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2014

Annual Activity Report

DG Regional and Urban Policy

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INTRODUCTION:

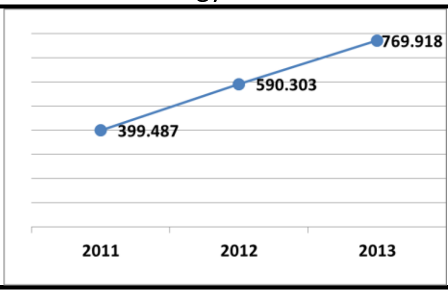
DG in brief

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

The year in brief

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

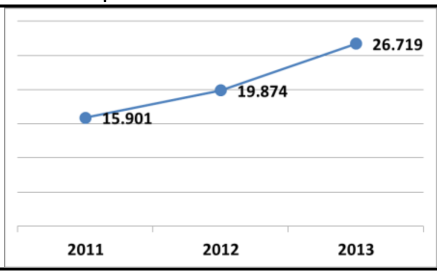
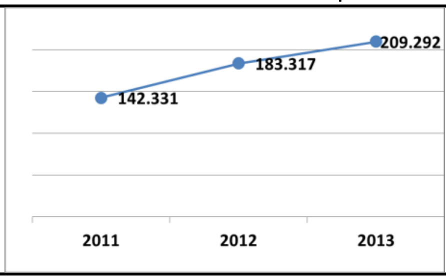
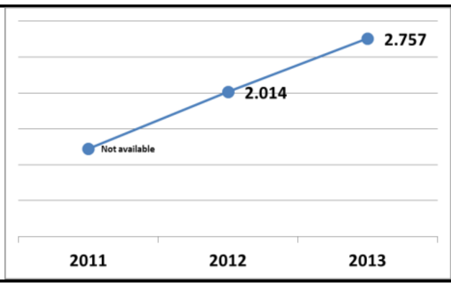
Key Performance Indicators[1] (5 most relevant)

Key Performance Indicator	Progression of global achievements[2] (latest known results) 2011* - 2012* - 2013**	Total targets (end 2015)	Achievements / targets[3]
Related Policy Objective: ERDF and CF General objective To reduce disparities between the levels of development of the various regions, in particular for rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps and to contribute to achieving the targets set out in the Europe 2020 strategy of smart, sustainable and inclusive growth, and in particular towards the achievement of quantitative headline targets identified in that strategy.			
KPI 1: Jobs created *Source: Aggregate core indicators 00, Annual Implementation Reports (all MS covered)*		1,122,833	663,419 (59.1%)

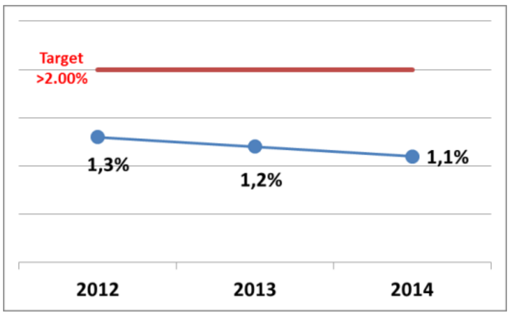
[1] All values verified and corrected through a consultancy study in framework of ex post evaluation 2007-2013

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

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

Key Performance Indicator	Progression of global achievements (latest known results) 2011* - 2012* - 2013**	Total targets (end 2015)	Achievements / targets
Related Policy Objective: ERDF Specific objective Strengthening research, technological development and innovation			
<u>KPI 2</u>: Number of enterprises cooperating with supported research institutions *Source: Core indicator 05, Annual Implementation Reports*		28,395	24,762 (87.2%)
Related Policy Objective: ERDF Specific objective Enhancing the competitiveness of small and medium-sized enterprises			
<u>KPI 3</u>: Number of enterprises receiving support *Source: Core indicator 07, Annual Implementation Reports*		208,736	171,850 (82.3%)
<u>KPI 4</u>: Additional capacity of renewable energy production (MW) *Source: Core indicator 24, Annual Implementation Reports*		N.A.[4]	N.A.

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

Key Performance Indicator	Target	Latest known results 2012- 2014
<u>KPI 5:</u> Cumulative residual error rate in shared management	< 2%	

[4] Target values for this indicator are unreliable, due to errors in measurement units in some MS

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

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

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

Despite that, there is evidence that **ERDF and Cohesion Fund programmes are delivering across many policy areas and Member States**. As the largest source of EU funds to regions, localities and enterprises - representing some 30% of the total EU budget in 2014 - regional policy has continued to play a pivotal role in helping Member States to conciliate their fiscal consolidation constraints with the support to long-term investments strategies which are necessary to recover from the crisis and return to a job-creating growth.

This mainly derives from the analysis of the performance information contained in the annual implementation reports submitted by the Member States in June 2014, from the assessment of programme performance carried out by the responsible geographical desks as well as from evidence contained in the 6th Report on economic, social and territorial cohesion, showing a steady progression of achievements reported by Member States.

Progress continues to be registered in relation to the 4 key policy performance indicators, for which reported global achievements have progressed on average by 29% compared to the previous year. Reported job creation has increased by 30% compared to 2012, a slower rate of growth compared to last year. Where targets were set, the 2013 value represents 59% of the target initially set. It is unlikely that the target will be met in some cases - largely due to the economic crisis.

Positive long-term trends are reported in relation to the indicators linked to ERDF/CF specific objectives, although there are large variations among Member States and sectors.

Persistent difficulties are still noted, however, in relation to environment infrastructure, partly due to issues of administrative capacity in some Member States. These difficulties have been taken into account during the negotiations of 2014-2020 programmes. The implementation of ex-ante conditionalities' action plans directly impacting on the deficiencies identified should help remove those obstacles for the new generation of programmes, while also positively affecting the implementation of projects financed under the 2007-2013 OPs.

Overall, thanks to the interventions co-financed by ERDF and CF, **Cohesion Policy provided in 2014 a twofold contribution to EU2020 objectives**:

1. Firstly, through the implementation of the 2007-2013 programmes, which are investing heavily in areas directly supporting the Europe 2020 priorities such as R&D and innovation, ICT networks, SME support, renewable energy, energy efficiency, environment protection and key infrastructure. This produces a short term impact on GDP, as a result of the induced economic activity, as well as a long term impact (materialising only in the long run) thanks to the structural improvements in the economies of the EU.
2. Secondly, through the negotiation and adoption of 2014-2020 programmes, which will concentrate resources on a limited number of policy areas contributing to the pursuit of Europe 2020 strategy, thus maximising the impact of EU investment.

In addition, the inclusion of ex-ante conditionalities into the ESIF regulations and the increased result orientation ensure that the new programmes meet the conditions for maximum effectiveness and impact towards the long-term policy targets (EU2020 and reduction of disparities).

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

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

Different sources of information are used to build up the Director-General's annual declaration of assurance that the resources assigned to the activities have been used for the intended purpose and in accordance with the principle of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. The assurance is built on a comprehensive assessment by all parties involved in the management and control of every programme on accumulated results over the period and the specific results of 2014.

The first sources of information are the annual control reports (ACRs) and the opinions submitted by the programmes' audit authorities and covering all programmes. DG Regional and Urban Policy performed a detailed assessment of the ACRs and audit opinions and confirmed the opinions given by the audit authorities in 311 cases, corresponding to 97% of programmes.

Similarly to last year, DG Regional and Urban Policy assessed the reliability of the error rates reported in the ACRs. Globally, 96% of the error rates reported by the audit authorities were assessed as a reliable source of information for the purpose of calculating the risk to 2014 payments. In 4% of the cases the Directorate-General estimated the risk at flat-rate because the reported error rates were considered unreliable or insufficient / inconclusive audit information was obtained at the date of the assessment to allow full confirmation of the reported error rates.

The assessment of management and control systems and the validated error rate, reflecting the effective functioning of management and controls systems, together with the cumulative residual risk constitutes the cornerstone of the assurance process of the now consolidated methodology to estimate the amount of 2014 payments at risk. Other sources of information to build up the annual declaration of assurance are: (i) the results of DG Regional and Urban Policy's own audit work in 2014, in particular the review of the work of the audit authorities and the audit of specific risk programmes or areas such as management verifications of public procurement or of State aid or the selection of eligible projects; (ii) other EU audit results; (iii) national system audit reports received throughout the year; (iv) annual summaries of controls and national declarations; (v) the opinions of the operational Directors as Authorising Officers by Sub-Delegation for the programmes and (vi) experience from previous years.

As with the Annual Activity Report 2013, DG Regional and Urban Policy presents a view of the multiannual impact of Member States' corrective capacity on the identified risks to payments and estimates the cumulative residual risk (CRR) of irregular expenditure after seven years of implementation. The timeliness of implementation of corrective measures is also considered. This estimated CRR has been used to confirm whether corrective measures (withdrawals and recoveries in 2014 and previous years) already implemented and reported by Member States or registered in the certifying authority's accounts in view of deduction in the next certification of expenditure (formal agreements) have adequately mitigated the risks of irregularities since the beginning of the period. Programmes with serious deficiencies are under reservation. As a general rule, a cumulative residual risk above 2% at the date of this report has also led to a reservation for the concerned programme.

The reservations are identified for the entire programme or for a part of it when only a specific isolated component is concerned (for example for a priority axis or a specific intermediate body). On the basis of these sources of information, DG Regional and Urban Policy has made an assessment of the functioning of the national management and control systems for all programmes and estimated an average risk to 2014 expenditure at Member State level.

Overview of reservations

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

As regards the 2007-2013 programming period, the estimated average risk rate linked to the 2014 payments for ERDF and Cohesion Fund is in the range of **2.6% to an upper limit of 5.3%**. Last year it was between 2.8% and 5.3%.

Taking into account the corrective measures already implemented by Member States, the cumulative residual risk is below 2% (1.1%).

DG Regional and Urban Policy concludes that it has reasonable assurance as regards legality and regularity of transactions except for 78 programmes (77 ERDF/CF programmes and 1 IPA -CBC programme).

The quantification of the reservation for these programmes is EUR 234.7 million or 0.5% of the interim payments made in 2014 for ERDF/CF and IPA-CBC 2007-2013.

As regards the 2000-2006 programming period, a reputational reservation is formulated for 3 ERDF programmes and for the Cohesion Fund for 2 Member States in the Transport sector. There is no financial risk in 2014 as final payments will be executed only when an agreement reached with the Member States concerned on the level of financial correction to be applied.

Regarding **indirect management**, on the basis of analysis made at programme level DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions except for one IPA programme. The quantification of the reservation for this programme is EUR 6.5 million.

Finally, for direct **management and for the Solidarity Fund**, no material deficiencies affecting the 2014 payments were identified. On this basis, DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions.

The total quantification is EUR 241.2 million (approx. 0.6% of the interim payments made in 2014 for ERDF/CF/IPA 2007-2013). This represents the risk linked to the individual reservations.

Overall conclusion on assurance

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

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

DG Regional and Urban Policy has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented. Furthermore, DG Regional and Urban Policy has taken measures to further improve the efficiency of its internal control systems in the areas covered by ICS 3, 5, 11 and 12[5] as reported in Part 3.

In addition, DG Regional and Urban Policy has systematically examined the available control results

[5] ICS 3 – Staff allocation and mobility; ICS 5 - Objectives and Performance Indicators; ICS 11 – Document Management; ICS 12 – Information and Communication;

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

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 77 ERDF/CF programmes, 1 IPA-CBC and 1 IPA programmes for the programming period 2007-2013 and 3 ERDF operational programmes and 2 Cohesion Fund sectors for the programming period 2000-2006.

Information to the Commissioner

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

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives

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

In addition to that, it should also be considered that the last year of implementation on the ground for 2007-2013 programmes will be 2015. Considering that the reported achievements values are in most cases referred to the year 2013, the policy will continue to produce results for at least 2 full years of implementation.

1.1.1 Policy area Cohesion Policy

Policy Area: Cohesion Policy				☒ **Spending programme**
General objectives	**Impact indicators**	Target or estimated impact *(2020)*	Interim Milestone	Latest known results *(cumulative)*
Gen. Obj. 1: To reduce disparities between the levels of development of the various regions, in particular for rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps and to contribute to achieving the targets set out in the Europe 2020 strategy of smart, sustainable and inclusive growth, and in particular to the achievement of quantitative headline targets identified in that strategy.	Employment rate by sex, age group 20-64 *(Source: Eurostat and DG REGIO calculations)*	75%	NA	68.4% *(2013)*
	Gross EU domestic expenditure on R&D (GERD) *(Source: Eurostat and DG REGIO calculations)*	3%	NA	2.02% *(2013)*
	Share of renewables in gross final energy consumption *(Source: Eurostat and DG REGIO calculations)*	20%	NA	14.1% *(2012)*
	Energy intensity of the economy, i.e. final energy consumption (proxy indicator for energy savings, which is under development) *(Source: Eurostat)*	20% of savings	NA	12.1% *(2012)*
	Greenhouse gas emissions *(Source: Eurostat and DG REGIO calculations)*	80 (70, if conditions are right)	NA	82.14 *(2012)*
	Early school leavers, age group 18-24 *(Source: Eurostat and DG REGIO calculations)*	10%	NA	12% *(2013)*
	Tertiary educational attainment by sex, age group 30-34 *(Source: Eurostat and DG REGIO calculations)*	40%	NA	36.9% *(2013)*
	People at risk of poverty or social exclusion *(Source: Eurostat and DG REGIO calculations)*	20,000,000 less than the baseline (i.e. 96,600,000)	NA	121,626,000 *(2013)*
	Number of regions with a GDP per head below 50% of the EU average *(Source: Eurostat)*	18	19 *(2015)*	20 *(2011)*
	Coefficient of variation of GDP per head between regions (NUTS II) *(Source: Eurostat)*	37	38 *(2015)*	38.6 *(2011)*

Gen. Obj. 2: To support candidate countries and potential candidates ('beneficiary countries') in implementing the political, institutional, legal, administrative, social and economic reforms required to bring the countries closer to Union values and to progressively align to Union rules, standards, policies and practices with a view to Union membership.
Defined and monitored by DG NEAR

Comments on reported achievements

- *Modest progress towards most EU 2020 targets, as a consequence of the crisis*

While the most recent available values for the indicators above refer mainly to 2013 or 2012, there is evidence showing that the economic recovery that started in the second quarter of 2013 remains fragile and the economic momentum in many Member States is still weak. Against this background, progress towards most Europe 2020 headline targets was modest in 2014.

The situation remains particularly difficult for indicators related to **employment rate and R&D**, as the slow growth environment in the EU was not able to sufficiently revitalise the labour markets to produce a significant increase in the employment rate. The same holds true for the R&D intensity.

A more positive trend is observed for indicators related to **greenhouse gas emissions** and to **final energy consumption**, which are inversely correlated to economic growth. However, one should keep in mind that this positive trend reflects the particular conditions of the business cycle rather than structural changes which should be the only ones to guarantee a reduction in in greenhouse gas emissions and in final energy consumption in the long run.

Progress vis-à-vis the indicators on **renewable energy** target, early school leavers and education attainment remains limited, as it depends heavily on the possibility for Member States to increase public investments in those areas. Significant difficulties are also observed in relation to the **number of people at risk of poverty**, negatively affected by the need of most Member States to keep on reducing public deficits.

- *Negative evolution of convergence indicators*

The **crisis has halted the convergence process** among EU regions. In particular, while regional disparities in terms of employment and unemployment rates decreased up to 2007, they significantly increased afterwards. For the employment rate, the coefficient of variation rose from 9.8 in 2007 to 10.8 in 2010 and then to 12.2 in 2012 while for the unemployment rate, it increased from 42.9 in 2007 to 51.0 in 2010 and to 63.5 in 2012. Most of these movements are explained by the dramatic deterioration of the labour market performance of Southern European economies (Spain, Portugal, Italy and Greece). The long run convergence process should resume once EU economies recover from the crisis but until then we cannot expect to observe a significant reduction of regional disparities across the EU.

- *A positive contribution of Cohesion Policy to the economies of Member States, mitigating the effects of the crisis*

While it is very difficult to identify the elements of the macroeconomic trends illustrated above which can be directly attributed to Cohesion Policy, concrete contributions to the objectives of smart, sustainable and inclusive growth (as enshrined in the EU2020 targets) across many policy areas and Member States do result from the implementation of Cohesion Policy interventions. As the largest source of EU funds to regions, localities and enterprises, ERDF and Cohesion Fund have continued to play a pivotal role in helping Member States to conciliate their fiscal consolidation constraints with the support to long-term investments strategies which are necessary to recover from the crisis and return to a job-creating growth. Overall, the role of cohesion policy in supporting growth friendly expenditure has become even more important than before, with cohesion funding representing more than 60% of the public investment budget in a number of countries. This situation should remain unchanged in the near future.

In particular, Cohesion Policy provided in 2014 a twofold contribution to these objectives:

1. Firstly, through the implementation of the 2007-2013 programmes, which are investing heavily in areas directly supporting the Europe 2020 priorities such as R&D and innovation, ICT networks, SME support, renewable energy, energy efficiency, environment protection and key infrastructure. This produces a short term impact on GDP, as a result of the induced economic activity, as well as a long term impact (materialising only in the long run) thanks to the structural improvements in the economies of the EU.

2. Secondly, through the negotiation and adoption of 2014-2020 programmes, which will concentrate resources on a limited number of policy areas contributing to the pursuit of Europe 2020 strategy, thus maximising the impact of EU investment. Negotiations on the new programmes 2014-2020 are still ongoing. According to the information available by mid-March 2015, EUR 40.2 billion will be invested in the thematic objective for strengthening RTD and innovation, EUR 13.5 billion in the thematic objective enhancing access to, and use and quality of, ICT, EUR 32.4 billion in the thematic objective enhancing the competitiveness of SMEs, and EUR 37.6 billion in the thematic objective for supporting the shift towards a low carbon economy. Compared to 2007-2013, investment in the four thematic objectives outlined above is expected to increase by 18% (from 105 billion to 124 billion). Financial support from the Cohesion Fund will be concentrated on the thematic objective for promoting sustainable transport and removing bottlenecks in key network infrastructure (EUR 33.5 billion) and the thematic objective for preserving and protecting the environment and promoting resource efficiency (EUR 17.1 billion).

   In addition, the inclusion of ex-ante conditionalities into the ESIF regulations and the increased result orientation ensure that the new programmes meet the conditions for maximum effectiveness and impact towards the long-term policy targets (EU2020 and reduction of disparities).

1.1.2 ABB activity European Regional Development Fund

The performance information presented in the tables below mainly results from the reporting on core indicators, which are an important tool for assessing the achievement of objectives associated with operational programmes. It is however to be noted that, due to the variety of interventions supported by the ERDF and CF, the core indicators cannot cover the full spectrum of benefits resulting from the implementation of the funds on the ground. They represent the only data on the achievements of programmes which can be aggregated to the EU level. In addition, it is also to be noted that the adoption of core indicators by programme authorities was not compulsory for the period 2007-2013. Because of that, for some OPs, targets are not available for all the relevant indicators. Information concerning achievements is presented as explained in footnotes 8 and 9 and clustered around the main policy objectives of smart, sustainable and inclusive growth.

ABB activity: European Regional Development Fund		☒ Spending programme				
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets[6]	Achievements / Targets (%)	Global achievements 2007-2013[7]	
Spec. Obj. 1: Strengthening research, technological development and innovation	Number of new researchers in supported entities *(REGIO core indicator 06)*	0	25,064	75%	34,811	33,556
	Number of enterprises cooperating with research institutions *(REGIO core indicator 05)*	0	24,762	85%	26,719	28,395

ABB activity: European Regional Development Fund		☒ Spending programme				
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 2: Enhancing access to, and use and quality of, information and communication technologies	Additional households with broadband access of at least 30 Mbps *(REGIO core indicator 12)*	0	4,879.215	38%	4,989,566	12,717,004

ABB activity: European Regional Development Fund		☒ Spending programme				
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 3: Enhancing the competitiveness of small and medium-sized enterprises	Number of enterprises receiving support *(REGIO core indicator 07)*	0	171,811	82%	209,233	208,706
	Number of new enterprises supported *(REGIO core indicator 08)*	0	93,405	105%	97,640	88,973
	Employment increase in supported enterprises *(REGIO core indicator 01)*	0	556,514	60%	668,660	921,654

Comments on reported achievements

The sustained rhythm of achievements reported by Member States in the previous years has continued in 2013. Most of the long-term trends reported by Member States in relation to the indicators above are positive, which should allow reaching the targets set for the 2007-2013 programmes.

[6] Achievements with targets: under this heading, is presented the cumulative value of achievements reported by programme authorities where a target had been set. The related figure can then be used to assess progress against targets.
[7] Global achievements: under this heading, we present the sum of all achievements linked to the relevant indicator reported by each operational programme, regardless of whether or not targets had been set. It therefore expresses the most complete available data on the total achievements.

A substantial share of Cohesion Policy funding has in fact been devoted to supporting smart growth throughout the 2007-2013 programming period. It has co-financed innovation, education and digital networks. Through these interventions, as foreseen by the underlying result chain, the EC contributes to modernising and diversifying economic structure, strengthening the endogenous potential for development of the concerned regions, ensuring creation or preservation of sustainable jobs. The investment in digital networks has also helped the Single Market run more smoothly, increasing productivity and specialisation in all regions, thus strengthening the position of the EU in global markets where it has to compete with both low-cost locations and highly innovative competitors. In addition, through interventions aimed at promoting the ICT take-up and the high-speed broadband roll-out, the structural funds also contribute greatly to the goals of the Digital Agenda. The same focus is maintained and even increased for the period 2014–2020, as smart growth objectives will be among the main beneficiaries of thematic concentration.

The main outcomes reported by Member States up to 2013 are set out below.

Research, technological development and innovation

Nearly 25,000 projects were co-financed across the EU to support cooperation between businesses and research centres. These were mainly in Competitiveness regions in the EU15, reflecting the significant share of funding allocated to this in the concerned programmes.

Some 74,100 RTD projects were carried out, most of them in Competitiveness regions. Member States report to almost 25,000 research jobs being created in FTE terms, split broadly equally between Convergence and Competitiveness regions.

Over EUR 11 billion were allocated to RTD infrastructures and centres of competence, out of which some EUR 3 billion to 27 'major projects', located mainly in the Cohesion regions.

Digital networks are spreading, but further efforts are needed to improve take-up

Access to high capacity telecommunication networks is a key factor of competitiveness and economic growth. Thanks greatly to ERDF investment, particularly in less developed regions, the extent of broadband coverage has increased significantly in the EU in recent years. Nearly 5 million additional population is covered by broadband access as a result of ERDF support. However, with only 38% of the target achieved, some Member States are unlikely to achieve the targets set in the programmes in 2007.

As regards broadband networks, progress has been achieved in broadband coverage (access under 30 Mbps for most of all of its citizens and firms) and take-up throughout Europe, which contributes significantly to economic cohesion

However, there remains many "white areas" where no telecom operators are willing to invest.

While coverage is generally much higher than households' take-up, the latter has also increased significantly in recent years (from 56% in 2009 to 76% in 2013). Difficulties are still noted particularly in Greece, France, Portugal and Poland. Rates of absorption in certain MS like Romania and Italy are very low (30-35%).

Next Generation Access (NGA) technologies capable of providing at least 30 Mbps are available to 62% of EU households and less than 20% in rural areas (end 2013). Regarding the take-up of 100 Mbps subscriptions, it remains marginal at 1.6 subscriptions per 100 people corresponding to 3% of households.

Many projects were also carried out across the EU to increase the use of ICT in SMEs as well as to extend the digitalisation of public services. Rate of absorption for improving access to and efficient use of ICT by SMEs has improved from 72% to 86%.

Enterprise support (including access to finance)

A substantial share of Cohesion Policy funding has been devoted to improving the business environment and supporting entrepreneurship, with particular emphasis on innovation and high growth firms, with programmes aimed at supporting the innovative capacity of SMEs. As the main source of job creation among all interventions co-financed by the ERDF, these interventions have been key in contrasting the effect of the crisis in recent years.

In total, over 170,000 projects to support investment in SMEs were undertaken across the EU up to the end of 2013. These directly resulted in over 220,000 jobs being created in SMEs. In addition, some 95,000 new firms across the EU were helped to start up by the financial assistance received from the ERDF as well as by the advice and guidance provided by business support centres also funded by the ERDF.

Among the interventions aiming at supporting enterprises, increasing importance is being devoted to **financial instruments** (loans, guarantees and equity) which increase the impact of the Funds. This focus will be further sharpened in the coming years, with an objective of at least doubling the use of such instruments in the 2014-2020 programming period across all TOs and MS.

Examples of achievements

Specific objective 1

Spain: more than 6,000 large projects were co-financed up to the end of 2013 to support the R&D carried out in the public sector, these representing a significant proportion of the projects initiated under the National RTDI Plan. Major support was also given to computerisation in public administration, education, healthcare and legal services as well as to the spread of ICT in SMEs.

Specific objective 2

Ireland: Thanks to ERDF investments, broadband services under the National Broadband Scheme are now available to all residences and businesses in the designated electoral divisions.

Specific objective 3

Bulgaria: Thanks to JEREMIE's First Loss Portfolio Guarantee (FLPG), SMEs managed to increase sales, provide higher quality products to clients and better working conditions for employees, all during the height of the financial crisis. From 2011 until 2014, this scheme reached nearly 4,000 SMEs in a market traditionally reluctant to support micro-enterprises, high-risk projects or innovative solutions.

Sustainable Growth

ABB activity: European Regional Development Fund			**☒ Spending programme**			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation[8] (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 4: Supporting the shift towards a low-carbon economy in all sectors	Additional capacity of renewable energy production *(MW)* *(REGIO core indicator 24)*	0	*Target values for this indicator are unreliable, due to errors in measurement units in some MS*		2,184	Not available

[8] For explanations concerning the presentation of achievements, see footnotes 6 and 7 above

ABB activity: European Regional Development Fund			☒ Spending programme			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 5: Promoting climate change adaptation, risk prevention and management	Population benefiting from flood protection measures *(REGIO core indicator 32)*	0	5,333,566	74%	5,655,167	7,204,667
	Population benefiting from forest fire protection measures *(REGIO core indicator 33)*	0	25,428,612	104%	28,894,555	24,530,521

ABB activity: European Regional Development Fund			☒ Spending programme			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 6: Preserving and protecting the environment and promoting resource efficiency	Additional population served by improved water supply *(REGIO core indicator 25)*	0	2,374,936	30%	2,527,501	8,016,521
	Additional population served by improved wastewater treatment *(REGIO core indicator 26)*	0	3,236,079	27%	3,458,726	12,112,505

ABB activity: European Regional Development Fund			☒ Spending programme			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 7: Promoting sustainable transport and removing bottlenecks in key network infrastructures	Total length of new railway line *(REGIO core indicator 17)*	0	304	55%	316	553
	Total length of reconstructed or upgraded railway line *(REGIO core indicator 19)*	0	2,457	55%	2,757	4,441
	Total length of newly built roads *(REGIO core indicator 14)*	0	3,253	58%	3,552	5,571
	Total length of reconstructed or upgraded roads *(REGIO core indicator 16)*	0	18,223	75%	19,280	24,294
	Total length of new railway line of which: TEN-T *(REGIO core indicator 18)*	0	1,008	62%	1,008	1,630
	Total length of newly built roads of which: TEN-T *(REGIO core indicator 15)*	0	420	74%	496	568

Comments on reported achievements

Based on the last figures reported by member States, Cohesion Policy achievements in relation to sustainable growth appear unevenly distributed across the EU. Transport and environmental protection display a steady improvement while concerns persist notably concerning environmental infrastructure.

Considerable part of the Cohesion Policy funds are invested in projects supporting sustainable regional growth. These interventions focus on the underutilised potential in all regions with the aim to enhance regional competitiveness and cohesion. Regional development opportunities are promoted by creating new domestic industries, employment opportunities and environmental benefits. The results of these interventions, especially in relation to renewables, energy efficiency and environment protection, foster the attainment of the New Commission key priority for "A Resilient Energy Union with a Forward-Looking Climate Change Policy".

The main outcomes reported by Member states up to 2013 are set out below.

Renewable energy

A large number of projects continue to be carried out with ERDF support to increase electricity-generating capacity from renewables[9]. Close to 50% of these are implemented in less developed regions. EC interventions supporting a shift toward a low carbon economy go beyond what is captured by the indicator associated with specific objective 4 above. Many projects have been implemented to increase the energy efficiency of apartment blocks and public buildings especially in the EU-12 countries where both types of building are heavy energy consumers. Benefits of these interventions directly accrue both to energy consumers and producers and, as a result, regions will be able to increase income, improve trade balance and contribute to industrial development and job creation.

Environment protection

Interventions aiming at preventing and managing risk are essential to ensure that development and economic growth are sustainable. To this end Cohesion Policy has invested in projects aiming at increasing the number of population benefiting from flood and forest fire protection measures. On average, environment protection displays the best rate of achievement with forest fire protection measures having already overachieved and flood protection on track to reach the 2015 target.

Environment infrastructure

The lack of accurate performance information in several MS, notably in relation to targets, makes it difficult to present a sound progress assessment as regards environmental infrastructure. It seems clear, however, that the overall level of achievement is lagging behind, jeopardising the attainment of the set targets for the 2007-2013 programmes. Project implementation delays are notably observed in Bulgaria, Slovenia and Spain due to lengthy public procurement procedures, crisis in the construction sector and subsequent bankruptcies of contractors, long national spatial planning procedures and in several cases low technical and financing capacity of the beneficiaries - mainly local authorities. These difficulties have been fully taken into account during the negotiations of 2014-2020 programmes. The implementation of ex-ante conditionalities' action plans directly impacting on the deficiencies identified will help remove those obstacles for the new generation of programmes, while also positively affecting the implementation of projects financed under the 2007-2013 OPs.

Transport

Considerable progress was reported by Member States in 2013 compared to 2012. Special efforts have notably been directed toward interventions that experienced more difficulties during previous years, such as construction of new roads (including TEN) and reconstructing of railways. Poland, Czech Republic, Portugal and Spain are the main contributors of the registered progress. The same holds true for Hungary, despite recent concerns regarding the regularity of project selection criteria.

[9] Achievement values have been verified; however, it was not possible to correct the target values. Therefore, for this indicator, achievement values are not compared to target values.

In some Members States, problems with public procurement and planning procedures, as well as delays in submitting and implementing Major Projects have hindered progress in recent years. These difficulties have been addressed through action plans defined in close cooperation by REGIO units and national authorities, thus improving the overall progress towards the set targets.

Through investment in transport infrastructure, a direct impact is sought on the economic activity of the regions through employment in transport construction, travel time and cost savings that accrue to businesses and travellers. In the medium and long term, reduction of bottlenecks in transport infrastructure contributes to sustainable economic growth by increasing levels of accessibility and cohesion between places, thus facilitating trade activity and creation of new business, residences and other development activities.

Examples of achievements

Specific objective 4

Belgium, Netherlands: ERDF funded an innovative initiative aiming at developing sustainable hydrogen fuelling infrastructure and promoting efficient use of hydrogen. Through this initiative, several projects involving the efficient use of hydrogen and fuel cells were promoted. Among them, particularly noteworthy is the development of the biggest fuel cell test facility for waste hydrogen in the world, located in the port of Antwerp. The plant converts waste hydrogen, as a by-product of the chlorine production, into 1 MW electricity, enough to supply energy to some 2 000 homes.

Specific objective 5

France: An extensive campaign of flood vulnerability diagnoses for businesses, industries and business parks was implemented in the Loire river basin (9 regions concerned). As a result of the 446 diagnosis carried out in 2013, awareness was raised among the concerned actors about potential risks and corrective actions are being planned to reduce their vulnerability to floods.

Specific objective 6

Luxembourg: Thanks to ERDF support, a large composting plant was built, which transforms an important part of the waste stream in the southern part of Luxembourg into biogas and compost. With an annual intake of 35,000 tons of organic waste generated by some 200,000 inhabitants, the plant produces some 10,000 tons of compost, all of which is sold off for use in agriculture and gardening. A sophisticated gas refinery on site allows for the plant to feed its biogas directly into the local network and to contribute to the energy supply of the equivalent of 1,300 households.

Specific objective 7

Portugal: The roads constructed as a result of ERDF and Cohesion Fund support include the last section of the Internal Regional Belt (i.e. the ring-road) in Lisbon, which carries an average of 50,000 vehicles a day and which has reduced the traffic on the main roads in the capital by 40%, so improving the urban environment.

Inclusive Growth

ABB activity: European Regional Development Fund			☒ Spending programme			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation[10] (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 10: Investing in education, training and vocational training for skills and lifelong learning	Capacity of supported childcare or education infrastructure *(REGIO core indicator 37)*	0	5,760,866	90%	6,256,333	6,384,503

NB: No information is currently available concerning indicators associated with ERDF specific objectives 8 ("Promoting sustainable and quality employment and supporting labour mobility"), 9 ("Promoting social inclusion, combating poverty and any discrimination") and 11 ("Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration"), which are to be included in 2014-2020 programmes.

Comments on reported achievements

Projects currently co-financed by 2007-2013 programmes in this area cover a range of different interventions, including investment in education facilities, construction and renovation of healthcare and social facilities such as hospitals, clinics and community centres, renovation of buildings and local areas, support to cultural activities. While they are often small, they can have a significant effect in improving the quality of life in local communities. Because of their nature, however, the outcome of the investment carried out is in many cases difficult to capture through physical indicators - such as an increase in the attractiveness of a town or a district of a city or an improvement in local facilities.

Some of the main reported outcomes up to the end of 2013 are summarised below.

Close to 4,700 projects were co-financed across the EU to expand or to improve healthcare facilities, most of them in Convergence regions and many (around 60%) in the EU15.

The ERDF gave support to over 25,000 projects involving investment in education facilities, to build new schools or colleges or to modernise and re-equip existing ones. These were almost entirely in Convergence regions, mainly in Italy.

Some 3,539 projects were co-financed up to end 2013 across the EU aiming at offering services to promote equal opportunities and social inclusion for minorities and young people.

Examples of achievements

Specific objective 10

Italy: In the South of the country, the ERDF co-financed the upgrading of 80% of all primary and secondary schools in Convergence regions in terms of ICT and science teaching.

[10] For explanations concerning the presentation of achievements, see footnotes 6 and 7 above

ABB activity: European Regional Development Fund		☒ Spending programme	
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Available target (2007-2015)	Latest known results (Achievements 2007-2015)
Spec. Obj. 12: Developing regional and local potential through encouraging integrated development approach, capacity building, cross border and transnational cooperation and supporting networking, exchange of experience and cooperation between regions, towns and relevant social, economic and environmental actors		NA	NA
Spec. Obj. 13: Supporting cross-border, transnational and interregional cooperation (European territorial cooperation) including cross-border cooperation between Member States and candidate or potential candidate countries		NA	NA

NB: The performance information related to the specific objectives 12 and 13 resulting from the 2007-2013 European Territorial Co-operation programmes is considered not reliable and is therefore not reported here. This is due to the fact that these programmes were not included in the voluntary reporting on core indicators which has allowed the provision of aggregate data for the 2007-2013 Convergence and Competitiveness programmes. Relevant performance information in relation to specific objectives 12 and 13 above will be available after the adoption of 2014-2020 programmes.

Comments on reported achievements

Although no information is currently available concerning indicators associated with ERDF specific objectives 12 and 13, some conclusions can be drawn from the analysis of available performance information resulting from 2007-2013 programmes, despite it being considered only partially reliable.

In particular, the core indicator tracking the number of transnational cooperation projects developing RDT and innovation networks exceeded considerably the target, showing the impact of Interreg programmes in this sector (140%). Set targets have also been exceeded for projects developing joint use of infrastructure (125%) and projects reducing isolation through improved access to transport, ICT networks and services. The job creation resulting from these interventions also compares favourably to the set target (176%).

In order to compensate for the absence of indicators and focused objectives in many Interreg programmes for the period 2007-2013, the programmes were requested to provide in their Annual Implementation Report a brief overview on what they had achieved, for whom and what evidence could be provided. While the outcome of this exercise was uneven between programmes, some salient trends can be highlighted:

- The emergence of health as an increasingly important area of cooperation. More borders than ever report on progress on health projects: sharing infrastructure, conducting joint preventive work, common training, developing common protocols, implementing joint emergency services, facilitating social security reimbursement, exploiting the possibilities offered by ICT development for e-health.
- The confirmation of the high relevance of investing jointly in managing natural resources and preventing risks (shared natural parks, flood risk management via common early warning systems, fire-fighting, integrated forest management, joint wastewater management, planning and exploiting renewable sources of energy, etc.).
- The increased awareness of border regions of the benefit of working together rather than seeing each other as competitors. Programmes report concrete achievements in tourism, in skills development and in SME cooperation.

- The importance for many border regions to work on improved accessibility. Many achievements have been reported, from building renovation of cross-border roads, to the development of better public transport links via an integrated offer, joint information services to users or single cross-border transport tickets.
- Programmes involving strong innovation regions report favourably on how cross-border activities have enabled them to increase their reach by finding partners across the border education institution, SMEs, researchers.

As regards specific objective 13, particular emphasis was placed in 2014 on improving the governance of macro-regional strategies. This resulted in the adoption of a communication by the Commission in May 2014, which provides the framework for ensuring increased effectiveness and ownership by the Member States during the implementation. Among the main achievements, particularly noteworthy is the preparation of the communication and the action plan for the EU Strategy for the Adriatic and Ionian Region (EUSAIR) which was adopted by the Commission in June 2014. This strategy aims to promote sustainable economic and social prosperity in the Region through growth and jobs creation, and by improving its attractiveness, competitiveness and connectivity, while preserving the environment and ensuring healthy and balanced marine and coastal ecosystems.

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

Examples of achievements

Specific objectives 12 and 13

Italy and Malta have developed a joint volcano ash-monitoring system, which warn citizens and ships of possible ash-rain events.

Belgium and France have extended their health cooperation along the entire border to facilitate the sharing of medical equipment and expertise.

Latvia and Estonia share environmental monitoring results to plan joint wind farms off their coasts.

Baltic Sea transnational programme: The member states participating in the programme set up a Baltic Science link - a network of research facilities of photon and neutron sources and their users to support and encourage innovation and entrepreneurship in the Baltic Sea Region.

1.1.3 ABB activity Cohesion Fund

Sustainable Growth

ABB activity: Cohesion Fund			**☒ Spending programme**			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation[11] (Achievements 2007-2013) Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	Target 2007-2015
Spec. Obj. 1 Supporting the shift towards a low-carbon economy in all sectors	Additional capacity of renewable energy production *(MW)* *(REGIO core indicator 24)*		*Target values for this indicator are unreliable, due to errors in measurement units in some MS*		765	Not available

[11] For explanations concerning the presentation of achievements, see footnotes 6 and 7 above

ABB activity: Cohesion Fund			☒ Spending programme			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 2: Promoting climate change adaptation, risk prevention and management	Population benefiting from flood protection measures *(REGIO core indicator 32)*	0	1,514,154	31%	1,514,154	4,912,100
	Population benefiting from forest fire protection measures *(REGIO core indicator 33)*	0	8,818,534	87%	8,818,534	10,200,000

ABB activity: Cohesion Fund			☒ Spending programme			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 3: Preserving and protecting the environment and promoting resource efficiency	Additional population served by improved water supply *(REGIO core indicator 25)*	0	1,927,165	28%	1,927,165	6,882,823
	Additional population served by improved wastewater treatment *(REGIO core indicator 26)*	*0*	3,216,598	29%	3,216,598	11,266,295

ABB activity: Cohesion Fund			☒ Spending programme			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 4: Promoting sustainable transport and removing bottlenecks in key network infrastructures	Total length of new railway line *(REGIO core indicator 17)*	0	86	22%	86	386
	Total length of reconstructed or upgraded railway line *(REGIO core indicator 19)*	0	1,140	44%	1,140	2,575
	Total length of newly built roads *(REGIO core indicator 14)*	0	1,750	71%	1,820	2,478
	Total length of reconstructed or upgraded roads *(REGIO core indicator 16)*	0	1,090	113%	1,483	966
	Total length of new railway line of which: TEN-T *(REGIO core indicator 18)*	0	431	21%	431	2,044
	Total length of newly built roads of which: TEN-T *(REGIO core indicator 15)*	0	1,664	65%	1,644	2,526

Comments on reported achievements

The comments concerning specific objectives[12] falling under sustainable growth formulated in relation to ERDF also apply to Cohesion Fund.

The only notable difference concerns the achievements related to the transport sector, and particularly to new railway lines, which are lagging behind in Cohesion Fund countries. This is in line with the low level of financial execution registered by those countries, generally below the EU average. Difficulties have been noted particularly in Slovakia (deficiencies in the management and control systems affecting the rail priority axis of OP Transport), Romania (almost no new rails inaugurated in 2014, with procurement problems delaying progress) and Slovenia (lengthy public procurement procedures, crisis in the construction sector, long national spatial planning procedures).

Actions targeted at addressing these difficulties, often due to poor administrative capacity in the area of public procurement, have in most cases already been defined and are being implemented by the relevant geographical desks, with the help of DG Regional and Urban Policy's competence centre dedicated to administrative capacity, thus improving the overall progress towards the set targets.

Examples of achievements

Specific objective 1

<u>Poland:</u> During the 2007-2013 programming period more than 650 investments in renewable energy have been financed by structural funds, contributing to the sound progress toward the 15% target for 2020. The share of renewables in energy production increased to 10.4% in 2013 compared to 2.7% in 2006.

Specific objective 2

<u>Hungary:</u> As a result of supported projects in the field of environment protection, 338 km^2 of land have been rehabilitated and over 1.3 million people benefit from improved flood protection measures up to 2013.

Specific objective 3

<u>Slovakia:</u> Projects supported in the area of environment for 2007-13 programmes include the construction of 179 km of drinking water supply, with more than 5,500 inhabitants connected to new drinking water supply, and 861 km of sewerage, with more than 25,000 equivalent inhabitants connected to new sewerage.

Specific objective 4

<u>Bulgaria:</u> EU funds have supported the rehabilitation of 242 km of railway lines of Trans-European and major National transport along with 141 km of highways and 30.8 km I-class roads.

Inclusive Growth

ABB activity: Cohesion Fund			**☒ Spending programme**			
Specific objective	**Result indicators** *(Source: AIRs 2013)*	Base line (2007)	Current situation[13] (Achievements 2007-2013)			Target 2007-2015
			Achievements with targets	Achievements / Targets (%)	Global achievements 2007-2013	
Spec. Obj. 5: Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration						

[12] ERDF specific objectives 4, 5, 6 and 7

[13] For explanations concerning the presentation of achievements, see footnotes 6 and 7 above.

NB: No information is currently available concerning indicators associated with CF specific objective 5 ("Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration"), which are to be included in 2014-2020 programmes.

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

ABB activity: Management of IPA and ISPA funds (Pre-accession assistance)			☒ Spending programme
Specific objective	**Result indicators**[14]	Target (2017)	Latest known results (Achievements 2013)
Spec. Obj. 1: Support for political reforms	Progress made in achieving the political criteria, as assessed by the Progress report		

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

ABB activity: Management of IPA and ISPA funds (Pre-accession assistance)			☒ Spending programme
Specific objective	**Result indicators**[18]	Target (2017)	Latest known results (Achievements 2013)
Spec. Obj. 2: Support for economic, social and territorial development, with a view to a smart, sustainable and inclusive growth	Absorption of available funds (%) under IPA Component III 2007-2013 (aggregate for FYROM, Turkey, Montenegro) *(Source: REGIO E3 monitoring data)*	100%	32% (24% FYROM, 33% Turkey)
	Submission of major projects by national authorities of FYROM, Turkey, Montenegro to DG REGIO service for approval *(Source: REGIO E3 monitoring data)*	43[15] (3 FYROM, 39 Turkey[16], 1 Montenegro)	41 (2 FYROM, 39 Turkey[17])
	Number of major projects approved by the Commission out of the total number of major projects to be submitted by national authorities of FYROM, Turkey, Montenegro to DG REGIO service for approval (%) *(Source: REGIO E3 monitoring data)*	100%[18]	66%

[14] Weighted score based on eight external sources (Corruption Perception (Transparency International), Press Freedom (Reporters without Borders), Freedom of Press (Freedom House), Government Effectiveness (World Bank), Control of Corruption (World Bank), Rule of Law (World Bank), Voice and Accountability (World Bank) and Regulatory Quality (World Bank))

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

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

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

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

Comments on reported achievements

Implementation under IPA 2007-2013 progressed considerably during 2014 in terms of contracting and payments. Despite that, decommitments had to be made for the Turkish Environment and Regional Competitiveness programmes. The same holds true for Regional Development programme of FYROM despite the notable recent acceleration of financial implementation. Furthermore, REGIO completed all necessary actions in order to ensure that 100% of the funds made available for JASPERS support to Montenegro, FYROM, and Serbia, were fully used.

The virtual elimination of the backlog in the adoption of first Commission decisions on major projects has been achieved. Following the withdrawal of immature major projects by the Turkish authorities, the current total number of submitted or announced MPs across all beneficiaries is 37. The Commission has already adopted 30 of them and will finalise the adoption process of another 3 by end of January 2015.

ABB activity: Management of IPA and ISPA funds (Pre-accession assistance)			**☒ Spending programme**
Specific objective	**Result indicators**	**Target (2017)**	**Latest known results (Achievements 2013)**
Spec. Obj. 3: Strengthening of the ability of the beneficiaries listed in Annex I at all levels to fulfil the obligations stemming from Union membership by supporting progressive alignment with and adoption, implementation and enforcement of the Union acquis, including preparation for management of Union structural, cohesion, agricultural and rural development funds.	Commission Decisions on Conferral of Management (Decentralized Implementation System under IPA Component III in place for all 5 OPs of FYROM, Montenegro, Turkey) *(Source: Article 14 of Commission Regulation (EC) No 718/2007 of 12 June 2007)*	5 (1 FYROM, 3 Turkey, 1 Montenegro)	4 (1 FYROM, 3 Turkey)
	Screening Reports (SR) and EU Common Positions (EUCP) adopted by the conference of Member States relative to the accession of individual candidate countries *(Source: REGIO E3 monitoring data)*	8 (SR + EUCP Iceland, SR + EUCP Turkey, SR Montenegro, SR + EUCP Serbia; SR	5 (SR + EUCP Iceland, SR + EUCP Turkey, SR Montenegro)

Comments on reported achievements

Regarding the management of IPA assistance, the year 2014 marked a great success in April 2014, when the Commission conferred management powers for IPA on the national authorities of Montenegro, thus already reaching the 2017 target. All the additional necessary legal steps for activating IPA-Component III implementation in the Country had been taken through REGIO actions by December 2014, enabling the signing of the Financing Agreement between the EU and the Government of Montenegro.

ABB activity: Management of IPA and ISPA funds (Pre-accession assistance)		**☒ Spending programme**
Specific objective	**Result indicators**	**Target (2017)**
Spec. Obj. 4: Strengthening regional integration and territorial cooperation involving the beneficiaries listed in Annex I, Member States and, where appropriate, third countries within the scope of Regulation (EU) No 231/2014 of the European Parliament and of the Council.	Number of cross border co-operation programmes concluded between IPA/EU countries (regional integration and territorial cooperation amongst the IPA II beneficiaries) *Source: European Commission Cross-border cooperation programmes, concluded between IPA/EU countries and IPA/IPA countries*	9 Western Balkans CBC IPA/EU 1 Turkey - Iceland

Comments on reported achievements

Strengthening regional integration between IPA and EU countries through cross border co-operation programmes has been part of the EC policy instruments for several years. Work carried out during 2014 marks the completion of the drafting and adoption of the IPA II (2014-2020) legal and programming period. According to the 2014-2020 programming documents, 9 cross-border co-operation programmes will be adopted until 2017. Reporting information against this objective will then become available in the forthcoming years.

Examples of achievements

<u>Turkey – Competitiveness sector:</u> Support of approx. EUR 8.7 million is being provided through a specific project to the research and technological Development & innovation in Kayseri and Yozgat provinces. During the last two years, the project managed to attract all Kayseri universities as partners, set up a successful technology transfer office which got a grant support from the Turkish government under highly competitive circumstances, set up an Industrial Design Centre and the first R&D Centre in Kayseri. 160 companies settled inside the Technopark (40 of them incubators, 35 of them spin-off companies and 50 entrepreneurs), 10 university – industry R&D projects were contracted, 426 staff is employed altogether. The income so far has been 160 Million TL in R&D and 3.5 Million USD from export to approx. 50 countries.

<u>Turkey – Transport sector:</u> The instrument for pre-accession supports the Köseköy-Gebze section on the Ankara-Istanbul High Speed Line Corridor with an amount of approximately EUR 140 million. This is the single largest financed project outside the EU and connects one of Europe's most populous cities to the Turkish capital, materializing the trans-European transport networks beyond the EU's borders, in an area of increasing strategic economic and political importance. The technical characteristics of the project ensure future interoperability with the European rail network at the Turkish-Bulgarian borders.

1.1.5 ABB activity European Union Solidarity Fund: a sustained capacity to meet the requests for assistance formulated by the countries affected by natural disasters

ABB activity: European Union Solidarity Fund			**☒ Spending programme**
Specific objective	**Result indicators**	**Target (2017)**	**Latest known results (Achievements 2014)**
Spec. Obj. 1: To assist Member States or countries negotiating their accession to the EU in the event of a major natural disaster with serious repercussions on living conditions, the natural environment or the economy	Population helped in overcoming a crisis situation where their living conditions have been affected *(Source: REGIO E1 monitoring data)*	100% of population affected and eligible upon the Member States' request	7 EUSF applications decided in 2014, covering 100% of the affected areas and population for which interventions were requested
	Size of disaster-stricken area where rehabilitation has been assisted *(Source: REGIO E1 monitoring data)*	100% of areas affected and eligible upon the Member States' request	Aid available for 100% of affected areas (choice of supported operations up to the beneficiary country)

Comments on reported achievements

The European Union Solidarity Fund (EUSF) is an instrument based on the subsidiarity principle and assists eligible countries in coping with disasters of such size and impact that they have difficulties facing them with their own means alone. EUSF aid comes in addition to national efforts as an act of European solidarity.

In 2014, the Commission continued to respond promptly and effectively to requests for assistance formulated by countries affected by natural disasters. The aid mobilised (decided) in 2014, in reply to seven applications received, amounts to EUR 126.7 million. Since its creation in 2002, the EUSF has been mobilised for a total of 63 disasters. In order to increase the effectiveness of the fund, a revised Regulation for EU Solidarity Fund was adopted in May 2014 and entered into force on 28 June 2014. The new set-up should make the fund more responsive to disasters and more visible, while streamlining its operational criteria.

Examples of achievements

In 2014, an amount of EUR 126.7 million was approved by the Commission for disasters that occurred in Italy (flooding), Greece (Kefalonia earthquakes), Slovenia (ice storm), Croatia (ice and floods), Serbia (flooding) and Bulgaria (flooding). The European Parliament and Council, in their capacity as budgetary authority, finally approved the aid amounts proposed by the Commission in December 2014. The financial contribution is being used for essential emergency operations (i.e. restoration to working order of infrastructure, providing temporary accommodation and funding rescue services, securing of preventive infrastructure and measures of protection of cultural heritage, as well as cleaning up operations).

1.2 Contribution to policy achievements resulting from the implementation of 2014 operational priorities and from the enhanced assessment of programme performance

1.2.1 Outcomes resulting from the implementation of REGIO 2014 operational priorities

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

In order to foster their achievement, DG Regional and Urban Policy identified 19 operational priorities for 2014. These priorities, structured around four main multiannual priorities, reflect the DG's operational focus on actions (mainly measured through output indicators related to the DG's internal processes) which can positively contribute to the delivery of policy results, thus enhancing policy performance.

The achievements associated with the DG's operational priorities presented below (which have a greater impact on the achievement of policy objectives) should therefore be seen as a direct illustration of DG Regional and Urban Policy ability to accomplish its mission. A full overview of the implementation of 2014 operational priorities is provided in annex 6.

To start the 2014-2020 period with a strong result and performance orientation

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

The successful and timely preparation of the framework and the basic planning documents for the programmes to be implemented in 2014-2020 constituted the main challenge for 2014, key to the successful delivery of our policy objectives on economic growth and jobs in line with the reformed Cohesion Policy. These documents are the basis upon which the Member States, for the next seven years, will invest in a limited number of agreed priorities capable of achieving sustainable, smart and inclusive growth. Negotiating for better spending and result-orientation contribute to fostering policy performance throughout 2014-2020.

Illustration of main achievements / difficulties

Preparation of delegated and implementing acts and delivery of guidance notes

Timely adoption has been achieved for all main delegated and implementing acts for the preparation of the 2014-2020 programing period, which were phased according to the degree of urgency as foreseen. Work was also finalised according to plans as regards the issuance of all guidance documents aimed at supporting desk officers, along with specific guidance on selected topics for programme authorities.

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

While the late adoption of the 2014-2020 legislation delayed the subsequent process of adoption of PA/OP, significant achievements were nevertheless registered. The adoption of partnership agreements was finalised with a 20% time reduction compared to the 2007-2013 adoption process. Following intense negotiations, a rapid 2014-2020 OPs adoption process took place during the 4th trimester, which made it possible to outperform the revised 50% target set in June 2014. 63% (130) of the 205 Investment for Growth and Jobs programmes (IfGJ) programmes were adopted in 2014 as well as 18 ETC programmes with negotiations being finalized for 18 Member States. Taking into account the carry-over group, 80% of the IfGJ Ops (130 out of 205 and 34% ETC programmes were adopted by February 2015 with negotiations being finalized for 21 Member States.

The DG's matrix structure was effectively used throughout the PA/OPs adoption process, as competence centres provided continued assistance to geographic units, notably contributing to the Commission's assessment of the fulfilment of ex-ante conditionalities and to the definition of the related action plans.

To ensure and demonstrate the added value of Cohesion Policy through greater integration within EU governance mechanisms and providing results

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

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

Providing evidence on results of 2007-2013 programmes and evaluating their impact contribute to raise awareness of EU citizens and other stakeholders about what the policy and funds deliver. Gathering and disseminating evidence on what does not work as well as what does helps Member States and regions **develop more effective policies** which will be supported by the Funds. **Communicating and disseminating results and impacts** of programmes contribute to building trust in EU policies, particularly in cohesion policy, as an effective contribution to fostering investments for growth and creating jobs.

Main achievements / difficulties

Integration of cohesion policy into the European Semester

As a follow-up to the great progress achieved throughout 2013 in strengthening the link between the EU economic governance and cohesion policy, DG Regional and Urban Policy deployed significant efforts to further enhance the contribution of Cohesion Policy to EU economic governance. This was notably achieved by screening all the 2014-2020 partnership agreements and operational programmes so as to ensure that that the relevant Country Specific Recommendations (CSRs) adopted by the end of June 2014 were adequately reflected in Member States' development and competitiveness strategies.

The adoption of Commission guidelines on the application of the provisions on measures linking effectiveness of ESI Funds to sound economic governance in Article 23 CPR has also contributed to reinforcing the link between EU economic governance and Cohesion Policy.

Demonstrating policy results

In 2014, significant resources were devoted to the launching and management of the 15 ex-post evaluation packages for 2007-2013 programmes. The selection of contractors was successfully completed by end 2014 in line with the target. The verification of core indicator data was completed as planned by end 2014, with the presentation of the results in a searchable database in early 2015. This will serve as a basis for the whole ex-post evaluation exercise, which will be completed in early 2016, with interim results published and debated throughout 2015.

To achieve sound and efficient use of funds to channel investments for growth and jobs

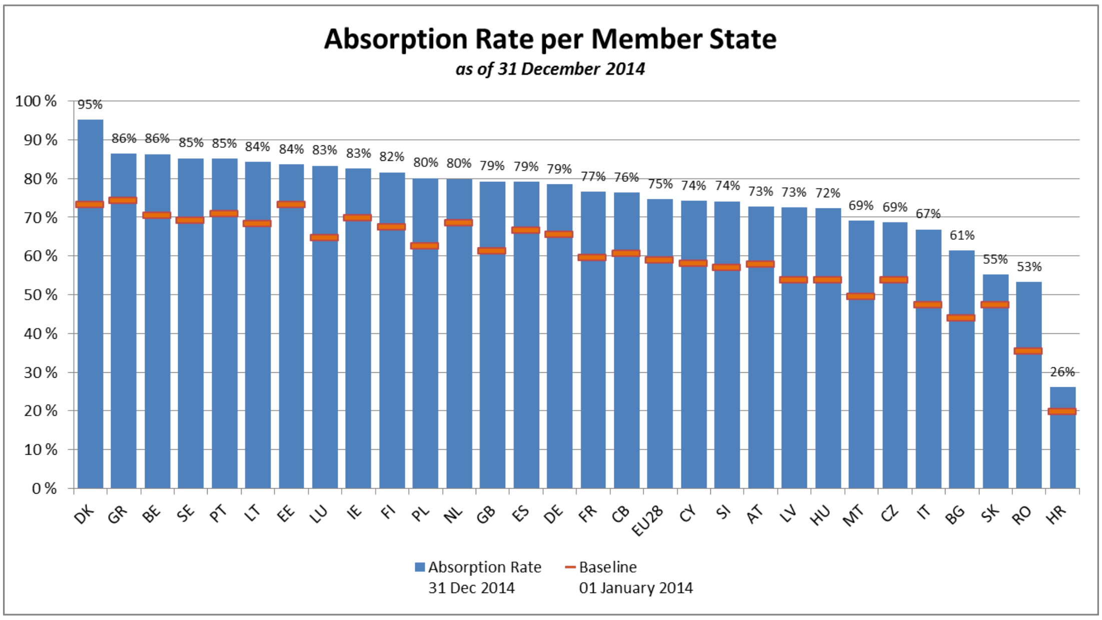
Contribution to (short- or long-term) policy achievements

A sustained rhythm of absorption is a necessary condition for the delivery of growth and jobs through the effective use of the Funds. In order to ensure that, we implement targeted actions aimed at addressing country-specific difficulties and increasing the Member State capacity to effectively use the available Funds.

Illustration of main achievements / difficulties

Level of absorption

Significant progress was registered as regards the level of financial execution for ERDF/CF payments, which is to be counted among the main achievements of 2014. Despite initial difficulties, the targets set for 2014 (75% overall, 60% for the 6 worst performing Member States) could in fact be met, as shown in the chart below (Payments from the ERDF and CF relative to the total available for the 2007-2013 period, end-2013 and end-2014 (%)).



This was made possible by a significant increase of the execution rate in the last few weeks of December, during which a record value of submitted claims (in excess of EUR 14 billion) was registered.

DG REGIO support to implementation

The good results in relation to financial execution are partly due to the efforts DG Regional and Urban Policy deployed in supporting Member States' authorities through technical meetings, targeted advice, dialogue with national authorities and closer follow up on the implementation of EU Funds. Thanks to that, existing difficulties were tackled in several Member States: delays in project selection, timely preparation of major projects, accurate reporting against core indicators, imbalanced implementation across investment priorities, and lack of financial flows to beneficiaries for financial engineering instruments, etc.

In particular, important actions resulted from the implementation of the public procurement action plan and anti-fraud actions, among which nine anti-corruption seminars and the drafting of a new public procurement guidance manual for beneficiaries, the formal adoption of which was however delayed.

In this respect, further improvements are expected following the setting up in November 2014 of an internal Task Force (TF) on better implementation. The task force is notably responsible for assessing the situation in each of the eight concerned Member States, identifying the bottlenecks hampering successful implementation, defining and monitoring the implementation of concrete action plans to address these potential risks of de-commitments.

Major Projects

Notable efforts were deployed concerning major projects. The backlog identified at the end of 2013 was significantly reduced, as only 67 applications submitted before 2014 (7% of the total) were still outstanding at the end of the year. Processing MP applications remains however a lengthy procedure, as the target processing time (180 days) could only be met in 30% of the cases (target was set at 80%). The main elements which have negatively affected the DG performance were delays in Member States' replies, as well as the MS' refusal to withdraw projects leading to time-consuming negative decisions. The priority given to the 2014-2020 negotiations also had its impact on human resources availability in the Implementing Units. Targeted actions aimed at improving Member States capacity in this area are implemented, directly and through technical assistance.

Financial Engineering instruments

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

At end 2013, a total of 941 FEIs (69 holding funds and 872 specific funds) had been set up under 176 operational programmes in almost all Member States. The contributions of the Operational Programmes to FEIs amounted to EUR 14.3 billion, including over EUR 9.6 billion of Structural Funds. This corresponds to a 14% increase of OP contributions already paid into FEIs compared to 2012. Some progress, albeit not sufficient to reach the target defined for 2014, was also registered in terms of absorption rates at the level of final recipients, with almost 47% of OP contributions disbursed by the end of 2013, with significant differences across Member States, as well as across areas of intervention.

In 2014 DG Regional and Urban Policy continued to strengthen its monitoring activities on the progress made in financing and implementing FEIs, through specific follow up of Member States with slow-disbursing FEIs identified on the basis of the reporting requirement for Member States introduced in December 2011. The Member States' reporting has been consistently used as an analytical tool for the risk assessment of the "underperforming" cases of FEIs and to trigger remedial actions. Thanks to that, recent implementation figures communicated by underperforming Member States show significantly improved absorption rates as of 3rd quarter 2014.

1.2.2 Introduction of a systematic assessment of the performance of programmes

In addition to the operational priorities implemented throughout 2014, DG Regional and Urban Policy defined and carried out a pilot exercise in 2014 aimed at systematising the assessment of programme performance by the geographical units, as a part of the DG's Strategy to Manage Change towards a more Performance-Based Culture.

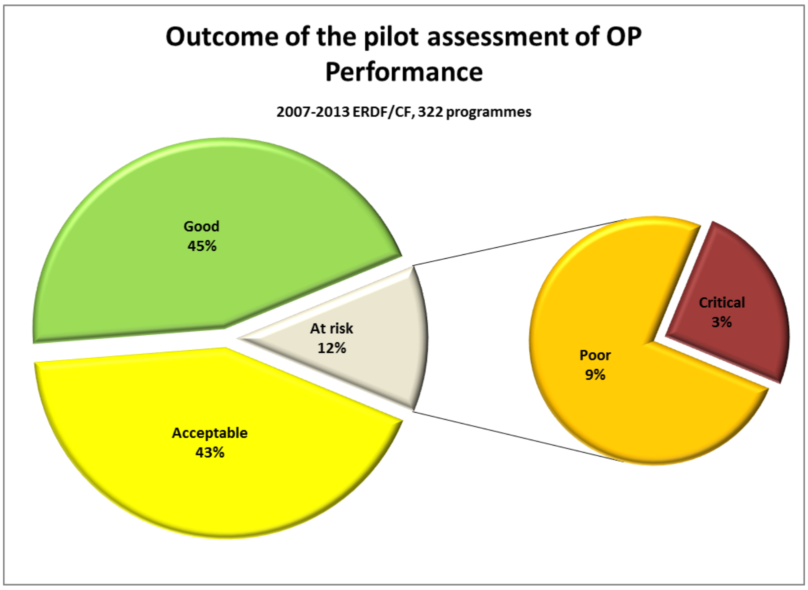
The overall aim of this initiative is to prepare Desk Officers and Heads of Unit to provide a structured judgment of the performance of programmes for which they are responsible. The experience gathered during the review of 2013 AIRs and that of 2014 AIRs (to be done in 2015) should also help develop guidance and checklists for a more extensive review of the upcoming AIRs related to the 2014-2020 programming period. This assessment will be largely based on the values of indicators reported by Member States associated with the policy specific objectives and will complement the evidence regarding policy performance gathered through the evaluation activities. Based on its outcome, DG Regional and Urban Policy could request the relevant national authorities to implement targeted corrective actions, which will enhance the programmes' capacity to deliver the expected results.

In 2014, the checklist supporting the assessment of AIRs was revised to include notably a section capturing the desks' overall assessment of the performance of the programmes in six main areas:

- Project Selection
- Financial execution
- Major Projects
- Financial Engineering Instruments

- Core and programme Indicators / (Outputs)
- Management and control issues.

It is worth mentioning, however, that the assessment was not limited to information included in the AIRs. For the purpose of reaching a conclusion about programme performance, the geographical desks were also encouraged to take into account any relevant information resulting from formal or informal contacts with the relevant Member States' authorities. Although the approach developed in this pilot bottom-up exercise will have to be perfected in the forthcoming years, a first indicative picture of the estimated performance of programmes could be drawn. Overall, the performance of the programmes was considered to be as either good or acceptable for 88% of the programmes and poor or critical for 12% of them, as shown in the chart below.



Corrective actions to address the main weak areas had already been identified by DG Regional and Urban Policy and are currently being implemented and monitored.

1.2.3 Examples of EU-added value and results/impacts of projects or programme financed

Example 1: Smart Growth - SME innovation

The road towards entrepreneurial Poland, a project initiated in 2008, is an example of the systemic change induced and supported by ERDF on European regions, thanks to the multiannual development strategy, aligned to EU-wide priorities, supporting interventions co-financed by the ERDF/CF.

Born with the aim to encourage entrepreneurship and innovation in high technology fields across Poland, the programme has developed an innovative network of pre-incubation facilities (Academic Business Incubators – ABIs – located in universities), incubation services (ABI Business Link centres) and a Seed Capital system. The pre-incubation and incubation scheme provides low-cost office, research or production accommodation to start-up companies and provides business support services to around 1,450 start-ups per month. The Seed capital system is run through a fund, ABI Seed Capital, which provides seed finance to innovative start-ups. This fund has so far invested PLN 9 million (EUR 2.09 million) in 51 start-up companies. Companies wishing to expand their businesses into international markets are also supported with professional advice through a network of three start-up ‘embassies’ in China, the United States and the United Kingdom.

In the space of just five years, this programme has helped over 6,000 start-up initiatives and, by generating income of around EUR 35.5 million, has had a positive effect on the lives of around two million people. With two years of the programme still to run, it has so far achieved the creation of 38 out of 50 planned business incubators across Poland, making it Europe’s largest network of business incubators. This has had a systemic impact on the whole sector in the country, creating a dynamic entrepreneurial ecosystem and a community of young entrepreneurs.

Example 2: Sustainable growth - Urban public transport

Five major European public transport companies (MoBiel, RATP, RET, STIB and TFGM) have joined forces in a transnational initiative called 'Ticket to Kyoto'. Together, they exchange, innovate, and experiment with practical solutions for reducing CO2 emissions from public transport. The ultimate goal is to set low CO2 emissions as the new standard for public transport providers, thus contributing to reaching the European objectives of the Kyoto Protocol in 2020.

Specifically, the five partners 1) have developed energy saving measures called 'quick wins' that are easy to achieve in the short term without large investments; 2) have mutualised their knowledge investing in infrastructure like energy recovery from tram and metro braking; 3) have identified effective solutions to improve policies and regulations for longer term sustainability; 4) have mobilised both the public and industry to take action through public campaigns.

Since 2010, more than 30 Ticket to Kyoto projects have been launched. As an example, it is estimated that STIB's new cogeneration system will save up to 165 tons of CO2 each year.

The coordination of 5 major public transport operators is unprecedented and is a perfect illustration of the added value of EU-wide cooperation initiatives. It has reduced the costs of planning by enlarging the number of possible suppliers, organising eventual joint tenders and identifying the conditions for optimal implementation, developing a joint approach directly replicable to other industries.

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

According to the Financial Regulation (Article 30), the principle of economy requires that the resources used by the Institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved. The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc…) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

However, and as recalled under section 1.1 above, under the shared management mode the Commission cooperates with Member States' administrations, which are in charge of the operational implementation. The Commission is also implementing performance-related recommendations from the European Court of Auditors[19]. Thus, efficient and effective implementation of actions supported by the ERDF and CF largely depends on good governance and partnership among all the relevant territorial and socio-economic partners. In particular, crucial processes such as project selection remain largely in the hands of programme authorities.

DG Regional and Urban Policy has however set up a control environment and put in place procedures aimed at inducing authorities in charge of the implementation to comply with the principles of economy (minimizing the cost of inputs), efficiency (relation between resources and results) and effectiveness (achievement of objectives). In addition to that, specific initiatives aimed at improving the DG's internal effectiveness and efficiency have been launched.

[19] See section 2.3.1.2.

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

Example 1: Optimisation of internal human resources allocation

Throughout 2014, DG Regional and Urban Policy continued its efforts targeting directly the improvement of efficiency and quality of internal processes.

Following a detailed screening of DG Regional and Urban Policy internal activities and of related resources allocation, finalised in 2013, intensive work was carried out in 2014 to streamline certain processes (HR processes, secretarial & administrative support) and to optimise resource allocation within the DG. This exercise allowed shifting resources from administrative to operational activities. For instance, DG Regional and Urban Policy has performed an in-depth analysis of the level of secretarial and administrative support in the DG, in the context of this optimisation exercise. For this purpose, all Directors were requested to carefully scrutinise the number of staff members performing secretarial / other administrative tasks and align their number to the agreed model.

In order to steer the DG's efforts, a HR Strategic Committee was also set up. This high-level body, composed of the Director-General and of his two Deputies, meets every 3 weeks. Thanks to it, HR allocation is under constant analysis and scrutiny by senior management. Re-allocation is reviewed and analysed regularly, notably taking into account linguistic constraints, with a view to identify and exploit potential savings and further efficiencies gains to be made.

Example 2: Enhancement of Member States' administrative capacity

Several deficiencies related to the Member States' administrative capacity hinder the smooth and consistent delivery of policy objectives across MS. In order to tackle these deficiencies, DG Regional and Urban Policy established in 2013 a Competence Centre "Administrative Capacity Building", responsible for defining and implementing targeted actions addressing administrative bottlenecks and weaknesses hindering effective and efficient use of ESI Funds in MS and regions.

In 2014, several initiatives were carried out. Among them:

- Implementation of a public procurement action plan. A new manual, containing detailed guidance for beneficiaries, was completed and presented during the Open Days event. It is expected that this new manual will contribute to the reduction of irregularities and to the overall improvement of public procurement practices, which is one of the main tools ensuring the economy of interventions co-financed through the Funds.
- Preparatory work leading to the definition of a peer-to-peer exchange instrument, aimed at enhancing the implementation of the Funds on the ground. In this framework, a demand analysis was carried out in order to identify interest and needs of the Member States. Based on this analysis, the design of the exchange system was defined and a concrete proposal was developed and endorsed by Board in 2014. A pilot expert exchange will be launched in 2015.

2. MANAGEMENT OF RESOURCES

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

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

This section reports the control results and other relevant elements that support management assurance on the achievement of the internal control objectives[20]. It is structured in three separate sub-sections:

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

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

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

The table below presents an overview of the financial resources managed by DG Regional and Urban Policy in 2014 (including advances). Payments under shared management account for more than 99% of the overall payments.

<u>Table: Payments per Management Mode, 2014</u>

	Activity	Total Payments in 2014 EUR m
Shared Management EUR 43,665.14m (99.44%)	ERDF / Cohesion Fund 2007-2013	41,779.22[21]
	ERDF / Cohesion Fund 2014-2020	776.13
	ERDF 2000-2006	169.08
	ERDF Before 2000	8.94
	Cohesion Fund 2000-2006	445.05
	EU Solidarity Fund	400.81
	IPA Cross-border Cooperation	85.92
Indirect Management EUR 172.22m (0.39%)	IPA Regional Development	172.22

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

[21] i.e. EUR 41,650.8 billion of interim payments + EUR 128.4 million of advances made to programmes for Croatia

	Activity	Total Payments in 2014 EUR m
Direct Management EUR 72.89 m (0.17%)	Pilot Projects / Preparatory Actions	5.79
	Technical Assistance	53.99
	Cross Sub-delegations given	13.09
	IPA Administrative	0.02
	TOTAL Authorised Payments 2014	**43,910.25**
	Cross Sub-delegations received	*3.21*

2.1 Management of human and financial resources by DG Regional and Urban Policy

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

2.1.1 Control effectiveness as regards legality and regularity

2.1.1.1 Shared Management – ERDF/ CF 2014-2020

Indicator (programming period 2014-2020)	2014
% of programmes adopted - Investment for Growth and Jobs programmes - ETC programmes	 80 % 31.5%
% of managing and certifying authorities designated (compared to total number of programmes)	MA and CA designated for 5 programmes

A. Adoption of programmes and payments made in 2014

By the end of 2014, as detailed in the above section 1.2, the Commission has adopted 130 Investment for Growth and Jobs (IfGJ) programmes out of the expected 205 falling under the responsibility of DG Regional Policy[22] as well as 18 ETC programmes out of 76. In addition, another 34 IfGJ and 6 programmes were adopted in February 2015 as soon as the 2014 amounts were carried over to the 2015 budget. This means that 80% of Investment for Growth and Jobs programmes are adopted and a third of the ETC programmes. The negotiations are closed with 21 out of the 28 Member States.

There are 102 programmes for which the initial pre-financing of EUR 776 million was paid in accordance with the regulation. Pre-financing therefore bears no financial risk. The amount paid as initial pre-financing shall be totally cleared from the Commission accounts not later than when the programme is closed.

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

Management and Control Systems

Regulation No 1303/2013 laying down common provisions on ESIF 2014-2020 states that Member States must adopt adequate measures at the start of each programme to guarantee the proper set

[22] With ESF programmes, the number is 198 out of the expected 311 Investment for Growth and Jobs programmes

up[23] and subsequent functioning of their management and control systems.

In that context the Member States must notify the Commission of the date and legal form of the designations of the managing authorities and, where applicable, of the certifying authorities, prior to the submission of the first application for interim payment to the Commission. For these authorities, designation will be based on a system description and audit report and opinion by the independent audit body. The Commission will then be able to request to review, based on its risk assessment, designation procedures for programmes with an ERDF/CF contribution of over EUR 250 million. The Member States may also at their own initiative request the Commission to review the designation process if significant changes were introduced in management and control systems compared to the previous programming period, for programmes with an ERDF/CF contribution of over EUR 250 million.

The single audit strategy for the 2014-2020 programming period[24] has foreseen to start by two types of audits: a) desk-based review of designation packages completed in case of doubts by targeted on-the-spot fact finding missions to verify the designation procedure, for the selected high-risk programmes and b) combined - in case of submission of interim payment claims - to early preventive system audits on the effective implementation of the described systems in case of identified risks[25]. Such audits are planned in the updated audit plan for 2015-mid 2016.

By 27/03/2015 the Directorate general has received notifications of designation from two Member States (Netherlands and Estonia) concerning 5 programmes (4 ERDF Dutch programmes below EUR 250 million and 1 multifund Estonian programme above EUR 250 million). The Estonian programme was not considered high risk and therefore was not considered for the assessment of the designation process by the Commission or for a preventive system audit.

Delegated and Implementing Acts, Guidance notes and training

Following the adoption of the Common Provision Regulation at the end of 2013, a substantial amount of work was done in 2014 to prepare and have adopted by the Commission the secondary legislation foreseen by the Common Provision Regulation. The objective was to ensure the complete legal framework.

The Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 outlining the management and control system provisions entered into force on 5 May 2014. It notably covers IT systems to record and store data on operations, management and control system for financial instruments, methodology for selection of samples to be audited, criteria for determining serious deficiencies in the effective functioning of management and control systems and for financial corrections.

Two Commission Implementing Regulations with management and control system provisions have been adopted in 2014. These cover rules on exchange of information between beneficiaries and managing authorities (e-cohesion), and different compulsory templates[26].

In order to provide Member States with early and comprehensive support and advice, specific guidance was prepared for programme authorities, covering the main features of the new set-up of the management and control systems (designation, assessment of management and control system, audit strategy, management verifications and annual control reports). Additional guidance notes on accounts and on management declaration/annual summary are expected to be finalised in the first half of 2015.

Finally, trainings were organised to prepare managing, certifying and audit authorities for the

[23] based on specific criteria for internal control environment, risk management, management and control activities and monitoring

[24] The single audit strategy for the 2014-2020 programming period is based on a risk assessment model designed for the desk review work of the designation package and identification of required early preventive system audits.

[25] For further details on the 2014-2020 single audit strategy, see DG Regional and Urban Policy AAR 2013 (Annex 8, p. 51): Extracts from the outline for a single audit strategy for ERDF, ESF, CF and EMFF for the programming period 2014-2020 and joint audit plan 2014-mid 2015.

[26] Templates for the system description, the report and opinion of the Independent Audit Body for the designation process, for payment applications, accounts, management declaration of the managing authority, audit strategy, annual control report and audit opinion of the audit authorities.

programming period 2014-2020, mainly through a series of general seminars in Brussels opened to all Member States, and also of targeted trainings in particular for BG, EL, DE, PT and AT authorities (for ERDF/CF) and IPA authorities.

Audit strategy

A single audit strategy document for the 2014-2020 programming period was adopted jointly with other services in charge of ESI Funds in March 2014[27]. This single audit strategy takes account of the new requirement to draw up annual accounts for each programme following completion of controls at national level, and submission of a complete set of assurance documents by 15 February each year[28] as from 2016.

The 2014-2020 single audit strategy and related audit plan for 2015-mid 2016 will be updated in April 2015 following the annual activity report exercise and identification of new risks based on the updated situation of programme adoption.

2.1.1.2 Shared Management – ERDF/ CF 2007-2013

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

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

Regarding the legality and regularity of the underlying transactions, the overall objective is to ensure that the estimated residual risk of error is less than 2% at the end of the implementation of each programme. During implementation, reservations are made for all programmes for which the management and control system is considered as not effective enough in preventing material irregularities. In addition, reservations are also made as a general rule for programmes presenting a system assessed by the Directorate-General as functioning well (or programmes with only some improvements needed), but for which the cumulative residual risk (CRR) exceeds 2% (thus demonstrating an insufficient corrective capacity over the period).

The CRR is estimated by considering the multi-annual impact of the validated error rates calculated since the beginning of the programming period, after two types of deductions:
- after due analysis and when considered appropriate, deduction of recoveries and withdrawals reported by Certifying Authorities for each year[29];
- deduction - under certain conditions - of amounts of irregular expenditure that Certifying Authorities have accepted to withdraw and have recorded in their accounts prior to the date of signature of the annual activity report.

The CRR is expressed as a percentage of the value of the cumulative interim payments made for the programming period, taking into account corrections up to the date of signature of the annual activity report (for more details see section H below and annex 8.H).

[27] The outline of the single audit strategy was published in annex 8 of DG Regional and Urban Policy's 2013 AAR.
[28] Or at the latest by 1st March each year upon request of the Member State.
[29] Withdrawals and recoveries formally reported by Certifying authorities in the IT system SFC 2007 by 31 March each year (article 20(2) of Regulation (EC) No 1828/2006 as amended) reflect corrections implemented at national level in the preceding year through the deduction of the corresponding amounts from statements of expenditure previously certified to the Commission. They reflect the overall corrective capacity of the management and control system for each programme, aggregated at priority axis level, independently from the source of the correction.

Key control indicators and results reported

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

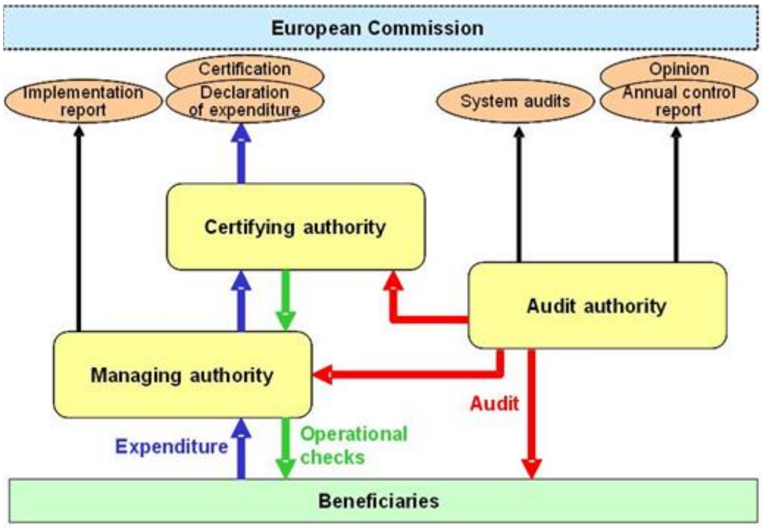
The assurance is built on a comprehensive assessment by all parties involved in the management and control of every programme.

Control system for the Fund under shared management

For Shared Management and in particular for Cohesion Policy, the control system is built on a multiannual and multilevel control system. In this system, one level of control may rely on the work of previous controls performed by other bodies after having performed its own verifications that preceding controls are effective (single audit concept).

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

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



- The **Managing Authority** performs management verifications before declaring expenditure to the next level, ex ante documentary checks on all payment claims and ex ante or ex post on the spot checks on sampled operations;
- The **Certifying Authority** relies on this first level of verification before certifying the legality and regularity of expenditure declared to the Commission. It takes steps to satisfy itself that adequate controls have been made by the Managing Authority, including carrying out its own checks when necessary;
- The **Audit Authority** has the responsibility to design an audit strategy in order to perform audits of the management and control systems and ex post audits of representative samples of operations, as well as complementary audits on high risk operations where necessary.
  The **Audit Authority** provides the Commission with its results on an annual basis in an Annual Control Report. This report includes an annual audit opinion on the functioning of the management and control system and in particular of the quality and effectiveness of the first level of verification by managing authorities, and the error rate resulting from its audit of sampled operations.

2. At Commission level, the way in which DG Regional and Urban Policy defines its assurance for the management and control systems for each operational program is a process based on the internal control and audit procedures implemented within the Directorate-General[30] (role of the operational units, the audit units and the financial unit) and the analysis and evaluation of information acquired through various sources:

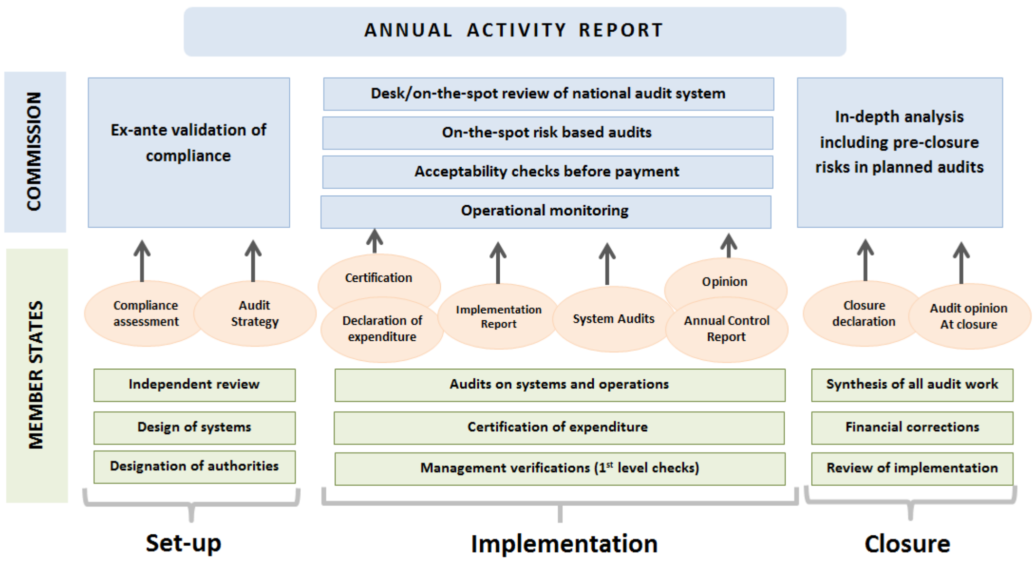
a) From the various audit sources (based on the application of the single audit approach with programme audit authorities and mutualisation of audit results with other EU audit sources in line with DG Regional and Urban audit strategy and risk-assessment in place, see section D below and annex 8):

- National system audit reports;
- The national Annual Control Reports and Audit Opinions;
- DG Regional and Urban Policy's audit work on the review of the quality of the Audit Authorities;
- DG Regional and Urban Policy's on-the-spot system audits and audits of operations;
- Relevant audit information received from DG EMPL, DG MARE and/or the European Court of Auditors;
- OLAF.

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

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

Through the **single audit approach**, notably with the Annual Control Reports and Audit Opinions from the national or regional Audit Authorities for each operational programme, complemented by DG Regional and Urban policy's risk-based audits, all programmes, are covered by audit activities. The entire audit work and the analysis of national audit reports and other guidance activities results in an Annual Audit Opinion of the Directorate General for each operational programme. This forms the basis for management opinions by the Authorising Officers by Sub-Delegation.



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

[30] In this process, the operational units, the audit units and the financial unit are involved.

A. Adoption of programmes and setting up of systems

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

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

For the 2007-2013 programming period, the compliance assessment process allowed DG Regional and Urban Policy to take preventive measures on the set up of systems[31] and to identify risks early in the programming period before any EU payment was made. This exercise was closed in 2011 for 316 programmes out of 317. For one remaining programme ("POI Attrattori culturali, naturali e turismo FESR"[32]), DG Regional and Urban Policy eventually accepted the compliance assessment following various requests for clarifications and changes in April 2013.

In 2013, following the accession of Croatia, three additional programmes and two ETC programmes were adopted under the 2007-2013 multiannual financial framework. The compliance assessment reports and opinions were accepted in March 2014 once the required management information system was fully set up.

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

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

Indicator	2014
Reviewed audit authorities by DG REGIO	47[33] in charge of 94%[34] of ERDF/CF allocations
Reliance on reviewed audit authorities by DG REGIO	42 in charge of 91% of ERDF/CF allocations
Number of reported error rates assessed as reliable (unchanged or recalculated)	309 (96%)
% of the 2014 payments for which the Directorate-General can rely on the work of the audit authorities (based on ACRs reliable error rates)	98% of 2014 payments
Weighted average error rate on 2014 payments as reported by Member States (based on 2013 error rates) - Estimate	1.8%
Weighted average error rate on 2014 payments after the Directorate-General's analysis and validation (based on 2013 error rates) - Estimate	2.6%
Cumulative residual risk by end 2014 (average for all programmes)	1.1%

Analysis of the ACR audit opinions[35]

A major source of information under the 2007-2013 programming period is the annual control reports (ACRs) and audit opinions submitted by the programmes' audit authorities and covering, in principle, all programmes each year.

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

[32] Operational programme 2007IT161PO001

[33] Out of 75 ERDF/CF audit authorities, responsible for audit of mainstream and ETC programmes, and 7 audit authorities responsible for ETC programmes only (the latter represent 0.36% of total ERDF allocation)

[34] ERDF/CF allocation for the programmes under audit responsibility of the 75 ERDF/CF audit authorities, responsible for audit of mainstream and ETC programmes

[35] Annex 8: table showing the Member States' national audit opinions (in the ACR) per Member State

For the year 2014, a total number of 215 ACRs have been received covering all 322 ERDF/CF programmes (100%).

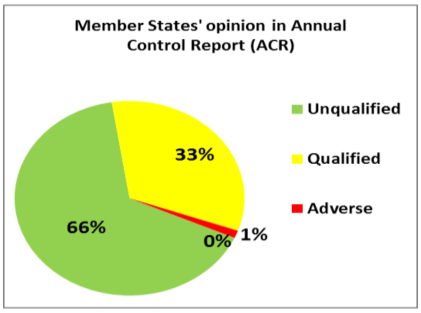
All ACRs were received on time[36]. The Audit Directorate analyses the reports and the opinions within 2 months of the date of submission. Following the analysis, an assessment is transmitted to the national authorities.

The objectives of the assessment of the ACR and annual audit opinions are to:

1. Confirm compliance of the audit opinion and report with the format set out in annexes VI and VII of Commission Regulation (EC) No 1828/2006;
2. confirm the effective implementation of the agreed audit strategy and gain an understanding of the level of assurance allocated to the management and control systems and corresponding annual audit opinion for the relevant programme;
3. Confirm that the above level of assurance and opinion are consistent with and based on reliable audit work;
4. Enable the Directorate general's auditor to prepare the annual audit opinion, which will in turn contribute to the management opinions to be included in the Annual Activity Report;
5. Update the risk assessment of the Audit Directorate in view of the 18-month rolling audit plan.

The large majority of ACRs and Audit Opinions received are of acceptable quality and have been prepared in line with the guidance issued by the Commission. In line with the regulation and auditing standards audit authorities can express three types of opinion: unqualified, qualified or adverse. The Member States' audit authorities expressed the following audit opinions in their ACRs (see also the detailed table in annex 8):

- unqualified opinion for 213 programmes (66% of programmes or 51% of the amount of 2014 interim payments made),
- qualified opinion for 105 programmes (33% of programmes or 49% of the amount of 2014 interim payments made)
- adverse opinion for 4 programmes for which no payment were made by DG Regional and Urban Policy in 2014.



In all cases, DG Regional and Urban Policy performed a detailed assessment of the ACRs and audit opinions received against all audit results and information at its disposal[37]. At the end of March 2015, and as a result of this analysis, the Directorate-General issued acceptance letters for 175 ACRs out of 214 ACRs (82%)[38], covering 252 programmes out of 321 programmes (78%). The assessment included follow up actions for 82 ACRs, and 5 ACRs were returned to audit authorities for correction.

Following its analysis of the ACRs, DG Regional and Urban Policy considers that it can confirm the audit opinions issued by the audit authorities for 311 programmes (97%)[39]. In 11 cases (3% of the programmes) the Directorate-General expressed a more negative opinion than the one issued by the audit authority: for 8 programmes the Directorate-General’s audit opinion was qualified with significant impact, while an unqualified opinion was reported by the audit authority. This different assessment is based on the fact that results reported by the audit authorities were considered unreliable, taking also into consideration in two cases preliminary DAS audit results from the Court (1

[36] In one case (DK) the ACR was sent after the legal deadline (end January 2015), but still on time for the assessment in the AAR.

[37] Audit results and information at disposal of DG Regional and Urban Policy can come from its own audit work, from the ECA, from other Structural Funds services and from the 546 national systems audit reports received from Audit Authorities and analysed throughout the year.

[38] For 39 ACRs out of 214 ACRs (18%) the assessment letters were under preparation at the time of signature of this report.

[39] This includes 73 OPs for which the audit authority expressed an unqualified audit opinion and the Directorate-General expressed a qualified opinion with moderate impact, a classification that means that improvements needed are of a minor importance and thus do not jeopardise the overall assurance. This category is not available to audit authorities under the 2007-2013 regulation.

programme) and the analysis of an audit report from DG Employment for a common authority (1 programme). In another 3 cases, the Directorate-General expressed an adverse opinion (following the adoption of suspension decision) instead of an unqualified opinion reported by the audit authority in one case and qualified opinions with significant impact in two cases (due to a provisional high projected error rate in one case and the non-finalization of audits of operations in the other case).

Analysis of the error rates reported by audit authorities in the ACRs

The Member States' audit authorities have reported 320 error rates[40] covering all programmes[41] based on representative samples, including statistical ones for 69% of cases (221 programmes covering 89% of the 2014 interim payments).[42] The audit authorities have reported significant audit coverage, **around 32% of 2013 expenditure on average** (31% for 2012 expenditure[43]) through the audit of more than 8,500 operations or parts of operations across all programmes. Cumulatively since the start of the programming period and until December 2014, audit authorities audited on average 35% of all declared expenditure. Although the coverage rate varies between programmes[44], this demonstrates that single auditing under shared management allows for a large coverage of beneficiaries and expenditure each year. Representativeness of national audits was increased through the increasing use of statistical sampling methods by audit authorities, following the Commission updated guidance and training efforts with all audit authorities as from end 2012/early 2013, and continued in 2014. Compared to the previous programming period, the quality of the Member States' audit work has therefore increased significantly.

Reported error rates are below materiality for 207 programmes[45] (64%); between 2% and 5% for 96 programmes (30%); between 5% and 10% for 11 programmes (3%) and above 10% for 8 programmes (almost 3%).

[40] For the 2 programmes (DE OP Bremen and PL OP Podkarpackie) no error rate was provided as no expenditure was certified in 2013 (sampling basis for the 23014 ACR). DG Regional and Urban Policy uses a flat rate of 2% as a best estimate of the risk for 2014 of these two programmes.

[41] Member States report error rates per programme or groups of programmes. For 23 programmes with a Cohesion Fund component, a common sample and error rate covering both Funds is reported. When programmes are grouped, for the sake of presentation, the same error rate being reported for the group of programmes is considered in statistics for each programme within the group.

[42] In the rest of the cases (covering 11% of 2014 interim payments), non-statistical samples were used although the Commission continues to encourage Member States to use statistical sampling whenever possible. For 21 OPs (7 CB, 7 ES, 4 DE, 1 DK, 1 FI and 1 NL), the audit authorities decided to use non-statistical sampling for populations above 15O units despite the Commission guidance recommending the use of statistical methods when the population exceeds 150 items. DG Regional and Urban Policy has analysed the impact of these 21 cases and notes that, given the audit coverage (above 10% in all cases), the error rates reported are not materially affected by the use of non-statistical sampling. Nevertheless DG Regional and Urban Policy has reminded the concerned audit authorities to follow the recommendation to use statistical sampling above 150 units.

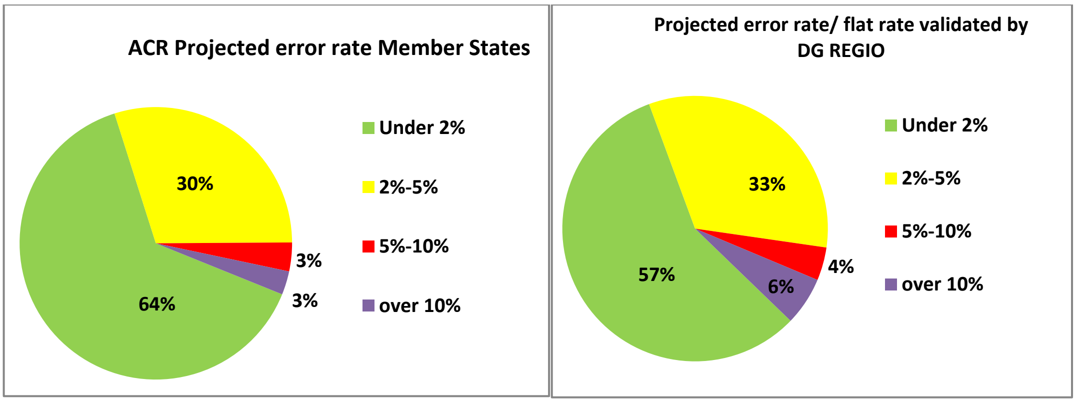
[43] And 33% for 2011 expenditure. The tools and updated guidance on sampling provided to audit authorities and finalised in April 2013 ensure more proportionate audit efforts while ensuring the same quality and level of assurance from audits on operations. This allows reducing the audit burden on beneficiaries and the cost of control for the Member States. The Commission also notes an increased use of statistical sampling for more programmes, as a result of its capacity building efforts with audit authorities since end 2012.

[44] And may result in some cases of sub-sampling in a certain degree of over-estimation of the effective audit coverage of expenditure; these cases are under analysis.

[45] Regarding the 2 programmes DE OP Bremen and PL OP Podkarpackie, 0% error rates were reported since there was no expenditure declared in 2013.

Graph: Error rates reported by audit authorities and validated by the Directorate-General

Error rates reported by audit authorities in the ACRs[46] and validated by DG Regional and Urban Policy as a result of its assessment and adjustments are disclosed in the pie-charts **below:**



The Directorate-General bases in first instance its analysis of the reliability of reported error rates on the results of its own audit work to assess of the reliability of the work of the main audit authorities, in the framework of the audit enquiry "review of the work of audit authorities" (see section D below). This also includes re-performance of the audit work of the audit authorities' on-the-spot at beneficiary level for programmes considered at risk, as well as fact-finding on-the-spot audits in January-February, following the reception of the ACRs. The objective is to verify the reported error rates for programmes considered most at risk or where inconsistencies have been detected during the desk review of the ACRs. This audit activity allows the Directorate-General to request the audit authorities to re-calculate their error rates when needed.

The Directorate-General thoroughly assessed the reliability and correctness of the total projected error rates reported by audit authorities. This assessment encompassed the following steps:

(a) A critical review of detailed information on sampling data and results provided in the ACR or of additional detailed information subsequently requested from audit authorities. This critical review included the Directorate general's audit results for 32 audits carried out in 2014 at the level of audit authorities and beneficiaries, in additional to cumulative audit results since 2009.

(b) Specific meetings organised in Brussels in 2015 with 14 Member States[47] during which additional clarifications were obtained; and

(c) on-the-spot fact-finding missions in 2015 covering in total 15 Member States[48] and 33 programmes out of 322.

Taking into account all of the above, **the Directorate-General has assessed 96% of the reported error rates as a reliable source of information for the purpose of calculating the risk to 2013 payments:** it validated the error rates as they were reported in the ACRs in 62% of cases or was able to recalculate or adjust the error rate based on all information made available by the audit authority and validated by the Directorate-General's auditors for 34% of cases. Such error rates recalculations by the Commission can also be for purely technical reasons, in a complex environment of statistical rules, while audit authorities have carried out correctly their audits on the spot.

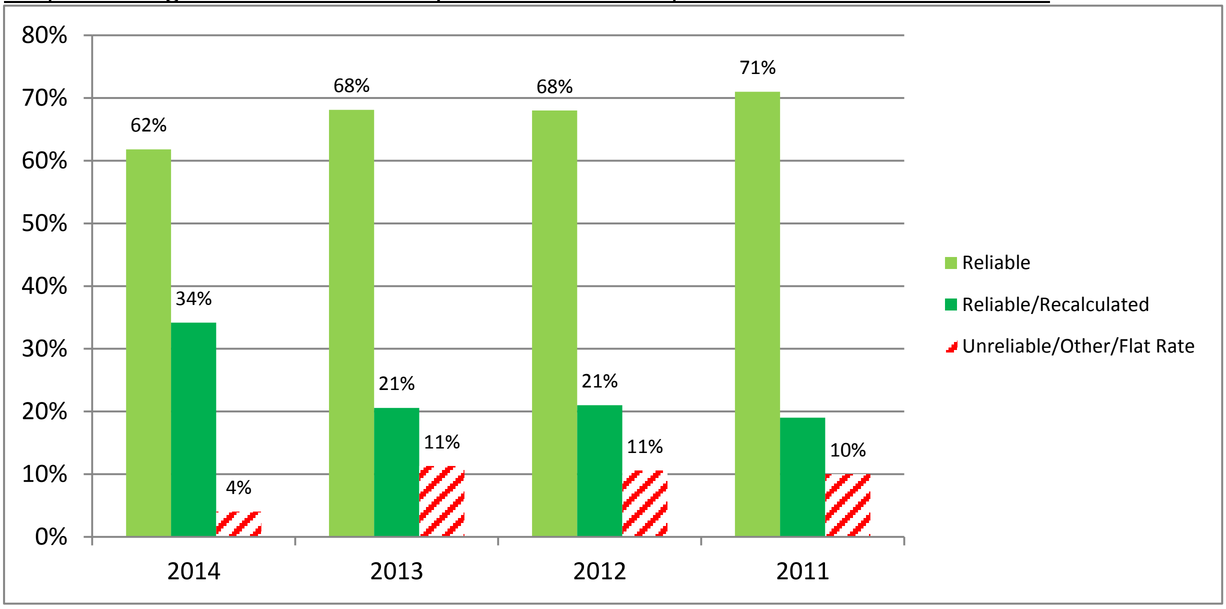
In 4% of the cases the Directorate-General considered the reported error rates to be unreliable and decided to estimate the risk at flat-rate instead.

These ratios show improvement compared to those reported in the AAR 2013. Nevertheless the rate of reliable/recalculated error rates increased compared to previous years, as a result of the additional

[46] In annex 7B, information is disclosed per operational programme
[47] AT, BE, CZ, DK, FR, HR, IE, IT, LT, LU, MT, NL, SI and SK
[48] AT, BE, BG, CZ, DE, ES, HR, HU, IT, LT, LV, RO, SK, SI and UK.

fact-finding missions carried out in beginning of 2015 and extensive preventive audit work carried out in 2014 by DG Regional and Urban Policy. This additional audit effort also shows that some audit authorities should continue to carefully quantify irregularities, and will contribute to further capacity building work with the concerned authorities.

Graph: DG Regional and Urban Policy's assessment of reported error rates in 2011-2014



In relation to 2014 interim payments, the best estimate of error rates and risks associated, following the Directorate-General's assessment and validation, is the following:

RESULTS	Best estimate error rates following assessment by DG REGIO					
	Number of error rates for 322 programmes (ERDF/CF)			2014 interim payments		
Range	Nr.	%		Amount (mil. EUR)	%	
<2%	185	57%		19,958	48%	
2-5%	104	33%		19,968	48%	
5-10%	13	4%	10%	763	2%	4%
>10%	20	6%		961.34	2%	
TOTAL	**322**	**100%**		**41,650.79**	**100%**	

The impact of the Directorate-General's analysis applied to 2014 expenditure was 0.8% (when sufficient and reliable information was available and including the substitution of unreliable error rates by flat rates). It means that **the average error rate of 1.8% reported by audit authorities in the ACRs has been increased to 2.6% of 2014 expenditure through DG Regional and Urban Policy's assessment.**

It has to be underlined that the weighted average error rate does not reflect, by nature, two specific cases:

- programmes where there were payments interrupted in 2014 due to the preventive measures taken by the Directorate general (on-going interruption/pre-suspension procedures, as this was in particular the case for 76 programmes for which an amount of EUR 3.84 billion was still

interrupted at end 2014),
- programmes where expenditure was corrected at Member State level before certification according to remedial action plans requested by the Commission (see in particular section G below "Preventive impact of financial corrections to expenditure not yet declared to the Commission").

Finally, **when applying the validated error rates on the 2013 expenditure, the average risk rate for 2013 payments is 2.8 %.** This confirms that the Directorate-General has prudently and correctly estimated the risk range in the 2013 AAR (between 2.8% and 5.3% (maximum)). In its annual report for 2013, the Court concluded that the amounts at risk reported in the 2013 Annual Activity Report were accurate and consistent with the available information and that its re-calculation of the amounts at risk (2.9%) confirmed the Directorate-General's estimate of 2.8%.

However, in this context it is also important to highlight that the Directorate-General's methodological approach to the best estimate of the annual error rate and the error rate calculated by the Court in its Annual Report are not directly comparable, as indicated by the Court itself[49]. When the elements which are taken into account by the Commission but not by the Court are factored in, a Court's most likely error rate of 4.8% is obtained (instead of 6.9%) for 2013 expenditure. This recalculated error rate falls within the range indicated by the Commission in its 2013 annual activity report (i.e. between 2.8% and 5.3%, as described above).

Finally, in addition to individual assessment letters, the Audit Directorate provided throughout 2014 horizontal feedback to audit authorities on its assessment of ACRs and areas for improvement. In particular, this led to:

- a proposed update of the 2011 guidance on the treatment of errors in view of the calculation of projected error rates (to be adopted following the EGESIF discussion on 25 February 2015),
- further written instructions to audit authorities by the Audit Directorate in view of the drawing of their 2015 samples on 2014 expenditure, to ensure better precision of audit results.

This will contribute to the better accuracy of the reported error rates by audit authorities in 2015 and at closure.

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

National system audit reports

Throughout the year, audit authorities are requested to provide their final systems audit reports to DG Regional and Urban Policy, once the contradictory process is completed**. In 2014, the Directorate-General has received 541 system audit reports from the Member States.** Following its analysis, it provided feedback to Member States, including in writing in 89% of the cases[50]. When significant deficiencies are reported by audit authorities, or where the Directorate-General considers that reported audit findings indicate significant deficiencies in the programme, this constitutes a basis for the Director-General to launch pre-suspension procedures. In such cases payments are interrupted for the programme concerned during the year in order to prevent reimbursement of

[49] The Court's estimate is higher and is an overall statistical estimate at a certain moment in time of the implementation of programmes ('snapshot') covering the EU as a whole, independently of the quality of the different underlying management and control systems. The Court does not fully take into account the multiannual functioning of the management and control systems and the flat rate financial corrections imposed by the Commission to programmes. In addition, the Court makes a different quantification of public procurement errors than the one applied by the Commission and Member States based on a Commission Decision. See also the Court's Special Report 16/2013 "Tacking stock of 'single audit' and the Commission reliance on the work of national audit authorities in Cohesion", paragraph 11.
[50] The remaining reports were analysed and feedback was provided to audit authorities in different meetings or formal feedback is still pending at year end. In all cases the necessary follow-up action was taken, including by pre-suspending payments where necessary.

irregular expenditure[51]. This has been the case for some 55% of all ERDF/Cohesion Fund programmes under pre-suspension procedures in 2014.

For the purpose of the annual activity report and its audit opinion per programme, the Audit Directorate took account of the result of its analysis of national system audit reports and cross-checked individual audit results and conclusions with audit opinions provided in the annual control reports received by year end.

Annual summaries

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

For 2014, all 28 Member States have complied with the minimum requirements of the Financial Regulation regarding the information to be provided. Some Member States have followed the Commission's recommendations by providing a voluntary overall analysis at Member State level (19) and/or a voluntary declaration on the overall level of assurance (14) in their annual summaries. When relevant, the Directorate-General has analysed this information to corroborate its own assessment of the national management and control systems or the information provided to the Commission in the ACR.

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

National declarations

Four Member States - **the Netherlands, Denmark, Sweden and the United Kingdom** – have regularly submitted national declarations on a voluntary basis to the Commission over the last years. The Commission supports those Member States who provide the Commission with a national declaration of assurance and encourages them to disclose elements of the underlying process in order for the Commission to be able to optimize the assurance it may draw from their declarations. Public declarations issued at senior national level make the control process in the Member States more transparent and help identify changes which are needed to make the system more effective, where necessary[52].

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

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

[52] The Commission services have elaborated guidance on national declarations for the use of Member States authorities. This guidance was made available to Member States in March 2011 and encourages Member States to develop such national declarations that would fulfil the conditions for adding value to the Commission assurance building process. It also concludes that the Commission proposal on management declarations in the revised Financial Regulation, signed at the operational level, may constitute a first practical and useful step that could later be endorsed at a political level in the Member States. Following the creation of an Inter-institutional working group (composed of representatives of Parliament, the Council and the Commission) set up within the context of the Inter-institutional Agreement accompanying the multiannual financial framework for 2014-2020, the Commission has introduced recommendations in 2014 for these declarations as well as the elements they should as much as possible include in order to make them useful for the Commission's own assurance process (see these recommendations in COM(2014)688 – *Communication from the Commission to the European Parliament and the Council and to the European Court of Auditors on the adoption of the inter-institutional working group recommendations for the establishment and use of national declarations*).

expenditure. The declaration thus confirms the assessment made by the Directorate-General in its 2013 AAR.

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

D. Audit Activity of the Directorate-General

Audit missions

The Commission's on-the-spot audit activity in the Member States provides a direct source of assurance to the Directorate-General, including for the assessment of audit results communicated by audit authorities.

The Directorate-General therefore focused its limited resources for on-the-spot audits to key identified risks, programmes and bodies. DG Regional and Urban Policy's audit strategy in place for 2014-2016[53] covers the main risks identified for the policies and instruments managed by the Directorate-General and foresees rolling audit plans over 18 months (the current one running up to end June 2015). Audit plans are reviewed each year based on updated risk assessments that take account of all available audit results and new information obtained through the assessment of all audit results from the previous year. The audit strategy is currently being updated as a result of new risks identified following the assessment of 2014 ACRs.

For ERDF and Cohesion Fund 2007-2013, the Directorate-General's audit work focused in 2014 on five audit enquiries, as well as specific missions to validate selected ACR error rates, as indicated in the table below. On-the-spot audits are carried out at the level of programmes authorities and/or intermediate bodies, and usually include verifications of audit evidence down to the source, on the spot, at the level of beneficiaries/projects. The scope and extent of on-the-spot audit work, particularly at the level of individual beneficiaries and projects, varies between enquiries and audits, depending on the specific objectives of audit missions and identified risks.

The on-the-spot audits carried out in 2014 according to the specific enquiries under the audit strategy and the resulting audit opinions are as follows:

[53] Cf. Ares(2014)1192851 - 15/04/2014.

Table: on-the spot audits carried out in 2014

	Input		Results	
	Audit Enquiries related to ERDF/CF 2007-2013 programming period	***Audits carried out in 2014***	**Audit opinions[54]/assessment**	
Review the reliability of the audit authorities (single auditing) 55% of audit missions	*Review of Audit Authorities (in addition to fact-finding missions on the ACR analysis)*	*21*	**Assessment of the 17 Audit Authorities reviewed in 2014**	
			Works well, no or minor improvements are needed	1
			Works, but some improvements are needed	13
			Works partially. Substantial improvements are needed	3
			Essentially does not work	-
	Missions to validate the 2013 ACR error rates (fact-finding missions)[55]	*15*	N/A	
	Audits to monitor the work of audit authorities when the article 73 has been granted to programmes	*11*	Unqualified	10
			Qualified	1
			Adverse	–
Targeted high risk audits 33% of audits	*Bridging the assurance gap - targeted audit of high risk programmes / authorities / areas[56]*	*29*	Works well, no or minor improvements are needed	-
			Works, but some improvements are needed	20
			Works partially. Substantial improvements are needed	9
			Essentially does not work	-
Thematic audits 12% of audits	*Thematic audits on financial instruments*	*4*	Unqualified	-
			Qualified with minor observations	2
			Qualified with significant observations	2
			Adverse	-
	Thematic audits on recoveries[57]	*6 (+ another 6 early 2015)*	Unqualified	5
			Qualified with minor observations	7
	Total number of audits	***86***		

The main results and conclusions from the 2014 audits and cumulatively since the start of the enquiries are set out below. The next paragraphs also summarize the resulting follow-up and corrective actions requested from the programmes concerned to safeguard the Commission's interests and which are directly relevant for the Directorate-General's annual assurance process. Further information on the two main audit enquiries, the review of audit authorities and targeted audits to high risk programmes, as well as capacity building actions are provided in Annex 8 D.

Review of Audit Authorities

The results of the audit enquiry "review of audit authorities" are used to assess whether DG Regional and Urban Policy can rely principally on the audit authorities' audit opinion and error rates for its

[54] Audit opinions are preliminary at this stage, pending the finalisation of the contradictory process with the auditee, in some cases. Depending on the audit enquiry, various audit missions may lead to the expression of one single audit opinion, therefore the possible discrepancies between the numbers of audits and opinions.
[55] In January-February 2015, 21 fact finding missions have been carried out in 15 Member States to verify the reliability of the error rates reported in the annual control reports submitted to the Commission end of 2014. These contributed to the assurance for 2014.
[56] Audit opinions are not provided but audit reports provide a conclusion as to the effective functioning of the audited system / part of the system.
[57] In addition to the 6 recovery audits carried out in 2014, another 6 audits planned in 2014 were carried out in January and February 2015. These contributed to the assurance for 2014. The results are preliminary, not yet fully validated and subject to the contradictory procedure with the Member States concerned.

annual assurance and implement Article 73 of Regulation (EC) No 1083/2006[58]. A total of 265 missions have been carried out on the spot cumulatively since 2009: 187 audit missions (including 21 in 2014) and 18 monitoring missions (11 in 2014), as well as 60 fact-finding missions (15 in 2014 and 21 in 2015) to validate the ACR error rates. Audits covered cumulatively the main 47 audit authorities responsible for 94% in total of the ERDF/CF total allocation[59]. DG Regional and Urban Policy's audit work included on-the-spot re-performance of audits at the level of individual beneficiaries in order to test the reliance which can be placed on the audit work carried out by the audit authorities. In 2014, this was the case for 19 out of 32 audit missions carried out on the spot. **In total, the Audit Directorate re-performed 113 audits of operations at the level of the final beneficiary**. As a result, and based on the audit reports issued so far, the Directorate-General concluded that **it can generally rely on the work of 42 audit authorities in charge of auditing 91%[60] of ERDF/CF allocations for the 2007-2013 period out of the 47 audit authorities audited under the enquiry**. The 5 audit authorities for which DG REGIO has concluded, based on the work carried out under this enquiry, that it cannot at this stage place reliance on their work represent 2.7% of the ERDF/CF allocation.

The extensive audit work under this enquiry, which represents 55% of the on-the-spot audit missions in 2014, has considerably contributed to DG Regional and Urban Policy's overall assurance for the programmes covered by the reviewed audit authorities through many aspects: increased assurance that the annual control reports and reported audit opinions and error rates are reliable; reduction of errors; concrete remedial action plans and significant capacity-building for audit authorities.

This extensive audit work has also contributed to interruptions / pre-suspensions during the year and to the necessary reservations expressed in the annual activity report when deficiencies had not been remedied i.e. in the case of the audit authorities of DE/Mecklenburg-Vorpommern, Sachsen-Anhalt, IT/ Puglia, Reti é Mobilità and ES/control body of the Autonomous City of Melilla. In all cases a full or partial reservation is expressed in the AAR.

Single audit – Article 73

In accordance with Article 73 of Regulation (EC) No 1083/2006 and as a direct result of its audits to review the work of audit authorities, the Directorate-General has concluded that it could formally rely on the work of 17 reviewed audit authorities presenting satisfactory audit results and covering 57 programmes. This conclusion also takes into account the effective functioning of the management and control system of these concerned programmes (the second condition under Article 73). A new Article 73 letter was notified in 2014 to both ERDF programmes in Latvia. Further Article 73 letters may be granted in the first semester of 2015, since single auditing remains helpful in view of closure of the 2007-2013 programmes and of the new 2014-2020 programmes. Based on accumulated audit results so far this could concern programmes audited by 6 audit authorities[61].

Based on current information available, a minimum 68 of the 75 audit authorities currently in place for the mainstream ERDF/CF programmes of the 2007-2013 period will remain in place for the 2014-2020 period. As a result, the significant audit work and capacity building carried out by the Audit Directorate to verify the reliability of the work of the national audit authorities since 2009 will constitute a sound basis for developing a differentiated approach. It will also allow the Audit Directorate to focus its scarce audit resources on the audit authorities which remain high risk, while

[58] Through the latter, DG Regional and Urban Policy relies on the audit authority in a formal manner and does not carry its own audits any longer (see below).

[59] ERDF/CF allocation for the programmes under audit responsibility of the 75 ERDF/CF audit authorities, responsible for audit of mainstream and ETC programmes (i.e. not including the allocation for the 7 audit authorities responsible for ETC programmes only, which represent 0.64% of the ERDF/CF allocation).

[60] ERDF/CF allocation for the programmes under audit responsibility of the 75 ERDF/CF audit authorities, responsible for audit of mainstream and ETC programmes (i.e. not including the allocation for the 7 audit authorities responsible for ETC programmes only, which represent 0.6% of the ERDF/CF allocation).

[61] Estonia, Germany (Brandenburg and Bayern), Ireland, Lithuania, Poland

applying a monitoring approach for the audit authorities which have been proven to deliver reliable audit results, in accordance with the Audit Directorate's road map for single auditing[62].

The cumulative audit knowledge as explained above will also constitute a criterion for the work on designation whenever the Independent Audit Body in charge of assessing the 2014 system description is the same as the audit authority for the period 2007-2013 and when it is considered reliable.

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

The decision under Article 73 that the Commission can rely principally on the audit opinion provided by the audit authority and will not audit the concerned programmes does not prevent it from carrying out on-the-spot audit work in the future for these audit authorities. The Commission remains responsible for ensuring a continuous monitoring and supervision of the work of those audit authorities on which work it is relying (e.g. through review of the annual control reports and annual audit opinion, assessment of national system audit reports, joint/observer audit missions with the audit authorities and bilateral meetings), as detailed in its updated roadmap for Article 73 and in line with auditing standards. It therefore carried out 11 such on-the-spot monitoring missions in 2014.

The results from 10 on-the-spot monitoring audits were positive, so it could be concluded at end 2014 that the reviewed audit authorities continued to comply with key requirements as stipulated in Article 62 of Regulation (EC) No 1083/2006. For one audit authority[63], however, the audit identified significant deficiencies and the 2014 Annual Control Report received by year end was considered unreliable. Appropriate corrective measures are therefore requested by the Commission and the Commission will monitor closely if continued reliance can be placed on the work of this audit authority.

In addition, as indicated in the 2013 AAR, the Commission notified in 2014 to the programme authorities of Mecklenburg-Vorpommern that it will resume its own audits on-the-spot as it considers that the work carried out by the audit authority cannot be relied upon in the context of the annual assurance[64], due to the remaining uncorrected significant deficiencies identified by the Audit Directorate.

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

Through the enquiry to review audit authorities' work, in some cases the Directorate-General may identify that certain deficiencies could remain undetected or not timely detected, which could jeopardise the assurance process (assurance gap). The scope of this complementary audit enquiry is therefore to cover (part of) operational programmes or particular areas still considered at high risk. Such risk-based audits focused mainly on the reliability of management verifications at the level of the managing authorities/intermediary bodies[65].

In 2014, 29 audits were carried out under this enquiry (33% of all the on-the-spot audit missions in 2014). A total of 108 audit missions have been carried out since 2010 covering 18 Members States, including 7 Italian regions, and 76 operational programmes (audited one or more times under this enquiry). These audits included 62 on-the-spot audits on operations at the level of beneficiaries.

Out of these 29 audit missions:

[62] Roadmap for the implementation and the monitoring of the correct implementation of the "single audit principle", 26/09/2013

[63] DE – Sachsen-Anhalt

[64] due to the failure of the audit authority to implement adequate corrective measures to address significant deficiencies identified by DG REGIO during its 2013 monitoring mission and following the analysis of the 2013 annual control report.

[65] And to a lesser extent on selection of operations, corrective capacity of the managing authority, certification of expenditure by the certifying authority and high risk operations not yet audited by the national audit authority.

- 23 audit missions have been selected to address high risk areas/high risk bodies; 6 audits have resulted in new interruptions/pre-suspension of payments procedures in 7 cases: UK – England (OP East Midland and OP East of England), BG (Regional Development OP, Priority Axes 1 and 3), HU (Economic Development OP and Environment and Energy OP), RO (Economic Competitiveness, Priority Axis 3).

- the remaining 6 audit missions were carried out to follow up and verify the effective implementation of corrective measures implemented in the context of ongoing actions plans/pre-suspension procedures and/or related reservations in the 2013 AAR. These missions were one mission to Andalucia (IB IDEA), one mission to UK- England[66], one mission to Austria (OP Steiermark, Tirol and Vorarlberg), and three missions in Bulgaria (OP Environment (2 mission) and Regional Development OP Priority Axes 1 and 3 (2 missions to follow-up the remedial actions taken as a result of the problems detected within the year)). These missions have been carried out specifically to verify and confirm to the DG REGIO Interruptions, Suspensions and Financial Corrections Committee that all necessary preventive and corrective measures have been satisfactorily implemented and hence directly supported the DG decision to end the pre-suspension procedure. Further to the positive result of these missions and subsequent follow up work, the pre-suspension procedures were ended for IB IDEA (except for the payments to the financial instruments), for the English programmes, for 2 out of the 3 Austrian programmes, and for the 2 Bulgarian programmes.

These risk-based audits thus contributed to:

- the implementation of preventive and corrective measures such as remedial actions plans, interruptions and financial corrections, and
- improvements in the management and control systems for programmes put under reservation, ensuring that past and future expenditure declared to the Commission is legal and regular.

The same approach will be implemented in the mission plan for 2015-June 2016 to address and follow-up the reservations in the 2014 annual activity report of the Directorate-General.

One of the main conclusions from the work under this enquiry from 2010-2014 is that for 66% of these missions significant deficiencies have been identified in the first level controls, and as regards more than half of the missions (58%), these deficiencies specifically concern the area of public procurement verifications. As a result, continued focus will be given in the mission plan for 2015-June 2016 to the audit of management verifications, in particular in the area of public procurement.

As this audit enquiry also contributes significantly to obtain the necessary assurance with a view to prepare for closure, a considerable number of audits have been dedicated to areas such as eligibility of operations (audits carried out on selection of operations in HU, RO, HR, IT and SI) and State Aid (addressed in audits on competitiveness programmes in SI, HU, HR, RO, IT and in the mission to ES at the level of the intermediate bodies IDEA and DGI). These are another two areas where problems are also particularly reported in audits by the European Court of auditors.

Thematic audits (audits on recoveries and on financial instruments)

Results from thematic audits on recoveries and on the implementation of financial instruments also contribute to the assurance on the legality and regularity of expenditure. Thematic audits constituted 12 % of the on-the-spot audit work in 2014.

As a result of Court and internal audit recommendations, DG Regional and Urban Policy committed to **increase the number of its audits on recoveries** and withdrawals (financial corrections) reported by Member States, to obtain an increased assurance for the calculation of the cumulative residual risk

[66] The mission was carried out in January 2015 resulted in a decision to end the pre-suspension procedure a positive conclusion and hence the before the finalisation of the 2013 AAR hence no reservation was included in the 2013 AAR

(see section H below). In view of the assurance in the 2014 AAR, the 12 audits planned on the reliability of the Member States' reporting on financial corrections submitted to the Commission by 31 March 2014 were carried out (6 in 2014 and another 6 in January-February 2015) on time for the annual activity report (compared to 4 audits in 2013). Four of these were joint audits with DG Employment, Social Affairs and Inclusion. Since 2011, the Directorate-General's audits on recoveries have covered 16 Member States and 20% of the ERDF/Cohesion Fund programmes (63 out of 322).

This audit work represents a substantial increase in terms of number of missions in relation to what has been performed by the Directorate-General in previous years. Pending the results of contradictory procedures, the preliminary conclusions show that the reporting on financial corrections is considered reliable for five Member States (Czech Republic, Estonia, Germany/ Mecklenburg-Vorpommern, Poland and Greece), while for the remaining seven Member States (Belgium, Bulgaria, Hungary, Italy, UK/West Wales, Slovakia and Slovenia) the auditors have identified deficiencies that require adjustments in the reporting on financial corrections. These adjustments are in the process of being implemented or have led to adjusted statements already submitted to the Commission on time for the calculation of the cumulative residual risk for 2014

With the increase of allocations to **financial instruments** and the specific risks identified in the management and control of financial instruments, a specific enquiry on the implementation of financial instruments was launched in 2011. Four audit missions in four Member States (France, Hungary, Italy, and Poland) were carried out in 2014, in addition to the twelve missions that have already been carried out under this enquiry. Various irregularities were identified at the set-up and implementation phases of the audited instruments and in the case of two audits (in Hungary[67] and France) financial corrections were requested.

As a result of the cumulative audit experience obtained through this enquiry, the Commission issued guidelines laying down common rules on determining financial corrections to be applied in the area of financial instruments in 2014 and shared them with Member States. This allows audit authorities to better quantify detected irregularities in this complex area in particular in their preparation of closure of the programming period.

Other audit work carried out in 2014 – contribution to capacity building and preventive actions

Audit work also includes advisory procedures (including guidance) and capacity building actions at the level of audit authorities, but also managing and certifying authorities, which contribute to preventing and correcting errors and therefore contribute to the assurance process. This included in particular dedicated meetings, workshops or targeted actions related to various areas such as: public procurement (RO, BG, FR and DE), State aid (CZ, ES and PL), implementation of financial instruments (CZ and SK), simplified costs (ES), or closure of the 2007-2013 programming period (FR, EL, IT, CY and SE). Detailed reporting on actions taken in this area in 2014 is reported in Annex 8.

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

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

Building blocks of the audit opinion are:

a) the set-up of systems;
b) on-the-spot and desk audit work under the Directorate-General's audit strategy, including the analysis of national audit results, system audit reports and audit opinions contained in the Annual

[67] As regards Hungary, payments have been interrupted.

Control Report;
c) other relevant Commission services' audit work; and
d) Court audit work.[68]

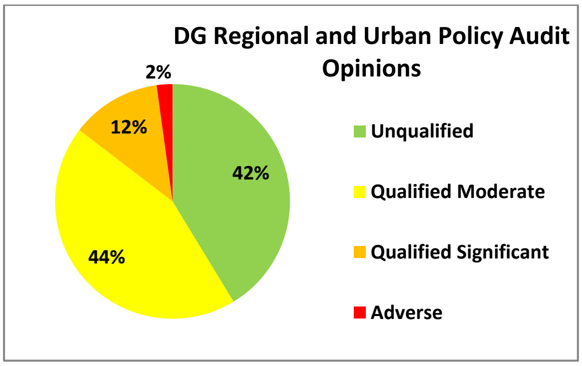
The validated error rates, reflecting the effective functioning of management and controls systems, together with the cumulative residual risk constitute the cornerstone of the assurance process and of the methodology to estimate the amount at risk.

The Audit Directorate assesses the effective functioning of the management and control system for each programme and for each authority (managing, certifying and audit authorities), based on the assessment of 15 key regulatory requirements according to a methodology shared with the audit authorities[69]. For illustrative purposes the overall assessment of the functioning of the three main key requirements for each of the three programme authorities for all ERDF/CF programmes is provided in annex 8E.

Based on the above blocks of information and on the assessment of the functioning of systems, the Audit Directorate of the Directorate-General expresses an audit opinion for each programme on the level of assurance it has that expenditure reimbursed by the Directorate-General in 2014 is legal and regular. These audit opinions are transmitted to the operational units concerned as an input to their management opinion for every programme.

Table and graph: Assessment of management and control systems and Audit Directorate's 2014 audit opinion

DG REGIO Audit opinion and estimated risk to 2013 expenditure		No. of Programmes	as % of No. of Programmes
No/ low risk	- Unqualified	133	42%
	- Qualified with moderate impact	142	44%
Medium / high risk	- Qualified with significant impact	40	12%
	- Adverse	7	2%
	TOTAL	**322**	**100%**



F. Interruptions/suspensions of payments

As a result of the Commission supervisory role including the assessment of national audit results, DG Regional and Urban Policy has continued in 2014 to apply a strict policy on interruption and suspension of payments in order to safeguard the EU funds. This policy, in force for the 2007-2013 period, operates on a preventive basis, triggering the interruption of interim payments - or the sending of a warning letter if no payment claim is outstanding[70]- as soon as there is evidence to suggest a significant deficiency in the management and control system of all or part of an operational programme, thus avoiding to reimburse amounts which might be affected by serious irregularities.

Both procedures provide a mechanism for rapid agreement with the Member State on the complementary verifications to be carried out and, if need be, implementation of appropriate remedial actions, including improvements in the system for future expenditure and timely financial

[68] The preliminary findings of the Court (under DAS 2014) are taken into account when formally received by the Directorate- General. The seriousness of these findings as well as their potential systemic impact is assessed. As these findings are preliminary, they can only be one element contributing to the assurance process. The Directorate-General is however taking appropriate measures to safeguard EU funds pending clarification of the issues (English Programme: Yorkshire and Humberside- 2007UK162PO009)
[69] COCOF 08/0019/01 EN
[70] Otherwise the submitted payment claim would be interrupted.

corrections for past expenditure and preventive correction to expenditure registered by the certifying authority but not yet certified to the Commission. Whenever necessary, in case of serious weaknesses and where the Commission services consider that no or insufficient action has been taken by the concerned authorities within the regulatory time frame of the interruption (maximum period of 6 months), DG Regional and Urban Policy also launches a formal suspension procedure starting with a pre-suspension letter addressed to the Member State.

In order to ensure a consistent and timely treatment of all cases, DG Regional and Urban Policy established in 2011 an Interruption Committee, chaired by the Director-General. In 2014, this Committee met on a weekly basis to decide on new interruptions, on the possibility of resuming payments for interrupted programmes based on the assessment of replies and audit evidence provided and actions taken by Member States, or on the need to launch suspension procedures.

Table: key indicators on interruptions – ERDF / CF

Indicator	As of 01/01/2014 (1)	New cases 2014 (2)	Any time in 2014 (1+2)	Lifted OPs during 2014	As of 01/01/2015
OPs affected (warned/ interrupted / suspended)	**69**	52	121	45	**76**
Amounts interrupted EUR bn	**1.61**	6.23	7.84	4	**3.84**
Payment claims interrupted	**101**	147	248	144	**104**

In 2014, the number of warning letters, interruptions and pre-suspensions for ERDF/CF programmes are still at a very high level. 16 new warning letters have been sent and 36 new interruptions were decided and communicated to Member States in the year. DG Regional and Urban Policy initiated 28 suspension procedures. 121 programmes were impacted by either a warning or an interruption.

Approximately two third of these interruptions and pre-suspensions are based on audit results reported to the Commission by audit authorities during the year or at year end. The amount still interrupted at year end was approximately EUR 3.84 billion.

Table: number of ERDF/CF programmes affected and amounts interrupted in 2014

OPs affected by:	As of 31 Dec 2013[71]	New OPs affected 2014	TOTAL	Lifted 2014	As of 31 Dec 2014	New OPs affected Q1 2015	Lifted Q1 2015	Total end of Q1 2015
Interruptions[72]	49	36	85	38	47	10	5	52
Warnings	20	16	36	7	29	1	1	29
Total OPs affected	**69**	**52**	121	**45**	**76**	**11**	**6**	**81**
of which pre-suspended[73]	56	28	84	30	54	3	5	52
of which suspended	16	0	16	9	16	0	0	16

Table: number of Ops affected at any time in 2014 - breakdown per Member States

Ops affected at any time in 2014	AT	BE	BG	CZ	DE	EE	ES	ETC	GR	HU	IT	LT	MT	NL	PL	RO	SI	SK	UK	Total
Interruptions	3	1	1	4	4		18	10	10	3	9		1	1		1	2	7	10	85
Warnings	1			4	3	2	5			7	1	1			7	1		1	3	36
Total OPs affected	**4**	**1**	**1**	**8**	**7**	**2**	**23**	**10**	**10**	**10**	**10**	**1**	**1**	**1**	**7**	**2**	**2**	**8**	**13**	**121**
of which pre-suspended	4	1	1	2	6	2	19	4	4	10	9		1	1			1	8	11	84
of which suspended							15				1									16

[71] At end 2013, 56 programmes were warned, 13 interrupted. They are as of 31/12/2014 warned (20) and interrupted (49).
[72] If an OP is affected by an interruption and a warning only the interruption is counted.
[73] As of 31/12/2014

In the majority of the cases, the interruption and suspension procedures have worked as an impetus to improve the management and control systems. The authorities took the remedial actions needed. Regarding 45 of the 121 operational programmes for which legal proceedings were on-going in 2014, issues were resolved by end of December 2014. Most of these proceedings were solved in 9 months or less. However, at the end of the year outstanding cases were still affecting 76 operational programmes (see annex 10 for details on 2014 suspensions/interruptions per Member State).

Table: Affected new OPs of the first quarter of 2015

New OPs Q1 2015	BE	ETC	IT	NL	SK	UK	TOTAL
Interruptions	1	3	3	1	1	1	**10**
Warnings		1					**1**
TOTAL OPs affected	**5**	**1**	**4**	**3**	**1**	**1**	**11**
Pre-suspensions		1		1	1		**3**
Suspensions							**0**

The application of this strict interruption policy has allowed reducing the risk on the 2014 payments as the declared expenditure which was likely to be materially misstated was not reimbursed.

G. Financial corrections

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

Table: key indicators on financial corrections and recoveries carried out during the reporting year for the 2007-2013 programming period.

Indicator (ERDF and Cohesion Fund)	2014 (EUR million)	Cumulated since 2007 (EUR million)
Decided/confirmed financial corrections as a result of Commission supervisory role	294	1,207
Implemented financial corrections as a result of Commission supervisory role	274	989
Rate of implementation of corrections for 2007-2013 programmes	-	82 %

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

Financial corrections decided/confirmed in 2014

With reference to all programming periods, EUR 840 million of financial corrections have been confirmed in 2014 for ERDF/CF.

Out of these, decided/confirmed financial corrections for the programming period 2007-2013 are EUR 294 million. This figure is the result of new amounts confirmed in 2014 and adjustments to past reporting. As a result, at end 2014 the cumulative amount of financial corrections for 2007-2013 is above EUR 1.2 billion. This is the result of the strict supervision and interruption policy of the Directorate- General and growing number of action plans including financial corrections decided by Member States and implemented as a result of interruption or pre-suspension letters.

Financial corrections implemented in 2014

In total, for all programming periods, EUR 854 million of financial corrections have been implemented in 2014 (94% of all cumulative decided/agreed corrections for ERDF and CF are implemented).

Out of these, for the 2007-2013 programming period an amount of financial corrections of EUR 274 million has been implemented. This refers to corrections decided/confirmed in 2014 and previous years and brings the cumulative amount of implemented corrections for 2007-2013 programmes close to EUR 989 million with a rate of implementation of 82%.

The Member States contributing most to implemented financial corrections for the 2007-2013 programming period are: the Czech Republic (EUR 184 million), Hungary (EUR 143 million), Spain (EUR 106 million), Greece (EUR 97 million), Slovakia (EUR 92 million), Poland (EUR 85 million) and Italy (EUR 84 million).

Preventive impact of financial corrections to expenditure not yet declared to the Commission

Indicator (ERDF and Cohesion Fund)	2014 (EUR million)	Cumulative since 2007 (EUR million)
Ex ante financial corrections for 2007-2013 programmes resulting from Commission supervisory role	782[74]	782

It is worth underlining that the reported amounts of financial corrections do not reflect the total amount of financial corrections accepted by Member States as a result of the Commission supervisory role. Remedial action plans also have a preventive impact on expenditure already incurred by beneficiaries and registered at national level in the certifying authority's accounts, but not yet declared to the Commission. For such expenditure, the certifying authority applies the financial correction requested by the Commission prior to declaring expenditure. Expenditure declared to the Commission is therefore net from irregular amounts. Particularly in the case of extrapolated or flat rate corrections due to deficiencies in management and control systems, the amounts preventively corrected by the certifying authorities prior to certification may be significant, as demonstrated in the 2012 AAR for the Czech and the Slovak Republic.

Similarly, warning letters sent out by the Directorate-General when system deficiencies are identified before a payment claim is submitted to the Commission may also have the same preventive effect on the protection of the EU budget, but no financial correction is reported by the European Commission/ Member States in this case.

The preventive effect of the Commission's supervisory role leads to an increased protection of the EU budget (and to reduced errors detected by audit authorities when auditing amounts claimed from the Commission) and has therefore to be reflected as well in the reporting[75].

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

[74] Financial corrections ex ante were not reported up to end 2013. Following a specific request from DG BUDG, DG REGIO has performed an additional reporting exercise in 2014, targeted on the main cases in which flat rates corrections have been applied for problems linked to public procurement procedures or deficiencies in the MS' management and control systems. As a result of this exercise, EUR 782 million of financial corrections ex ante have been identified in 6 Member states (BG, CZ, EL, HU, RO and SK).

[75] Since there is no legal requirement for Member States to report on such amounts, nor a structured reporting since the beginning of the programming period, this section presents a prudent and non-exhaustive amount of additional financial corrections for cases for which the Directorate-General could reconstitute a clear audit trail at the level of the certifying authority.

Financial corrections reported by Member States

Indicator (ERDF and Cohesion Fund)	2014	Cumulative since 2007
Corrections for 2007-2013 programmes reported by Member States	EUR 1.0 billion	EUR 3.6 billion

Since the reporting year 2010 and by 31st March of each year, Member States are requested to submit to the Commission through the IT system SFC2007 an annual statement on withdrawals, recoveries, pending recoveries and irrecoverable amounts under the provisions of the Article 20(2) of Regulation (EC) No 1828/2006 for the 2007-2013 programmes. This report refers to two sources of financial corrections:

- financial corrections implemented by Member States (or pending recoveries) following the national verification and audit work carried out by all programme authorities, i.e. including from management verifications in addition to audits,
- financial corrections implemented as a result of EU audit work, including at the Commission's request.

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

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

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

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

As at the time of drafting the annual activity report, some Member States had already reported financial corrections for year 2014 for some programmes, ahead of the regulatory deadline of 31 March 2015. These partial figures for 2014 are indicated in the table below and will be completed once reporting is complete and verified by the Directorate-General in view of the communication on the protection of the EU budget to be published in September and for use in future calculations of the cumulative residual risk[76].

[76] Partial reporting before the regulatory deadline of end March is used for the calculation of the 2014 CRR; desk and for some of them on-the-spot verifications of these amounts will be carried out after March 2015, once all reports are received and an updated risk-assessment for audits can be carried out.

Withdrawals and recoveries reported by Member States cumulatively for the 2007-2013 programming period (as of 24/03/2015[77])

DG Regional and Urban Policy (EUR million)	Withdrawals EC Share	Recoveries EC Share	Total withdrawals and Recoveries EC Share
Cumulative reporting at 31/12/2014	2,065.8	532.9	2,598.6
Partial reporting at 24/03/2015 for year 2014	980.9	61.4	1.042,3
Cumulative reporting at 24/03/2015 [78]	3.046,6	594.3	3,641.0
Out of which additional to the Commission's reporting *at 24/3/2015* [79]			**2,651.9**

Finally, from the overall cumulative amounts reported by Member States the Commission deducts its own reported cumulative amounts to estimate the additional corrections from Member States only. Cumulatively at the date of this report, Member States reported EUR 3.6 billion of withdrawals and recoveries for ERDF/CF for the 2007-2013 programming period, **out of which EUR 2.7 billion are estimated by the Commission to be additional to its reporting**.

Due to risks identified to the reliability of reported data, and following audit recommendations, the Directorate-General has carried out in 2014 deep assessment of the amounts of correction reported by the Member States. This included an exhaustive desk-review of the data provided and follow up with the Member State authorities on the inconsistencies found an increased number of risk-based audits on the spot (see also section D above). As a result of this additional audit work, financial statements on withdrawals and recoveries have been corrected for 160 programmes (5.8 % of the statements sent since 2009) in 19 Member States, thus contributing to improving the basis for the calculation of the CRR. The financial impact of the retrospective changes requested by the Commission on the corrections reported for 2008-2012[80] represent almost 15 % of the cumulative corrections reported for all programmes.

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

H. Cumulative residual risk

Indicator (ERDF and Cohesion Fund)	2014
Cumulative residual risk (average for all programmes)	1.1%

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

This cumulative residual risk (CRR), if above the materiality threshold of 2% for each programme or group of programmes, is also used as a criterion for additional reservations when the validated error

[77] Following the provisions set in the guidance note to the Member States ref. COCOF 10/0002 EN ; last official report available covering 2013 expenditure.
[78] The 2007-2013 regulatory payment system implies that EU payments or the EU share of withdrawals and recoveries are calculated automatically based on either the declared total or public cost, taking into account the co-financing rate at priority axis level. Amounts of recoveries and withdrawals are therefore calculated on the basis of the latest available financing plan, which means that amounts of EU share for a given year can vary in subsequent years if the co-financing rates were subsequently modified. Reporting can also be subsequently adjusted by the Member State, at the Commission request, when errors are detected.
[79] As a result of comparison for each Member State between national and EU reporting of implemented corrections.
[80] The impact on the 2013 corrections will be estimated in the next AAR exercise, as the report on the 2013 withdrawals and recoveries was partial in the AAR 2013 (see table page. 49 of the AAR 2013 and footnote 64).

rate is between 2% and 5% (when in principle no reservation was made before AAR 2011).

The CRR is the best estimate of a programme's corrective capacity, i.e. of the residual risk taking account of the corrective capacity of the programme over the programming period. It assesses whether the financial risk for programmes is kept at a tolerable level on a cumulative basis since the beginning of programme implementation. It complements the yearly validated projected error rate for determining whether a reservation has to be issued. It is estimated by considering for each programme or group of programmes the multi-annual impact of the validated error rates calculated since the beginning of the programming period, after deduction of the recoveries and withdrawals reported for each year by certifying authorities and recorded in their accounts prior to the date of signature the annual activity report and adjusted by the Commission to lower levels where necessary. These reported financial corrections by Member States do not include the preventive impact on expenditure not yet declared to the Commission, therefore such preventive ex ante corrections are not included in the calculation of the CRR[81].

DG Regional and Urban Policy has taken an increasing number of measures to improve the reliability of information on withdrawals and recoveries reported by Member States. As explained in section 2.1.1.2 above, thematic audit on recoveries have been carried out and have been complemented with desk consistency checks on the reliability of the art 20 statements submitted by 31 March 2014. For the purposes of the calculation of the CRR, **the Directorate-General considered only the withdrawals and recoveries data which were assessed as reliable**. In some cases the Member States were requested to correct their statements before computing them in the calculation. In absence of correct statements, the CRR calculation does not take into account the withdrawals and recoveries[82].

The total amount of financial corrections taken into account for the calculation of the CRR at the end of 2014 is therefore EUR 2.8 billion (77% of the corrections reported by Member States).

It has to be underlined that due to some inherent limitations to its calculation, the CRR should only be seen as an indicator and a criterion for additional reservations.

At the date of this report, 288 programmes (over 89%) presented a cumulative residual risk below or equal to 2% and for 34 programmes (11%) the cumulative residual risk is above 2%, including 2 programmes with a validated error rate between 2-5%, contributing therefore to additional reservations.

The CRR is expressed as a percentage of the value of the cumulative interim payments made for the programming period, up to the date of signature the annual activity report. The CRR calculated at end 2014 is therefore the best estimate of the corrective capacity of each programme or group of programmes at the time of drafting the annual activity report, based on different elements for which the Directorate-General has obtained different levels of assurance. **On average for all programmes, the cumulative residual risk at end 2014 is 1.1%, compared to 1.2% at end 2013 or around 1.3% at end 2012.**

A more comprehensive explanation of the CRR can be found in annex 8 including details on adjustments made to the calculation of the CRR for certain programmes, including the reasons for two exceptions.

[81] Calculations may also take account of withdrawals registered in the certifying authority's accounts in view of deduction in the next certification of expenditure (formal agreements); this was the case for a limited number of programmes (in Spain) in 2014.

[82] As a result of internal and external audit recommendations, financial corrections reported by Member States have also been excluded from the CRR calculation in case they are higher than the risks identified in the past (new calculation rule applied since 2014 in order to avoid the carry- over of negative amounts at risk)

I. Follow-up of 2013 reservations – ERDF/CF 2007-2013

AAR reservations[83]	Lifted	Outstanding as of 31 March 2015
73	33	40

In the AAR 2013, 73 ERDF/CF programmes of the 2007-2013 programming period were under reservation. The actions undergone have led to a total of 33 reservations solved and 40 still outstanding.

For each of the case under reservation, DG Regional and Urban policy had identified and agreed with the Member States targeted remedial actions that needed to be carried out by the relevant authorities in order to remedy the deficiencies. Additional information is provided in annex 8.

DG Regional and Urban Policy has, during the year, supervised that the remedial actions were indeed implemented and, when relevant, audited by the national audit authorities. When necessary, DG Regional and Urban Policy's supervisory role also included on-the-spot audits. **The payments were resumed only based on evidence that corrective actions, including financial corrections where necessary, were fully implemented**.

The reservations still outstanding concern mainly Spain, Hungary and Slovakia.

As regard Spain, 22 out of the 23 programmes were under partial reservations in the AAR 2013 due to deficiencies at the level of 16 Intermediate bodies (IBs). During 2014, the deficiencies were fully addressed for 4 out of 16 IBs and partially for one of the IB[84] based on evidence that appropriate corrective measures had been implemented by the affected bodies and validated by the audit authority. This however did not allow lifting any reservation at programme level, since the programmes are partially affected by deficiencies in more than one intermediate body.

As regard Hungary, the partial reservations were mainly due to deficiencies in public procurement (road sector) and in projects selection (tourism sector). The affected priorities axes were pre-suspended in 2014. The national authorities took the necessary measures (financial corrections and improvement in the system) as regard the deficiencies in the tourism sector but did not yet apply the necessary corrections on the contracts affected by the procurement irregularities. The Commission has launched the financial correction procedure, which is on-going.

As regard Slovakia, the deficiencies at the level of the audit authority were fully addressed and the audit authority is now assessed in category 2 (reliable). However, the corrective measures and action plans at managing authority level are still under implementation for the programmes concerned.

Financial corrections have been agreed in 2014 upon for 42 of these 73 OPs, which represents a total amount of EUR 177 million.

[83] Excludes IPA CBC dealt under section 2.1.1.3.

[84] Fully: second-level regional IB DG Universidades de Castilla La Mancha (OP FEDER Castilla la Mancha), the regional part of the OP FEDER Navarra and the regional of the OP FEDER Baleares, DG Innovación y Competitividad in January 2015. Partially intermediate body Agencia IDEA, given that appropriate corrective measures were implemented as regards grants and public procurement, but the action plan concerning the financial instruments is still ongoing.

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

	Number of reservations in 2013	Lifted by end Q1 2015	Outstanding	N° of financial corrections decided/confirmed in 2014 (number of OPs)	Amount of financial corrections decided/confirmed in 2014 (€ million)
AT	**4**	**3**	**1**	**3**	10.26
BE	**1**	**1**	**0**		
BG	**1**	**1**	**0**	**1**	22.57
CZ	**4**	**4**	**0**	**1**	0.01
DE	**5**	**3**	**2**	**4**	5.79
EE	**1**	**1**	**0**	**1**	0.01
ES	**22**	**0**	**22**	**11**	87.42
HU	**9**	**1**	**8**	**9**	15.20
IT	**5**	**3**	**2**	**5**	2.51
MT	**1**	**1**	**0**	**1**	0.42
NL	**1**	**1**	**0**		
PL	**1**	**1**	**0**		
SI	**2**	**2**	**0**	**1**	4.21
SK	**8**	**3**	**5**	**2**	7.21
UK	**3**	**3**	**0**	**2**	20.41
ETC	**5**	**5**	**0**	**1**	1.24
Total	**73**	**33**	**40**	**42**	**177.27**

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

Indicator	2014
Number of ERDF/CF programmes from the 2007-2013 programming period in reservation	77

The final stage of the evaluation process was a detailed review of all operational programmes in each Member State and beneficiary country taking account of all audit and implementation information available. This was done during meetings chaired at the highest level by the Director-General. The aim of these meetings was to:

- ensure the quality and consistency of the management assurance declarations (AOSD),
- resolve any cases of discrepancy between the audit opinions and management assurance declarations,
- agree on any modifications required as a result of subsequent developments during the first quarter of the current year (subsequent events),
- identify the programmes for which a reservation should be made and proceedings to be decided in relation to payments.

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

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

IMPACT on Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)		Coverage: Nr. of Programmes	Coverage: as % of Programmes	Coverage: Payments to Programmes in question as % of 2007-2014 period interim payments in the year
1	**Reasonable assurance**	132	41.0%	20.6%
2	**Reasonable assurance with low risk**	113	35.1%	53.8%
3	**Limited assurance with medium risk**	49	15.2%	21.6%
4	**Limited assurance with high risk**	28	8.7%	4.1%
		322	**100.0%**	**100.0%**

All programmes falling under the categories 'limited assurance – medium risk' and 'limited assurance - high risk' in the table are subject to a reservation. This applies to 77 ERDF/CF programmes from the 2007-2013 programming period.

Reservation for shared management – ERDF/CF 2007-2013

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

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

1) First step is the identification of significant weaknesses in the management and control systems resulting in material risk for the Community budget.

2) Secondly consideration is made of validated error rates above 5% and of the actions taken to mitigate this high level of risk.[85]

3) Third step is the consideration of a cumulative residual risk (CRR) estimated for all programmes since the beginning of the programming period, based on the best available sources of information (see section H above). This is an additional check applied in particular to programmes considered to have system that function subject to some improvements needed (validated error rate is between 2% and 5%): this check will confirm whether the risk for the programme is under control on a cumulative basis i.e. whether corrective measures (withdrawals, recoveries) already implemented by Member States had adequately mitigated the risks of irregularities since the beginning of the programming period. This CRR, if above the materiality threshold of 2% for each programme or group of programmes, is also used as **a criterion for additional reservations**[86].

This means that in the case that conditions 1) and 2) do not apply (system assessed as functioning well or with some improvements needed, and a validated error rate below 5%), a reservation would still be made if the CRR remains above 2% at the date of signature of the annual activity report. This criterion introduced in 2011 therefore allows for additional reservations compared to ARR 2010 and previous ones.

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

[85] There are 3 exceptions to this condition (2007BG161PO001, 2007BG161PO005 and 2007CB163PO65). For these 3 OPs, although the validated error rate was above 5%, in year 2014 the Programme authorities implemented corrective measures in terms of financial corrections and improvements in the management and control systems which were assessed positively by DG Regional and Urban Policy, enabling the lifting of the corresponding procedures of interruptions or pre-suspensions.

[86] There are 2 exceptions to this condition (OP Amazonie 2007CB163PO051 and NL OP West 2007NL162PO002). In the case of Amazonie, the CRR remains above 2% due to the non-statistical error rate reported in 2011. This is due to inherent limitation in the methodology in case of non-statistical sampling. For this programme, the required financial corrections were made and no further corrective measures can be proposed. The error rate reported in 2013 is below materiality. In the case of NL/ OP West, the CRR is above 2% (2,79%) but DG Regional Urban and Policy has obtained evidence from the national authorities on the financial corrections carried out, in particular, on the expenditure certified in 2013 that would allow bringing the residual risk under the materiality level. The CRR remains above 2% only because these financial corrections were not included yet in the annual statement requested under Article 20 of Commission Regulation (EC) No 1828/2006.

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

- The overall estimated validated average error rate[87] on 2014 payments for the 2007-2013 programming period is in the range of **2.6%[88] to 5.3%[89];**
- The cumulative residual risk of approx. **1.1%** confirms that the 2007-2013 programming period is subject to appropriate control and corrective action on a cumulative basis[90];
- DG Regional and Urban policy formulates a reservation for 77 programmes: of which 31 on a reputational basis (including 22 partial reputational) as no interim payment was made for these programmes in 2014 and 27 on a partial basis (specific axis, measures or IBs of OPs);
- The quantification of the estimated financial risk for these programmes, as a percentage of 2007-2013 period interim payments in the year 2014, is at 0.5%.

The methodology (which considers the cumulative residual risk for programmes with a 2014 validated error rate between 2 and 5 % and encourages Member States to apply self-corrections) has a positive impact on the overall estimated impact. The risk identified is already being mitigated by the strict, effective and timely implementation of a number of corrective measures, in particular interruptions, suspensions and financial corrections either already in place or being launched.

Further details as regards the **reason leading to the reservation for these 77 OPs** are described in annex 7A.

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[87] This range of the validated error rate is the most comparable with the error rate determined by the ECA in its Annual Report for Cohesion Policy. However these error rates are based on different approaches: on the one hand, an extrapolated error rate (fund specific as from the DAS 2011) based on audits of a sample of programmes and of operations using a statistical approach (ECA approach); and on the other hand, an average error rate based on the audit of operations by the audit authorities reported in the ACRs covering all the ERDF/CF operational programmes (Commission); see also explanations on page 46 and footnote 49 above.

[88] As the error rates reported are related to 2013 expenditure, this average only represents an estimation of average levels of risk for the 2014 expenditure. It is primarily based on the (most likely projected) error rates reported for 2013 by the audit authorities, if assessed as reliable.

[89] In order to estimate the risk for 2014 payments, a range is calculated. This is due to the one year time gap inherent in the regulation. The error rates reported by the audit authorities are calculated on 2013 expenditure but the risks have to be estimated on the 2014 expenditure.
As statistical sampling methods provide a confidence interval to estimate the risk, the upper limits reported by the audit authorities are used, in case of statistical sampling and reliable error rate; otherwise a flat rate is applied (the flat rate immediately above the reported error rates as reviewed by DG Regional and Urban Policy's auditors) except if duly justified (3 Spanish cases). The upper limits thus calculated cannot however be lower than the risk associated with the programme's assessment categories (2%, 5% or 10% depending whether the programme is fully impacted or only partially and 10% for respectively programmes under category 1, category 2, category 3 and category 4). This approach is more conservative than the one applied in the AAR 2013 in order to reflect the increased risk linked to the pressure on absorption ahead of closure.

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

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

	Total Payments in 2014 per level of assurance (in € million)					Programming period 2007 - 2013											
Member States	**REASONABLE ASSURANCE**	**REASONABLE ASSURANCE WITH LOW RISK**	**LIMITED ASSURANCE WITH MEDIUM RISK**	**LIMITED ASSURANCE WITH HIGH RISK**	**Total**	**2014 Estimated risk**			**Cumulative residual risk**	**AAR 2014 reservation**					**Commission's actions**		
	ERDF / CF 2007-13	ERDF / CF 2007-13	ERDF / CF 2007-13	ERDF / CF 2007-13	ERDF / CF 2007-13	**Number of programmes**	**average risk rate 2014 (1) (2)**	**quantification of global risk on 2014 interim payments (€ million)**	**% of cumulative interim payments at end 2014**	**Number of Programmes under whole reservation**	**Number of Programmes under partial reservation**	**Number of Programmes under reputational reservation**	**TOTAL**	**Quantification of risk for programmes in reservation 2014 (€ million)**	**Number of programmes affected by a warning or an interruption of payment deadlines in 2014 and Q1 2015**	**of which number of programmes affected by a pre-suspension in 2014 and Q1 2015**	**of which number of programmes affected by a suspension in 2014 and Q1 2015**
Austria (AT)	81.8	0.0	0.0	0.0	81.8	9	2.00%	1.6	0.00%	0	0	1	1	0.0	4	4	0
Belgium (BE)	0.0	206.4	0.0	14.9	221.3	4	1.49%	3.3	1.01%	1	0	0	1	1.5	2	1	0
Bulgaria (BG)	203.8	574.4	0.0	0.0	778.3	5	4.00%	31.1	0.87%	0	0	0	0	0.0	1	1	0
Croatia (HR)	57.7	0.0	0.0	0.0	57.7	3	0.34%	0.2	0.29%	0	0	0	0	0.0	0	0	0
Cyprus (CY)	0.0	109.1	0.0	0.0	109.1	1	1.21%	1.3	0.93%	0	0	0	0	0.0	0	0	0
Czech republic (CZ)	137.9	1943.0	429.3	135.1	2645.4	14	2.46%	65.0	0.59%	2	2	1	5	22.8	8	2	0
Germany (DE)	1745.2	307.6	26.2	30.0	2109.1	18	1.19%	25.2	0.82%	1	0	2	3	3.0	7	6	0
Denmark (DK)	0.0	76.3	0.0	0.0	76.3	1	0.38%	0.3	0.90%	0	0	0	0	0.0	0	0	0
Estonia (EE)	0.0	356.2	0.0	0.0	356.2	2	0.09%	0.3	0.74%	0	0	0	0	0.0	2	2	0
Spain (SP)	0.0	1041.5	1190.8	905.2	3137.5	23	6.19%	194.3	1.44%	0	16	6	22	60.5	23	19	15
ETC	1158.6	308.6	38.2	40.5	1545.9	73	1.38%	21.2	0.81%	3	1	0	4	6.7	12	4	0
Finland (FI)	133.8	0.0	0.0	0.0	133.8	5	0.15%	0.2	0.32%	0	0	0	0	0.0	0	0	0
France (FR)	0.0	1372.5	18.8	0.0	1391.4	31	3.85%	53.6	1.21%	0	0	1	1	0.0	0	0	0
Greece (EL)	0.0	633.0	2058.6	0.0	2691.7	10	2.22%	59.8	0.00%	0	4	4	8	2.1	10	4	0
Hungary (HU)	31.5	493.5	2813.4	0.0	3338.4	13	3.06%	102.0	1.60%	0	2	8	10	22.4	10	10	0
Ireland (IE)	48.4	0.0	0.0	0.0	48.4	2	1.17%	0.6	0.67%	0	0	0	0	0.0	0	0	0
Italy (IT)	92.3	1702.9	375.2	526.7	2697.0	28	3.01%	81.2	2.76%	9	0	1	10	66.6	13	9	1
Lithuania (LT)	847.1	0.0	0.0	0.0	847.1	2	0.66%	5.6	0.71%	0	0	0	0	0.0	1	0	0
Luxembourg (LU)	4.2	0.0	0.0	0.0	4.2	1	0.41%	0.0	0.17%	0	0	0	0	0.0	0	0	0
Latvia (LV)	712.6	0.0	0.0	0.0	712.6	2	1.06%	7.6	1.56%	0	0	0	0	0.0	0	0	0
Malta (MT)	178.1	0.0	0.0	0.0	178.1	1	0.62%	1.1	0.39%	0	0	0	0	0.0	1	1	0
The Netherlands NL)	149.6	0.0	0.0	0.0	149.6	4	0.97%	1.4	1.25%	0	0	0	0	0.0	1	1	0
Poland (PL)	2828.0	7326.8	0.0	0.0	10154.8	20	2.51%	254.7	1.12%	0	0	0	0	0.0	7	0	0
Portugal (PT)	0.0	2160.3	0.0	0.0	2160.3	10	1.17%	25.3	0.58%	0	0	0	0	0.0	0	0	0
Romania (RO)	0.0	1913.7	1505.3	0.0	3419.0	5	1.99%	67.9	1.02%	0	2	0	2	28.3	2	0	0
Sweden (SE)	133.5	0.0	0.0	0.0	133.5	8	0.49%	0.7	0.82%	0	0	0	0	0.0	0	0	0
Slovenia (SI)	0.0	636.8	0.0	0.0	636.8	2	3.56%	22.7	0.49%	0	0	0	0	0.0	2	1	0
Slovakia (SK)	0.0	182.3	358.5	0.0	540.8	9	1.81%	9.8	1.67%	0	0	7	7	0.0	8	8	0
The United Kingdom (UK)	1.8	1044.2	188.6	60.2	1294.8	16	2.60%	33.7	0.59%	3	0	0	3	9.9	14	11	0
TOTAL	8,572.2	22,389.3	9,002.9	1,712.6	41,650.8	322	2.6%	1,071.6	1.1%	19	27	31	77	223.8	128	84	16
Average risk rate								2.6%						0.5%			

(1) 10.7 Billion was paid in total for the 77 programmes which are under reservations. However only on part of the expenditure the DG could not obtain reasonable assurance (2.6 Billion)
(2) Average error rate by Member State is calculated on the basis of weighted validated error rates at operational programme level
(3) Range of OP's error rates for Member States with an important number of OPs: DE: 0.07% to 10%, IT: 0% to 25%, ES: 0% to 33.62%

2.1.1.3 Shared Management – ERDF and CF 2000-2006

A. Audit work

ERDF 2000-2006

The closure process 2000-2006 being at its end, the audit work in 2014 on ERDF focussed only on the analysis of the remaining closure cases and the follow-up of audits carried out in previous years. In particular in 2014, the audit work lead to proposing a financial correction for three programmes in BE/Wallonia regarding the financial engineering instruments. In the case of Italy for which 9 programmes still remain open, audit work carried out in 2014 comprised the preparation of new closure proposals for 5 programmes (Calabria, Campania, Sardegna, Sicilia and Mola di Bari). In the case of Calabria, Campania, Sardegna and Mola di Bari hearings took place in 2014 and additional information submitted was reviewed by the Commission auditors. For the UK, follow-up work was carried out in relation to five closure files to validate the value of expenditure checked. As regards Ireland, three programmes remain open and for which flat-rate corrections have been proposed by the Commission. Finally, in 2014, a hearing took place for one ETC programme[91] and following the review of the additional information the Member State accepted the Commission's final closure proposal.

Cohesion Fund 2000-2006

For the Cohesion Fund, the audit work carried out in 2014 consisted in reviewing the winding-up declarations submitted by Member States. In 2014, a total of 57 winding-up declarations were analysed (Slovenia; 1, Romania: 7, Bulgaria 16, Hungary: 5, Lithuania: 12, Greece: 2, Portugal: 12, Poland: 2). At the end of 2014, the audit directorate has analysed a total of 1,140 winding-up declarations. The cumulative breakdown per Member States is the following (Malta: 3, Latvia: 46, Slovenia: 28, Romania: 59, Bulgaria: 37, Slovakia: 37, Czech Republic: 53, Estonia: 36, Hungary 39, Lithuania: 46, Greece: 117[92], Portugal: 103[93], Spain: 407[94] and Poland 129[95]). In terms of assurance, the audit directorate has qualified its opinion for Bulgaria and Romania transport sector due to respectively high error rates detected for one project and due to the suspicion of fraud at the level of 3 projects reported in the AAR 2013.

In terms of financial corrections, the Polish authorities apply for all projects to be closed after June 2010, a net correction of 2% due to five systemic findings in the area of public procurement. In addition, a 5% net correction for seven technical assistance projects in the rail sector was also imposed. The Spanish authorities have agreed to apply a net correction of 2% to all projects due to deficiencies in public procurement.

B. State-of-play closure

ERDF 2000-2006

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

[91] 2001RG160PC008. Programme Cadses.

[92] As at 31 December 2014, all 117 Greek winding-up declarations for the programming period 2000-2006 have been analysed (out of a total of 123 projects, six have been decommited).

[93] At end 2014, all 103 winding-up declarations for Portugal for the programming period 2000-2006 have been analysed.

[94] At end 2014, all Spanish 407 winding-up declarations for the programming period 2000-2006 have been analysed.

[95] As regards Poland, this brings the total number of winding-up declarations analysed as at 31 December 2014 to 129, out of 130 projects for the programming period 2000-2006.

At the end of 2014, DG Regional Policy has closed 338 ERDF programmes compared to 316 at end 2013 out of a total of 379 programmes. The remaining 41 programmes represent cases where the Member States contested the financial corrections proposed by the Commission, presented additional information to be considered or requested reimbursement of irrecoverable amounts. These cases are followed up by financial correction procedures (hearings) and decisions on irrecoverable amounts.

Cohesion Fund 2000-2006

For the Cohesion Fund, the objective is also to ensure that the residual error rate does not exceed 2%. During 2014, the Cohesion Fund Closure Task Force closed 137 projects for the pre 2006 periods. For all of these projects, the audit opinions were taken into account, outstanding OLAF irregularities in IMS were closed and all legally supportable corrections were implemented. No payments were made that could not be categorised as reasonable assurance. The situation at the end of 2014 is that approximately 85% of the Cohesion Fund 2000-2006 projects are closed, representing 72% of the final commitments[96] for this Fund. 162 projects remain open beginning of 2015 and should all be closed by end 2016.

C. Financial corrections 2000-2006

ERDF 2000-2006 and Cohesion Fund 2000-2006

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

Indicator	2014 (EUR million)
Corrections for 2000-2006 and previous programmes resulting from Commission audit work (decided in 2014, ERDF and Cohesion Fund):	543
Cumulative financial corrections for 2000-2006 programmes (decided/confirmed till end 2014)	6,418
Cumulative financial corrections for 2000-2006 programmes (implemented till end 2014)	6,063
Rate of implementation of corrections for 2000-2006 programmes (cumulatively)	94 %

Financial corrections confirmed in 2014:

With reference to all programming periods, EUR 839.9 million of financial corrections have been confirmed in 2014 for ERDF/CF.

For the 2000-2006 programming period, the closure process of both ERDF programmes and Cohesion Fund projects led to total additional financial corrections of an amount of EUR 542.7 million being imposed and accepted by Member States in 2014. This figure can be broken down mainly in 2 categories:

- EUR 450.7 million of financial corrections for complex ERDF closure files in 9 Member States,
- EUR 92.0 million accepted by 11 Member States for Cohesion Fund projects.

The most significant amounts concern Italy (EUR 231 million ERDF), Spain (EUR 119 million ERDF) and Slovakia (EUR 70 million CF).

[96] Under the 2000-2006 period, 1,121 Cohesion Fund projects were accepted for a Fund contribution of EUR 32,545 million.

Financial corrections implemented in 2014:

Cumulatively, and by end 2014, above 94% of all decided/agreed corrections for ERDF and CF have been implemented, with a total amount of EUR 854 million implemented in 2014.

For the 2000-2006 programming period, the reported amount of corrections implemented in 2014 is EUR 571.8 million. This corresponds to the closure of further 2000-2006 ERDF programmes in 10 Member States and for Interreg (EUR 466.4 million), following contradictory procedures on more complex cases (in particular in Italy), and the continuation of the closure of Cohesion Fund in 11 Member States (EUR 105.4 million). The implementation rate of financial corrections for ERDF 2000-2006 thus increased to 94% by end 2013 and will further progress with the payment of final balances to programmes that remained open by end 2013.

D. Follow up of 2013 reservation ERDF/CF 2000-2006

ERDF 2000-2006

Out of the 5 reservations, 2 were addressed[97] in 2014 as the authorities agreed to apply the proposed corrections and 3 remain outstanding. These programmes were put under reservation due to the fact that financial corrections above 5% still needed to be applied at closure. The three programmes which remain outstanding are the two Italian programmes (OP Sicilia and OP Campania) as well as the Irish programme (Productive Sector). For these 3 programmes, the authorities have not accepted the closure proposals. The amounts of the corrections are substantial for the two Italian programmes (up to EUR 570 million).

Finally, it should be noted that as regard unfinished projects, DG Regional and Urban Policy has taken appropriate measures in 2014 to verify the information provided by the Greek authorities and has reported on this in the annual report on the protection of the financial interests in September 2014.

Cohesion Fund 2000-2006

Out of the 2 Cohesion Fund reservations issued in the AAR 2013, 1 is addressed and 1 remains outstanding. These reputational reservations were due to suspicion of fraud (in three transport projects in Romania, and at the level of the road agency in Poland).

As regards Romania - Transport sector, a flat rate correction for the non-respect of contract specifications will be proposed. The reservation is still pending and will be lifted upon implementation of the correction.

As regard, Poland - Transport sector a study was commissioned on the quality of the construction of road projects following the cartel accusations made in late 2012. The study concluded that the quality of the construction was satisfactory. The Polish authorities were requested to check the projects for which a cartel was suspected to have been in operation amongst the bidding companies. These checks proved that there was no irregular expenditure. The reputational reserve on the transport sector for Poland was therefore lifted.

Table: Follow up of 2013 reservations by Member States for the 2000-2006 programming period:

	Ireland (ERDF)	Italy (ERDF)	Poland (CF)	Romania (CF)	TOTAL (ERDF + CF)
Reservations in AAR 2013	2	3	1	1	**7**
Resolved	1	1	1	0	**3**
Outstanding	1	2	0	1	**4**

[97] 2000IE161PO004 - PO obj. 1 Economic and Social Infrastructure and 1999IT161PO006 - PO OBJ 1 CALABRIA

E. Conclusion reservation for ERDF/CF 2000-2006

Indicator	2014
Number of programmes from the 2000-2006 programming period in reputational reservation	3
Number of sector for the Cohesion Fund 2000-2006 in reputational reservation (partial)	2

ERDF 2000-2006

The 3 programmes[98] for which significant financial corrections have not yet been applied (above 5%) remain in reservations. The reservations are reputational as no payment for these 3 programmes was made in 2014.

Cohesion Fund 2000-2006

The Cohesion Fund- transport sector (Romania) remains under reputational reservation as corrective action was not yet taken for the 3 projects.

In addition a new reputational partial reservation is issued for the Bulgarian Cohesion Fund transport sector due to the high amount of irregularities discovered at the level of the Calafat-Vidin Bridge project. No payment has been made in 2014 for the project at risk.

2.1.1.4 Shared Management – IPA-CBC and Solidarity Fund

A. Audit work

IPA-CBC

Indicator	2014
Weighted average error rate on 2014 payments as reported by the audit authorities (based on 2013 error rates) - Estimate	13.04 %

For the 2007-2013 programming period, all the eight IPA Cross Border Cooperation programmes (IPA-CBC) were adopted. These programmes differ from the mainstream ETC programmes as they involve at least one candidate country. In terms of management and control system both the requirements and the control objective are identical to those for ERDF/CF

As part of its audit enquiry on the review of the audit authorities, the Audit Directorate has reviewed the work of the audit authorities responsible for all IPA-CBC programmes and the audit conclusions are that the reviewed audit authorities work well, with some improvements needed. DG Regional and Urban Policy auditors also reviewed and assessed the 2014 annual control reports, including the reported error rates.

Based on the results of this work, the Audit Directorate has assessed 7 programmes as functioning well or with some non-material improvements needed:

- unqualified audit opinions for 5 programmes: Hungary-Serbia (2007CB161PO004), Romania-Serbia (2007CB161PO005), Bulgaria-Serbia(2007CB161PO006), Bulgaria-FYRoM (2007CB161PO004) and Bulgaria-Turkey (2007CB16IPO008)
- qualified audit opinions with moderate impact for 2 programmes: Greece-FYRoM (2007CB16IPO009) and Greece-Albania (2007CB16IPO010)).

For one programme (Adriatic (2007CB16IPO001)) the Audit Directorate has delivered an adverse opinion based on:

[98] These programmes are OP Campania, OP Sicilia (Italy) and OP Productive sector (Ireland)

- the fact that interim payments for the priority 'Technical Assistance' are already suspended due to the high error rate reported by the audit authority in the ACR 2012 and the failure by the programme authorities to implement the corrective measures requested by the Commission;
- for a 2014 system audit on the managing authority the audit authority concluded that the system works but significant improvement needed;
- the error rate reported in the ACR 2014 (9.74%) is significantly above the materiality threshold.

Solidarity Fund

Audit and control of the EU Solidarity Fund grants is primarily a responsibility of the beneficiary Member State, which receives an advance payment of the grant. The Directorate-General is responsible for desk reviews of "validity statements" providing a closure statement from the Member State on the use of the grant paid in previous years. These statements are issued by an audit body independent from the authority managing the EUSF grant which can carry out on-the-spot audit work for assurance purposes.

In 2014, 13 applications for financial assistance were received:

- six applications in the first half of 2014 relating to the flash floods in Sardinia (Italy), to Cyclone Bejisa (France), to the earthquake at Kefalonia (Greece), to the ice storm and floods in Slovenia and Croatia, as well as one from Romania relating to severe winter conditions. The Commission accepted four of these applications (IT, GR, SI, and HR).

- seven applications during the second half of 2014 relating to floods in Serbia, Croatia, Italy, Romania (2) and Bulgaria (2). The Commission accepted three of these applications (BG, RO and HR). Four applications were still under assessment at end 2014.

In 2014, the audit work carried out consisted in reviewing 4 implementation reports and validity statements submitted during the year to DG Regional and Urban Policy for disasters related to 2010 and 2011 (Italy- Veneto, Ireland, Spain Lorca, Italy – Liguria and Tuscany). Out of these 4 validity statements, 1 (Italy-Veneto) has been analysed and accepted by the Audit Directorate. For one validity statement (Spain Lorca), the Audit Directorate requested the Spanish authorities to provide additional information. The remaining two reports and validity statements (Ireland and Italy – Liguria and Tuscany) are under assessment.

Besides, during 2014, additional information was requested from Member States concerning the previously submitted validity statements (Croatia, Hungary, Czech Republic and Slovenia) originally submitted in 2013. This led to the following situation at the end of 2014:

- For four cases (France Storm Xynthia 2010, Romania 2008, Romania 2010 and Slovakia 2010) replies are being analysed by the Audit Directorate.
- For three cases (Poland, Cyprus and Spain 2011) additional information was requested from the Member State.
- For two cases (Croatia and Czech Republic 2010) the analysis has been completed which enables the Directorate-General to close the file.

Finally, in early March 2015, the Directorate-General carried out an on-the-spot audit on the EUSF assistance to Poland following the floods of May and June 2010[99]. The main preliminary finding relates to possible failure to comply with EU Environmental Directives, to be further analysed with DG Environment.

Based on this audit work, the Directorate-General can conclude that it has reasonable assurance on the validity statements which were accepted in 2014, without prejudice to any final audit results deriving from on-the-spot audits.

[99] CCI 2010PL16SPO001

B. Interruptions/suspensions of payments

IPA-CBC

General information concerning interruptions and suspensions of payments is cumulatively presented under point F. of section 2.1.1.2 above.

Indicator	As of 01/01/2014	Any time in 2014	As of 01/01/2015
OPs affected (warned/interrupted/ suspended)	1	1	1
Amounts interrupted EUR million	0.1	2.1	2.2
Payment claims interrupted	1	12	13

The programme currently suspended is OP Adriatic (priority 'Technical Assistance').

C. Follow up of reservation - IPA-CBC and Solidarity Fund

IPA CBC

One IPA-CBC programme (Adriatic IPA Cross-border) was under reservation in the AAR 2013 due to deficiencies at the level of the TA priority axis. As the corrective measures were not implemented, the programme was suspended[100] in November 2014.

D. Conclusion IPA-CBC and Solidarity Fund

Indicator	2014
Number of IPA- CBC programmes from the 2007-2013 period in reservation	1

For IPA-CBC programmes, the final stage of the evaluation process is similar to the one applied for shared management. A detailed review at the highest level of the Directorate-General was carried out. It results in:

IMPACT on Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)		Coverage		
		# of Programmes	as % of Programmes	Payments to Programmes in question as % of interim payments in the year
1	Reasonable assurance	6	66.7%	46.3%
2	Reasonable assurance with low risk	2	22.2%	2.9%
3	Limited assurance with medium risk	0	0.0%	0.0%
4	Limited assurance with high risk	1	11.1%	50.8%
		9[101]	100.0%	100.0%

The programme for which limited assurance is given is in full reservation. This is the programme Adriatic IPA Cross-border. The reservation is due to the on-going suspension of the TA priority axis as well as the high error rate reported by the audit authority.

No reservation is made for the Solidarity Fund.

[100] C(2014)9058 dated 26/11/2014
[101] Payments under IPA were made for CCI 2007CB163PO069

2.1.1.5 Indirect Management – IPA

IPA (for Turkey, the former Yugoslav Republic of Macedonia and Montenegro) are managed under indirect management, with the EU delegations carrying-out ex-ante controls on the tendering of contracts, launch of calls for proposals and the award of contracts and grants. This represents an important mitigating element in the overall assessment of the functioning of management and control systems in candidate countries. There are five[102] IPA programmes.

The control system is built on multiannual and multilevel control whereby one level of control may rely on the work of previous controls performed by other bodies. The following points form the building blocks behind the assessment of DG Regional and Urban Policy's management towards reasonable assurance

A. Audit work

Indicator	2014
Weighted average error rate on 2014 payments as reported by the audit authorities (based on 2013 error rates) - Estimate	4.3 %

Regarding Montenegro, DG Regional and Urban Policy carried out a desk-based follow-up of the fulfilment of the recommendations from the Conferral of Management mission of May 2013. Based on the desk-audit work, the Directorate General concluded that the set-up of the management and control system is compliant with the regulatory requirements.

Regarding Turkey, the audit work carried out consisted in the assessment of the NAO's statement of assurance, system audit reports, annual audit work plan, annual audit opinion and annual audit activity report. On this basis, DG Regional and Urban Policy could obtain reasonable assurance for two out of the three programmes. For these two programmes the error rates reported were not material (i.e. below 2%). For OP Transport however, the audit authority has provided a qualified audit opinion due to the fact that it could not conduct its audit on one project which corresponded to a significant part of its audit sample. Therefore the assurance is limited for this programme and a reservation is made. The Directorate-General has applied a flat rate of 10% to estimate the risk for this programme.

Regarding the former Yugoslav Republic of Macedonia (FYROM), the audit work carried out consisted in the assessment of the NAO's statement of assurance, system audit reports, annual audit work plan, annual audit opinion and annual audit activity report. Based on its desk-audit work, DG Regional and Urban Policy can conclude that the management and control system is functioning effectively. The error rate reported are not material

B. Interruptions/suspensions of payments - IPA

Indicator	As of 01/01/2014	Any time in 2014	As of 01/01/2015
OPs affected (warned/interrupted/ suspended)	1	2	0
Amounts interrupted EUR million	0	89	0
Payment claims interrupted	0	3	0

There are no on-going interruptions or suspensions of payments for IPA.

The two programmes which were interrupted in 2014 were the OP Transport for Turkey and the Regional Development OP for FYROM. As regards OP Transport, the interruption of July 2014 was

[102] Three programmes in Turkey, one in fYRoM and one in Montenegro.

done on the basis of the audit opinion of the audit authority for 2013. It was lifted in November 2014 when evidence was provided on the necessary improvements to the system. As regards the Regional Development OP for FYROM, the payments were interrupted in February 2014 on the basis of a national system audit report which identified significant deficiencies in the management and control system. The payments interruption has been subsequently lifted in April 2014 based on the confirmation that the deficiencies were addressed.

C. Follow up of reservation - IPA

One IPA programme (Turkey: Operational programme for Transport) was under reservation in the AAR 2013 due to irregular expenditure certified and over-declaration of expenditure. During the year, the corrective measures have been fully implemented.

D. Conclusion - IPA

Indicator	2014
Number of IPA programmes from the 2007-2013 programming period in reservation	1

The final stage of the evaluation process is similar to the one applied for shared management. A detailed review at the highest level of the Directorate-General was carried out. It results in:

IMPACT on Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)		Coverage		
		# of Programmes	as % of Programmes	Payments to Programmes in question as % of interim payments in the year
1	Reasonable assurance	4	80%	57.4%
2	Reasonable assurance with low risk			
3	Limited assurance with medium risk	1	20%	42.6%
4	Limited assurance with high risk			
		5	100.0%	100.0%

The Turkish Transport programme for which limited assurance is given is in full reservation.

2.1.1.6. Direct management

Indicator	2014
Audit on direct grants	1
Audit on payments	1

In 2014, the expenditure paid under direct management (mainly for operational and administrative technical assistance for ERDF and the Cohesion Fund) represented EUR 72.89 million of which EUR 25.52 million was paid to the EIB for JASPERS and Technical Assistance Platform for financial instruments - Horizontal Assistance (FI-TAP).

The committed amount for JASPERS in 2014 amounts to EUR 29 million while for the FI-TAP it reached EUR 9.24 million.

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

Award of contracts and grants

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

In 2014, half of the TA budget has been implemented through service contracts. More specifically, 35 files have been examined during 23 meetings of the CIMS representing a total amount of EUR 51.9 million. These contracts were awarded following 20 open procedures, 1 negotiated procedure for low value contract, 2 negotiated procedures without publication of a contract notice in the OJ, 11 specific contracts using a FWC with reopening of competition and 1 restricted procedure following a call for expression of interest (AMI list).

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

In 2014, the Internal Audit of DG Regional and Urban Policy performed an audit on direct grants, without any critical or very important findings.

<u>Legality and regularity of the payments</u>

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

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

The Internal Audit Unit has carried out an audit in 2014 on a sample of both mainstream and direct payments, systematically selected from the different budget lines, to ensure that these were duly authorised, paid to the right beneficiaries, properly accounted for and materially correct. There were no critical or very important findings. The audit provided reasonable assurance to the Director General as regards the legality and regularity of payments made in 2014 from the direct management budget.

2.1.2 Control efficiency and economy

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

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

Management mode	% budget
Shared management	99.4%
Indirect management	0.4%
Direct management	0.2%

2.1.2.1 Shared Management

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

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

Indicator	2014
Cost of control/financial management of the Commission checks and assessment (as a % of total 2014 payments)	0.15%
% of Commission payments on time	95%
Time to lift interruption of payments *Impacted by the degree of complexity of the issues and of the time required by Member States to react*	8.6 months on average (from first blocking letter to resuming payments)
% interruption of payments notified to MS within 2 months	
• All payments claims interrupted in 2014 *The percentage reported does not take account of days during which the funds were not available, which would increase the compliance rate*	72 %
• Payment claims submitted in 2014 and interrupted in 2014	100 %

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

The estimated annual overall Commission cost is estimated at 0.15% of total payments of the year[103]. This cost mainly relates to staff involved in audit activities (notably assessment of management and control systems in Member States and including the Commission ex-post audits) and staff in the geographical desks (which carries out controls throughout the different design, implementation and monitoring phases). The remaining direct Commission costs relate to staff acting as service providers to the geographical desks (in the competences centres and in the units responsible for evaluation activities and financial instruments). In addition, a share of the staff involved in the financial circuits, as well as staff responsible for legal affairs and IT systems is also included in the calculation, following a proportion estimated by the concerned units.

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

The costs at the level of the Member States related to control (at national and regional level) are estimated around 2% of the total funding[104]. These costs are related to the following areas of control: 1% is derived from national coordination and programme preparation, 82% relate to programme management, 4% to certification and 13% to audit.

The quantifiable benefits mainly relate to the corrections[105] implemented by DG Regional and Urban Policy following (Directorate-General) audit work. In this context, it must be pointed out that financial corrections are not an objective as such. A decreasing amount of corrections over the years would not solely result from the quality and/or quantity of controls but could also reflect an improvement in sound financial management of the programme by the Member States.

[103] Corresponding to EUR 48,812 million

[104] Study "regional governance in the context of globalisation", 2010

[105] See point 2.1.1.1.G: As indicated above, the corrections implemented in 2014 at the request of the Commission amount to EUR 854 million. However, it must be noted that corrected amounts might correspond to expenditure of previous years.

Overall, during the reporting year the controls carried out by DG Regional and Urban Policy for the management of the budget appropriations were cost efficient, as the estimated quantifiable benefits exceeded the cost in a proportion of 11 to 1.

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

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

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

Since the cumulative residual error rate for payments related to the 2007-2013 programming period is below 2% in 2014, it can be concluded that the control system functioned effectively.

2.1.2.2 Indirect management

Indicator	2014
Cost of control/financial management of the Commission checks and assessment (as a % of total 2014 payments)	1.09%
% of Commission payments on time (vs Financial Regulation Target)	56%
Budget execution	100%

The estimated annual overall Commission costs amounts to 1.09% of total payments of the year managed under indirect management mode[106].

The cost relates to staff involved in audit activities and part of the geographical staff involved in control and implementation activities for IPA (both in DG Regional and Urban Policy concerned geographical unit and in the delegations). The FTEs corresponding to geographical staff should not be counted in full, as the concerned staff contributes to both control and implementation activities. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), DG Regional and Urban Policy estimated their involvement in the financial workflow at approximately 33% for the concerned staff in DG Regional and Urban Policy geographical unit and 75% for delegation staff.

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

[106] Corresponding to EUR 172.22 million

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

In view of the above, DG Regional and Urban Policy considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate.

2.1.2.3 Direct management

Indicator	2014
Cost of control/financial management of the Commission checks and assessment (as a % of total 2014 payments)	2.36%
% of Commission payments on time (vs Financial Regulation Target)	95.63%
Budget execution	100%

The estimated annual overall Commission costs are estimated to amount to 2.36% of total payments of the year managed under direct management mode[107].

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

The benefits of controls at the programming stage cannot be quantified. The **unquantifiable benefits** mainly relate to the relevance and effective implementation of activities in line with the DG's policy objectives. The **quantifiable benefits** of controls at the implementation and monitoring stages are known in nature but are difficult to quantify in a cost-effective way. By ensuring compliance with the Financial Rules and the respect of principles for grants and procurement, DG Regional and Urban Policy makes sure that the selected proposals or offers bring the best value for money, i.e. fulfilling performance needs and optimising the use of EU funds. The deterrent effects of monitoring and controls also bring unquantifiable benefits.

In view of the above, DG Regional and Urban Policy considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate.

[107] Corresponding to EUR 72.89 million

2.1.3 Fraud prevention and detection

Indicator	2014
Risk-based assessment of the quality of the managing authorities' fraud risk assessments and anti-fraud measures at the designation stage for the riskiest OPs	Target not reached as Member States fraud risk assessments were not yet available in 2014 (data will be available from 2015)
Number of cases of suspected fraud detected by/brought to the attention of the DG transmitted to OLAF for evaluation	100% (23 cases)
Number of OLAF Final Case Reports for which financial follow-up has been finalised (> 80% within 2 years of submission of Final Case Report from OLAF)	20%
2 internal trainings/fraud-awareness events per year 3 external training/fraud-awareness events per year	> 100% (12 external events in Member States)
5 to 7 Member States using Arachne tool (pilot) by end 2014	> 100% (8 Member States)

The first and strongest preventive defence against fraud is the operation of a robust system of internal control which should be designed and operated as a proportionate response to the risks identified. Effectively implemented robust control systems can reduce the risk that fraud occurs or remains undetected, nevertheless they cannot completely eliminate the likelihood of fraud occurring.

DG Regional and Urban Policy developed a Joint Anti-Fraud Strategy (JAFS) for 2012-2013[108] together with DG Employment, Social Affairs and Inclusion and DG Maritime and Fisheries, with the support of OLAF, as foreseen in the Commission's overall anti-fraud strategy.[109] With a joint note[110] from the three structural funds DGs in March 2014, the JAFS 2012-2013 was extended to cover also 2014. An updated JAFS to cover 2015 and subsequent years is currently being developed. The actions in this JAFS will be based on an analysis of Member States' fraud risk assessments for 2014-2020 (see below) and on the results of the anti-corruption events carried out by the Commission services in 2014.

Putting in place effective and proportionate anti-fraud measures, when this is necessary to mitigate against residual fraud risks, is a new key requirement[111] for the management and control systems for the 2014-2020 programming period. Therefore the Directorate General drafted and released in June 2014 an important guidance note for the Member States on a methodology and a tool for fraud risk assessment and accompanying effective and proportionate anti-fraud measures. Managing authorities are recommended to use the guidance when they carry out their fraud risk assessment as part of the process for designation of authorities 2014-2020.

Roll-out presentations of this guidance, including the tool for fraud risk assessment, was made in nine anti-fraud and anti-corruption seminars in 2014[112] targeting managing authorities and audit authorities. These seminars were organised by the Directorate General's competence centre for administrative capacity in EL, SK, CZ, BG, HR, RO, IT, SI and ES. Presentations of this guidance were also made in another 3 conferences in Member States in 2014: LT, SK and IT. In addition, two internal training events were organised for desk officers and auditors.

[108] ARES(2012)1235372 – 19.10.2013
[109] COM(2011) 376 24.06.2011
[110] Ares(2014)617440 - 07/03/2014
[111] Article 125.4 c) of the Common Provisions Regulation
[112] The Member States were chosen based on the ranking established in Transparency International's Corruption Perceptions Index (CPI).

A total of 23 fraud suspicions were transmitted to OLAF. OLAF opened up 5 investigations on the basis of this information and dismissed 4 cases.[113] The other fraud suspicion cases are pending a decision by OLAF whether to open up an investigation or whether to dismiss the case. OLAF is currently carrying out 120 fraud investigations in relation to DG Regional and Urban Policy's funds. In 2014, the follow-up for 10 cases was finalised.

According to the Commission's (OLAF) Annual Report on the fight against fraud of 17 July 2014[114], in 2013 the Member States communicated a total number of 4,674 irregularity cases to OLAF for the ERDF and the Cohesion Fund for a potentially affected amount of EUR 1.17 billion. According to the report, in 2013 the share of suspected fraud cases out of the irregularities notified by Member States to OLAF represented around 0.27 % of the 2013 payments for Cohesion Policy.

Since the Directorate-General applies a policy of zero tolerance to fraud, it has made reservations regarding the following programmes due to fraud suspicions either at the level of the managing authority or because the fraud suspicions are particularly serious (see list of reservations in Annex 7A): Moravia-Silesia (2007CZ161PO010, reputational-partial), Abruzzo (2007IT162PO001, full), Lazio (2007IT162PO004, full), Transport (SK) 2007SK161PO004, reputational-partial) and Romania ERDF 2000-2006 (Transport Project, reputational-partial).

In 2014, the Audit Directorate has also actively promoted in close cooperation with DG Employment, Inclusion and Social Affairs the use by responsible national authorities of the Arachne tool, a preventive risk-scoring tool developed by the Commission. Arachne has been made available to Member States on a voluntary basis. It can help and support management decisions at managing authority level since it can bring significant improvements in the prevention and detection of various risks related for example to public procurement procedures, conflicts of interest, concentration of grants under particular operators. It can also help identifying red flags of fraud suspicion. In addition, a set of preliminary pilots for transversal analysis of data has been undertaken by auditors, using Arachne. To date, joint presentations of this new tool aiming at providing explanations of the basic concepts and the advantages of the Arachne, together with practical training on the use of the tool were made in 22 Member States. Arachne was also presented in the framework of anti-corruption seminars and anti-fraud seminars mentioned above. As a result, eight Member States reported in 2014 that the tool is already operational for some of their programmes: Italy, Greece, Portugal, Croatia, Romania, Latvia, Poland and the Czech Republic. The aim is to promote the introduction of Arachne to all Member States in the coming years. Annex 8 provides more detailed information on cooperation with OLAF.

[113] Dismissed cases are treated in accordance with OLAF's guidance on dismissed cases.
[114] COM(2014) 474 final

2.2 Budget implementation tasks entrusted to other services and entities.

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

Cross-sub-delegations

As in previous years, DG Regional and Urban policy has cross-sub-delegated the execution of a very limited part of the budget (EUR 13.09m) to the Directors General of:

- DG Communication – EUR 0.45m for communication activities on Euronews;
- DG Informatics – EUR 1.61m for development of IT systems, maintenance and support to users;
- DG Neighbourhood and Enlargement Negotiations – EUR 0.76m for small-scale technical assistance (SSTA) for IPA component III - Ankara (Turkey); Podgorica (Montenegro) Skopje (fYROM) and the Task Force for Greece;
- DG Employment, Social Affairs and Inclusion – EUR 2.31m – for ARACHNE risk scoring tool, Unece Trade Facility, Support to the World Bank, and the Task Force for Greece;
- Eurostat – EUR 0.85m - for regional/urban statistics and geographical information;
- DG Financial Stability, Financial Services and Capital Markets Union – EUR 0.08m for a seminar in Strasbourg;
- Office for Infrastructures and Logistics in Brussels – EUR 0.11m – for Printshop activities
- DG Human Resources and Security – EUR 0.48m for " Intérimaires "
- Publications Office – EUR 0.16m – for printed communications
- Office for Administration and Payment of Individual Entitlements – EUR 6.3m for contract agents, SNEs, experts, committees and missions.
- the Heads of the EU Delegations in the Former Yugoslav Republic of Macedonia (fYRoM) and Turkey as regards the ex-ante controls of legal commitments.

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

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

2.3 Assessment of audit results and follow up of audit recommendations

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

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

2.3.1 European Court of Auditors

2.3.1.1 Annual report for 2013 (DAS 2013)

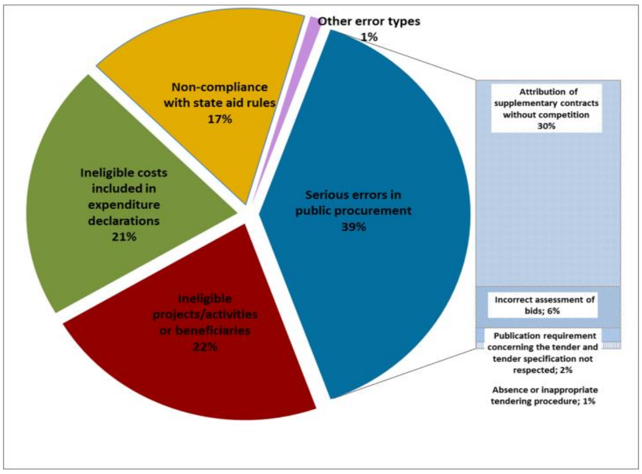
The European Court of Auditors (the Court) published in November 2014 its Annual Report for the budgetary year 2013. Chapter 5 of the report is dedicated to regional policy, transport and energy. Regional policy, mainly ERDF and the Cohesion Fund, accounts for 96 % of spending covered by this chapter, while the remaining 4% concern transport and energy areas.

For the statement of assurance in the area of regional policy, the Court audited 168 randomly sampled transactions in the Member States and examined the effectiveness of the Commission's supervisory work. For transport and energy, 12 transactions were audited.

Even though the Court is the external auditor of the Commission, its audit results are taken into account for DG Regional and Urban Policy's single audit approach. In this context, the Court's findings (particularly deficiencies) are treated in the same way as audit results from Member States and the Commission.

Main conclusions: The Court concluded in its 2013 Annual Report that payments for regional policy, transport and energy were affected by material errors, **with a most likely error of 6.9%**[115] and a frequency of error in the audited sample of 180 transactions of 57%. The Court underlined that one third of the errors it found could and should have been detected by the Member States before declaring expenditure to the Commission, which would have reduced the error rate by 3 percentage points. The reported sources of error were ineligible expenditure and projects (43% of the error rate), lack of compliance with public procurement procedures (39%) and to non-compliance with State aid rules (17%) (see graph below).

Main sources of ERDF/CF errors detected by the Court



The Court also reviewed effectiveness of the control systems by analysing the Directorate's General validation of the annual control reports submitted by audit authorities and the reservations made in

[115] In its replies to the Court's Annual report the Directorate general for Regional and Urban policy indicated that it considers the Court's error rate as inflated, for the reasons described in section 2.1.1.2 B and footnote 49

the DG Regional and Urban Policy's 2013 Annual Activity Report. On the work performed by DG Regional and Urban Policy to assess the work of ERDF/CF audit authorities, **the Court stated that compared to 2012, the Directorate General has strengthened the checks by requesting additional information from audit authorities and carrying out fact finding missions. However, it mentioned that**:

- the Commission's analysis suffered from weaknesses in reporting by national authorities (underreporting of problems; accuracy of financial correction data reported by Member States),
- the Commission did not always have full information to validate the data reported by the audit authorities (no information about audit of operations).

The Court concluded however that the amounts at risk reported in the 2013 Annual Activity Report (between 2.8% and 5.3%) are accurate and consistent with the available information. The Court's re-calculation of the amounts at risk (2.9%) has confirmed the Directorate General's estimate. Concerning the Directorate-General's management representation, **the Court validated the number of reservations made in the Directorate's General 2013 Annual Activity Report**. In line with a recommendation made by the Court, the Commission also agrees to disclose further details in annex to the annual activity report for individual cases where, based on its assessment of the specific situations, it takes a reasoned decision not to make reservations or not to include the issue in the quantification of the reservation.

<u>Impact on assurance:</u> The error rate calculated by the Court in 2013 for regional policy is above the Court's materiality level of 2% but remains less than half of the error rates reported by the Court in the period 2006-2008 for Cohesion policy as a whole. The Commission considers however that, even taking into account the difference of methodology between the Court and the Commission, the error rate established by the Court remains high. It continues to work to further reduce it, even if it considers that the yearly error rates will continue to oscillate around this level during implementation. This is due to the multiannual character of the management and control systems of programmes and the fact that not all controls may have been carried out when expenditure is declared to the Commission. At closure, after all controls have taken place, the residual error is expected to be below the materiality level.

Management verifications by managing authorities before certifying expenditure to the Commission is the critical first layer of control in the management and control systems. In case of evidence of a significant number of errors at this level or insufficiently robust management verifications risk undermining assurance, the Directorate General carries out risk-based audits to detect deficiencies in the functioning of this key element of systems and takes actions to remedy the identified weaknesses[116]

Another factor of critical importance for the Directorate General's assurance building process is the effective functioning of audit authorities so that they report reliable audit results for the Commission's use. Therefore, the Directorate General pays particular attention the Court's finding on the audit authorities' work and integrates the Court's results in its own assessment of the reliance it can place on audit[117].

<u>Follow-up of recommendations:</u> The Court recommended in its 2013 Annual Report to:

- require from the Member States in their management declarations an explicit confirmation regarding the effectiveness of the first level checks performed by the managing and certifying authorities;

[116] See section 2.1.1 D, results of the risk-targeted audit enquiry "Bridge the assurance gap" and section 2.1.1 F on "interruptions/suspensions".

[117] See section 2.1.1 D on the review of the work of audit authorities since 2009.

- carry out an assessment of the ‘first level checks’ performed during the 2007-2013 programming period. Taking account of the weaknesses identified, the Commission should analyse the costs and benefits of possible corrective measures and take (or propose) appropriate action (such as the simplification of the applicable provisions, improvements in the control systems and re-design of the programme or delivery system);

- analyse the underlying reasons for the high number of cases of non-compliance with EU state aid rules;

- analyse the reasons for the persistent delays in disbursement of EU funds through FEIs and take corrective measures accordingly;

- confirm in the Annual Activity Report of the Directorate-General that the Commission’s calculation of the ‘residual error rate’ is based on accurate, complete and reliable information on financial corrections. In order to do so, the Commission should request audit authorities to certify the accuracy of the data on financial corrections reported by certifying authorities for each OP whenever it deems such action necessary;

- consistently disclose in its Annual Activity Report the reasons for not making reservations (or making reservations with a lower financial impact) in those cases where this is due to exceptions to applicable Commission guidance or approved audit strategies.

The Directorate-General is implementing or has already implemented the Court’s recommendations.

Concerning management declarations, the rules for the 2014-2020 period increase the accountability of Member States and oblige authorities to complete control work before certifying the accounts. Management declarations need to confirm that controls in place provide the necessary guarantee on the legality and regularity of the expenditure and that systems are effective. The Commission has already presented and discussed the draft guidelines for managing authorities on the drafting of management declarations and annual summaries to the EGESIF in January and February 2015.

Concerning the assessment on the first level checks, targeted audits are continuously being carried out since 2010 (the Directorate General's comprehensive risk based audit enquiry on the functioning of management verifications "Bridge the assurance gap"). The Directorate General is carrying out capacity building actions to assist and support Member States in improving management verifications. In 2014-2020, management verifications and controls will have to be carried out on time for the certification of annual accounts and submission of management declarations. Support to administrative capacity will be provided through technical assistance and under thematic objective 11.

Concerning the non-compliance with State aid rules, the Directorate General follows up all State aid issues raised by the Court. The Commission has published in 2012 a COCOF note clarifying the need to notify the aid for infrastructure investments (following the Leipzig/Halle judgement of the ECJ). A new General Block Exemption Regulation (GBER) is in force since 01/07/2014 (retrospective implementation) further clarifying rules. Based on the analysis of all issues detected, the Directorate General and the Directorate General for Competition have elaborated a State Aid action plan to increase awareness and understanding of this complex and technical subject.

Concerning the disbursement of financial instruments, the overall disbursement rate by the end of 2013 was at 47%, compared to 37% end 2012. There are some delays in specific financial instruments. Supporting actions to promote financial instruments can cover follow-up actions through monitoring committees, on-the–spot visits, active promotional campaigns and in certain cases re-programming. For the 2014-2020 period, clearer and more flexible rules have been established providing for a better targeting of the instruments (ex-ante assessment) and a payment in tranches.

Concerning the calculation of the residual error rate, the Directorate General acknowledges that weaknesses in the information on financial corrections reported by Member States can lead to under or over estimation of the residual risk. Good and reliable data are essential for the Commission's supervision. The present Annual Activity Report discloses all cases where the Directorate General considers that that it cannot use the reported figures on withdrawals and recoveries.

Concerning the reasons for not making reservations where this is due to exceptions in the application of guidance notes or audit strategies, the present Annual Activity Report discloses all relevant details on these cases.

2.3.1.2 ECA's Performance audits

Main conclusions: The Court published five special reports in 2014 in relation to investments supported through programmes co-financed by ERDF and the Cohesion Fund under the 2000-2006 and 2007-2013 programing periods, namely: urban transport, renewable energy, innovation/business incubators, biodiversity and airport projects. The Court's conclusions focused mainly on the setting of investment priorities by the Member States and on the project selection, implementation and evaluation by the managing authorities in the Member States.

The most critical findings of the Special Reports were:

- for the audited urban transport projects the Court's major concern was the underutilisation of many completed projects being a result of weaknesses in project design and mobility policy;
- for the audited renewable energy generation projects, the Court found that in only 20 % of the audited projects the energy production results were achieved and properly measured. The Court further found that the overall value for money of the support to renewable energy generation projects has been limited in helping achieve the EU renewable energy 2020 target, because cost-effectiveness has not always been the guiding principle in planning and implementing the projects;
- for innovation/business incubator projects, too little attention had been paid to the effectiveness of incubators' business support functions, incubation services were only loosely linked to clients' business objectives and monitoring systems within the incubators had not provided adequate management information;
- for biodiversity projects, Member States did not always view the ERDF as an adequate instrument for promoting biodiversity and its potential as a source of financing for Natura 2000 was not sufficiently recognised;
- for the audited airport projects, the Court concluded that the investments produced "poor value for money" with too many airports funded, many of them oversized; not all airports managed to achieve their objectives (increase of passengers) and investments were not always cost-effective and in particular small regional airports will not be profitable in the long run.

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

Follow-up of recommendations: The Court recommended in the thematic reports that the Commission ensures that programme authorities put a stronger focus on the effectiveness, efficiency, and economy of the projects when setting investment priorities. The Court also recommended that investment priorities set-up by programme authorities should be based on sound needs analysis, that selected projects should be cost-effective and that monitoring projects implementation should be done through suitable and transparent performance indicators.

The Commission is implementing the Court's recommendations within the limits of its competencies provided by the legal framework under shared management. There are in the 2014-2020 legislative framework and secondary legislation new elements that enable it to implement some of the recommendations and ensure better monitoring of some of the aspects raised by the Court in its Special Reports such as :

- stronger focus on result-orientation for co-funded programmes with a link between the Common

Strategic Framework key actions and country-specific recommendations under the European semester;

- provision of Partnership Agreements with Member States that will include an analysis of disparities and development needs;
- ex-ante conditionalities to ensure a robust implementation framework from the start of implementation;
- an annual reporting of output indicators at priority axis level based on the definition of indicators in the ERDF regulation.

2.3.2 Internal Audit Service (IAS)

2014 audits:

In 2014, the IAS performed:

- an audit which covered "*the preparation for use of Financial instruments*". The objective of the audit was to assess the readiness of DG Regional and Urban Policy to monitor and supervise financial instruments under the new legal framework and to highlight in advance any weaknesses in the DG's control systems which could jeopardise the achievement of objectives of the increased use of financial instruments in the new Multiannual Financial Framework (MFF). The IAS issued two very important recommendations, i.e. the DG should (i) develop guidance internally and to MS on the eligibility of working capital and preferential treatment of private investors and also guidance to help ensure that the leverage effect is properly measured and reported in the summary reports to the Parliament and the Council; and (ii) build financial instruments related capacity (e.g. training, guidance). Overall the recommendations were accepted by DG Regional and Urban Policy except for one specific issue concerning measurement and reporting on leverage.

- A detailed "*Gap Analysis of new legislation/design for the 2014-2020 programming period*". The main objective of this review was a more in depth examination of the design of the systems for the management of the 2014-20 programming period of the ESI funds by DG Regional and Urban Policy (ERDF/CF) and DG EMPL (ESF), and to the extent possible in this early phase of the programming period, the implementation of these in practice**.** This audit led to four very important recommendations. The first one relates to the supervision of Member State management and control systems where the IAS, although it acknowledges that it is still very early in the programming period, identified a number of issues to be addressed in the definition of the "Single audit strategy for the ESI funds programming period 2014-20 and related audit plan 2014-mid 2015" (still work in progress). It therefore recommended to further develop/clarify the audit strategy. The second recommendation relates to the negotiations and adoption processes of OPs for the 2014-20 programming period. Although the IAS notes that it was overall well prepared, it notably recommended both DGs to carefully monitor the final phases before Operational Programmes' (OP) adoption, to update and finalise the guidance documents, to ensure consistency in the action plans for non-fulfilled Ex-ante Conditionality and in their assessment and monitoring. The third recommendation relates to the results orientation and performance framework. Although the IAS underlines the efforts to address the new requirements on the results orientation of OPs included in the regulations for the 2014-2020, it notably recommended ensuring consistency in the quality/level of detail of information provided and to further develop checks made on indicators in particular concerning the plausibility of milestones and targets. The fourth recommendation relates to the IT systems supporting the management of the programming period 2014-2020 processes. This recommendation notably concerns the need to ensure that new business processes are sufficiently defined, stable and agreed in time for the development, update the Vision document for WAVE to integrate a multi-DG approach and to review the project planning and ensure a stable platform.

- a limited review on error rates for which three very important recommendation were made (i.e.

the DG should better explain its materiality criteria, Obtain detailed information from the audit authorities on the error rate calculation, specifically assess the reliability of withdrawals/recoveries).

DG Regional and Urban Policy is currently implementing all the recommendations according to the agreed timetable and has reasonable assurance as the necessary actions are taken to tackle the different issues brought up by these audits.

In addition, the IAS carried out two follow-up engagements in 2014 (see information below).

Follow-up of previous IAS very important recommendations:

As regards the four open audits for which the IAS had issued very important recommendations before 2014, relevant action plans are being implemented as planned.

- For the audit on *Cohesion Fund 2000-2006 Closure*, the IAS carried out a follow-up engagement in 2014 and assessed that all recommendations were implemented.
- For the audit on the Implementation of the 2007-2013 programming period, the IAS also carried out a follow-up engagement in 2014 and confirmed that there were no outstanding very important recommendations.
- For the audit on *Closure of the 2000-2006 ERDF* programming period, 2 very important recommendations are on-going and relate to the preparation for closure for the 2007-2013 period and to the checks to be carried out on closure documents.
- The 2013 audit which covered DG Regional and Urban Policy's “performance measurement system” included three very important recommendations: (i) the Directorate General should significantly strengthen its performance measurement system put in place to monitor, report and evaluate performance of the policy; (ii) it should ensure quality and reliability of Member States’ performance information; and (iii) finally, the Directorate-general should manage the change to a more performance based culture. DG Regional Policy is currently implementing these recommendations and has notably set up a strategy to manage the required change. The IAS confirmed during a follow-up audit performed in March 2015 that the due very important recommendation ("Managing the change to a more performance based culture") was implemented. The implementation of the other two very important recommendations is on-going, as planned.

Overall, there are no very important recommendations being overdue for more than 6 months. Consequently, the current state-of-play does not lead to assurance-related concerns.

2.3.3 Internal Audit Capability (IAC)

2014 audits

Based on the results of the audit engagements carried out by the Internal Audit of DG Regional and Urban Policy, the internal auditor expressed the opinion that the internal control system in place provides reasonable assurance[118] regarding the achievement of the business objectives set up for the processes audited, except for issues linked to:

- Performance Framework: Processes for monitoring the performance of programmes to proactively identify implementation weaknesses, which may lead to serious failure to achieve milestones and targets, may not be adequate.
- SFC 2007- Security in the Member States: Starter and leavers processes in SFC2007 access rights management in the different Member States are often performed in an informal manner.

Regarding both audits, DG Regional and Urban Policy has put in place action plans to tackle the identified weaknesses which are ongoing. The audit strategy will include the verifications of the reliability of the systems of the Member States for reporting performance data. Guidance will be prepared for the desk officers for monitoring and assessing the performance of programmes. For SFC several measures have already been taken by the Commission and the audited Member States, mitigating the potential risks. DG Regional Policy has asked each Member State to report back with their individual action plans. For the 2014-2020 programming period, security requirements surrounding SFC2014 have been included in the Implementing Regulation (EU) No 184/2014.

Follow up of previous very important recommendations:

In 2014 Internal Audit has also performed follow-up work in order to provide assurance to management that the recommendations made in previous years were effectively implemented and the risks identified were mitigated.

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

- Increase the number of Major Project Commission decisions adopted and better tackle the blocking issues;
- Meet the deadlines for the closure of previous programming periods.

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

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

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

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

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

3.1 Risk environment

DG Regional and Urban Policy has operated within several methods of budget implementation in 2014 (Shared management, Indirect management, Direct management) which have specific inherent risks.

For shared management (representing more than 99% of the 2014 payments), the main inherent risks relate to the complexity and diversity of operations and activities financed, which range from large infrastructure projects to small-scale support services for SMEs. The forms of assistance also vary with grants and co-funding of more sophisticated financial engineering instruments. In addition, there is a multiplicity and diversity of management organisations, structures and beneficiaries. The multi-annual nature of the system helps to offset the risk of national controls not functioning effectively to prevent errors, allowing corrections to be made some years after the disbursement of funds by the Member State to the beneficiaries.

In addition, DG Regional and Urban Policy had identified one critical risk and four very high risks for 2014. For all these risks mitigating actions were carried out. The critical risk identified was linked to the delayed adoption of 2014-2020 programming documents. This risk has been reduced to a tolerable level as more than 80% of the mainstream programmes were adopted by end 2014 taking into account the carry-over group. On the other hand the risks related to the fact that some Member State may not be able to absorb their full allocations due in particular to their low technical and administrative capacity has partially materialised, in particular in eight Member States. For this reason a specific task force[119] was set-up at the end of 2014 to address the underlying reasons.

All the inherent risks of DG Regional and Urban Policy outlined above have sound financial management implications.

3.2 Source and methodology for the assessment

The DG's annual assessment of its implementation of the Internal Control Standards (ICS- 15) for 2014 consisted of a two-step exercise (a mid-year round of interviews of the ICS Chef de file followed by a self-assessment exercise at the end of the year). The mid-year review allowed identifying areas for which improvements were needed and taking remedial actions when appropriate. The self-assessment exercise at the end of the year aimed at confirming compliance and effectiveness or at identifying further needs for actions, in case of partial effectiveness.

[119] See section 4.3 - task force for better implementation

The self-assessment performed by the ICS Chef de file was reviewed by taking into consideration mainly the following:

- The annual AOSD Management Reports;
- The results of the survey made by the Internal Audit on two internal control standards (ICS 5 &7);
- The results of the 2014 Staff Survey[120];
- The non-compliance events reported and exceptions requested;
- The Internal Audit Opinion 2014 on DG Regional and Urban Policy internal control systems;
- The results of the IAA/IAS and ECAs audits and the follow-up of their recommendations.

3.3 Prioritised ICS for the reporting year

DG Regional and Urban Policy had selected two priority standards for which particular challenges were anticipated in 2014: ICS 11 – Documents Management and ICS 12 – Information and Communication. In order to ensure their sustained effectiveness, targeted actions were carried out throughout 2014 on these two standards.

ICS 11: Document management. The filing plan was revised as a consequence of the novelties of the ESIF regulation for 2014-2020 and training actions organised. Besides, as regards archival and storage of documents, the backlog of files to be transferred to the archives has been reduced and the new Storage plan is generally complying with relevant compulsory security measures.

ICS 12: Information and Communication. The Communication strategy for 2014 was drafted in light of the recommendations of the external evaluation and the outcomes of the Eurobarometer on Citizens' Awareness as well as the perception of EU Regional policy. Communication is now seen as the priority of all. Following the adoption of the partnership agreements, communication events were organised in the Member States. As regards internal communication, the DG won the prize for "best change initiative" in the Commission's 2014 Internal Communication and Staff Engagement Awards. This is an important recognition of the DG's efforts to change its work culture and to involve staff in important strategic decisions.

In addition, the DG has improved the way it publishes data concerning the impact and results of operational programmes. It has set up an open data platform presenting a selection of facts and figures about cohesion policy in a visual and interactive which is on line since July 2014.

Specific work was also carried out in particular in relation to the block on Human resources (IC 3: Staff allocation and mobility and ICS 4: Staff Evaluation and Development) with the definition of an action plan under implementation, ICS 5 (Objectives and Performance Indicators) with the establishment of unit management plans allowing cascading down the DG priorities at unit level and measuring the staff allocated to the different priorities.

[120] DG HR published the results of its Staff Survey at end February 2015. Within this survey a staff engagement index is calculated. It is a combination of factors including *inter alia*: information to do work well [ICS 12], clear understanding of work expectations [ICS 3 and 4], and line manager helping identifying learning and development needs [ICS 4]. DG Regional and Urban Policy index is 66%, which is slightly above the total for the Commission (65.3%).

3.4 Conclusion on the effectiveness of the entire control system

On the basis of the self-assessment, of other sources mentioned above, of actions implemented in 2014 particularly for the prioritised standards, of the review of the Internal Control Coordinator and taking into account DG Regional and Urban Policy's Internal Audit opinion, the following conclusions can be drawn:

- **ICS generally effective:** Mission (ICS 1); Objectives and Performance Indicators (ICS 5); Risk Management Process (ICS 6); Management Supervision (ICS 9); Accounting and Financial Reporting (ICS 13); Evaluation of Activities (ICS 14), Internal Audit Capability (ICS 16);

- **ICS generally effective with some (minor) improvements needed:** Ethics and Values (ICS 2); Staff Evaluation and Development (ICS 4); Operational Structure (ICS 7); Processes and Procedures (ICS 8); Business Continuity (ICS 10); Document Management (ICS 11); Information and Communication (ICS 12); Evaluation of the Internal Control System (ICS 15);

- **ICS generally/partially effective:** Staff Allocation and Mobility (ICS 3): This is mainly due to the fact that the implementation of the mobility policy was temporarily suspended in 2014 during the negotiation of 2014-2020 programmes, in order to avoid disruptions to the negotiation process which could have weakened the quality of the new programmes. However, specific actions aimed at ensuring full effectiveness of the concerned standard have already been developed in the Human Resources Action Plan adopted in September 2014, following a DG-wide public consultation for defining HR needs and services. Some of the foreseen actions have already been partially implemented and will ensure full effectiveness of the concerned standard in 2015.

- **No ICS are considered ineffective.**

In view of the assessment and of some upcoming challenges, the two standards prioritised for 2015[121] are ICS 3 and ICS 8.

In conclusion, the internal control standards are effectively implemented.

Further enhancing of the effectiveness of the DG's control arrangements in place is an on-going effort that will continue in 2015.

In addition, DG Regional and Urban Policy is particularly concerned to keep error rates in spending programmes down to a tolerable level and to balance trust and control. Current error rates are between 2.6% to 5.3% on an annual basis, the residual error being less than 2% (1.1%). An analysis of the main causes of errors led the DG to implement an action plan to enhance compliance with public procurement procedures in the Member States and to launch actions to improve compliance with State aid issues (see part 4.3 - overall action plan).

[121] See: DG Regional and Urban Policy Management Plan 2015, Annex 3 "Prioritised internal control standards for effective management".

4. MANAGEMENT ASSURANCE

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

4.1 Review of the elements supporting assurance

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

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

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

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

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

> For the 2007-2013 programming period, 2014 is the sixth year for which the programme audit authorities provided Annual Control Reports (ACRs) and audit opinions. DG Regional and Urban Policy carried out a detailed and thorough analysis of these documents for the fifth year, and could use after its validation process the audit opinions and error rates provided by audit authorities in the ACRs as one of the key elements for building its assurance.
>
> For the 2000-2006 programming period, assurance has been built over the years. In the closure process, final payments are made when DG Regional and Urban Policy is reasonably certain that the error rate is below the materiality threshold of 2%, following implementation of additional appropriate financial corrections.

Although without direct effects on DG Regional and Urban Policy's decisions regarding the assurance, the performance of 2007-2013 programmes was also systematically discussed in the framework of the trilateral meetings. This pilot exercise reflects DG Regional and Urban Policy's willingness to expand and enhance its practices in relation to performance assessment and reporting for the 2014-2020 programmes. Based on the individual assessments formulated by the responsible geographical desks, the achievements of all the ERDF/CF Operational Programmes, as well as their overall capacity to deliver the expected outputs and results, were reviewed. While the picture resulting from this review was globally positive (88% of the programmes were assessed as either good or acceptable), particular concern was expressed notably with regard to 5 Italian programmes (OP Campania, OP Sicilia, OP Calabria, OP Reti e Mobilità, OP Attrattori culturali) as well as for 1 programme each for Romania (OP Environment), Bulgaria (OP Environment) and Greece (OP Digital convergence), affected by issues notably related to poor governance which are seriously compromising their effectiveness.

4.2 Reservations and overall conclusion on assurance

4.2.1 Reservations and amount at risk

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

As regards the 2007-2013 programming period, the estimated average risk linked to the 2014 payments for ERDF and Cohesion Fund is **in the range of 2.6% to 5.3%.** Last year it was between 2.8% and 5.3%.

Taking into account the corrective measures already implemented by Member States, the average cumulative residual risk for all 2007-2013 programmes is below 2% (1.1%). However this indicator is not looked at ABB level but for each programme or group of programme.

DG Regional and Urban Policy concludes that it has reasonable assurance as regards legality and regularity of transactions **except for 78 programmes** of the current programming period, due to the deficiencies detected in the management and control systems and / or a cumulative residual risk above 2% at the date of this report for **77 ERDF/CF programmes and 1 IPA-CBC programme**.

The quantification of the reservation for these programmes is EUR 234.7 million or 0.5% of the interim payments made in 2014 for ERDF/CF and IPA-CBC 2007-2013.

As regards the 2000-2006 programming period, a reputational reservation is formulated for ERDF for 3 programmes and for the Cohesion Fund for 2 Member States in the Transport sector for which the proposed financial corrections which are above 5% of the allocation still have to be implemented. There is no financial risk in 2014, as final payments will be executed only when an agreement reached with the Member States concerned on the level of financial correction to be applied.

Regarding **indirect management**, on the basis of analysis made at programme level DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions **except for 1 IPA programme**. The quantification of the reservation for this programme is EUR 6.5 million.

Finally for **direct management and for the Solidarity Fund**, no material deficiencies were identified affecting the 2014 payments. On this basis, DG Regional and Urban Policy can conclude that it has reasonable assurance as regards legality and regularity of transactions.

Nr.	Title	Type	quantification of the reservations (EUR million)	ABB amounts concerned i.e. scope (EUR million)
1	Management and control systems for the programming period 2007-2013 for 95 programmes (77 specific ERDF/CF Operational Programmes impacting 12 Member States and 4 European Territorial Cooperation programmes)	Financial	223.8	2,611.9
2	Management and control systems for the programming period 2007-2013 for 1 IPA-CBC programme and 1 IPA programme	Financial	17.4	109
3	Management and control systems for the programming period 2000-2006 for 3 specific ERDF Operational Programmes in Italy and Ireland and 2 Cohesion Fund sector in Bulgaria and Romania	Reputational	0	0

The reservations were quantified by using the validated error rates reported by the programme audit authorities (if available) or flat rates of 5, 10 or 25% on payments made in 2014 and affected by deficiencies to the programmes concerned.

The total quantification is EUR 241.2 million (approx. 0.6% of the 2007-2013 ERDF/CF/IPA interim payments made in 2014). This represents only the risk linked to the individual reservations.

4.2.2 Overall conclusion

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the expenditure authorised is estimated between **2.5%**[122] **and 5.1%** for the reporting year (implying an approximate amount at risk between EUR 1.1 billion and 2.2 billion).

The internal control strategy foresees the implementation of further controls during subsequent years aimed to detect and correct errors linked to the amount at risk. It is not possible to identify the specific errors and amounts which will be effectively corrected in the coming years, yet the implementation of these corrective controls since 2009 have resulted on average in recoveries and financial corrections representing EUR 990 million[123] or **2.75%** of the average payments per year over the same period (or 1.207 billion if applied to the expenditure of the reporting year). This provides the best available indication of the corrective capacity of the ex-post controls systems implemented by the DG.

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

In terms of ABB activity and including the final payments as well as the pre-financing for 2014-2020, the risk is the following:

DG REGIO	Scope: All payments made in 2014 (EUR million)	Risk range average (%)	Risk Range maximum (%)	Amount at risk average (EUR million)	Amount at risk maximum (EUR million)
ERDF /CF:					
Activity 1 – 2007-2013	41,650.8	2.57%	5.25%	1,071.6	2,186.8
Activity 1 - 2007-2013 (advances)	128.4	0%	0%	0	0
Activity 2 - 2000-2006 and before	623.1	0%	2%	0	12.5
Activity 3 - 2014-2020 (advances)	776.13	0%	0%	0	0
IPA	153.39	4.3%	10.6%	3.4	16.3
IPA (advances)	18.83	0%	0%	0	0
IPA-CBC	85.92	13.0%	26.4%	11.2	25.3
Solidarity Fund	400.81	0%	2%	0	8.0
Direct management	72.89	0%	2%	0	1.5
Overall	**43,910.25**	**2.5%**	**5.1%**	**1,086.2**	**2,250.4**

[122] Weighted Average Error Rate calculated as follows: payments per category of expenditures multiplied by the estimated error rates of the year

[123] In this average, the "ex-ante" corrections reported under section G are not taken into account. The average including the "ex-ante" corrections would be EUR 1.12 Billion or 3.1% of the average payments per year

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

DG/service	Regional and Urban Policy
Title of the reservation, including its scope	A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2007-2013 for : 77 programmes from the following 12 Member States : Austria, Belgium, Czech Republic, France, Germany, Greece, Hungary, Italy, Romania, Slovakia, Spain, United Kingdom and ETC programmes (*detailed list of reservations available page 102-103)*
Domain	Structural and Cohesion Funds and carried out under 'Shared Management Responsibility'
ABB activity and amount	<u>13.03 ERDF, 13.04 Cohesion Fund,</u> 2014 ERDF/CF interim payments made to 2007-2013 OPs: EUR 41,650.8 billion 2014 ERDF/CF interim payments made to 2007-2013 systems affected by reservations : EUR 2,611.9 billion (out of EUR 10,689 billion paid in 2014 for the concerned 77 OPs)
Reason for the reservation	Audit reports and opinions at national level, by the Commission and/or the European Court of Auditors have revealed serious deficiencies in management and control systems for these programmes. In particular, these deficiencies concern one or several of the following key elements: - compliance with public procurement rules and directives/state aids/revenue generated project/eligibility rules, - financial engineering sound financial management, - procedures for the selection of operations, - management verifications, - certification activities, - treatment of irregularities, - high error rates following audit of operations, - supervision of the Certifying Authorities/Audit Authorities over respectively Intermediate bodies/Delegated Audit Bodies, - audit work (unreliable error rate due to uncompleted work, procurement irregularities not detected) - suspicion of fraud
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems in the Member States.
Quantification of the impact	Total quantification: 223.8 million. This is approx. 0.5% of the 2007-2013 ERDF/CF interim payments made in 2014. This represents only the risk linked to the reservations.
Impact on the assurance	DG Regional and Urban Policy has not been able to obtain reasonable assurance that key elements of the management and control systems of the programmes concerned functioned effectively, so as to provide reasonable assurance that statements of expenditure are correct and that the underlying transactions are legal and regular. Financial impact is mitigated through precautionary measures taken by the Commission: - interruption/suspension of payments pending the correction of the identified weaknesses by the Member States concerned;

	- financial corrections applied to past expenditure statements.
Responsibility for the weakness and its correction	The expenditure concerned is under shared and indirect management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).
Corrective action	**1. Significant issues regarding the effective functioning of the management and control systems:** In each case, specific actions have been undertaken or planned which include, if necessary: <u>At Commission level</u> - warning letters / interruption of payment deadlines / launch of suspension and correction procedures, - complementary guidance and support for national authorities, - identification of targeted remedial actions that needs to be carried out by the relevant authorities in the member States in order to remedy the deficiencies, - audit work to check the ability of national auditors to fulfil their obligations, - update of the audit plan based on updated risk-assessments of the Directorate-General and continuous focus on risk-based audits and monitoring of agreed remedial action plans implemented (including through follow-up audits), following the interruption/suspension of payments. <u>At Member State level</u> - implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies, - audit by the audit authority (when considered reliable) of the effective implementation of remedial measures in management and control systems and of financial corrections when required.

2. Reservation concerning IPA management and control systems for the period 2007-2013 in several Member States

DG/service	Regional and Urban Policy
Title of the reservation, including its scope	Reservation concerning the IPA management and control systems for the period 2007-2013 for : 2 programmes, one for Turkey (Transport) and for one IPA Cross-Border programme (Adriatic) (*detailed list of reservations available page 102-103)*
Domain	IPA under shared management (CBC) and indirect management
ABB activity and amount	<u>13.05 IPA</u> 2014 IPA interim payments linked to IPA and IPA CB for the 2007-2013 period: EUR 239.3 million 2014 IPA interim payments made to systems affected by reservations : EUR 109 million
Reason for the reservation	Audit reports and opinions at national level and/or by the Commission and/or have revealed serious deficiencies in management and control systems for these programmes. In particular, these deficiencies concern one or several of the following key elements: - management verifications, - certification activities - high error rates following audit of operations, - audit work (unreliable error rate due to scope limitation)
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems in the Member States.
Quantification of the impact	Total quantification: EUR 17.45 million IPA and IPA - CBC. This is approx. 7% of the IPA interim payments paid in 2014. This represents only the risk linked to the reservations.
Impact on the assurance	DG Regional and Urban Policy has not been able to obtain reasonable assurance that key elements of the management and control systems of the programmes concerned functioned effectively, so as to provide reasonable assurance that statements of expenditure are correct and that the underlying transactions are legal and regular. Financial impact is mitigated through precautionary measures taken by the Commission: - interruption/suspension of payments pending the correction of the identified weaknesses by the Member States concerned; - financial corrections applied to past expenditure statements.
Responsibility for the weakness and its correction	The expenditure concerned is under shared and indirect management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).
Corrective action	**1. Significant issues regarding the effective functioning of the management and control systems:**

	In each case, specific actions have been undertaken or planned which include, if necessary: <u>At Commission level</u> - warning letters / interruption of payment deadlines / launch of suspension and correction procedures, - identification of targeted remedial actions that needs to be carried out by the relevant authorities in the member States in order to remedy the deficiencies, <u>At Member State / Country level</u> - implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies

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

DG/service	Regional and Urban Policy
Title of the reservation, including its scope	Reservation concerning the ERDF and Cohesion Fund management and control systems for the 2000-2006 period: - in Bulgaria and Romania related to the Transport sector (Cohesion Fund) - in Ireland and Italy as regards ERDF programmes
Domain	Structural and Cohesion Funds carried out under 'Shared Management Responsibility'
ABB activity and amount	13.03 ERDF and 13.04 Cohesion Fund Payments in 2014 linked to ERDF/CF of the 2000-2006 programming period: EUR 614 million (169 million ERDF and 445 million CF). Payments linked to the programmes / sectors in reservations: 0[124]
Reason for the reservation	- suspicion of fraud in the implementation of several projects in the Cohesion Fund (Transport sector in Romania) - significant corrections to be applied at closure for projects in the Cohesion fund (Transport sector in Bulgaria) - significant corrections to be applied at closure (above 5%) for 3 programmes (2 in Italy and 1 in Ireland)
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems.
Quantification of the impact	EUR 0 (as there were no payments made in 2014; the reservations are reputational).
Impact on the assurance	DG Regional and Urban Policy has not been able to obtain reasonable assurance that the suspicion of fraud was addressed and that actions were taken to mitigate the risks.
Responsibility for the weakness and its correction	The expenditure concerned is under shared management, in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional programme authorities are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).
Corrective action	**1. Significant issues regarding the effective functioning of the management and control systems:** In each case, specific actions have been undertaken or planned which include: - For the 3 ERDF programmes and the Cohesion fund (3 projects in Romania, one in Bulgaria) the financial correction procedure was launched as part of the closure process. In 2015, two hearings will take place for the OPs Campania and Sicilia, as revised closure proposals were rejected by the MS authorities.

[124] The 30.8 million paid in 2014 were not related to the projects potentially affected by the deficiencies.

4.3 Overall action plan

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

- updating its audit risk assessment jointly with Structural actions services taking into account all available cumulative audit results and information;
- targeting its joint audit plan for 2015-2016 on the main risks identified (one third of total audit missions in the audit plan in 2014);
- completing the review of the quality of the audits undertaken by the audit authorities and monitoring the single audit status granted so far (more than half of total audit missions in the audit plan in 2014) and by
- applying payment interruptions and proposing to the Commission to decide on suspensions of payments and financial corrections whenever necessary.

In addition to the above and to the specific actions defined for each programme under reservation (as described in annex 7A), DG Regional and Urban Policy will continue to apply the following three initiatives which have started in 2013 to mitigate the main risks and weaknesses identified and has set-up a new task force on better implementation to address the absorption difficulties of some Member States.

Administrative capacity initiative

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

In addition to past and ongoing actions in relation to the assessment of Partnership Agreements and Operational Programmes, several initiatives aimed at increasing the effectiveness of programme authorities in a number of areas have been implemented or launched in 2014. They mainly concern: funds management, public procurement (see below), anti-fraud/corruption measures, improved awareness and understanding of State aid by managing authorities, transparency and promotion/publicity on good governance for managing the funds, including through the creation of a platform for short-term peer-to-peer exchanges of expertise and good practices and the development of a competency framework for the management of ERDF and the Cohesion Fund.

Public procurement initiative

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

Actions already underway or implemented in 2014 include among others:

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

- Launch of a stock-taking study on implementation of public procurement and identification of good practice in Members States;
- development of a peer-to-peer expert exchange system for authorities managing or auditing the funds to share experiences and expertise in public procurement capacity building;
- country-specific action plans to address public procurement weaknesses identified in particular in Romania, Bulgaria, Greece and Italy.

Audit capacity initiative

DG Regional and Urban Policy reviewed the work of the most important audit authorities covering around 94% of ERDF and CF allocations and is continuously following-up identified weaknesses and monitoring the situation where the single audit status has been granted. This audit work, that includes on-the-spot re-performance of audits including at the level of beneficiaries and operations, associated with the issuance of continuous audit guidelines and methodological tools by the Commission services, has enabled comprehensive capacity-building for the audit authorities since 2009. By continuing its audit work under this specific audit enquiry in 2015 and beyond, including by monitoring the work of these audit authorities on which it formally relies, DG Regional and Urban Policy will continue to address remaining weaknesses in the Member States' audit work and to ensure capacity-building for those audit authorities that still need it. This remains particular useful in view of the audit opinion at the closure of 2007-2013 programmes, and taking into account that most audit authorities will continue carrying out their functions for 2014-2020 programmes.

Reservations were made in the 2014 AAR due in part or in full to deficiencies or problems still open in three Member States for 7 audit authorities and one control body[125], including lack of compliance with sampling methodology or unreliable audit opinions or reported error rates. For seven of these audit authorities[126], targeted remedial actions or comprehensive action plans with clear exit points have been communicated in order to ensure timely improvements. In one case[127] the deficiencies were identified in 2013 and the reservation was carried over from the 2013 AAR, due to the lack of progress. The Commission decided in 2014 to remove the article 73 status for the concerned programme and to resume its own audits, and to continue requesting improvements at the level of the audit authority.

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

- Delivering targeted training on request to fully implement the updated guidance and recommended sampling technics allowing for the calculation of representative projected error rates and for conclusive and reliable audit results;

- Continuing to provide harmonised guidance on treatment of errors to audit authorities following practical cases experienced in the last reporting years, including recommendations to managing and certifying authorities on the necessary corrective measures they need to implement following the audit work of audit authorities reported in the ACR;

[125] The 7 audit authorities concerned are from Germany (Mecklenburg-Vorpommern, Sachsen-Anhalt), Italy (for the programmes: Puglia, Trento, Lombardia, Reti e mobilita, Sicurezza per lo Sviluppo) and the control body from Spain (Melilla, control body of the Autonomous City).
[126] out of 75 in total for the ERDF/CF mainstream programmes;
[127] Germany, Mecklenburg Vorpommern

- Providing continuous feedback to the audit authorities based on the assessment of the 2014 Annual Control Reports for better understanding of the main weaknesses identified and dissemination of good practices.

- Continuing to provide guidance and training and exchange experience for the audit of specific and complex issues such as for example public procurement, State Aid, financial instruments or new issues for 2014-2020 such as audit of performance indicators, e-cohesion etc. The audit authorities will also be encouraged to use the peer-to-peer expert exchange system set-up by the Directorate general to exchange best practices.

<u>Specific task force on better implementation</u>

Further to the examination of the financial execution rates in October 2014, it was apparent that eight countries[128] had a significant backlog (ERDF or Cohesion Fund payments below 60%) compared to the EU average (74% for the ERDF and 71% for the CF). Although the implementation delays in these Member States had already triggered closer monitoring and the establishment of targeted action plans, an internal Task Force (TF) on better implementation was set up in November 2014.

The task force is notably responsible for assessing the situation in each of the concerned Member States, identifying the bottlenecks hampering successful implementation, defining and monitoring the implementation of concrete action plans to address these potential risks of de-commitments. The task force will also ensure an exchange of experience and good practice among the participants.

Quantifiable milestones and implementation targets for country-specific key actions to be carried out in 2015 are currently being discussed with Member States.

The optimal use of flexibility provided within the Closure Guidelines will also play an important role in this context (notably the possibilities to compensate lower absorption in one priority by over declaration of expenditures in performing priorities (10% flexibility), shifting of projects from national support to EU support, etc.).

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[128] The 8 countries are: BG, RO, CZ, SK, IT, HR, SI, and HU.

DECLARATION OF ASSURANCE

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

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[129].

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

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

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

However the following reservations should be noted:

- a reservation concerning ERDF/Cohesion Fund management and control systems for the 2007-2013 programming period in 12 Member States and 4 European territorial cooperation programmes (see table next page)

- a reservation concerning IPA management and control systems for the 2007-2013 programming period in Turkey and 1 IPA-CBC cooperation programme (see table next page)

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

Brussels, 30 March 2015

Walter Deffaa

"Signed"

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

List of operational programmes in the 2014 reservation

2007-2013 PROGRAMMING PERIOD, ERDF/CF

	Member State	Ref	Title	Reserve AAR 2014
1	**Austria**	2007AT162PO003	Vorarlberg	Rep-Full
2	**Belgium**	2007BE162PO002	Vlaanderen	Full
3	**Czech Republic**	2007CZ161PO002	Central Moravia	Full
4		2007CZ161PO005	North East	Full
5		2007CZ161PO010	Moravia Silesia	Rep-Par
6		2007CZ16UPO001	Technical Assistance	Partial
7		2007CZ16UPO002	Integrated OP	Partial
8	**ETC**	2007CB163PO016	Sweden - Norway	Full
9		2007CB163PO030	Slowacja - Ceská Republika	Full
10		2007CB163PO055	North Sea	Full
11		2007CB163PO060	Greece - Italy	Partial
12	**France**	2007FR162PO019	Poitou-Charentes	Rep-Par
13	**Germany**	2007DE161PO003	Mecklenburg - Vorpommern	Rep-Full
14		2007DE161PO007	Sachsen - Anhalt	Full
15		2007DE162PO006	Bremen	Rep-Full
16	**Greece**	2007GR161PO001	Competitiveness	Rep-Par
17		2007GR161PO002	Digital convergence	Partial
18		2007GR161PO005	Environment - sustainable development	Rep-Par
19		2007GR161PO006	Attica	Partial
20		2007GR161PO007	Western Greece - Peloponese - Ionian islands	Rep-Par
21		2007GR161PO008	Macedonia - Thrace	Partial
22		2007GR16UPO001	Thessaly - Continental Greece - Epirus	Partial
23		2007GR16UPO002	Crete & Aegean islands	Rep-Par
24	**Hungary**	2007HU161PO001	Economic Competitiveness	Partial
25		2007HU161PO002	Environment and Energy	Partial
26		2007HU161PO003	West Pannon	Rep-Par
27		2007HU161PO004	South Great Plain	Rep-Par
28		2007HU161PO005	Central Transdanubia	Rep-Par
29		2007HU161PO006	North Hungary	Rep-Par
30		2007HU161PO007	Transport	Rep-Par
31		2007HU161PO009	North Great Plain	Rep-Par
32		2007HU161PO011	South Transdanubia	Rep-Par
33		2007HU162PO001	Central Hungary	Rep-Par
34	**Italy**	2007IT161PO001	Attrattori Culturali	Full
35		2007IT161PO005	Reti e mobilita	Full
36		2007IT161PO006	Ricerca e competitivita	Full
37		2007IT161PO007	Sicurezza per lo Sviluppo	Rep-Full
38		2007IT161PO010	Puglia	Full
39		2007IT162PO001	Abruzzo	Full
40		2007IT162PO004	Lazio	Full
41		2007IT162PO006	Lombardia	Full
42		2007IT162PO010	Trento	Full
43		2007IT162PO015	Veneto	Full
44	**Romania**	2007RO161PO002	Increase of Economic Competitiveness	Partial
45		2007RO161PO004	Environment	Partial
46	**Slovakia**	2007SK161PO001	Information Society	Rep-Full
47		2007SK161PO003	Regional OP	Rep-Full
48		2007SK161PO004	Transport	Rep-Par
49		2007SK161PO005	Health	Rep-Full
50		2007SK161PO006	Competitiveness	Rep-Full
51		2007SK161PO007	Technical Assistance	Rep-Par
52		2007SK16UPO001	Research and Development	Rep-Full
53	**Spain**	2007ES161PO001	Región de Murcia	Partial
54		2007ES161PO002	Melilla	Partial
55		2007ES161PO003	Ceuta	Rep-Par
56		2007ES161PO004	Asturias	Rep-Par
57		2007ES161PO005	Galicia	Partial
58		2007ES161PO006	Extremadura	Partial

	Member State	Ref	Title	Reserve AAR 2014
59		2007ES161PO007	Castilla La Mancha	Partial
60		2007ES161PO008	Andalucía	Partial
61		2007ES162PO001	Cantabria	Rep-Par
62		2007ES162PO002	País Vasco	Partial
63		2007ES162PO003	Navarra	Partial
64		2007ES162PO004	Madrid	Partial
65		2007ES162PO005	La Rioja	Rep-Par
66		2007ES162PO006	Cataluña	Partial
67		2007ES162PO007	Baleares	Partial
68		2007ES162PO008	Aragón	Partial
69		2007ES162PO009	Castilla y León	Partial
70		2007ES162PO010	Comunidad Valenciana	Partial
71		2007ES162PO011	Canarias	Partial
72		2007ES16UPO001	Investigación, Desarrollo e innovación	Rep-Par
73		2007ES16UPO002	Asistencia Técnica y Gobernanza	Rep-Par
74		2007ES16UPO003	Economía basada en el Conocimiento	Partial
75	**United Kingdom**	2007UK162PO001	Lowlands and Uplands	Full
76		2007UK162PO009	Yorkshire and Humberside	Full
77		2007UK162PO010	East Midlands	Full
78	**ETC – IPA-CBC**	2007CB16IPO001	Adriatic IPA CBC	Full
79	**Turkey - IPA**	2007TR16IPO002	Transport	Full

2000-2006 PROGRAMMING PERIOD, ERDF

	Member State	Title	Reserve AAR 2014
1	**Bulgaria**	Transport Project	Rep-Par
2	**Romania**	Transport Project	Rep-Par

2000-2006 PROGRAMMING PERIOD, CF

	Member State	Title	Reserve AAR 2014
1	**Ireland**	PO obj. 1 Productive Sector	Rep-Full
2	**Italy**	PO OBJ 1 CAMPANIA	Rep-Full
3		PO OBJ 1 SICILIA	Rep-Full