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ANNEXES 1 to 9

ANNEXES

to the

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS

2018 Annual Management and Performance Report for the EU Budget

ANNEXES

List of annexes

Annex 1: Snapshot of the Commission-wide impact indicators ([411])

These statistical indicators are high-level context indicators designed to track the longer-term and indirect impacts of EU action. They were identified in the strategic plans of the Commission services. This annex presents intermediate reporting on the current trends.

General objective: A new boost for jobs, growth and investment

1. Percentage of EU gross domestic product invested in research and development (combined public and private investment)		
Baseline (2012)	Latest known value (2017)	Target (2020)
2.0%	2.1% (provisional)	3.0%
Source: Eurostat (412).		

2. Employment rate population, age group 20-64		
Baseline (2014)	Latest known value (2017)	Target (2020)
69.2%	72.2%	At least 75%
Source: Eurostat.		

3. Tertiary educational attainment, age group 30-34		
Baseline (2013)	Latest known value (2017)	Target (2020)
37.1%	39.9%	At least 40%
Source: Eurostat.		

4. Share of early leavers from education and training (413)		
Baseline (2013)	Latest known value (2017)	Target (2020)
11.9%	10.6%	Less than 10%
Source: Eurostat.		

([411]) Reporting is based on data available as at 1.2.2019, except for indicator 24 (retrieved on 7.3.2019), indicators 28 and 29 (retrieved on 20.06.2019) and indicator 37 (retrieved on 18.2.2019). The information, including the baseline, may have been updated in the meantime or more recent time-series may have come available. Most recent data is available on the website of Eurostat.

([412]) Eurostat periodically revises its published data to reflect new or improved information, also for previous years. The latest published data are available by clicking on 'bookmark'. The 'latest known value' column reflects the data that were available at the time of the preparation of the *annual activity report 2018* and is the reference point for the annual activity reports of Commission services.

([413]) The share of 18-year-old to 24-year-old persons who have at most lower-secondary education and are not in further education or training.

5. People at risk of poverty or social exclusion		
Baseline (2013)	Latest known value (2017)	Target (2020)
122.8 million	112.9 million	At least 20 million people fewer than in 2008 (116.2 million)
Source: Eurostat. [Baseline adjusted: before: 122.7 million]		

6. Growth of gross domestic product		
Baseline (2014)	Latest known value (2017)	Target (2020)
1.8%	2.4%	Increase
Source: Eurostat.		

7. Gross fixed-capital formation (GFCF) investments to gross domestic product ratio		
Baseline (2014)	Latest known value (2017)	Target (2016-2020)
19.4%	20.2%	21-22% Mean GFCF for the period 2016-2020 having reached the range of 21-22%
Source: Eurostat.		

8. Labour productivity for the EU-28 as compared to the United States (US = 100) ([414])		
	Latest known value (2017)	Target (2020)
75 (US = 100)	76	Increase
Source: Annual macro-economic database of the European Commission's Directorate-General for Economic and Financial Affairs.		

([414]) Gross domestic product at 2010 reference levels per hour worked (purchasing power parity adjusted).

9. Resource productivity (gross domestic product in EUR) over domestic material consumption (DMC, kg) ([415])		
Baseline (2010 — Eurostat estimate)	Latest known value (2017, provisional)	Target (2020)
EUR 1.81/kg (EU-28)	EUR 2.04/kg (EU-28)	Increase
Source: Eurostat.		

General objective: A connected digital single market

10. Aggregate score in the Digital Economy and Society Index (DESI) EU-28 ([416])		
Baseline (DESI 2015)	Latest known value (DESI-2018)	Target (2020)
45	54	Increase
Source: Digital Economy and Society Index. [Baseline adjusted: before: 46 according to new scale as DESI has been updated, so the indicator list has slightly changed; in addition, move from 0-1 scale to 0-100 scale]		

General objective: A resilient energy union with a forward-looking climate change policy

11. Greenhouse gas emissions (index 1990 = 100)		
Baseline (2013)	Latest known value (2017 prox. estimates by the EEA)	Target (2020)
80.4%	78.1%	At least 20% reduction (index ≤ 80)
Source: European Environmental Agency. [Baseline adjusted: before: 80.2%]		

12. Share of renewable energy in gross final energy consumption				
	Interim milestone		Latest known value	
Baseline (2013)	(2013/2014)	(2015/2016)	(2016)	Target (2020)
15.2% [Baseline adjusted: before: 15%]	15.6% [Baseline adjusted: before: 13.6%]	16.9% [Baseline adjusted: before: 15.9%]	17.0%	20%
Source: Eurostat.				

([415]) The indicator focuses on the sustainability of growth and jobs.

([416]) The Digital Economy and Society Index is a composite index that summarises relevant indicators on Europe's digital performance and tracks the evolution of EU Member States in digital competitiveness. The closer the value is to 1 the better. The DESI index is calculated as the weighted average of the five main DESI dimensions: (1) connectivity (25%), (2) human capital (25%), (3) use of internet (15%), (4) integration of digital technology (20%), and (5) digital public services (15%). The DESI index is updated once a year.

13. Increase in energy efficiency — Primary energy consumption		
Baseline (2013)	**Latest known value (2016)**	**Target (2020)**
1 571 million tonnes of oil equivalent (Mtoe)	1 543 million tonnes of oil equivalent (Mtoe)	20% increase in energy efficiency (no more than 1 483 Mtoe of primary energy consumption)

Source: Eurostat.
[Baseline adjusted: before: 1 569.9 Mtoe]

14. Increase in energy efficiency — Final energy consumption		
Baseline (2013)	**Latest known value (2016)**	**Target (2020)**
1 108.2 million tonnes of oil equivalent (Mtoe)	1 107.8 million tonnes of oil equivalent (Mtoe)	20% increase in energy efficiency (no more than 1 086 Mtoe of final energy consumption)

Source: Eurostat.
[Baseline adjusted: before: 1 106.2 Mtoe]

15. Number of Member States at or above the electricity interconnection target of at least 10%			
Baseline (2014)	**Interim milestone (2018)**	**Latest known value (2017)**	**Target (2020)**
16 Member States at or above 10% electricity interconnection target	19 Member States at or above 10% electricity interconnection target	17 Member States at or above 10% electricity interconnection target	24 Member States at or above 10% electricity interconnection target (Spain and Cyprus to follow later)

Source: ENTSO-e.

General objective: A deeper and fairer internal market with a strengthened industrial base

16. Gross value added of EU industry in (% of gross domestic product)		
Baseline (2014)	**Latest known value (2017)**	**Target (2020)**
17.1	17.6	20

Source: Eurostat.

17. Intra-EU trade in goods (% of gross domestic product)		
Baseline (2014)	**Latest known value (2017)**	**Target (2020)**
20.3	21.4	Increase

Source: Eurostat.
[Baseline adjusted: before: 20.4%]

18. Intra-EU trade in services (% of gross domestic product)		
Baseline (2014)	**Latest known value (2017)**	**Target (2020)**
6.3	7.1	Increase

Source: Eurostat.

19. Share of mobile EU citizens as % of the labour force		
Baseline (2014)	Latest known value (2017)	Target (2020)
3.4	4.0	Increase
Source: Eurostat (age group 15-64).		

20. Composite indicator of financial integration in Europe (Fintec) ([417])		
Baseline (2014)	Latest known value (2018)	Target (2020)
0.5/0.3 The first entry is the price-based indicator value, the second is the volume-based indicator value.	0.59/0.22	Increase
Source: European Central Bank.		

General objective: A deeper and fairer economic and monetary union

21. Dispersion of gross domestic product per capita ([418])		
Baseline (2014)	Latest known value (2017)	Target (2020)
Euro area: 42.1% EU-27: 41.8% EU-28: 42.3%	40.5% 40.0% 40.5%	Reduce Reduce Reduce
Source: Eurostat. [EU-28 baseline adjusted: before: 42.5%]		

22. Composite Indicator of Systemic Stress (CISS) ([419])		
Baseline (average range 2010-2014)	Latest known value (2018)	Target (2020)
0.25 in normal times 0.8 in crisis mode	0.0764	Stable trend
Source: European Central Bank.		

23. Income quintile share ratio ([420])		
Baseline (2014)	Latest known value (2017)	Target (2020)
5.2	5.1	Reduce
Source: Eurostat.		

([417]) The Fintec indicator is a scale-free measure normalised to always lie between 0 and 1; 0 being no cross-border integration, 1 being full integration; for the price-based part, 1 would be a total absence of any price differentials for comparable money market instruments; for the volume-based part, 0 would be a lack of any home bias on the side of investors.

([418]) Variation coefficient of gross domestic product volume indices of expenditure per capita.

([419]) CISS measures the state of instability in the euro-area financial system. It comprises 15 mostly market-based financial stress measures split into five categories: financial intermediaries sector, money markets, equity markets, bond markets and foreign-exchange markets. It is unit free and constrained to lie within the interval (0, 1).

([420]) The ratio of total income received by 20% of the population with the highest income (top quintile) to that received by 20% of the population with the lowest income (lowest quintile).

General objective: A balanced and progressive trade policy to harness globalisation

24. Percentage of EU trade in goods and services as well as investment covered by applied EU preferential trade and investment agreements

Baseline Goods average for 2014-2016, services and average of foreign direct investment for 2013-2015	Latest known value Goods average 2016-2018, services and average of foreign direct investment for 2015-2017, FTA status: 2018	Milestone (*) (2018)	Target (*) (2020)
Goods: Imports 27% Exports 32% Total 29% Services: Imports 10% Exports 9% Total 9% foreign direct investment stocks: Imports 4% Exports 7% Total 6%	Goods: Imports 29% Exports 34% Total 32% Services: Imports 12% Exports 12% Total 12% foreign direct investment stocks: Imports 9% Exports 12% Total 11%	Goods: Imports 32% Exports 37% Total 34% Services: Imports 15% Exports 15% Total 15% foreign direct investment stocks: Imports 9% Exports 13% Total 11%	Goods: Imports 51% Exports 61% Total 56% Services: Imports 54% Exports 52% Total 53% foreign direct investment stocks: Imports 55% Exports 59% Total 57%

Source: Eurostat for the raw indicators (1, 2, 3) and DG Trade for the list of countries covered by trade and investments agreements (4).
Source of goods: (1) Goods bookmark to the denominator and goods per partner country in the nominator.
Source of services: (2) Services bookmark to the denominator and services per partner country in the nominator.
Source of foreign direct investment stocks: (3) *foreign direct investment* stocks bookmark to the denominator and *foreign direct investment* stocks per partner country in the nominator.
Source of trade: (4) DG Trade: trade and investments agreements (see agreements under 'In place' and 'Agreements partly in place').

(*) The milestone and target figures are based on expectations of provisional application/entry into force of agreements that are currently under negotiation (see also result indicator 1.1: 'Number of ongoing EU trade and investment negotiations and number of applied EU trade and investment agreements' of DG Trade's strategic plan 2016-2020).

General objective: An area of justice and fundamental rights based on mutual trust

25. Share of the population considering themselves as 'well' or 'very well' informed of the rights they enjoy as citizens of the European Union

Baseline (2015)	Latest known value	Target (2020)
50%	(EB90 — Autumn 2018) 55%	Increase

Source: Eurobarometer on citizenship.
[Baseline corrected by DG Communication: before: 42%]

26. Citizens experiencing discrimination or harassment		
Baseline (2015)	Latest known value	Target (2021) The Eurobarometer takes place every 3 years.
21%	Next survey planned for 2019	Decrease
Source: Eurobarometer on discrimination.		

27. Gender pay gap (GPG) in unadjusted form, EU-28 ([421])		
Baseline (2013)	Latest known value (2016) (provisional)	Target (2020)
16.8%	16.2%	Decrease
Source: Eurostat.		

General objective: Towards a new policy on migration ([422])

28. Rate of return of irregular migrants (423)		
28.1. Explanation: The indicator measures the total return rate (number of persons returned divided by return decisions issued by the Member States)		
Baseline (2014)	Latest known value (2018)	Target (2020)
41.8%	41.5%	Increase
Source: Eurostat ([424]): Return decisions; Eurostat: Total number of persons returned.		

28.2. Explanation: The indicator measures the % of effective returns to non-EU countries (returns to non-EU countries divided by return decisions issued by the Member States)		
Baseline (2014)	Latest known value (2018)	Target(2020)
36.2%	35.6%	Increase
Source: Eurostat: Return decisions; Eurostat: Returns to non-EU countries.		

29. Gap between the employment rates of third-country nationals compared to EU nationals ([425]), age group 20-64		
Baseline (2014)	Latest known value (2018)	Target (2020)
Gap: 13.4 points EU nationals: 69.8% Third-country nationals: 56.4%	Gap: 14.6 points EU nationals: 73.9% Third-country nationals: 59.3%	Decrease
Source: Eurostat.		

([421]) The unadjusted gender pay gap represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.
([422]) The indicator measures the % of effected returns compared to return decisions issued by the Member States.
([423]) For the purpose of this exercise the EU rate of effective return to third countries in 2018 incorporates the figures of the total returns effected by Greece and reported as such to Eurostat (contrary to previous years, Greece did not specifically report on return to third countries in 2018.
([424]) Eurostat annually collects both the nominator and the denominator from the ministries of interior/border guards/police of the Member States. The data depend very much on national circumstances and policies. In addition, the time lag between the return decision and its execution means that the reference population of the nominator and denominator are not the same.
([425]) Host-country nationals and other EU nationals counted together.

General objective: A stronger global actor

30. Gross domestic product per capita (current prices, purchasing power standard) as % of EU level in countries that are candidates or potential candidates for EU accession		
Baseline (2014)	**Latest known value (2017)**	**Target (2020)**
34% for Western Balkans (excluding Kosovo ([426])) 64% for Turkey	35% for Western Balkans (excluding Kosovo ([427])) 67% for Turkey	Increase
Source: Eurostat.		

31. Ranking to measure political stability and absence of violence in countries part of the European neighbourhood policy (ENP) ([428])		
Baseline (2014)	**Latest known value (2017)**	**Target (2020)**
NE (*): 33.89 — 4 countries above 30 NS (**): 11.99 — 4 countries above 10	NE: 27.06 — 3 countries above 30 NS: 13.43 — 5 countries above 10	NE: decrease in the number of countries above 30 by 1 NS: increase in the number of countries above 10 by 1
(*) NE: Neighbourhood east, i.e. the number of countries in a percentile rank above 30. (**) NS: Neighbourhood south, i.e. the number of countries in a percentile rank above 10. *Source:* Worldwide Governance Indicators (WGI) project (World Bank group).		

([426]) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

([427]) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

([428]) The indicator measures perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. Higher values in the percentile rank indicate better governance ratings.

32. Sustainable development goal 1.1.1: Proportion of population below international poverty line			
Baseline [429] **Computed on country-level data from 2012 or before, drawing on World Bank data for the poverty rates and UN population division data for the weights; extracted in January 2019 [November 2017] to take data revisions into account]**	**Interim milestone**	**Latest known value** **(Computed on country-level data from 2017 or before, drawing on World Bank data for the poverty rates and UN population division data for the weights; extracted in January 2019)**	**Target** **(2030)** **UN sustainable development goals**
17.1% [before: 17.0%] (including the graduated countries — partnership countries for which bilateral assistance is phased out) 29.5% [before: 28.4%] (excluding the graduated countries)	Rolling On course for 2030 based on annual progress report prepared by the UN Secretary General	14.6% (including the graduated countries — Partnership countries for which bilateral assistance is phased out) 26.8% (excluding the graduated countries)	0%
Source: World Bank (poverty rate); UN population division (population weights). [Baseline adjusted]			

33. EU collective net official development assistance (ODA) as a percentage of EU GNI: (a) in total, (b) to least-developed countries (LDCs)			
Baseline (2014)	**Interim milestone (2020)**	**Latest known value (2017)**	**Target (2030)** **Council conclusions of 26 May 2015, in the framework of the 2030 agenda for sustainable development**
In total: 0.43% To LDCs: 0.11% Based on the analysis of final 2014 ODA spending by EU Member States and non-imputed spending by the EU institutions as reported by the Organisation for Economic Co-operation and Development's Development Assistance Committee (DAC). Final data for two EU Member States was not available so earlier data were extrapolated.	In total: n/a To LDCs: 0.15%	In total: 0.5% To LDCs: 0.12%	In total: 0.70% To LDCs: 0.20%
Source: Organisation for Economic Co-operation and Development's Development Assistance Committee (DAC).			

(429) For the calculation of the baseline, beneficiary countries under the Development Cooperation Instrument and the European Development Fund have been taken into account. Beneficiaries under the European Neighbourhood Instrument and the EU–Greenland Partnership Instrument have been excluded.

General objective: A union of democratic change

34. Voter turnout at European elections		
Baseline (2014)	Latest known value (insert date)	Target (2019)
42.61%	No new value	Increase
Source: European Parliament.		

35. Number of opinions received from national parliaments ([430])			
Baseline (2014)	Latest known value		Target (2020)
	(2017)	(31.12.2018)	
506	576	570	Increase
Source: European Commission annual report on relations between the European Commission and national parliaments.			

General objective: To help achieve the overall political objectives, the Commission will effectively and efficiently manage and safeguard assets and resources, and attract and develop the best talents

36. Trust in the European Commission		
Baseline (EB83 — Spring 2015)	Latest known value (EB90 — Autumn 2018)	Target (2020)
40% tend to trust	43% tend to trust	Increase
Source: Standard Eurobarometer on public opinion in the European Union.		

37. Staff engagement index in the Commission		
Baseline (2014)	Latest known value (2018)	Target (2020)
65.3%	69%	Increase
Source: European Commission.		

([430]) The number of opinions to a certain degree depends on the number of legislative proposals and policy communications put forward by the Commission.

Annex 2: Risk at payment/closure reported in the 2018 annual activity reports

Main concepts

Relevant expenditure

The amount of relevant expenditure is determined to be in line with the Court of Auditors' scope of transactions reviewed (see the European Court of Auditors' 2017 annual report methodological Annex 1.1, paragraph 15). In this approach, pre-financing and retentions are only taken into account when the final recipient of EU funds has provided evidence of their use and the Commission (or another institution or body managing EU funds) has accepted the final use of the funds (by clearing the pre-financing or releasing the amount retained), because this is when errors of legality or regularity may occur. Therefore, the risks at payment and at closure are determined against this amount.

In order to show a complete picture of the funds for which the Commission is responsible, we are adding the payments made under the **European Development Fund**. This is a budget separate from the EU budget, managed by the development department. In **Table B**, the corresponding expenditure is included in the external relations policy area; in **Table C**, it is included in the development department's expenditure.

These tables also show the expenditure related to the **four EU Trust Funds**: the EU Trust Fund for the Central African Republic; the EU Regional Trust Fund in Response to the Syrian Crisis; the EU Emergency Trust Fund for Africa; and the EU Trust Fund for Colombia (see also Annex 9). In Table B, the corresponding expenditure is included in the external relations policy area; in Table C, it is included in the development, neighbourhood and humanitarian departments.

The three departments ensure the transparent and complete coverage of the relevant trust fund(s) in their annual activity reports, based on the reports from the trust fund managers. They make a distinction between their accountability for the contributions, from the EU budget and/or the European Development Fund, paid into the trust funds, on the one hand and for the transactions made out of the trust funds, i.e. with the funds collected from the EU budget, the European Development Fund and other donors, as a trust fund manager, on the other hand.

Preventive and corrective measures

The Commission's control strategies involve both preventive and corrective measures (see **chart** below).

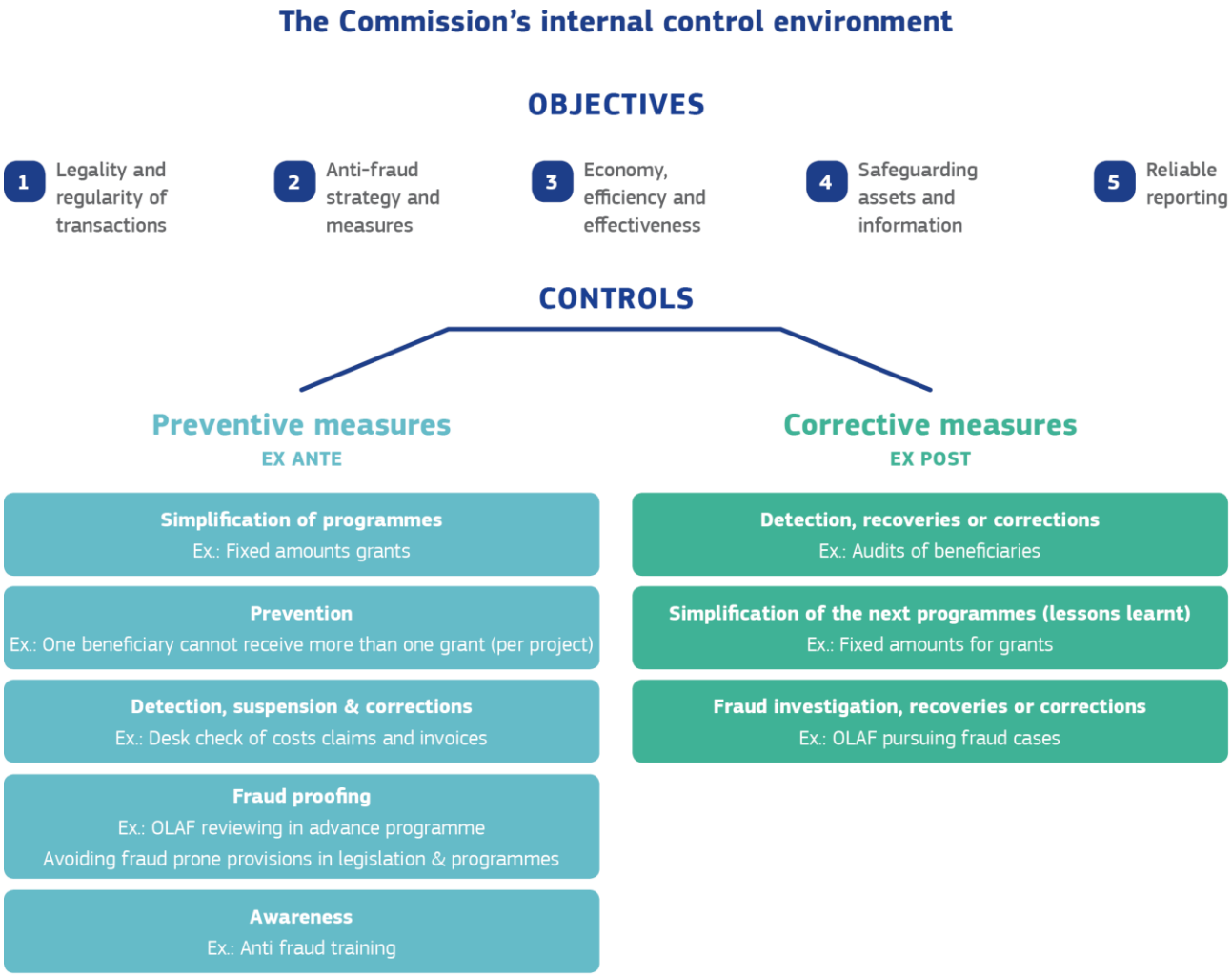

Chart: Main features of the Commission's control strategies
Source: European Commission.

Preventive measures take place before the Commission makes the payment. They result mostly from controls (named *ex ante* controls) carried out by the Commission before accepting and reimbursing the expenditure, clearing the pre-financing (i.e. transferring its ownership to the beneficiary) and making the interim/final payment. As required by Article 74(5) of the financial regulation, all financial operations are subject to controls before payment under all management modes.

Examples of such preventive measures are the recovery of unused pre-financing, the (partial) rejection of costs claimed, and the financial corrections made by Member States before declaring the expenditure to the Commission.

The intensity in terms of frequency and/or depth of these controls depends on the risks and costs involved. Consequently, for low-risk transactions *ex ante* controls usually take the form of desk reviews rather than on-the-spot controls at the premises of the beneficiary. Indeed, for such transactions, on-the-spot controls would imply a prohibitive cost in view of the expected benefit.

In shared management, the possible interruptions/suspensions of payments to Member States in the event of serious deficiencies in the management and control systems have a preventive character. In addition, the

Commission provides training and guidance to Member State authorities to grant beneficiaries on the eligibility aspects of grants and procurement.

Corrective measures take place after the Commission has made the payment or accepted the expenditure. In line with Article 74(6) of the financial regulation, they result from controls (named *ex post* controls) that are typically performed on the spot, on a sample basis, either representative or based on a risk assessment. They consist of financial audits that lead to financial corrections and recoveries of irregular expenditure ([433]). For an analysis of the actual financial corrections and recoveries made during the 2018 reporting year itself, see Section 2's subsection 3 on the protection of the EU budget.

Sources and root causes of errors detected by the Commission or by the Member States are also taken into account when preparing future (simplified) legislation and when (re)designing controls in order to further reduce the level of error in the next generation of funding programmes.

Risk at payment

This risk is estimated after preventive controls haven taken place but before corrective measures have been applied. Each department estimates its **error rate** per programme or other segment of payments. Some departments may use a different terminology in their annual activity reports: 'adjusted error rates' by the agriculture department or 'residual total error rates' by the regional, employment and maritime departments. The departments use a consistent methodology to assess the **risk of error** in their financial operations. This is typically done through surveys or audits, of samples of financial transactions, taking place after the payments. They reveal the errors that may have remained after the *ex ante* controls have been applied and make it possible to **estimate** those parts of expenditure or revenue likely to be in breach of applicable regulatory and contractual provisions before any correction has taken place. This corresponds to the risk at payment for an individual programme or segment, in percentage.

All types of error, either formal or material, are duly considered and may lead to further enhancements of the control systems in place. Furthermore, in terms of consequences for the EU budget, the Commission calculates their actual financial impact. This is not necessarily equal to the total value of the EU funding involved, e.g. only the overpayment when the grant beneficiary has declared an amount above the reimbursement ceiling; pro rata of the EU funding when the EU only co-funds a grant; or even zero in case of merely formal errors without any financial impact. A special case of the latter are formal errors in procurement procedures, which do not necessarily preclude that the best offer has been selected, that the output has been delivered in accordance with the contract and that the payments have been regular.

On the other hand, two departments (development and neighbourhood) carry out specific studies to determine their error rate, including all corrections until the end of the programmes. This is called the 'residual error rate' and corresponds in this case to a risk at closure. They obtain the error rate at payment by adding the estimated future corrections to the estimated risk at closure.

The risk at payment in value is obtained by multiplying the relevant expenditure per programme or segment with the corresponding error rate.

For low-risk expenditure, where there are indications that the error rate might be close to zero (e.g. administrative expenditure, operating subsidies to agencies), it is nevertheless recommended to use an error rate of 0.5% as a conservative estimate.

The results per programme or segment are aggregated to provide, at department, policy area and Commission level, the **overall risk at payment in value**, which is the sum of all the amounts of risk at payment, and in **percentage**, which is the overall weighted average of the risk at payment in percentage.

([433]) For information, such corrections do not include the penalties and fines, as they are not related to 'undue' payments or quantified 'financial errors'.

Estimated future corrections

Because the majority of the programmes as well as the control strategies are multiannual, the risk at payment determined in first instance may provide an incomplete picture, as errors may still be corrected during a number of years after the payments have taken place, until the closure of the programme. In addition, corrections resulting from *ex post* controls rarely take place within the same financial year as the payment.

Therefore, in a second stage, departments estimate the percentage of future corrections they may still apply. This percentage is deducted from the risk at payment to obtain the risk expected at the time of the closure of the programmes. This percentage is applied to the relevant expenditure to obtain the amount of estimated future corrections.

For programmes with no set closure point (e.g. the European Agricultural Guarantee Fund) and for some multiannual programmes for which corrections are still possible after the end of the programmes (e.g. the European Agricultural Fund for Rural Development and the European Structural and Investment Funds), all the corrections that remain possible are considered for this estimate.

This estimate is based on the 7-year historic average of recoveries and financial corrections. Where the departments are of the opinion that this is not the best available estimate of their *ex post* corrective capacity for their current activities, they adjust or replace their historic average. Any *ex ante* elements, one-off events, (partially) cancelled or waived recovery orders, other factors from the past years that would no longer be relevant for current programmes (e.g. higher *ex post* corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely *ex ante* control systems) may be taken into account in order to come to the best and most conservative estimate of future corrections to be applied for the expenditure of the current programmes. This may include considering less than 7 recent years (e.g. agriculture, maritime, development, neighbourhood), using an alternative estimation basis (e.g. agriculture, regional and employment, plus the research group) or even assuming that the *ex post* future corrections would be 0.0% (e.g. departments with entirely *ex ante* control systems which cannot have systematic future *ex post* corrections).

In 2018, most departments adjusted or replaced their historical average of corrections in order to arrive at their best conservative estimate of the future corrections to be applied to their relevant expenditure for the reporting year. The adjustments made include reducing the 7-year period (e.g. agriculture, maritime, development and neighbourhood departments); using an alternative basis (e.g. agriculture department, the regional and employment departments ([434]), plus the research group of departments); or assuming that future *ex post* corrections will be zero (departments whose control systems consist of predominantly *ex ante* controls).

These future corrections can never be fully equal to the risk at payment. This is due to the fact that part of the errors may be of a formal nature, which, although important to address, does not always result in undue payments and therefore does not always give rise to financial corrections or recovery orders.

Risk at closure

This risk is estimated at **programme closure**, meaning when all *ex post* controls are completed and corrections are applied, legally no further action may be taken.

The risk is obtained by deducting the estimated future corrections from the risk at payment, in value and in percentage. These amounts and percentages represent the most up-to-date estimation of the outcome to be expected by the closure of each programme. It is forward-looking to the point when all future corrections will have been made. This risk at closure is more representative of the multiannual corrective capacity of the Commission and of the real risk to the expenditure.

Similarly to the risk at payment, the results per programme or segment are aggregated to provide, at department, policy area and Commission level, the **overall risk at closure in value**, which is the sum of all

([434]) The envisaged corrections identified for the specific operational programmes affected.

the amounts of risk at closure, and in **percentage**, which is the overall weighted average of the risk at closure in percentage.

The following tables show:

- the amount of **relevant expenditure** for the whole Commission (see **Table A**) — this is the basis against which the risk at payment and at closure are determined to be in line with the Court of Auditor's approach;
- a consolidated overview of the Commission's **risk at payment/closure per policy area** (see **Table B**) and **per department** (see **Table C**).

Table A: Amount of 'relevant expenditure' for the whole Commission (EUR millions)

2018 (provisional) annual accounts	Payments made (a)	- New pre-financing (b)	+ Retentions made (c)	+ Cleared pre-financing (d)	- Retentions released (e)	= Relevant expenditure (f)=(a)-(b)+(c)+(d)-(e)
EU budget	152 533	– 29 810	4 202	23 082	– 3 188	146 819
of which: contributions to the EU Trust Funds	*– 383*			*– 18*		*– 400*
European Development Fund	4 069	– 2 251		2 067		3 885
of which: contributions to the EU Trust Funds	*– 345*					*– 345*
EU Trust Funds	874	– 748		169		294
Commission total	**156 749**	**– 32 810**	**4 202**	**25 300**	**– 3 188**	**150 253**

Source: Commission annual activity reports.

Specifications of columns (a) to (f)

(a) This column contains all the payments made in 2018, including pre-financing, as they are registered in the Commission's accounting system.

(b) Pre-financing ([435]) paid by the Commission in 2018.

(c) In cohesion, a 10% retention is made for all interim payments to the Member States. This is released once the Member States' accounts have been accepted by the Commission.

(d) Pre-financings that have been cleared during the financial year. This means that the Commission has accepted the final use of the funds by clearing the advance.

(e) Amount of the retention released in 2018 (see (b)) and, also in cohesion, the deductions of expenditure made by the Member States.

(f) Relevant expenditure = (a)-(b)+(c)+(d)-(e).

([435]) 'Pre-financing' in line with note 2.5.1. of the Commission's (provisional) annual accounts.

Tables B and C: Risk at payment/closure per policy area and per department

To allow the comparison with previous annual management and performance reports, the same groupings of Commission departments are kept. They do not necessarily correspond to those used by the European Court of Auditors in its annual report (which have changed in 4 years out of the last 5 years).

For instance, in this table, the cohesion, migration and fisheries policy area includes all the departments which execute the largest share of their budget in shared management mode — except for the agriculture department. It thus entails the regional, employment, maritime and home affairs departments.

As suggested by the European Court of Auditors, from 2018 we also show a subtotal for **economic, social and territorial cohesion** in the sense of budget heading 1b and equivalent to the Court's presentation (436).

Specifications of the additional columns in Tables B and C.

(a) to (f) Same explanations as in Table A.

(h) **Risk at payment** (in value and in percentage).

A limited number of departments use a range of 'minimum-maximum' amounts/rates for their estimated risk at payment, with rather minor variances between the two values. To simplify the presentation of data, only the highest values are presented in the tables and charts.

(i) **Estimated future correction** (in value and percentage).

(j) **Risk at closure** (in value and percentage).

It should be noted that due to the rounding of values into EUR millions, some financial data in the tables may appear not to add up.

Some departments have added reconciliation notes to their table in their annual activity report.

(436) In addition to their risk at payment for the 2018 relevant expenditure (1.7% for cohesion; 1.7% for the regional department, 1.9% for the employment department), these departments also reported their confirmed residual total error rate for the accounting year 2016/2017 (2014-2020 operational programmes, excluding financial instruments), respectively at 1.96% and 1.5%. The weighted average of these is 1.8%.

Table B: Risk at payment/closure per policy area for the whole Commission (EUR millions)

Policy area	Total payments	New pre-financing paid	Retentions made by cohesion family DGs	Pre-financing cleared	Retentions (partially) released by cohesion family DGs	Total relevant expenditure *(a)-(b)+(c)+(d)-(e)*	Estimated risk at payment *Average error rate applied on (f)*	Estimated future corrections *Adjusted rate of average recoveries and corrections applied on (f)*	Estimated risk at closure *(g)-(h)*
	(a)	*(b)*	*(c)*	*(d)*	*(e)*	*(f)*	*(g)*	*(h)*	*(i)*
Agriculture (437)	56 830.3	61.1	0.0	100.6	0.0	56 869.8	1 222.6 *2.1%*	1 081.6 *1.9%*	141.0 *0.2%*
Cohesion (*), migration and fisheries	56 801.6	11 153.2	4 201.9	6 276.6	3 187.9	52 939.0	899.2 *1.7%*	233.0 *0.4%*	666.2 *1.3%*
External relations	13 281.0	8 639.5	0.0	6 846.6	0.0	11 488.1	105.1 *0.9%*	31.3 *0.3%*	73.8 *0.6%*
Research, industry, space, energy and transport	16 242.3	9 197.9	0.0	9 352.5	0.0	16 396.9	309.7 *1.9%*	74.0 *0.5%*	235.7 *1.4%*
Other internal policies	6 712.3	3 658.0	0.0	2 637.8	0.0	5 692.1	39.1 *0.7%*	6.0 *0.1%*	33.0 *0.6%*
Other services and administration	6 881.0	100.3	0.0	85.9	0.0	6 866.7	11.9 *0.2%*	0.3 *0.0%*	11.6 *0.2%*
Total 2018	**156 748.5**	**32 809.9**	**4 201.9**	**25 300.0**	**3 187.9**	**150 252.6**	**2 587.7** ***1.7%***	**1 426.3** ***0.9%***	**1 161.4** ***0.8%***
Total 2017	*137 798.8*					*125 011.4*	*1.7%*	*1.1%*	*0.6%*
(*) Of which									
Economic, social and territorial cohesion	54 099.0	9 635.6	4 143.8	4 736.9	3 157.0	50 187.0	858.1 *1.7%*	219.7 *0.4%*	638.4 *1.3%*

(437) The estimated risk at payment reported by the department for agriculture and rural development is 2.15%.

Table C: Risk at payment/closure per department for the whole Commission (EUR millions)

Policy area	DG	Total payments	New pre-financing paid	Retentions made by cohesion family DGs	Pre-financing cleared	Retentions (partially) released by cohesion family DGs	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated risk at payment *Average error rate applied on (f)*	Estimated future corrections *Adjusted rate of average recoveries and corrections applied on (f)*	Estimated risk at closure *(g) – (– h)*
		(a)	*(b)*	*(c)*	*(d)*	*(e)*	*(f)*	*(g)*	*(h)*	*(i)*
Agriculture	AGRI	56 830.3	61.1	0.0	100.6	0.0	56 869.8	1 222.6	1 081.6	141.0
Cohesion, migration and fisheries	EMPL	14 567.8	2 602.3	1 220.6	886.4	674.0	13 398.5	247.4	64.1	183.3
	HOME	1 853.6	1 334.2	0.0	1 369.1	0.0	1 888.5	30.6	13.2	17.4
	MARE	849.0	183.4	58.2	170.6	30.9	863.5	10.5	0.1	10.4
	REGIO	39 531.1	7 033.3	2 923.2	3 850.5	2 483.0	36 788.6	610.7	155.6	455.1
External relations	DEVCO	7 580.2	4 533.9	0.0	3 615.3	0.0	6 661.6	64.7	14.9	49.8
	ECHO	1 773.4	1 340.6	0.0	1 366.4	0.0	1 799.2	12.5	7.2	5.3
	FPI	733.9	639.1	0.0	401.4	0.0	496.2	7.8	2.0	5.9
	NEAR	3 177.5	2 120.7	0.0	1 461.6	0.0	2 518.5	20.1	7.2	12.9
	TRADE	16.0	5.2	0.0	1.8	0.0	12.6	0.1	0.0	0.1
Research, industry, space, energy and transport	CNECT	1 765.2	1 073.4	0.0	765.9	0.0	1 457.7	50.3	14.9	35.4
	EASME	1 200.8	729.9	0.0	373.0	0.0	843.9	27.1	2.0	25.1
	ENER	1 232.2	876.4	0.0	865.6	0.0	1 221.5	7.5	2.9	4.6
	ERCEA	1 751.5	744.2	0.0	543.8	0.0	1 551.1	23.0	5.6	17.4
	GROW	1 989.8	1 738.0	0.0	3 395.6	0.0	3 647.3	20.3	2.0	18.2
	INEA	2 840.4	1 551.8	0.0	1 297.9	0.0	2 586.6	38.8	10.6	28.2
	MOVE	384.4	185.3	0.0	194.6	0.0	393.6	3.6	1.0	2.5
	REA	1 935.1	1 310.1	0.0	945.9	0.0	1 570.9	38.1	6.6	31.6
	RTD	3 143.0	988.8	0.0	970.1	0.0	3 124.3	101.1	28.5	72.7
Other internal policies	CHAFEA	99.0	49.7	0.0	34.9	0.0	84.2	1.1	0.2	0.9
	CLIMA	19.2	6.3	0.0	5.2	0.0	18.1	0.0	0.0	0.0
	COMM	127.3	12.4	0.0	13.3	0.0	128.2	0.6	0.0	0.6
	EAC	2 650.2	2 597.9	0.0	1 534.5	0.0	1 586.8	15.9	0.2	15.7
	EACEA	654.1	522.5	0.0	510.6	0.0	642.2	10.3	2.0	8.2
	ECFIN	2 264.6	26.7	0.0	7.3	0.0	2 245.2	1.1	0.0	1.1
	ENV	160.9	79.8	0.0	223.1	0.0	304.1	1.5	1.1	0.5

Policy area	DG	Total payments	New pre-financing paid	Retentions made by cohesion family DGs	Pre-financing cleared	Retentions (partially) released by cohesion family DGs	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated risk at payment *Average error rate applied on (f)*	Estimated future corrections *Adjusted rate of average recoveries and corrections applied on (f)*	Estimated risk at closure *(g) – (– h)*
		(a)	*(b)*	*(c)*	*(d)*	*(e)*	*(f)*	*(g)*	*(h)*	*(i)*
	JUST	188.1	154.6	0.0	119.1	0.0	152.6	2.2	1.0	1.1
	SANTE	441.3	196.8	0.0	180.7	0.0	425.1	5.9	1.5	4.4
	TAXUD	107.8	11.2	0.0	9.0	0.0	105.6	0.5	0.1	0.4
Other services and administration	BUDG	18.6	0.0	0.0	0.0	0.0	18.6	0.1	0.0	0.1
	COMP	8.6	0.3	0.0	0.1	0.0	8.4	0.0	0.0	0.0
	DGT	18.0	0.0	0.0	0.0	0.0	18.0	0.1	0.1	0.0
	DIGIT	302.1	0.0	0.0	0.0	0.0	302.1	1.5	0.0	1.5
	EPSC	0.3	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0
	EPSO/EUSA	8.8	0.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0
	ESTAT	66.2	8.9	0.0	8.8	0.0	66.1	0.3	0.0	0.3
	FISMA	52.9	43.3	0.0	37.6	0.0	47.2	0.2	0.1	0.1
	HR	287.9	0.0	0.0	0.0	0.0	287.9	1.2	0.0	1.2
	IAS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	JRC	213.6	2.1	0.0	3.4	0.0	214.9	1.1	0.1	1.0
	OIB	369.9	0.0	0.0	0.0	0.0	369.9	1.8	0.0	1.8
	OIL	144.9	0.0	0.0	0.0	0.0	144.9	0.7	0.0	0.7
	OLAF	25.2	3.3	0.0	5.6	0.0	27.5	0.1	0.0	0.1
	OP	47.8	0.0	0.0	0.0	0.0	47.8	0.1	0.0	0.1
	PMO	5 181.7	0.0	0.0	0.0	0.0	5 181.7	3.6	0.0	3.6
	SCIC	65.9	0.4	0.0	0.5	0.0	65.9	0.1	0.0	0.1
	SG	10.0	2.6	0.0	2.4	0.0	9.7	0.1	0.0	0.1
	SJ	3.8	0.0	0.0	0.0	0.0	3.8	0.0	0.0	0.0
	SRSS	54.9	39.2	0.0	27.5	0.0	43.2	0.7	0.0	0.7
	TF50	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total		**156 748.5**	**32 809.9**	**4 201.9**	**25 300.0**	**3 187.9**	**150 252.6**	**2 587.7**	**1 426.3**	**1 161.4**

Source: Commission annual activity reports.

Annex 3: Summary of reservations in the 2018 annual activity reports

Within the context of their overall assurance building process, authorising officers by delegation perform a detailed analysis for each segment of their portfolio (see Section 2's subsection 5). At the end of each financial year, they determine the residual error rate ([438]) for each programme. This residual error rate is based on the ('gross') detected error rate, but takes into account those corrections that have already been made by then. Where this residual error rate is above the materiality threshold, **they qualify their declaration of assurance with a reservation**. This is in line with the European Court of Auditors' approach ([439]).

The following tables present:

- the list of reservations related to the (current) programmes for the period 2014-2020 (see **Table A**);
- the list of reservations related to the ('legacy') programmes for the period 2007-2013 (see **Table B**);
- the reservation related to the revenue side of the EU budget (see **Table C**).

'Non-quantified reservations' are defined as reservations for which it is not possible to make an accurate assessment of the impact for the financial year, for which the financial impact is zero for this reporting year, or which cannot be quantified because the impact is only reputational.

([438]) At the time of reporting, some of the corrective measures have already been implemented, while others will be in the next year(s). Therefore, the residual error rate is based on the detected error rate but takes into account those corrections that have already been made up to the end of the reporting year. This concept is an 'intermediate' type of error rate between estimated risk at payment and estimated risk at closure, up to the moment of reporting in the management cycle.

([439]) European Court of Auditors, *2017 Annual activity report*, methodological Annex 1.1, paragraph 23.

Table A: Reservations related to the programmes for the period 2014-2020

Policy area	Description of reservation	Dept.	Impact on legality and regularity	Exposure (EUR millions)
Agriculture	European Agricultural Guarantee Fund (EAGF) market measures (eight elements of reservation in six Member States)	AGRI	Quantified	49.8
	European Agricultural Guarantee Fund (EAGF) direct payments (17 paying agencies in 10 Member States)	AGRI	Quantified	378.3
	European Agricultural Fund for Rural Development (EAFRD) expenditure for rural development measures (21 paying agencies in 14 Member States)	AGRI	Quantified	297.3
Cohesion, migration and fisheries	2014-2020 European Regional Development Fund (ERDF)/Cohesion Fund (CF) (30 programmes in 15 Member States and two European territorial cooperation programmes)	REGIO	Quantified	219.9
	2014-2020 European Social Fund (ESF), youth employment initiative (YEI), Fund for European Aid to the Most Deprived (FEAD) (28 programmes in nine Member States)	EMPL	Quantified	63.0
	2014-2020 management and control systems for the Asylum, Migration and Integration Fund (AMIF) (one Member State) and the Internal Security Fund (ISF) (two Member States)	HOME	Quantified	1.4
External relations	Direct management grants — cross-delegation	DEVCO	Quantified	0.7
	Programmes managed by the African Union Commission (AUC) involving a significant level of procurement	DEVCO	Quantified	5.0
	Instrument for Cooperation with Industrialised Countries (ICI)	FPI	Quantified	2.6
	Direct management grants	NEAR	Quantified	8.1
	Projects in Libya and Syria for which no assurance building is possible (no staff access to projects or auditors' access to documents)	NEAR	Non-quantified	-
Research, industry, space, energy and transport	Research Fund for Coal and Steel (RFCS)	RTD	Quantified	2.3
	Competitiveness of small and medium-sized enterprises (COSME) grants	EASME	**New** Quantified	1.6
Other internal policies	Internal control system partially functioning	EACEA	Non-quantified	-
	European Asylum Support Office (EASO) — management and control systems weaknesses	HOME	Non-quantified	-
	European Border and Coast Guard Agency (Frontex) — procurement and control system weaknesses	HOME	**New** Non-quantified	-
	Non-research grant programmes	HOME	Quantified	4.8
	Non-research grant programmes	JUST	Quantified	1.5
	EU Registry Emissions Trading System (EU ETS) — significant security weakness remaining	CLIMA	Non-quantified	-
Other services and administration	Direct management grants	SRSS	2017: Non-quantified 2018: Quantified	0.3

Table B: Reservations related to the programmes for the period 2007-2013

Policy area		Description of reservation	Dept.	Impact on legality and regularity	Exposure (EUR millions)
Agriculture		(none)			
Cohesion, migration and fisheries		2007-2013 European Regional Development Fund/Cohesion Fund/Instrument for Pre-Accession (16 programmes in seven Member States, plus one European territorial cooperation programme and one cross-border cooperation programme)	REGIO	2017: Quantified **2018: Non-quantified**	-
		2007-2013 European Social Fund (14 programmes in six Member States)	EMPL	2017: Quantified **2018: Non-quantified**	-
		2007-2013 European Fisheries Fund (EFF) (one programme in one Member State)	MARE	Non-quantified	-
		2007-2013 solidarity and management of migration flows (SOLID) general programme: European Integration Fund (EIF) in three Member States European Refugee Fund (ERF) in six Member States European Return Fund (RF) in two Member States External Borders Fund (EBF) in seven Member States	HOME	Quantified for EIF Germany. Non-quantified for the others	0.1
External relations		(none)			
Research, industry, space, energy and transport	**FP7**	Research FP7 — incl. cross-delegation	RTD	Quantified	23.1
		Research FP7 — incl. funds paid to association for Active and Assistive Living and ECSEL joint undertaking - the Public-Private Partnership for Electronic Components and Systems	CNECT	Quantified	5.0
		Research FP7 — incl. FP7 funds paid to European Global Navigation Satellite Systems agency and cross-delegation	GROW	Quantified	0.1
		Research FP7	HOME	Quantified	0.2
		Research FP7	ENER	Quantified	2.9
		Research FP7	MOVE	Quantified	0.2
		Research FP7 — Space and security	REA	Quantified	3.4
		Research FP7 — Small and medium-sized enterprises	REA	Quantified	1.2
	CIP	Competitiveness and innovation programme (CIP)	GROW	Quantified	0.1
		Competitiveness and innovation programme ICT policy support programme (PSP)	CNECT	Quantified	1.1
		Competitiveness and innovation programme intelligent energy Europe (IEE II)	EASME	Quantified	0.5
		Competitiveness and innovation programme eco-innovation	EASME	Quantified	0.9
Other internal policies	**EAC**	2007-2013 lifelong learning programme (LLP)	EACEA	Quantified	0.1
		2007-2013 culture programme	EACEA	Quantified	1.7
		2007-2013 tempus programme	EACEA	Quantified	0.9
Other services and administration		(none)			

Table C: Reservation related to the revenue side of the EU budget

Policy area	Description of reservation	Dept.	Impact on legality and regularity	Exposure (EUR millions)
Revenue	Inaccuracy of the traditional own resources (TOR) amounts transferred to the EU budget	BUDG	2017: Quantified **2018: Non-quantified**	-

Source: Commission annual activity reports.

Annex 4: Multiannual control cycle protects the EU budget

This annex describes the functioning of the preventive and corrective mechanisms foreseen in EU legislation and the actions taken by the Commission services to protect the EU budget from illegal or irregular expenditure. It also provides a best estimate of the effects these mechanisms generate and indicates how Member States are involved and impacted. The following information focuses primarily on the results of the Commission's supervisory role, but also provides an insight into the results of Member States' controls.

When implementing the EU budget it is especially important to prevent, or detect and subsequently correct system weaknesses leading to errors, irregularities or fraud. The Commission and — for programmes under shared management — Member State authorities take preventive and corrective measures (i.e. financial corrections and recoveries) as provided for in EU legislation to protect the EU budget from illegal or irregular expenditure — see also subsection 2 above and Annex 2.

The primary objective of financial corrections and recoveries is to ensure that only expenditure in accordance with the legal framework is financed by the EU budget.

Ex ante controls

Prevention is the first line of defence against errors. The Commission's key preventive mechanisms include interrupting and suspending payments (440) as well as carrying out *ex ante* controls leading to the rejection of ineligible amounts before the Commission accepts expenditure and makes payments. The Commission focuses more and more on such preventive measures with a view to better protecting the EU budget. These also serve as incentives for Member States to reduce irregular payments. **In 2018, the preventive measures confirmed amounted to EUR 449 million and the preventive measures implemented amounted to EUR 551 million**. These include *ex ante* controls such as deductions before payment/acceptance by the Commission, Member State deductions from new expenditure declared to the Commission ('at source' deductions) and other *ex ante* adjustments which, if not performed, would otherwise have led to expenditure being incurred that was not in line with the legal framework.

Ex post controls

Where preventive mechanisms are not effective, the Commission, as part of its supervisory role, applies corrective mechanisms. The Commission's main corrective mechanisms include *ex post* controls on amounts it has accepted and paid out. In shared management, these lead to financial corrections and, in direct and indirect management, they result in recoveries from final recipients. **In 2018, the corrective measures confirmed amounted to EUR 1.2 billion and the corrective measures implemented amounted to EUR 2.6 billion.** These include the recovery orders issued, the implementation of the results of the *ex post* controls in cost claims and invoices, the financial corrections applied and the replacement of expenditure ('withdrawals').

From confirmation to implementation

The workflow of preventive and corrective mechanisms applied by the Commission entails two significant steps, the confirmation and the implementation phases. For example, a deduction before the acceptance of expenditure is **confirmed** as soon as it is decided by the relevant Commission services, while a financial

(440) These are not reported in the tables below but in a separate section in Annex 4.

correction is confirmed once it is accepted by the Member State or decided by an official Commission decision.

Some preventive and corrective mechanisms are implemented during the year in which they were confirmed, but in most cases the beneficiary of the spending programme has, based on EU legislation, time to comment or provide additional material on proposed corrections/deductions/rejections. Once such an adversarial process is finalised the Commission needs to recover the amount corresponding to the correction proposed and thus the implementation takes place one or often several years after confirmation.

A financial correction is considered **implemented** when the correction has been applied and recorded in the Commission accounts, which means the financial transaction was validated by the responsible authorising officer in the following cases: deduction of the financial correction from the amounts declared by the Member State in an interim or final payment claim, a recovery order and/or decommitment of the commitment appropriation(s) corresponding to the financial correction amount ([441]).

Key considerations for the protection of the EU budget

One important objective of the Commission is to ensure cost-effectiveness when designing and implementing management and control systems which prevent or identify and correct errors. Control strategies should therefore consider a higher level of scrutiny and frequency in riskier areas and ensure cost-effectiveness.

In **2018**, the financial corrections and recoveries **confirmed** amount to **EUR 1 671 million**. During **the 2012-2018 period** the **average amount of confirmed financial corrections and recoveries** was **EUR 3 234 million,** which **represents 2.3% of the average amount of payments** made from the EU budget. The figures reported confirm the positive results of the multiannual preventive and corrective activities undertaken by the Commission and the Member States by demonstrating that these activities ensure that the EU budget is protected from expenditure in breach of law.

Under shared management the Member States are primarily responsible for identifying and recovering from beneficiaries any amounts unduly paid. Controls carried out by Member States represent the first layer of control in the activities to protect the EU budget. The Commission can apply preventive measures and/or financial corrections on the basis of irregularities or serious deficiencies identified by Member State authorities on the basis of its own verifications and audits, OLAF investigations or as a result of audits by the European Court of Auditors.

For the **Cohesion Fund** and the **European Agricultural Fund for Rural Development** (EAFRD), the vast majority of the financial corrections confirmed/implemented in 2018 relate to the 2007-2013 programme period. The corrections confirmed or implemented during the year relate to errors and irregularities detected in 2018 or in previous years. Overall, 96.2% of the total financial corrections decided have been implemented by the end of 2018.

Agriculture and rural development

For the **European Agricultural Guarantee Fund** (EAGF), the average correction rate for Commission financial corrections under conformity clearance of accounts for the period 1999 to end 2018 was 1.7% of expenditure (all of which are net financial corrections).

Net corrections leading to a reimbursement to the EU budget are characteristic for agriculture and rural development (European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development). In 2018 the main corrections related notably to specific deficiencies in the Integrated Administration and Control System (IACS) in some Member States and insufficient checks of the reasonableness of costs for investment measures and application of the public procurement rules under rural development, to negligence

([441]) In cohesion this is not always a 'net' reimbursement to the EU budget, as Member States have the option to replace the ineligible expenditure with new eligible expenditure.

in the management of recoveries and other debts, and to deficiencies in the control system for pre-recognition of producer organisations and operational programmes for fruit and vegetables.

The Commission applies a number of available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and giving incentives to Member States to reduce irregular payments. In 2018, the Commission has issued common agricultural policy-related decisions for interruptions of EUR 11 million, for the reduction of payments of EUR 58 million, and for suspensions of EUR 11 million.

As regards the **European Agricultural Guarantee Fund** (EAGF), Member States where IACS, including the Land Parcel Identification Systems, does not reach the necessary quality level are required to put in place appropriate action plans while facing the risk of financing suspensions should the action plan not be properly implemented.

For the **European Agricultural Fund for Rural Development** (EAFRD), the Commission interrupts payments in case of problems and has also recourse to suspensions and reductions.

In general, the Commission has launched an ambitious simplification process intended to reduce complexity and administrative burden which has already and will continue to contribute to bringing the risk of error further down.

In addition to the financial corrections, Member States' own reductions before payments to beneficiaries amounted to EUR 521 million at the end of the 2018 financial year.

Cohesion

As regards the 2007-2013 funds of the **European Regional Development Fund** (ERDF), **Cohesion Fund** (CF) and **European Social Fund** (ESF), at the end of 2018 the combined rate of financial corrections, based on Commission supervision work only, was 2.0% of the allocations made.

For cohesion policy, net corrections are rather the exception, due to the different legal framework and budget management type (reinforced preventive mechanism). Where the Commission identifies individual irregularities (including the ones of systemic nature) or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all or part of the expenditure declared for co-financing from the European Regional Development Fund, Cohesion Fund or European Social Fund and reimbursed by the Commission is in line with the applicable rules.

During the **2000-2006** and **2007-2013 programming periods**, Member States were able to replace irregular expenditure with new expenditure if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of EU assistance). In contrast, a Commission financial correction decision always had a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced (i.e. the Member State could spend less money throughout the programme period). For European Social Fund, under an ongoing closure process there are still 28 programmes to be fully closed for the 2000-2006 programming period with outstanding ongoing pending recoveries and administrative and judicial proceedings at the Member State level, mainly for Germany and Italy. The closure is in progress for 31 programmes for the 2007-2013 programming period and appears to be faster than the closure of the 2000-2006 programming period.

The European Court of Auditors assessed the effectiveness of the preventive and corrective measures taken by the Commission in the cohesion policy for the 2007-2013 period ([442]) and concluded that, overall, the Commission had made effective use of the measures at its disposal to protect the EU budget from irregular expenditure and that the Commission's corrective measures put pressure on Member States to address weaknesses in their management and control systems.

([442]) European Court of Auditors, *Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in cohesion during the 2007-2013 period — Special Report No 4/2017*.

The regulatory provisions for the **2014-2020 programming period** significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure.

This is mainly due to the set-up of the new assurance model for the 2014-2020 programming period, which reduces the risk of having a material level of error in the accounts submitted on a yearly basis. In fact, the new legal framework foresees an increased accountability for programme managing authorities which have to apply sound management verifications on time for the submission of programme accounts each year. During the accounting year the Commission retains 10% of each interim payment until the finalisation of the national control cycle. Member States have the opportunity to correct the declared expenditure during the accounting year by withdrawing the irregular expenditure and replacing it with the new regular one. In addition, financial corrections in the accounts as preventive or corrective measures provides more assurance.

The timely identification of deficiencies in the functioning of the management and control system and in the reporting of reliable error rates is in the Member States' best interest, since the Commission shall make net financial corrections in case Member States have not appropriately addressed them before submitting annual accounts to the Commission.

For the period 2014-2020, the Member States have applied themselves in 2018 financial corrections totalling EUR 163 million for the **European Regional Development Fund/Cohesion Fund**, while the financial corrections imposed for the **European Social Fund/youth employment initiative** and the **Fund for European Aid to the Most Deprived** amounted to EUR 147 million.

In addition, Member States have deducted from the accounts significant amounts which were under ongoing assessment of legality and regularity.

Direct and indirect management

The Commission has established a control framework in direct and indirect management which focuses on *ex ante* checks on payments, in-depth *ex post* checks carried out at the beneficiaries' premises after costs have been incurred and declared, and verification missions to international organisations. Net corrections leading to a reimbursement to the EU budget are characteristic for direct and indirect management.

Specific control frameworks are put in place for spending under direct and indirect management primarily covering the grant management process, because this addresses existing risks.

1. Financial corrections and recoveries at end 2018

1.1. Financial corrections and recoveries overview for 2018

The table below provides a complete picture (including one-off measures) of all the preventive and corrective measures confirmed and implemented during 2018 to protect the EU budget — EUR 1.7 billion confirmed and EUR 3.2 billion implemented. These amounts cover preventive actions and corrective actions made during 2018, irrespective of the year in which the initial expenditure was made.

Heading multi-annual financial framework	Total EU budget payments in 2018	Total financial corrections confirmed in 2018	Total recoveries confirmed in 2018	Total financial corrections and recoveries confirmed in 2018	% of payments of the EU budget	Total financial corrections implemented in 2018	Total recoveries implemented in 2018	Total financial corrections and recoveries implemented in 2018	% of payments of the EU budget
Smart and inclusive growth	***75 876***	***411***	***210***	***620***	***0.8***	***1 067***	***206***	***1 273***	***1.7***
ERDF	30 070	286	–	**286**	*1.0*	1 007	–	**1 007**	*3.3*
Cohesion Fund	9 252	90	–	**90**	*1.0*	48	–	**48**	*0.5*
ESF	13 932	34	–	**34**	*0.2*	12	–	**12**	*0.1*
Internal policies	22 622	N/A	210	**210**	*0.9*	N/A	206	**206**	*0.9*
Sustainable growth: natural resources	***58 046***	***501***	***334***	***835***	***1.4***	***1 219***	***463***	***1 682***	***2.9***
European Agricultural Guarantee Fund	44 310	306	138	**445**	*1.0*	832	132	**964**	*2.2*
Rural development	12 467	195	178	**372**	*3.0*	387	315	**702**	*5.6*
Financial Instrument for Fisheries Guidance / European Fisheries Fund	786	0	0	**–**	*0.0*	0	0	**0**	*0.0*
European Agricultural Guidance and Guarantee Fund	-	0	3	**3**	*N/A*	-	3	**3**	*N/A*
Internal policies	483	N/A	14	**14**	*3.0*	N/A	13	**13**	*2.7*
Security and citizenship	***3 108***	***2***	***24***	***25***	***0.8***	***2***	***23***	***25***	***0.8***
Migration and home affairs	801	2	–	**2**	*0.2*	2	–	**2**	*0.2*
Internal policies	2 307	N/A	24	**24**	*1.0*	N/A	23	**23**	*1.0*
Global Europe	***9 519***	***N/A***	***190***	***190***	***2.0***	***N/A***	***180***	***180***	***1.9***
External policies	9 519	N/A	190	**190**	*2.0*	N/A	180	**180**	*1.9*
Administration	***9 944***	***N/A***	***1***	***1***	***0.0***	***N/A***	***1***	***1***	***0.0***
Administration	9 944	N/A	1	**1**	*0.0*	N/A	1	**1**	*0.0*
Total	**156 493 ***	**913**	**757**	**1 671**	**1.1**	**2 288**	**873**	**3 161**	**2.0**

Table 1.1: Financial corrections and recoveries overview for 2018 (443) in EUR million

(*) Excludes EUR 180 million paid out under the special instruments heading.

1.1.1. Agriculture and rural development

The **financial corrections** (444) confirmed by the Commission in 2018 reflect the significant efforts made by the Commission (DG Agriculture and Rural Development) in accelerating the conformity clearance processes. As regards correcting irregularities committed by the beneficiary, Member States must record and report on the **recovery** (445) of the amounts unduly spent within the annual financial clearance exercise. Recovering irregular payments directly from the final beneficiaries is the sole responsibility of the Member States.

1.1.2. Cohesion

2007-2013 programming period

For the **European Regional Development Fund/Cohesion Fund** in 2018, EUR 266 million were confirmed as financial corrections in the context of closure of the programmes as a consequence of the Commission supervisory role. The good progress made on closure in 2018 enabled to implement financial corrections amounting to EUR 845 million.

(443) It should be noted that due to the rounding of figures into EUR millions, some financial data in the tables below may appear not to add up.

(444) For the purpose of calculating its corrective capacity in the AAR, DG Agriculture and Rural Development takes into account only the amounts related to conformity clearance decisions adopted by the Commission and published in the *Official Journal of the European Union* and deducts the corrections in respect of cross-compliance infringements.

(445) As regards recoveries by Member States, DG Agriculture and Rural Development uses the amounts reported in their debtor's ledger.

The Member State with the highest corrections in 2018 was Hungary (EUR 142 million confirmed and EUR 303 million implemented).

As at end 2018 the cumulative amount of financial corrections for 2007-2013 confirmed by Member States as a consequence of the Commission supervisory role is EUR 3.8 billion (446), with an implementation rate of 94%.

For the **European Social Fund**, EUR 34 million represents the amount of financial corrections confirmed in 2018 by Member States in the context of closure of the programmes, deducted from the final payment claims. The total cumulative confirmed amount of financial corrections stands at EUR 1 553 million. EUR 12 million represents the amount of financial corrections implemented in 2018. The total cumulative implemented financial corrections stands at EUR 1 275 million. 82% of financial corrections confirmed during the year 2018 and previous years have been implemented, leaving an amount of EUR 277 million still to be implemented.

The Member States with the highest level of financial corrections implemented in cumulative figures are Romania (EUR 461 million) and Spain (EUR 220 million).

The total amount of financial corrections confirmed in cumulative figures for the **European Fisheries Fund** stands at EUR 28 million in 2018, including EUR 2 million to be implemented at closure.

2014-2020 programming period

For the **European Regional Development Fund/Cohesion Fund** programmes for which expenditure was declared for the accounting year 1 July 2017 to 30 June 2018, there were no net financial corrections imposed by any Commission decision. However, the Member States themselves applied financial corrections in the accounts following the completion of their national control cycle.

This shows that the new system allows to exclude from annual accounts the expenditure found to be irregular. In the accounts submitted by 1 March 2019, the Members States reported financial corrections amounting to EUR 163 million as a result of their audit work. An additional EUR 2 billion was deducted from the accounts according to Article 137(2) common provisions regulation (CPR) due to ongoing assessements of the legality and regularity.

For the **European Social Fund** programmes for which expenditure was declared during the accounting year (1 July 2017 to 30 June 2018), there were no financial corrections imposed by any Commission decision. The amount of the financial corrections during the accounting year and in the accounts stands at EUR 146 million for the **European Social Fund/youth employment initiative** (ESF/YEI) and around EUR 1 million for the **Fund for European Aid to the Most Deprived** (FEAD), representing EUR 125 million deducted from the accounts and EUR 20 million withdrawn during the accounting year.

1.2. Cumulative financial corrections and recoveries to end 2018

Cumulative figures provide useful information on the significance of the corrective mechanisms used by the Commission, in particular as they take into account the multiannual character of programmes and projects and neutralise the impact of one-off events.

1.2.1. Period 2012-2018

(446) The amount does not include the financial corrections 'at source'.

The charts below show the evolution of financial corrections and recoveries confirmed and implemented during the last 7 years.

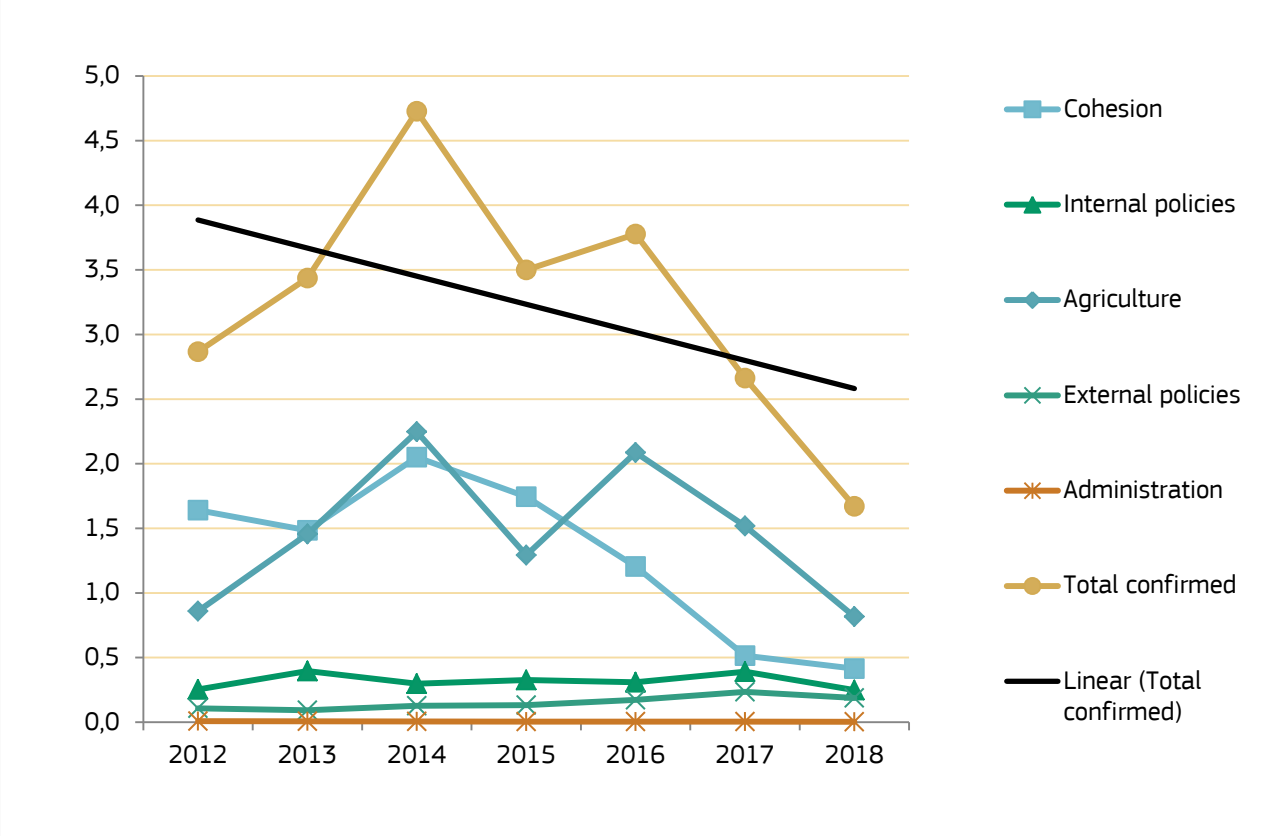

Chart 1.2.1.1: Financial corrections and recoveries confirmed 2012-2018 (EUR billion)

The average financial corrections and recoveries **confirmed** (2012-2018) amount to EUR 3.2 billion, which represents 2.3% of the average amount of payments made from the EU budget.

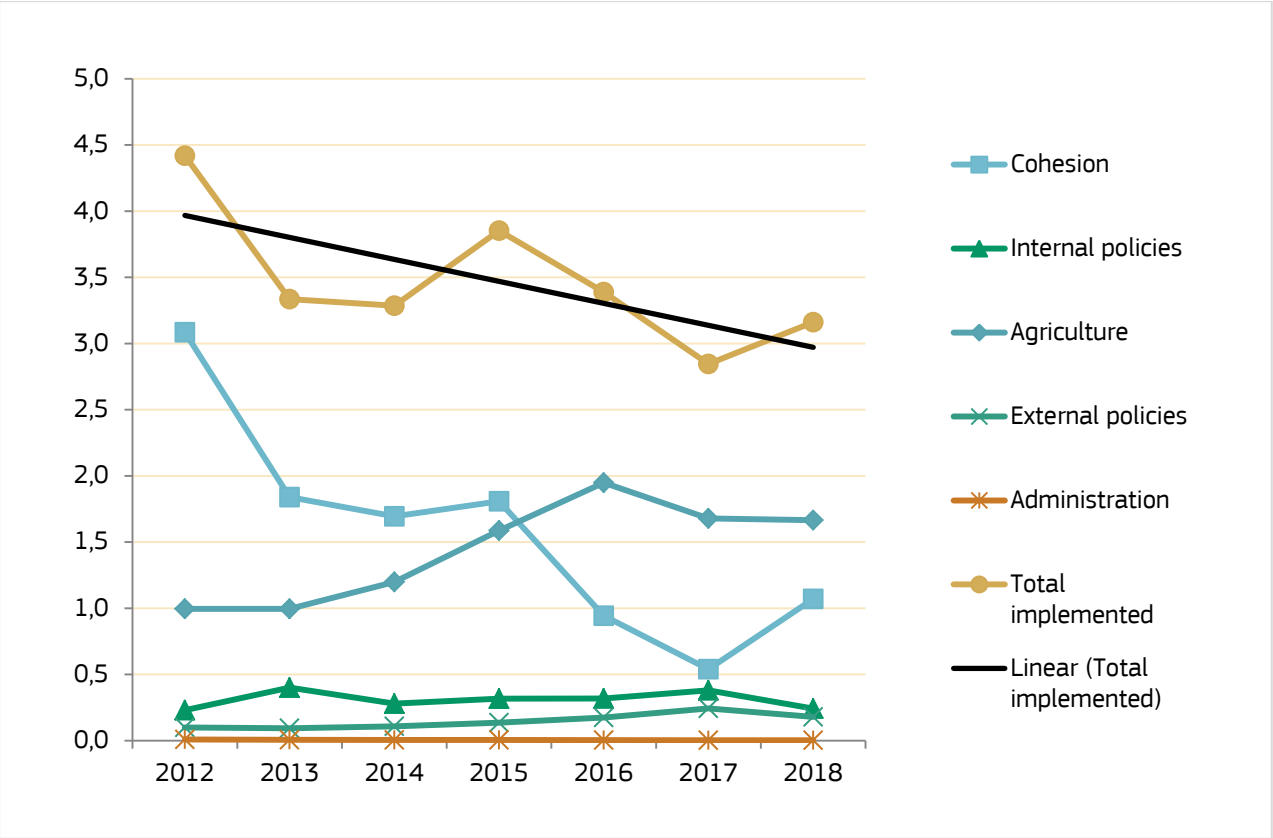

Chart 1.2.1.2: Financial corrections and recoveries implemented 2012-2018 (EUR billion)

The average amount of financial corrections and recoveries **implemented** for 2012-2018 was EUR 3.5 billion, which represents 2.4% of the average amount of payments from the EU budget in that period.

1.2.2. Financial corrections implementation percentage at end 2018

	Programming period				Cumulated EAGF decisions	Financial corrections confirmed at end 2018	Implementation % at end 2018	Financial corrections confirmed at end 2017	Implementation % at end 2017
	1994-1999 period	2000-2006 period	2007-2013 period	2014-2020 period					
Agricultural policy	**–**	**143**	**1 451**	**36**	**14 410**	**16 040**	**95.9**	**15 517**	**91.1**
European Agricultural Guarantee Fund	–	–	–	–	14 410	14 410	95.4	14 081	91.6
Rural development	–	143	1 451	36	N/A	1 630	100.0	1 436	86.6
Cohesion policy	**2 083**	**9 190**	**6 786**	**0**	**N/A**	**18 060**	**96.5**	**17 649**	**92.7**
European Rural Development Fund	1 143	5 916	3 977	–	N/A	11 036	98.1	10 751	91.3
Cohesion Fund	268	852	1 228	–	N/A	2 349	94.1	2 259	95.8
European Social Fund	569	2 111	1 553	–	N/A	4 233	93.4	4 199	93.9
Financial Instrument for Fisheries Guidance / European Fisheries Fund	100	140	28	–	N/A	267	99.3	267	99.3
European Agricultural Guidance and Guarantee Fund	3	171	–	–	N/A	174	100.0	174	100.0
Other	**–**	**–**	**46**	**–**	**N/A**	**46**	**99.6**	**44**	**99.6**
Total	**2 083**	**9 334**	**8 283**	**36**	**14 410**	**34 146**	**96.2**	**33 211**	**92.0**

Table 1.2.2: Cumulative financial corrections confirmed and implementation percentage to end 2018 in EUR million.

1.2.3. Cumulative recoveries 2012-2018

The tables below provide the amounts of recoveries confirmed and implemented for the period 2012-2018.

See also Section 1.3.1 below concerning the impact on the EU budget.

Recoveries	Years						
	2012	2013	2014	2015	2016	2017	2018
Agricultural policy:							
European Agricultural Guarantee Fund	162	227	213	117	100	195	138
Rural development	145	139	165	206	242	113	178
Cohesion policy	22	83	35	5	10	2	3
Internal policies	252	393	293	302	303	386	247
External policies	107	93	127	132	173	234	188
Administration	7	6	5	5	4	3	3
Total (*)	**695**	**941**	**838**	**767**	**833**	**933**	**757**

Table 1.2.3: Recoveries confirmed 2012-2018 in EUR million.

Recoveries	Years						
	2012	2013	2014	2015	2016	2017	2018
Agricultural policy:							
European Agricultural Guarantee Fund	161	155	150	155	118	131	132
Rural development	166	129	167	152	43	84	315
Cohesion policy	14	81	32	7	12	2	3
Internal policies	229	398	274	293	313	374	241
External policies	99	93	108	136	175	244	179
Administration	9	6	5	5	4	3	3
Total (*)	**678**	**862**	**736**	**749**	**665**	**837**	**873**

Table 1.2.4: Recoveries implemented 2012-2018 in EUR million

(*) It should be noted that the amounts disclosed for the periods 2012-2014 are based on a different methodology which has been subsequently refined to better Identify and track recoveries.

1.3. Impact of financial corrections and recoveries

1.3.1. Impact on the EU budget

Financial corrections and recoveries may or may not have an impact on the EU budget.

Replacement of expenditure refers to the possibility under cohesion legislation for Member States to replace ineligible expenditure with new eligible expenditure, thus not losing EU funding (i.e. not a net correction as there is no return of money to the EU budget).

A net financial correction is a correction that has a net impact on the EU budget (i.e. the corrected and recovered amounts are reimbursed to the EU budget).

Agriculture and Rural Development corrections (European Agricultural Guarantee Fund, European Agricultural Fund for Rural Development, European Agricultural Guidance and Guarantee Fund) lead almost always to a

reimbursement to the EU budget whereas, due to the legal framework, for cohesion policy, the return of previously paid amounts to the EU budget were generally the exception during the implementation of the programmes.

Under the legal framework applicable for cohesion policy up to the 2007-2013 programming period, a real cash-flow back to the EU budget occurs only:

- if Member States are unable to present sufficient eligible expenditure;
- after the closure of programmes where the replacement of ineligible by eligible expenditure is no longer possible;
- in case of a disagreement with the Commission.

However, a significant change was introduced for the 2014-2020 period: the Commission has the obligation to apply a net financial correction when serious deficiencies in the effective functioning of the management and control system not previously detected, reported or corrected at Member State level are discovered by EU audits after the submission of the assurance packages. In such cases, the possibility of previous programming periods for the Member State to accept the correction and to reuse the EU funds in question is removed.

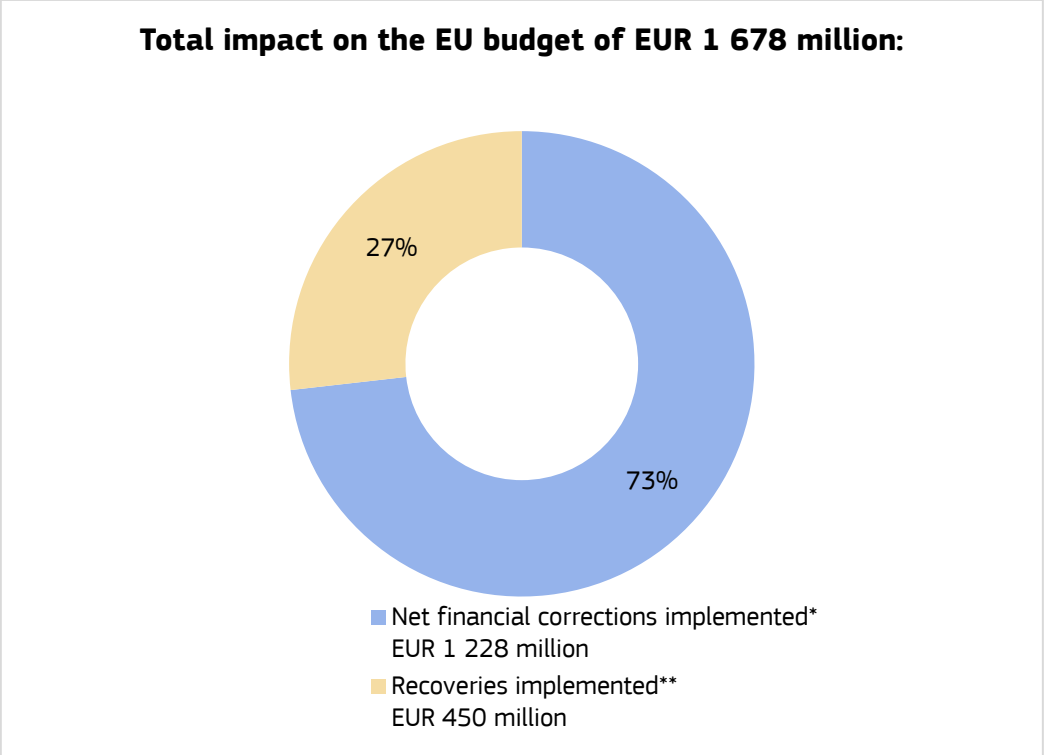

Chart 1.3.1: Impact on the EU budget 2018

(*) The main expenditure chapters concerned are 0502, 0503, 0504, 1303, 1304, 0402, 1106 and 1803.

(**) Excluding 'at source' recoveries. The main expenditure chapters concerned are 0502, 0503, 1303, 1304, 0402 and 1106. For more information on recoveries see 1.2.3.

Revenues arising from net financial corrections and recoveries are treated as assigned revenue ([447]), noting that the Commission implements recoveries also 'at source' by deducting ineligible expenditure (which has been identified in previous or current cost claims) from payments made. In general, assigned revenue goes back to the budget line or fund from which the expenditure was originally paid and may be spent again but it is not earmarked for specific Member States.

(447) Article 21(3)(c) of the financial regulation.

2. Agriculture and rural development

2.1. Preventive actions

Preventive actions by the Member States

A compulsory administrative structure has been set up at the level of Member States. The management, control and payment of the expenditure are entrusted to accredited paying agencies (PAs). Compliance with strict accreditation criteria is subject to constant supervision by the competent national authority (at ministerial level). The directors of paying agencies are required to provide an annual management declaration on the completeness, accuracy and veracity of the accounts, as well as a declaration that the system in place provides reasonable assurance on the legality and regularity of the underlying transactions. The annual accounts, the functioning of the internal control procedures and the legality and regularity of the expenditure of PAs are verified and certified by the Certification Bodies (independent external audit bodies), which also review the compliance with the accreditation criteria. The management declarations are also verified by the abovementioned certification bodies, which are required to provide an annual opinion. For each support scheme financed by the **European Agricultural Guarantee Fund** or the **European Agricultural Fund for Rural Development**, the PAs apply a system of exhaustive *ex ante* administrative controls and on-the-spot checks prior to any payment. These controls are made in accordance with precise rules set out in the sector-specific legislation. For the majority of these aid schemes Member States are required to send statistical information on the checks carried out and on their results to the Commission on a yearly basis.

Preventive actions by the Commission

The Commission applies a number of available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments. The Commission may interrupt payments for the second pillar (**European Agricultural Fund for Rural Development**) and reduce or suspend the payments for both pillars (**European Agricultural Guarantee Fund** and **European Agricultural Fund for Rural Development**).

First, where the declarations of expenditure or the annual accounts do not enable the Commission to establish that the expenditure has been effected in accordance with EU rules, the Commission may reduce or suspend the payments to the Member State under both pillars.

Secondly, the Commission may reduce or suspend monthly (**European Agricultural Guarantee Fund**) or interim (**European Agricultural Fund for Rural Development**) payments where 'one or more of the key components of the national control system in question do not exist or are not effective due to the gravity or persistence of the deficiencies found' (448) (or there are similar serious deficiencies in the system for the recovery of irregular payments) and:

- either the deficiencies are of a continuous nature and have already been the reasons for at least two financial correction decisions; or
- the Commission concludes that the Member State concerned is not in a position to implement the necessary remedial measures in the immediate future, in accordance with an action plan with clear progress indicators to be established in consultation with the Commission.

For the **European Agricultural Fund for Rural Development**, the common provisions regulation (CPR) (449) also provides for the interruption of interim payments by the authorising officer by delegation (i.e.

(448) Article 41 of Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008 (OJ L 347, 20.12.2013, pp. 549-607).

(449) Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural

the director-general) as an additional, quick and reactive tool in case of concerns about the legality and regularity of payments. In 2018, payments were interrupted for Estonia, Greece, Spain, Lithuania, Austria, Poland, Romania and Slovenia and were also suspended for Romania (EUR 10.7 million).

For the **European Agricultural Guarantee Fund**, the rhythm of the monthly payments would not allow for using such an interruption procedure. For the European Agricultural Guarantee Fund in 2018, the Commission has decided to reduce payments by EUR 58 million due to overruns of ceilings, deadlines and other eligibility issues, and to suspend EUR 0.5 million (Poland). There were no reductions in the monthly payments due to deficiencies in the control system in 2018.

The interruptions and reductions/suspensions are provisional. Where relevant, these could be accompanied by an audit. If the deficiency is confirmed, the relevant expenditure is definitely excluded from EU funding by the application of a financial correction under the conformity clearance procedure.

2.2. Corrective actions

For **European Agricultural Guarantee Fund**, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission in the second month following the Commission decision on a financial correction to the Member State concerned.

For **European Agricultural Fund for Rural Development**, the financial corrections are executed through a recovery order requesting the Member State concerned to reimburse these amounts to the EU budget mostly executed by set-off in the reimbursement in the following quarter. It therefore occurs that decisions adopted in the end of year N are only executed at the beginning of year N+1.

Furthermore, the execution of the decision may be delayed due to instalment and deferral decisions. Of the three ad hoc decisions adopted in 2018 a total of EUR 170 million was scheduled for recovery in 3 annual instalments. One deferral decision was due to expire on 22/06/2017 but was prolonged for a year until 22/06/2018. Of the two ad hoc decisions adopted in 2018 before 22/06/2018 another EUR 20 million became subject to deferral (and subsequent recovery in 5 annual instalments) under this prolonged deferral decision.

2.3. Deficiencies in Member States' management and control identified and measures undertaken

The main root causes of errors leading to corrections have been:

- Errors in non-compliance
- Eligibility conditions not met
- Breach of procurement rules

These were addressed putting in place action plans which identify the deficiencies for the Paying agencies concerned and define remedial actions to be implemented by the Paying agencies.

In general, the Commission has launched an ambitious simplification process intended to reduce complexity and administrative burden which will also contribute to bringing the risk of error further down.

2.4. Cumulative figures

Concerning **European Agricultural Guarantee Fund**, the average correction rate per financial year for the period 1999-2018 has been 1.7% of expenditure. Once decided by the Commission, the corrections are

Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, pp. 320-469).

automatically implemented unless a Member State has been granted the possibility of paying in three annual instalments.

Member State	European Agricultural Guarantee Fund payments received from EU budget	% of payments received as compared to total payments	Cumulated European Agricultural Guarantee Fund financial corrections at end 2018	% as compared to payments received from EU budget	% as compared to total amount of financial corrections
Belgium	14 605	*1.8*	67	*0.5*	*0.5*
Bulgaria	5 630	*0.7*	79	*1.4*	*0.6*
Czechia	9 114	*1.1*	42	*0.5*	*0.3*
Denmark	20 795	*2.5*	196	*0.9*	*1.4*
Germany	107 985	*13.0*	203	*0.2*	*1.4*
Estonia	1 117	*0.1*	1	*0.1*	*0.0*
Ireland	25 623	*3.1*	109	*0.4*	*0.8*
Greece	49 011	*5.9*	2 907	*5.9*	*20.2*
Spain	113 023	*13.6*	1 910	*1.7*	*13.3*
France	172 400	*20.8*	3 420	*2.0*	*23.7*
Croatia	902	*0.1*	0	*0.0*	*0.0*
Italy	90 496	*10.9*	2 503	*2.8*	*17.*
Cyprus	626	*0.1*	11	*1.8*	*0.1*
Latvia	1 711	*0.2*	1	*0.0*	*0.0*
Lithuania	4 271	*0.5*	26	*0.6*	*0.2*
Luxembourg	624	*0.1*	6	*0.9*	*0.0*
Hungary	13 903	*1.7*	134	*1.0*	*0.9*
Malta	54	*0.0*	0	*0.2*	*0.0*
Netherlands	20 485	*2.5*	252	*1.2*	*1.7*
Austria	14 050	*1.7*	24	*0.2*	*0.2*
Poland	34 031	*4.1*	375	*1.1*	*2.6*
Portugal	14 052	*1.7*	402	*2.9*	*2.8*
Romania	12 790	*1.5*	158	*1.2*	*1.1*
Slovenia	1 339	*0.2*	20	*1.5*	*0.1*
Slovakia	4 227	*0.5*	18	*0.4*	*0.1*
Finland	10 580	*1.3*	37	*0.3*	*0.3*
Sweden	14 029	*1.7*	137	*1.0*	*1.0*
United Kingdom	70 863	*8.6*	1 371	*1.9*	*9.5*
Total	**828 336**	***100.0***	**14 410**	***1.7***	***100.0***

Table 2.4: European Agricultural Guarantee Fund Cumulative financial corrections decided under conformity clearance of accounts from 1999 to end 2018; Breakdown by Member State in EUR million

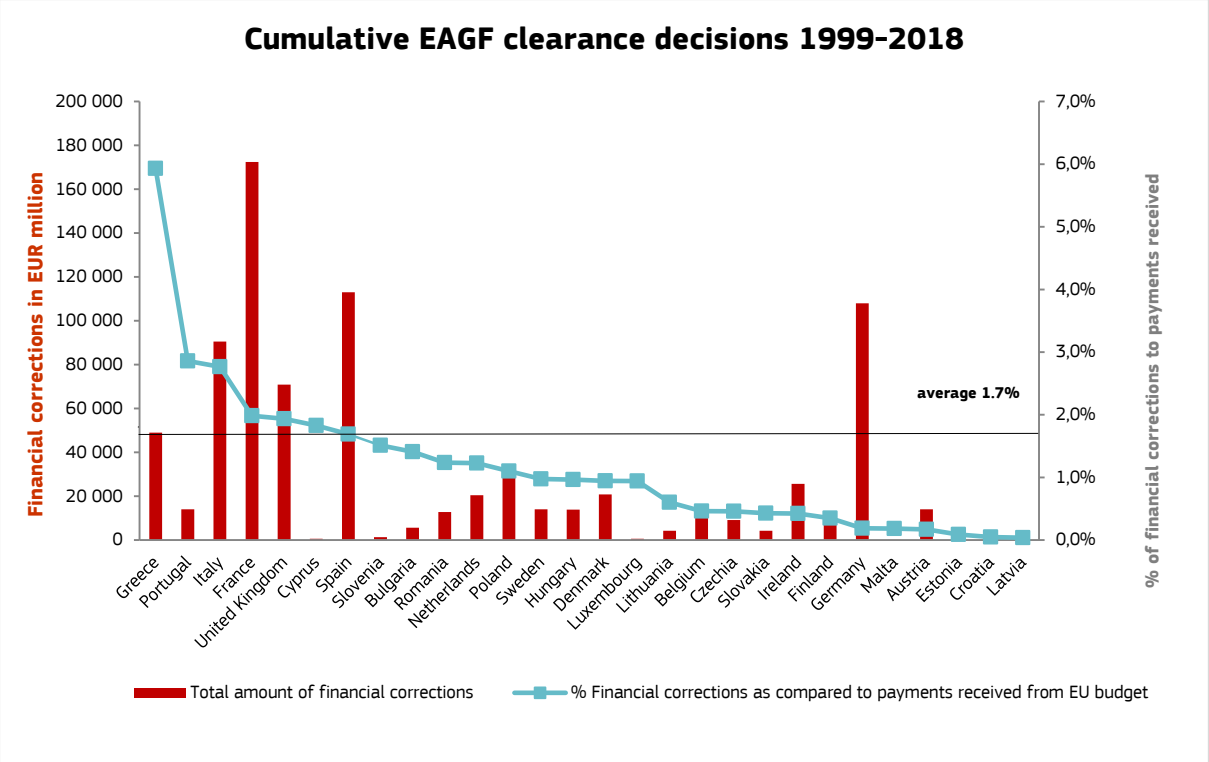

Chart 2.4: European Agricultural Guarantee Fund cumulative financial corrections under conformity clearance of accounts from 1999 to end 2018 as compared to payments received from the EU Budget

2.5. Member States corrections

Member States are required to put in place systems for *ex ante* controls and reductions or exclusions of financing:

- For each aid support scheme financed by European Agricultural Guarantee Fund or European Agricultural Fund for Rural Development, *ex ante* administrative and on-the-spot checks are performed and dissuasive sanctions are applied in case of non-compliance by the beneficiary. If on-the-spot checks reveal a high number of irregularities, additional controls must be carried out.
- In this context, the by far most important system is the Integrated Administration and Control System (IACS). The IACS covered in the financial year 2018 85.3% of European Agricultural Guarantee Fund and Rural Development expenditure.
- A detailed reporting from Member States to the Commission on the checks carried out by them and on the sanctions applied is foreseen in the legislation and enables a calculation, for the main aid schemes, of the level of error found by Member States at the level of the final beneficiaries.

These reports from the Member States disclose the preventive effect of the ex ante, administrative and on-the-spot controls carried out, which led to corrections amounting to EUR 521 million. The biggest corrections are related to Spain (EUR 115 million), Italy (EUR 79 million) and France (EUR 57 million).

Member State	European Agricultural Guarantee Fund Market Measures	European Agricultural Guarantee Fund Direct Payments	European Agricultural Fund for Rural Development	Total 2018
Belgium	0.42	1.82	1.72	3.96
Bulgaria	1.85	9.42	6.57	17.84
Czechia	0.49	1.09	3.09	4.67
Denmark	0.46	0.93	0.84	2.23
Germany	4.71	8.98	9.07	22.76
Estonia	0.81	1.04	2.21	4.06
Ireland	0.00	1.12	1.23	2.35
Greece	0.93	8.48	3.13	12.53
Spain	11.35	84.81	19.26	115.42
France	37.25	15.24	5.21	57.71
Croatia	0.73	9.35	10.63	20.72
Italy	14.52	44.29	20.93	79.74
Cyprus	0.02	0.93	0.09	1.04
Latvia	0.00	0.51	1.07	1.58
Lithuania	-	2.49	1.05	3.54
Luxembourg	0.00	0.26	0.09	0.35
Hungary	10.16	16.86	12.49	39.51
Malta	0.00	0.05	0.09	0.13
Netherlands	0.15	10.23	0.45	10.83
Austria	0.83	0.37	2.65	3.85
Poland	0.55	29.65	7.34	37.55
Portugal	6.23	2.13	6.49	14.84
Romania	0.97	26.16	13.86	40.99
Slovenia	0.29	0.38	0.63	1.30
Slovakia	0.01	2.39	2.07	4.47
Finland	0.04	0.74	1.43	2.21
Sweden	0.11	2.10	2.70	4.91
United Kingdom	0.11	8.62	1.79	10.52
Total	**93.01**	**290.44**	**138.17**	**521.61**

Table 2.5: Member States own corrections in 2018 applied before payments to beneficiaries are executed, in addition to Commission reporting (450) in EUR million

3. Cohesion policy

3.1. Preventive actions

The regulations for all programming periods enable **the Commission to apply preventive measures**, i.e. payment interruptions (451) and suspensions, and financial corrections. The Commission policy on interruption and suspension of payments operates on a preventive basis, triggering the interruption of interim payments as soon as there is evidence to suggest a significant deficiency in the management and control system of all or part of an operational programme, thus avoiding the reimbursement by the EU budget of amounts which might be affected by serious irregularities. As regards **European Regional Development Fund/Cohesion Fund** and **European Social Fund** programmes, it is worth underlining that the remedial action plans agreed by the Member States as a result of the Commission's supervisory role also have a preventive impact on expenditure already incurred by beneficiaries and registered at national level in the certifying authority's accounts, but not yet declared to the Commission. For such expenditure, the certifying authority applies the financial correction requested by the Commission prior to declaring expenditure. Expenditure declared to the Commission is thus already the net amount (i.e. without irregular amounts.)

(450) Stemming from Member States' control statistics reported to the Commission.
(451) Not for the 2000-2006 period.

Similarly, warning letters sent out by the Commission when system deficiencies are identified before a payment claim is submitted to the Commission may also have the same preventive effect on the protection of the EU budget, but no amount is reported by the Commission/Member States in this case as this effect is more difficult to quantify.

Interruptions and suspensions are only lifted on the basis of reasonable assurance on the implementation of corrective measures and/or after financial corrections have been implemented. For 2007-2013 programming period under closure process the suspension of payments has been merged with the closure process.

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

Under the agreed approach, an interruption is necessary only where the serious deficiency in the management and control system would require a correction higher than 10% or where the irregularity would have serious financial consequences (impact above 10% of the programme's financial allocation or above the threshold of EUR 50 million) in application of Article 83 (1)(a) CPR. If no payment claim is submitted, a warning letter of possible interruption of payment deadline is to be sent. A warning letter is also sent for cases with estimated risk to the EU budget below 10%. In case of system deficiencies, the Member State is requested to take necessary measures to improve the system, and in case of irregularities the Member State is required to not include related expenditure in the interim claims and in the account until the legality and regularity of the expenditure is confirmed.

Interruptions

For cohesion, at this stage of **the programming period 2007-2013**, since the submission of the closure packages end of March 2017, no further interim payments are processed. Once the Member State has sent an application for payment of the final balance, this application replaces all pending applications for interim payment. As of that moment, the Commission's obligation to honour pending applications for interim payment ceases. Consequently, an interruption or suspension decision in relation to applications for interim payment or the lifting of an existing suspension decision is no longer necessary. It should be noted that the Member State is nevertheless required to take the action necessary to solve all deficiencies identified during the closure procedure. The interruptions and suspension cases will be followed during the closure of the respective programme and the suspension decisions will be formally repealed after the closure of programmes.

For **the 2014-2020 programming period**, there were three new interruptions concerning for the **European Regional Development Fund/Cohesion Fund** programmes in 2018 (United Kingdom, Italy and European territorial cooperation programmes). The interruptions for United Kingdom and European territorial cooperation programmes were lifted before the end of 2018.

For the **European Social Fund/Youth Employment Initiative** and the **Fund for European Aid to the most Deprived** (FEAD) 3 European Social Fund/Youth Employment Initiative programmes for UK, Italy and Hungary and 1 FEAD programme for Italy have been interrupted resulting in several payments being interrupted in 2018. Warning letters (33) were sent to the Member States concerned. The number of warning letters and interruptions significantly increased in 2018 compared to previous year due to the increased number of assurance packages received in February 2018 and the results of the compliance audits performed during the year.

For the **European Maritime and Fisheries Fund** there were three open cases of interruptions as per 31 December 2018, out of which two relate to a lack of compliance with the management and control

system, for a total amount of EUR 28.2 million. The cases are currently being followed up in close cooperation with the Member States concerned.

Suspensions

For the **2014-2020 programming period**, there were no suspensions concerning any of the **European Regional Development Fund, Cohesion Fund** or **European Social Fund** programmes.

For the **European Social Fund (ESF)**, the interruption and suspension have been merged with the closure process for the 2007-2013 programmes. Financial corrections resulting from this process have been implemented for the programmes concerned and closed in 2018, however 14 programmes remained in reservation at the end of 2018 for which final payments will be made for the closure of the programme only when all issues are cleared. Following the in-depth assessment of closure documents, a non-quantified reservation is made for those programmes, where either additional audit work is requested due to the high or unreliable error rate or financial corrections may need to be applied at closure.

For the **European Maritime and Fisheries Fund** one operational programme (Ireland) was suspended as of 31 December 2018 due to non-fulfilment of the *ex ante* conditionality relating to the administrative capacity to comply with the implementation of an EU control, inspection and enforcement system as provided for in Article 36 of Regulation (EU) No 1380/2013.

3.2. Corrective actions

For Cohesion policy where the Commission identifies individual irregularities (including the ones of systemic nature) or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all of the expenditure declared for co-financing from the European Regional Development Fund, Cohesion Fund or European Social Fund and reimbursed by the Commission is brought back in line with the applicable rules.

During the 2000-2006 and 2007-2013 programming periods, **Member States were able to replace irregular expenditure with new expenditure** if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its financial allocation was reduced (i.e. the Member State could spend less money throughout the programming period).

Net corrections are rather the exception under the 2007-2013 framework, due to the legal framework and budget-management type (reinforced preventive mechanism). The regulatory provisions for the 2014-2020 period significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure. This is mainly due to the set-up of the new yearly based assurance model, which reduces the risk of having a material level of error. In fact, the new legal framework provides for increased accountability for programme-managing authorities which have to apply sound verifications on time for the submission of programme accounts each year. The Commission retains 10% of each interim payment until the finalisation of the whole national control cycle. Timely identification of serious deficiencies in functioning of the management and control system and reporting of reliable error rates is in the Member States' best interest since the Commission makes net financial corrections where Member States have not appropriately addressed them before submitting annual accounts to the Commission.

3.3. Deficiencies in Member States' management and control identified and measures undertaken

As mentioned above, under shared management Member States are primarily responsible for the effective and efficient functioning of the management and control systems at national level. Nevertheless, the Commission seeks to ensure that the national systems prevent errors before certification and the Commission

takes a number of actions (such as capacity-building actions) in Member States, pursuing further the single audit approach, carrying out complementary risk-based audits and exercising strict supervision over programme management, using the available legal tools such as **interruptions**, **suspensions** and, where necessary, **financial corrections**.

During the 2007-2013 period, the Commission put in place targeted actions to improve the administrative capacity in the Member States, which continue under the 2014-2020 period. Crosscutting initiatives to mitigate the main risks and weaknesses identified include the following.

A general administrative-capacity initiative with the following measures already implemented or ongoing.

- TAIEX-REGIO PEER2PEER, an exchange tool for regional policy practitioners/experts in Member States, which experienced great success throughout the year. In this framework, 171 exchanges were implemented by December 2018, involving 2 576 participants from 27 Member States (mainly from Lithuania, Czechia, Romania, Bulgaria and Croatia). These exchanges should help Member States increase the quality and the legality of spending and accelerate the absorption of funds. A peer-to-peer exchange of expertise between authorities managing and implementing European Regional Development Fund and Cohesion Fund programmes (452).

- A strategic training programme for managing, certifying and audit authorities and intermediate bodies on the implementation of the 2014-2020 regulations: 756 participants from all Member States have attended the five different training modules organised so far. In total 26 2-day training sessions have been organised in the premises of DG Regional and Urban Policy.

- A competency framework for efficient management and implementation of European Regional Development Fund and the Cohesion Fund, aimed at supporting further professionalisation of the fund management. The framework is accompanied by a self-assessment tool which is a flexible instrument enabling employees to self-assess the proficiency level for each competency required for their job. The assessment results can be aggregated at institution level thereby providing evidence for the preparation of learning and development plans. Translations of the user guidelines and other support documents are now available in 21 EU languages

- Prevention of fraud and corruption: organisation of 13 fraud and corruption conferences/workshops in different Member States (together with European Anti-Fraud Office, DG Migration and Home Affairs, DG Internal Market, Industry, Entrepreneurship and small and medium-sized enterprises and the departments(453) dealing with the European Structural and Investment Funds (ESIF) and in cooperation with Transparency International) focusing on awareness raising and practical tools and instruments to fight fraud and corruption such as data-mining tools, open data and intensified cooperation with civil society; launch of a study on appropriate anti-fraud and anti-corruption practices in the management of the funds applied in the Member States which will be summarised in a handbook.

- Pilot integrity pacts: an integrity pact is an innovative tool developed by Transparency International to help governments, businesses and civil society fighting corruption in public contracting. It is based on an agreement between a contracting authority and economic operators bidding for public contracts that they will abstain from corrupt practices and will conduct a transparent procurement process. To ensure accountability and legitimacy, a civil-society organisation monitors that all parties comply with their ethical commitments throughout the entire project lifecycle, i.e. from the drafting of the terms of reference to the closure of the project. 17 pilot integrity pacts are being implemented in 11 Member States (Bulgaria, Czechia, Greece, Hungary, Lithuania, Latvia, Slovenia, Portugal, Romania, Italy, Poland) showing some first important results, and run for a period of 4 years.

- A dedicated action plan on public procurement for strengthening capacity in that field in close cooperation with DG Internal Market, Industry, Entrepreneurship and small and medium-sized

(452) 'Technical Assistance and Information Exchange instrument TAIEX-REGIO PEER 2 PEER'.

(453) DG Regional and Urban Policy; DG Employment, Social Affairs, and Inclusion; DG Agriculture and Rural Development; DG Maritime Affairs and Fisheries.

enterprises, other departments dealing with the European Structural and Investment Funds (ESIF) and the European Investment Bank (EIB). The action plan includes 26 actions (13 closed; 13 ongoing). Some of them are as follows.

- *Public procurement guidance for practitioners on the avoidance of errors in projects funded by the European Structural and Investment Funds (ESIF).* An updated guide taking into account the new PP directives is now available in English; all other language versions follow by end May.
- Monitoring of the *ex ante* conditionality action plans on public procurement with a focus on those Member States which are still implementing their action plans.
- A public procurement stock-taking study including more than 50 good practice examples in public procurement across the EU, has been widely disseminated. A large follow-up study on in-depth analysis of some good-practice examples and their transferability to other Member States.
- Promotion of transparency and open data on public procurement.
- Two pilot projects in cooperation with the Organisation for Economic Co-operation and Development where support was given to Bulgaria and Slovakia for their implementation of their *ex ante* conditionality action plan on public procurement (especially training) and (in Slovakia) on preparation for an e-procurement strategy.
- Promotion of strategic procurement (smart, green, inclusive, small and medium-sized enterprises) in cohesion policy in cooperation with the Organisation for Economic Co-operation and Development.

— A state aid action plan designed in close cooperation with DG Competition. It aims at increasing awareness and understanding of the impact of state aid on cohesion policy, improving the cooperation between the various actors involved in the monitoring of state aid in the Member States, and providing proactive support to the EU Member States and regions in the correct application of state aid rules. it includes measures for the following.

- Reviewing existing good practices and their dissemination.
- Strategic training programmes, including expert and country specific seminars.
- Exchanges between the Commission and audit authorities, for further dissemination of audit checklists adapted to the 2014 General Block Exemption Regulation (GBER) revisions.
- Tailor-made assistance to Member States offering them expert support.

As regards **European Social Fund** ineligible costs continue to be the main source of error, together with ineligible projects/beneficiaries and then public procurement issues. The Commission has initiated targeted measures to address root causes of errors in these areas.

3.4. Cumulative figures

3.4.1. Cohesion Policy: European Regional Development Fund / Cohesion Fund and ESF 2007-2013

The lower volume of financial corrections reflects the improved capacity of the management and control systems to detect problems and to correct errors before expenditure is declared to the Commission, as reflected in the lower error rates for cohesion policy in the period 2007-2013 compared to the period 2000-2006. Reference is also made to the corrections made by Member States in this period.

Member State	ERDF/CF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF/CF+ESF contributions	Share of financial corrections imposed compared to total financial corrections (%)
Belgium	2 059	0.6	17	0.8	0.2
Bulgaria	6 595	1.9	155	2.3	2.3
Czechia	25 819	7.5	846	3.3	12.5
Denmark	510	0.1	0	0.0	0.0
Germany	25 458	7.4	193	0.8	2.9
Estonia	3 403	1.0	10	0.3	0.1
Ireland	751	0.2	24	3.2	0.4
Greece	20 210	5.8	564	2.8	8.3
Spain	34 521	10.0	773	2.2	11.4
France	13 546	3.9	84	0.6	1.2
Croatia	858	0.2	0	0.1	0.0
Italy	27 940	8.1	415	1.5	6.1
Cyprus	612	0.2	2	0.3	0.0
Latvia	4 530	1.3	67	1.5	1.0
Lithuania	6 775	2.0	0	0.0	0.0
Luxembourg	50	0.0	0	0.1	0.0
Hungary	24 893	7.2	1 059	4.3	15.7
Malta	840	0.2	12	1.4	0.2
Netherlands	1 660	0.5	0	0.0	0.0
Austria	1 170	0.3	16	1.4	0.2
Poland	67 186	19.4	735	1.1	10.9
Portugal	21 412	6.2	88	0.4	1.3
Romania	18 782	5.4	1 042	5.5	15.4
Slovenia	4 101	1.2	50	1.2	0.7
Slovakia	11 483	3.3	474	4.1	7.0
Finland	1 596	0.5	0	0.0	0.0
Sweden	1 626	0.5	1	0.1	0.0
United Kingdom	9 878	2.9	122	1.2	1.8
Interreg (454)	7 956	2.3	11	0.1	0.2
Total	**346 220**	**100.0**	**6 759**	**2.0**	**100.0**

Table 3.4.1: Programming period 2007-2013 — European Regional Development Fund / Cohesion Fund and ESF Financial corrections confirmed at 31 December 2018; Breakdown by Member State in EUR million

As 2007-2013 programmes are multi-funds, no split is given between European Regional Development Fund and Cohesion Fund in the above table.

(454) Interreg, funded by the European Regional Development Fund (ERDF), is one of the key instruments of the EU supporting cooperation across borders through project funding.

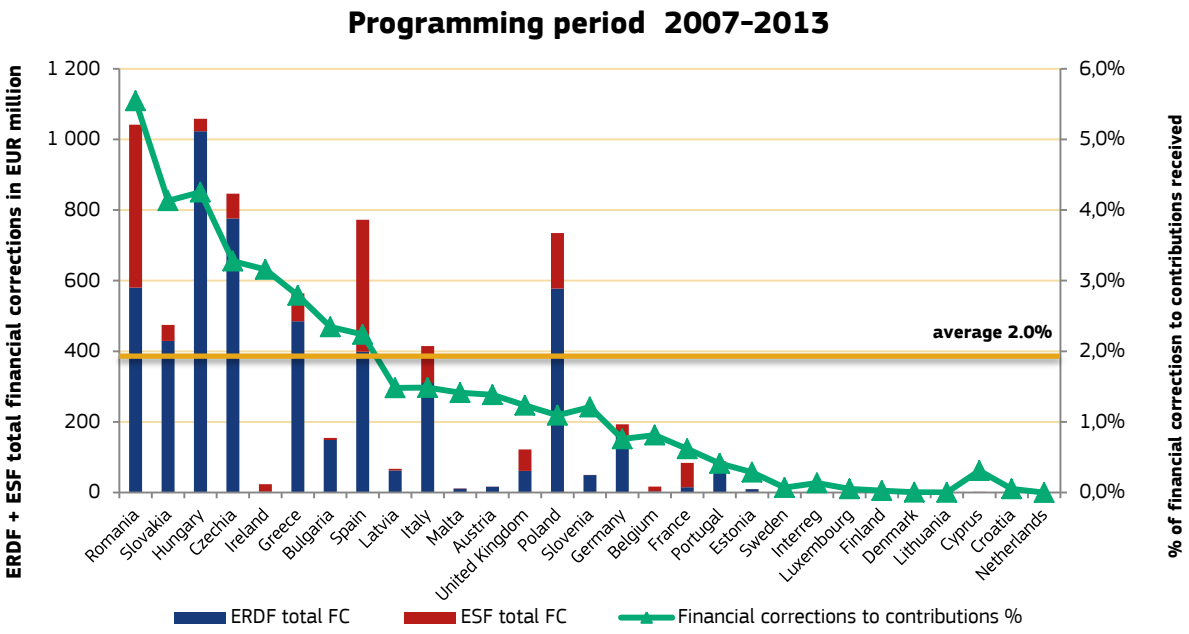

Chart 3.4.1: Member States' cumulative financial corrections confirmed at 31 December 2018 for European Regional Development Fund / Cohesion Fund and European Social Fund programming period 2007-2013 as compared to contributions received

For the **European Regional Development Fund/Cohesion Fund** programmes, the Commission has imposed around EUR 5.2 billion of financial corrections (455) cumulatively since the beginning of the 2007-2013 programming period (which includes EUR 1.4 billion of financial corrections applied by the Member States before or at the time of declaring the expenditure to the Commission as a result of requested remedial actions). The main Member States concerned are Hungary (EUR 1 023 million), Czechia (EUR 776 million), Romania (EUR 580 million), Poland (EUR 578 million), Greece (EUR 485 million), Slovakia (EUR 429 million), Spain (EUR 399 million) and Italy (EUR 310 million).

For the **European Social Fund**, the Member States with the highest level of cumulative amount of financial corrections confirmed are Romania (EUR 461 million), Spain (EUR 374 million), Poland (EUR 158 million) and Italy (EUR 105 million). At this stage of the implementation and at closure of the programmes the cumulative amount of financial corrections confirmed stands at EUR 1.5 billion representing 2% of the European Social Fund declared expenditure at closure. The cumulative amount of the financial corrections implemented stands at EUR 2 785 million (EUR 1 509 million implemented at Member State level and EUR 1 276 million implemented by the Commission), representing around 3.6% of the declared expenditure.

(455) Including financial corrections at source.

3.5. Member States corrections

Financial corrections declared by the Member States for Cohesion Policy period 2014-2020 ([456])

In February 2019 the Member State authorities have submitted the certified accounts for the accounting year 1 July 2017 to 30 June 2018. According to the information received in the assurance packages, following the results of audit of operations, for European Regional Development Fund/Cohesion Fund the Member States have applied financial corrections totalling EUR 163 million. The financial corrections imposed for European Social Fund/Youth Employment Initiative and Fund for European Aid to the most Deprived amounted to EUR 147 million, while for the European Maritime and Fisheries Fund there were EUR 5 million reported in 2018.

Member State	ERDF/CF	ESF - YEI/FEAD	EMFF	Total
Belgium	0.6	1.6	0.0	**2.2**
Bulgaria	2.0	0.1	0.0	**2.1**
Czechia	5.7	0.4	0.2	**6.4**
Denmark	-	0.1	-	**0.1**
Germany	14.1	14.1	0.0	**28.2**
Estonia	0.3	0.3	-	**0.6**
Ireland	1.1	-	0.0	**1.1**
Greece	5.8	19.3	-	**25.1**
Spain	4.7	67.7	0.6	**73.0**
France	13.3	10.2	1.0	**24.5**
Croatia	9.7	1.5	0.5	**11.6**
Italy	4.9	2.6	-	**7.5**
Cyprus	0.1	0.0	-	**0.1**
Latvia	1.4	0.0	-	**1.4**
Lithuania	0.1	0.0	-	**0.2**
Luxembourg	-	-	-	-
Hungary	28.2	9.9	-	**38.0**
Malta	-	0.0	-	**0.0**
Netherlands	0.1	0.0	-	**0.1**
Austria	0.3	0.1	0.0	**0.4**
Poland	6.1	2.3	0.0	**8.4**
Portugal	2.2	1.8	1.4	**5.4**
Romania	13.0	0.4	0.1	**13.5**
Slovenia	1.1	0.1	-	**1.1**
Slovakia	5.6	0.8	-	**6.4**
Finland	-	0.2	-	**0.2**
Sweden	-	0.7	-	**0.7**
United Kingdom	42.2	12.8	1.2	**56.2**
Territorial Cooperation	0.4	-	-	**0.4**
Total implemented	**163.0**	**146.9**	**5.0**	**315.0**

Table 3.5.2: Financial corrections for the accounting year 1/07/2017 to 30/06/2018 reported by Member States for Cohesion Policy period 2014-2020 (457) in EUR million

4. Direct and indirect management

For direct and indirect management expenditure, the Commission has control frameworks in place to prevent, detect, correct and thus deter irregularities at the different stages of the grant management process in order

(456) This information has been sent in the assurance packages received in February 2019 for the fourth accounting year and is still under assessment by the Commission services (information as reported by the Member States, pending the Commission verifications).
(457) In addition to Commission reporting.

to achieve both operational and financial objectives. An overview of the controls made in two key areas of direct and indirect management expenditure, research and international aid, are given below.

For **Research expenditure**, the control framework applicable to both direct (458) and indirect (459) management modes starts with the development of a work programme, which goes through a wide-ranging consultation process to ensure that it best meets the expectations of all stakeholders and will maximise the research outcome. Following the evaluation of proposals, further controls are then carried out as the selected proposals are translated into legally binding contracts. Project implementation is monitored throughout the lifetime of the project. Payments against cost claims are all subject to *ex ante* checks according to standard procedures, which include an audit certificate given by a qualified auditor. As well as standard controls, additional, targeted, controls can also be carried out according to the information received and the risk of the transaction.

A main source of assurance comes from in-depth *ex post* checks carried out on a sample of claims, at the beneficiaries' premises, after costs have been incurred and declared. A large number of these in-depth checks are carried out over the lifetime of the programme. Any amounts paid in excess of what is due are recovered, and systemic errors are extended to all ongoing participations of a beneficiary.

In the field of **International Cooperation and Development**, the Commission has established a control framework to prevent, detect, correct and thus deter irregularities at the different stages of the implementation of funding, applicable to both management modes, direct and indirect (460), used for this implementation. This strategy starts from the choice of the most appropriate tool when drafting the planning documents and the financial decisions, and translates into the actual checks carried out at all stages of the implementation. From the point of view of financial control, the system is made up of a number of instruments systematically applied to the implementation of contracts and grants for all management modes: *ex ante* checks on payments, audits carried out by the Commission and foreseen in an audit plan, expenditure verifications carried out prior to payments by beneficiaries of grants, verification missions to international organisations and an overall *ex post* control on the basis of the Residual Error Rate study carried out every year.

The EU financial interests are therefore safeguarded, in addition to all the other possible means offered by the Financial Regulation, by the Commission's *ex ante* control of individual transactions as well as subsequent controls or audits, and by the resulting recovery of any unduly disbursed funds where the agreed procedures have not been respected, or where the activities were not eligible for EU financing.

(458) Research budget implemented by the Commission and Executive Agencies.
(459) Implementation of Research budget entrusted to joint undertakings.
(460) Budget implementation by international organisations.

5. Detailed financial corrections and recoveries information

5.1. Net financial corrections 2018

Confirmed

MFF Heading	Net financial corrections confirmed in 2018*	Financial corrections with replacement of expenditure and other corrections confirmed in 2018	Total financial corrections confirmed in 2018
Smart & inclusive growth	***97***	***314***	***411***
European Regional Development Fund	95	190	286
Cohesion Fund	1	90	90
European Social Fund	1	34	34
Sustainable growth: natural resources	***414***	***87***	***501***
European Agricultural Guarantee Fund **	219	87	306
Rural Development	195	-	195
Financial Instrument for Fisheries Guidance / European Fisheries Fund	-	-	-
European Agricultural Guidance and Guarantee Fund	-	-	-
Security & citizenship	***0***	***1***	***2***
Migration and home affairs	0	*1*	6
Total	***511***	***403***	***913***

Table: in EUR million (461)

* A total of EUR 64 million remain to be classified and is treated as non-net corrections in this table.

** For the purpose of calculating its corrective capacity in the AAR, DG Agriculture and Rural Development takes into account only the amounts related to conformity clearance decisions adopted by the Commission and published in the Official Journal of the EU and deducts the corrections in respect of cross-compliance.

Implemented

MFF Heading	Net financial corrections implemented in 2018	Financial corrections with replacement of expenditure and other corrections implemented in 2018	Total financial corrections implemented in 2018
Smart & inclusive growth	***96***	***971***	***1 067***
European Regional Development Fund	95	912	**1 007**
Cohesion Fund	1	47	**48**
European Social Fund	0	12	**12**
Sustainable growth: natural resources	***1 132***	***87***	***1 219***
European Agricultural Guarantee Fund	745	87	**832**
Rural Development	387	-	**387**
Financial Instrument for Fisheries Guidance /European Fisheries Fund	0	0	**0**
European Agricultural Guidance and Guarantee Fund	-	-	-
Security & citizenship	***0***	***1***	***2***
Migration & home affairs	0	*1*	**2**
Total	***1 228***	***1 059***	***2 288***

Table: in EUR million (462)

(461) It should be noted that due to the rounding of figures into EUR millions, some financial data in the tables above may appear not to add up.

The impact of the correction mechanism varies depending on the budget implementation type, the sectorial management and the financial rules of the policy area. In all cases, the correction mechanisms aim at protecting the EU budget from expenditure incurred in breach of law.

5.2. Breakdown of flat-rate ([463]) corrections 2018

Flat-rate corrections are a valuable tool that is used when the related amount cannot be quantified on the basis of a representative statistical sample or when the impact on expenditure of individual errors cannot be quantified precisely. However, this means that the Member State subject to a flat correction normally bears the financial consequences as these corrections are not directly linked to individual irregularities at project level, i.e. there is no individual final beneficiary to recover monies from.

	Total financial corrections confirmed	Flat-rate financial corrections* confirmed in 2018	Total financial corrections implemented	Flat-rate financial corrections* implemented in 2018
Agriculture				
European Agricultural Guarantee Fund	306	137	832	495
European Agricultural Fund for Rural Development	195	48	387	172
Cohesion				
European Rural Development Fund and Cohesion Fund**	376	24	1 055	86
European Social Fund	34	20	12	4
European Fisheries Fund/ Financial Instrument for Fisheries Guidance	0	-	0	-
Internal policies	2	1	2	1
Total	**913**	**230**	**2 288**	**759**

Table: in EUR million

* Includes extrapolated corrections.

** Breakdown of flat-rate corrections available only for MFF 2007-2013.

(462) It should be noted that due to the rounding of figures into EUR millions, some financial data in the tables above may appear not to add up.

(463) For European Regional Development Fund /Cohesion Fund, flat-rate corrections should be seen as an estimation of the financial corrections (flat rate and/or extrapolated) which are not directly linked to individual operations/projectes. It needs also to be underlined that in some cases the amounts of corrections communicated by the Member States cover both individual and flat-rate/extrapolated corrections; for reporting purposes these amounts are included under the typology (individual or flat rate) which is considered prevalent. These two limitations do not have an impact on the reliability of the global amounts reported.

5.3. Breakdown of at source financial corrections 2018

Member State	At source financial corrections confirmed in 2018	At source financial corrections implemented in 2018
Bulgaria	0.2	0.2
Ireland	0.1	0.1
Greece	0.0	0.0
Spain	1.3	1.3
France	3.1	3.1
Croatia	0.0	0.0
Italy	46.6	46.6
Cyprus	0.0	0.0
Lithuania	0.0	0.0
Hungary	7.0	112.0
Netherlands	0.6	0.6
Austria	0.1	0.1
Poland	0.5	0.5
Portugal	0.0	0.0
Romania	13.9	13.9
Slovakia	2.5	2.5
Finland	0.1	0.1
Sweden	0.3	0.3
United Kingdom	10.9	10.9
Total	**87.3**	**192.3**

Table: in EUR million

At source financial corrections are applied by the Member State authorities before or at the same time that new expenditure is declared to the Commission. In the majority of the cases they are the result of flat-rate corrections imposed for deficiencies in the management and control system, identified following the Commission audits (464).

The main at source financial corrections implemented in 2018 concern **European Regional Development Fund** (Hungary EUR 105 million) and **European Agricultural Guarantee Fund** (Italy EUR 47 million and Romania EUR 14 million).

(464) As a result, the eligible expenditure declared to the Commission is capped to the amount after the deduction of the flat-rate correction.

5.4. Breakdown by Member State: Financial corrections in 2018 compared to EU payments received

Member State	Payments received from the EU budget in 2018 (EUR million)	Financial corrections confirmed in 2018 (EUR million)	Financial corrections confirmed in 2018 % as compared to payments received from the EU budget in 2018	Financial corrections implemented in 2018 (EUR million)	Financial corrections implemented in 2018 as % of payments received from the EU budget in 2018
Belgium	1 230	9	*0.7*	(2)	*(0.2)*
Bulgaria	2 036	11	*0.6*	17	*0.8*
Czechia	4 042	31	*0.8*	20	*0.5*
Denmark	1 007	4	*0.4*	4	*0.4*
Germany	9 236	2	*0.0*	3	*0.0*
Estonia	786	1	*0.1*	1	*0.1*
Ireland	1 791	0	*0.0*	2	*0.1*
Greece	4 358	83	*1.9*	333	*7.6*
Spain	12 356	50	*0.4*	201	*1.6*
France	12 244	51	*0.4*	125	*1.0*
Croatia	1 080	14	*1.3*	14	*1.3*
Italy	10 165	182	*1.8*	345	*3.4*
Cyprus	257	3	*1.0*	3	*1.0*
Latvia	1 139	0	*0.0*	20	*1.8*
Lithuania	2 065	0	*0.0*	12	*0.6*
Luxembourg	85	0	*0.0*	0	*0.3*
Hungary	6 437	194	*3.0*	479	*7.4*
Malta	112	0	*0.0*	0	*0.0*
Netherlands	1 079	1	*0.1*	6	*0.5*
Austria	1 472	2	*0.2*	1	*0.1*
Poland	17 346	18	*0.1*	342	*2.0*
Portugal	5 049	41	*0.8*	50	*1.0*
Romania	5 430	123	*2.3*	204	*3.8*
Slovenia	854	17	*1.9*	17	*1.9*
Slovakia	2 445	6	*0.3*	24	*1.0*
Finland	1 150	1	*0.1*	4	*0.3*
Sweden	1 313	9	*0.7*	7	*0.5*
United Kingdom	5 291	55	*1.0*	51	*1.0*
Interreg (465)	129	6	*4.4*	7	*5.7*
Total	**111 985**	**913**	***0.8***	**2 288**	***2.0***

Table: in EUR million

(465) Interreg, funded by the European Regional Development Fund (ERDF), is one of the key instruments of the EU supporting cooperation across borders through project funding.

5.5. Agricultural amounts recovered from final beneficiaries by the Member States in 2018 and used in the calculation of the corrective capacity

Member State	European Agricultural Guarantee Fund	European Agricultural Fund for Rural Development	Total 2018
Belgium	2.12	0.28	2.40
Bulgaria	2.36	2.39	4.75
Czechia	1.35	1.43	2.78
Denmark	1.40	0.67	2.06
Germany	13.73	9.82	23.55
Estonia	0.29	1.39	1.68
Ireland	3.90	2.37	6.27
Greece	7.30	4.75	12.05
Spain	12.59	4.66	17.24
France	14.34	3.40	17.74
Croatia	1.61	2.26	3.87
Italy	26.08	20.95	47.03
Cyprus	0.18	0.04	0.22
Latvia	0.34	0.61	0.94
Lithuania	2.24	2.23	4.47
Luxembourg	0.16	0.14	0.30
Hungary	4.05	3.24	7.29
Malta	0.04	0.40	0.43
Netherlands	1.94	0.21	2.15
Austria	3.21	4.18	7.39
Poland	8.15	9.62	17.77
Portugal	5.52	15.30	20.82
Romania	10.69	29.58	40.28
Slovenia	0.39	0.63	1.02
Slovakia	0.98	1.70	2.68
Finland	1.27	1.41	2.68
Sweden	0.28	0.39	0.67
United Kingdom	5.08	4.43	9.51
Total	**131.59**	**128.45**	**260.05**

Table: in EUR million

For the **European Agricultural Fund for Rural Development**, the figures are taken from the debtors' ledger (recovered amount plus interest), as it was reconciled end of March 2019. Only recoveries to **European Agricultural Fund for Rural Development** (2007-2013 and 2014-2020) are taken into account. For **European Agricultural Guarantee Fund**, the amounts are amounts recovered from the beneficiaries by the Members States and reimbursed to the Commission as assigned revenue ('implemented' amounts).

The recovered amounts presented above include recoveries due to cross-compliance infringements. For the purpose of calculating the corrective capacity, recoveries in respect of cross-compliance are excluded.

Annex 5: Assurance provided by the Internal Audit Service

The Commission also based its assurance on the work done by the Internal Audit Service, its principal findings and recommendations, and information from the Audit Progress Committee. The Committee supports the Commission in ensuring the independence of the internal auditor and that audit recommendations are properly taken into account and receive appropriate follow-up.

The Internal Audit Service provided in its 2018 Internal Audit Report according to Article 118(4) of the Financial Regulation conclusions on performance audits completed in 2018, made reference to the overall opinion on financial management for the year 2018 and reported on progress in implementing its audit recommendations.

The Internal Audit Service's **follow-up work** confirmed that, overall, recommendations are being implemented satisfactorily and the control systems in the audited departments are improving.

The Internal Audit Service concluded that 97% of the recommendations followed up during 2014-2018 had been effectively implemented by the auditees. Of the 366 recommendations (critical, very important and important) still in progress at the cut-off date of 31 January 2019 (representing 19% of the total number of accepted recommendations over the past 5 years), one was classified as critical and 135 as very important. Out of these 136 recommendations rated critical or very important, 18 very important were overdue by more than 6 months at the end of 2018, representing 2.9% of the total number of 615 accepted critical and very important recommendations of the past 5 years).

With a view to contributing to the Commission's performance-based culture and greater focus on value for money, the Internal Audit Service carried out **performance audits** and audits which include important performance elements (comprehensive audits) in 2018 as part of its 2016-2018 strategic audit plan.

(i) Performance management and measurement

As regards **horizontal processes**, the Internal Audit Service made recommendations to help improve the overall performance of several key processes in the areas of governance, information-technology security, human resources, synergies and use of resources.

- A major part of the 2018 internal audits focused on the **efficient and effective use of resources** in the various DGs and services of the Commission. In particular, a key Commission initiative in this area is the synergies and efficiencies review launched in 2016. The Internal Audit Service audited the state of play of this initiative and recommended proportionate improvements aimed at helping to ensure that the synergies and efficiencies review is ultimately successful in delivering on its objectives. Following the Internal Audit Service audit, the Commission issued a new Communication on *The synergies and efficiencies initiative: stock-taking and way forward* in April 2019.
- On **governance processes**, the Commission issued a set of communications and decisions ('Governance package') in November 2018 to address the issues identified by the Internal Audit Service in its audit report issued in January 2018 and update the corporate governance arrangements of the Commission. In 2018, the Internal Audit Service made further recommendations in the governance areas of Connecting Europe Facility telecom programme and IT governance in DG International Cooperation and Development.
- On **human resources management**, the Internal Audit Service made observations in its audits to the Joint Research Centre concerning the identification of the competency needs of scientific staff in the long run and the gaps detected between the resources needed and those available to fulfil the Joint Research Centre's responsibilities in the framework of the nuclear-decommissioning and waste-

management programme. In view of similar findings in previous audits in other departments, the Internal Audit Service sent a management letter to DG Human Resources and Security presenting the key issues identified in the human resources audits performed in recent years and raising a number of issues for consideration to help the Commission respond effectively (e.g. through human resources strategies and plans, workload assessments, task and skills mapping) to the human resources challenges faced by the Commission departments.

- Various audits concluded that further progress can also be made in improving the **overall performance of other horizontal processes**, such as:
  - the early detection and exclusion system set up to counter fraud and protect the financial interest of the EU,
  - the efficient and effective management of the intellectual property rights (copyright, trademarks and patents) in the Commission,
  - risk management process in specific areas (DGs for Migration and Home Affairs and for Justice and Consumers) and
  - business continuity in DG for Communication.
- Appropriate **coordination of activities and cooperation with stakeholders** are essential in order to ensure consistent and effective action between different policy areas. The Internal Audit Service made specific recommendations to improve the related processes concerning:
  - the coordination activities between the Commission (DG International Cooperation and Development, DG Neighbourhood and Enlargement Negotiations and Service for Foreign Policy Instruments) and the European External Action Service, at both headquarters and EU delegation level, and
  - the cooperation in the area of statistical methodology and exchange of data between Eurostat and EU bodies and international organisations.
- Several aspects of **better regulation** were audited in 2018: evaluation process in DGs Agriculture and Rural Development, Employment, Social Affairs and Inclusion and Regional and Urban Policy, preparation of legislative initiatives in DG Taxation and Customs Union, monitoring and enforcement of EU health law in DG Health and Food Safety, but no significant issues were identified in these areas.

(ii) Performance in implementing budget operational and administrative appropriations

- The Internal Audit Service performed several audits assessing programme management and payment processes in **shared management**, but did not identify significant performance weaknesses in these areas.
- In the area of **directly managed funds** 2018 brought the following.
  - Several audits assessed the management of grants by executive agencies (Education, Audiovisual and Culture Executive Agency, Executive Agency for SMEs, European Research Council Executive Agency, Innovation and Networks Executive Agency, Research Executive Agency) and no significant performance weaknesses were identified, except for Education, Audiovisual and Culture Executive Agency.
  - In EACEA, serious shortcomings affecting the effectiveness of the overall internal control system put in place for the project management of Erasmus+ and Creative Europe grants were identified. The Internal Audit Service noted that the agency had already started to address these issues (see section 2, subsection 6), in line with the audit recommendations.
  - The Internal Audit Service also made recommendations concerning the dissemination and exploitation activities in order to ensure effective use and dissemination of the results of the research activities funded under Horizon 2020 and the effectiveness of the supervision missions conducted by DG Neighbourhood and Enlargement Negotiations and Service for Foreign Policy Instruments in EU delegations.
- In the area of **indirectly managed funds**, several audits focused on the supervision arrangements in place in the DGs and services.

While no significant performance weaknesses were identified in DG Internal Market, Industry, Entrepreneurship and small and medium-sized enterprises (supervision of Galileo and Copernicus programmes), the Internal Audit Service identified weaknesses with regard to the management of financial instruments:

- LIFE programme in DGs for Climate Action and for Environment, with regard to the visibility and promotion of the EU contribution, and
- the implementation of the investment facilities in DG for Neighbourhood and Enlargement Negotiations, in order to improve the monitoring activities and the financial management.

The Internal Audit Service also made recommendations to DG for International Cooperation and Development concerning the assurance-building process in headquarters, in particular the monitoring process of the annual management declarations to be provided by the international financial institutions and/or national agencies implementing projects under indirect management.

In addition, the Internal Audit Service issued **limited conclusions** on the state of internal control to every DG and service in February 2019. These conclusions contribute to the 2018 annual activity reports of the Commission departments concerned. They draw on and are limited to the audit work carried out in the last 3 years, covering all open recommendations issued by the Internal Audit Service related to the management and control systems in the audited processes in the DGs in the past 3 years. Particular attention was drawn in the limited conclusion addressed to the Executive Agency for Culture, Education and Audiovisual, with regard to one critical and two very important recommendations issued in the context of the audit on Erasmus+ and Creative Europe — grant management (phase 2 - from project monitoring to payment). The agency issued a reservation in line with the limited conclusion of the Internal Audit Service (see section 2, subsection 6).

As required by its mission charter, the Commission's internal auditor also submitted an overall opinion, which is based on the audit work in the area of **financial management** in the Commission carried out by the Internal Audit Service during the previous 3 years (2016-2018) and also takes into account information from other sources, namely the reports from the European Court of Auditors. Based on this audit information, the internal auditor considered that, in 2018, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations made in the authorising officer by delegations' declarations of assurance and issued in their respective annual activity reports.

In arriving at the overall opinion, the internal auditor also considered the combined impact of all amounts estimated to be at risk at payment as calculated by the authorising officers by delegation, as these go beyond the amounts put under reservation. The overall amounts at risk are the best estimation of authorising officers by delegation for the amount of the expenditure authorised not in conformity with the applicable contractual and regulatory provisions at the time of the payment in 2018. In their 2018 annual activity reports, the directors-general estimated the amounts at risk at payment. Taken together, these correspond to an overall amount below materiality of 2%, as defined in the instructions for the preparation of the 2018 annual activity reports, of all executed payments in the Commission budget, the European Development Fund and the EU Trust Funds in 2018. These amounts at risk at payment in 2018 do not yet include any financial corrections and recoveries related to deficiencies and errors the Commission departments will detect and correct in the next years due to the multiannual corrective mechanisms built into the Commission's internal control systems.

Given these elements, the internal auditor considers that the EU budget is therefore adequately protected in total and over time.

Without further qualifying the opinion, the internal auditor added an 'emphasis of matter' highlighting issues that require particular attention as follows.

Supervision strategies regarding third parties implementing policies and programmes

Although it remains fully responsible for ensuring the legality and regularity of expenditure and sound financial management (and also the achievement of policy objectives), the Commission increasingly relies on third parties to implement its programmes. This is mostly done by delegating the implementation of the EU operational budget or certain tasks to third countries, international organisations or international financial institutions, national authorities and agencies, joint undertakings, non-EU bodies and EU decentralised

agencies. Moreover, in certain policy areas, greater use is being made of financial instruments under the current (2014-2020) multiannual financial framework. Such instruments and alternative funding mechanisms entail specific challenges and risks for the Commission, as also highlighted by the European Court of Auditors.

To fulfil their overall responsibilities, the Commission departments have to oversee the implementation of the programmes and policies and provide guidance and assistance where needed. Therefore, they have to define and implement adequate, effective and efficient supervision/monitoring/reporting activities to ensure that the delegated entities and other partners effectively implement the programmes, adequately protect the financial interests of the EU, comply with the delegation agreements, when applicable, and that any potential issues which are identified are addressed as soon as possible.

The Internal Audit Service recommended in a number of audits that the relevant Commission departments' control strategies and supervisory arrangements should set out more clearly the priorities and the need to obtain assurance on sound financial management in those EU and non-EU bodies. Although actions have been taken in recent years both at the level of the central services and at that of the relevant Commission departments to mitigate the risks identified as a result of audit work, further improvements are still needed in some areas.

Moreover, the Internal Audit Service notes that, without prejudice to the result of the ongoing negotiations on the new multiannual financial framework (2021-2027), decentralised agencies and other implementing bodies will continue to be entrusted with operational responsibilities in certain areas. In this context, the Commission departments should continue their efforts to identify and assess the risks involved in delegating tasks to third parties and pursue effective and efficient supervisory activities by further developing the relevant control strategies.

Going forward, Internal Audit Service will monitor the developments regarding the new multiannual financial framework as part of its update of the strategic risk assessment and audit plan in order to assess on a timely basis the related high risks and, where appropriate, assess the preparedness of the Commission departments to implement the new frameworks once they are adopted.

Annex 6: Compliance with payment time limits

The **statutory time limits** for payments are laid down in the main body of the financial regulation ([466]). There are also some exceptionally applied time limits which are detailed in sector-specific regulations.

Article 116 of the financial regulation sets out that payments to creditors must be made within deadlines of 30 days, 60 days or 90 days, depending on how demanding and complex it is to test the deliverables against the contractual obligations. Most of the payments have to be executed within 30 days; this represents in volume a global average of 89% in 2016, 2017 and 2018. For contracts and grant agreements for which payment depends on the approval of a report or a certificate, the time limit for the purposes of the payment periods is no longer automatically suspended until the report or certificate in question has been approved.

The period of 2 months remains valid for payments under Article 87 of the regulation of the European Parliament and the Council ([467]) laying down the general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

Compliance with payment time limits has been reported by the Commission departments in their annual activity reports since 2007 ([468]). In accordance with the applicable rules, the payment times reported in this annex have been calculated as follows.

For payments related to contracts and grant agreements signed before 2013, the time limits specified in the 2007 financial regulation are applied:

- where the payment is contingent upon the approval of a report, the time from approval of the report until payment;
- where no report is required, the time from reception of the payment request until payment.

For payments related to contracts and grant agreements signed as from 2013, the 2018 financial regulation is applied:

- where no report is required and where the payment is contingent upon the approval of a report, the time from reception of the payment request until payment.

The **Commission's global average payment time** is monitored by the accounting officer. It has evolved as follows in recent years.

All time limits combined	2016	2017	2018
Global average net payment time	21.4 days	20.4 days	18.4 days
Global average gross payment time	24.9 days	23.3 days	21.5 days

The data shows that the global average net payment time of the Commission departments is below 30 days for the past 3 years for all time limits combined and has steadily decreased since 2016. Departments are encouraged to continue their efforts in this regard and to implement follow-up measures whenever payment time problems are identified. The global average gross payment time is newly provided following a recommendation from the Ombudsman. It represents the average time to pay including any period of suspension.

([466]) Commission Delegated Regulation (EU) No°1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, pp. 1-111).

([467]) Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006, pp. 25-78).

([468]) Based on available data in the corporate accounting system as of end of the financial year 2007.

The table below illustrates the evolution of the **late payments**, i.e. payments made after expiry of the statutory time limit in recent years for all payments combined. The data used has been extracted from the corporate accounting system.

All time limits combined	2016	2017	2018
Late payments in number	12.4%	10.4%	7.6%
Late payments in value	8.5%	3.1%	3.3%
Average number of overdue days ([469])	39.1 days	39.6 days	45.5 days

The number of late payments and the amounts associated with them have decreased significantly since 2016. This result is believed to be linked to the more stringent requirements associated with the 2018 financial regulation. Another reason is associated with the sufficient availability of payment appropriations. However, the average number of overdue days (delays calculated in days), for all time limits combined, increased in 2018.

Concerning the **interest paid for late payments** ([470]) (see figures in the table below), **the total amount paid by the Commission in 2018 decreased compared to 2017**. This is mainly the consequence of interest paid in 2017 by the development department after a Court case.

	2016	2017	2018
Interest paid for late payments (EUR)	685 645	824 421	385 468

In general, payment delays and interest paid are a consequence of payment shortages. For that reason, the budget department has summarised some possible measures which could be applied by the authorising officer to actively manage payment appropriations.

Other **causes of late payments** include the complexities of evaluating the supporting documents that are a prerequisite for all payments. This is particularly onerous when the supporting documents are reports of a technical nature (on average 13% of the payments in 2016 and 11% in both 2017 and 2018) that sometimes have to be assessed by external experts. Other causes are associated with difficulties in coordinating the financial and operational checks of payment requests, and issues with the management of payment suspensions.

The 2009 communication establishing Commission internal payment targets provided a clear incentive to services to reduce their payment times. There is scope for reducing payment times further. When setting up action plans in this area, departments should focus on further reducing late payments from their current levels of 7.6% of payments in terms of their number, and of 3.3% in value. **The aim should be to meet the statutory payment time for every payment**.

The table that follows gives a detailed overview of the suspensions of payment.

	2016	2017	2018
Total number of suspensions	26 595	26 173	24 643

Suspensions are a tool that allows the responsible authorising officer to temporarily withhold the execution of a payment because the amount is not due, because of the absence of appropriate supporting documentation or because there are doubts on the eligibility of the expenditure concerned. It is a basic tool for the authorising officer in the payment process towards avoiding irregular or erroneous payments and is fundamental towards ensuring sound financial management and protecting the EU's financial interest.

([469]) i.e. above the statutory time limit.
([470]) i.e. no longer conditional upon the presentation of a request for payment (with the exception of amounts below EUR 200).

Annex 7:
Summary of waivers of recoveries

In accordance with **Article 101(5) of the Financial Regulation**, the Commission reports each year to the budgetary authority on the waivers it has granted in an annex to the summary of the annual activity reports.

The tables below show the total value and the number of waivers above and below EUR 60 000 in the financial year 2018.

The individual annual activity reports provided more details on the individual waivers above EUR 60 000.

EU budget	Department	Value of waivers (EUR)	Number and value (EUR) of waivers above EUR 60 000		Number and value (EUR) of waivers below EUR 60 000	
	Agriculture	3 612 578	4	3 612 578		
	Communication networks	790 951	4	641 714	12	149 237
	Communication	567			1	567
	Development	1 281 992	8	992 003	16	289 989
	Education and culture	137			1	137
	Education, Audiovisual and Culture Executive Agency	1 444 279	4	575 930	56	868 349
	Employment	186 284	1	186 284	1	-
	Energy	1 427 221	4	1 427 221		
	Environment	64 087	1	64 087		
	Foreign policy instruments	463 941	3	436 846	3	27 095
	Growth	162 143	1	162 143		
	Home affairs	374 460	3	311 032	3	63 428
	Executive Agency for Small and Medium-sized Enterprises	176 792	2	153 089	3	23 703
	Joint Research Centre	34 896			3	34 896
	Transport	42 710			1	42 710
	Neighbourhood	195 094	1	60 761	11	134 333
	Infrastructure — Brussels	177 800	1	86 664	8	91 136
	Infrastructure — Luxembourg	107			2	107
	Consumers and Food Safety Executive Agency	16 844			1	16 844
	Paymaster	1 513			3	1 513
	Research	208 630	1	208 630		
	Legal	19 604			7	19 604
European Commission		**10 682 629**	**38**	**8 918 981**	**132**	**1 763 648**

European Development Fund		Value of waivers (EUR)	Number and value (EUR) of waivers above EUR 60 000		Number and value (EUR) of waivers below EUR 60 000	
		882 906	4	847 631	5	35 275
European Development Fund		**882 906**	**4**	**847 631**	**5**	**35 275**
Guarantee Funds		**Value of waivers (EUR)**	**Number and value (EUR) of waivers above EUR 60 000**		**Number and value (EUR) of waivers below EUR 60 000**	
		6 420 093	21	5 816 204	34	603 889
Guarantee Funds		**6 420 093**	**21**	**5 816 204**	**34**	**603 889**
Overall total		**17 985 628**	**63**	**15 582 816**	**171**	**2 402 812**

Annex 8:
Report on negotiated procedures

1. Legal basis

Article 74(10) of the Financial Regulation ([471]) requires authorising officers by delegation to record contracts concluded under negotiated procedures. Furthermore, the Commission is required to annex a report on negotiated procedures to the summary of the annual activity reports referred to in Article 74(9) of the Financial Regulation.

2. Methodology

A distinction has been made between the 47 departments which normally do not provide external aid and those three departments (development, neighbourhood and foreign-policy instruments) which conclude procurement contracts in the area of external relations (different legal basis: Chapter 3 of Title VII of the Financial Regulation) or award contracts on their own account, but outside of the territory of the European Union.

These three departments have special characteristics as regards data collection (decentralised services, etc.), the total number of contracts concluded and thresholds to be applied for the recording of negotiated procedures (EUR 20 000), as well as the possibility to have recourse to negotiated procedures in the framework of the rapid-reaction mechanism (extreme urgency). For these reasons, a separate approach has been used for procurement contracts awarded by these three departments.

3. Overall results of negotiated procedures recorded

3.1. The 47 departments, excluding 'external relations'

On the basis of the data received, the following statistics were registered: 86 negotiated procedures with a total value of EUR 229 million were processed out of a total of 798 procurement procedures (negotiated, restricted or open) for contracts over EUR 60 000 with a total value of EUR 5.2 billion.

For the Commission, the average proportion of negotiated procedures in relation to all procedures amounts to **10.8%** (**13.7%** in 2017), which represents **4.4%** of all procedures in value (**17.9%** in 2017). The assessment of negotiated procedures compared to the previous year shows a decrease in the order of **2.9** percentage points in terms of relative number and a decrease of **13.5** percentage points in terms of relative value.

An authorising department shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is 'distinctly higher than the average recorded for the institution', i.e. if it exceeds the average proportion by 50% or if the increase from one year to the next is over 10% in proportion. Thus, the reference threshold for this year is fixed at **16.2%** (20.5% in 2017).

Ten departments exceeded the reference threshold and among them four increased their number of negotiated procedures by more than 10% in proportion when compared to last year. It should be noted that, among these 10 departments, one department concluded one negotiated procedure and the low total number of procedures conducted (3) makes its average high; consequently, its respective results are to be considered

([471]) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, pp. 1-222).

as non-significant. One department, although not exceeding the reference threshold, increased its number of negotiated procedures by more than 10% in proportion compared to last year.

To be noted that 21 departments have not used any negotiated procedure, including eight that awarded no contracts over EUR 60 000 this year.

3.2. The three 'external relations' departments

On the basis of the data received, the following statistics were registered: 192 negotiated procedures for a total value of contracts of EUR 162 million were processed out of a total of **540** procedures for contracts over EUR 20 000 with a total value of about EUR 1.4 billion.

For the three 'external relations' departments, the average proportion of negotiated procedures in relation to all procedures amounts to **35.6%** in number (27.3% in 2017), which represents some **11.7%** of all procedures in value (**17.8%** in 2017). Compared to the previous year, these departments have registered an increase of **8.3** percentage points in number of negotiated procedures in relation to all procedures and a decrease of **6.1** percentage points in terms of relative value.

An authorising department shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is 'distinctly higher than the average recorded for the institution', i.e. if it exceeds the average proportion by 50% or if the increase from one year to the next is over 10% in the proportion. Thus the reference threshold for this year is fixed at **53.3%** (**40.9%** in 2017); none of the three departments exceeds it.

Nevertheless, two out of the three departments presented an increase over 10% in the proportion of negotiated procedures compared to last year.

4. Analysis of the justifications and corrective measures

The number of negotiated procedures in 2018 compared to 2017 has decreased (from 102 to 86), despite the increase in the number of procurement procedures (from 746 from 798). Overall, this is a positive result.

The following categories of justifications for the use of a negotiated procedure have been presented by the departments exceededing the thresholds.

- **Similar services/works as provided for in the initial tender specifications.** One service in charge of large interinstitutional procurement procedures realises during the implementation of the contract that the needs initially envisaged do not match with the consumption trend during the execution of the contract. Therefore, the leading service must start a negotiated procedure on behalf of all institutions to increase the ceiling of the framework contract in question.
- **Objective situations of the economic activity sector,** where the number of operators may be very limited or in a monopoly situation (for reasons of intellectual property, specific technical expertise/reasons, exclusivity rights, highly specialised markets, where competition is limited to very few economic operators or is even completely absent, etc.). Monopoly situations have been met, among other things, in the organisation of communication events, in specialised services (e.g. financial, fitting services for buildings). Situations of technical captivity may also arise especially in the IT domain (absence of competition for technical reasons and/or because of the protection of exclusive rights related to the purchase of proprietary licences or the maintenance and continuity of existing applications i.e. upgrades etc.).
- **Unsuccessful open or restricted procedures,** leading to a negotiated procedure.
- **Additional services** not included in the initial contract, which become necessary, due to unforeseen circumstances.

Regular available measures are proposed or implemented by the budget department and other departments concerned to redress the use of negotiated procedures when other alternatives could be available.

- **Improved programming** of procurement procedures.
- **Improvement of the system of evaluation of needs** — the Commission's central services will continue their active communication and consultation policy with the other Commission departments, institutions, agencies and other bodies along the following axes.
    - Permanent exchange of information via regular meetings with user services and agencies in appropriate forums.
    - Ad hoc detailed surveys prior to the initiation of (interinstitutional) procurement procedures for the evaluation of needs.
    - Better estimate of needs of interinstitutional framework contracts and better monitoring with semester consumption reports from user services or agencies.
- **Training and improved inter-service communication** — the budget department's central financial service provides regular practical training sessions on procurement and community of practice sessions.
- Regular update of **standard model documents and guidance documents** on procurement.

Annex 9: EU Trust Funds

In accordance with **Article 252 of the Financial Regulation**, this annex contains **a comprehensive and detailed report to the European Parliament and to the Council on the activities supported by European Union Trust Funds and on their implementation and performance, as well as on their accounts**.

For the performance and results aspects, see section 1, subsection on 'Global Europe'.

The financial regulation allowed the European Commission to create and administer EU Trust Funds in the field of external action: these are multi-donor trust funds for emergency, post-emergency or thematic actions.

A trust fund is both a legal arrangement and a distinct financial structure relying on a pool funding mechanism, in which several donors jointly finance an action on the basis of commonly agreed objectives and reporting formats. Trust funds have many advantages, such as flexibility, speed of decision-making and the possibility to pool funding from different sources and donors.

- EU Trust Funds enhance the international role of the EU as well as strengthen the visibility and efficiency of its external action and development assistance.
- Another advantage is a faster decision-making process in the selection of the measures to be implemented in comparison with traditional multiannual programmes devoted to development cooperation — this can prove crucial in emergency and post-emergency actions, the categories of measures (together with thematic actions) for which EU Trust Funds may be established.
- One more benefit is the leverage of additional resources to devote to external action, since the establishment of an EU Trust Fund requires at least one additional donor.

Donors to an EU Trust Fund may be individual Member States as well as other entities. The pooling of resources could also increase coordination between different EU donors in selected areas of intervention, for example if individual Member States decide to channel at least part of their national bilateral assistance through EU Trust Funds.

In order for an EU Trust Fund to be created, it must meet a number of conditions, including EU added value (its objectives can be better met at EU level than at national level), additionally (the trust fund should not duplicate already existing and similar instruments) and managerial advantages.

The constitutive act of the EU Trust Fund signed by the European Commission and the donors details some important features of the trust fund, including its specific objectives, the rules for the composition and the internal rules of its board, as well as the duration of the trust fund, which is always limited in time. EU Trust Funds have so far all been set up for an initial 60 months (5 years), apart from the Colombia-EU Trust Fund set up (December 2016) for 4 years.

Financial contributions to an EU Trust Fund are lodged in a specific bank account. EU Trust Funds are not integrated in the EU budget, but their management needs to be in accordance with the financial regulation to the extent necessary to ensure proper use of public resources. The European Commission is empowered to adopt delegated acts laying down detailed rules on the management, governance and reporting of the EU Trust Funds.

EU Trust Funds are implemented directly by the European Commission, which is authorised to use up to 5% of the resources pooled in a trust fund to cover its management costs. In the case of emergency or post-emergency EU Trust Funds, budget implementation may also be indirect, with the possibility to entrust relevant tasks to other entities, such as non-EU countries and their designated bodies or international organisations and their agencies. In addition to the specific objectives of a given trust fund, implementation must comply with the principles of sound financial management, transparency, proportionality, non-discrimination and equal treatment.

Each EU Trust Fund has its own governing board, which decides on the use of the pooled resources. The board ensures representation of the donors and is chaired by the European Commission, whose positive vote is required for the final decision on the use of the resources. Member States that do not contribute to the trust fund as well as the European Parliament are invited to participate as observers. An EU Trust Fund acts collectively on behalf of the EU and all the contributors to its financing.

As far as control and audit mechanisms are concerned, the provisions of the financial regulation and its rules of application include a series of safeguards. For example, each year EU Trust Funds are subject to an independent external audit. In addition, the powers of the European Court of Auditors and of the Commission's internal auditor over EU Trust Funds are the same as those they exercise over the other activities of the European Commission.

With regard to reporting obligations, the European Commission is to submit an annual report on each EU Trust Fund to the European Parliament and to the Council. The annual report must be exhaustive and include detailed information on the activities supported by the trust fund, their implementation and performance, as well as their accounts. The Commission also reports on a monthly basis to the European Parliament and to the Council on the budgetary implementation of the EU Trust Funds.

The following EU Trust Funds have been established.

- EU Trust Fund for the Central African Republic: 'the Bêkou Trust Fund' — established in 2014.
- EU Regional Trust Fund in Response to the Syrian Crisis — established in 2014.
- European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa: 'the Africa Trust Fund' — established in 2015.
- European Union Trust Fund for Colombia: 'the Colombia Trust Fund' — established in 2016.

The Bêkou Trust Fund

The Bêkou Trust Fund (which means 'hope' in Sango, the primary language spoken in the Central African Republic) was established on 15 July 2014 by the European Union (represented by the Commission's development and humanitarian departments and by the European External Action Service) and three of its Member States: Germany, France and the Netherlands. The fund was established with the objective to support all aspects of the country's exit from crisis and its reconstruction efforts. It was furthermore designed, taking into consideration the need to better link the reconstruction/development programmes with the humanitarian response (linking relief, rehabilitation and development) in order to rebuild the capacity of the country.

In total five EU Member States and other donors have, by 31 December 2018, contributed to this EU Trust Fund. The total amount of pledges from donors, the European Development Fund and the EU budget reached over EUR 242 million.

The priority sectors that the Trust Fund supports include basic services, notably in health, agriculture development, the restoration of national and local administrations, economic recovery and reconciliation within Central African Republic society. By end 2018, the Bêkou Trust Fund has funded in total 16 actions for a total value of EUR 195 million.

Furthermore, the Court of Auditors published a special report in which it assessed the justification of the fund's establishment, its management and the achievement of its objectives so far. Despite some limited shortcomings, it concluded that the choice to set up the fund was appropriate in the given circumstances. It should be taken into account that this was the first EU Trust Fund ever set up. The Court recommended the Commission to develop further guidance on the choice of aid vehicle, to improve donor coordination, selection procedures and performance measurement and to optimise administrative costs.

The Syrian Crisis Trust Fund

The EU Regional Trust Fund in Response to the Syrian Crisis was established on 15 December 2014.

By way of a revised Commission establishment decision in December 2015, and subsequent adoption by the Trust Fund Board in March 2016, the scope of the Trust Fund has been expanded to also cover support to internally displaced persons (IDPs) in Iraq fleeing from the interlinked Syria/Iraq/Da'esh crisis, to provide flexibility to support affected countries also with hosting non-Syrian refugees, and to provide support in the Western Balkans to non-EU countries affected by the refugee crisis.

At the end of 2018, the EU and 23 donors contributed to the Trust Fund: the EU budget, 22 Member States and one non-EU country, with total contributions reaching an amount of EUR 1.7 billion. The contributions from the EU budget amounted by the end of 2018 to EUR 1.5 billion, while the contributions from Member States and other donors amounted to EUR 183 million, including EUR 24.7 million from Turkey. Projects focusing on education, livelihoods and health covering a total of EUR 1.5 billion have already been approved, out of which EUR 1.2 billion have been contracted to the Trust Fund's implementing partners on the ground.

The Trust Fund is an important implementation channel also for the Facility for Refugees in Turkey, with some 10% of the facility's budget having been channelled via the Trust Fund.

These programmes support refugees and host communities in their needs for basic education and child protection, training and higher education, better access to healthcare, improved water and wastewater infrastructure, as well as support for projects promoting resilience, economic opportunities and social inclusion.

The Africa Trust Fund

The EU Trust Fund for Africa was established on 12 November 2015. It provides a rapid, flexible and effective response to root causes of irregular migration and displaced persons in Africa as well as to the crisis in the Sahel and Lake Chad, the Horn of Africa and the north of Africa regions. It has since then been extended to Côte d'Ivoire, Ghana and Guinea.

It aims to help fostering stability and contributing to better migration management. In line with the EU development-led approach to forced displacement, it also helps addressing the root causes of destabilisation, forced displacement and irregular migration by promoting economic and equal opportunities, security and development.

The EU provides support to the three regions to face the growing challenges of demographic pressure, environmental stress, extreme poverty, internal tensions, institutional weaknesses, weak social and economic infrastructures and insufficient resilience to food crises, which have in some places led to open conflict, displacement, criminality, radicalisation and violent extremism, as well as irregular migration, trafficking in human beings and the smuggling of migrants.

The EU Trust Fund for Africa benefits a comprehensive group of African countries crossed by the major migration routes. These countries are part of the following regional operational windows.

- Window A — Sahel and Lake Chad: Burkina Faso, Cameroon, Chad, Côte d'Ivoire, the Gambia, Ghana, Guinea, Mali, Mauritania, Niger, Nigeria and Senegal.
- Window B — Horn of Africa: Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, Tanzania and Uganda.
- Window C — north of Africa: Algeria, Egypt, Libya, Morocco and Tunisia.

In addition to the countries mentioned above, neighbouring African countries may also benefit, on a case-by-case basis, from EU Trust Fund for Africa projects with a regional dimension in order to address regional migration flows and related cross-border challenges.

Activities funded under the EU Trust Fund for Africa are implemented through a range of operating partners, including EU Member States cooperation agencies, non-governmental organisations and international organisations. Several implementation modalities are envisaged: delegated cooperation, calls for proposals, budget support, blending and direct awards in particular situations. Priorities of the EU Trust Fund for Africa

have been identified through a dialogue with African partners and relevant local, national and regional stakeholders.

As of 31 December 2018, a total of 187 projects worth EUR 3 590 million have been approved, divided as follows: for Sahel and Lake Chad (EUR 1 721 million), the Horn of Africa (EUR 1 286 million) and the north of Africa region (EUR 582 million). Of the total amount approved, 385 contracts have been signed with implementing partners for a total amount of over EUR 2 462 million.

In total 27 EU Member States and two other donors (Norway and Switzerland) have, by end of 2018, contributed with EUR 490 million to this EU Trust Fund. Contributions through EU instruments and European Development Funds amount to EUR 3 720 million.

The Colombia Trust Fund

The signature of the constitutive agreement of the EU Trust Fund for Colombia took place on 12 December 2016. At the end of 2018 the EU Trust Fund has close to EUR 94 million at its disposal, from the EU budget and EUR 25 million from contributions of 19 EU Member States (Czechia, Germany, Ireland, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Portugal, Slovenia, Slovakia, Sweden and the United Kingdom).

The Colombia Trust Fund has approved projects for a total amount of EUR 66 million and EUR 58 million were contracted by 31 December 2018.

The Trust Fund will help to support the implementation of the peace agreement in the early recovery and stabilisation phases of the post-conflict. The overall objective is to help Colombia to secure a stable and lasting peace, to rebuild its social and economic fabric and to give new hope to the people of Colombia.

The **EU Trust Funds' annual reports by their trust fund managers** (as authorising officers by subdelegation) include more details on the activities of the EU Trust Funds. They can be found as annexes of the annual activity reports of the Commission's development and neighbourhood departments.

Development department

- Trust Fund 'Bêkou' — the EU Trust Fund for the Central African Republic.
- Trust Fund 'Africa' — Horn of Africa window.
- Trust Fund 'Africa' — Sahel and Lake Chad window.
- Trust Fund 'Africa' — north of Africa window (*management cross-subdelegated to the neighbourhood department*).
- Trust Fund 'Colombia'.

Neighbourhood department

- Trust Fund 'Syrian crisis'.