



# 2015

# Annual Activity Report

**DG Maritime Affairs  
and Fisheries**



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# INTRODUCTION

## The DG in brief

The Directorate-General for Maritime Affairs and Fisheries ('DG MARE') reports to Commissioner Karmenu Vella and manages and implements the Integrated Maritime Policy (IMP) and the Common Fisheries Policy (CFP). The DG's role is to propose legislative and policy initiatives and to coordinate with Member States and other Commission departments.

To ensure CFP rules are properly applied, the policy includes a control and enforcement system for which DG MARE works closely with the European Fisheries Control Agency. The European Maritime and Fisheries Fund (EMFF) 2014-2020 is the main financial instrument to finance the CFP. It also supports the blue economy, although support from other ESI funds<sup>1</sup> and from Horizon 2020 is substantial.

The cornerstone of all actions of DG MARE is its mission statement:

*"We work to develop the potential of the European maritime economy and to secure a safe and stable supply of seafood, sustainable fisheries, healthy seas and prosperous coastal communities – for today's Europeans and for future generations. This involves formulating, developing and implementing the Common Fisheries Policy – the cornerstone of our actions for a sustainable exploitation of fisheries resources; and promoting an integrated approach to all maritime policies."*

With 368<sup>2</sup> staff members, DG MARE is composed of six directorates<sup>3</sup>, including a Resources Directorate. All Directorates report directly to Director-General João Aguiar Machado who took over from Ms Lowri Evans on 1 September 2015. The DG's structure facilitates internal coordination and the dovetailing of both policies. The Resources Director is the Internal Control Coordinator for the DG.

Financial transactions within DG MARE are subject to ex-ante financial verification by the Resources Directorate. Ex-ante operational verification takes place within the Directorates responsible for the authorisation of the transactions.

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<sup>1</sup> The European Structural and Investment Funds (ESIF) are the following:

- EMFF (European Maritime and Fisheries Fund)
- ERDF (European Regional Development Fund)
- ESF (European Social Fund)
- CF (Cohesion Fund)
- EAFRD (European Agricultural Fund for Rural Development).

<sup>2</sup> Situation at 31.12.2015 for establishment plan posts and external personnel.

<sup>3</sup> The three regional directorates cover the Atlantic Ocean, the outermost regions and the Arctic (directorate C), the Mediterranean and Black Seas (D) and the Baltic Sea, the North Sea and the landlocked Member States (E). Directorate A is in charge of policy development and coordination; directorate B is responsible for international affairs and markets.

The major part of the DG's budget is implemented in shared management. Member States implement the budget and establish management and control systems to ensure correct programme implementation. Weaknesses in those systems may lead to the declaration of ineligible expenditure by the Member States.

Sustainable Fisheries Partnership Agreements (SFPAs) is the second highest area of expenditure. The main risk associated with SFPAs relates to the evaluation of fishing opportunities either in terms of available stock or take-up by the EU fleet.

The third largest area of expenditure in terms of payments in 2015 was represented by contributions to Member States to cover expenditure already incurred by them in the implementation of the CFP. The principal risk associated with this is the reporting of ineligible expenditure by the Member States.

This Annual Activity Report (AAR) describes DG MARE's main achievements in 2015 and the challenges it faced. It mirrors the 2015 Management Plan that translates the DG's mission into general and specific objectives. An account is given of how these objectives have been achieved, with the resources DG MARE had at its disposal. Progress is measured through key performance indicators. The AAR also covers management aspects and assesses the effectiveness of the Commission's internal control standards. For 2015, the Director-General deemed it necessary to include a reservation in his declaration of assurance for the European Fisheries Fund (EFF) and which covers five Member States<sup>4</sup>.

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<sup>4</sup> The Member States concerned are the Czech Republic, Spain (Galicia only), Italy, Romania and Slovakia.

# EXECUTIVE SUMMARY

## a) Policy highlights of the year

Building on Commissioner Vella's Mission Letter, our work in 2015 had two main priorities:

1. **Ocean governance**, internationally and within the EU. We actively participated and took on a leadership role in RFMOs<sup>5</sup> and UN bodies. The goal is to limit inconsistencies and fragmentation of EU action, improve world ocean governance, and raise business certainty for maritime industries in the EU. Stakeholders were closely involved throughout the process, including through a public consultation and a listening tour. This went in parallel with broader work to support the EU maritime economy and boost its potential for jobs and growth while ensuring the protection of the marine environment. Key areas were ocean energy, improving marine knowledge and maritime security.
2. **Implementation of the reformed CFP** by putting the EU firmly on the path of sustainable fishing and sustainable fishing communities. The aim is to restore and maintain fish stocks at sustainable levels by 2020 at the latest. There are signs that the overall economic performance of some EU fleets benefits from higher catch rates of healthy stocks. The main work stream was the implementation of the landing obligation in order to end the wasteful practice of discarding fish at sea. Three discard plans<sup>6</sup> were adopted in 2015.

In 2015 we tabled the proposal for a new fishing authorisation regulation and a proposal for the revision of the data collection framework, as well as a new generation of **multiannual plans** (starting with the Baltic Sea Plan). Preparatory work on reviewing two major pieces of legislation, the technical measures framework and the fisheries control regulation, was also carried out during the year. The revised technical measures regulation was proposed early 2016, whereas the control regulation is currently being evaluated to assess to what extent it is still fit for purpose.

The **EMFF** is the smallest of the five ESI funds. It promotes: environmentally sustainable, economically viable and socially responsible fisheries and aquaculture; a balanced and inclusive territorial development of fisheries and aquaculture areas; and the implementation of the CFP and IMP.

The negotiations with individual Member States that had started in 2013 resulted in the adoption of 27 national operational programmes in December 2015. These aim to balance the needs of the fisheries and aquaculture sectors with the ambitious targets of the CFP reform and the 2020 EU Strategy and provide the foundation for around 9 billion euro of public investments. In order to ensure smooth implementation, a series of implementing and delegated acts have equally been adopted by the Commission. The Commission provided guidance to the Member States through several EMFF Committee meetings and EMFF expert group meetings, in particular on the new features of the EMFF and of the current programming period.

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<sup>5</sup> Regional Fisheries Management Organisations.

<sup>6</sup> Demersal fisheries in the North and South Western Atlantic, and in the North Sea.

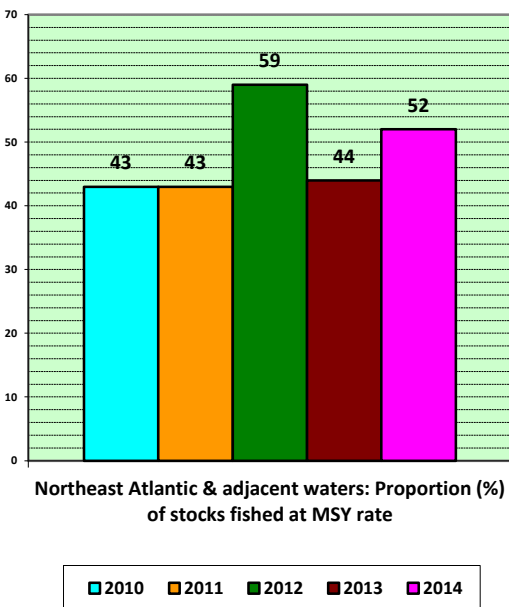
We have continued **fighting IUU fishing** globally. At the end of 2015, twenty countries were pre-identified, eight of which have resolved their deficiencies through an action plan. The EU is helping another eight countries to reform their fisheries management. Only for the remaining four did we have to impose restriction on access to the EU market of marine fisheries products. DG MARE is developing an EU IT system/database to support implementation of the IUU regulation and catch certification.

There are currently 14 **sustainable fisheries partnership agreements** (SFPAs) in force. In 2015, negotiations were successfully completed to renew protocols with Greenland and Mauritania, and for new agreements with Liberia and the Cook Islands. These agreements set the standard for international fishing policy, as they are centred on resource conservation and development of a sustainable fishing sector locally. Through this network we therefore contribute to sustainable fishing internationally.

As for the **financial management** of DG MARE, the residual error rate (key performance indicator for management), or cumulative residual risk percentage, for expenditure under shared management was 0.74% in 2015. It was calculated for the first time in 2012 and stood at 3.03% of interim payments made across the programming period. 2013 saw a significant reduction of the residual error rate to 1.9%, and the positive trend was continued in 2014 (1.17%).

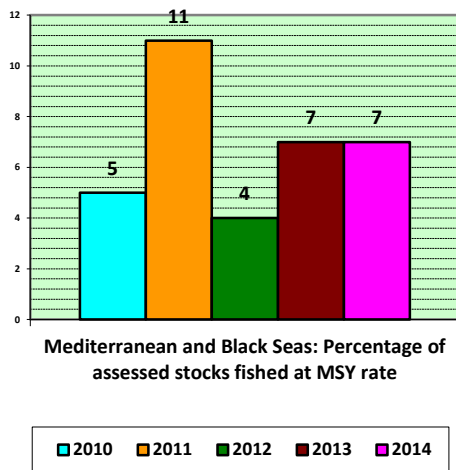
## b) Key Performance Indicators

This subsection shows in a graphical format the five most relevant key performance indicators (KPI) for the Common Fisheries Policy and the Integrated Maritime Policy (KPI No 1 to 4) and for DG MARE (KPI No 5). For reasons of stability and data comparability, they correspond to the KPIs in the DG MARE Management Plan 2015.

<b>Baseline 2013</b>	<b>Milestone per year between 2013 and 2020</b>	<b>Target: by 2015 where possible and by 2020 at the latest</b>												
<p><b>Impact indicator 1a: Proportion of stocks that are fished at MSY levels.</b></p> <p>This indicator measures the <b>conservation and sustainable exploitation</b> of marine biological resources.</p> <p>Fishing at MSY (Maximum Sustainable Yield) rates means fishing a stock at a rate such that the average long-term catches are the highest that the stock can provide over the long-term. The fishing mortality rate is the annual catch divided by the annual average biomass of exploitable fish in the sea.</p> <p>Source of the data:</p> <ul style="list-style-type: none"> <li>– For the Northeast Atlantic and adjacent waters<sup>7</sup>: STECF report "Monitoring the performance of the Common Fisheries Policy", STECF-15-04, Tables 1 and 2;</li> <li>– For the Mediterranean and Black Seas, COM(2015) 239 final, Annex II Table 1.</li> </ul> <p style="text-align: center;"><b>Stock status</b></p>  <table border="1" data-bbox="215 1086 726 1691"> <caption>Northeast Atlantic &amp; adjacent waters: Proportion (%) of stocks fished at MSY rate</caption> <thead> <tr> <th>Year</th> <th>Proportion (%)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>43</td> </tr> <tr> <td>2011</td> <td>43</td> </tr> <tr> <td>2012</td> <td>59</td> </tr> <tr> <td>2013</td> <td>44</td> </tr> <tr> <td>2014</td> <td>52</td> </tr> </tbody> </table>	Year	Proportion (%)	2010	43	2011	43	2012	59	2013	44	2014	52	<p>Conformity with MSY by 2020 at the latest for all stocks.</p> <p>No intermediate milestones have been set in EU legislation.</p>	<p>Exploitation at MSY rate for all commercially exploited stocks.</p> <p>Target set by Article 2 of Regulation (EU) No 1380/2013 of the European Parliament and of the Council of 11 December 2013 on the CFP.</p>
Year	Proportion (%)													
2010	43													
2011	43													
2012	59													
2013	44													
2014	52													

<sup>7</sup> Adjacent waters of the Northeast Atlantic: North Sea, Baltic Sea, Skagerrak, Kattegat, West of Scotland Sea, Irish Sea and Celtic Sea.

Stock status



Note: for greater clarity, the percentages are given for each year's assessments instead of a cumulative total as given in the previous assessment (Management Plan 2014).

**Situation as per AAR 2015:**

The results for 2015 have not been included in this Annual Activity Report because they still need to be endorsed by their respective scientific committees, which should take place by April 2016 (both for GFCM-SAC and STECF).

According to the latest available information 32 out of 62 assessed fish stocks in the **Northeast Atlantic and adjacent waters** are fished at or below the rate corresponding to MSY.

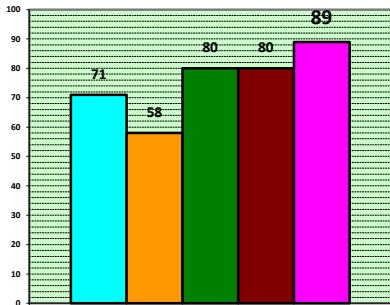
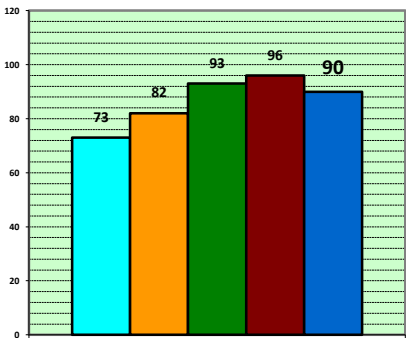
In the **Mediterranean and Black Seas**, out of the 90 stocks assessed most recently, 7 stocks were fished sustainably.

No specific milestones for 2015 have been set in EU legislation.

**Impact indicator 1b: Proportion of allowable catches for which the state of the stock with respect to MSY is known.**

This indicator measures the extent to which the **conservation and sustainable exploitation** status of catches from marine biological resources has been assessed by scientific bodies. The fishing mortality rate is the annual catch divided by the annual average biomass of exploitable fish in the sea.

Source of the data: ICES and GFCM assessments, largely using the data collected by Member States under the EU framework for the collection, management and use of data in the fisheries sector ("Data Collection Framework, DCF"). Provisional DG MARE calculation pending external assessment.

Baseline 2013	Milestones (annual)	Target: by 2015 where possible and by 2020 at the latest																				
<p style="text-align: center;"><b>Assessment coverage</b></p>  <p style="text-align: center;">Northeast Atlantic &amp; adjacent waters: Proportion of allowable catch for which the fishing mortality rate is known compared to MSY</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>2010</td> <td>2011</td> <td>2012</td> <td>2013</td> <td>2014</td> </tr> <tr> <td>71</td> <td>58</td> <td>80</td> <td>80</td> <td>89</td> </tr> </table> <p style="text-align: center;"><b>Assessment coverage</b></p>  <p style="text-align: center;">Mediterranean and Black Seas: number of stocks for which the fishing mortality rate is known compared to MSY</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>2010</td> <td>2011</td> <td>2012</td> <td>2013</td> <td>2014</td> </tr> <tr> <td>73</td> <td>82</td> <td>93</td> <td>96</td> <td>90</td> </tr> </table> <p>Note: Mediterranean assessments are not carried out annually for each stock. The state of stock is considered known when it has been assessed within 3 years.</p>	2010	2011	2012	2013	2014	71	58	80	80	89	2010	2011	2012	2013	2014	73	82	93	96	90	<p>Increase in the proportion of tonnes of allowable catch that is covered by advice about MSY.</p> <p>No formal milestones have been set in EU legislation.</p>	<p>Scientific assessment of MSY rate is achieved for all commercial catches of stocks on a progressive, incremental basis, i.e. target = 100%.</p> <p>Target set by Article 2 of Regulation (EU) No 1380/2013 of the European Parliament and of the Council of 11 December 2013 on the CFP.</p>
2010	2011	2012	2013	2014																		
71	58	80	80	89																		
2010	2011	2012	2013	2014																		
73	82	93	96	90																		
<p><b>Situation as per AAR 2015:</b></p> <p>The results for 2015 have not been included in this Annual Activity Report because they still need to be endorsed by their respective scientific committees, which should take place by April 2016 (both for GFCM-SAC and STECF).</p>																						

According to the latest available data 62 stocks in the **Northeast Atlantic and adjacent waters** of interest to EU were assessed with respect to Fmsy. The coverage of the advice with respect to tonnages of fish under TACs set in 2015 was 94%.

Comparable information is not yet available for the **Mediterranean and Black Seas**.

**Impact indicator 2a: Economic growth in the blue economy<sup>8</sup> of the EU.**

This indicator relates to the **Blue Growth** initiative. Growth in the blue economy represents the maritime dimension of the Europe 2020 strategy.

Maritime regions in the EU are defined as statistical NUTS3 regions having a coastline or more than half of their population living less than 50 km from the sea<sup>9</sup>. Approximately 40% of the EU population live in these regions and almost 40% of the EU's gross domestic product is generated in these regions.

Source of the data: Eurostat.

<b>Baseline 2010<sup>10</sup></b>	<b>Milestone 2017</b>	<b>Situation as per AAR 2015</b>	<b>Target 2020</b>
Annual growth in gross domestic product in volume terms (euro per inhabitant) in maritime regions: 1.5%.	Growth in maritime regions is at the same level as in non-maritime regions.	Growth in maritime regions was 0.2% in 2011. It was 0.9% lower than in non-maritime regions. In 2010 it was only 0.3% lower.	Growth in maritime regions 0.5% above the growth in non-maritime regions.  Target set by DG MARE.

(\*) This indicator uses growth in volume (i.e. it takes into account inflation) which gives a better picture of the level of economic activity than measuring growth at market prices. The widening gap between coastal and non-coastal regions is not mostly due to changes in the blue economy. Rather it can be explained by national differences. For instance only 9% of the German population live in regions that we have defined as maritime whereas in Italy and the United Kingdom the proportions are 60% and 75% respectively. In 2011 growth in Germany as a whole was 4.6% whereas in Italy and the UK it was -0.3% and 0.5% respectively. These national differences were generally larger than differences within countries.

<sup>8</sup> Defined in COM(2012) 494.

<sup>9</sup> Although not fulfilling these conditions, Hamburg is also included.

<sup>10</sup> Latest data available. GDP at market prices in coastal regions from Eurostat (mare\_e3gdp, updated 1.12.2014 extracted 5.8.2015), GDP at current prices at national level from Eurostat (nama-gdp\_c updated 13.04.2015, extracted 5.08.2015), population in coastal regions from Eurostat (mare\_pjanagg3 updated 15.4.2015, extracted 5.8.2015 and mare\_gind\_3, updated 31.7.2015 extracted 5.8.2015).

**Impact indicator 2b: Profitability of the EU fishing fleet by sea basin.**

The net profit margin (calculated as the ratio of net profit and revenues) gives an indication of the relative profitability of the fishing fleet. It reflects the short term economic sustainability of the fishing enterprises.

Source of the data: DCF<sup>11</sup> data obtained from the Annual Economic Report of the EU fleets 2015, STECF: <http://stecf.irc.ec.europa.eu/reports/economic>

<b>Baseline 2012</b>	<b>Milestone 2017</b>	<b>Situation as per AAR 2015</b>	<b>Target 2023</b>
Net profit margin of the EU fishing fleet by sea basin:  <i>Mediterranean and Black Seas: 1%</i> <i>North Atlantic: 3 %</i> <i>Baltic Sea: 5%</i> <i>North Sea and East Arctic: 8%</i> EU Distant water fleet: 9%.	Net profit margin of the fleets: at least 8% in each sea basin.	Net profit margin of the EU fishing fleet by sea basin in 2013:  <i>Mediterranean and Black Seas: less than 1%</i> <i>North Atlantic: 3%</i> <i>Baltic Sea: less than 1%</i> <i>North Sea and East Arctic: 14%</i> EU Distant water fleet: 3%.	Net profit margin of the fleets: at least 10% in each sea basin.  Target set by DG MARE based on long-term economic projections in the Impact Assessment of the new basic regulation on the CFP (SEC(2011) 891, SEC(2011) 892).

**Impact indicator 3: (Change in) EU production of fisheries and aquaculture products (catching sector and aquaculture).**

This indicator measures the impacts of CFP on increasing catch opportunities and of policies towards fostering aquaculture production in the EU.

Source of the data:

- DCF data from the 2015 Annual Economic Report on the EU fishing fleet, STECF
- DCF data from the 2014 Annual Economic Report on the aquaculture sector, STECF.

<b>Baseline 2012</b>	<b>Milestones 2017</b>	<b>Situation as per AAR 2015</b>	<b>Target 2023</b>
Volume of EU catches: 4.3 million tonnes.	Volume stabilises.	Volume of EU catches: 4.7 million tonnes in 2013.	Volume increases as a result of reaching all EU stocks at MSY by 2020.  Target set by DG MARE.
Volume of EU aquaculture production: 1.11 million tonnes.	+2% annual growth rate.	No updated data this year as the aquaculture economic report is biannual.	+28% compared to the baseline 2012.  Target set by DG MARE.

<sup>11</sup> Data Collection Framework.

**Impact indicator 4: Contribution to long-term sustainability of fisheries worldwide, measured by the number of emblematic tuna stocks fished with a fishing mortality rate being at or below Fmsy levels as per relevant scientific advice.**

This indicator measures to what extent representative tuna species (Bigeye tuna, Bluefin tuna, Skipjack tuna, Yellowfin tuna, Pacific Bluefin tuna) are fished at sustainable levels ( $F_{curr}/F_{msy} \leq 1$ ) in relevant geographical areas (Atlantic Ocean, Indian Ocean and Pacific Ocean).

Source of the data: Annual stock situation in scientific reports of RFMOs concerned.

<b>Baseline 2013</b>	<b>Milestone 2017</b>	<b>Situation as per AAR 2015</b>	<b>Target 2020</b>
14 out of 17 selected stocks at sustainable levels.	15 stocks	13 (situation at 31.12.2015) 14 (situation early 2016)	17 stocks Target set by DG MARE.

**Management indicator: The residual error rate for shared management expenditure.**

The residual error rate, represented by the cumulative residual risk (CRR), has been estimated for all operational programmes since the beginning of the programming period, based on the best available sources of information. This estimated CRR is an additional check applied to confirm whether each programme is managed correctly on a cumulative basis, i.e. whether the corrective measures (withdrawals, recoveries) already implemented by Member States have adequately mitigated the risks of irregularities since the beginning of the programming period.

Source of the data: DG MARE Annual Activity Report (AAR):  
[http://ec.europa.eu/atwork/synthesis/aar/index\\_en.htm](http://ec.europa.eu/atwork/synthesis/aar/index_en.htm)

<b>Baseline 2013</b>	<b>Situation as per AAR 2015</b>	<b>Target 2015</b>
For shared management expenditure, the residual error rate, represented by the cumulative residual risk (CRR): 1.9% (AAR 2013).	The CRR – situation AAR 2015 is 0.74%.  (AAR 2014: 1.17%).	The CRR should be less than 2% of cumulative interim payments.  CRR = (validated projected error rates) * (cumulative interim payments) minus recoveries and withdrawals (including amounts pending).  Target set by DG MARE, and agreed on a horizontal basis for all shared management DGs.

## **c) Key conclusions on Management and Internal control**

In accordance with the governance statement of the European Commission, DG MARE 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 principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG MARE has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended. Please refer to AAR section 2.3 for further details.

In addition, DG MARE has systematically examined the available control results and indicators, including information on entities to which it has entrusted budget implementation tasks, and has heeded the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2 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 the European Fisheries Fund (EFF).

## **d) Information to the Commissioner**

The main elements of this report and assurance declaration, including the above mentioned reservation, have been brought to the attention of Commissioner Karmenu Vella, responsible for Environment, Maritime Affairs and Fisheries.

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

## Fisheries conservation<sup>12</sup>

Attaining the MSY<sup>13</sup> target by 2020 at the latest is a central objective of the CFP (Article 2 of Regulation (EU) No 1380/2013) because it increases fish catches and EU food supply and reduces the impact of fishing on the marine ecosystem.

The significant progress Council has achieved in setting TACs in line with MSY (from 5 in 2009 to 36 for 2015), has contributed to a higher number of stocks that are fished at levels corresponding to MSY (26 stocks in 2015).

The MSY indicator as regards the **Northeast Atlantic and adjacent waters** has been recalculated according to advice from the Scientific, Technical and Economic Committee for Fisheries (Report STECF-14-23). The time-series in this report have an improved statistical basis compared to earlier values. The main differences are that the indicator now covers all biological stocks with MSY assessments (instead of the principal stocks within each TAC area) and the indicator is based on the most recent, complete data sets for all years. The year of the data is referred to (previously the year of the scientific advice was used).

Fishing at or below MSY has generally progressed in all areas of the Northeast Atlantic, North Sea and Baltic Sea between 2006 and 2014:

- The number of stocks fished at MSY increased from 2 to 26<sup>14</sup>.
- The number of stocks inside safe biological limits has risen from 11 to 21.
- The number of stocks with quantitative catch advice rose from 59 to 72.

On average, many important pelagic stocks and stocks in the North and Baltic Seas are close to MSY, with less progress in the demersal fisheries in the western EU waters. Atlantic sea bass<sup>15</sup> is in a very poor state. In January 2015, the Commission closed the fishing for sea bass with pelagic trawls, and Council introduced limits for recreational fishermen in all EU waters. Additional management measures have been proposed by the Commission in 2015 (monthly catch limits for various sea bass impacting fisheries and an increase in mesh size). The Commission will propose measures for the sustainable management of the sea bass stock in the context of a proposal for a western waters multiannual plan.

In the **Mediterranean and Black Seas** stocks are largely overfished and/or in a bad state, in particular stocks exploited mainly or exclusively by EU operators. Of all stocks assessed (EU and shared stocks together) only 8,6% are exploited in accordance with MSY levels. Despite recent improvements, the number of stocks with unknown status remains large. Regarding fleet segments, pockets of overcapacity remain, particularly in

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<sup>12</sup> Communication from the Commission to the European Parliament and the Council – Consultation on the fishing opportunities for 2016 under the CFP, COM(2015) 239.

<sup>13</sup> Maximum Sustainable Yield.

<sup>14</sup> Data used between 2002 and 2015.

<sup>15</sup> Southern North Sea and the Channel, towards the Celtic Seas and the Atlantic.

the Mediterranean.

The Commission takes action to reverse this situation through improved data collection and management measures for all relevant stocks, both with Member States, stakeholders and at the international level. The new generation of **multiannual plans** – often developed in the framework of RFMOs such as ICCAT and GFCM – should include targets for MSY (with deadlines) and may introduce ranges of exploitation rates (fishing mortalities).

The Commission has tabled a proposal for a Baltic Sea plan which includes proposed target values and deadlines for achieving MSY. Other proposals are under discussion with stakeholders for a North Sea demersal mixed-fisheries plan, and a western-waters demersal mixed fisheries plan. A plan for the Atlantic pelagic fisheries is under consideration.

As regards the Mediterranean Sea, the Commission intends to propose EU multiannual plans. It has already reviewed the national management plans to assess whether they reflect adequately the MSY objective with a deadline.

For stocks that are shared with third countries (e.g. demersal stocks in the Strait of Sicily, small pelagic and demersal stocks in the Ionian and Aegean Seas) the Commission will promote appropriate actions at the level of the GFCM<sup>16</sup>.

The STECF was asked to provide scientific advice on the conservation status of 38 fish stocks in the Mediterranean and Black Seas. In the Black Sea the Commission continues to work with the relevant Member States and at GFCM level on measures to address issues of mostly unrecorded fishing in the context of the flatfish turbot fisheries. The 2016 TACs and quotas were adopted by the Council in December 2015 in line with the overall policy objective for stock management.

Achieving MSY exploitation rates depends on a number of external factors that are beyond the legislator's and/or the Commission's control. The Commission can influence this outcome through its proposals and subsequent negotiations on TACs and multiannual plans, and by making sure that scientific advice is available in support of policy choices. In the Mediterranean and Black Seas, where many stocks are exploited jointly with non-EU fishing vessels, the EU plays a crucial role in pushing forward management measures against overfishing applicable to all involved coastal states in regional fisheries management organisations.

The **landing obligation** will end the wasteful practice of discarding fish at sea. It is gradually applied between 2015 and 2019. Three discard plans (demersal fisheries in the North and South Western Atlantic, and in the North Sea) were adopted in 2015 based on regional joint recommendations from the Member States. Five other discard plans were already introduced in 2014, covering the Baltic Sea and pelagic fisheries in other sea basins<sup>17</sup>. Lower discards are expected in 2016 when the landing obligation will start to apply for some demersal fisheries. Its implementation will be a considerable challenge for fishermen and Member States' control authorities but will contribute to achieving the MSY target for 2020.

For the fisheries concerned, the 2015 TACs took into account the change to reflect catches instead of landings. Generally, the TAC adjustments remained compatible with achieving MSY and have not increased fishing mortality rates.

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<sup>16</sup> General Fisheries Commission for the Mediterranean.

<sup>17</sup> North and South-Western Atlantic, North Sea and Mediterranean Sea.

## **Balance between fishing capacity and fishing opportunities<sup>18</sup>**

Overall, fleet capacity has been further reduced in recent years but imbalances remain in some fleet segments. The six Member States concerned are to establish action plans to address the structural imbalances.

Between 1 July 2013 and 1 January 2015 the fishing capacity of the EU 28 Member States decreased by 1,1 % in kilowatts (KW) and increased by 0.3 % in gross tonnage (GT). This increase can be explained by the accession of Croatia in 2014.

On 1 January 2014, 86.879 vessels were registered in the EU fleet register with an overall capacity of 1.658.033 GT and 6.573.806 KW.

This shows a reduction since 2012 (excluding vessels registered in Croatia and in the outermost regions) of 7,8% in number of vessels, 1,6% in GT and 5,4 % in KW.

The fishing capacity of the EU fleet was 16.4% below the capacity ceilings for tonnage and 10.5 % below the power ceilings.

In 2007-2013 Member States have actively used the decommissioning instrument under the EFF. Between 2007 and 31 May 2014, 4.156 vessels were decommissioned with public support, with total public expenditure of almost 900 million euro, of which 527 million euro EFF contribution. Vessels decommissioned with EFF public aid cannot be replaced. A further 2.620 vessels were removed from the fleet without public aid, but this privately withdrawn capacity can be brought back into the fleet.

Fleets in the outermost regions of Spain, France and Portugal are also below their respective capacity ceilings.

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<sup>18</sup> Report from the Commission to the European Parliament and the Council on Member States' efforts during 2013 to achieve a sustainable balance between fishing capacity and fishing opportunities, COM(2015) 563.

## **Profitability of the EU fishing fleet**

In 2013,<sup>19</sup> the EU fishing fleet was generally profitable, generating EUR 6.8 billion in revenue, EUR 3.4 billion in gross value-added, EUR 506 million in net profit and 7.8% in net profit margin. This is a significant improvement compared to the estimated 5.5 % net profit margin in 2012.

This trend impacts positively on the economies of EU coastal regions and their fishing communities. Also industry has positive expectations with growing investments in recent years (mainly new fishing vessels and investments on board).

The overall better economic performance of the fishing fleets can largely be explained by higher yields

The overall better economic performance of the fishing fleets can largely be explained by higher yields, higher first sale prices of some important fish species, the shift to more fuel efficient fishing gear and engine replacement (with EFF support in some cases), lower fuel prices, the consolidation of the fleet, and changes in fishing and marketing behaviour.

However, significant differences remain among seabasins (most notably with the Mediterranean) and among fleet segments. The fleets of Belgium, Finland and Portugal accumulated losses in 2013.

Although EMFF support and a stable regulatory framework with the new CFP can contribute to fleet profitability, factors such as the economic context, changing fuel prices, adaptations within the sector and access to fishing grounds remain the most important elements in determining the profitability of the EU fishing fleet.

### ***Economic performance of fleets and MSY***

*A notable example of increased returns from fishing at MSY is the **haddock fisheries in the north-east Atlantic:***

*the fleets with the greatest dependency on haddock stocks have significantly increased their profitability, with net profits doubling between 2008 and 2012, and a gross value added increase of nearly €20 million. Increased landings (in weight) came hand in hand with improved average salaries and maintenance of jobs.*

*The example of **North Sea Nephrops fisheries** also shows improved economic performance (2009-2012).*

Source: COM(2015)239, p. 10

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<sup>19</sup> Based on the 2015 Annual Economic Report. Data collected by the Member States under the Data Collection Framework have a two year lag.

## **Labour productivity in fisheries**

Labour productivity in terms of gross value added per full time equivalent in the EU fisheries sector was estimated at €39,000 in 2013 (latest data<sup>20</sup>), an increase compared to previous years. However, this progress does not confirm yet that labour productivity in fish harvesting is matching that of the EU economy as a whole.

The challenge is to improve the status of the fish stocks, so that the fleets can benefit from higher catches, and in time thus improve overall results. Thereto, the EMFF includes now provisions to:

- avoid unwanted catches through more selectivity, by helping operators to land catches that were previously discarded and by ensuring greater added value for these landings;
- restrict the possibilities to grant fleet support (temporary and permanent cessation of fishing, change of engines) to fleet segments where there is a clear need for such support, while preventing beneficiaries of scrapping aid from investing this public aid into a new fishing vessel.

## **Aquaculture**

The CFP promotes the development of sustainable EU aquaculture through an open method of coordination. The EU added value resides in finding solutions to the sector's most common problems. It is our main objective to create the conditions for this sector to develop sustainably providing a framework for national strategy development and to facilitate a voluntary process for cooperation.

The EMFF operational programmes of each of the 27 Member States (excluding LUX) were reviewed to ensure consistency with the multi-annual strategic plans. Work was continued to simplify Member States' administrative procedures, including licensing. Guidelines for aquaculture operations in the context of the Marine Strategy Framework Directive and the Water Framework Directive were elaborated further. Rules on organic aquaculture were revised to remove hindrance to its development.

The latest data<sup>21</sup> show that production reached 1.11 million tonnes worth €3.36 billion in 2012, approximately 80% of which is produced in marine waters (finfish and shellfish), with an increase in sales of 3% in volume and 10 % in value from 2011 to 2012.

In 2012, the return on investment for the EU aquaculture sector was about 7%. This is very close to the ratio of the EU fishing fleet, although with considerable variability across species and subsector.

Around 80,000 persons were employed in more than 15,000 firms in 2012 (some 90 % of which are micro enterprises of less than 10 employees). This equals 30,000 full time equivalents due to the prevalence of seasonal or part-time employment in shellfish aquaculture. The average salary increased by 9% from 2011 and 2012.

The profitability of the EU aquaculture sector decreased between 2011 and 2012, although it was still positive. Labour productivity decreased by 4% in that period. Marine

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<sup>20</sup> 2015 Annual Economic Report on the EU Fishing Fleet (STECF 15-07): [https://stecf.jrc.ec.europa.eu/documents/43805/1034590/2015-07\\_STECF+15-07+-+AER+2015\\_JRC97371.pdf](https://stecf.jrc.ec.europa.eu/documents/43805/1034590/2015-07_STECF+15-07+-+AER+2015_JRC97371.pdf)

<sup>21</sup> 2014 Economic Performance of the EU Aquaculture Sector (STECF 14-18), <https://stecf.jrc.ec.europa.eu/reports/economic>

aquaculture generated EUR 165 million in profits, followed by the shellfish sector with EUR 32 million profits and the freshwater sector with losses of EUR 32 million. Economic performance has improved after the financial crisis of 2008-2009 which led to consolidation. The aquaculture sector is now, on the whole, profitable and investments are increasing, although this consolidation has not yet resulted in production growth. Evidence suggests that vertical integration, new products and technologies, organic production and certification contributed positively to the economic performance of this sector. On the other hand, difficulties to access credit have affected the economic performance of the aquaculture sector.

## **Markets**

The new **market policy** puts a specific emphasis on the role of Producer Organisations through their Production and Marketing Plans and on Market Intelligence. The full scope EUMOFA<sup>22</sup> is operational since January 2015.

Most of the EMFF operational programmes of Member States reflect the importance attached to the market dimension. Although their adoption was still on-going in 2015, Producer Organisations had their Production and Marketing Plans implemented since 2014, in compliance with the CMO regulation<sup>23</sup>.

Most of the Member States encouraged a better structuring of the sector by fostering the producers' ownership for a sustainable fishery, while addressing market requirements and consumer expectations.

It is too early to assess the impact of the new market policy. It will take a couple of years for the Production and Marketing Plans to be fully operational and improve the profitability of members of Producer Organisations.

**Free Trade Agreements**, all covering fisheries products, were concluded with Vietnam and Ecuador. Negotiations on agreements with Mercosur, Japan, Thailand, India, Malaysia and the USA are on-going. The renewal of the EEA-FM 2009-2014<sup>24</sup> that expired in April 2014 was closed in July 2015, with the initialling of the protocols.

The Council adopted at the proposal of the Commission a new Regulation (EU) No 2015/2265 opening and providing for the management of autonomous Union **tariff quotas** for certain fishery products for the period 2016-2018. Stakeholders were consulted. The previous regime ended on 31 December 2015.

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<sup>22</sup> European Market Observatory for Fisheries and Aquaculture Products: <http://www.eumofa.eu/>

<sup>23</sup> Regulation (EU) No 1379/2013 of the European Parliament and of the Council of 11 December 2013 on the common organisation of the markets in fishery and aquaculture products, amending Council Regulations (EC) No 1184/2006 and (EC) No 1224/2009 and repealing Council Regulation (EC) No 104/2000 (OJ L 354, 28.12.2013).

<sup>24</sup> European Economic Area (EEA) Financial Mechanism 2009-2014.

## **Fight against IUU fishing**

We have continued fighting IUU fishing globally because IUU fishing poses a serious environmental threat to fish stocks and can lead to the collapse of fisheries. The estimated global value of IUU fishing is at least 10 billion euros per year. Between 11 and 26 million tonnes of fish are caught illegally each year, which corresponds to at least 15% of world catches.

*The EU is helping third countries to improve their fisheries management.*

Up to the end 2015, the EU has pre-identified 20 countries<sup>25</sup> to which it has proposed an action plan addressing the shortcomings. For 4 of these countries<sup>26</sup> the EU imposed restriction on access to the EU market of marine fisheries products. It was lifted for Belize that now complies with the international rules and standards. The pre-identification of 8 countries<sup>27</sup> was lifted because they successfully implemented their action plan. The EU is helping the remaining 8 countries<sup>28</sup> to reform their fisheries management.

After five years of implementation of the IUU regulation a number of tangible results can be seen:

- It has established a permanent mechanism for cooperation between the EU and third countries;
- It has fostered willingness by Member States and third countries to improve compliance with their international obligations as flag, coastal, port or market State.
- Member States and third countries now realise that they benefit from fighting IUU fishing, including increased revenues to the local or State budget.

The EU achievements are presented in a Communication of 1 October 2015<sup>29</sup>.

The externalities relate to the constraints linked to any international activity. The domestic political situation of the concerned third countries, their administrative capacities and willingness to take the necessary steps also influence their ability to reform.

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<sup>25</sup> Belize, Cambodia, Fiji, Guinea, Panama, Sri Lanka, Togo, Vanuatu, Korea, Ghana, Curacao, Philippines, Papua New Guinea, Solomon Islands, Tuvalu, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Thailand, Taiwan and the Comoros.

<sup>26</sup> Belize, Sri Lanka, Cambodia, Guinea.

<sup>27</sup> Fiji, Panama, Togo, Vanuatu, Korea, the Philippines, Papua New Guinea, Ghana.

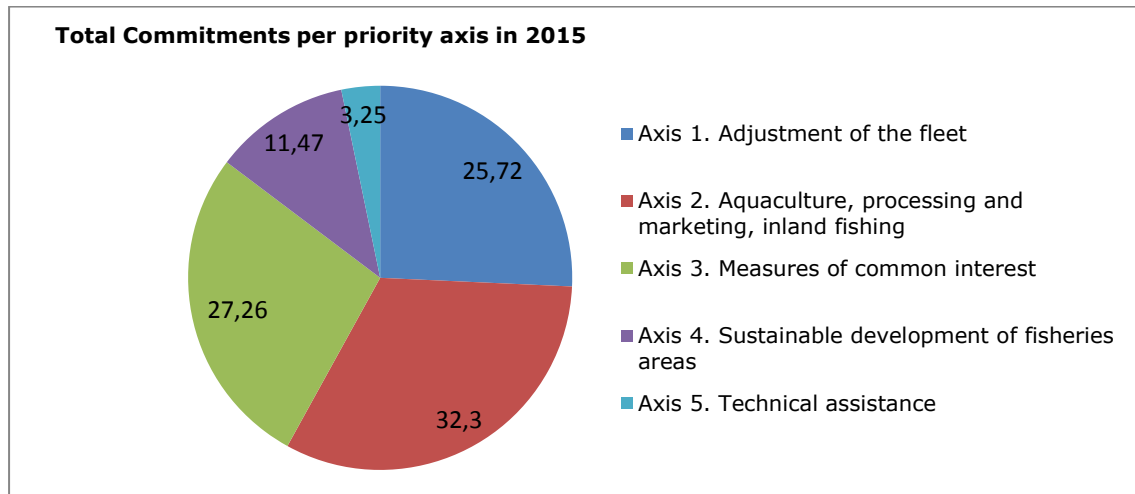
<sup>28</sup> Curacao, Solomon Islands, Tuvalu, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Thailand, Taiwan and Comoros.

<sup>29</sup> Communication from the Commission to the European Parliament and the Council on the application of Council Regulation (EC) No 1005/2008 establishing a Community system to prevent, deter and eliminate illegal, unreported and unregulated fishing, COM(2015) 480 final.

## **EFF implementation**<sup>30</sup>

From 2007 to 31 May 2015, EFF commitments by the Member States amounted to EUR 3.91 billion for 134,689 operations. By 31 May 2015, 90.83% of the EFF had been committed. The final date for eligibility of expenditure is 31 December 2015.

The EFF targets five priority axis:



From 2007 to 31 May 2015, investments in the fishery and aquaculture sector amounted to EUR 9.27 billion: 42.14% from the EFF, 26.33% from national public contributions and 31.52% from private funding.

68.46 % of EFF commitments are concentrated on five measures. This figure is similar to the one for 2013 and slightly above the one for 2014.

31 May 2015	
Processing	17.53%
Aquaculture	14.33%
Permanent cessation	13.98%
Development of fisheries areas	11.47%
Fishing ports	11.15%

The most notable evolution is the continuous decrease of public spending on Axis 1 (permanent and temporary cessation in particular) as overcapacity in some fleet segments has largely been addressed and because of improved profitability of some fleets.

In terms of the **leverage effect**, every euro of EFF support committed generates EUR 1.37 of committed national support (+2.2% compared to 31 May 2014), of which EUR 0.75 of private funding and EUR 0.62 of national public contribution.

**Processing** remains the largest area of investment for the EFF. Processing operations increased since end July 2012 (+37%) and represent 17.53% of EFF commitments.

The total costs per operation amount to EUR 476 314 (twice as much as a permanent cessation operation). The private contribution is EUR 265 822 and the public contribution

<sup>30</sup> Report from the Commission – Eight annual report on the implementation of the European Fisheries Fund (2014), COM(2015) 662 final.

is EUR 210 492, of which EUR 136 605 are EFF resources (the third largest).

Some 75% of the operations concern the setting up of new processing facilities or modernisation or extension of existing ones; 20% concern the modernisation of marketing establishments and the rest to construction of marketing establishments.

One euro of EFF resources generates EUR 2.49 of national contributions, of which EUR 1.95 are private resources and the rest are public.

**Aquaculture** is the second largest area of investment for the **EFF**. The number of operations is small (6.12% of total), but they consume 14.33% of EFF commitments. The total cost per operation is EUR 186 042 (the sixth largest), of which EUR 87 261 of private contributions (4 times the average private contribution) and EUR 66 998 to the EFF, 2.5 times the average.

One euro of EFF support generates EUR 1.78 of national resources, of which EUR 1.31 private and EUR 0.47 public.

A better use of EMFF support is expected with the adoption of the Commission's Strategic Guidelines to help Member States prepare their Multiannual National Strategic Plans for aquaculture.

EFF measures to **adapt the EU fishing fleet** concern the permanent and temporary cessation of fishing activities, changes of engine and of fishing gear, and other investment on board.

By 31 May 2015, the EFF had contributed to 4 267 permanent cessation operations (+4 % over 31 May 2014), at a total public cost of EUR 935.81 million, including EUR 546.34 million from the EFF. Costs per operation do not change significantly compared to previous years: EUR 219 313, of which EUR 128 038 is EFF funding (the fifth most expensive in terms of committed EFF funding).

Temporary cessation remains the most used measure in terms of number of operations (63 152 operations, 46.27% of the total number). The average costs per operation under this measure remains the lowest in the EFF (EUR 6 109 total costs, EUR 3 608 EFF costs), and is still decreasing since July 2012.

The use of permanent and temporary cessation measures has declined in relative terms since 2012:

	<b>Permanent &amp; temporary cessation (% total EFF commitments)</b>
31/7/2012	28.28%
31/5/2013	24.65%
31/5/2014	22.2%
31/5/2015	19.81%

The **sustainable development of coastal communities** under Axis 4 maintained the rapid progress of previous years. By May 2015 there were 312 FLAGS<sup>31</sup> in 21 Member States involving thousands of local stakeholders as project promoters and FLAG members.

From 2 756 projects selected at the end of 2012, this figure jumped to 6 353 projects in one year. By end May 2015, 11 299 projects had been approved (+28.4%), which represent 8.28% of the total number of projects and consume 11.47% of the EFF commitments.

Total costs in Axis 4 amount to EUR 912.1 million, of which EUR 661.7 million are public contributions. The EFF contributed with EUR 448.34 million to the public part.

Total cost per project amount to EUR 80 728, of which EUR 22 165 is private contributions and EUR 58 562 is public contribution (EUR 39 680 from the EFF).

One euro of EFF resources generates EUR 1.03 of national resources, (55% private and the rest public national).

A recent study<sup>32</sup> estimates that at least 7.300 jobs have been created by the FLAGS, whilst a further 12.500 jobs maintained and over 200 new enterprises created with Axis 4 support. With the closure of the funding period in 2015, the ex post evaluation of the EFF will provide updated figures on payments and employment.

Some Member States (Finland, Sweden, Germany, Portugal and part of the UK (Scotland)) have already selected most of their FLAGS under the EMFF in 2015, and others such as Spain (Galicia and Asturias) are well advanced. 62 FLAGS have been selected by mid-December.

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<sup>31</sup> Fisheries Local Action Groups (FLAGS) are partnerships between fisheries actors and other local private and public stakeholders to address their area's economic, social and environmental welfare.

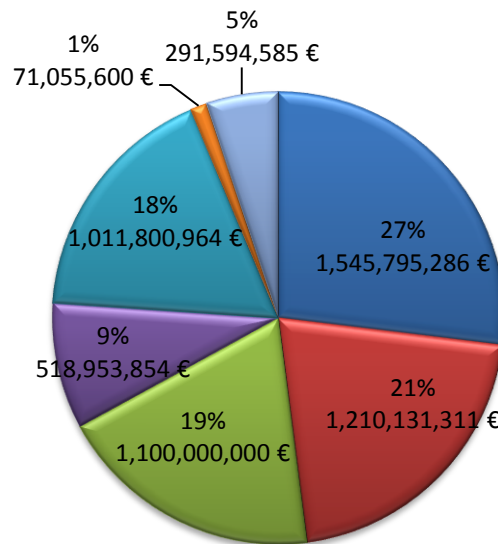
<sup>32</sup> Study on the implementation of Axis 4, see [http://ec.europa.eu/fisheries/documentation/studies/axis-4/index\\_en.htm](http://ec.europa.eu/fisheries/documentation/studies/axis-4/index_en.htm)

## **EMFF implementation**

The EMFF financial support will help Member States to deliver the CFP objectives. It will also help to deliver some of the IMP objectives, while the bulk of the Blue Growth agenda of the IMP will be supported through the other European Structural and Investment Funds, in particular the European Regional Development Fund and the Cohesion Fund.

The EMFF support will be delivered through one EMFF operational programme per Member State (except LU). The 27 EMFF operational programmes were adopted by the Commission by 7 December 2015, although the eligibility period for spending started on 1 January 2014.

According to these operational programmes, Member States will distribute EMFF funds between the Union priorities defined by the EMFF, as follows:



- Promoting environmentally sustainable, resource efficient, innovative, competitive and knowledge based fisheries
- Fostering environmentally sustainable, resource efficient, innovative, competitive and knowledge based aquaculture
- Fostering the implementation of the CFP
- Increasing employment and territorial cohesion
- Fostering marketing and processing
- Fostering the implementation of the Integrated Maritime Policy
- Technical assistance

For each operational programme, thus for each Member State, an annual implementation report will allow the Commission to follow implementation and results in the previous year, at the level of EMFF measures/Union priorities, and also at the level of the thematic objectives of the EU 2020 strategy for smart, sustainable and inclusive growth, thanks to a "logical intervention matrix" which establishes a correspondence between measures, Union priorities and thematic objectives.

### **Ocean Governance and Blue Growth**

In 2015, the adoption of the 2030 United Nations Agenda for Sustainable Development constitutes a major step forward for oceans and seas. It provides a strong framework for improving ocean health, protecting the marine environment and encouraging the sustainable development of the blue economy, and will guide DG MARE future actions to ensuring better ocean governance.

It has been a trend for the manufacturing component of the blue economy to shed jobs and for coastal tourism to gain them. However, the **offshore wind** industry is the fastest growing in terms of jobs: it has grown from almost zero seven years ago to 75,000 jobs now. There were, by mid-2015, 8,045MW of installed offshore wind capacity. The growth rate continues at 25% annually on average. In **ocean energy**, the last available installation figure was 260MW. Growth rates in this emerging sector have been marginal in 2015, but in 2016 a number of new projects are expected to add tens of megawatts.

Development of offshore renewable energy, like other sectors of the blue economy, is hampered by lack of reliable data on the marine environment and uncertainties about licensing. A number of administrative bottlenecks – such as the appropriate implementation of environmental protection regulations – can be tackled at EU level. This is one of the objectives of the Ocean Energy Forum which also aims to tackle financial and technical bottlenecks to full commercialisation. Another difficulty is that ocean energy – and in some countries the offshore wind industry – are faced with an overly-short term view on investment. EU efforts can reduce the development and installation costs and thus increase the competitiveness with other means of electricity generation.

Several actions were developed in the framework of the Communication "A European Strategy for more Growth and Jobs in **coastal and maritime tourism**"<sup>33</sup>. To strengthen the role of cluster organisations and networks as drivers for growth and jobs in the maritime and coastal tourism sectors in the EU, a conference was held at the beginning of 2015. A pan-European dialogue with cruise tourism stakeholders was launched with a high-level conference in March, which is being followed by regional dialogues (the first was a Mediterranean regional cruise dialogue in Olbia in October). A call for proposals on thematic routes on underwater cultural heritage was launched, as well as two studies, one on specific sustainability challenges, and a second on Nautical Tourism.

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<sup>33</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - A European Strategy for more Growth and Jobs in Coastal and Maritime Tourism, COM(2014) 86.

**EMODnet** is a network of over 100 organisations working together to make their marine data available in an interoperable and accessible manner. There were on average 1,700 downloads of data during the first year of the second phase of EMODnet. By July 2015 this had risen to 6,000. The 2020 target of 17,000 downloads per month could even be surpassed if holders of marine data in the offshore industry were to let a proportion of the data they collect for planning, licensing and operations be released.

Stakeholders were very interested in the results of a public consultation and a study<sup>34</sup> on **seabed mining** and **marine biotechnology**. An informal dialogue with representatives of Member states and with the International Seabed Authority led to a number of suggestions as to how the EU could contribute to their work.

The **Atlantic Strategy** events enable Member States to share information and best practices, and generate new ideas for cooperation in maritime policy. A major stakeholder event took place in Brest in October 2015.

The regional dialogue on IMP in the **Mediterranean** led in November 2015 to the adoption of the first Union for the Mediterranean (UfM) Ministerial Declaration on Blue Economy. Whilst significant political progress has been made, achievements might be put in danger at any moment due to the current instability in the Middle-East and North Africa.

The Governance structure for the EU Strategy for the **Adriatic and Ionian Region** has been established. DG MARE worked closely with DG REGIO, notably for the blue economy areas such as coastal tourism, blue technologies, maritime transport, fisheries and maritime governance and services.

The second High-level **Black Sea** Stakeholder Conference was held in Sofia on 23 March and focused on the opportunities for maritime business in the sea basin. It is a challenge to involve the third country littoral states in a close cooperation with the Commission.


The third bilateral dialogue with **Turkey** on IMP took place in July and agreed on various areas for cooperation on the blue economy, maritime spatial planning and coast guards.

The Commission and the European External Action Service are preparing the first report on the implementation of the EU Maritime Security Strategy Action Plan. Preliminary findings show that there are already a high number of activities ongoing in the area of maritime security and surveillance. An important building block is the Maritime **CISE**<sup>35</sup> improving interoperability between over 300 surveillance authorities. DG MARE signed 7 grants starting in 2015 with 5 Member States' authorities to foster cross-sectors and cross-border interoperability between national maritime surveillance systems. A second call on CISE interoperability was published in 2015 following a demand by Member States. DG MARE also closely followed the FP7 co-funded 'EUCISE2020' project that is carried out by 14 Member States and Norway, including 37 partners.

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<sup>34</sup> Study to investigate the state of knowledge of deep-sea mining, 28 August 2014, <https://webgate.ec.europa.eu/maritimeforum/en/node/3617>

<sup>35</sup> Common Information Sharing Environment.



*The Commission adopted a border and coast guard package for better maritime surveillance.*

In December, the Commission adopted a **border and coast guard** package including a joint mandate for cooperation for the three EU agencies (EMSA, EFCA and EBCA, ex Frontex). DG MARE is responsible for the proposal amending the EFCA regulation. The European cooperation on coastguard functions will support national authorities in their coastguard functions at national and EU level.

The results of three **Guardians of the Sea** pilot projects of the first call for proposals are globally very promising. The alternative actions<sup>36</sup> by vessels and crews having abandoned the fishing fleet are environmentally and economically sustainable in the long-term. In addition, the second call for proposals resulted in two new projects launched in December 2015.

### **Sustainable fisheries worldwide**

Our action in international fora and also at bilateral level is an important element of the Commission's priority to strengthen its role as a **global actor**.

All the **EU positions** in international organisations (RFMOs and UN bodies) dealing with fisheries management were based on the best available scientific advice, on the standards and principles of the CFP and our approach to ocean governance globally. However, not all EU proposals were adopted in RFMOs due to differing positions of other Contracting Parties.

In terms of impacts, the number of **emblematic tuna stocks** fished at MSY has decreased slightly (from 14 stocks in 2013 to 13 in 2015) as new stock assessments show. This is not linked to EU positions/actions but is rather the result of a complex set of external factors that are difficult to influence and control, such as compliance by other parties, technological creep and lack of support of EU proposals by other parties. Unsuccessful negotiations with the international community can negatively impact fish stocks and affect the Commission's (EU) image.

**Sustainable Fisheries Partnership Agreements** (SFPAs) are a benchmark for the management of international fisheries and so, foster the EU position as a global and leading actor in this area.

At the end of 2015, 14<sup>37</sup> protocols to SFPAs were in force (compared to 10 in 2013 and 13 in 2014). Negotiations have been successfully completed with Greenland and Mauritania for new protocols, and with Liberia and Cook Islands for new agreements. The Council has adopted mandates for a new protocol with Comoros and for a new SFPA with Tanzania. First steps have been taken to renew protocols with Mauritius and Guinea Bissau.

The protocols with Mozambique and Kiribati have expired because the partners' negotiation position was not compatible with the value for money and sustainability

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<sup>36</sup> E.g. combatting marine litter, awareness raising of the marine environment and protecting maritime cultural heritage.

<sup>37</sup> Cape Verde, Comoros, Côte d'Ivoire, Gabon, Greenland, Guinea-Bissau, Liberia, Madagascar, Mauritania, Mauritius, Morocco, São Tomé and Príncipe, Senegal and Seychelles.

principles defended by the EU.

The evaluation results for each renewal were transmitted to the co-legislators before obtaining the negotiation mandate and were taken into account in the negotiation strategy.

Licence possibilities remained stable with around 250 fishing authorisations for tuna agreements and around 450 for mixed fisheries. In addition, more than 50 licences have been attributed to non-EU vessels in the framework of access agreements concerning French Guyana and Mayotte waters. The implementation of the protocols was monitored in Joint Committee meetings, with a particular attention to the sectoral support granted.

As with any multilateral action, the success of our action depends on the solid support of stakeholders and Member States and on the cooperation of other international partners. Possible risks relate to the incorrect implementation of an SFPA or its non-renewal. Unexpected changes in the third country's political or administrative situation or in the economic and operational strategies of ship-owners can influence the implementation of the SFPAs and are beyond the Commission's control.

On 20 October the European Court of Auditors published its Special Report No 11/2015 *'Are the Fisheries Partnership Agreements (FPAs) well managed by the Commission?'*<sup>38</sup>. All recommendations have been accepted by the Commission and are being implemented. The auditors found that the FPAs were generally well managed, but expressed some concerns, in particular the need to ensure that FPAs give both value for money, and economic and environmental sustainability.

A number of recommendations have been addressed through the CFP reform in 2013/2014, which has led to substantial improvements in agreements concluded since then. The Commission's proposal of 10 December 2015 on the sustainable management of external fishing fleets<sup>39</sup> will reinforce the monitoring and transparency of the EU fishing fleet activities outside EU waters.

## **External communication**

DG MARE organised or participated in major communication events to inform our stakeholders and raise public awareness on our policy priorities. DG MARE participated for the 21st time to **Seafood** held in Brussels on 21-23 April. It is worldwide the largest fair in its field with 1.761 participants from 72 countries and 14.726 visitors (15.078 in 2014). Commissioner Vella attended the debate on "EU markets as a driver for good governance in fisheries", the event received a large media coverage including in social media.

On 28-31 May, the Greek port of Piraeus hosted the 8th **European Maritime Day (EMD)** Conference. The theme was: "Ports and coasts, gateways to maritime growth". The Commission organised the EMD in partnership with the City of Piraeus and the Greek Ministry of Economy, Shipping and Tourism. Commissioner Vella's opening speech focused on developing the blue economy. The conference attracted a record number of participants from the European maritime community, almost 1800. Various events for stakeholders and an exhibition with 33 exhibitors were held. In addition, 27 events across the EU have been organised by various entities.

Our video "We are farmed in the EU" was well received at the event "Aquaculture in Europe: a model for the future" on 22 May at the **Milan EXPO**. It was followed by an award ceremony of the pilot school project "Farmed in the EU". Schools and fish farmers will further promote this initiative, while the Federation of European Aquaculture

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<sup>38</sup> <http://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=6123>

<sup>39</sup> COM(2015) 636 final.

Producers would support follow-up actions to reach more schools. In the second part of the event, the audience of about 70 stakeholders, including producers, processors, national administrations, NGOs, school children and teachers, discussed two questions: "Today, half of global seafood comes from aquaculture. Where will our seafood come from in 20 years?" and "How can we all contribute to the sustainable development of aquaculture?" Several issues were raised, including the need to ensure sustainability and equality, consumer information and education, and full traceability of aquaculture products.

Online advertising and our presence in social media (Twitter, Facebook) captured a wide range of audience including school children, regional authorities and seafood points of sale. With 1.021.928 visits in 2015 the fisheries website was the most visited of MARE's websites. We explained our policies through a series of infographics on the fisheries policy and maritime affairs<sup>40</sup>. They can easily be disseminated on the website and social media.

### **Cooperation with EASME<sup>41</sup>**

In 2015, DG MARE finalised the transition phase in delegating the major share of the EMFF in the area of control, scientific advice and maritime policy<sup>42</sup>. In addition, EASME continues to look for synergies and provides policy relevant input to DG MARE, notably in the area of Blue Growth.

Based on this first full year of cooperation, DG MARE assesses the transfer as successful making it possible for the DG to concentrate its resources on the policy aspects of the CFP and the IMP thus leading to considerable efficiency gains with regard to the management of EMFF expenditure. In particular, it strengthens the DG's capacity for political/content management of the actions foreseen under the EMFF work programme.

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<sup>40</sup> [http://ec.europa.eu/fisheries/documentation/eu\\_fisheries\\_key\\_facts/index\\_en.htm](http://ec.europa.eu/fisheries/documentation/eu_fisheries_key_facts/index_en.htm)

and [http://ec.europa.eu/maritimeaffairs/documentation/facts\\_and\\_figures/index\\_en.htm](http://ec.europa.eu/maritimeaffairs/documentation/facts_and_figures/index_en.htm)

<sup>41</sup> Executive Agency for Small and Medium-sized Enterprises.

<sup>42</sup> The following tasks have been delegated to EASME (C(2014) 4636):

- Actions in the area of the IMP, such as marine knowledge, maritime spatial planning, maritime surveillance and Blue Growth;
- Scientific advice and projects necessary for the development and the implementation of the CFP;
- Support for purchase and/or chartering by Member States of shared means for fisheries control (Article 87 of the EMFF regulation).

The Agency implements the delegated actions in cooperation with DG MARE in accordance with the EMFF Specific Memorandum of Understanding.

## **EXAMPLES OF INITIATIVES TO IMPROVE THE EFFICIENCY AND/OR ECONOMY OF THE DG'S FINANCIAL AND NON-FINANCIAL ACTIVITIES**

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### *Example 1: Rationalisation of expert payments*

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As of 1 January 2015 certain payments that have previously been carried out by DG MARE have been made by the PMO<sup>43</sup>. The change involves some 1.000 payments every year, relating to the reimbursement of travel expenses to experts in the area of fisheries control and the payment of allowances to experts of the Scientific, Technical and Economic Committee for Fisheries (STECF). This rationalisation of the treatment of payments enhances specialisation and leads to economies of scale, with improved efficiency for the European Commission. The expected net saving is up to 0.4 FTE<sup>44</sup>.

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### *Example 2: Delegation of tasks to the Executive Agency for Small and Medium-sized Enterprises (EASME)*

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For the programming period 2014-2020 DG MARE has been granted a considerable budget to spend in direct management in the areas of control, scientific advice and IMP. Spending under direct management is a resource intensive exercise which requires detailed knowledge, experience and expertise in terms of budgetary and procurement procedures by all staff involved.

DG MARE would have needed to invest considerable resources and focus recruitment and training to meet this challenge, at a time when working forms are being rationalized to adapt to staff reductions and Staff Regulations reform. In parallel, the DG needs to focus on the material implementation of the CFP and the IMP.

Based on the results of a cost-benefit analysis, DG MARE opted for the solution to delegate a major share of its budget under direct management to EASME. This allows DG MARE to concentrate its resources on the policy aspects of CFP and IMP. A dedicated unit for EMFF has been created in EASME, reflected also in the organisation chart of DG MARE. DG MARE contributes to the externalisation process with a total of 12 posts and around 5 FTE external staff credits, to be transferred gradually.

As indicated in the Financial Statement accompanying the delegation proposal and based on the cost-benefit analysis, the use of the executive agency is expected to generate a saving of almost EUR 5 million over the programming period 2014-2020, when compared with the in-house scenario.

In 2015 further recruitments have continued. DG MARE plays an important role, both at operational and HR level, supporting the Agency in constituting the unit and recruiting suitable staff. In the coming years close cooperation with the Agency will be needed in the context of appraisal and promotion of the officials seconded in the interest of the service and in learning and development actions.

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<sup>43</sup> Office for the Administration and Payment of Individual Entitlements (PMO).

<sup>44</sup> Full-time equivalent.

## 2. MANAGEMENT AND INTERNAL CONTROL

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the twice-yearly reports on EFF implementation;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- reports on budget implementation by AOSDs in accordance with the AOSD Charter, together with questionnaires for the preparation of the Annual Activity Report;
- the reports on control results from management/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 reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the reports of the ex-post audit sector;
- 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).

In addition, there are regular dedicated meetings between the Director General and the Internal Control Coordinator on financial management and Internal control issues.

This section reports the control results and other relevant elements that support management's assurance. It is structured into (2.1) Control results, (2.2) Audit observations and recommendations, (2.3) Effectiveness of the internal control system, and resulting in (2.4) Conclusions as regards assurance.

## 2.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives<sup>45</sup>. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

### **OVERVIEW – SHARED MANAGEMENT (77% of 2015 payments)**

The most significant budget activity for the Directorate General for Maritime Affairs and Fisheries (DG MARE) relates to programmes under shared management, representing 77% of the DG's executed payment budget in 2015. Management relies on a number of complementary sources in its assessment of the effectiveness of the systems established by the Member States for the implementation of these programmes.

At the beginning of the programming period the Operational Units responsible for structural measures negotiated the programmes, and the establishment of satisfactory system architecture was a condition of programme approval. These units are also responsible for monitoring their effective implementation. The Desk Officers and Heads of Unit are in regular contact with the Managing Authorities and participate in Monitoring Committee meetings organised by the Member States. In the course of programme implementation, these Units receive and process the payment claims and, where necessary, interrupt or suspend such claims and take other safeguard measures foreseen by the applicable legislation as appropriate.

The Member States submit annual implementation reports which are evaluated by the Operational Units. A particular effort was made with the Member States to improve the quality of the Annual Implementation Reports. The results of this monitoring activity are reported to management. In the context of the preparation of the AAR, the responsible Heads of Unit provide an opinion on the functioning of the Management and Control Systems in the Member States for which they are responsible.

### **OVERVIEW – DIRECT MANAGEMENT (22% of 2015 payments)**

#### *1. Sustainable Fisheries Partnership Agreements (13% of 2015 payments)*

The level of a financial contribution under a Sustainable Fisheries Partnership Agreement (SFPA) is the result of a negotiation with the partner country and is based on several factors such as the value of the opportunities offered to the EU fleet to fish in the partner's exclusive economic zone as well as the level of support to the third country's policy efforts in the sustainable managements of fisheries resources.

#### *2. Markets, control and data collection (4% of 2015 payments)*

Programmes were submitted to the Commission by the Member States annually in the case of control programmes, and for multi-annual periods (two or three years) in the case of data collection. Following their evaluation, the level of financial contribution was fixed by the Commission and notified to the Member States. For the Common Market Organisation the intervention conditions were specified in annual Council Regulations, and for the Outermost Regions expenditure the conditions and limits of aid were detailed

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<sup>45</sup> 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).

in the Regulation establishing the scheme. Implementation of the programmes is monitored by the Operational Units concerned.

### 3. Procurement and Grants (3% of 2015 payments)

The Directorate General ensures 100% ex ante verification of documents and procedures in relation to procurement and grants. The management of tendering and grants procedures is decentralised to the Operational Units of the Directorate General which are responsible for operational initiation and verification. An additional independent verification is carried out centrally by the Budget Unit which performs checks during the entire lifecycle of the procedure, i.e. it reviews drafts of tendering/call for proposals specifications, invitations to tender/to submit a proposal, contract notices, evaluation and award reports, award decisions and contracts/agreements. DG MARE has established an independent advisory committee (the Procurement Examination Group) which examines all procurement procedures above the publication threshold and which advises the Sub-Delegated Authorising Officers on the legality and regularity of the procedures.

Budget Management Type	Expenditure Type	Paid Amount	%age of Total Payments	Average Paid Amount	Number of Payments
Shared	FIFG/EFF	570.912.873	62,53%	4.260.544	134
	EMFF	134.487.253	14,73%	4.338.298	31
	<b>Total Shared Management</b>	<b>705.400.126</b>	<b>77,26%</b>	<b>4.275.152,28</b>	<b>165</b>
Direct	International fisheries agreements	121.300.384	13,29%	4.492.606,82	27
	Markets, Control and Data Collection	32.442.173	3,55%	209.304,35	155
	Procurement	16.886.713	1,85%	57.049,71	296
	Grants	11.632.101	1,27%	140.145,79	83
	Other expenditure	9.914.098	1,09%	6.535,33	1.517
	Administrative expenditure*	5.698.719	0,62%	2.118,48	2.690
	<b>Total Direct Management</b>	<b>197.874.189</b>	<b>21,67%</b>	<b>41.500,46</b>	<b>4.768</b>
Indirect	EFCA agency	9.364.000	1,03%	1.337.714,29	7
	<b>Total Indirect Management</b>	<b>9.364.000</b>	<b>1,03%</b>	<b>1.337.714,29</b>	<b>7</b>
<b>Total Title 11</b>		<b>912.638.315</b>	<b>99,96%</b>	<b>184.744,60</b>	<b>4.940</b>
Direct	Procurement	390.442	0,04%	130.147	3
	<b>Total Direct Management</b>	<b>390.442</b>	<b>0,04%</b>	<b>130.147,42</b>	<b>3</b>
<b>Total Title 13</b>		<b>390.442</b>	<b>0,04%</b>	<b>130.147,42</b>	<b>3</b>
<b>Total Payments</b>		<b>913.028.757</b>	<b>100,00%</b>	<b>184.711,46</b>	<b>4.943</b>
Note: Payments made during the financial year 2015 on budget lines for which DG MARE is responsible.					
(*) 229 payments made by DG MARE, 2.444 by PMO and 17 by other DGs.					

### Budget implementation tasks entrusted to other DGs 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.

DG Maritime Affairs and Fisheries has entrusted parts of its 2015 budget for implementation by a decentralised agency (the European Fisheries Control Agency - EFCA) and by a number of cross-sub-delegations to other DGs.

## **Decentralised agencies - Indirect management**

The EU contribution to the decentralised agency EFCA amounted in 2015 to €9.2 million in commitments and payments (see annex 8).

The EFCA was created in 2005 and is situated in Vigo (Spain). Its Administrative Board is composed of representatives of Member States and of 6 representatives of the Commission. The Board meets twice a year and adopts the EFCA annual and multi-annual work programme, the Staff establishment plan and Budget. The Chairperson of the Administrative Board is elected from among the Commission representatives.

## **Cross-sub-delegations**

Concerning the sub-delegated resources, reports were received from all Directors General concerned, providing reasonable assurance on the use of the resources, for the purposes envisaged, in accordance with the principles of sound financial management:

- A sub-delegation with the Directorate General for Employment, Social Affairs and Equal Opportunities (DG EMPL) covers DG MARE's share of IT development expenditure on the system for Member States to communicate documents relating to programmes under shared management (SFC). In 2015, an amount of €459,650.76 in commitment appropriations and €347,516.23 in payment appropriations were managed by DG EMPL and fully consumed.
- The sub-delegation granted to the Joint Research Centre (JRC) covers legal commitments only, and allows the JRC to issue invitations to members of the Scientific, Technical and Economic Committee for Fisheries and its expert sub-groups.
- The Directorate-General for Regional and Urban Policy (DG REGIO) received cross-sub-delegations from DG MARE in order to administer an independent external validation assessment of the audit functions of DG REGIO, EMPL and MARE, and for the implementation of fi-compass, the technical advisory platform for financial instruments, in accordance with the modalities of the Service Level Agreement signed between REGIO, AGRI, EMPL and MARE. In 2015, this cross-sub-delegation was extended in order for DG MARE to co-finance joint studies with DGs REGIO and EMPL. In 2015, under the budget heading 11.066301, REGIO managed an amount of €100,000 in commitment appropriations, of which €70,972.56 was committed. No payment appropriation was consumed. Under the heading 11.010401, an amount of 6,565.2€ was managed by DG REGIO.

## **Executive Agency - EASME**

On 11 July 2014 the Commission took the decision to delegate powers to EASME for the implementation of part of the EMFF. A memorandum of understanding between EASME and DG MARE was signed on 23 September 2014. A Steering Committee, chaired by DG ENTR and composed of representatives of all 7 parent DGs, supervises and monitors the functioning of the Agency. A dedicated member of staff is appointed in MARE, as in each of the parent DGs, to act as coordinator between MARE and the Agency.

The consumption of the EA's administrative budget has been monitored during the financial year.

<b>Risk-types /Activities</b>	Shared mgt (MS's OPs)	International Fisheries agreements	Direct management	Grants	Procurement	Cross-delegations to other DGs (other AOXDs)	Other	Subsidies and/or funds to EE (EU agency)	Intangible_ assets	<b>ICO indicators available at this level?</b> <sup>46</sup>	Independent info from auditors <sup>47</sup>	Reservation?
EFF	€570.9m									<b>RER (CRR) &lt; 2% CEC=y AFS=ok</b>	Y	Y –for 5/27 OPs
EMFF shared management	€134.5m									<b>RER=n.a CEC=n.a. AFS=ok.</b>	Y	N
Fisheries agreements and compulsory contributions to RFMOs		€121.3m					€4.2m			<b>RER=n.a CEC=y</b>	Y	N
Markets, Control and Data Collection			€32.4m							<b>RER est. &lt;2% CEC=y</b>	Y	N
EMFF direct management				€11.6m	€16.9m	€0.4m	€11.4m		€9.5m	<b>RER est. &lt;2% CEC=y</b>	Y	N
EFCA								€9.4m		<b>RER est. &lt;2%</b>	Y	N
<b>Totals (coverage)</b>	<b>€705.4m</b>	<b>€121.3m</b>	<b>€32.4m</b>	<b>€11.6m</b>	<b>€16.9m</b>	<b>€0.4m</b>	<b>€15.6m</b>	<b>€9.4m</b>	<b>€9.5m</b>		<b>Y</b>	<b>Y</b>
<b>ICO-related indicators available at this level?</b>	<b>RER (CRR) &lt; 2% CEC =yes AFS = OK</b>	<b>RER = n.a. CEC = yes AFS = n.a.</b>	<b>RER &lt; 2% CEC = yes</b>	<b>RER est&lt; 2% CEC = yes</b>	<b>RER est&lt; 2% CEC = yes</b>	<b>RER est&lt; 2% CEC = yes</b>	<b>RER est&lt; 2% CEC = yes</b>	<b>RER est&lt; 2% CEC = yes</b>			(depends on the issues)	<b>(L&amp;R)</b>
Links to AAR Annex 3	<b>Overall total = €913m</b>								Table 4 - assets	n/a	n/a	n/a

<sup>46</sup> L&R, SFM, AFS, SAI, TFV

<sup>47</sup> (IAS, ECA) on assurance or on new/overdue critical recommendations available?

## **2.1.1 Control effectiveness as regards legality and regularity**

**DG MARE 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.**

It should be noted that the approach set out in section 2.1.1.1 below will only become fully applicable during the course of 2016.

### **2.1.1.1 Shared Management – EMFF 2014-2020**

#### **Materiality criteria (control objective) and reservations**

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

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

- material deficiencies in some key elements of the systems (including non-acceptance of accounts); and/or
- legality and regularity issues and insufficient corrective actions implemented (e.g. programmes with an "annual reviewed projected error rate" above 5 % and an "annual residual error rate" above 2% or below 2 % but for which, if applicable , the implementation of the corrective action plans has not been assessed as satisfactory yet); and/or
- corrective actions still to be undertaken on the accepted accounts (through additional flat rate corrections).

A retention of 10 % is applied to the interim payments made by the Commission during the accounting year. This principle is established to protect the EU budget until the annual closure of accounts which should include the necessary corrections to reach a residual risk below the materiality threshold. This 10% protection is therefore taken into account for the quantification of the risk.

#### **Source of information used to build up the assurance**

For the 2014-2020 programming period, the main source of information is the assurance package that national authorities must provide each year by 15 February, from 2016 to 2025 included. This comprises:

- The Management Declaration and Annual Summary, prepared by the Managing Authority;
- The Certified Accounts, prepared by the Certifying Authority, which must include:
  - a) the total amount of eligible expenditure for the accounting year concerned, the total amount of corresponding public expenditure incurred and the total amount of corresponding payments made to beneficiaries;
  - b) the amounts withdrawn and recovered during the accounting year, the amounts to be recovered as at the end of the accounting year and the irrecoverable amounts;
  - c) the amounts of programme contributions paid to financial instruments under Article 41(1) and the advances of State aid under Article 131(4);
  - d) for each priority, a reconciliation

between the expenditure, stated in the accounts and the expenditure declared in the same accounting year, with an explanation of any differences;

- The Annual Control Report and Audit Opinion, prepared by the Audit Authority, based on the main findings of the system audits carried out on the functioning of the management and control system and on an appropriate sample of operations on the basis of the declared expenditure, as well as on the accounts prepared by the certifying authority.

DG MARE will also use the following sources of information:

- Audit work:
  - MARE's audit work on the review of the reliability of the Audit Authorities;
  - MARE's system and thematic audits;
  - Relevant audit information received from DG REGIO, DG EMPL and/or the ECA;
  - OLAF.
- Other sources of information, formal or informal, acquired by the geographical units in the context of their day-to-day management of the programmes:
  - Annual implementation reports from the Member States;
  - Monitoring committees and annual meetings;
  - Contacts with regional and national programme managers.

## **A. The assurance base: solid and supervised management & control systems in MS**

### **A1. A system designed to foster sound financial management**

#### **Description of the management and control system (MS level, EC level):**

The 2014-2020 programming period introduces some major changes compared to the 2007-2013 period, specifically:

- A twelve-month accounting period running from 1 July to 30 June;
- Retention of 10% from each EU interim payment with reimbursement/recovery of annual balance due, following acceptance of accounts by the Commission;
- Submission of certified accounts for each programme, in respect of expenditure declared to the Commission in relation to the accounting period;
- Submission to the Commission of accompanying documents to provide assurance on the accuracy of the accounts, the effective functioning of the system and the legality and regularity of the underlying transactions (management declaration, annual summary of controls and audits, audit opinion and control report (assurance documents));
- Obligatory application of net financial corrections where irregularities demonstrating serious system deficiencies are detected by the Commission or the European Court of Auditors, unless already identified in the assurance documents / other national audit reports submitted to the Commission, or remedial corrective measures have been taken by the Member State by the time of detection by EU audits.

Therefore, the Management and Control System (MCS) will function as follows:

#### **➤ *During the accounting year (1 July N-1 to 30 June N)***

The **Managing Authority/Intermediate Body** carries out verifications during the accounting year. It verifies that the co-financed products have been delivered and the

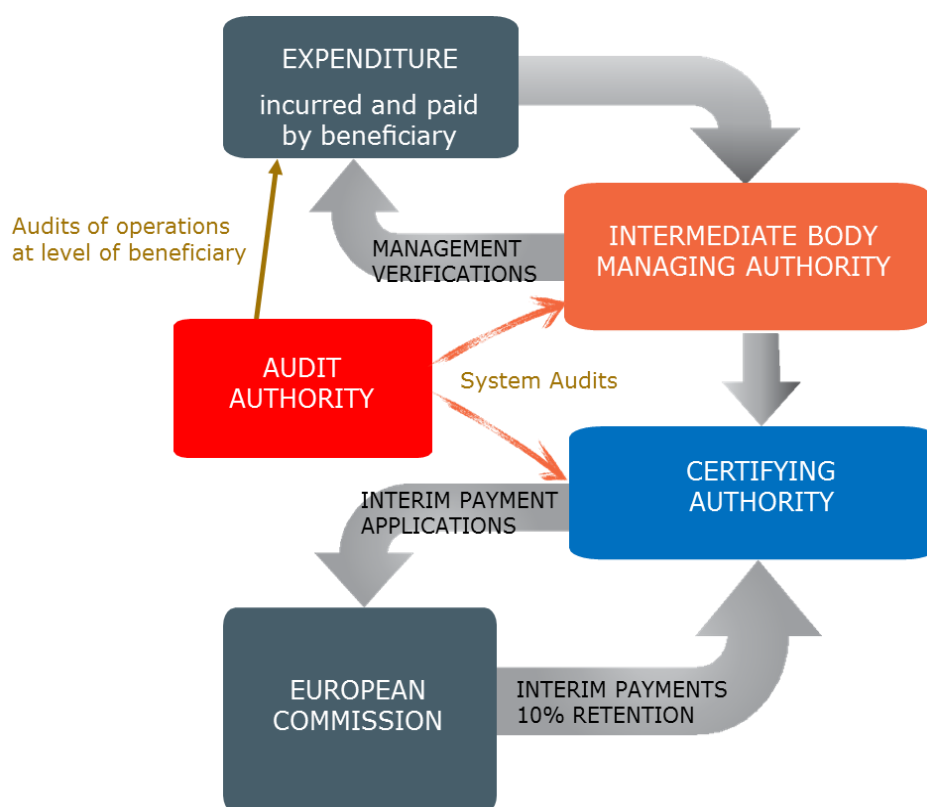
expenditure declared by the beneficiaries has been paid and that it complies with the applicable law, the operational programme and the conditions for support of the operation.

The verifications shall include:

- a) administrative verifications in respect of each application for reimbursement from beneficiaries;
- b) on the spot verifications of operations on a sample basis.

Before submitting interim payment applications, the **Certifying Authority** certifies that they result from reliable accounting systems, are based on verifiable supporting documents and have been subject to verifications by the Managing Authority. The last interim payment claim is submitted by the certifying authority to the Commission by 31 July following the end of the accounting year.

The **Audit Authority** carries out audits on the management and control systems (system audits), the accounts, and of a sample of operations on the basis of the declared expenditure to the Commission during the accounting year. It has to organise its system audits and audits of operations to deliver the audit opinion by 15 February following the end of the accounting year.



➤ **Treatment of the assurance package (15 February N+1)**

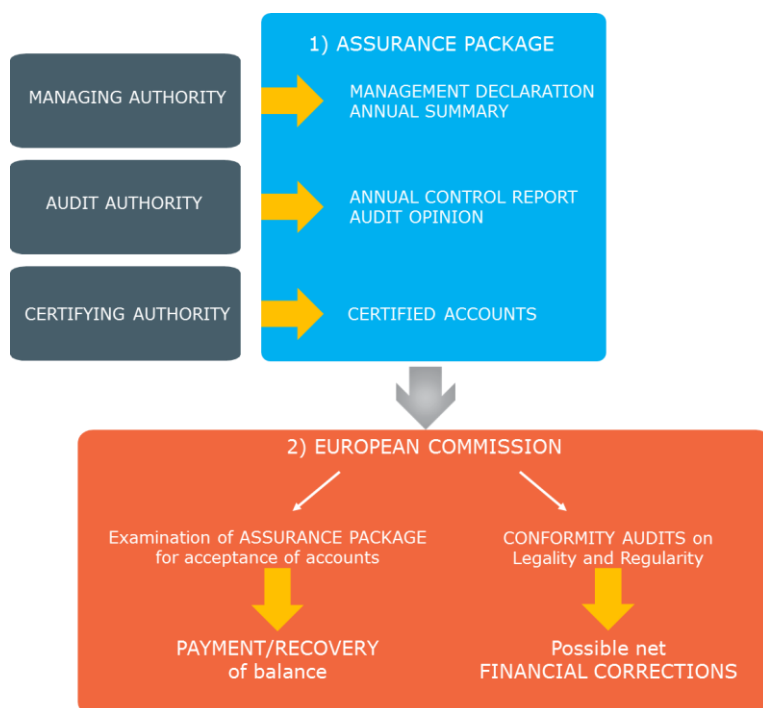
The assurance documents are to be provided by the various MS authorities to the Commission. The Managing Authority finalises the verifications to ensure that the expenditure to be certified in the accounts is legal and regular. It takes account of the audit authority's findings and makes the necessary financial corrections (using flat rates if necessary). It draws up the management declaration and annual summary.

The Certifying Authority collates all interim claims in the accounts and excludes the irregular amounts (and those under ongoing assessment) detected in relation to expenditure included in interim payment claims. It also takes account of the audit authority's findings, and satisfies itself that the necessary financial corrections (including flat rates) have been made. It provides explanations for the difference between the sum of interim payment claims and the accounts. It draws up the accounts, certifying their completeness, accuracy and veracity and that the expenditure entered in the accounts complies with applicable law.

The Audit Authority finalises the system audits and audits of operations. It informs the Managing Authority/Certifying Authority, as applicable, of the final audit results, to enable those bodies to follow up the issues identified and to take the necessary corrective measures. It prepares the annual control report and annual audit opinion and calculates a projected error rate and residual risk of error in the accounts, taking into account the financial corrections implemented by the Managing Authority/Certifying Authority as a result of audits. It also carries out final audit work on the accounts and assesses the consistency of the management declaration.

The Commission carries out the examination of the assurance documents by 31 May of year N+1 to determine whether the accounts are true, complete and accurate and that the accounts can be accepted. Within 30 days of the acceptance of accounts the Commission will pay/recover the balance due. In justified cases, the Commission will not accept the accounts; this will trigger a contradictory procedure with the MS. By 30 June year N+1, a payment/recovery of the balance will be made for the majority of programmes.

At a later stage, the Commission will carry out conformity audits on the legality and regularity of the expenditure. If it detects irregularities demonstrating a serious deficiency in the effective functioning of the management and control system, and that such irregularities were neither previously identified nor corrected by the national authorities, net financial corrections will ensue.



**Designation**

Articles 123 and 124 of Regulation 1303/2013 provide the basis for the designation of

authorities: the Member States shall notify to the Commission the date and form of the designation of the Managing Authority and the Certifying Authority, prior to the submission of the first application for interim payment to the Commission. The aim is to ensure that these bodies have the necessary and appropriate Management and Control System set up from the beginning of the period.

The designation is based on a report and an opinion of an independent audit body that assesses the authorities' fulfilment of the criteria relating to the internal control environment, risk management, management and control activities and monitoring activities.

2 notifications in respect of the EMFF (Latvia and Austria) were received in March 2016. DG MARE has contacted Member States urging them to prioritise this exercise, and has also worked alongside DGs REGIO and EMPL in the provision of guidance to Member States.

For the operational programmes with an allocation exceeding €100 million, either DG MARE, on the basis of its risk assessment, can request the designation package on which it may make observations within two months, or the Member State, on a voluntary basis, may submit the designation package to the Commission on which the latter may make observations within three months.

Based on the results of the joint risk assessment (established by DGs MARE, EMPL and REGIO), 9 EMFF operational programmes have been identified for a desk review of the designation packages. The main criteria were: large budgetary allocation; control weaknesses identified in the previous programming period; or programmes in Member States where the organisational structure has changed significantly.

Based on the results of the desk review, the MARE/EMPL/REGIO single audit strategy foresees the possibility to conduct on the spot fact finding missions, where additional information or clarifications have to be obtained before a conclusion on the designation process can be drawn. If an interim payment claim has already been submitted, it may be decided to carry out an 'early preventive system audit' (EPSA) which will focus on the functioning of the management and control system at this early stage of implementation.

## A2. Conclusion

The single audit strategy for funds managed by DGs MARE, EMPL, and REGIO for the 2014-2020 programming period also foresees thematic/targeted audits for programmes and risk areas not sufficiently covered by the Audit Authorities.

For DG MARE, one thematic topic concerns the transfer of activities (most notably surveillance and control, and data collection) from a direct management to a shared management framework. The nature and extent of such audits will be determined by early indications of the system obtained from designation work, noting in particular each Member State's administrative arrangements. DG MARE will also assess the reliability of systems for reporting performance data.

At a later stage, other audits will cover the recurrent issues of management verifications, withdrawals and recoveries, as well as the effectiveness of the anti-fraud measures established by the Member States.

## **B. Annual assurance – results**

The annual assurance will mainly be based on DG MARE's analysis of the assurance package provided by the Member States' authorities by 15 February each year from 2016.

Once the assurance packages are analysed, DG MARE will launch, on the basis of a risk assessment, compliance audits to review the work carried out by the Audit Authorities. The main objective of these audits will be to confirm that no serious system deficiency remained undetected or unreported by Audit Authorities and that the reported audit opinions and residual error rates are reliable.

In 2015, the adoption of the operational programmes was completed. €134.5 million was paid out in prefinancing; there were no interim payments.

Pre-financing payments can be considered as not being 'at risk' from the legality and regularity perspective, given that the nature of those transactions implies that those amounts are still assets of the European Commission and will be only transferred to Member States when pre-financing is 'cleared' following the acceptance of the accounts each year (annual pre-financings) or at closure of programmes<sup>48</sup> (initial pre-financing).

### **B.1 Assurance on accounts**

During the first accounting year (from 1 January 2014 to 30 June 2015), no expenditure was declared to the Commission by the Member States' Certifying Authorities, there having been no designations. Any accounts submitted were nil returns.

Next year will be the first year for which the Audit Authorities will have to give an opinion regarding the truth, completeness and accuracy of the accounts.

### **B.2 Assurance on Legality and Regularity**

In addition to the opinion on the annual accounts, the ACRs provide opinions on the MCS in place and on the legality and regularity of the underlying transactions. As no declaration of expenditure was made by any Member State before 30 June 2015, no audits of operations have taken place and therefore the ACRs do not provide any error rates.

As of 2017, DG MARE will perform the analysis of the ACRs and complete it with the analysis of the management declarations and annual summaries (which provide information on final audit reports and of management verifications carried out, an analysis of the nature of errors and weaknesses identified in the MCS and corrective actions taken or planned).

All Member States have submitted their first annual assurance "packages" this year, but these constituted only the ACRs with disclaimers of opinion in all cases.

## **C. Overall assessment of the MCS**

Given that no expenditure has yet been declared, and based on the information submitted, there are no grounds for a reservation in respect of the EMFF.

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<sup>48</sup> Annual prefinancing is cleared each subsequent year following the acceptance of accounts or decision of the Commission. No annual pre-financing was made in 2015.

### 2.1.1.2 Shared Management – EFF 2007-2013

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

#### **Materiality criteria (control objective) and reservations**

Regarding the legality and regularity of the underlying transactions, the objective is to ensure that the estimated residual risk of error is less than 2%, at the end of the implementation of each programme. Reservations are made as a general rule for all programmes for which the validated error rate exceeds or equals 5%<sup>49</sup> and also for all programmes for which the cumulative residual risk/error rate exceeds 2%.<sup>50</sup>

The residual risk of error is estimated by considering the multi-annual impact of the validated error rates and calculated since the beginning of the programming period, after deduction of the recoveries and withdrawals reported for each year as well as, where applicable, pending recoveries at the end of the reporting year and withdrawals accepted by Certifying Authorities and recorded in their accounts prior to the date of signature of the AAR. It is expressed as a percentage of the value of the cumulative interim payments made for the programming period, up to the date of signature of the AAR.

#### **Overview**

For expenditure in shared management, in alignment with other Directorates-General belonging to the Structural Funds family, DG MARE assesses the cumulative residual risk of irregular expenditure in the 27 functioning Operational Programmes. This takes into account Member States' corrective capacities, as evidenced by expenditure withdrawals, recoveries and financial corrections. For expenditure in shared management, as a general rule, DG MARE will consider deficiencies in a Member State's Management and Control Systems to be material if there are significant weaknesses in key requirements which are systemic or wide-ranging, their quantification represents more than 5% of the payments made in 2014 for the relevant programme, and the cumulative residual risk is also shown to be above 2% of payments made to date under the current programming period.

Error rates reported by Member States in their Annual Control Reports (ACRs) will continue to be used, if deemed reliable. If not, flat rate charges are applied.

#### **Key control indicators and results reported**

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

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<sup>49</sup> When the validated error rate is above 5% and the CRR is below 2%, a case by case analysis is needed to decide on a reservation

<sup>50</sup> Reservations may be made at a **sub-programme level** (priority axis or implementing bodies) when the systemic deficiencies only affect a specific management and control system, not used for the other activities under the same programme.

control of every programme.

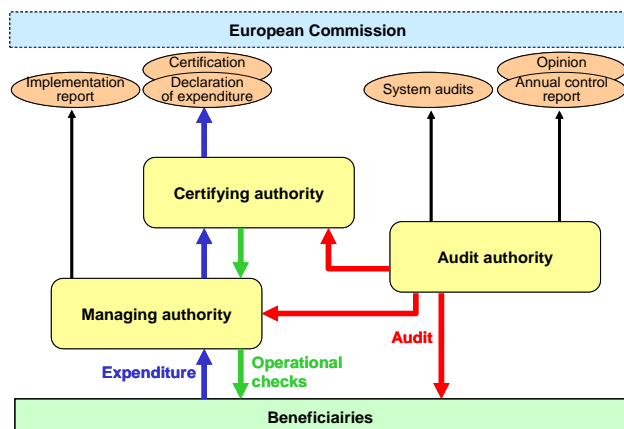
**Control strategy for the EFF under shared management**

The strategy is built on a multiannual and multilevel control system, whereby one level of control may rely on the work of previous controls performed by other bodies (single audit concept). For the programming period 2007-2013, although all 27 operational programmes are EFF specific, the single audit concept for building assurance is also followed with DGs REGIO and EMPL, because 15 out of the 27 Audit Authorities are common: they also audit the Structural Funds.

**Management and control framework at national/regional level:**

Throughout the implementation period the Managing Authority (and its intermediate bodies) performs management verifications, i.e. desk checks on all payment claims and on-the-spot checks on sampled operations. The Certifying Authority takes steps to ensure that adequate verifications have been made by the Managing Authority before certifying the legality and regularity of expenditure declared to the Commission, including carrying out its own checks when necessary.

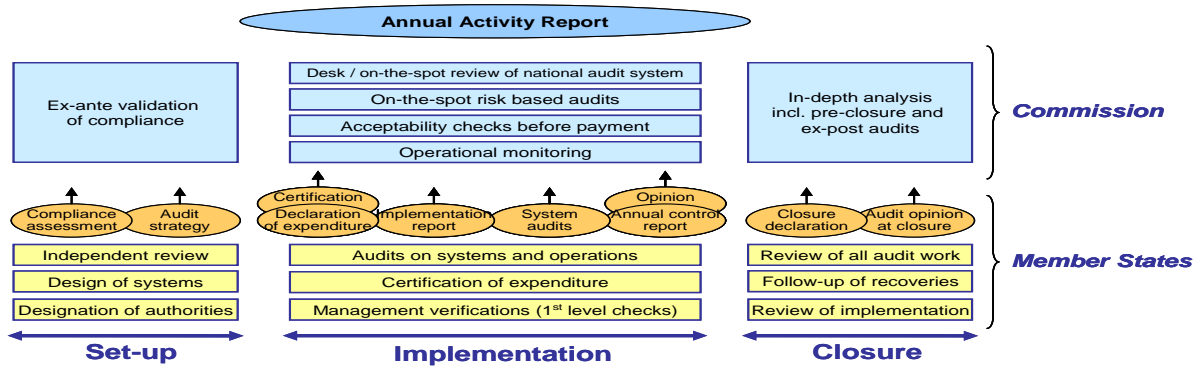
The Audit Authority is the next level of control and is responsible for setting an audit strategy to perform system audits on the management and control systems and audits on representative samples of operations, which are complemented by a risk-based audit sample if considered necessary. It reports the results annually to the Commission in an Annual Control Report, which includes an annual audit opinion on the functioning of the systems and the total projected error rate resulting from audits on operations. Unlike the two previous levels of controls, audits carried out by the national audit authorities are carried out ex-post after certification of expenditure to the Commission.



**Supervisory role of the Commission and control strategy:**

Throughout the implementation period the operational and audit units of DG MARE hold regular meetings with Member States' authorities to ensure the correct monitoring of implementation of all programmes and audit activities.

DG MARE has an audit strategy in place covering all areas of expenditure, which is updated annually. For the 2007-2013 programming period, the control strategy contributing to the assurance building is implemented through the following various strands of controls foreseen in the regulatory framework, as described hereafter:



**At the beginning of programme implementation:** approval by the Commission of the Member States' compliance assessments to ensure that systems are designed in compliance with the rules. The Commission also approves the audit strategies proposed by the national audit authorities with a view to ensuring that the most important risks and bodies will be covered adequately and in a timely manner. The Commission makes no interim payment until it accepts the Member States' compliance assessments.

**During programme implementation:**

The audit work contributes to DG MARE's assurance, through a combination of desk review and on-the-spot audit missions:

- a) Commission desk review of the work of the national audit authorities through: the continuous analysis of their systems audit reports (including consistency with EU audits results), the analysis of annual control reports and opinions issued for all programmes, annual control coordination meetings and ad hoc technical meetings and contacts with the Audit Authorities to monitor the progress and results of all audit work in line with the approved national audit strategies. Based on this analysis the Commission continuously updates its guidance for the work of the Audit Authorities;
- b) Commission on-the-spot audits to conclude, including via re-performance of some audits, on the reliability of the work carried out and reported by the Audit Authorities;
- c) Commission on-the-spot audits on national bodies, parts of management and control systems or horizontal issues identified at risk (the most frequent being checks into the quality of checks made by managing authorities and work on irregularities and recoveries), in order to complement the assurance obtained from the national audit authorities. On-the-spot audits are usually at the level of programmes authorities and/or intermediate bodies, and can include verifications down to the primary source of audit evidence at the level of beneficiaries.

**At the end of the programming periods (2000-2006 and 2007-2013):** the Audit Authority gives its opinion on the legality and regularity of expenditure declared for each programme, based on the examination of the audit results, the expenditure and irregularities declared and withdrawals and recoveries made by the Certifying Authority.

The Commission scrutinises all closure declaration documents (desk review) and may perform ex-post closure audits to obtain additional assurance that the submitted closure documents, including the winding up (2000-2006) /closure declarations (2007-2013) and final control reports, are reliable.

**A. Adoption of programmes and setting-up of systems**

The compliance assessment for Croatia was accepted in June 2015. Interim payments amounting to €0.92 million were made in the second half of 2015; these fell outside the audit period covered by the 2015 Annual Control Report. Nevertheless, DG MARE has the necessary assurance as to the functioning of this Member State's management and control system via the 2 systems audit reports submitted, and its own audit carried out in October 2015, all of which produced satisfactory results.

### 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.

- Number of programmes with a reported error rate assessed as not reliable – 0
- % of the 2015 payments for which the Commission can rely on the work of the Audit Authorities – 94.26% (26 out of 27 OPs – no ACR has been submitted by Italy yet).

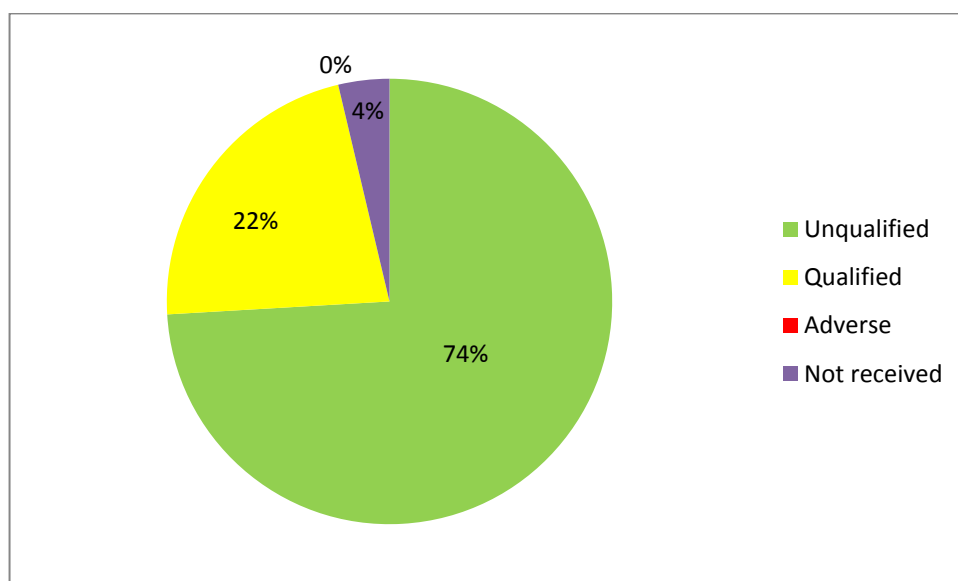
### Analysis of the ACR audit opinions

The first sources of information are the annual control reports (ACRs) and the opinions submitted by the programmes' audit authorities and covering all programmes. 26 ACRs (there is one operational programme per Member State) have been received. A breakdown of the assurance categories is shown below.

The Audit Authorities expressed the following audit opinions in their ACRs:

- unqualified for 20 programmes (74% of programmes);
- qualified for 6 programmes (22% of programmes).

One ACR (Italy) is still outstanding.



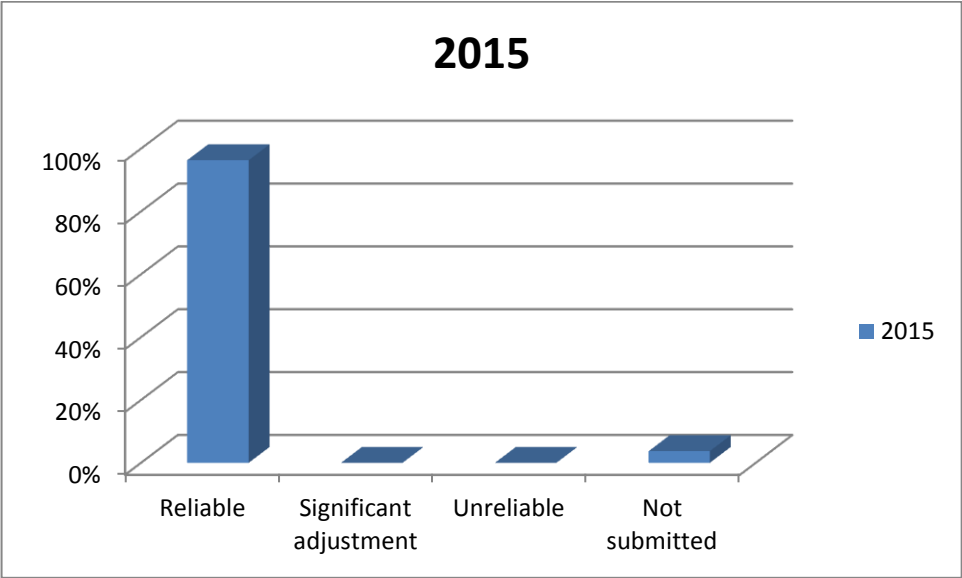
## **Analysis of the ACR error rates**

The Member States have reported error rates below 2 % in 18 cases; 4 error rates between 2 % and 5 %; and 4 error rates above 5 %. The weighted average reported error rate is 3.44%.

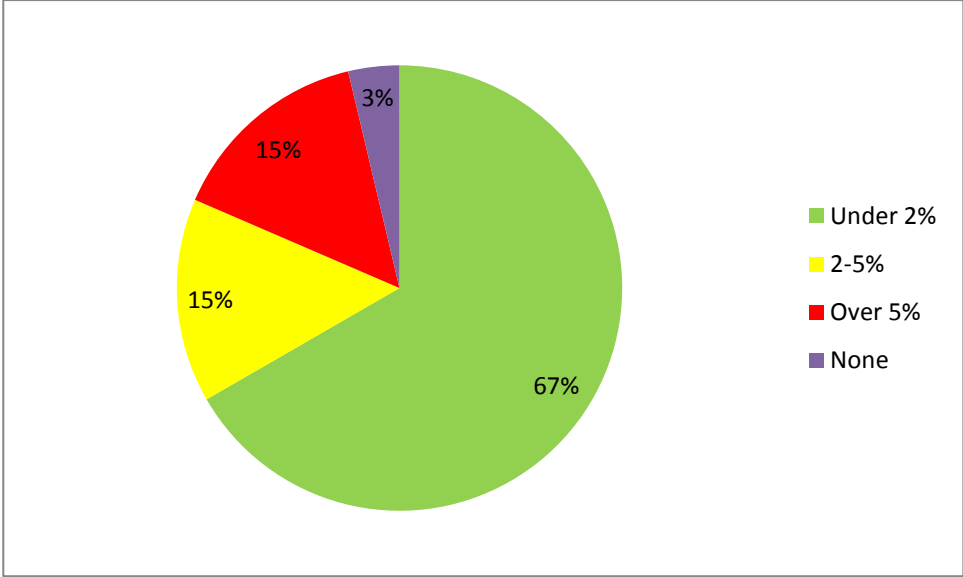
DG MARE assessed the reliability and correctness of the total projected error rates reported by the Audit Authorities, based on data and detailed information provided in the ACR or subsequently requested from Audit Authorities. DG MARE validated the error rates reported in the ACRs as reliable in 26 cases, corresponding to 96% of programmes. This is made up of 12 cases where the error rates were completely unchanged, and another 14 where the adjustments were so minor as to have had no effect on the categorisation of the programmes.

1 ACR (Italy) is yet to be submitted.

**Error rates as reported by the Member States in the 2015 ACRs**



**Error rates as reported by the Member States in the 2015 ACRs (and validated by DG MARE)**



## **Best estimate of the error rates following Commission adjustments**

<b>RESULTS</b>	<b>Best estimate Error rates</b>				
	<b>Number of programmes</b>		<b>2015 interim payments</b>		
<2%	18	66,67%		180.667.402	31,65%
2-5%	4	14,81%		270.567.799	47,39%
5-10%	4	14,81%	18,52%	86.913.865	15,22%
>10%	0	0,00%		0	0,00%
Not reported	1	3,70%		32.763.807	5,74%
	27	100,00%		570.912.873	100,00%

### C. National systems audit reports and annual summaries

#### **National systems audit reports**

Throughout the year, audit authorities are requested to provide their final systems audit reports, once the contradictory process is completed. In 2015, DG MARE received 52 system audit reports from the Member States in line with the implementation of the national audit strategies. These reports were assessed and written feedback has been provided.

Where significant deficiencies are reported by audit authorities, or where DG MARE considers that reported audit findings indicate significant deficiencies in the programme, this constitutes a basis to launch pre-suspension or warning procedures. In such cases payments are interrupted for the programme concerned during the year to prevent reimbursement of irregular expenditure<sup>51</sup>.

For the purpose of the annual activity report and its audit opinion by programme, the ex post control sector 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 more 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

<sup>51</sup> In line with Article 88 of Council Regulation (EC) No 1198/2006.

with what is provided in the annual control reports for each individual programme.

For 2015, all but one<sup>52</sup> of the 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 (18) and/or a voluntary declaration on the overall level of assurance (12) in their annual summaries. When relevant, DG MARE 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 13.

## D. Audit Activity of the DG

### **Audit strategy**

A framework audit strategy has been established, setting out the main audit objectives and taking account of the risks identified jointly by the Ex-post Control Sector and the Operational Units. This strategy complements the three year audit strategy developed with the Structural Funds DGs. EFF audit activity covers on the spot system audits at the level of the Audit Authorities by re-performing their work, to assess the reliance that can be placed on their work and the annual audit opinion they provide. DG MARE's audit activity takes full account of the analysis of the results of the Member States' audit activity as reported through the national system audit reports, the Annual Control Reports and Annual Opinions, Structural Fund DGs' audit reports when common authorities are concerned, and discussion of audit findings and recommendations during the annual coordination meetings with the control authorities of the Member States.

### **Review of the work of Audit Authorities**

9 audits carried out in 2015 covered the work of the Audit Authorities for 5 Operational Programmes, with satisfactory outcomes in all cases. A further 3 audits covered the assessment of the Annual Control Report (Spain); a desk-based review of the implementation of the action plan for the Netherlands; and checks that DG MARE can continue to place reliance on the work by the Audit Authority under the provisions of Article 73 of Regulation 1198/2006 (Ireland). The results were satisfactory in all cases.

The audits re-performed the work of the Audit Authorities on the key requirements of the Management and Control Systems as defined in agreement with the Court of Auditors and communicated to the Member States in the Guidance note No EFFC/27/2008. On the basis of these audits recommendations were addressed to the Audit Authorities concerned requiring the implementation of corrective measures where necessary.

The results of the 9 audits indicate that DG MARE can rely on the opinions of the 5 Audit Authorities (Cyprus, Czech Republic, Malta, Slovenia and Croatia) all of which were visited for the first time in 2015. The audit to Croatia ensured that the work done by the Compliance Assessment Body met the legal requirements.

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<sup>52</sup> Annual summary for UK, not sent within the deadline of 15 February, still under assessment at the end of March 2016

For those Audit Authorities not visited in 2015, reliance is placed on previous work by DG MARE<sup>53</sup>. Partial reliance can also be obtained from work done by the relevant Directorates-General where an Audit Authority has responsibility for the EFF and one or more Structural Funds.

Since the beginning of the audit activity in 2010, DG MARE has carried out a total of 68 audit missions covering all 27 operational programmes representing €4,313.6 million of allocations. This represents 100% coverage in terms of initial budget allocation for 2007-2013 and the EFF contribution paid.

It should be noted, however, that both Spain and Germany have regionalised structures. This factor is taken into account in the audit risk assessment and planning, although not all 15 participating autonomous communities/ 11 Länder have been visited: it could be considered that the entire expenditure allocation has not yet been directly covered for these two Member States. A calculation on the basis of regions visited so far in Spain and Germany results in an cumulative overall coverage of 94.71%. The calculation is based on draft audit reports issued to Member States.

### **Recoveries audits**

In 2015, DG MARE carried out 2 audits on recoveries in the Czech Republic and Romania (both category 2). The conclusions show that arrangements for keeping an account of amounts recovered or withdrawn, as well as of pending recoveries, are acceptable. DG MARE will continue this enquiry in 2016 and beyond, in other Member States, after analysis of the annual statements from the Member States on withdrawals and recoveries to be received by the end of March 2016.

### **"Bridging the Assurance Gap" audits**

Given the very high levels of audit coverage obtained from its modular audits, DG MARE was able to expand significantly its audit work under the enquiry "Bridging the assurance gap" during 2015. This enquiry has been developed to particularly address high risk areas of a horizontal nature for Operational Programmes: areas not adequately covered by the national Audit Authority; and areas where the work of the Audit Authority cannot be fully relied upon for 2007-2013 EFF Programmes. DG MARE's audits in 2015 to Lithuania, Spain, Poland, Latvia and Germany (all category 2) focused primarily on management verifications and project selection, with satisfactory results.

The issues arising from the "Bridging the assurance gap" in the Netherlands, undertaken largely as a result of the information provided by the Audit Authority, which had previously highlighted major system weaknesses and significant amounts of potential ineligible expenditure, were resolved by the end of 2015.

More such targeted audits are planned in 2016.

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<sup>53</sup> All other Audit Authorities were visited during the period 2010-2014.

Input		Results	
	Realised		opinions
Review of Audit Authorities <sup>54</sup>	12	Unqualified	6
		Qualified with minor observations	6
		Qualified with significant observations	0
		Adverse	0
Recoveries audits	2	Unqualified	2
		Qualified with minor observations	0
		Qualified with significant observations	0
		Adverse	0
Bridging the Assurance Gap	5	Unqualified	0
		Qualified with minor observations	5
		Qualified with significant observations	0
		Adverse	0
TOTAL	19		19

#### E. Annual audit opinion of the DG

The validated error rate, reflecting the effective functioning of management and control systems, together with the cumulative residual risk, constitutes the cornerstone of the assurance process of the methodology to estimate the amount at risk. Other sources of information to build up the annual declaration of assurance are: (i) the results of DG MARE's own audit work in 2015, in particular: the review of the work of the Audit Authorities; (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 Authorising Officers by Sub-Delegation for the programmes; and (vi) experience from previous years.

Based on the above blocks of information, the Ex-post Control Sector of DG MARE expresses an audit opinion on the effective functioning of each programme so as to ensure the legality and regularity of expenditure paid by the Directorate General in 2015. These audit opinions are transmitted to the Operational Units concerned as an input for their management opinion which is also formulated for every programme.

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<sup>54</sup> ACR assessment, follow-ups of action plan implementation, and Article 73 follow up

**Assessment of management and control systems in the annual audit opinion:**

RESULTS			
Assessment of management control systems - <u>functioning of systems</u> <u>2007-2013</u>	Number of Programmes	as %	
		of Number of Programmes	of 2015 payments
<b>° DG MARE Audit opinion</b>			
- unqualified	7	25.93%	1.22%
- qualified with moderate impact	15	55.56%	79.89%
- qualified with significant impact	5	18.52%	18.89%
- adverse	0	0.00%	0.00%
<b>TOTAL</b>	<b>27</b>	<b>100.0%</b>	<b>100.0%</b>

The maximum amount at risk for EFF from the analysis of all available information (DG MARE audit activity, ACRs and opinions, the national and other DGs' system audit reports) is €19.73 million, representing 3.46% of the total payments made in the year for the EFF programmes. This increase from the 2.79% rate reported in last year's AAR is accounted for in large part by the increase in the error rate for Spain from 2.8% in 2014 to 4.56% in 2015, significant increases in the one year error rates for Portugal, Romania and Slovakia and the UK (although Portugal and the UK have taken the necessary actions to bring their residual error rates to below 2%), and a 10% flat rate charge against Italy, which has not yet transmitted its 2015 ACR.

## F. Interruptions/suspensions of payments

The tables below show the interruptions of payments carried out and lifted during 2015 and the first quarter of 2016.

	Open cases at 31/12/2014		Implemented in 2015		Lifted in 2015	
	Number	Amount (in M€)	Number	Amount (in M€)	Number	Amount (in M€)
AT						
BE						
BG						
CY						
CZ						
DE			2	5,707	2	5,707
DK						
EE	4	,41			4	,41
ES	1	,939	5	3,532	5	,451
FI						
FR						
GR						
HU						
IE						
IT	1	3,891	7	30,558	7	30,558
LT						
LU						
LV						
MT						
NL	1	8,478	1	,13	2	8,608
PL			5	101,091	5	101,091
PT						
RO			3	13,644	3	13,644
SE						
SI						
SK						
UK			2	1,944	2	1,944
<b>TOTAL</b>	<b>7</b>	<b>13,718</b>	<b>25</b>	<b>156,606</b>	<b>30</b>	<b>162,413</b>

*Note: in addition, EUR 18,5 million have been claimed by MS but not paid by DG MARE due to the ceilings having been reached for the programmes in question (articles 77a(1) and 79(1) of the EFF regulation).*

	Open cases at 31/12/2015		Implemented in 2016	
	Number	Amount (in M€)	Number	Amount (in M€)
AT				
BE				
BG				
CY				
CZ				
DE				
DK				
EE				
ES	1	4,02		
FI				
FR				
GR				
HU				
IE				
IT	1	3,891	1	3,697
LT				
LU				
LV				
MT				
NL				
PL				
PT				
RO			2	17,198
SE				
SI				
SK				
UK				
<b>TOTAL</b>	<b>2</b>	<b>7,911</b>	<b>3</b>	<b>20,895</b>

*Note: in addition, EUR 6,6 million have been claimed by MS but not paid by DG MARE due to the ceilings having been reached for the programmes in question (articles 77a(1) and 79(1) of the EFF regulation).*

## G. Financial corrections

The amount of financial corrections for FIG and EFF made by Member States at the Commission's request is reported on a quarterly basis to the European Parliament. These corrections are made by the Member States following the audit activity by an EU body (DG MARE, OLAF or ECA).

Implemented financial corrections correspond to financial corrections decided/accepted which have been:

- Subject to a recovery order validated by the authorising officer in ABAC in the year 2015;
- Withdrawn by the Member State and deducted from a subsequent payment claim which has been validated by the authorising officer in ABAC in 2015.

The tables overleaf show key indicators on financial corrections and recoveries resulting from the correction of errors carried out during the reporting year.

in M€	2000-2006			
	Cumul. FC confirmed and implemented end 2014	FC confirmed and implemented 2015	Cumul. FC confirmed and implemented end 2015	Cumul. FC confirmed and <u>not</u> implemented end 2015
AT				
BE				
BG				
CY				
CZ				
DE	6,309		6,309	
DK	,709		,709	
EE				
ES	,577		,577	89,877
FI	,188		,188	
FR	10,159		10,159	
GR	,158		,158	
HU	,044		,044	
IE	1,616		1,616	
IT	7,972	5,14	13,113	
LT	,012		,012	
LU				
LV	,461		,461	
MT	,007		,007	
NL	,318	,395	,713	
PL	,226		,226	
PT	1,356		1,356	
RO				
SE	,245		,245	
SI				
SK				
UK	1,655		1,655	
TOTAL	32,013	5,536	37,549	89,877

in M€	2007-2013			
	Cumul. FC confirmed and implemented end 2014	FC confirmed and implemented 2015	Cumul. FC confirmed and implemented end 2015	Cumul. FC confirmed and <u>not</u> implemented end 2015
AT				
BE				
BG	7,31		7,31	
CY	,004		,004	
CZ		1,24	1,24	
DE	,757		,757	
DK	,569		,569	
EE				
ES	1,155	,786	1,941	
FI	,001		,001	
FR	,119		,119	
GR		2,751	2,751	
HU				
IE				
IT	1,577		1,577	2,319
LT				
LU				
LV				
MT				
NL	,137		,137	6,219
PL	,109	,831	,94	
PT	,267		,267	
RO	6,194		6,194	2,232
SE	,309	,088	,397	
SI				
SK				
UK	,096	,017	,113	
TOTAL	18,605	5,712	24,317	10,77

#### *H. Follow-up of 2014 reservation*

In the 2014 AAR, 5 operational programmes of the 2007-2013 programming period were placed under reservation. All 5 were lifted during the course of 2015.

When DG MARE has the requisite assurance that the national authorities concerned have taken the necessary corrective action, this case will be lifted out of reservation and payments will resume. Should the national authorities not adopt this course, a suspension decision and Commission financial correction may follow.

Further details of the status of these cases appear in Annex 10.

#### ***I. Overall assessment of the functioning of the management and control systems (including best estimate of error)***

The final stage of the evaluation process was to check the quality and consistency of the management assurance declarations (AOSD), to resolve any cases of discrepancy between the audit opinions and management assurance declarations, to agree on any modifications required as a result of subsequent developments during the first quarter of the current year, and to identify the operational programmes for which a reservation should be made.

A cumulative residual risk since the beginning of the programming period has been estimated for all programmes, based on the best available sources of information. This estimated cumulative residual risk is an additional check applied to confirm whether the programme is under control on a cumulative basis, i.e. whether corrective measures (withdrawals, recoveries) already implemented by Member States have adequately mitigated the risks of irregularities since the beginning of the programming period.

Following the evaluation stage and taking into account the cumulative residual risk, the programmes are classified into four categories in accordance with the level of assurance that they provide as to the legality and regularity of interim payments made during the reporting year. All programmes falling under the categories 'limited assurance – medium risk' and 'limited assurance -high risk' (in the table below) are in principle subject to a reservation. This applies to 4 programmes from the 2007-2013 period plus the Spanish autonomous community of Galicia.<sup>55</sup>

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<sup>55</sup> The overall validated error rate for 2015 is 3.46% (2014 – 2.79%). The cumulative residual risk for 2015 is 0.74% (2014 – 1.17%). It should be emphasised that the error rate is a one year measure, considered prior to any corrective actions. The cumulative residual risk is a multiannual measure assessed in the light of corrective actions.

**Assessment of management and control systems in the annual management opinion:**

<b>IMPACT on Declaration of Assurance</b> (based on functioning of systems, materiality and legality and regularity criteria)		Coverage	
		# of Programmes	Payments to Programmes in question as % of 2007-2013 period interim payments in the year
<b>1</b>	<b>Reasonable assurance</b>	18	27.86%
<b>2</b>	<b>Reasonable assurance with low risk</b>	6	54.34%
<b>3</b>	<b>Limited assurance with medium risk</b>	4	17.80%
<b>4</b>	<b>Limited assurance with high risk</b>	0	0.00%
		<b>27<sup>56</sup></b>	<b>100.00%</b>

For the Spanish operational programme, a scope limitation corresponding to 4% of declared expenditure for the autonomous community (AC) Galicia was reported; the audit authority was unable to audit the vessels involved. A partial reservation has been made solely in respect of this AC pending resolution of this issue. In addition, material levels of (as yet) uncorrected error were reported in one autonomous community (AC) - Cantabria. However, this AC represented only 3.6% of declared expenditure in the ACR, and is already the subject of an interruption; the amount at risk, in terms of interim payments made in 2015, is thus not significant. DG MARE therefore considers that a reservation in respect of this AC is not required.

Reservations have been made for the Czech Republic, Romania, and Slovakia, mostly due to the significant increases in error rates reported. For the Czech Republic the rate increased from 0% in 2014 to 3.70% in 2015; for Romania the rate increased from 4.61% in 2014 to 8.82% in 2015; and for Slovakia the rate increased from 1.31% in 2014 to 8.85% in 2015. None of these Member States has taken the requisite corrective actions so far.

The reservation for Italy (a 10 % flat rate charge) is due to non-submission of the 2015 ACR.

No reservations have been made for Bulgaria, Spain, Poland, and Portugal on the grounds that corrective actions have already been implemented to reduce the 2015 residual error rates to below 2%. Further information provided by Greece and the UK in March indicates that they have now taken the necessary corrective actions to avoid reservation.

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<sup>56</sup> This total sums to 28 because Spain (non-Galicia) is in category 2 with Galicia in category 3. The payments are divided accordingly.

Member States	Total Payments in 2015 per level of assurance (in €)										
	REASONABLE ASSURANCE	REASONABLE ASSURANCE: LOW RISK	LIMITED ASSURANCE: MEDIUM RISK	LIMITED ASSURANCE: HIGH RISK	Total	No. of OPs under reservation	Commission actions		Estimated amount at risk - 2015		
	EFF 2007-13	EFF 2007-13	EFF 2007-13	EFF 2007-13	EFF 2007-13		Number of interruptions of payment deadlines in 2015	Number of interruptions of payment deadlines in Q1 2016	2015 ACR error rate - if unreliable, standard scales used	€	Cumulative residual risk (%)
Austria	0				0				0,26%	0	0%
Belgium	5.780.066				5.780.066				0,00%	0	1,14%
Bulgaria	11.478.565				11.478.565				3,54%	406.341	0,08%
Cyprus	196.519				196.519				0,00%	0	0%
Czech Rep.		6.241.873			6.241.873	1			3,70%	230.949	0,40%
Germany	28.189.835				28.189.835		2		0,03%	8.457	0%
Denmark	36.026.063				36.026.063				0,51%	183.733	0,20%
Estonia	10.568.440				10.568.440				0,72%	76.093	0,43%
Spain		50.390.334	51.608.242		101.998.576	1	5		4,49%	4.579.736	0%
Finland	4.533.979				4.533.979				0,91%	41.259	0%
France	37.599.762				37.599.762				1,69%	635.436	0,67%
Greece		33.112.588			33.112.588				1,50%	496.689	0,07%
Croatia	920.865				920.865				0,00%	0	
Hungary	4.002.513				4.002.513				0,00%	0	0%
Ireland	2.942.877				2.942.877				0,83%	24.426	0%
Italy			32.763.807		32.763.807	1	7	1	10,00%	3.276.381	2,06%
Lithuania	5.182.515				5.182.515				0,06%	3.110	0,57%
Latvia	130.579				130.579				0,00%	0	0%
Malta	826.313				826.313				0,00%	0	0%
Netherlands	0				0		1		0,00%	0	0%
Poland		150.848.785			150.848.785		5		2,42%	3.650.541	1,47%
Portugal		41.128.087			41.128.087				5,14%	2.113.984	1,39%
Romania			15.462.747		15.462.747	1	3	2	8,82%	1.363.814	2,43%
Sweden	8.713.462				8.713.462				0,94%	81.907	0%
Slovenia	1.941.026				1.941.026				0,00%	0	0,01%
Slovakia			1.774.166		1.774.166	1			8,85%	157.014	3,01%
UK		28.548.865			28.548.865		2		8,41%	2.400.960	1,25%
<b>TOTAL</b>	<b>159.033.379</b>	<b>310.270.532</b>	<b>101.608.962</b>	<b>0</b>	<b>570.912.873</b>	<b>5</b>	<b>25</b>	<b>3</b>	<b>N/A</b>	<b>19.730.828</b>	<b>22.539.863</b>
<b>% SHARE</b>	<b>27,86%</b>	<b>54,35%</b>	<b>17,80%</b>	<b>0,00%</b>	<b>100,00%</b>	<b>19,23%</b>				<b>3,46%</b>	<b>0,74%</b>

#### **EFF reservation – 5 OPs – Estimated risk = 8.90 M€**

Reason for reservation: The 5 EFF operational programmes concerned are all affected by material error, as reported in the ACRs. This means that the reported 2015 error rate exceeds 5% or is unreliable, and the cumulative residual risk (CRR) exceeds 2% of total interim payments over the programming period. An apparent exception to this CRR rule (Czech Republic) has been placed under reservation, pending corrective actions.

OPs concerned: Czech Republic, Spain, (Galicia only), Italy, Romania, and Slovakia.

Estimated amount at risk: €7.35 million

Actions: Letters with clear action plans have been, or will be, sent to all affected Member States, so that they may take the necessary corrective action to enable payments to resume.

€107.85 million of 2015 payments fall under the scope of the reservation.

### **2.1.1.3 Shared Management – FIFG 2000-2006**

#### **Progress on FIFG closure**

Within DG MARE, the closure exercise is a collaborative exercise between the Ex Post Control Sector and the Operational Units. The Ex Post Control Sector analyses the Winding-up Declarations (WUDs) and communicates its analysis to the Operational Units as input for their closure activities in order to support the reasonable assurance on the legality and regularity of the underlying transactions of the respective Operational Programme.

The Operational Units analyse the final implementation report, the final expenditure claim, the assessment letter of the Ex Post Control Sector and the INFOSYS report and prepare the closure proposal letter.

DG MARE has put in place procedures for the closure to ensure that all the necessary residual corrections are made. The closure documents and in particular the WUD must contain a detailed report on all corrections made by the programme authorities and on all irregularities reported. When analysing these documents, DG MARE ensures that all amounts that should have been corrected are indeed deducted from the final statement of expenditure. If insufficient or inaccurate data is provided, the closure exercise is interrupted and additional information is requested from the Member State. If the amounts are known, these are directly deducted from the final payment to be made.

All closure proposal letters are discussed and approved within the relevant Thematic Group (TG3) (Operational Heads of Unit and Finance and Control Head of Unit).

Regarding the WUDs the analysis is complete in 60 cases; all have now been accepted. As of 31 December 2015, 57 operational programmes (out of 60) have been closed and for the 3 others pre-closure letters have been sent.

At the closure of each programme, the Member State's total eligible expenditure for the programme concerned is assessed; on this basis the final balance is paid, or a recovery is made. The associated risk is thus considered to be negligible.

## 2.1.1.4 Direct management – Markets, Control and Data Collection

### **Materiality criteria (control objective) and reservations**

Errors are considered to be material if the financial impact of the errors exceeds 2% of the payments audited in the year for the programme in question **and** the multiannual error rate is more than 2% of the sampled payments.

### **Overview**

Programmes were submitted to the Commission by the Member States annually in the case of control programmes, and for multi-annual periods (two or three years) in the case of data collection. Following their evaluation, the level of financial contribution was fixed by the Commission and notified to the Member States. For the Common Market Organisation the intervention conditions are specified in annual Council and Commission Regulations, and for the Outermost Regions expenditure the conditions and limits of aid are detailed in the Regulation establishing the scheme. Implementation of the programmes is monitored by the Operational Units concerned.

Payments relating to expenditure on Markets & Outermost regions, Fisheries Surveillance and Control, and Data collection account for approximately 4% of operational expenditure-related payments made in 2015. In turn, payments of this directly managed expenditure are broken down as follows:

<b><u>Markets, Control and Data Collection</u></b>				
<b>Expenditure Type</b>	<b>Paid Amount</b>	<b>%age of Total Payments - Operational Expenditure</b>	<b>Average Paid Amount</b>	<b>Number of Payments</b>
Markets	497.311	1,53%	497.310,51	1
Control	15.184.995	46,81%	114.172,90	133
Data Collection	16.759.868	51,66%	798.088,93	21
<b>Total Payments</b>	<b>32.442.173</b>	<b>100,00%</b>	<b>209.304,35</b>	<b>155</b>

### **Ex-ante controls**

All three expenditure types listed below are subject to 100% ex-ante controls.

**Fisheries Surveillance and Control expenditure** incurred by Member States is eligible for a contribution from the EU budget where covered by the relevant annual fisheries control programme accepted by the Commission. As with data collection, these programmes also require national counterpart funding. All expenditure declarations are checked by the operational services against the Commission financing decision as well as against the relevant control programme.

**With regard to Data Collection**, multi-annual national programmes are established and involve national co-financing. These multi-annual data collection programmes are checked before approval to ensure compliance with the applicable legislation and the eligibility of the proposed expenditure. Expenditure declarations are checked by the service against the Commission financing decision and the relevant programme. Reimbursement by the Commission to the authorities in the Member States is carried out after the evaluation and acceptance of both technical and financial reports.

**Fisheries market expenditure** paid by Member States to producer organisations is reimbursed by the Commission on a biannual basis. The expenditure is claimed by the Member State through the FIDES IT system and is normally reimbursed during

the same budgetary year. The FIDES system performs a number of different checks on the data to ensure compliance with the relevant procedures while DG MARE verifies the data and documents supporting the eligibility of the expenditure. Ex-ante verification is then carried out on the transactions prior to the authorisation of payments on the basis of the relevant regulations, and the eligibility is checked via the verification of data transmitted by the Member State including the proof of payment.

### **Ex-post audit**

For Data Collection, Fisheries Markets, Outermost Regions, and the Surveillance and Control Programmes, there is a multiannual rolling audit programme to cover all Member States which benefit significantly from the programmes. A risk analysis is carried out based on the cumulative amounts paid for the period preceding the year under audit, the number of institutions/sub-contractors, the complexity of projects, the number and the timing of audits previously carried out, as well as on specific risks identified by the auditors and/or the Operational Unit.

For Data Collection and Surveillance and Control, the programmes audited since 2010 represent 37% and 44% respectively of the total payments made for all the Member States' programmes under these two activities. For Fisheries Markets and Outermost Regions, the corresponding figure is 28%.

The audited sampled payments in relation to the total value of payments made for the audited programmes (sample size/population) since 2010 represents 88% for Data Collection, 87% for Surveillance and Control, and 61% for Fisheries Markets and Outermost Regions. This constitutes a high rate of coverage at the level of the audited programmes. The approach followed in planning and executing audits is designed to ensure maximum coverage of payments made to Member States.

### **Audit work – Surveillance and Control**

An amount of €15.18 million, representing 1.66% of the Directorate General's overall payments, was paid to Member States in 2015 for their Surveillance and Control programmes.

One audit was carried out in 2015 to Greece. The audit covered projects included in the annual control programmes in 2010 and 2011 for which payments were made by the Commission in 2013. In that year, Greece received €4.69 million. The amount of payments actually controlled ex-post is €4.50 million, providing coverage of 96% of payments to Greece, and 29.6% of total 2015 payments.

The maximum potential amount of ineligible costs identified by ex-post controls is €0.00 million; when this is compared with the amount of financial transactions actually controlled ex-post, the error rate on sample is 0.00%. The multiannual error rate is 0.15%; the impact of the errors on the total annual payments for the activity is 0.00% (below the materiality threshold of 2%).

### **Audit work – Data Collection**

An amount of €16.76 million, representing 1.84% of the Directorate General's overall payments, was paid in 2015 to Member States for their data collection programmes. One Member State was audited in 2015: Germany. The audit covered cost statements for 2011, 2012 and 2013. The total value of payments for the audited programmes amounts to €8.6 million; the amount of expenditure verified ex-post was €6.8 million. This coverage represents 40.3% of total 2015 payments.

The ineligible costs identified by ex-post controls is at €0.012 million; when this is

compared with the amount of financial transactions actually controlled ex-post, the error rate on sample is 0.18%. The multiannual error rate is 1.35%; the impact of the errors on the total annual payments for the activity is 0.49% and thus below the materiality threshold of 2%.

### **Audit work – Markets and Outermost Regions**

An amount of €0.5 million, representing 0.05% of the Directorate General's overall payments, was paid for Fisheries Markets and for the Outermost Regions to Member States in 2015. During 2015 one audit was carried out for fisheries markets in Denmark. No audit was carried out for the Outermost Regions.

The total value of payments for the audited programme amounts to €3.95 million. The amount of payments actually controlled ex post is €1.15 million, providing coverage of 29% of sampled programmes. No irregular expenditure was identified from this audit.

### **Conclusion on audit work**

No errors with financial impact have been identified either for expenditure relating to the Markets and Outermost Regions, or in respect of Surveillance and Control, during 2015. For Data Collection, the 0.18% error was attributable to errors in staff cost declarations.

The ex post control sector issues recommendations for all control weaknesses identified and follows up their implementation until the audit(s) can be closed. In addition, the operational unit issues recovery orders for all ineligible expenditure identified, as can be seen from the following tables.

**Surveillance and control (amounts in € Million)**

<b>Year</b>	Ineligible amount	Recovered or corrected in payment	Total value of payments for audited programmes	Amount of audited sampled payments	Error rate	Net error rate after corrections	Residual error rate	Payments made under ABB activity	Cumulative error rate	Impact of errors to annual payments exceeds <b>2%</b> of annual payments
	<b>a</b>	b	c	d	e = a/d	f = (a-b)/d	g = ((c-d)/c) *e	h	i = cum a/cum d	<b>j</b>
<b>2010</b>	0,0857	0,0857	6,06	6,06	1,41%	0,00%	0,00%	20,40	1,41%	0,42%
<b>2011</b>	0,0000	0,0000	17,87	17,35	0,00%	0,00%	0,00%	28,02	0,37%	0,00%
<b>2012</b>	0,0000	0,0000	11,12	9,55	0,00%	0,00%	0,00%	23,86	0,26%	0,00%
<b>2013</b>	0,0000	0,0000	15,48	11,78	0,00%	0,00%	0,00%	23,20	0,19%	0,00%
<b>2014</b>	0,0000	0,0000	9,21	6,84	0,00%	0,00%	0,00%	21,40	0,17%	0,00%
<b>2015</b>	0,0000	0,0000	4,69	4,50	0,00%	0,00%	0,00%	15,18	0,15%	0,00%
<b>TOTAL</b>	<b>0,0857</b>	<b>0,0857</b>	<b>64,43</b>	<b>56,08</b>	<b>0,15%</b>	<b>0,00%</b>	<b>0,02%</b>	<b>132,08</b>	<b>0,15%</b>	<b>0,06%</b>
			<b>Coverage</b>	<b>87,04%</b>				<b>42,46%</b>		

**Data collection (amounts in € Million)**

<b>Year</b>	Ineligible amount	Recovered or corrected in payment	Total value of payments for audited programmes	Amount of audited sampled payments	Error rate	Net error rate after corrections	Residual error rate	Payments made under ABB activity	Cumulative error rate	Impact of errors to annual payments exceeds <b>2%</b> of annual payments
	<b>a</b>	b	c	d	e = a/d	f = (a-b)/d	g = ((c-d)/c) * e	h	i = cum a/cum d	<b>j</b>
<b>2010</b>	0,1440	0,1154	21,90	20,90	0,69%	0,14%	0,03%	24,77	0,69%	0,58%
<b>2011</b>	0,3156	0,3156	12,02	12,62	2,50%	0,00%	0,00%	33,17	1,37%	0,95%
<b>2012</b>	0,1420	0,1420	6,67	4,86	2,92%	0,00%	0,79%	32,30	1,57%	0,44%
<b>2013</b>	0,0260	0,0260	8,42	5,14	0,51%	0,00%	0,20%	34,63	1,44%	0,08%
<b>2014</b>	0,1393	0,0000	8,13	7,51	1,85%	1,85%	0,14%	16,10	1,50%	0,87%
<b>2015</b>	0,0119	0,1512	8,58	6,76	0,18%	0,00%	0,04%	16,76	1,35%	0,07%
<b>TOTAL</b>	<b>0,7788</b>	<b>0,7502</b>	<b>65,72</b>	<b>57,79</b>	<b>1,35%</b>	<b>0,05%</b>	<b>0,16%</b>	<b>157,73</b>	<b>1,35%</b>	<b>0,49%</b>
			<b>Coverage</b>	<b>87,92%</b>				<b>36,64%</b>		

**Markets and Outermost Regions (amounts in € Million)**

<b>Markets</b>	Ineligible amount	Total value of payments for audited programmes	Amount of audited sampled payments	Error rate of the year	Payments made under ABB activity	Cumulative error rate on sampled payments audited	Impact of errors to annual payments exceeds <b>2%</b> of annual payments
<b>2010</b>	0	9,44	5,74	0,00%	10,14	0,00%	0,00%
<b>2011</b>	0	8,56	5,87	0,00%	17,04	0,00%	0,00%
<b>2012</b>	0	5,44	4,82	0,00%	9,86	0,00%	0,00%
<b>2013</b>	0	3,75	3,18	0,00%	6,97	0,00%	0,00%
<b>2014</b>	0	3,71	1,53	0,00%	9,06	0,00%	
<b>2015</b>	0	3,95	1,15	0,00%	0,5	0,00%	
<b>TOTAL</b>	<b>0</b>	<b>34,85</b>	<b>22,29</b>		<b>53,57</b>	0,00%	
		Coverage	63,96%				
<b>Outermost Regions</b>							
<b>2010</b>	0	7,26	4,52	0,00%	0	0,00%	0,00%
<b>2011</b>	0	14,17	7,5	0,00%	16,88	0,00%	0,00%
<b>2012</b>	N/A	0	0	N/A	28,14	N/A	N/A
<b>2013</b>	N/A	0	0	N/A	12,78	N/A	N/A
<b>2014</b>	N/A	0	0	N/A	11,91	N/A	N/A
<b>2015</b>	N/A	0	0	N/A	0		
<b>TOTAL</b>	<b>0</b>	<b>21,43</b>	<b>12,02</b>		<b>69,71</b>	0,00%	
		Coverage	56,09%				
<b>Grand Total 10-15</b>	<b>0</b>	<b>56,28</b>	<b>34,31</b>		<b>123,28</b>	0,00%	
		<b>Coverage M&amp;O</b>	<b>60,96%</b>		<b>27,83%</b>		

## **Conclusion**

The overall control system established within DG MARE provides reasonable assurance as to the sound financial management in respect of the transactions carried out under the headings of Markets & Outermost regions, Fisheries Surveillance and Control, and Data Collection. This assurance is underpinned by the financial circuits established within the DG, as well as the ex-ante controls carried out. All invoices are checked in an effective ex-ante control system.

The ex post audits are risk-based because this is more audit-efficient (a very high level of audit coverage can be obtained). The error rates disclosed are based on the best information available.

As regards the ex post audits, from a quantitative point of view, the level of the error rate found during 2015 ex-post controls of a risk-based sample of Data Collection is respectively 0.18% of the sampled payments audited, and 0.07% of the total 2015 payments for the programmes concerned. For Surveillance and Control, and Fisheries Markets and the Outermost Regions the error rate is 0.00%. The error rates can also be examined from a multi-annual perspective because, in a given year, DG MARE audits several years of declared and paid expenditure. When account is also taken of previous years' error rates disclosed by ex-post controls from 2010 to 2015, the level of the multi-annual error rates on sample for Data Collection programmes and Surveillance and Control programmes is respectively 1.35% and 0.15% (amount of ineligible amounts identified by ex-post controls compared with amount of financial transactions actually controlled ex-post).

Further assurance can be derived from two additional measures: error rates after corrections; and errors in the unaudited population.

### **Error rates after corrections**

These are calculated by comparing the amounts remaining after recovery actions to the value of payments audited. It will be seen that only the most recent cases have not been recovered in full; this is because contradictory procedures are ongoing. The corresponding cumulative figures are 0.05% for Data Collection and 0.00% for Surveillance and Control.

### **Errors in the unaudited population**

DG MARE also attempts to estimate the level of error in the unaudited population, based on the error rate found in the payments audited. The corresponding cumulative figures are 0.16% for Data Collection and 0.02% for Surveillance and Control.

For Markets and the Outermost Regions programmes no ineligible expenditure was identified in 2015 or in previous years.

## 2.1.1.5 Direct management - Sustainable Fisheries Partnership Agreements

### **Materiality criteria (control objective) and reservations**

Given that the financial contributions provided under **Fisheries Partnership Agreements** are principally used to gain access to fishing possibilities in third countries, qualitative factors such as weaknesses detected in the functioning of the internal control system at the level of the Commission, or factors which affect or are likely to affect in a significant manner the reputation of the Commission, are considered as materiality criteria.

### **Overview**

Payments relating to Sustainable Fisheries Partnership Agreements made during the year totalled €121m, equivalent to 13% of all operational expenditure payments made by the DG.

The level of a financial contribution under a Sustainable Fisheries Partnership Agreement (SFPA) is the result of a negotiation with the partner country and is based on several factors such as the value of the opportunities offered to the EU fleet to fish in the partner's exclusive economic zone as well as the support for third country's policy efforts in the sustainable managements of fisheries resources.

The main risks are:

- in terms of sound financial management (the financial contribution is set at a level that does not reflect real fishing possibilities or fishing possibilities that are or will be fully utilised by EU ship owners), or
- in terms of political coherence (the agreements are negotiated, concluded and implemented without taking sufficiently into account the other external policies of the EU or are not fully consistent with the principles guiding the management of the Common Fisheries Policy within EU waters).

To address the first risk, i.e. that the financial contribution under a SFPA does not provide an added value in economic terms to the Union, the Commission implements a strict policy before and during the negotiations. These are conducted on the basis of an ex-ante evaluation and an analysis of the impact of the future protocol on sustainability. The results of these evaluations are shared with the stakeholders within the Union and the partner country.

During the negotiations with the third country, there are continuous consultations with Member States with fleets interested in fishing in the Exclusive Economic Zone (EEZ) concerned and the Presidency of the Council. These help to fine tune the establishment of the fishing possibilities in line with future use for the duration of the protocol.

Furthermore, the Agreements provide mechanisms for renegotiation which may be triggered in the event that the EU fleet does not avail itself of the fishing opportunities offered under the agreement. This provides an effective means of control to address the principal risk associated with the agreements. The actual take-up of fishing opportunities is monitored by the Commission on an on-going basis. In order to evaluate whether the take-up is in line with what is foreseen under the agreement, the evaluation examines the situation over a number of years.

During the lifetime of a SFPA and its protocols, a number of key requirements are monitored on an ongoing basis. For the most important agreements, dedicated staff has been allocated to the EU Delegations responsible for the countries concerned. The

monitoring covers both the assessment of the implementation of the agreement, including the fishing activity of the EU vessels, as well as the implementation of agreed national sectoral programmes.

At the end of 2015, a total of 14 protocols to Sustainable Fisheries Partnership Agreements were in force, compared with 13 in 2014. During the year, negotiations were successfully completed for the renewal of protocols with Greenland and Mauritania, and for new SFPAs with Liberia and Cook Islands. At the same time however, SFPAs with Mozambique and Kiribati are no longer operational since the expiry of their last protocol, given that the position taken by these two countries during the negotiations was not compatible with the value for money and sustainability principles defended by the EU.

In all these negotiations the fishing possibilities agreed were in line with recent trends in utilisation by the EU fleet, and took into account the best available scientific advice. In addition, the amounts targeted for sectoral support were negotiated on the basis of, on the one hand, the needs of the third countries concerned in terms of fisheries governance, and, on the other hand, their absorption capacity as it could be evaluated in the light of the levels of implementation achieved under the previous protocol. Finally, mandates for a new protocol with Comoros and for a new SFPA with Tanzania have been adopted by the Council and preliminary steps have been taken to renew protocols with Mauritius and Guinea Bissau.

With regard to the second risk, a specific effort has been made to enhance policy coherence between the CFP and development policy in order to address potential criticisms of lack of coherence between the various aspects of the external policies of the EU. This was reflected in particular by the inclusion of a specific Human rights clause in every new protocol negotiated since 2010.

In 2015, the Commission continued to follow closely the efficiency of the EU partnership with the third countries in strengthening their fishery sector, in particular with reference to the effective utilisation of the resources targeted for the sectoral support in each SFPA. Most agreements and protocols establish a formal monitoring instrument in the form of a Joint Committee which brings together the Commission and the third country and involves, where appropriate, scientific meetings of experts. This mechanism allows the multiannual programming of the fishery policy of the partner country to be evaluated and adapted in light of the effective implementation of identified actions. This is done on the basis of a series of targets and indicators, including, in most cases, financial indicators. Joint Committee meetings are normally held at least once per year, which indeed was the case for all the SFPAs in force in 2015.

The implementation of the sectoral support was globally satisfactory although some delays were experienced with some of the partner countries.

#### **2.1.1.6 Direct management - Procurement and Grants**

In 2015 procurement and grants accounted for less than 3% of operational expenditure payments made during the year by DG MARE.

A qualitative analysis of the management review of the registry of exceptions and internal control weaknesses revealed that during the reporting year there were 4 recorded instances of control failure which had an impact on the legality and regularity of the transactions. These concerned cases of a legal commitment being made prior to the budgetary commitment. The amount of expenditure involved was small.

All open procurement procedures were subject to a review by the DG MARE Procurement Examination Group prior to the signature of the contract. None of these controls revealed

errors with an impact on compliance.

A qualitative analysis of the results of controls on payments relating to contracts revealed that 32 invoices were cancelled / reduced by credit notes in 2015. During the same period, liquidated damages were applied for an amount of €34 248.

The breakdown of payments made in relation to grants is given in the following table:

<b>Grants</b>				
<b>Expenditure Type</b>	<b>Paid Amount</b>	<b>%age of Total Payments - Operational Expenditure</b>	<b>Average Paid Amount</b>	<b>Number of Payments</b>
AC Operating Grants	974.193	8,38%	74.937,91	13
Voluntary Contributions Int. Organisations	7.777.853	66,87%	172.841,17	45
Other	2.880.055	24,76%	115.202,21	25
<b>Total Payments</b>	<b>11.632.101</b>	<b>100,00%</b>	<b>140.145,79</b>	<b>83</b>

In conclusion, the analysis of the available control results, the assessment of the weaknesses identified and that of their relative impact on legality and regularity has not unveiled any significant weakness which could have a material impact as regards the legality and regularity of the financial operations. It is possible to conclude that the control objective as regards legality and regularity has been achieved.

## **Conclusion**

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

For DG MARE, the estimated overall amount at risk<sup>57</sup> for the 2015 payments made is € 19.76 million (with an estimated maximum of € 26.55 million)<sup>58</sup>. This is the AOD's best, conservative estimation of the amount of expenditure authorised during the year not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections<sup>59</sup> for those 2015 payments made are €29.22

<sup>57</sup> In order to calculate the weighted average error rate (AER) for the total annual expenditure in the reporting year, detected or estimated error rates have been used (not the RER).

<sup>58</sup> This estimated maximum uses Upper Error Limits (UEL) where these are calculable. For shared management, the UEL is obtained by using the UELs reported by all Member States which used statistical sampling. However, 9 Member States have a non-statistical approach and therefore only the Most Likely Error (MLE) is available. The UEL in the table is thus an "amalgamation of "true" UELs and MLEs and should accordingly be used with caution.

<sup>59</sup> This estimate is based on past performance, namely on the average recoveries and financial corrections (ARC) implemented since 2009 and applied to the payments of the year – a rate of 3.2%. DG MARE has calculated this in view of the specificities of the DG's control system, with a view to maintaining the conservative character of the estimation.

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

<b>DG MARE</b>	<b>Scope: payments made (2015; €m)</b>	<b>Average Error Rate (AER)</b>		<b>Amount at risk (2015; €m)</b>	
		<i>MLE</i>	<i>UEL</i>	<i>MLE</i>	<i>UEL</i>
<i>ABB or other activity-level</i>	<i>as per AAR Annex 3, table 2</i>				
EMFF 2014/2020	134.49	0%	0%	0	0
EFF 2007/2013	570.91	3.46%	4.35%	19.73	24.83
FIFG 2000/2006	0	0%	0%	0	0
Direct management:					
- Fisheries control	15.18	0%	2%	0	0.30
- data collection	16.76	0.18%	2%	0.03	0.34
- fisheries markets / outermost regions	0.50	0%	0%	0	0
Fisheries partnership agreements	121.30	N/A	N/A	N/A	N/A
Procurement and grants	28.92	0%	2%	0	0.58
Other expenditure	9.91	0%	2%	0	0.20
Indirect management - EFCA	9.36	0%	2%	0	0.19
Administrative expenditure	5.70	0%	2%	0.00	0.11
<b>Overall</b>	<b>913.03</b>	<b>2.16%</b>	<b>2.91%</b>	<b>19.76</b>	<b>26.55</b>

MLE – Most Likely Error; UEL- Upper Error Limit

## 2.1.2 Efficiency and Cost-effectiveness

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

### 2.1.2.1 Shared Management (EFF/EMFF)

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.

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

- Cost of control/financial management of the Commission checks and assessment (as a % of total appropriations) = 1%
- Financial corrections resulting from the Commission's supervisory role implemented by the Member States during 2015 - €11.2 million

DG MARE 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 costs relate to the annual overall Commission costs. They include:

- the assessment by the Commission of management and control systems in Member States (including the Commission ex-post audits);
- costs relating to Commission staff who carry out controls throughout the different design, implementation and monitoring phases; and the Commission ex-ante checks of the periodic expenditure declarations (financial circuits). For the 2014-2020 period, this will also include the Commission checks in the designation process (sampling of national designations).

The benefits relate largely to the corrections made by the Member States at the Commission's request following (Commission) audit work. In this context, it must be pointed out that financial corrections are not an objective as such. A decreasing level 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.

DG MARE considers the correction mechanism to be one of the tools for the protection of the EU budget. It should be seen in the continuum of a system which begins with payment interruptions. DG MARE has found that the system of payment interruptions has proved highly effective in shielding the Fund from risk, as Member States with programmes under interruption have been shown to take the corrective action to enable payments to resume. Of the 28 OPs for which payments have been interrupted (2011 – 8; 2012 – 9; 2013 – 6; and 2014 – 5) payments have resumed in all cases. As of 31 December 2015, no EFF operational programme was the subject of a reservation.

As regards the indicator "time to lift interruption of payments", DG MARE (in conjunction with other shared management DGs) is reliant to a considerable degree on the rate and the effectiveness of the remedial action taken by Member States. The lifting of a payment interruption is an act with significant consequences; it is vital to ensure that the necessary additional work has been properly carried out by the national authorities.

## **OVERALL CONCLUSION – SHARED MANAGEMENT**

For shared management, the total cost of controls is estimated at €7.27 million. Set against this are the benefits (in the form of confirmed financial corrections) of €11.2 million - €5.7 million in respect of the EFF and €5.5 million in respect of the FIG. Overall, during the reporting year the controls carried out by DG MARE for the management of the budget appropriations for shared management were cost effective, as the estimated quantifiable benefits exceeded the costs.

There are a number of non-quantifiable benefits resulting from the controls operated throughout the various control stages (notably the negotiation procedures of the programmes, which aim to ensure that the financed programmes contributed to the achievement of the policy objectives, the management of the programmes by the operational units of the DG, and the deterrent effect of ex-post controls). DG MARE considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk were they not in place.

The entire control system ultimately "costs" 1% of the payments of the year.

### 2.1.2.2 Direct management - Markets, Control and Data Collection

Similar considerations apply to direct management as those set out for shared management when assessing the costs and benefits of controls under this management mode. For Data Collection, Markets and Outermost Regions, and Surveillance and Control taken together, the costs can be divided between the ex ante work (estimated at €0.83 million) and the ex post audit checks (estimated at €0.24 million). The benefits would be represented by corrections to costs claims made at the ex-ante stage (€5.98 million) and corrections arising from ex-post audits (€0.151 million). The payments made in 2015 for these 3 programmes were €32.44 million, so the annual cost of control would be in the region of 3.3% of associated payments.

Overall, during the reporting year the controls carried out by DG MARE for the management of the budget appropriations for direct management, relating to Markets, Control and Data Collection, were cost effective, as the estimated quantifiable benefits slightly exceeded the costs.

There are also a number of non-quantifiable benefits, such as the deterrent effect of ex-post controls. DG MARE considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk were they not in place.

### 2.1.2.3 Direct management - Sustainable Fisheries Partnership Agreements

For SPFAs, most payments relate to access to third country waters. Controls ensure that the payments are in compliance with international agreements. For sectoral support, the related controls monitor the implementation of that support. The monitoring is carried out by Commission staff in the delegations, as well as during Monitoring Committee and Scientific Committee meetings. If progress is insufficient, the next payment is suspended until such time as the deficiencies identified have been addressed.

The following table provides an estimate of the costs of controls relating to Sustainable Fisheries Partnership Agreements:

N°	Stage	Annual indicator	Indicator
1	Overall indicator	overall cost of control/amounts paid	1,4%
2	Programming, evaluation and selection	related cost of control/value contracted	1,3%
3	Contracting, monitoring of execution, payments	related cost of control/amount paid	0,6%

At 1.4%, the overall indicator is lower than that of 2014 (2.4%), mainly as a result of the increased payments in 2015 (€121.3 million) compared to the previous year (€69.3 million).

As regards the benefits of the controls carried out, these are obviously very difficult to quantify in monetary terms, but ultimately the intention is to ensure that the financial contribution paid from the EU budget represents a fair balance between the access to third country waters and the positive returns for the EU.

### 2.1.2.4 Direct management – Procurement and Grants

DG MARE has, to the extent possible, produced an estimation of the costs of the main control processes relating to procurement and grants. The following table provides an estimate of these costs:

N°	Stage	Annual indicator	Indicator
1	Overall indicator	overall cost of control/amounts paid	11,4%
2	Programming, evaluation and selection	related cost of control/value contracted	6,5%
3	Contracting, monitoring of execution, payments	related cost of control/amount paid	5,7%

Since a quantitative estimation of the value of errors prevented and detected is not available, it is not possible to quantify the related benefits, other than the amounts recovered as a result of these controls. In consequence, it is not possible to determine the overall cost-effectiveness of controls by comparing costs with benefits.

Consideration should however be given to the following efficiency measures for the controls associated with the core processes:

- The procurement and grant procedures are, to a large extent, a regulatory requirement which cannot be curtailed. In addition, DG MARE considers that the necessity of these controls is undeniable; as shown by the risks outlined in annex 5, as a significant proportion of the appropriations would be at risk were they not in place.
- Late interest paid in 2015 totalled €1 903.
- The average time for informing applicants of the outcome of the evaluation of their grant applications was 68 days.
- The average time to grant was 110 days. This was the result of a delay in the signed agreements being returned to the Commission by the beneficiaries.

The benefits of control in non-financial terms cover: better value for money, deterrents efficiency gains, system improvements and, as mentioned above, compliance with regulatory provisions.

To reach an overall conclusion as to the relative efficiency of the controls for procurement and grants, it is necessary to analyse the evolution of these efficiency indicators over time and/or to compare them with relevant benchmarks.

For 2015 the cost of controls for procurement and grants has been estimated at 11.4% of the payments made during the year. This compares with a cost of controls in 2014 estimated at approximately 19.7%. The level of the indicator for 2014 was, in part, the result of the substantial increase in commitments available for procurement and grants, which gave rise to only limited payments in 2014.

### **OVERALL CONCLUSION – DIRECT MANAGEMENT**

For direct management expenditure, the benefits are largely non-quantifiable, and thus

cannot be directly reflected in our conclusion on cost-effectiveness. However, the bulk of expenditure currently paid under the Markets, Control and Data Collection headings will be transferred to the shared management heading for the 2014-2020 programming period and beyond - a regulatory simplification that should increase cost effectiveness.

For SPFAs, and procurement and grants, the control procedures stem to a large degree from regulatory requirements, which cannot be curtailed.

DG MARE has defined efficiency indicators relating to payments: in 2015 the average payment delay was 22.2 days (2014: 21.8 days) with 96% (2014: 94%) of payments being made within the legal time limits.

### **Provisions of Article 66(2) of the Financial Regulation**

The proportion of expenditure falling under the shared management heading will continue to increase as markets, control and data collection expenditure is transferred there. DG MARE's audit approach in respect of shared management will continue to be governed by the single audit strategy and associated risk assessment, taking account of "specificities" as necessary.

As regards other direct management expenditure (procurement and grants), DG MARE aims to maximise efficiency and effectiveness, but there is a certain "incompressibility" to these controls (see above).

## **2.1.3 Fraud prevention and detection**

DG MARE has developed and implemented a joint anti-fraud strategy (JAFS) together with DG REGIO and DG EMPL. It was elaborated on the basis of the methodology provided by OLAF and adopted in 2015 for the 2015 -2020 period. The strategy is to be updated annually, if necessary. Its implementation is being monitored twice a year with reporting to management.

The JAFS covers the whole anti-fraud cycle: prevention, detection, investigation and corrective measures. It seeks to reinforce existing measures which are in place for the purpose of protection of the financial interests of the Union, by providing support to Member States in their anti-fraud efforts and strengthening the capacity of DGs to deal with fraud, as well as intensifying cooperation with OLAF. The controls aimed at preventing and detecting fraud are not essentially unlike those intended to ensure the legality and regularity of the transactions.

OLAF informs DG MARE regularly on their investigations. Once a year the monitoring tables of OLAF and DG MARE are reconciled to assure that no cases are omitted. In 2015 OLAF did not open any new investigation concerning EFF while it closed 2 of the previously opened cases (both to be followed up by DG MARE). As of December 2015 there were in total 6 on-going OLAF investigations concerning fisheries.

Accordingly, DG MARE concludes that its anti-fraud controls are effective.

## 2.2 Audit observations and recommendations

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

### **Audit work of the IAS in 2015**

The IAS concludes that the internal control systems audited are overall working satisfactory although a number of very important findings remain to be addressed in line with the agreed action plans. DG MARE is in the process of implementing the action plans in relation to these findings. DG MARE does not consider that these findings, which relate to the audits on management of local IT and on the gap analysis of new legislation/design of 2014-20 funds, have a material impact on the achievement of the internal control objectives.

The implementation of recommendations which relates to the audit on management of local IT is well advanced. The IAS assessed that four out of the eight recommendations have been implemented. The IAS highlights three very important recommendations, notably the *IT strategy and priorities* (rec. nr. 1), *Change management* (rec. nr. 4) and *Project management, quality assurance and service management* (rec. nr. 7), for which DG MARE requested a limited extension.

The very important recommendation on *change management* (rec. nr. 4) was considered implemented by DG MARE after the cut-off date used by the IAS for conclusion on the state of internal control. This recommendation has not yet been followed-up by the IAS.

DG MARE has improved its *change management* framework in order to ensure that common procedures cover the requests for change for all the IT domains (systems, applications, projects, documentation) and to assess and prioritise the change requests consistently.

DG MARE's IT strategy is foreseen for adoption by the end of April 2016. It will be complemented to describe how it will support the business goals. This process will be completed by a formal exercise to identify, assess and prioritise the IT-related needs for all the policies under DG MARE's responsibilities and to allocate the available resources to them.

Most of the actions corresponding to *IT project management, quality assurance, and service management* have been implemented and the remaining aspects are currently being finalised. A global IT management system has been put in place, which will improve the support given to the business and project managers, quality management process and service management function.

The implementation of recommendations concerning the gap analysis of new legislation/design of the 2014-2020 programming period of European Structural and Investment Funds Phase 2 audit is progressing according to the action plan.

The very important recommendation on *Assessment of ex-ante conditionalities* has been considered as adequately and effectively implemented by the IAS and was closed. In this respect, the roles and responsibilities for the assessment of ex-ante conditionalities by geographical and horizontal units have been clarified, and a common understanding of the approach to be taken and of the assessment criteria and elements which may trigger significant prejudice has been ensured.

The implementation of the remaining three very important recommendations, notably *the DG's processes for guiding and supervising the MS' management of control systems* (rec. nr. 1), *Operational Programme negotiation and adoption process* (rec. nr. 2) and *Results orientation and performance framework* (rec. nr. 3) is progressing according to the action plan and deadlines set.

A single audit strategy for the programming period 2014-2020, covering the EMFF as well as the cohesion policy ESI funds, was adopted on 9 June 2015.

DG MARE established stringent target delays for the main steps of the process and carefully monitored the final phases before the adoption of Operational Programmes, including the follow-up given to the Commission's observations. All Operational Programmes were adopted before the end of the year. The respective roles and responsibilities of the different stakeholders within the DG were clarified and a central repository, a Brico-box, checklists and templates were established.

In terms of results orientation and performance, DG MARE is developing guidance for stakeholders. In parallel, training has been provided for policy officers and a workshop has been organised for MS. Desks have been provided with overview tables related to the performance framework and the links between the different sections of the OP.

As a result of the IAS screening exercise of the open recommendations of the former IAC, the open recommendations of the audit on Control activities were taken on by the IAS. A follow-up audit was launched at the beginning of the year. Based on the results of this follow-up, the IAS assessed that all nine recommendations have been adequately and efficiently implemented and the audit has been closed.

The action plan set up by DG MARE in the framework of the multi-DG audit on the objective setting process for the preparation of the Management Plan has been deemed by the IAS to be satisfactory to mitigate the risks identified. The three important recommendations, notably *the process for setting objectives and indicators* (rec. nr. 1), *quality of objectives and indicators* (rec. nr. 2) and *reporting arrangements* (rec. nr. 3), are being implemented according to the action plan and deadlines set.

In order to further enhance the process for setting objectives and indicators, DG MARE carries out quality checks using a checklist based on the corporate checklist used by SG/BUDG for their peer review on the Strategic Plan 2016-2020 (SP)/Management Plan 2016 (MP).

In its Strategic Plan and Management Plan, the DG has improved the quality of its objectives and of its indicators. Furthermore, the DG aims to provide the necessary milestones, baselines, targets, data sources and information on DG MARE's influence and external factors/other players. An 'identity card' has been established to trace changes introduced to objectives, indicators, targets, milestones and baselines defined in the SP/MP.

DG MARE will undertake a mid-year review of the MP providing performance information on the state of play of objectives/indicators to Management.

## **Audit work of the European Court of Auditors in 2015**

### *1. Court of Auditors' Annual Report 2014*

The Discharge procedure was launched with a presentation of the Annual Report by the

President of the Court during the EP CONT meeting on 10 November 2015. No issues of importance for Maritime Affairs and Fisheries were raised.

DG MARE is concerned principally by Chapters 1 and 7 of the Annual Report 2014<sup>60</sup>:

#### *Chapter 1 – Statement of assurance and supporting information*

There are no specific findings related to DG MARE. The AAR reservations referred to in the chapter include DG MARE's reservation in relation to the EFF (amount at risk: EUR 7.1 million). Action plans with the Member States have been fully implemented and the problems in the 5 Member States concerned are now resolved.

#### *Chapter 7 – Natural resources*

Chapter 7 covers the EAGF (market and direct support) as well as Rural development, environment, climate action and fisheries. The overall error rate for Rural development, environment, climate action and fisheries is estimated at 6.2%. The audit sample related to environment, climate action and fisheries consisted of fourteen transactions<sup>61</sup>.

The main risk to regularity in the area of fisheries is that EU aid is granted for ineligible or overstated costs. The Court therefore recommends that, in the area of fisheries, the Commission ensures that Member States' audit authorities carry out their tasks more thoroughly, notably by performing the required on-the-spot controls, applying quality control procedures and improving audit documentation.

The recommendation in Chapter 7 arose from the DAS 2014 exercise, under which the Court carried out checks on the audit work of the Audit Authority in Italy. One area covered concerned the checks made by the national authorities on public aid for permanent cessation of fishing activities.

The Court considered that the national authorities' checks were insufficient (in that they did not check documentation which could prove the real fishing activity of the vessel in the last two years (75 days each year), as required by Article 4.2 of the Italian Decree of 8 August 2008).

The Italian Authorities' reply that their assessment of eligibility was based on vessels being "armed" (i.e. ready to put to sea), rather than evidence of activity, was not accepted by the Court.

In the light of the Court's finding, DG MARE requested the Italian Audit Authority to perform sample checks on vessels that benefited from the permanent cessation measure, which would include, this time, checks on documentation which could prove the real fishing activity of the vessel in the last two years (75 days each year). The Audit Authority was requested to carry out verifications on a representative statistical sample that would be based either on VMS data or on logbooks (depending on the vessel).

On 16 November 2015, the Italian Audit Authority communicated the provisional results of its verifications, which indicated a preliminary error rate of almost 50%. The work is still ongoing.

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<sup>60</sup> Annual Report 2014 and Information note '2014 EU Audit in brief': <http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=33470>

<sup>61</sup> Errors were found in 5 cases (36% of transactions). Three errors were quantifiable, two due to ineligible expenditure.

Italy has yet to submit its ACR, and is thus under reservation in any case. However, this exercise needs to be completed before the 2015 ACR can be finalised.

## *2. Annual accounts of the European Fisheries Control Agency (EFCA) for 2014*

According to the Court's opinion of 8 September 2015, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2014 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer. The transactions underlying the annual accounts for the year ended 31 December 2014 are legal and regular in all material respects.

## *3. Special report on the Fisheries Partnership Agreements (FPAs)<sup>62</sup>*

The Court's audit covered fisheries agreements for which a financial contribution is made from the EU budget; agreements based on fishing quota exchanges were excluded. Agreements with Mauritania (a multi-species agreement in the Atlantic Ocean), Madagascar, Mozambique and the Seychelles (tuna agreements in the Indian Ocean) were examined. These agreements represent a third of the agreements in force at the time of the audit and represented 77% of FPA payments in 2013. The protocols with the Seychelles and Mauritania were negotiated while the CFP reform process was on-going and anticipated the CFP reform. The protocols with Mozambique and Madagascar were negotiated prior to the CFP reform. There are currently no protocols in force with these two countries.

The Court's Special Report No 11/2015 was published on 20 October.

The Court welcomes the more stable legal framework offered by FPAs compared to private agreements, and considers that FPAs are generally well managed by the Commission. However the Court identifies weaknesses related to the issue of the length of the negotiations, the 'value for money' and the implementation of sectoral support.

It recommends that when negotiating the fishing possibilities of new protocols, the utilisation rates of previous protocols should be considered by better linking payments for access rights to actual catches. Ex-post evaluations should better focus on the return on EU spending. Consistency of FPA sectoral support with other EU payments must be ensured and based on results achieved.

The Commission has accepted the thrust of the Court's report in its replies. Some of the actions are already being implemented in the Sustainable Fisheries Partnership Agreements (SFPAs) which embody the reform principles. Fisheries agreements concluded before the reform are gradually being discontinued or aligned with the reform. In addition, when the Commission considered that the "value for money" was not reached and the negotiations were not going to secure it, the relevant protocol was not renewed.

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<sup>62</sup> Special Report No 11/2015 'Are the Fisheries Partnership Agreements well managed by the Commission?' [http://www.eca.europa.eu/Lists/ECADocuments/SR15\\_11/SR\\_FISHERIES\\_EN.pdf](http://www.eca.europa.eu/Lists/ECADocuments/SR15_11/SR_FISHERIES_EN.pdf)

## **Follow up of previous audit recommendations**

### **ECA**

#### *PREVIOUS ANNUAL REPORTS*

With regard to ineligible FIFG expenditure in respect of the modernisation of fishing vessels in Spain (Annual Report 2009), the only pending issue is to ensure during the closure exercise that ineligible costs are deducted from the final claim. Closure letters for both "objective 1" and "outside objective 1" expenditure were sent and the replies (received in 2016) are under analysis. The final letters will foresee a recovery from Spain under both expenditure headings.

#### *PREVIOUS SPECIAL REPORTS*

### **Special Report on Overcapacity of the EU fishing fleet<sup>63</sup>**

Following a meeting with the Court's auditors on 30 November 2015, DG MARE considers that all recommendations are closed with the exception of one recommendation which is considered to be partially implemented. This relates to the obligation of Member States to ensure that the fishing fleet register is kept up to date and is being followed-up.

### **Special Report on the effectiveness of EFF support for aquaculture<sup>64</sup>**

The Court issued five recommendations relating to the objectives for sustainable development of aquaculture included in the EFF operational programmes, the selection of projects by Member States, Member States' spatial planning, licensing and administrative procedures, as well as the comparability of statistical data on aquaculture. Four of these recommendations are considered to be partially implemented. Many issues have been addressed with strategic guidelines on sustainable aquaculture<sup>65</sup>, new EMFF requirements (multiannual national plans, ex-ante conditionality) and the maritime spatial planning directive<sup>66</sup>. DG MARE recognizes that there is still room for improvement and will ensure that these efforts under the new programming period continue with better monitoring of the programmes' performance.

### **Overall Conclusion**

As a result of the assessment of the risks underlying the auditors' observations, together with the management measures taken in response, the management of DG MARE believes that the recommendations issued do not raise any assurance implications and are being implemented as part of the on-going continuous efforts in terms of further improvements.

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<sup>63</sup> Special Report No 12/2011 'Have EU measures contributed to adapting the capacity of the fishing fleets to available fishing opportunities': [http://www.eca.europa.eu/Lists/ECADocuments/SR11\\_12/SR11\\_12\\_EN.PDF](http://www.eca.europa.eu/Lists/ECADocuments/SR11_12/SR11_12_EN.PDF)

<sup>64</sup> Special Report No 10/2014 on the effectiveness of European Fisheries Fund support for aquaculture: [http://www.eca.europa.eu/Lists/ECADocuments/SR14\\_10/QJAB14010ENC.pdf](http://www.eca.europa.eu/Lists/ECADocuments/SR14_10/QJAB14010ENC.pdf)

<sup>65</sup> COM(2013) 229 final.

<sup>66</sup> Directive 2014/89/EU of the European Parliament and of the Council of 23 July 2014 establishing a framework for maritime spatial planning.

## 2.3 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 MARE 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.

It annually assesses the effectiveness of its key internal control systems, including the processes carried out by implementing bodies in accordance with the applicable Commission guidance and updated requirements. The assessment relies on a number of monitoring measures and sources of information including a survey-based management self-assessment; interviews with staff, AAR questionnaires, reported instances of exceptions, non-compliance events and internal control weaknesses; relevant audit findings; and the risk assessment process.

In its management plan for the reporting year, DG MARE had foreseen a number of measures to improve the effective implementation of the Operational structure, IT Governance (ICS N° 7) and evaluation of activities (ICS N°14).

IT Governance was chosen as a priority standard to ensure its full review and supporting the ongoing IAS audit on management of local IT.

IT Governance was fully reviewed in 2015, notably, the functioning of the IT Steering Committee (ITSC), its mandate and the reporting authorisation chain, taking into account the overall governance framework of the EC and the specificities for DG MARE. The functioning and composition of the inter-unit thematic group for data management (TG5) were established for programmes and IT projects take into account the standard methodologies of the EC for the management of projects.

This priority standard is considered to be implemented.

The evaluation of activities was prioritised to ensure that the evaluation of expenditure programmes, legislation and other non-spending activities allows for effective reporting on performance, both as concerns timing and content (focus on results and impacts) in the context of a deepened performance framework.

In that respect, targeted training courses on Better Regulation were and are being organised regularly for DG MARE officials participating in Impact Assessment and evaluation procedures. These training sessions are organised in close collaboration with the SG and divided into three modules: module 1: project management/time management, drafting; module 2: Evaluations and module 3: Impact Assessments. Specific guidance for DG MARE is available on the Intranet.

This priority standard is considered to be implemented effectively.

In conclusion, the internal control standards are effectively implemented and functioning.

## 2.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1, 2.2 and 2.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 2 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of DG MARE. The report has been prepared with the objective of providing the reader with the fullest possible reliable information and does not knowingly contain any material inaccuracy or omission.

European Fisheries Fund expenditure<sup>67</sup> is implemented under shared management through a comprehensive management and control system which is designed to ensure the legality and regularity of transactions at the level of the beneficiaries. The multi-layered approach taken by DG MARE shows that evidence can be drawn from different sources in order to provide the basis for an assessment. As a general rule, these various sources of evidence corroborate and complement each other and enable conclusions to be drawn.

In particular, the coverage of audit and control activities is now more representative of the inherent risks of operations in the field of shared management. The annual control reports submitted by Member States meet the requirements and the reported error rates have been assessed as reliable in 26 of the 27 cases (96%). For the activities under direct management, the information (covering internal control, internal audit opinion, ex-ante and ex-post controls) is considered as complete and reliable for the purposes of the declaration of assurance.

Overall, the resources for which DG MARE was responsible in 2015 have been managed in accordance with the applicable legislation and the Financial Regulation and in particular in accordance with the principles of sound financial management. The issuing of a reservation for EFF expenditure does not prevent the Director General from giving reasonable assurance on the use of the resources assigned to the Policy Area as a whole in 2015.

For the purposes of the declaration of the Authorising Officer by Delegation, DG MARE has to take full account of the fact that the control arrangements for programmes under shared management as fixed by the applicable regulations operate on a multi-annual basis. Accordingly, DG MARE has to satisfy itself that the exercise of its supervisory functions under shared management ensures the correction of possible irregularities in expenditure resulting from those systems for which reasonable assurance was not obtained at this stage.

Having regard to the actions taken during the reference year, and the ones which are underway as well as the closure procedures to come, DG MARE is satisfied that this is generally the case. For the programming period 2007-2013 in its 2015 Annual Activity Report, DG MARE identifies the programmes under reservation and assesses the overall amount at risk (q.v. Annex 4).

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<sup>67</sup> The same system applies to European Maritime and Fisheries Fund expenditure.

- A cumulative residual risk has been estimated for all programmes, based on the best available sources of information. This estimated cumulative residual risk has been used to confirm whether corrective measures (withdrawals, recoveries) already implemented by Member States have adequately mitigated the risks of irregularities since the beginning of the programming period. A cumulative residual risk above 2% will lead to a reservation for the programme concerned.

The other methodological aspects are consistent with those applied by DG MARE since 2012, namely:

- All programmes with an annual projected error rate above 2% reported by audit authorities in 2015 have been subject to an in-depth analysis to determine whether a reservation is necessary.
- The estimate of the amounts at risk regarding the 2015 interim payments has been calculated not only for the programmes under reservation but for all programmes, using the confirmed error rates reported by audit authorities when possible, and thus including programmes for which DG MARE has reasonable assurance that the national/ regional management and control systems function well.

### Overall 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 the EFF).

### **3. Declaration of Assurance and reservations**

# DECLARATION OF ASSURANCE

*I, the undersigned, João Aguiar Machado*

*Director-General of DG Maritime Affairs and Fisheries*

*In my capacity as authorising officer by delegation*

*Declare that the information contained in this report gives a true and fair view<sup>68</sup>.*

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

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

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

*However the following reservations should be noted:*

*For the European Fisheries Fund, material ineligible expenditure was detected in several programmes.*

*Brussels, 19 April 2016*

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*[signed]*

*João Aguiar Machado*

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<sup>68</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

## Reservation

<b>DG</b>	<b>Maritime Affairs and Fisheries</b>
<b>Title of the reservation, including its scope</b>	<b><u>Reservation concerning the EFF management and control systems (2007-2013 programming period)</u></b> Reservation concerning the management and control systems for EFF programmes in the following 5 Member States (cumulative residual error rates in brackets): Czech Republic (0.07%); Spain (Galicia only – 0%); Italy (2.06%); Romania (2.43%); and Slovakia (3.09%).
<b>Domain</b>	Shared management – EFF
<b>ABB activity and amount affected (= "scope")</b>	11 06 11; 11 06 12; 11 06 13 – European Fisheries Fund: amount paid in 2014: €570.91m
<b>Reason for the reservation</b>	For 3 of these 5 Member States, national audit reports and opinions have revealed error rates exceeding 2% of declared expenditure, and corrective action is clearly required. For Galicia, there is a scope limitation in respect of 4 % of declared expenditure. Italy has not yet submitted its 2015 annual control report.
<b>Materiality criterion/criteria</b>	2% of payments made for the programmes in the year.
<b>Quantification of the impact (= actual exposure)</b>	For quantification, only interim payments have been taken into consideration. The risk has been quantified by using the error rates reported by the national audit authorities (where reliable). The amount at risk is estimated at €7.35 million (1.29% of 2015 EFF payments).
<b>Impact on the assurance</b>	The weakness affects the legality and regularity of the payments concerned and the management systems in place for the measures concerned. The financial impact is managed through the safeguard measures taken by the Commission. For certain Member States, payments are currently interrupted; corrective measures will take the form of withdrawal of expenditure and financial corrections, if necessary.
<b>Responsibility for the weakness</b>	The expenditure concerned is under shared management, for which the Member State is primarily responsible for implementing the corrective actions. The Commission supervises the national authorities in this respect. If adequate actions are not implemented the Commission will then launch the financial correction procedures foreseen under Articles 97 and 98 of Council Regulation No 1198/2006.
<b>Responsibility for the corrective action</b>	Payments in respect of 2 of the 5 programmes in reservation (Italy and Romania) are already interrupted (there are claims pending). Warning letters will be sent to the other Member States. Action plans already exist or will shortly be developed, specifying the necessary measures to be taken (to rectify the weaknesses that gave rise to the high error rates) and the timeframes required. Payments will resume only when these issues have been satisfactorily addressed.