SRSS -Grand total payments in 2017</b>	€ 36.403.915,03							

<sup>10</sup> See table 2.1 pp. 37-38

## A. Coverage of the Internal Control Objectives and their related main indicators

### Control effectiveness as regards legality and regularity

The SRSS has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

The main control objective in this area is to ensure that the estimated residual error rate (i.e. amount which remains uncorrected after the corrections of the errors in the audited payments) does not exceed 2% of the total annual expenditure for each activity. This is in line with the materiality criteria in annex 4.

The residual error rate was calculated in 2017 on the basis of an ad-hoc methodology applicable only to 2017 (the ex-post control function was introduced in SRSS in November 2017).

The ad-hoc methodology, consisted of a desk review on a representative sample of transactions (using MUS – monetary unit sampling) and a limited number of on the spot audit on projects closed in 2017. The sampling was established on two different populations of payments, one for the Aid programme and one for Technical Support (TS). The sampling prepared for 2017 covered more than 50% of payments performed in 2017 respectively under the Aid programme and under the Technical Support. All management modes were covered by the desk review, including direct management (grants and procurements) and indirect management.

In addition, 5 audits on the spot were performed by external auditors covering 2 projects under Technical Support and 3 under the Aid programme.

For 2018, a more comprehensive ex-post control strategy was developed and adopted in March 2018. It is expected that in the future the ex-post control put in place while identifying expenditure to be recovered, will also benefit the identification of system improvements to prevent possible errors.

As this is the first year the error rate is calculated for SRSS expenditure, the multiannual approach could not be applied and the annual residual error rate was calculated for 2017.

Based on the annual residual error rate (RER), the SRSS is of the opinion that the control procedures in place give the necessary guarantee for the legality and regularity of the underlying transactions except to the limited area of grants under technical support for which the error rate is estimated above 2%, leading to a reservation.

Since January 2016, the SRSS **financial circuit** includes financial agents based in the Financial Unit and the operational agents placed in the operational Units/Clusters. The authorisation of commitments is ensured at Director level. Actors of the financial circuits have all now been provided with the adequate training, while this was not the case throughout 2017. In addition, actions have been taken for ensuring that new actors included recently in the financial circuit will follow appropriate trainings related to their role in the circuit.

Controls are performed in all cases by two operational agents (initiation and verification) and two financial agents (initiation and verification) before authorisation is granted. Such a circuit ensures that the 'four eye principle' and segregation of duties are respected.

Moreover, financial checklists provided guidance to agents in their detection checks over the relevant transactions before authorisation. For the purpose of ensuring complete checks and in compliance with the latest rules and procedures, the SRSS have updated the checklists in 2017 and will be reviewing them in light of the new financial regulation.

#### A.1 Procurement Direct management

Concerning procurement under technical support expenditure, the SRSS mainly used negotiated procedures for middle- and low-value contracts. Moreover, despite the small value of such contracts, which did not cause major risks for the Contracting Authority, the SRSS awarded such middle- and low-value contracts on the basis of a systematic, comparative analysis of the offers in respect of the award criteria set. One administrative agreement was also signed with the Joint Research Centre (JRC).

Framework contract (FwC) SRSS/P2017/FWC001 "Multiple framework contract for the support to structural reforms in EU Member States" was launched in the Official Journal on 02 June 2017. It consisted of 2 lots of which, Lot 1: "Support for the development and implementation of reforms" and Lot 2: "Change management strategy and implementation thereof".

For the above two lots, the following numbers of offers were received and numbers of framework contracts were signed:

Lot	Number of offers received	Number of FwCs signed	Date of signature of FwCs	Number of specific contracts signed in 2017
1	9	5	16 October 2017	1
2	6	3	08 November 2017	0

The estimated global duration and value of the FwC per lot is as follows:

Lot 1: 4 (2+2) years from signature date; EUR 18m

Lot 2: 4 (2+2) years from signature date; EUR 2m

Under the Aid Programme, in 2017 the SRSS managed 4 procurement procedures for 1 works contract, 1 supply contract and 1 service contract. 5 contracts under negotiated procedures were also concluded as well as 6 under Framework contract. Management of calls for tenders was done in accordance with 'external action' rules<sup>11</sup>. In 2017, the SRSS implemented some changes in the controls performed by the "procurement cell" based in the EU Programme Support Office in Nicosia and being part of the Budget and Finance unit. The financial workflow for the approval of the different phases from the launch of the procedure until the signature of the contract was revised in accordance with the SRSS financial circuits. Most of the tender and evaluation procedures are carried out by EUPSO staff based in Nicosia. However, in particular cases, the Authorising Officer may decide, in view of the sensitivity of certain files that the evaluation is to be carried out by staff located at the Headquarters. The chairperson and secretariat (non-voting members) functions of the evaluation committees are to be ensured by the financial agents based in Nicosia.

#### Ex-post controls

Payments for procurements in direct management are included in the population of the desk review and selected on a representative sampling as explained above.

The desk review did not identify any irregularities on the payments sampled. Further assurance on transactions under the Aid programme is gained by the fact that payments are performed following the conclusion of the expenditure verification reports submitted with the request for payment for fee-based contract. In addition, the SRSS considers that there is a low risk for the contracts implemented under Technical Support as they are

<sup>11</sup> Rules set down in Title IV of part 2 of the Financial Regulation

middle and low value contracts therefore the impact of potential errors would be smaller. Therefore, the SRSS assumes having a reasonable assurance about the legality and regularities of those transactions under procurements-direct management.

Based on the elements above a best conservative estimate of the error rate for procurement was set at 0.5%.

## A.2 Grant -direct management

In 2017, the SRSS continued to contribute to the implementation of the Commission's strategy 'EU budget expenditure focused on results', by implementing interventions according to a 'logical framework approach' (LFA) based on robust planning, outputs, outcomes and performance indicators. The promoted LFA includes a preliminary assessment of the context and stakeholders in which the contractors/beneficiaries operate to ensure a more accurate definition of the key objectives of the projects and the related potential risks.

The SRSS introduced the 'Intervention logic' (IL) method and a LFA matrix for developing its terms of reference for the implementation of expenditure of ESI funds in both direct and indirect management (see below). It is considered that such an approach focused on good planning, coordination, monitoring and reporting, contributes to efficiency and effectiveness of financial activities (e.g. improved resources planning and programming, appropriate budget allocation in the course of implementation of projects, etc.).

In 2017, the SRSS signed direct grants with entities and organisations complying with the selection and award criteria indicated in the Financing Decisions by means of a) 'Pillars-assessed' grant agreements and b) Grant agreements.

During the year, the SRSS started to reinforce the criteria for justifying the direct award, to address without a delay its weaknesses which were also raised by the IAS in the audit report on "Financial management of SRSS",

- a) Pillar-assessed grant agreements were signed with entities, such as the International Labour Organisation (ILO), the World Bank (WB), the Organisation for Economic Co-operation and Development (OECD), the World Health Organization (WHO) and the International Monetary Fund (IMF) to carry out a variety of activities of technical assistance. Such entities undergo an ex-ante assessment (called "pillar assessment") as they shall guarantee a level of protection of the financial interests of the Union equivalent to that required under the Financial regulation. Pillars correspond to broad areas covered by the assessment and include (1) internal control, (2) accounting and (3) independent external audit. Moreover, the assessment must also include at least one of the following, so that the entity can be entrusted with the corresponding budget implementation tasks: (4) procedures and rules for grants, and (5) procedures and rules for procurement
- b) Grant agreements were awarded to Member-State public bodies and other bodies with a public service mission, which, in view of the nature of the action, have recognised and relevant technical competence, high degree of specialisation or administrative power in the following fields: public financial management and revenue administration; governance and public administration; growth, business environment and sectoral issues; labour market, health, social services; financial sector and access to finance.<sup>12</sup>

Operational and financial monitoring has been carried out during the life of the contracts, generally through verification of deliverables (e.g. interim, final reports) submitted by contractors and beneficiaries. Moreover, in order to ensure close follow up of progress in

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<sup>12</sup> These institutes include Institute of Public Administration (IPA) of Ireland, Ricerca sul Sistema Energetico (RSE), Partnerschaften Deutschland (PD), Scottish Environment Protection Agency (SEPA), University of San Anna in Malta, Danish Patent Safety Authority, Agency for Economic Cooperation and Development (AED).



the processing of ongoing transactions and priority on future commitments, the SRSS established weekly meetings between the financial unit and the operational staff.

#### Ex-post controls:

Payments for grants in direct management are included in the population of the desk review and selected through the representative sampling as explained above. In addition 5 audits have been carried out by external auditors: 3 under the Aid programme and 2 in the area of Technical Support.

For the grants awarded under the Technical Support, the desk review performed on a representative sampling and the 2 on-the-spot audits confirmed an error rate between 2-4%<sup>13</sup>. Nevertheless, taking into consideration that the main results of ex-post control for this year are based on a desk review and that some information are not completed, the precise error rate is not quantifiable.

The results of the desk review and on-the-spot audits performed on grants awarded under the Aid Programme did not identify errors on the underlying transactions. Further assurance on those transactions is gained by the fact that the payment was performed following the conclusion of the expenditure verification reports submitted with the request for payment (for grants over EUR 100.000).

For the Aid Programme a best conservative estimate of the error rate was set at 0.5%.

### A.3 Indirect management

In indirect management, implementation tasks under ESI funds were entrusted to GIZ - Deutsche Gesellschaft für Internationale Zusammenarbeit GMBH – under a delegation agreement (EUR 650,000 in commitments and a prefinancing payment for EUR 325 000) for the implementation of the Action "Technical Assistance for Distribution Network Issues in Greece".

Under the SRSP, implementation tasks were entrusted to EBRD for the implementation of the actions: Strengthening Member States Insolvency and Restructuring Practitioners Framework (EUR 280,000), Strengthening Capital Markets in Estonia, Latvia, Lithuania and Poland (EUR 1,024,000) and State-Owned Enterprise Restructuring in Croatia (EUR 250,000). Upon signature of the delegation agreements, prefinancing payments were made for a total amount of EUR 607,000.

Delegation agreements are considered low risk because the selected entities apply their own established controls to manage the entrusted budget and they are bound by an obligation of detailed reporting.

In 2017, a share of the Aid Programme to the TCc was implemented in indirect management by delegation agreements (around EUR 5.6 million in payments and EUR 3.4 million in new commitments with the EBRD, and the United Nations – see Annex 6)

Appropriate supervision of the entrusted tasks was continuously ensured in operational and financial terms, including a thorough examination and approval of regular implementation reports.

#### Ex-post controls

Payments for delegation agreements under indirect management are included in the population of the desk review and selected through the representative sampling as explained above.

In one delegation agreement it appears that the payment was not supported by the necessary documentation as per contractual provision. Nevertheless, this is an ongoing contract, lasting several years and we have put in place corrective measures and asked

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<sup>13</sup> The error rate is the ratio between the detected error ex-post (amount ineligible) and the amount of the costs claimed as initially accepted and paid.

for the related documents which were received. Therefore, this error had no financial impact.

On the basis of the elements described above and considering the few delegation agreements signed by the SRSS the error rate for indirect management is set at 0%.

**In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.**

**For the SRSS, the estimated overall amount at risk at payment<sup>14</sup> for the 2017 expenditure is between EUR 158,521.86 and EUR 241,523.37. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*<sup>15</sup> during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.**

**This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections<sup>16</sup> for the 2017 expenditure are EUR 19,724.15. This is the amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.**

**The difference between those two amounts leads to the estimated overall amount at risk at closure<sup>17</sup> between EUR 138,797.71 and EUR 221,799.22 .**

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<sup>14</sup> In order to calculate the weighted average error rate (AER) for the total *relevant expenditure* in the reporting year, the *detected*, estimated or other equivalent error rates have been used.

<sup>15</sup> "*relevant expenditure*" during the year = payments made, minus new pre-financing paid out [plus retentions made by the Cohesion family DGs], plus previously paid pre-financing which was cleared in the reporting year [minus retentions released or (partially) withheld by the Cohesion family DGs].

<sup>16</sup> Even though to some extent based on the 7 years historic average of recoveries and financial corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD [has adjusted] this historic average. Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived ROs, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) [have been adjusted] in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections.

<sup>17</sup> For some programmes with no set closure point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

Table 2.1 - Estimated overall amount at risk at closure (error rate = 2%)

Activity		Pay Accepted Amount	New Pre-Fin	Cleared Pre-Fin by INV	Relevant expenditure	Weighted average error rate	Estimated overall amount at risk at payment	Average Recoveries and corrections (%)	Estimated future corrections (and deductions)	Estimated overall amount at risk at closure
TECHNICAL SUPPORT	<b>DIRECT MANAGEMENT</b>	17,848,439.13	15,352,802.92	3,394,289.83	5,889,926.04					
	Support expenditure	12,702.84	-	-	12,702.84	0.50%	63.51	0.1%	12.70	50.81
	Administrative arrangements and Service level agreements	470,000.00	-	-	470,000.00	0.00%	-	0.1%	470.00	-470.00
	Grant	16,069,895.66	15,284,646.09	3,364,825.73	4,150,075.30	2.00%	83,001.51	0.1%	4,150.08	78,851.43
	Procurement Contract	1,295,840.63	68,156.83	29,464.10	1,257,147.90	0.50%	6,285.74	0.1%	1,257.15	5,028.59
	<b>INDIRECT MANAGEMENT</b>	932,000.00	932,000.00	-	-					
	Delegation agreement	932,000.00	932,000.00	-	-	0.00%	-	0.1%	-	-
	<b>TOTAL</b>	18,780,439.13	16,284,802.92	3,394,289.83	5,889,926.04	1.52%	89,350.76	0.1%	5,889.93	83,460.83
<b>AID PROG</b>	<b>TOTAL</b>	17,623,475.90	7,813,404.46	4,024,148.92	13,834,220.36	0.50%	69,171.10	0.1%	13,834.22	55,336.88
<b>GRAND TOTAL</b>		36,403,915.03	24,098,207.38	7,418,438.75	19,724,146.40	0.80%	158,521.86	0.1%	19,724.15	138,797.71

Table 2.2 - Estimated overall amount at risk at closure (error rate = 4%)

Activity		Pay Accepted Amount	New Pre-Fin	Cleared Pre-Fin by INV	Relevant expenditure	Weighted average error rate	Estimated overall amount at risk at payment	Average Recoveries and corrections (%)	Estimated future corrections (and deductions)	Estimated overall amount at risk at closure
TECHNICAL SUPPORT	DIRECT MANAGEMENT	17,848,439.13	15,352,802.92	3,394,289.83	5,889,926.04					
	Support expenditure	12,702.84	-	-	12,702.84	0.50%	63.51	0.1%	12.70	50.81
	Administrative arrangements and Service level agreements	470,000.00	-	-	470,000.00	0.00%	-	0.1%	470.00	470.00
	Grant	16,069,895.66	15,284,646.09	3,364,825.73	4,150,075.30	4.00%	166,003.01	0.1%	4,150.08	161,852.94
	Procurement Contract	1,295,840.63	68,156.83	29,464.10	1,257,147.90	0.50%	6,285.74	0.1%	1,257.15	5,028.59
	INDIRECT MANAGEMENT	932,000.00	932,000.00	-	-					
	Delegation agreement	932,000.00	932,000.00	-	-	0.00%	-	0.1%	-	-
	TOTAL	18,780,439.13	16,284,802.92	3,394,289.83	5,889,926.04	2.93%	172,352.27	0.1%	5,889.93	166,462.34
AID PROG	TOTAL	17,623,475.90	7,813,404.46	4,024,148.92	13,834,220.36	0.50%	69,171.10	0.1%	13,834.22	55,336.88
GRAND TOTAL		36,403,915.03	24,098,207.38	7,418,438.75	19,724,146.40	1.22%	241,523.37	0.1%	19,724.15	221,799.22



## B. Cost-effectiveness and efficiency of controls

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

The principle of efficiency involves striking the best balance between resources employed and the results achieved. This assessment is made considering the values of the effectiveness indicators for both direct and indirect management. This section, together with the internal control templates in annex 5, outlines the indicators used to monitor the efficiency and cost-effectiveness of controls.

### B.1 Cost-effectiveness

The SRSS conforms to art.66(9) of the Financial Regulation by quantifying as far as possible the resources and the input required for carrying out its controls. The total of controls is estimated to EUR 1.345.780<sup>18</sup> that is 3,7% of the payments executed in 2017 (EUR 36.403.915).

The following table presents an assessment of the most relevant indicators of the control results and their values structured in accordance with the ICT presented in annex

Indicators	ICT 1 Direct management	ICT 2 Indirect management
Costs of controls (EUR)	EUR 1.416.873	EUR 84.031
Paid amounts (EUR)	EUR 28.897.075	EUR 6.560.685
Costs of controls/ paid amounts (%)	4,9%	1.28%

Other relevant indicators of the cost-effectiveness have been measured as follows:

Most relevant indicators	Values in 2017
Average cost of control <sup>19</sup> /payments made in 2017 (%)	3.7%
Execution of the annual voted budget (% of budget commitments credits appropriations made)	97.19%
Annual average number of days to make a payment	37 days
Value of late interest payments (EUR)	EUR 10,642.23

In addition some non-quantifiable benefits of controls are not directly reflected in quantitative indicators, such as deterrent effects, efficiency gains and better value for money, system improvements and compliance with regulatory provisions.

The cost of controls at the level of entrusted entities for indirect management is estimated at EUR 256,705. The percentage of remunerations indicated in the delegation agreements signed with entrusted entities has been used as proxy to calculate such costs.

<sup>18</sup> Estimation made on costs of staff involved in controls and external audit contract signed in 2017.

<sup>19</sup> Estimated % of controls performed by a total of 23 FTE involved.

## Conclusion

Based on the above and considering that the maximum weighted average error rate for the service is estimated at 1,22%, the controls put in place are estimated to be cost-effective.

### B.2 Efficiency

The table below presents the most relevant key indicators on the efficiency of controls and their values structured in line with the ICT presented in annex 5.

Indicators	ICT 1 Direct management	ICT 2 Indirect management
Average time to notify grant decisions (art. 128.2.a FR ) - TCc files	165 days	NA
Average time to sign grant agreements (art. 128.2.b FR)- TCc files	32 days	NA
Number and value of costs claim errors/irregularities detected ex-ante	5 for EUR 6,815.64	NA
% of timely execution of payments (vs Financial Regulation art. 92.1)	78.54%	78.54%
Time to procure	Negotiated procedure: 50 days Open and restricted :70 days Framework contract: 15 days	NA

## Conclusion

Based on the results of efficiency indicators which are in line with the applicable requirements (Art.128 and Art. 92 of the Financial Regulation), we consider that the controls put in place are efficient.

However, as part of the development of the Service, and in accordance with the possibility foreseen in the Financial Regulation, the AOD may assess, in the future, the need to differentiate the frequency and/or the intensity of the controls at the SRSS – in view of the different risk-profiles among its transactions. This will be done taking into consideration the cost-effectiveness of existing controls by redirecting more controls where needed..

### **C. Fraud prevention and detection**

**The Service has developed and implemented since July 2017 its own anti-fraud strategy elaborated on the basis of the methodology provided by OLAF.**

The SRSS formally adopted the SRSS Anti-fraud Strategy covering the period 2017-2019 in July 2017. This Strategy has been drafted as a result of a dedicated assessment of the current controls in place and the potential fraud risks in our environment, budget and operations. Moreover, it has been developed in accordance with the Commission's Anti-

fraud Strategy (CAFS)<sup>20</sup> and the OLAF methodology and guidelines<sup>21</sup>.

The SRSS Anti-fraud Strategy includes an action plan with a series of activities and tools which are being implemented to prevent, detect and report fraud appropriately. In addition, the Internal Control Coordinator organised presentations of our Anti-fraud Strategy in each Unit/Cluster to increase fraud awareness among staff.

## 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.**

### **European Court of Auditors (ECA):**

In 2015, the Court of Auditors<sup>22</sup> issued seven recommendations: four of which are considered implemented, while the others can be considered partially implemented (deadline for their implementation is end-2018). The recommendations will be followed on time, within the deadline assumed when the recommendations were accepted.

Indeed, the Commission has already addressed the Court's main concerns by:

- setting up the Structural Reform Support Service, a dedicated service which specialises in providing targeted technical support to any Member State and coordinates the technical assistance managed by other Commission services.
- proposing the Structural Reform Support Programme, which was adopted in May 2017. The Programme has been very well received by Member States, as evidenced by the number of requests, clearly surpassing the available budget. The Commission has therefore proposed an increase in its budget for the last two years of the Programme (2019 and 2020).

Some of the main features of the SRSP directly address the Court's concerns, such as putting in place a clear strategy and objectives; the provision of support in dialogue with Member States, improved coordination or the systematic monitoring and evaluation of the technical support.

### **Internal Audit Service (IAS)**

The IAS concluded that during the audited period significant weaknesses existed in the financial management systems of the SRSS. These weaknesses related primarily to two public procurement procedures under the Aid Programme. In line with its audit methodology, the IAS selected these cases on a risk-basis. It has to be noted that the procedures for the Aid Programme are implemented in a unique environment where the Commission has no legal personality in the Northern part of Cyprus.

The SRSS duly assessed if the high risks identified by the IAS in relation to the procurement procedures under the Aid Programme require a reservation. While it is considered that there had been a reputational risk linked to the incorrect application of procurement principles, it can be demonstrated that the reputational risk did not materialise and there was no impact on the reputation of the Commission. The SRSS is not aware of any complaint or other actions which would represent a reputational event.

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<sup>20</sup> COM(2011)376 final

<sup>21</sup> Ares(2016)931345 of 23/02/2016

<sup>22</sup> Special Report N°19/2015-"More attention to results needed to improve the delivery to technical assistance to Greece"



As a consequence, the SRSS considers that the risks identified by the IAS in relation to the procurement procedures under the Aid Programme do not fall under the scope of a reservation.

In addition, the IAS identified weaknesses in the processes for selecting grant beneficiaries and entrusted entities.

As regards the readiness of the SRSS to cope with increased responsibilities under the SRSP, the IAS concludes that the financial circuits currently in place would not guarantee the absence of conflict of interests. In addition to the points mentioned above, the IAS mentioned that the service had not yet established an ex-post control function and has yet to finalise its control strategy and business continuity plan.

Since the end of the audit, the SRSS has already put in place corrective actions as regards the revision of the sub-delegation for commitment and the establishment of an ex-post control function. The new ex-post control strategy has been adopted in March 2018. In addition, the business continuity plan has been developed and adopted in March 2018. The SRSS started the implementation of all corrective actions agreed with the IAS.

#### IAS limited conclusion

The IAS concluded that the internal control system audited is partially effective since a number of very important recommendations remain to be addressed in line with the agreed action plan. The residual risks related to these recommendations may affect one or several internal control principles and /or component.

### 2.1.3 Assessment of the effectiveness of the internal control systems

**The Commission has adopted an Internal Control Framework<sup>23</sup> based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with the internal control framework is a compulsory requirement.**

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

The Service has given priority to the establishment and the operation of the main processes to ensure good people and financial management. In doing so, the SRSS has privileged faster definition of certain controls over others, which are nonetheless being developed along with the organisation of the Service. Some other controls are ensured by the Secretariat-General (SG) as part of the organisational arrangements made in 2016. In January 2017, the SRSS signed with the SG a Memorandum of Understanding (MoU) which sets the respective responsibilities and the arrangements for interaction between the two parties. The appointment of an Internal Control Coordinator for the SRSS was also formalised in this MoU.

In 2017, the SRSS has made a screening (i.e. desk review) of compliance and an effectiveness review of the control arrangements in place during the year. Internal control systems/measures were assessed on the basis of various monitoring measures and sources of information, including:

- Reports to management on activities and operations;
- Procedures and guidelines in place; records of meetings;
- Evidence of activities carried out in the year;
- Relevant audit results;
- SG reports on staff missions paid by the organisers, and other requests for drafting publications, making speeches, teaching, (ICS 2- Ethical and organisational values); and
- The non-compliance events and the exceptions requested in 2017.

The underlying causes of the exceptions and non-compliance events were regularly monitored in the course of the year as part of the detection process. The overall analysis of all reported deviations was reported to the Director-General; this concluded that internal control was satisfactory, with some specific improvements to make overall in respect of project and contract management. To this end, management recommendations were issued in the year as a preventive control measure for ensuring sound financial management, as well as attenuating any potential risks affecting the legality and regularity of financial transactions. Moreover, activities were commenced to develop an action plan for the purpose of streamlining operations and improving the planning, programming and implementation of the expenditure under the Aid Programme.

Having considered the SRSS recent organisational structure and the specific working arrangements with the SG, it is concluded that internal control standards at the SRSS are implemented and functioning as intended, with the exception of the following requirements which need further improvement or actual development.

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<sup>23</sup> The Internal Control Framework has been renewed in 2017 - C(2017)2373 final, 19.4.2017. The annual assessment on the basis of the new framework has to be conducted at the latest in the context of the 2018 AAR.

- (ICS 3 – Staff allocation and mobility) – definition of job description and objectives for all SRSS staff;
- (ICS 7 – Operational structure) – sensitive functions are defined and now in contact AMC/DG HR requesting to mark in SYSPER the relevant sensitive functions identified in the SRSS Inventory;
- (ICS 10 – Business continuity) – a business continuity plan for the Service was adopted in March 2018, including the list of critical and essential functions; and
- (ICS 12 – Information and communication) – adoption of an external Communication Strategy.

Some of these activities have already been identified as outputs for the year 2017; others are mitigated to a certain extent by existing corporate mechanisms (e.g. IT controls notably in respect of business continuity; segregation of duty mitigates risks linked to sensitive functions). Finally, other development activities will be carried out in accordance with the organisational arrangements set in the Memorandum of Understanding with the Secretariat-General signed in early 2017.

The development of future controls will be carried out in alignment with the baseline indicators, which are being developed at corporate level for the purpose of implementing the revised Internal Control Framework of the Commission.

Management will assess the effectiveness of the internal control systems on a continuous basis, in order to determine whether they work as intended and to ensure that any control weaknesses in the system are detected, analysed and considered for improvement, as well as ensuring that serious matters are reported in a timely manner for appropriate action.

**The SRSS has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and functioning as intended with the exception of the requirements of the standards mentioned above, which need further improvement or actual development.** No weaknesses were identified in 2017 that might have a significant impact on assurance.

## 2.1.4 Conclusions as regards assurance

***This section reviews the assessment of the elements reported above and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.***

The information reported in Section 2.1 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General, Head of the SRSS.

The Director-General believes that the information provided in the above section 2 is complete and reliable.

The control mechanism in place covers the entire budget managed by the SRSS. The ex-post controls put in place in 2017 combining external audits and desk review contribute to the assurance as regards legality and regularity. The ex-ante checks cover 100% of payments and added up to the assurance provided.

The annual RER (Residual Error Rate) is estimated to be below 2% for the whole budget managed by the SRSS, except for the limited area of grants managed under the technical assistance part of the budget (lines 04.02, 13.03 and 13.04, 13.08, 01.02).

The weaknesses detected during the desk review and through the audits performed by the external auditors lead the Director-General to raise a reservation with a limited scope as described above i.e. grants under Technical Assistance. An action plan has been set to address these weaknesses. Nevertheless, taking into consideration that the main results of ex-post control for this year are based on a desk review and some information are not completed to draw the necessary conclusion, the precise error rate is not quantifiable and it is set between 2-4% based on the information available.

The IAS reported significant weaknesses for public procurement under the Aid Programme.

### IAS limited conclusion

The IAS concluded that the internal control system audited is partially effective since a number of very important recommendations remain to be addressed in line with the agreed action plan. The residual risks related to these recommendations may affect one or several internal control principles and /or component.

The development of certain internal controls in line with the applicable requirements was prioritised as described in this report. The other requirements are considered to be adequately implemented. In addition, the new Anti-fraud strategy is in place as intended since July 2017.

### **Overall Conclusion**

**In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by a reservation concerning:**

***04.02 European Social Fund  
13.03 European Regional Development Fund  
13.04 Cohesion Fund  
13.08 Structural Reform Support Programme  
01.02 Preparatory action***

## 2.1.5 Declaration of Assurance and reservations

*I, the undersigned,*

***Director-General, Head of the SRSS,***

***In my capacity as Authorising Officer by Delegation,***

***Declare that the information contained in this report gives a true and fair view<sup>24</sup>.***

***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 limited conclusion of the Internal Auditor on the state of control, 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 Commission .***

***However the following reservations should be noted:***

***-For ABB activity :      04.02 European Social Fund  
                                 13.03 European Regional Development Fund  
                                 13.04 Cohesion Fund  
                                 13.08 Structural Reform Support Programme  
                                 01.02 Preparatory action***

***In Brussels, date March 28<sup>th</sup>, 2018***

*signed*

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***Maarten Verwey***

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<sup>24</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

## Reservation 1

<b>DG</b>	SRSS	
<b>Title of the reservation, including its scope</b>	Reservation concerning the rate of residual error for grant-direct management under programmes indicated below: 04.02 European Social Fund 13.03 European Regional Development Fund 13.04 Cohesion Fund 01.02 Preparatory action 13.08 Structural Reform Support Programme	
<b>Domain</b>	Direct management – grants Budget lines:	
	<b>04.026301</b>	European Social Fund – Operational technical assistance
	<b>04.026302 SRSS</b>	European Social Fund – Operational technical assistance managed by the European Commission upon request of the Member State (Article 25)
	<b>13.036501</b>	European Regional Development Fund – Operational technical assistance
	<b>13.036502</b>	European Regional Development Fund – Operational technical assistance managed by the European Commission upon request of the Member State (Article 25)
	<b>13.046101</b>	Cohesion Fund – Operational technical assistance (2014-2020)
	<b>13.046102</b>	Cohesion Fund – Operational technical assistance managed by the European Commission upon request of the Member State (Article 25)
	<b>01.027701</b>	Preparatory action
	<b>13.080100</b> <b>13.080200</b>	Structural Reform Support Programme
<b>Programme in which the reservation is made and total (annual) amount of this programme</b>	04.02 European Social Fund. Payments made in 2017: EUR 4.38 million 13.03 European Regional Development Fund. Payments made in 2017: EUR 7.95 million 13.04 Cohesion Funds. Payments made in 2017: EUR 2.55 million 01.02 Preparatory actions 1.26 million 13.08 Structural Reforms Support Programme 2.63 million	
<b>Reason for the reservation</b>	At the end of 2017 the error rate calculated on the basis of desk review was reported between 2-4%. The 2 audits performed on the spot by external auditors reported an error rate between 2-4%.	
<b>Materiality criterion/criteria</b>	Combination of quantitative and qualitative criteria: Legality and regularity criterion: residual error rate estimated above 2% Insufficient information from the internal control system.	
<b>Quantification of the impact (= actual "exposure")</b>	There is no quantification of the impact due to the insufficient information from the internal control system.	
<b>Impact on the assurance</b>	The legality and regularity of the affected financial transactions. The RER is above the materiality threshold.	
<b>Responsibility for the</b>	The responsibilities lie both on the SRSS and on the implementing partners.	

<b>weakness</b>	
<b>Responsibility for the corrective action</b>	<p>The SRSS intends to put in place the following remedial actions as from 2018:</p> <ul style="list-style-type: none"> <li>-Ensure that all actors in the financial circuits have followed the training on grants and procurement.</li> <li>-Raise awareness of the ex-ante controls concerning the most frequent errors detected.</li> <li>-Develop a manual of procedures for financial management of technical assistance projects;</li> <li>-Reinforce ex-ante controls for example by asking the beneficiary to provide a sample of supporting documents before performing the payment;</li> <li>-Develop a multiannual ex-post control strategy (for a sample of transactions);</li> <li>-Increase the on-the-spot audit coverage in order to increase the possibility of financial corrections;</li> </ul>

## 2.2 Other organisational management dimensions

### 2.2.1 Human resource management

The SRSS is structured primarily according to support policy areas, rather than by Member States. In line with its mandate, the SRSS has also ensured strong country focus by nominating country coordinators for all Member States of its operation.

The SRSS has grown from 130 staff in December 2016 to 160 in December 2017. A number of 45 staff was recruited in 2017. The majority of the SRSS staff is based in Brussels, some colleagues work in offices based in Athens and Nicosia.

In December 2017, the SRSS was reorganised with three new units added to the organigram (SRSS.06, SRSS.07, and SRSS.08). It is now composed of a management team, 2 horizontal units (Budget and finance; and Planning, evaluation and coordination of support), 6 policy teams (Revenue administration and public financial management, Governance and public administration, Growth and business environment, Labour market, education, health and social services; Financial sector and access to finance; and Cyprus settlement support), and a unit managing the office in Athens (Athens office).

The SRSS is administratively part of the Commission's Secretariat General (SG). In 2017, the SRSS and the SG have signed a Memorandum of Understanding, which sets out the respective responsibilities and the arrangements between the two parties in respect of the following main areas: a) Budget, financial management, communication and data protection; b) Management of human and logistic resources, including IT; c) Document management; and d) Decision-making processes, briefings and parliamentary questions.

With respect to human resources management, the SRSS remains responsible for the day-to-day management of its personnel, while the SG Business Continuity team and the Account Management Centre (AMC.5) provide administrative support and ad-hoc advice.

### 2.2.2 Better regulation

The SRSS evaluation function has been moved on the 1st December 2017 from the Unit SRSS.01 – Budget and Finance – to the Unit SRSS.08 – Planning, Evaluation and Coordination support.

The evaluation function counts 1 full time equivalent person plus the Head of Unit of SRSS. 08 who are in charge of coordinating, preparing and implementing the evaluation plan.

The ex-post evaluation of the activities of the Task Force for Greece (TFGR) is ongoing. The completion date is end 2018. This evaluation was recommended by the Special Report from the Court of Auditors ([1] European Court of Auditors' Special Report no 19/2015 "More attention to results needed to improve the delivery of technical assistance to Greece. Available at <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=35302>). Evaluation results are going to be used also to provide inputs to the Structural Reform Support Service (SRSP) on how to build its capacity for planning, monitoring and evaluating the impact of its technical support projects (in any Member State) based on: the TFGR evaluation itself and existing studies and literature in other countries.

Two other evaluations are going to be launched by 2018: a) The mid-term evaluation of the Structural Reform Support Programme as required by Article 16 and b) The ex post evaluation of the Aid Programme for the Turkish Community in Cyprus as funded on annual basis since 2006 and therefore to be evaluated in compliance with the Financial Regulation and its Application Rules.

Moreover, for MFF post 2020 preparation, an Impact Assessment for the future Programme supporting the reforms has been produced by the SRSS in compliance with



the Better Regulation Guidelines with the support of 2 other full time equivalent people of the same SRSS. 08 unit, together with the supervision of the SRSS Legal Advisor.

With the evaluation function fully operational and visible in the coordination unit, all the activities under the SRSS remit are evaluated in accordance with the Better Regulation Guidelines.

The internal control framework in relation to evaluation is therefore satisfied.

### **2.2.3 Information management aspects**

In 2017, the SRSS initiated the development of IT tools with the objective to facilitate the management and delivery of support to Member States.

It operationalised an IT tool for the submission and internal assessment of requests for technical support from the Member States, which resulted in substantial efficiency gains across the service. Furthermore, it made first steps in further developing this IT tool to also facilitate the monitoring and reporting on the implementation of support projects managed by the service.

The SRSS continued to apply and improve the corporate document management rules – create awareness about effective document management to facilitate easier exchange and retrieval of information, and to develop electronic practices aimed at creating economy and efficiencies in the workplace.

### **2.2.4 External communication activities**

In 2017, the SRSS external communication focused on raising awareness about the recently adopted SRSP Programme and putting in place a communication action plan to demonstrate the added value of the technical support offered by the service to Member States. The SRSS developed a corporate information brochure<sup>25</sup> and specific case studies<sup>26</sup> illustrating the support measures the SRSS provides; it has also operationalised a new SRSP website. The visibility of the SRSS service increased through its involvement in the communication activities around the 2017 State of the Union Address and the package of legislative and non-legislative proposals for the deepening of the Economic and Monetary Union proposed on 6 December 2017. Communication activities around kick-off events of the first SRSP projects helped to illustrate the support measures provided by the service, as well as its added value.

As regards support to the Turkish Cypriot community, overall 120 visibility and communication actions took place in 2017.

There is a high demand for information on the EU in the Turkish Cypriot community. The EU Infopoint, which is managed by the EUPSO office together with the Representation of the European Commission in Cyprus, started functioning in early 2015 and is financed with a total budget of EUR 3 million for a 60-month period (with the recent extension of the contract).

The EU Infopoint has generated a high level of visibility for the EU, its policies and the Aid Programme. Until now, it has covered more than 25 EU-related themes, including for instance environment (water, energy, recycling, biodiversity and waste management), organic agriculture, health & safety at work, food safety, animal welfare and animal health. It has also covered topics like fundamental rights, human rights, disability rights, children's rights, gender equality, LGTBI rights and consumer rights. The EU Infopoint

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<sup>25</sup> [https://ec.europa.eu/info/sites/info/files/srss\\_information\\_book\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/srss_information_book_en_0.pdf)

<sup>26</sup> [https://ec.europa.eu/info/publications/examples-reform-support-provided-srss\\_en](https://ec.europa.eu/info/publications/examples-reform-support-provided-srss_en)

has also organized various events on the Priorities of the Union, State of the Union, etc.

Furthermore, in 2017, the EU Infopoint organised 49 events (29 in Nicosia and 20 outside of Nicosia), including Europe Day, European Week Against Racism, European Youth Week & International Youth Day, European Night of Researchers, EU Anti-Trafficking Day, Mobility Week and Traffic Safety, European Week of Sport, SMEs, etc. These events attracted over 4,849 participants in 2017. The number of events outside of Nicosia was increased to ensure outreach to a wider section of the Turkish Cypriot community.

During 2017, 2,255 information products and 10 newsletters were distributed (which brings the total since the opening of the Infopoint to 13,684 and 30 respectively). Also, 343 news articles and 33 TV spots appeared on local media organs during 2017 (1,266 and 115, respectively, since inception of the project in January 2015). Traffic on the Facebook page "Abbilgi" also confirms the popularity of the activities (4,052 new likes in 2017, bringing the total number of likes since its opening to 12,523).

The EU Infopoint has been supporting the promotion of all EU Aid Programme and EC Representation initiatives, Calls for Proposals, EU-funded projects and events since the beginning of the project via Facebook posts/reminders, front-shop poster displays, and hosting of events and project launches at its public space. It established strategic partnerships during the implementation of the project with other EU-funded grant projects and technical assistance projects such as Civic Space, Private Sector, Animal Disease Eradication, Waste Management, etc., as well as with relevant departments and Civil Society Organisations in the Turkish Cypriot community.

# ANNEXES

## ANNEX 1: Statement of the Resources Director

The Director of the SRSS, who is entrusted with the functions of Authorising Officer by Sub-delegation and Internal Control Coordinator, signs the following statement in respect of the implementation of the **operational expenditure in 2017**.

The Resources Director and ICC of the Secretariat-General make a separate statement on the implementation of the 'Global envelope' of the SRSS in 2017.

***"I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission<sup>27</sup>, I have reported my advice and recommendations to the Director-General/Executive Director on the overall state of internal control in the DG/Executive Agency.***

***I hereby certify that the information provided in Section 2 of the present AAR and in its annexes is, to the best of my knowledge, accurate and complete."***

***In Brussels, 29<sup>th</sup> April 2018***

*signed*

***Mary McCarthy***

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<sup>27</sup> Communication to the Commission: Clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission; SEC(2003)59 of 21.01.2003.

# ANNEX 2: Reporting – Human Resources, Better Regulation, Information Management and External Communication

This annex is the annex of section 2.2 "Other organisational management dimensions".

## A. Human resources management

<b>Objective : Effective deployment of its resources in support of the delivery of the Commission's priorities and core business; a competent and engaged workforce, which is led by an effective and gender-balanced management and which can deploy its full potential within supportive and healthy working conditions</b>			
<b>Indicator 1: Percentage of female representation in middle management</b>			
<b>Source of data:</b> Analytic Platform			
Baseline: 2016	Target 2016-2020	Year 2017	
<b>Main outputs in 2017:</b>			
Description	Indicator	Target	Year 2017
Female candidates interviewed for management positions	% of female candidates interviewed for management positions <sup>28</sup>	30%	NA (no interviews for management positions in 2017)
Middle managers engagement with staff	% SRSS heads of units to have followed people management training	75%	80%
<b>Indicator 2 : Percentage of staff who feel that the Commission cares about their well-being</b>			
<b>Source of data:</b> Commission staff survey			
<b>Indicator 3: Staff engagement index<sup>29</sup></b>			
<b>Source of data:</b> Commission staff survey			
<b>Main outputs in 2017:</b>			
Description	Indicator	Target	Year 2017
Local fit@work actions	Number of actions	3	1

<sup>28</sup> The SRSS does not have own specific target for female representation in middle management; this is created as an alternative indicator.

<sup>29</sup> Given the establishment of the SRSS in 2016 and the fact that the most recent staff survey was organised that same year, the SRSS will only start to have an initial set of robust data from the upcoming next staff survey, planned in autumn 2018.

## B. Financial Management: Internal control and risk management

**Objective 1 : Effective and reliable internal control system giving the necessary guarantees concerning the legality and the regularity of the underlying transactions**

**Indicator 1: Estimated residual error rate**

**Source of data:** SRSS Annual Activity Report

Baseline 2016	Target 2016-2020	Year 2017	
<b>Main outputs in 2017:</b>			
Description	Indicator	Target	in 2017
Legality and regularity of the underlying transactions in the Service	Error rate detected on the legality and regularity of the underlying transactions	Error rate below 2%	error rate between 2-4%.

**Objective 2: Effective and reliable internal control system in line with sound financial management**

**Indicator : Conclusion reached on cost effectiveness of controls**

**Source of data:** SRSS Annual Activity Report

Baseline Year 2016	Target 2016-2020	Year 2017	
<b>Main outputs in 2017:</b>			
Description	Indicator	Target	Year 2017
Annual assessment of the cost effectiveness of controls	Cost of controls/expenditure	Positive trend compared to the previous year	3,7%
Procurement/grant procedures carried out in compliance with the principles and rules governing public procurement and grant management at the Commission and according to sound financial management	Number of legal proceedings following complaints in procurement/grant procedures in 2016	None	None
Timely execution of payments	Percentage of payments made within the time limits (FR)	66%	92.2%
Execution of the budget	% of budget commitment appropriations made	95%	78.5%
Addressing recommendations from European Court of	Number of critical or very important	2 very important recommendations	1 has been addressed and 1

Auditors (ECA)	recommendations overdue for more than 6 months		is on track to be addressed
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**Objective 3: Minimisation of the risk of fraud through application of effective anti-fraud measures, integrated in all activities of the DG, based on the DG's anti-fraud strategy (AFS) aimed at the prevention, detection and reparation of fraud**

**Indicator: Updated anti-fraud strategy of SRSS, elaborated on the basis of the methodology provided by OLAF**

**Source of data:** SRSS Annual Activity Report

Baseline Year 2016	Target 2016-2020	Year 2017	
<b>Main outputs in 2017:</b>			
Description	Indicator	Target	Year 2017
Developing an anti-fraud awareness at the SRSS	<i>Establishment of an Anti-Fraud Strategy (AFS) for the SRSS</i>	December 2017	The establishment of an Anti-Fraud Strategy, was concluded on 19 July 2017 with its formal adoption covering the period 2017-2019.

### C. Better Regulation

During 2017, the SRSS has started works for establishing an evaluation function, and has also started preparing the ex-post evaluation of the activities implemented in Greece in 2011-2015 (sections 2.1.2 and 2.2 of this report). Results of these activities will be available in 2018.

## D. Information management aspects

<b>Objective: Information and knowledge in your DG is shared and reusable by other DGs. Important documents are registered, filed and retrievable</b>			
<b>Indicator 1: Percentage of registered documents that are not filed (ratio)</b>			
<b>Source of data:</b> <i>Hermes-Ares-Nomcom (HAN)<sup>30</sup> statistics</i>			
Baseline Year 2015	Target 2020		Year 2017
<b>Main outputs in 2017:</b>			
Description	Indicator	Target	Year 2017
Awareness about the use of ARES	% registered documents not filed	Decreasing rate by Q4 2017	9.53% (from 20% as of end-2016)
<b>Indicator 2: Number of HAN files readable/accessible by all units in the DG</b>			
<b>Indicator 3: Number of HAN files shared with other DGs</b>			
<b>Source of data:</b> <i>HAN statistics</i>			
Improve access to documentation from all Units/Clusters	No of Number of HAN files readable/accessible by all units in the Service	No target in 2017	99.6%
	No of HAN files shared with other DGs	No target in 2017	0%

## E. External communication activities

<b>Objective: Citizens perceive that the EU is working to improve their lives and engage with the EU. They feel that their concerns are taken into consideration in European decision making and they know about their rights in the EU.</b>			
<b>Indicator 1: Percentage of EU citizens having a positive image of the EU</b>			
Baseline 2014	Target 2020		Latest known results Year 2017
Indicator		Target	Latest known results
Communication strategy in place		June 2017	SRSS Information book published. Instructions on how to deal with media and press is available on Connected. A Communication Strategy is under preparation

<sup>30</sup> Suite of tools designed to implement the [e-Domec policy rules](#)

## ANNEX 3: Draft annual accounts and financial reports

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2017 (in Mio €)					
			Commitment appropriations authorised	Commitments made	%
			1	2	3=2/1
<b>Title 01 Economic and financial affairs</b>					
01	01 02	Economic and monetary union	0.01	-	0.00 %
<b>Total Title 01</b>			0.01	-	0.00%
<b>Title 04 Employment, social affairs and inclusion</b>					
04	04 02	European Social Fund	0.05	-	0.00 %
<b>Total Title 04</b>			0.05	-	0.00%
<b>Title 13 Regional and urban policy</b>					
13	13 01	Administrative expenditure of the 'Regional and urban policy' policy area	2.99	2.06	68.85 %
	13 03	European Regional Development Fund and other regional operations	0.40	-	0.00 %
	13 04	Cohesion Fund (CF)	0.33	-	0.00 %
	13 07	Aid Regulation	34.84	34.84	100.00 %
	13 08	Structural Reform Support Programme (SRSP) - Operational technical assistance	22.50	22.50	100.00 %
<b>Total Title 13</b>			61.05	59.39	97.28%
<b>Total DG SRSS</b>			61.11	59.39	97.19 %

\* Commitment 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.

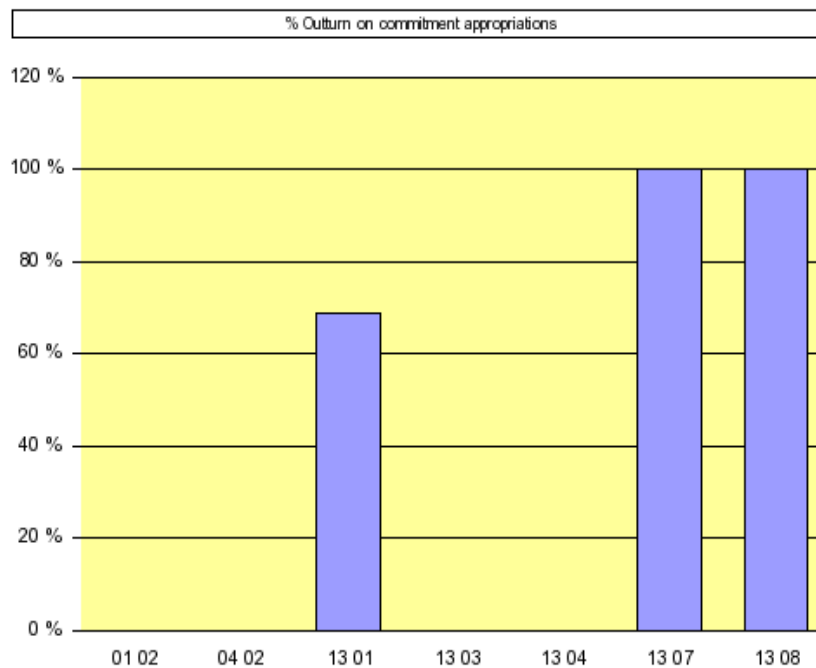




TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2017 (in Mio €)					
Chapter			Payment appropriations authorised *	Payments made	%
			1	2	3=2/1
<b>Title 01 Economic and financial affairs</b>					
01	01 02	Economic and monetary union	1.31	1.26	96.14 %
<b>Total Title 01</b>			1.31	1.26	96.14%
<b>Title 04 Employment, social affairs and inclusion</b>					
04	04 02	European Social Fund	4.53	4.38	96.63 %
<b>Total Title 04</b>			4.53	4.38	96.63%
<b>Title 13 Regional and urban policy</b>					
13	13 01	Administrative expenditure of the 'Regional and urban policy' policy area	3.04	0.01	0.42 %
	13 03	European Regional Development Fund and other regional operations	9.11	7.95	87.30 %
	13 04	Cohesion Fund (CF)	3.03	2.55	83.88 %
	13 07	Aid Regulation	19.15	17.62	92.05 %
	13 08	Structural Reform Support Programme (SRSP) - Operational technical assistance	3.93	2.63	66.89 %
<b>Total Title 13</b>			38.26	30.77	80.42%
<b>Total DG SRSS</b>			44.10	36.40	82.55 %

\* 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 payment appropriations for the period (e.g. internal and external assigned revenue).

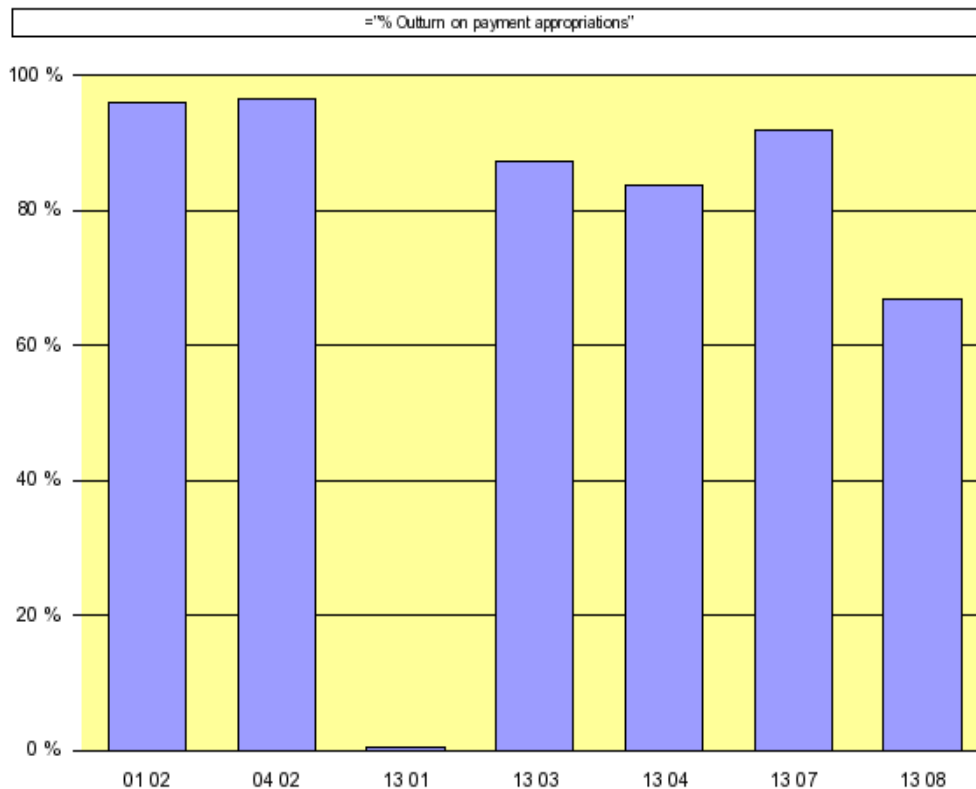
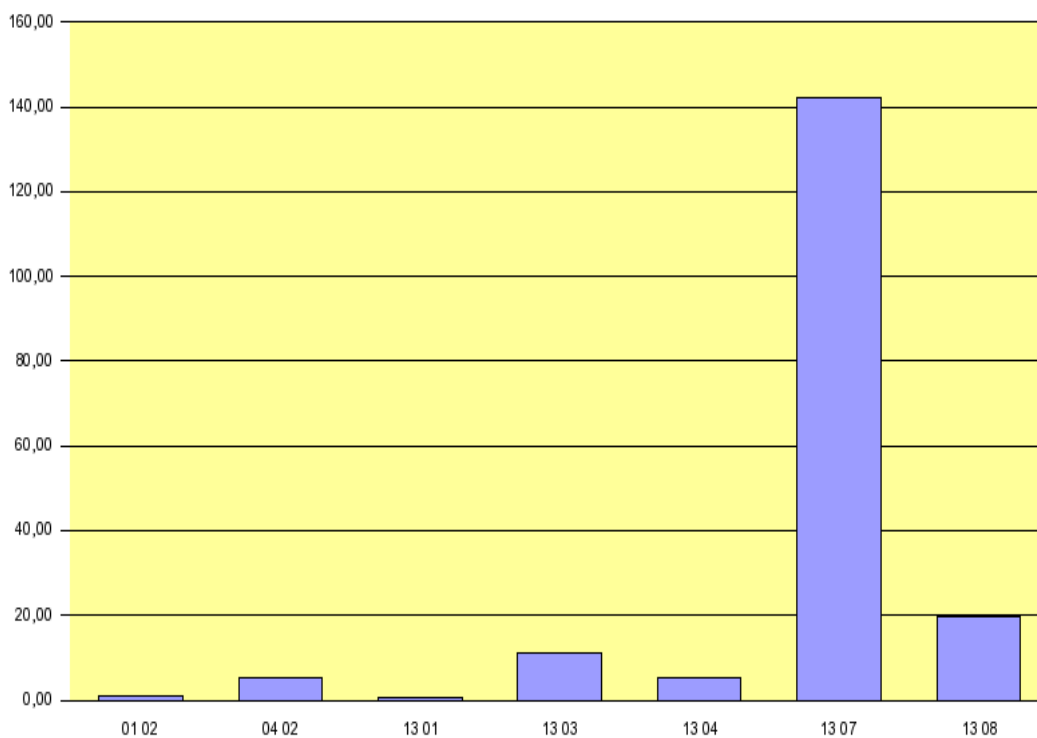


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2017 (in Mio €)									
Chapter			2017 Commitments to be settled				Commitments to be settled from financial years previous to 2017	Total of commitments to be settled at end of financial year 2017	Total of commitments to be settled at end of financial year 2016
			Commitments 2017	Payments 2017	RAL 2017	% to be settled			
			1	2	3=1+2	4=1+2/1	5	6=3+5	7
<b>Title 01 : Economic and financial affairs</b>									
01	01 02	Economic and monetary union	0	0.00	0	0.00 %	0.96	0.96	2.23
<b>Total Title 01</b>			0	0.00	0	0.00%	0.96	0.96	2.23
<b>Title 04 : Employment, social affairs and inclusion</b>									
04	04 02	European Social Fund	0	0.00	0	0.00 %	5.14	5.14	9.52
<b>Total Title 04</b>			0	0.00	0	0.00%	5.14	5.14	9.52
<b>Title 13 : Regional and urban policy</b>									
13	13 01	Administrative expenditure of the 'Regional and urban policy' policy area	1.82	1.30	0.51	28.15 %	0.00	0.51	0.32
	13 03	European Regional Development Fund and other regional operations	0	0.00	0	0.00 %	11.19	11.19	19.38
	13 04	Cohesion Fund (CF)	0	0.00	0	0.00 %	5.11	5.11	7.87
	13 07	Aid Regulation	34.84	0.00	34.84	100.00 %	107.31	142.15	124.94
	13 08	Structural Reform Support Programme (SRSP) - Operational technical assistance	22.5	2.63	19.87	88.32 %	0.00	19.87	0.00
<b>Total Title 13</b>			59.15	3.93	55.22	93.35%	123.61	178.83	152.51
<b>Total DG SRSS</b>			59.15	3.93	55.22	93.35 %	129.70	184.92	164.25

"Breakdown of Commitments remaining to be settled (in Mio EUR)"



**TABLE 4 : BALANCE SHEET SRSS**

BALANCE SHEET	2017	2016
A.II. CURRENT ASSETS	70,367,384.33	53,697,255.04
A.II.2. Current Pre-Financing	70,232,935.49	53,697,255.04
A.II.3. Curr Exch Receiv & Non-Ex Recoverables	134,448.84	
<b>ASSETS</b>	<b>70,367,384.33</b>	<b>53,697,255.04</b>
P.II. CURRENT LIABILITIES	-	287,065.55
P.II.2. Current Provisions	6,300,000.00	
P.II.4. Current Payables	0.00	287,065.55
<b>LIABILITIES</b>	<b>6,300,000.00</b>	<b>287,065.55</b>
<b>NET ASSETS (ASSETS less LIABILITIES)</b>	<b>64,067,384.33</b>	<b>53,410,189.49</b>
P.III.2. Accumulated Surplus/Deficit	-9,379,875.09	
Non-allocated central (surplus)/deficit*	-54,687,509.24	53,410,189.49
<b>TOTAL</b>	<b>0.00</b>	<b>0.00</b>

It should be noted that the balance sheet and statement of financial performance presented in Annex 3 to this Annual Activity Report, represent only the assets, liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and statement of financial performance they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

**TABLE 5 : STATEMENT OF FINANCIAL PERFORMANCE SRSS**

STATEMENT OF FINANCIAL PERFORMANCE	2017	2016
II.1 REVENUES	618,345.77	230,979.03
II.1.2. EXCHANGE REVENUES	618,345.77	230,979.03
II.1.2.2. OTHER EXCHANGE REVENUE	618,345.77	230,979.03
II.2. EXPENSES	27,802,546.73	9,610,854.12
II.2. EXPENSES	27,802,546.73	9,610,854.12
II.2.10. OTHER EXPENSES	6,310,626.44	68,675.45
II.2.2. EXP IMPL BY COMMISS&EX.AGENC. (DM)	19,796,664.64	4,801,621.59
II.2.4. EXP IMPL BY 3RD CNTR & INT ORG (IM)	960,331.25	3,117,160.43
II.2.5. EXP IMPL BY OTHER ENTITIES (IM)	724,282.17	1,776,727.23
II.2.8. FINANCE COSTS	10,642.23	15,979.68
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>	<b>28,420,892.50</b>	<b>9,379,875.09</b>

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Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

**TABLE 5bis : OFF BALANCE SHEET SRSS**

OFF BALANCE	2017	2016
OB.1. Contingent Assets	4,790,699.01	5,574,429.71
GR for performance	835,568.80	808,809.90
GR for pre-financing	3,955,130.21	4,765,619.81
OB.4. Balancing Accounts	- 4,790,699.01	- 5,574,429.71
OB.4. Balancing Accounts	- 4,790,699.01	- 5,574,429.71
<b>OFF BALANCE</b>	<b>0.00</b>	<b>0.00</b>

It should be noted that the balance sheet and statement of financial performance presented in Annex 3 to this Annual Activity Report, represent only the assets, liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and statement of financial performance they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

**TABLE 6: AVERAGE PAYMENT TIMES FOR 2017 - DG SRSS**

Legal Times							
Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	71	66	92.96 %	13.5	5	7.04 %	42.8
45	1				1	100.00 %	48
60	162	117	72.22 %	34.32	45	27.78 %	74.38
90	13	11	84.62 %	55.27	2	15.38 %	95

<b>Total Number of Payments</b>	<b>247</b>	<b>194</b>	<b>78.54 %</b>		<b>53</b>	<b>21.46 %</b>	
<b>Average Net Payment Time</b>	<b>37.71</b>			<b>28.43</b>			<b>71.68</b>
<b>Average Gross Payment Time</b>	<b>47.51</b>			<b>34.78</b>			<b>94.13</b>

Suspensions							
Average Report Approval Suspension	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
0	33	74	29.96 %	247	13,303,026.63	36.73 %	36,219,177.99

**Late Interest paid in 2017**

DG	GL Account	Description	Amount (Eur)
SRSS	65010100	Interest on late payment of charges New FR	10 642.23
			<b>10 642.23</b>

**TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2017**

Chapter	Revenue and income recognized			Revenue and income cashed from			Outstanding balance	
	Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total		
	1	2	3=1+2	4	5	6=4+5		
57	OTHER CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH THE ADMINISTRATIVE OPERATION OF THE INSTITUTION	924,569.83	-	924,569.83	790,120.99	-	790,120.99	134,448.84
66	OTHER CONTRIBUTIONS AND REFUNDS	- 14,860.00	14,860.00	-	14,860.00	14,860.00	-	-
<b>Total DG SRSS</b>		<b>909,709.83</b>	<b>14,860.00</b>	<b>924,569.83</b>	<b>775,260.99</b>	<b>14,860.00</b>	<b>790,120.99</b>	<b>134,448.84</b>

**TABLE 8 : RECOVERY OF PAYMENTS**  
(Number of Recovery Contexts and corresponding Transaction Amount)

Year of Origin (commitment)	Total undue payments recovered		Total transactions in recovery context (incl. non-qualified)		Qualified/Total R	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2013			2	731,007.18		
2015			2	91,335.08		
2016			3	102,227.57		
<b>Sub-Total</b>			<b>7</b>	<b>924,569.83</b>		

EXPENSES BUDGET	Error		Irregularity		DLAF Notified		Total undue payments recovered		Total transactions in recovery context (incl. non-qualified)		% Qualified/Total RC	
	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount	Nbr	Amount
INCOME LINES IN INVOICES												
NON ELIGIBLE IN COST CLAIMS	1	697.11	2	457.33			3	1,154.44	5	6,815.20	60.00%	16.94%
CREDIT NOTES			8	8,128.94			8	8,128.94	15	86,448.44	53.33%	9.40%
<b>Sub-Total</b>	<b>1</b>	<b>697.11</b>	<b>10</b>	<b>8,586.27</b>			<b>11</b>	<b>9,283.38</b>	<b>20</b>	<b>93,263.64</b>	<b>55.00%</b>	<b>9.95%</b>
<b>GRAND TOTAL</b>	<b>1</b>	<b>697.11</b>	<b>10</b>	<b>8,586.27</b>			<b>11</b>	<b>9,283.38</b>	<b>27</b>	<b>1,017,833.47</b>	<b>40.74%</b>	<b>0.91%</b>

**TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2017 FOR SRSS**

	Number at 1/01/2017	Number at 31/12/2017	Evolution	Open Amount (Eur) at 1/01/2017	Open Amount (Eur) at 31/12/2017	Evolution
2009	1		-100.00 %	13,600.00		-100.00 %
2010	1		-100.00 %	1,260.00		-100.00 %
2017		3			134,448.84	
	2	3	50.00 %	14,860.00	134,448.84	804.77 %

**TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG SRSS - 2017**

Internal Procedures > € 60,000

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 134.1(e) (Without prior publication) New services or works consisting in the repetition of similar services or works	1	466,068.00
<b>Total</b>	<b>1</b>	<b>466,068.00</b>

**TABLE 12 : SUMMARY OF PROCEDURES OF DG SRSS EXCLUDING BUILDING CONTRACTS****External Procedures > € 20,000**

<b>Procedure Legal base</b>	<b>Number of Procedures</b>	<b>Amount (€)</b>
(Ext. act) Service - International Restricted Procedure with prior publication (Art. 265.1(a)(i) & 2 RAP)	1	1,797,321.00
(Ext. act) Supply - International Open Procedure after publication of a contract notice (Art. 267.1(a) RAP)	3	451,454.47
<b>Total</b>	<b>4</b>	<b>2,248,775.47</b>

**Internal Procedures > € 60,000**

<b>Procedure Legal base</b>	<b>Number of Procedures</b>	<b>Amount (€)</b>
Exceptional Negotiated Procedure without publication of a contract notice (Art. 134 RAP)	1	466,068.00
Negotiated Procedure with at least five candidates below Directive thresholds (Art. 136a RAP)	6	671,304.00
Restricted Procedure (Art. 127.2 RAP)	1	1,351,500.00
<b>Total</b>	<b>8</b>	<b>2,488,872.00</b>

## **ANNEX 4:      Materiality criteria**

The following provides an explanation of the SRSS' definition of the materiality threshold in 2017 for the purpose of determining whether:

- a) any significant weaknesses incurred in 2016; and
- b) b) they should be reported in terms of a formal reservation to the Authorising Officer by Delegation's declaration in the Annual Activity Report.

Several factors are considered in qualitative and quantitative terms to determine the significance of any weakness.

More specifically the nature and the scope of the weakness, its frequency and duration, the financial impact and the monetary value of the identified problem, the existence of compensatory measures which reduce the impact of the weaknesses.

On the basis of the above factors, management should conclude that the weaknesses are significant and deserve to be disclosed in the declaration of assurance where:

- If the problems identified concern key control elements linked to the underlying expenditure and they are systematic and wide ranging in the occurrence;
- The error rate for the activities of the service exceeds 2% of the authorised payments of the reporting year of the activity;
- The audit coverage is insufficient and/or inadequate information from internal control system are available;
- The existence of critical issues reported by the court of auditors the IASor OLAF;
- There are distinctive factors in relation to the qualitative aspects of the deficiencies which give rise to a high reputational risk concerning the nature of the impact on reputation, the breath of awareness of the event as well as the duration of impact on a reputation for the EU institutions, which would lead to the conclusion that the weakness is significant.

## ANNEX 5: Internal Control Template(s) for budget implementation (ICTs)

**DIRECT MANAGEMENT – grant and procurement direct management**

### Stage 1: Programming, evaluation and selection

Main control objectives: Ensuring that the Commission (COM) selects the actions that contribute the most towards the achievement of the policy objectives (effectiveness); that funds are allocated optimally (best value for public money, effectiveness, efficiency, economy) and in compliance (legality & regularity; prevention of fraud).

Main risks	Mitigating controls	Coverage, frequency	Costs/benefits controls	Control indicators
<p>Grants and procurement:</p> <p>The annual work programmes and the subsequent actions do not adequately reflect the policy objectives and priorities and or are incoherent.</p> <p>Budget not optimally allocated.</p>	<p>Grants and procurement:</p> <ul style="list-style-type: none"> <li>- Programming of activities (Financing Decision) through a definition of bottom-up policy priorities.</li> <li>- Activities examined (operational and financial and management) for compliance, and relevance</li> <li>- Inter-service consultation on Financing Decisions including all relevant DGs</li> <li>- Adoption by the Commission</li> </ul>	<p>Grants and procurement: 100%</p>	<p>see AAR section 2.1.1.4</p>	<p>Grants and procurement:</p> <p>Budget execution (%)</p>



Main risks	Mitigating controls	Coverage, frequency	Costs/benefits controls	Control indicators
<p>Grants :</p> <p>The evaluation, ranking and selection of proposals is not carried out in accordance with the established procedures, the policy objectives, priorities and/or the essential eligibility, or with the selection and award criteria defined in the annual work programmes and subsequent calls for proposals.</p> <p>The beneficiaries lack the capacity to effectively control expenditure and ensure the transparency on the operations carried out.</p>	<p>Grants and procurement:</p> <ul style="list-style-type: none"> <li>- AOSD supervision and approval of terms of references with the support of adequate guidance (including in certain cases the support from some technical staff for the Aid Programme)</li> <li>- Grant agreements are also directly awarded to beneficiaries already identified in the Financing Decision (e.g. Pillar-assessed organisations)</li> <li>- Before publication, a check is made by the Financial Unit on completeness of the documents, whether they are correctly drafted and all the required procedures have been respected</li> <li>- (In 2016 for the Aid Programme only: an opening and evaluation committee is appointed by the AOSD and composed of at least 3 persons. The evaluation committee includes two members from the Financial Unit with no voting rights and at least two Voting Members from the operational unit who, together, ensure the correct implementation of the applicable procedures during the evaluation process. The evaluation committee may include technical observers with no voting rights).</li> </ul>	<p>Grants:</p> <p>Coverage: 100% of proposals are evaluated</p>	<p>see AAR section 2.1.1.4</p>	<p>Grants:</p> <ul style="list-style-type: none"> <li>- 100% of awarded proposals are verified by the Financial Unit prior to publication</li> <li>- Number of calls for proposals cancelled</li> <li>- Number of official, valid complaints filed</li> <li>- Average time notify grant decision and average time to sign grant agreements.</li> </ul>
<p>Procurement:</p> <p>The best offer/s are not submitted due to the poor definition of the tender specifications</p> <p>The most economically-advantageous offer not being selected, due to a biased, inaccurate or 'unfair' evaluation process</p>	<p>Members from the operational unit who, together, ensure the correct implementation of the applicable procedures during the evaluation process. The evaluation committee may include technical observers with no voting rights).</p> <ul style="list-style-type: none"> <li>- A verification is performed by the Financial Unit on the evaluations prior to budgetary and budgetary and legal commitments</li> <li>- Validation of beneficiaries (operational and financial viability) and planning of interim and final reports.</li> <li>- Signature of the grant agreement and contracts by the Authorising Officer</li> <li>- The publication on Europa of the grants/procurement awarded (Aid Programme)</li> </ul>	<p>Procurement:</p> <p>100% of the specifications are verified</p>	<p>see AAR section 2.1.1.4</p>	<p>Procurement:</p> <ul style="list-style-type: none"> <li>-100% of awarded tenders are verified by the Financial Unit</li> <li>- Number of procurement procedures cancelled</li> <li>- Number of official, valid complaints filed</li> </ul>

## Stage 2: Contracting and monitoring the execution

Main control objectives: ensuring that the operational results (deliverables) from the projects are of good value and meet the objectives and conditions (effectiveness & efficiency);

ensuring that the related financial operations comply with regulatory and contractual provisions (legality & regularity); prevention of fraud (anti-fraud strategy)

Main risks	Mitigating controls	Coverage, frequency	Costs/benefits controls	Control indicators
<p>Grant/Procurement:</p> <p>The actions foreseen are not, totally or partially, carried out in accordance with the technical description and requirements foreseen in the agreement/contract and/or the amounts paid exceed those due in accordance with the applicable contractual and regulatory provisions</p>	<p>Grant/Procurement:</p> <ul style="list-style-type: none"> <li>-Operational and financial checks in accordance with the financial circuits.</li> <li>-Authorisation by the AOSD</li> </ul> <p>Grants:</p> <ul style="list-style-type: none"> <li>-Ex-ante verification of report and of the activities carried out (e.g. reports from international organisations receiving grants)</li> <li>- External audits on grant contracts over EUR 100,000 (Aid Programme)</li> <li>(a) Review of up to 100% of the declared cost claims</li> <li>(b) Review of the related procedures as appropriate</li> </ul>	<p>Grants:</p> <p>100% of projects are controlled (desk review)</p> <p>Procurement:</p> <p>100% of contracts are controlled</p>	<p>see AAR section 2.1.1.4</p>	<ul style="list-style-type: none"> <li>- Time to pay;</li> <li>- Amount of late interest payments</li> </ul> <p>Grants:</p> <ul style="list-style-type: none"> <li>- Verification of transactions by operational and financial agents</li> <li>- Amount and % of ineligible cost claims</li> <li>- Number of positive reports received (e.g. Pillars assessed grants and grant agreement– direct management)</li> </ul> <p>Procurement:</p> <ul style="list-style-type: none"> <li>- Verification of transactions by operational and financial agents</li> <li>- Amount and % of credit notes</li> <li>- Number and amount of liquidated damaged applied</li> </ul>

**Stage 3: Ex post controls**

Main control objectives: Measuring the effectiveness of ex-ante controls by ex-post controls; detect and correct any error or fraud remaining undetected after the implementation ex-ante controls (legality & regularity; anti-fraud strategy); addressing systemic weaknesses in the ex-ante controls, based on the analysis of the findings (sound financial management).

Main risks	Mitigating controls	Coverage, frequency	Costs/benefits controls	Control indicators
The ex-ante controls fail to prevent, detect and correct erroneous payments or attempted fraud.	<u>Ex-post audits from other DGs (i.e. DG NEAR) (Aid Programme)</u> Review of sampled transactions	Ex-post controls relate only to grant aided projects	see AAR section 2.1.1.4	Grants - Ex-post audits finalised (number) - Error rate and other non-quantifiable errors

## INDIRECT MANAGEMENT

### Stage 1 - Programming and budgeting

Main control objectives: Ensuring that the entrusted Organisations select the actions that contribute the most towards the achievement of SRSS' policy objectives as set in its work programmes (effectiveness); that funds are allocated optimally (best value for public money, effectiveness, efficiency, economy) and in compliance (legality & regularity; prevention of fraud).

Main risks	Mitigating controls	Coverage, frequency	Costs/benefits of controls	Control indicators
<ul style="list-style-type: none"><li>- The Work Programmes and the subsequent actions do not adequately reflect the policy objectives and priorities and or are incoherent.</li><li>- Budget not optimally allocated.</li></ul>	<ul style="list-style-type: none"><li>- Programming of activities (Financing Decision) through a bottom up definition of policy priorities and identification of the Organisations receiving the entrusted funds. Activities examined (operational and financial) for compliance, and relevance</li><li>- Inter-service consultation on Financing Decisions including all relevant DGs</li><li>- Adoption by the Commission</li></ul>	100%	see AAR section 2.1.1.4.	% Budget execution (see annex 6)

**Stage 2 - Implementing, monitoring and reporting**

Main control objectives: ensuring that the operational results of the entrusted entities meet the objectives and conditions (effectiveness & efficiency); ensuring that the Commission is fully informed in a timely manner of any relevant management issues encountered by the entrusted entity, in order to possibly mitigate any potential financial and/or reputational impacts (legality & regularity, sound financial management, true and fair view reporting, anti-fraud strategy).

Main risks	Mitigating controls	Coverage frequency	Costs/benefits of controls	Control indicators
<p>The financial and control framework deployed by the entrusted entity is not fully mature to guarantee achieving all 5 ICOs (<i>legality and regularity, sound financial management, true and fair view reporting, safeguarding assets and information, anti-fraud strategy</i>).</p>	<ul style="list-style-type: none"> <li>- These are international organisations, selected for their expertise and also because they are equipped with their own controls on which they must report at least annually.</li> <li>- Allocation of financial resources follows the standard circuit of initiation and verification, and authorization applied to all SRSS transactions.</li> <li>- A logical framework focused on efficient use of resources and effectiveness of results is also applied.</li> </ul>	<p>100% of agreements controlled</p>	<p>see AAR section 2.1.1.4</p>	<p>Number of positive reports from entrusted entities on the used funds, the activities carried out and the results achieved.</p>

## ANNEX 6: Implementation through national or international public-sector bodies and bodies governed by private law with a public sector mission

Reference Funds	Annual budgetary amount entrusted	Entrusted entity	Duration of the delegation	Justification of the selection of the bodies (i.e. indication in the legal basis)	Summary description of the implementing tasks entrusted to these bodies
<b>ESI funds</b>					
€280,000.00		EBRD	13/12/2017-12/10/2019	C(2017)5780	Strengthening Member States Insolvency and Restructuring Practitioners Framework
€1,024,000.00		EBRD	13/12/2017-12/12/2019	C(2017)5780	Strengthening Capital Markets in Estonia, Latvia, Lithuania and Poland
€250,000.00		EBRD	20/12/2017-19/03/2019	C(2017)5780	State owned enterprise restructuring in Croatia
€650,000.00		GIZ	01/11/2017-31/10/2019	C(2016)3835	Technical Assistance for Distribution Network Issues in Greece
<i>Sub-total</i>	<i>€2,204,000.00</i>				
<b>Aid Programme</b>					
€800,000.00		EBRD	02/03/2016-01/12/2020	C(2015)8757	Implementation of an SME competitiveness integrated finance facility in the TCc
€2,600,000.00		UNDP	01/01/2018-31/12/2018	C(2016)6688	Support for the Committee on missing persons in Cyprus (PHARE 9)
<i>Sub-total</i>	<i>€3,400,000.00</i>				
<b>Total</b>	<b>€5,604,000.00</b>				



**ANNEX 7: EAMR of the Union Delegations**

N/A



## **ANNEX 8: Decentralised agencies**

N/A

## **ANNEX 9: Evaluations and other studies finalised or cancelled during the year**

No evaluations have been finalised nor cancelled in 2017

**ANNEX 10:  
Management"**

**Specific annexes related to "Financial**

N/A

**ANNEX 11: Specific annexes related to "Assessment of the effectiveness of the internal control systems"**

N/A

## ANNEX 12: Performance tables

<b>General objective 1_A</b> New Boost for Jobs, Growth and Investment			
<b>Impact indicator:</b> Employment rate population aged 20-64			
<b>Source of the data:</b> Eurostat			
<b>Baseline</b> (2014)	<b>Target</b> (2020)	<b>Latest known results</b> (2016)	
69.2%	At least 75%	71.1%	
<b>Completed evaluations:</b> N/A			
<b>Specific objective 1.1:</b> Help Member States to prepare and implement growth-enhancing administrative and structural reforms, in particular in the context of EU economic governance processes, through the provision of relevant technical support			
Related to spending programme: yes			
<b>Result indicator:</b> The extent to which the support provided helps Member States prepare and implement structural reforms, inter alia, reforms related to country-specific recommendations. This indicator measures – for each Member State concerned - the help of technical support in the preparation and implementation of reforms (notably but not exclusively those indicated in the CSRs) based on an assessment carried out by the SRSS. The assessment may also benefit from the feedback of the Member States and of the "country support teams" as part of the Commission coordination mechanism.			
<b>Source of data:</b> Country support teams (quantitative and qualitative information); consultation with Member States, missions and reporting on support projects, other data.			
<b>Baseline</b> (2015)	<b>Interim Milestone</b> <sup>31</sup> (2018)	<b>Target</b> (2020)	<b>Latest known results</b> (2017)
The baseline cannot be estimated as this is a new service, providing a new typology		Increasing extent	Not available, this is a new service, , and no data for 2016 exist since first new activities only started in mid-2016

<sup>31</sup> The column should be deleted if only short-and medium term (less than 3 years) targets are set.

of activities. The SRSS is operating for the first time in 2016 on the basis of a preparatory action and some transfers of funds from ESIF (new programme in 2017)			
Main outputs in 2017:			
Description	Indicator	Target date	Latest known results (situation on 31/12/2017)
Technical support coverage	Number of beneficiary Member States for which support was provided*	10 by end of 2017	16
Technical support projects <sup>32</sup> related to implementation of Country Specific Recommendations, Union priorities and the implementation of Union law	Number of ongoing projects related to implementation of Country Specific Recommendations, Union priorities and the implementation of Union law*	Increasing trend	93
Technical support projects related to economic adjustment programmes	Timely response to the requests of a Member State in line with needs under an economic adjustment programme	<i>Continuously</i>	1
Technical support projects related the Member State's own-initiative reforms	Number of ongoing projects related the Member State's own-initiative reforms	<i>Increasing trend</i>	7

<sup>32</sup> A project means a planned set of interrelated tasks with (a) clear final objective(s) to be executed over a fixed period and within a certain cost.

**Specific objective 1.2** : Efficient steering and coordination of technical assistance provision to Member States across different Commission services as well as with respect to external actors in the field Related to spending programme: yes

**Result indicator:** Feedback on the efficiency of the coordination mechanism

**Source of data:** SRSS monitoring data, information available from Commission coordination mechanism, other data.

Baseline (2015)	Target (2020)	Latest known results (year)
The baseline cannot be estimated as this is new service providing a new typology of activities	Positive assessment (by internal and/or external stakeholders) of the efficiency of the coordination mechanism	N/A: cannot be estimated as this is new service, and no data exist for 2016 since the coordination mechanism was only set up towards the end of 2016

**Main outputs in 2017:**

Description	Indicator (e.g. adoption by the Commission; completion)	Target date	Latest known results (situation on 31/12/2017)
Building a coordination mechanism within the European Commission	Technical support country teams are in operation	Q1 2017	15 meetings by Q2 2017
	The working group for technical-support capacity is operating	Q1 2017	4 meetings
Building a coordination mechanism with external stakeholders	Regular meetings with International Organisations and Member States	Meetings are being organised regularly by Q2 2017	1 Video Conference with Coordinating Authorities

**Specific objective 1.3 : Provision of assistance to the Turkish Cypriot community and efficient coordination of the Commission's efforts to support the process led by the United Nations for the reunification of Cyprus** Related to spending programme: yes

**Result indicator:** Tendency to trust the EU as an institution (category: Turkish Cypriot community(TCc))  
**Source of data:** Eurobarometer

Baseline (2015)	Interim Milestone	Target 2020	Latest known results (in 2017)
	(2018)		
51%	56%	60%	52%

**Main outputs in 2017:**

Description	Indicator	Target date	Latest known results (as of end-June 2017)
Social/economic development actions in the Turkish Cypriot community	Number of major social/economic development actions started	12 by end of 2017	1
EU <i>acquis</i> preparation of the Turkish Cypriot community and monitoring of the implementation of the Green Line Regulation	Number of TAIEX actions, with specific reference to independent expert Green-Line missions (fresh fish, honey, phytosanitary issues)	310 TAIEX actions, of which 10 Green Line missions by end-2017	69
Establishing a coordination mechanism on Cyprus settlement within the European Commission	Coordination mechanism established	Q1 2017	Done but has become non-operational since summer 2017



