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EUROPEAN
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Agriculture and cohesion: overview of EU spending 2007-2013

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I

This document presents an overview of EU spending in shared management agriculture¹ and cohesion² over the 2007-2013 multiannual financial framework. It aims to highlight EU financial management and control issues in agriculture and cohesion over the period, summarise the Court's audit results, provide an overview of EU financial management and consider audit challenges of the 2014-2020 multiannual financial framework. It also seeks to address the European Parliament's request expressed in the 2012 discharge resolution to provide country specific information in shared management.

II

The information on geographic distribution of risk is available from a variety of sources which differ in character and nature. These sources of information available include:

- the Court's audit findings;
- the distribution of amounts at risk by Member State based on the 2013 annual activity reports of the Commission;
- financial corrections as per Note 6 of the 2013 consolidated accounts of the EU.

III

The Court has not sought to obtain new evidence in preparing this overview.

IV

The key conclusions of the overview are:

- Spending in the 2007-2013 period followed the pattern of previous periods. While spending was delayed, the overall volume of payments made was close to that expected, and there is likely to be little use of the automatic de-commitment of funds. Except for direct aid and market support for farmers in agriculture, the pressure to spend funds is a key component of risk for shared management expenditure.
- The main risks to regularity of agricultural spending are the ineligibility of land, animals, or costs on which subsidy payments are based, of beneficiaries in receipt of subsidies, and the incorrect calculation of subsidies (even though these risks are mitigated to some extent by the operation of the Integrated Administration and Control System). Breaches of agri-environment requirements, of specific requirements for investment projects, and of procurement rules are important factors increasing the risk for rural development spending,
- The biggest risk in cohesion spending relates to breaches of EU and/or national public procurement rules. The next biggest risk is that expenditure (or projects) is not eligible for EU subsidy.

- While there is significant scope to improve control systems, the key challenge is to take action to make programmes easier to manage. All Member States for which a conclusion can be drawn are affected by material levels of error with a degree of fluctuation around the average for the EU budget as a whole. The Court finds error throughout the EU Member States. Over the period covered by this overview, the Court has examined many control systems in the Member States and in the Commission and has predominantly concluded that they are 'partially effective'. The fact that, despite this classification of systems, the Court finds errors in nearly half of transactions it examines illustrates inter alia the complexity of eligibility rules and of management systems for EU spending programmes.
- There have been improvements in reporting on risk and on error by authorities in the Member States, but the Commission continues to face significant challenges in ensuring that this information is reliable.
- Changes to regulations for the new period may not have overall a significant impact on the level of risk. While there is some welcome simplification of rules, some spending schemes will continue to pose challenges for managers in all Member States.
- Many errors have arisen because the overall management and control architecture is complex. The Commission and Member States should continue to seek opportunities to simplify it. However, in the meantime, experience shows that Member States have had difficulties in managing the current system and thus implementing the policy. Efforts being made in Member States to improve the situation need to continue.

01

This document presents a review on EU spending in funds managed under shared management in agriculture¹ and cohesion² over the 2007-2013 multiannual financial framework. It aims to highlight EU financial management and control issues in agriculture and cohesion over the period, to summarise the Court's audit results; as well as to provide an overview of EU financial management and of the audit challenges of the 2014-2020 multiannual financial framework. It also seeks to address the European Parliament's request, expressed in the 2012 discharge resolution, to provide country specific information in shared management.

02

While the overview concerns the use of funds over the 2007-2013 multiannual financial framework, the review of the Court's audit results covers the years 2009-2013. In so doing it focuses upon the period in which payments are primarily based on the 2007-2013 rules and for which the Court has published error rates in individual specific assessments. The overview draws upon the Court's annual reports, relevant special reports, and opinions, and upon Commission reports including annual activity reports of DG Agriculture and Rural Development (DG AGRI), DG Employment, Social Affairs and Inclusion (DG EMPL) and DG Regional and Urban Policy (DG REGIO), and analyses of budgetary implementation.

03

The overview is structured in four parts:

- An overview of spending, focussing on cohesion and agriculture.
- The Court's audit results in agriculture and cohesion in the 2009-2013 period, including the overall estimated error rate and the frequency and typology of errors.
- An assessment of the supervisory role of the Commission in the complex architecture of the control systems for shared management.
- The changes brought about by the new legal framework for the 2014-2020 period.

EU financial management and control in shared management 2007-2013

08

The multiannual financial framework for 2007-2013 was the largest ever agreed for EU spending

04

The Interinstitutional Agreement on budgetary discipline and sound financial management between the European Parliament, the Council and the Commission was finalised on 17 May 2006. This set the multiannual financial framework for 2007-2013. In total, after all adjustments were taken into account, the multiannual financial framework set a ceiling of 865 billion euro for commitments and 821 billion euro for payments at 2004 constant prices at the time of negotiation of the multiannual financial framework. After technical adjustments to bring it to current prices, the ceiling became 982 billion euro for commitments³ and 926 for payments for the seven year period⁴.

05

Subsequently, in the annual budgets, the budgetary authority set budgets totalling 978 billion euro for commitments and 873 billion euro for payments until the end of 2013 (respectively 99,6 % and 94,3 % of the maximum allowed under the multiannual financial framework). By the end of 2013 the Commission had recorded actual commitments amounting to 970 billion euro (98,8 % of the multiannual financial framework amount and 99,2 % of the voted amounts in the annual budgets). The total amount paid by the EU by the end of 2013 amounted to 863 billion euro (93,2 % of the multiannual financial framework amount). The Court addressed this in paragraph 1.52 of 2012 annual report.

06

The cohesion regulation also sets some macroeconomic conditionality by establishing maximum levels of transfer from funds supporting cohesion to each individual Member State. The rates set were based upon the relationship between a Member State's per capita gross national income (GNI) measured in purchasing power standards (PPS) and the EU-25 average⁵. These rates could go up to a maximum of 3,8 % of a Member State's gross domestic product (GDP).

Cohesion and agriculture were the main areas of spending

07

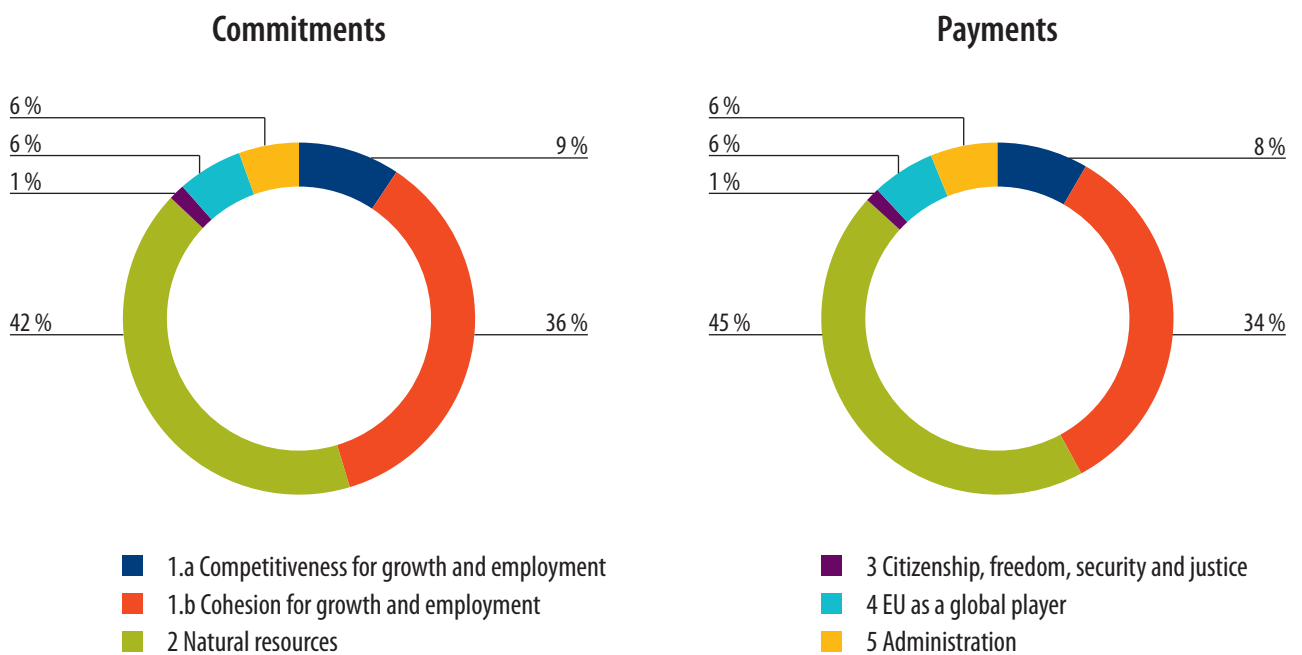
The two large multiannual financial framework headings are: heading 1.b (cohesion for growth and employment) which amounted 36 % of the commitment ceiling and 34 % of the payment ceiling, and heading 2 (preservation and management of natural resources (agriculture)) which amounted to 42 % of the commitment ceiling and 45 % of the payment ceiling. Together they add up to 78 % of the amounts actually committed and 79 % of the amounts paid during the period (see *Graph 1*).

08

The breakdown by Member State of 2007-2013 commitments and payments for headings 1.b and 2 is set out in *Annex 1*.

Graph 1

Breakdown of commitments and payments made in the 2007-2013 period



Source: Consolidated annual accounts and reports on budgetary and financial management 2007 - 2013.

EU financial management and control in shared management 2007-2013

At the end of 2013 payments had not yet been made on more than one third of commitments for 2007-2013

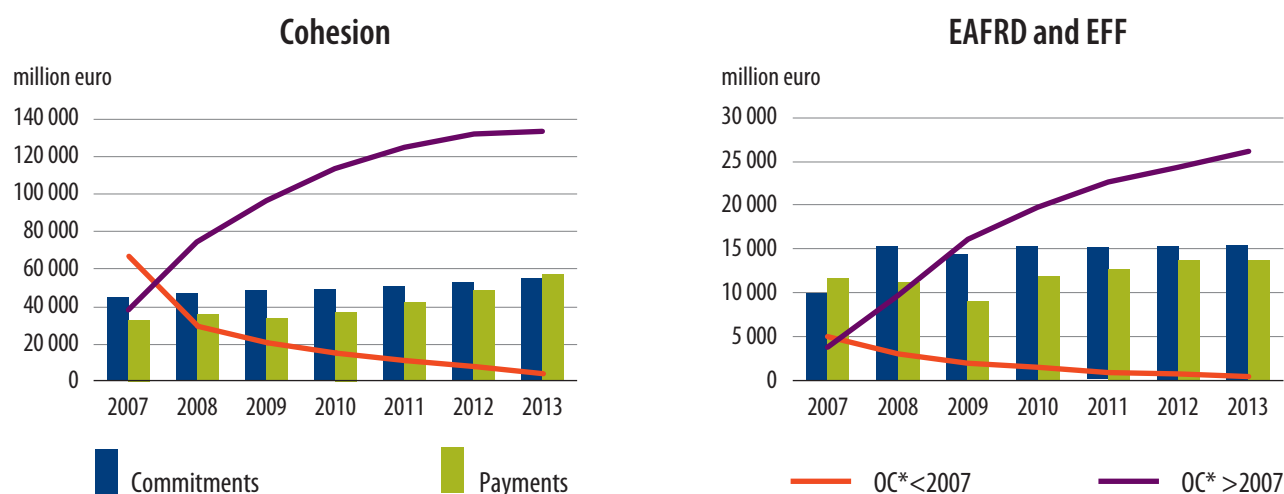
09

75 % of outstanding commitments at the end of 2013 were for heading 1.b (62 % or 137 out of a total of 222 billion euro) and heading 2 (13 % or 28 out of a total of 222 billion euro). Around 97 % were commitments related to the 2007-2013 multiannual financial framework. These commitments will lead to payments over the 2014-2020 multiannual financial framework.

10

The trend also occurred in previous multiannual financial frameworks. This can be observed in **Graph 2** which shows the evolution of accumulated outstanding commitments for cohesion and European Agricultural Fund for Rural Development (EAFRD)/European Fisheries Fund (EFF) respectively. The European Commission (Directorate-General Economic and Financial Affairs) as well as the European Central Bank forecast inflation and growth at low levels in the early years of the new period⁶. This will make it harder to find sufficient funding for payments to meet the outstanding commitments brought forward from previous periods⁷.

Graph 2 Growth of accumulated outstanding commitments for cohesion and EAFRD/EFF 2007-2013



* OC = Outstanding commitments.

Source: Reports on budgetary and financial management 2007-2013.

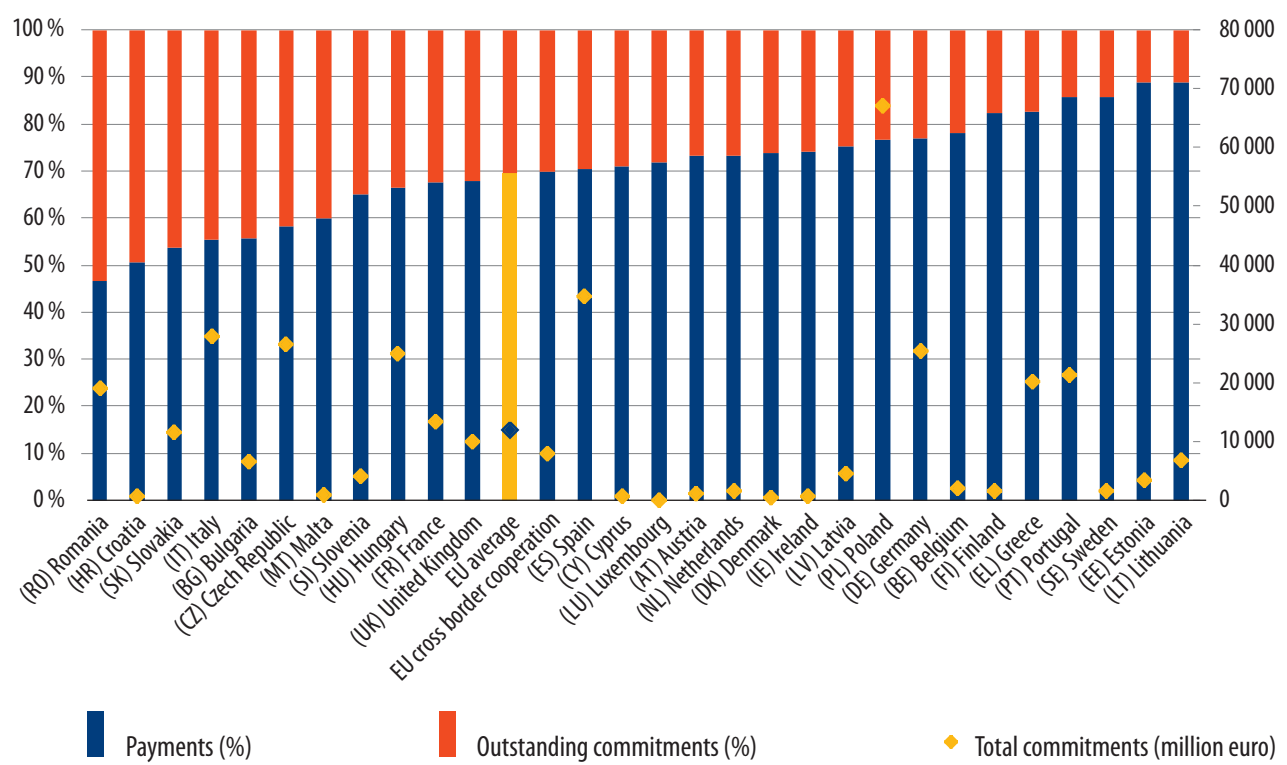
EU financial management and control in shared management 2007-2013

11

For cohesion, 2007-2013 commitments outstanding at the end of 2013 amounted to 133 billion euro or around 38 % of the total amount committed. The EU average absorption rate (the ratio of payments to commitments) was therefore 62 %. Individual Member State absorption rates ranged from 38 % for Romania to 81 % for Estonia. During the first six months of 2014 Member States presented further requests for payment to the Commission and the overall rate rose to 69 %, with Romania reaching 47 % and Estonia and Lithuania 89 % (see **Graph 3**).

Graph 3

2007-2013 MFF: Cohesion – absorption of funds at 30 June 2014



Source: European Commission.

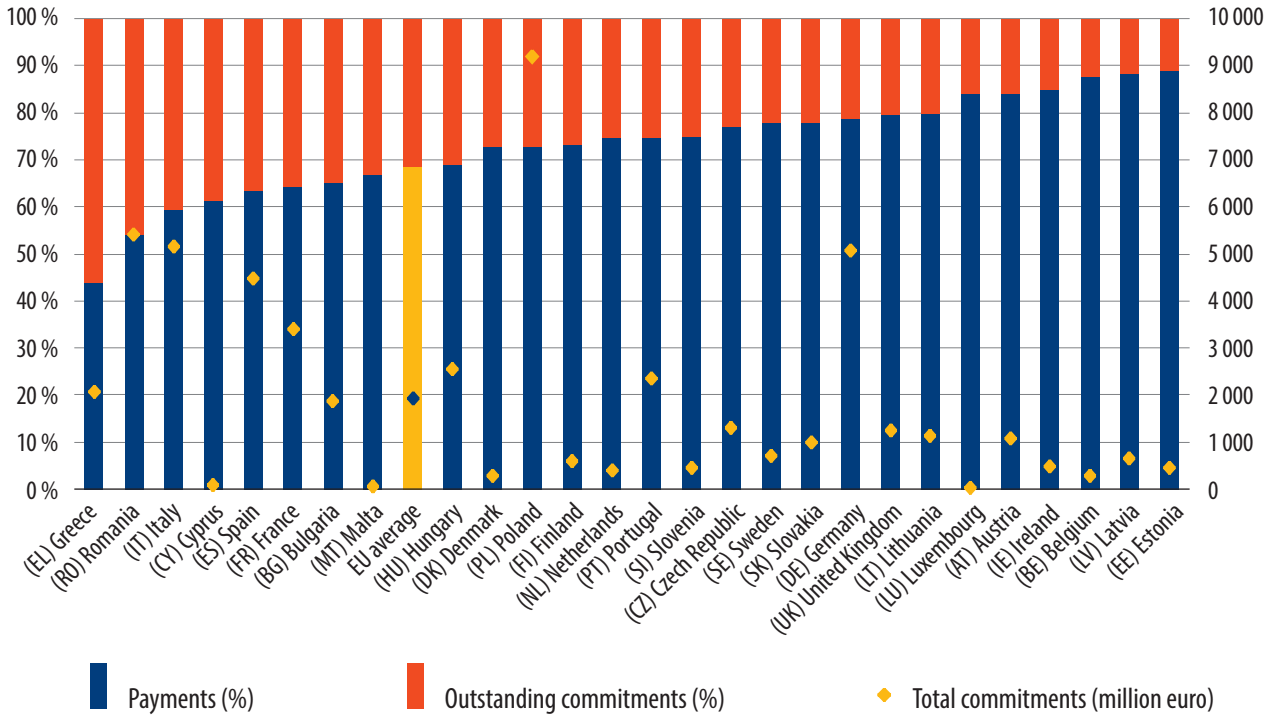
EU financial management and control in shared management 2007-2013

12

For multiannual investment measures under the EAFRD, 2007-2013 commitments outstanding at the end of 2013 amounted to 19 billion euro (around 36 % of the total amount committed). Thus the EU average absorption rate (the ratio of payments to commitments) was 64 %. Individual Member State absorption rates ranged from 40 % for Greece to 85 % for Belgium. During the first six months of 2014 Member States presented further requests for payment to the Commission and the overall rate went up to 69 %, with Greece reaching 44 % and Estonia having the highest level of absorption with 89 % (see *Graph 4*).

Graph 4

2007-2013 MFF: EAFRD investment measures – absorption of funds at 30 June 2014



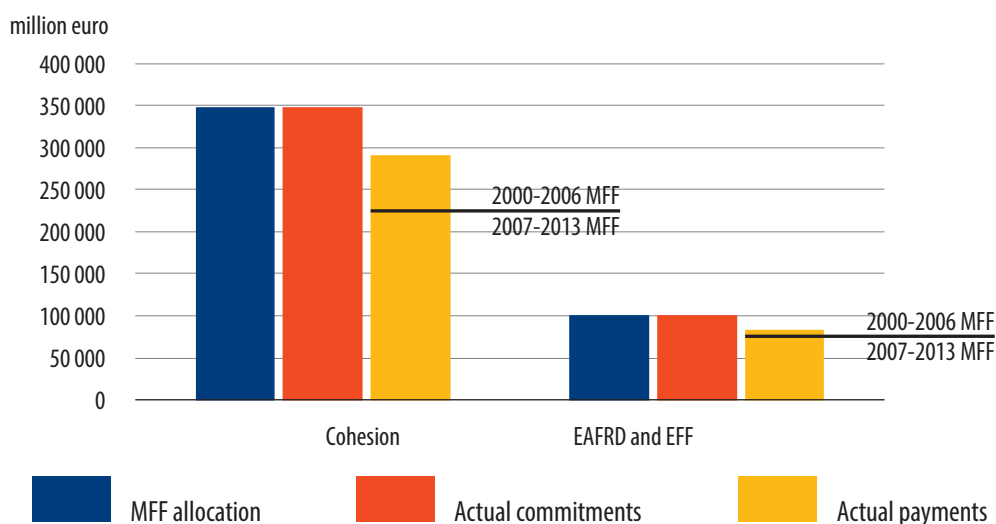
Source: European Commission.

EU financial management and control in shared management 2007-2013

13

Graph 5 illustrates the total amounts allocated by the 2007-2013 multiannual financial framework for cohesion and EAFRD/EFF as at 31 December 2013. While there was a minor difference between the sums allocated by multiannual financial framework and the actual commitments made in the years 2007-2013, the difference between commitments and payments made was much larger. Payments related to 2007-2013 commitments represent respectively 62 % and 74 % of amounts allocated by the multiannual financial framework. The gap between 2007-2013 commitments and 2007-2013 related payments is largely offset by the volume of payments made during these years against 2000-2006 commitments.

Graph 5 2007-2013 MFF: Cohesion and EAFRD/EFF: from multiannual financial framework allocation to actual payments at 31 December 2013 in million euro



Source: Reports on budgetary and financial management 2007-2013.

The pressure to spend funds

14

The slow absorption of funds in the 2007-2013 period results, above all, from the cyclical character of spending. For multiannual actions, payments made during the first two years of a multiannual financial framework usually relate to the commitments made in the previous multiannual financial framework. In addition, the funds allocated often exceed the capacity of Member States to absorb them (see **Graphs 3 and 4**).

EU financial management and control in shared management 2007-2013

15

While overall the EU budget represents around 2 % of public expenditure of EU Member States⁸, the challenge for individual Member States can be much greater. The European Parliament estimates that the EU spending in Lithuania for example represents 27 % of non-health and social protection spending⁹. For Hungary 95 % of all public investments are co-financed by the EU¹⁰. The evolution of outstanding commitments has been linked to the absorption capacity of Member States receiving the funds. Some experts¹¹ have linked overall absorption capacity to three key factors: macroeconomic capacity (e.g. current cohesion policy rules allow the transfer of EU funds amounting to up to 3,8 % of the Member State's GDP), financial capacity, i.e. the ability to co-finance the programmes and projects supported by EU, and administrative capacity, i.e. the ability of central and local authorities to manage the EU programmes and projects.

16

The common agricultural policy (CAP) regulation stipulated that the Commission shall automatically de-commit any portion of a budget commitment that had not been used by the end of the second year following that of the budget commitment¹².

17

For cohesion, the regulation set this period for two years - (n+2) rule - (and for three years - (n+3) rule - for commitments of 2007 to 2010 for certain Member States¹³). As part of the measures for combating the crisis, in 2011, the automatic de-commitment rule in respect of 2007 commitments was amended¹⁴. Additionally, for both cohesion and rural development, in 2011, European Parliament and Council adopted regulations providing for a temporary increase in EU co-financing rates for Member States experiencing financial difficulties (initially Greece, Ireland, Portugal, Hungary, Latvia and Romania but later Spain and Cyprus were also covered by this measure)¹⁵.

18

Finally, in 2013, specific provisions gave Romania and Slovakia extra flexibility for 2011 and 2012 commitments. According to the (n+2) rule these allocations should be spent by the end of 2013 and 2014 respectively, but these two countries were allowed one further year (until 2014 and 2015 respectively)¹⁶. These countries' absorption rates as at 31 December 2013 were around 40 % and 50 % respectively.

19

Commitments which are not absorbed eventually need to be de-committed. De-committments made by the end of 2013 were, however, not significant. In cohesion the total amount de-committed under the (n+2)/(n+3) rules up to 2013 was 250,5 million euro or 0,19 % of the 2012 cumulative target¹⁷. For rural development 0,14 % of the 2012 cumulative target was de-committed.

EU financial management and control in shared management 2007-2013

20

For 2000-2006 multiannual financial framework, the average de-commitments in cohesion (as disclosed by the Commission in May 2014) were equivalent to 1,76 % of total commitments. (Of this 0,56 % resulted from application of the (n+2) rule, and 1,2 % was decided at closure of the programmes)¹⁸.

21

The existence of fixed national envelopes, which can only be lost if unspent, creates an incentive for high levels of spending. One way of increasing the disbursement of funds is to create financial engineering instruments¹⁹ foreseen in sectoral legislation and transfer funds to them. There are cases of EU funds remaining several years in financial engineering instruments before being transferred to final beneficiaries. DG AGRI in its 2013 annual activity report expressed such concerns in relation to the findings of its audit mission to Bulgaria, stating that 'Main weaknesses concerned (...) the early and high payment of the advances and the early and high transfer of capital into the guarantee fund (...) The Bulgarian authorities have been invited to give any explanation why such early and high advance payments were necessary and why such and early and very high transfer into the guarantee fund was necessary.'²⁰ The Court has found similar issues in Italy (see special report No 2/2012 'Financial instruments for SMEs co-financed by the European Regional Development Fund' Box 2).

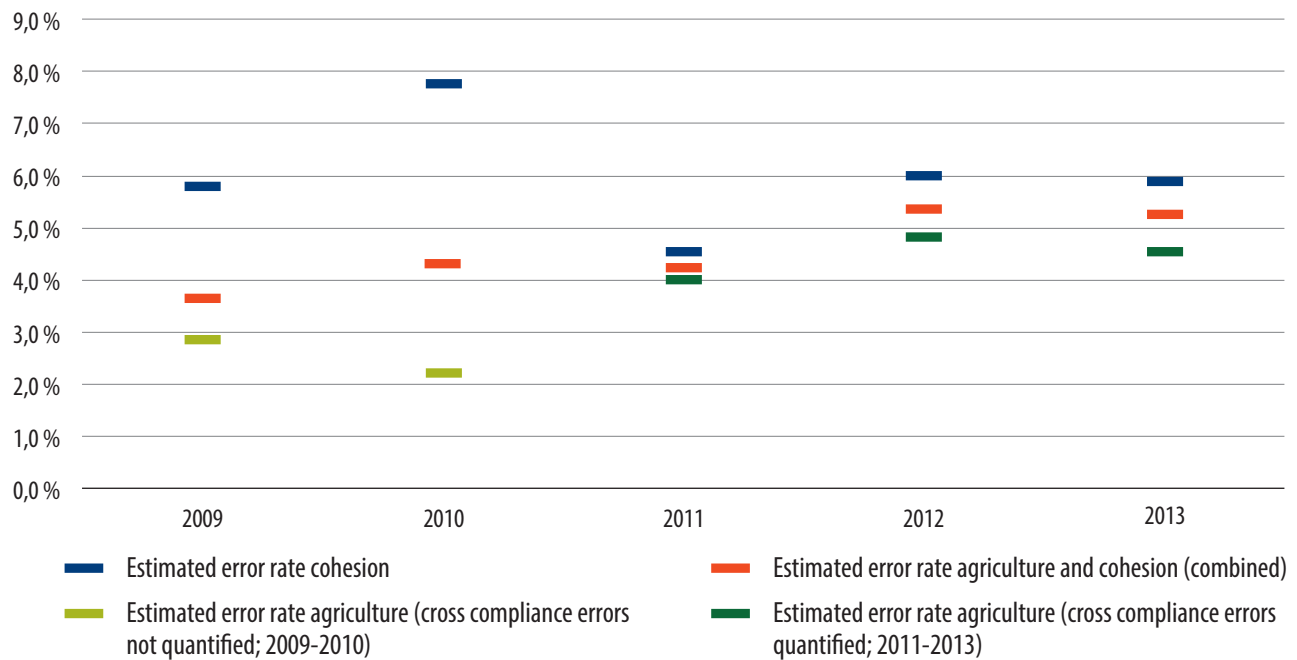
The Court's audit results in agriculture and cohesion 2009-2013

The estimated error rates in agriculture and cohesion 2009-2013

22

Payments made in 2007 and 2008 (other than advances and direct aid and market support for farmers in agriculture) related mostly to the 2000-2006 multiannual financial framework. Therefore, in order to present consistent results (in particular in cohesion where rules were different between the two periods), the overview covers audit results for the years 2009-2013²¹.

Graph 6 The Court's estimated error rates for agriculture and cohesion 2009-2013



From 2011 cross compliance errors were included in quantification of the estimated error rate for agriculture. In 2011, 2012 and 2013 this added respectively 0,2, 0,2 and 0,4 percentage points to the estimated level of error for agriculture. Figures for 2009 and 2010 do not include quantification of cross compliance errors.

Source: European Court of Auditors.

The Court's audit results in agriculture and cohesion 2009-2013

23

In the years 2009-2013 the most likely error for both agriculture and cohesion remained persistently above the materiality threshold of 2 %. Over the period the most likely error for agriculture is estimated at 3,7 % of funds spent, and for cohesion, 6,0 %. Combined this gives a level of error of 4,6 % of spending over the period. The error rate in both areas is driven by the big funds (European Agricultural Guarantee Fund (EAGF) in agriculture and European Regional Development Fund (ERDF)/Cohesion Fund (CF) in cohesion) which account for three quarters of expenditure in each area. **Graph 6** shows a generally higher level of error for cohesion compared to agriculture. Cohesion also shows a higher level of annual fluctuation. Within agricultural spending, the large component (direct and market support) shows a lower level of error than the smaller component of rural development spending. This situation is reversed in cohesion spending, where the ERDF/CF show generally higher levels of error than the European Social Fund (ESF) (see **Table 1**).

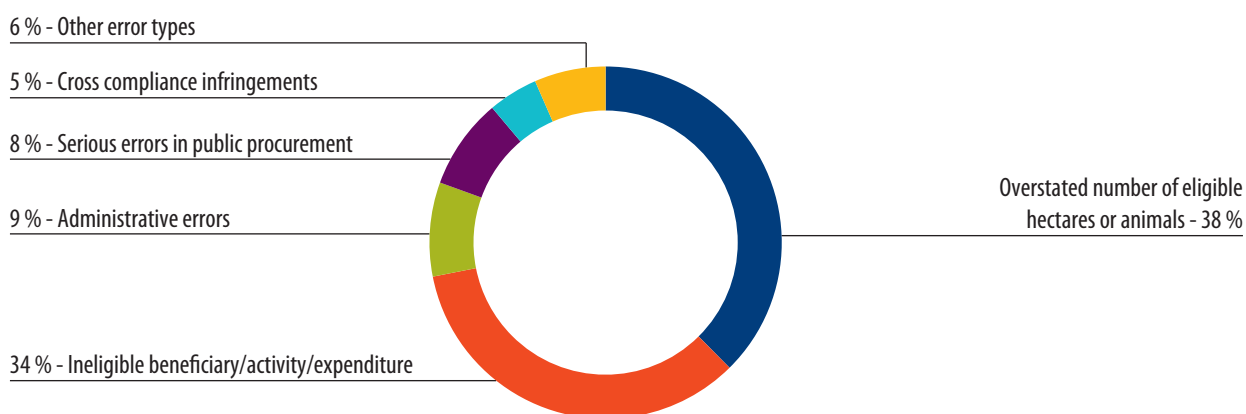
24

In its 2013 annual report (see graphs 3.1, 4.1, 5.1 and 6.1) the Court presents the contribution by type of error to the most likely error rate for specific assessments. The categories of error presented for 2013 statement of assurance are, in general, consistent with those for the entire 2009-2013 period.

Agriculture: ineligible fields and ineligible farmers dominate the errors table for agriculture

Graph 7

Agriculture: contribution to the estimated error rate for 2009-2013 by type



Source: European Court of Auditors.

25

The biggest contribution to the overall level of error (representing around two fifths of the error rate for agriculture) is 'overstated number of eligible hectares or animals' (*Graph 7*). Within this category of error the by far most important subcategory relates to ineligible 'permanent pasture land'. Under the new CAP rules the risk of errors of this type may diminish since the definition of permanent grassland has been extended to cover also non-herbaceous vegetation.

26

The Court regularly finds cases of land with no or only partial grass cover, which are recorded in the Land Parcel Identification System's (LPIS) database as eligible permanent pasture. This leads to payment of a subsidy to a farmer who is not entitled to receive these EU funds. Paying agencies do not rigorously follow up on systems weaknesses identified. The Court found persistent weaknesses in excluding ineligible land from LPIS and in the administrative treatment of claims. This often resulted from poor interpretation of ortho-images or from the use of incorrect eligibility criteria by the national authorities (see paragraph 3.27 of the 2013 annual report).

27

The second most important source of error (representing around one third of the error rate for agriculture) relates to ineligible beneficiaries, ineligible activities or ineligible expenditure. Most of these errors relate to EU aid schemes managed outside the Integrated Administration and Control System (IACS). While such errors are less frequent, they usually have a significant impact at the level of individual transactions. Examples found relate to ineligible items included in cost reimbursement claims or beneficiaries not meeting the eligibility criteria (see paragraph 3.11 of the 2013 annual report). The risk of errors of this type is unlikely to be significantly reduced by the changes made to the CAP for the new period.

28

Administrative errors (representing around one tenth of the error rate for agriculture) relate to situations where the aid applicant is not at fault but where the national authorities committed errors in the administrative management of aid schemes. Typical examples of such errors are incorrect allocations of payment entitlements, incorrect or non-application of aid reductions and penalties and errors in the aid calculation algorithm. The risk of errors of this type is unlikely to be significantly reduced by the new, complex, CAP rules.

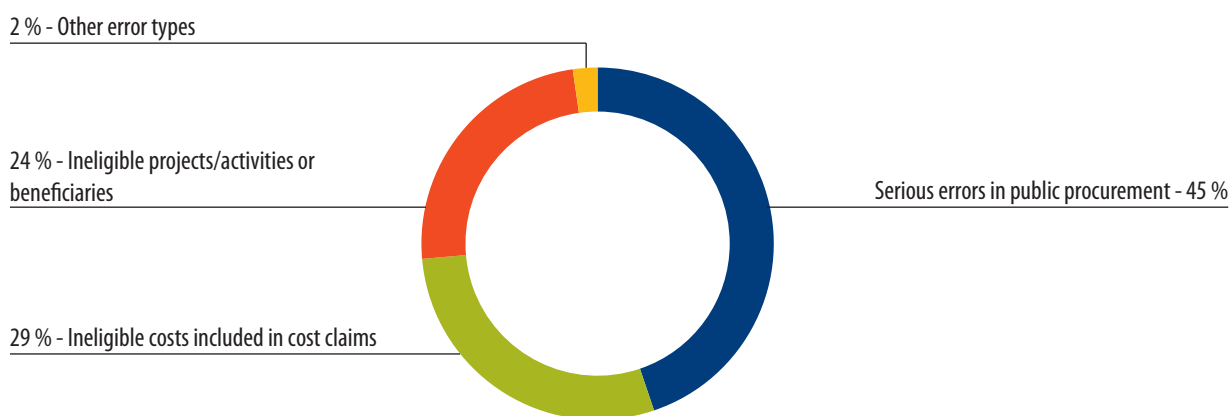
29

The Court also considers that developments in the legal framework for rural development and the implementation of action plans may have a positive impact on levels of error.

Cohesion: breaches of procurement rules were the biggest single cause of error

Graph 8

Cohesion: contribution to the estimated error rate for 2009-2013 by type



Source: European Court of Auditors.

30

Public procurement rules are a key instrument for spending public money economically and effectively and for establishing an internal market within the EU. Serious failures to comply with these rules result in quantifiable errors²². Such quantifiable errors make up nearly half of the estimated error rate for cohesion for the period (**Graph 8**). They include cases where contracts are attributed without tendering, irregularities in assessment of bids, tender specification or publication and the use of inappropriate tendering procedures. The Commission indicated that, over time, the simplification of rules introduced by the new directive on public procurement²³ 'should help reduce errors caused by the incorrect application of public procurement rules in the handling of EU funds' (Frequently Asked Questions on revision of public procurement directives²⁴)²⁵.

31

Ineligible costs contribute over one quarter of the error rate for the cohesion for the period. Expenditure is eligible for a contribution from the funds only where incurred for operations decided on by the managing authority of the operational programme concerned or under its responsibility, in accordance with criteria fixed by the monitoring committee. When declaring costs to the Commission, national authorities are certifying that these costs have been incurred in compliance with provisions laid down in regulation and/or national eligibility rules. For ESF, which consists of mainly small-scale projects of an intangible nature, ineligible expenditure is the main source of errors. In particular the Court found examples of overcharging of overheads, overdeclared costs (for several reasons, e.g. ineligible participants, fewer participants than declared, overdeclaration of personnel cost) and incorrectly calculated cost. The Commission expects the expanded use of simplified cost options to reduce errors of this kind.

32

Nearly one quarter of the error rate for cohesion for the period originates in projects or beneficiaries in breach of eligibility conditions set out in the regulations and/or national rules.

33

State aid is deemed incompatible with the internal market when it distorts trade between Member States. The Commission, together with national competition authorities in the Member States, directly enforces the EU competition rules. Aid granted from state resources can be considered compatible if grants meet certain conditions. The Court's audit work has identified several cases where, according to state aid rules, the beneficiaries should have received no or less public funding. Breaches in state aid can result in ineligible cost and ineligible project/beneficiaries.

The Commission provides two sources of information on the geographical distribution of issues it has identified

34

The Commission provides such information in two ways:

- it makes available in the annual activity reports of its DGs validated information on the distribution of amounts at risk based on data provided by the national authorities (see **Graphs 9, 12 and 13²⁶**);
- for a number of years it has presented the information on the geographical distribution of 'financial corrections'. The Commission points out that this may not be understood as an indicator of the distribution of errors between Member States but primarily as an indicator of systems weaknesses which may lead to errors (see **Graph 10**).

35

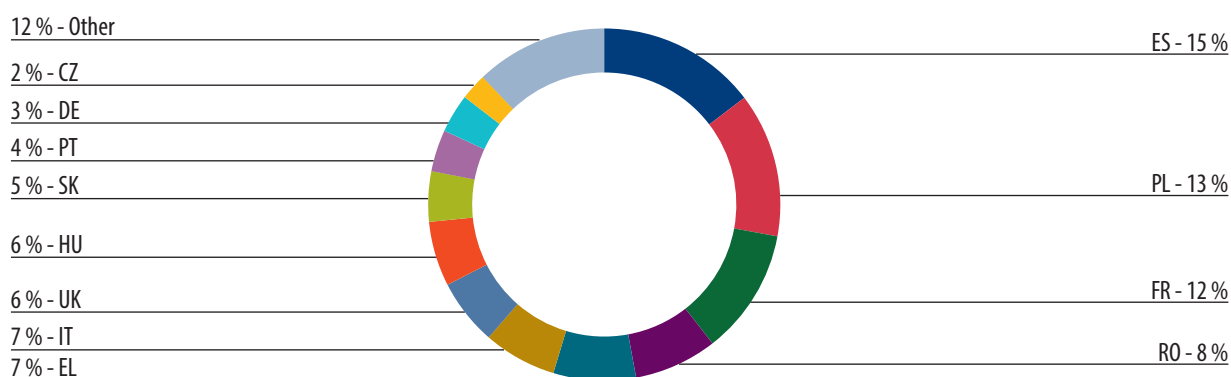
This information, displayed in **Graphs 9 and 10**, differs in character and source:

- The distribution of amounts at risk by Member State is included in the 2013 annual activity reports of the DGs that are responsible for most of the shared management expenditure. The basis for the amounts at risk are reports on agricultural inspections and reports from audit authorities (cohesion) adjusted on the basis of the DG's own assessment of the quality and reliability of these reports (see **Graphs 12 and 13**).
- The financial corrections as per Note 6 of the EU consolidated accounts give an indication of the amounts subject to corrective measures for the years 2007-2013 (see paragraph 55).

The Court's audit results in agriculture and cohesion 2009-2013

Graph 9

Distribution of amounts at risk by Member State according to the annual activity reports of DG AGRI, EMPL and REGIO (2013)



Amounts at risk presented in the annual activity reports of the DGs AGRI, EMPL and REGIO for the year 2013 amount to 3,0 % of spending (see **Table 1**). As the Commission has changed its approach, figures over a longer period are not comparable.

Source: Annual activity reports of DG AGRI, DG EMPL and DG REGIO (European Commission). See also **Graphs 12** and **13**.

36

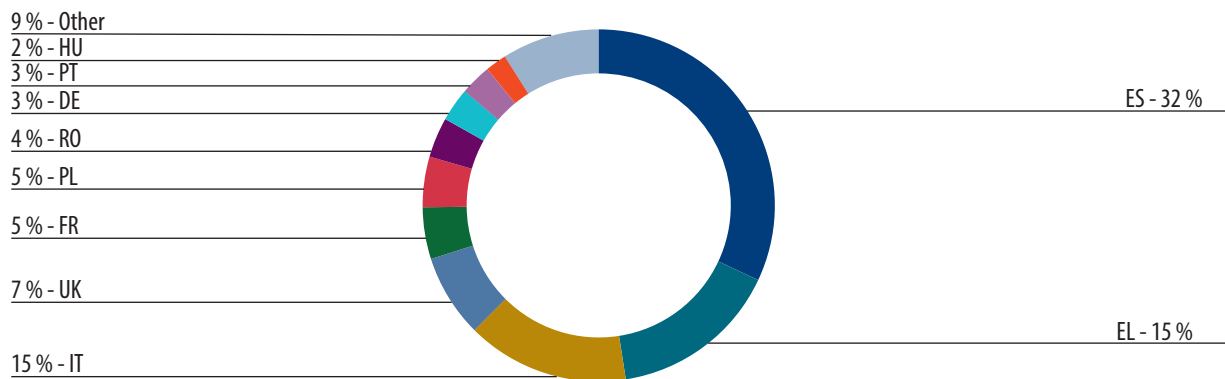
There are weaknesses in the data underlying this information (see paragraphs 53 to 60, 67 to 70 and 81 to 88). In addition, the Commission figures point to a higher level of error in agriculture than in cohesion (see **Table 1**) while the Court's work suggests the opposite (see **Graph 6**). This reflects in part the Commission's varying methodology for quantifying the impact of corrective measures between agriculture and cohesion. More significantly the overall level of error is much higher on the Court's analysis, (see **Graph 6**) than the Commission's estimate (see **Graph 9** and **Table 1**).

37

In **Graph 9** the Court has collated information from the annual activity reports of various DGs which provide information on the amounts at risk both in relative and absolute terms. Divisions on the chart represent estimated amounts at risk in absolute terms. However, estimates of the absolute amounts of error do not, by their nature, take into account the amount and distribution of spending. The largest recipients of EU payments, for example Poland (the biggest recipient in cohesion) and France (the biggest recipient in agriculture), (see **Annex 1**) feature as the biggest source of amount at risk largely because they have to manage such large quantities of funds. Equally, in **Graph 10**, the aggregated volume of 'financial corrections', as collated from the Commission's accounting information, in itself provides limited information on the relative success of national authorities in managing EU funds.

Graph 10

Distribution of 'financial corrections' implemented in the years 2007-2013 by DG AGRI, DG EMPL and DG REGIO as per the financial statements of the European Union



At present only a cumulative breakdown is available. Financial corrections made in the years 2007- 2013 total 14,0 billion, which is around 2 % of the payments made in those years for agriculture and cohesion.

Source: 2013 consolidated accounts of the EU, data from the accounting system for Note 6 of the accounts.

The Court's audit work reflects the volume of EU shared management spending in Member States

38

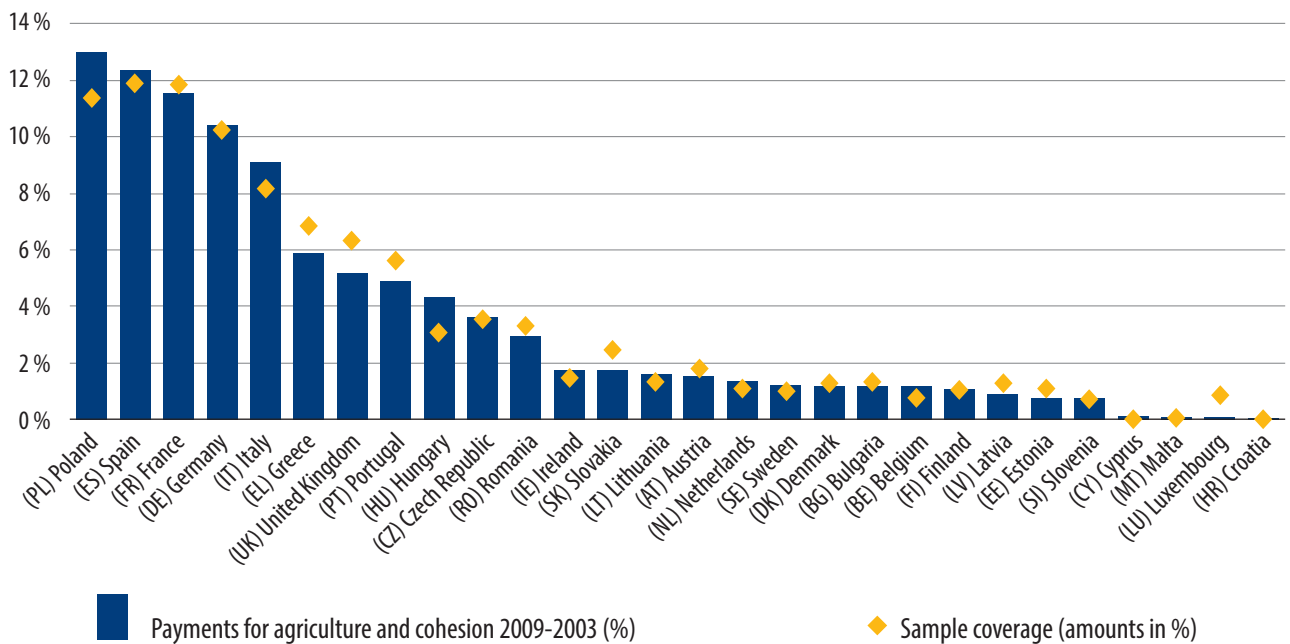
The Court's annual sample drawn for the statement of assurance audit is designed to support a conclusion on whether or not levels of error are material across EU spending taken as a whole, and for key areas of spending. The methodology used provides an estimated error rate for the EU expenditure as a whole.

39

Testing of sampled payments is a necessary, effective and efficient way to obtain findings on which to base the Court's overall opinion, and the specific assessments. The sampling methodology used by the Court has the consequence that work carried out in each Member State is over a longer period proportionate to the amount spent (see **Graph 11**, where the relative distribution of the 2 920 transactions examined for the years 2009-2013 is presented)²⁷.

Graph 11

Relative distribution of expenditure and of the Court's transaction testing on agriculture and cohesion over the years 2009-2013



Source: European Court of Auditors and reports on budgetary and financial management 2007-2013.

Better information is available for the eleven Member States representing more than 80 % of shared management spending

40

Annexes 2-4 present the frequency of errors detected in the years 2009-2013 in samples selected by the Court in different Member States. The data are disclosed in aggregate for agriculture and cohesion (**Annex 2**), and separately for agriculture (**Annex 3**) and cohesion (**Annex 4**). The analysis of these data shows that:

- Errors were found in the samples drawn in all Member States.
- Nearly half of transactions sampled were affected by some breach of legal requirements.
- More than a quarter of transactions sampled involved overpayments or similar quantifiable errors, of which around three quarters amounted to up to 20 % of the value of the transaction examined, with the remainder falling between 20 and 100 % of the value of transaction.

41

Eleven Member States (Poland, Spain, France, Germany, Italy, Greece, United Kingdom, Portugal, Hungary, Czech Republic and Romania for which 2 376 transactions²⁸ were examined in the years 2009-2013), represent more than 80 % of shared management spending in the years 2009-2013 (see **Graph 11**), totalling 507 billion euro. For this group, taken as a whole, the share of high impact errors (quantified between 80 and 100 % of the value of the transaction tested) is broadly in line with its overall share of spending.

42

Within each of these Member States:

- At least one third of the transactions examined involved some breach of legal requirements.
- At least one seventh (and often many more) of the transactions examined involved overpayments and similar, quantifiable, errors.

The fact that the Court finds errors so frequently is one illustration of the complexity of eligibility rules and management systems for EU spending programmes

43

The levels of irregularity are material in each of these eleven Member States (see paragraph 41), as well as in the remaining 17 Member States taken together. Over the period covered by this overview, the Court has examined many control systems in these Member States and has predominantly concluded that they are 'partially effective'. The fact that, despite this classification of systems, the Court finds errors in nearly half of transactions it examines illustrates inter alia the complexity of eligibility rules and of management systems for EU spending programmes.

44

The Court selects the samples presented in **Annexes 2-4** using the monetary unit sampling method. In this method each euro, rather than a transaction, is a single sampling unit, and has equal chance of being selected. The Court's approach is not designed to gather data on frequency in the population. Therefore figures presented in **Annexes 2-4** are not an indication of the frequency of error in EU-funded transactions as a whole or in individual Member States. Our sampling approach applies different weighting to different transactions reflecting the value of the expenditure concerned and the intensity of audit work. This weighting is removed in a frequency table which therefore gives as much weight to rural development as to EAGF in agriculture and to ESF as to ERDF/CF in cohesion. As a result, the relative frequency of error in samples drawn in different Member States cannot be a guide to the relative level of error in different Member States.

The Court's audit results in agriculture and cohesion 2009-2013

45

This is illustrated by a comparison of the results for agriculture and cohesion (see *Annexes 3* and *4*). Overpayments and other quantifiable errors in agriculture were noted in nearly a third of agricultural payments sampled, as opposed to less than a fifth of cohesion payments examined. However, the Court's results over a number of years suggest that error has a bigger impact on cohesion spending (6 % over this period as a whole) than on agriculture (3,7 % over the period).

46

A characteristic of agriculture subsidy payments examined by the Court has been the frequent but generally relatively small overdeclarations of the areas on which subsidies are based. This is apparent in the findings for France (the largest recipient for agriculture). Agriculture transactions examined in France show the highest frequency of quantifiable errors (amounting to almost one in two of examined transactions). However the great majority are errors at the lower end of the range. In cohesion, one-fifth of all quantifiable errors were found in Spain (the second largest recipient in cohesion), which accounted for one-third of high impact quantifiable errors (quantified between 80 and 100 % of the value of the transaction tested).

47

Many errors have arisen because the overall management and control architecture is complex. The Commission and Member States should continue to seek opportunities to simplify it (see paragraph 31). However, in the meantime, experience shows that Member States have had difficulties in managing the current system and thus implementing the policy. Efforts being made in Member States to improve the situation need to continue.

The complex control framework for EU shared management spending

48

The supervisory and control framework in both cohesion and agriculture, as illustrated in *Annex 5*, is complex. The Commission shares responsibility for the implementation of the agricultural and cohesion policy with the Member States. Most of the expenditure is thus administered and paid out by national or local authorities, whose roles and control procedures are laid out in EU legislation. These authorities carry out administrative checks, in accordance with EU requirements, on aid applications and requests for reimbursements in order to verify their eligibility. They must also visit a significant number of beneficiaries and projects to examine the use of funds. Member States use the results of these checks to reduce or refuse payments to many beneficiaries. In agriculture they must report the results of their checks to the Commission annually.

49

Functionally independent audit bodies (in agriculture: certification bodies; in cohesion: audit authorities) appointed by the Member States report on the quality of the control systems the authorities have put in place and on the compilation of inspection statistics. In agriculture they certify annually the reliability of the accounts to the Commission and in cohesion they provide an annual control report.

50

Although the processes for agriculture and cohesion are similar, they have some distinct features. In cohesion the Commission receives from the audit authorities, an annual control report including an audit opinion and an error rate. In agriculture certification bodies will provide similar information for the 2014-2020 period.

51

In agriculture there is a yearly financial clearance procedure and a multi-annual conformity clearance procedure. In cohesion a similar process will be applied to the operational programmes started under the multiannual financial framework 2014-2020. The Court's assessment of the Commission's supervision has taken these differences into account.

52

Annual reports for 2009 and 2012²⁹ discussed the role of corrective measures. Corrective measures can be applied by Member States before or after a payment is made. Those prior to payment include administrative checks of beneficiaries' claims by national authorities and inspection visits, while those after payment include recoveries from beneficiaries by Member States³⁰ and withdrawals (see paragraph 79).

The role of 'financial corrections'

53

The supervisory work of the Commission ranges from administrative checks of claims introduced by Member States to Commission examinations of control systems. When the Commission finds for example that key elements are missing from systems, it must impose a 'financial correction'. The Court discussed the role of the 'financial corrections' in the 2009, 2012 and 2013 annual reports³¹.

54

In the years 2007-2013 agriculture and cohesion expenditure 'financial corrections' imposed by the Commission in line with the applicable legal framework did not in practice reduce payments to final beneficiaries.

- For agriculture, financial corrections produce assigned revenue³². This assigned revenue is funded by the Member States' 'financial corrections' imposed and contributes to the current budget financing.
- For cohesion, national authorities were entitled to declare additional projects which compensated for the financial corrections applied. The Commission then, after the normal checks, paid the Member State concerned the difference between the new claim(s) and the 'financial correction'.

Recovery from final beneficiaries is a responsibility of the Member States.

55

The Court has previously commented on the length of time involved in implementing 'financial corrections'. Many 'financial corrections' are made several years after initial disbursement of funds³³.

56

The Commission provides information on the 'financial corrections' and recoveries in the annual consolidated accounts of the EU (Note 6 in particular) and from 2012 onwards in a dedicated communication to the European Parliament³⁴.

57

In the Commission's communication³⁵ the cumulative information by Member State (in absolute and relative terms) for agriculture covers all Commission decisions 1999-2013. For cohesion, the cumulative information by Member State (in absolute and relative terms) is provided for both the 2000-2006 and 2007-2013 periods. The corrective action for the 2000-2006 period is still ongoing and most of the corrections were made in recent years. Based on the information presented, the distribution in absolute terms of 'financial corrections' is concentrated on a limited number of Member States. For agriculture the top three are Greece, Italy and Spain (61 % of corrections, with 32 % of payments for 1999-2013). For cohesion 2000-2006 period the same Member States are at the top, but in a different order (83 % of corrections for 45 % of EU contribution for the 2000-2006 period) (see *Graph 10*).

The Court's reported level of error in 2013 would have been 1,6 % higher if it had taken no account of corrective measures

58

The 2009 and 2012 annual reports explain how the Court takes account of the different corrective mechanisms. All Member State adjustments prior to payment are taken into account, as are those corrections with a quantifiable impact at project level made after payment by the Commission that had been made before the Court's examination. The Court checks the application of these corrections (which include recoveries from the beneficiaries and detailed corrections at project level) and excludes them from the error rate whenever this is appropriate.

59

In its 2013 annual report the Court calculated that without the application of these corrective mechanisms by authorities in the Member States and the Commission the reported error rate for the transactions sampled would have been 1,6 percentage points higher³⁶. Transactions that had been wholly excluded as a result of Member State checks cannot, by their nature, be quantified.

60

However, authorities in the Member States had sufficient information available, for additional transactions, to have detected and corrected many errors before claiming reimbursement from the Commission³⁷.

The Commission's assessment is initially based on Member State data

61

The Commission uses paying agency inspection statistics (agriculture) and reported validated error rates from audit authorities (cohesion) as a basis for the calculation of a 'residual error rate'. This is deemed to represent the financial impact, expressed as a percentage of the amount of payments, of the irregularities in payments made after all checks have been carried out. In cohesion, the 'residual error rate'³⁸ takes into account financial corrections since the start of the 2007-2013 period. This includes corrections already implemented at EU and/or national level, as well as pending 'financial corrections'. The Commission publishes consolidated figures from this process in the annual activity reports of the Directorates General.

62

Despite the improvements in the Commission's reporting of risk in recent years, its 2013 estimate of amounts at risk for DG REGIO (2,8 %) and the combined estimate for all shared management (3,0 %) are significantly lower than the Court's estimated levels of error (see *Table 1*). It should be noted that the Commission figures are based on an analysis of statistical information provided by authorities in the Member States and uplifted for management purposes on the basis of professional judgement.

Table 1 ECA 2013 audit results compared with estimations of amounts at risk in DG AGRI, EMPL and REGIO 2013 annual activity reports

Annual report chapter	Most likely error (MLE) 2013 (%)	Confidence interval (%)		Commission annual activity reports Directorate General	Amount at risk (%)	
		Lower error limit (LEL)	Upper error limit (UEL)		Estimate	Upper Limit
Agriculture: market and direct support	3,6	1,7	5,5	AGRI	2,7	-
Rural development, environment, fisheries and health	6,7	3,5	9,9	AGRI	5,2	-
Regional policy, transport and energy	6,9	3,7	10,1	REGIO	2,8	5,3
Employment and social affairs	3,1	1,5	4,7	EMPL	2,6	3,5
Total	5,2	4,0	6,3	Combined	3,0	-

Source: ECA 2013 annual report.

Source: Commission - annual activity reports 2013.

The Court calculated the confidence interval at 95 % (see Annex 1.1 of the 2013 annual report). DG EMPL calculated the upper limit with a 90 % confidence interval. DG REGIO did not provide data on the confidence interval in its 2013 annual activity report. Would the Court also have used a 90 % confidence interval the LEL would have been higher and the UEL would have been lower than currently displayed in the table. DG EMPL and DG REGIO present in their annual activity report figures that have been based on audit authorities examination of 2012 expenditure. The Court figures for the 2012 most likely error rate in regional and employment policy were around 0,1 percentage points higher than those for 2013, the LEL and UEL were 3,7 % and 9,9 % for regional policy and 1,4 % and 5,2 % for employment.

63

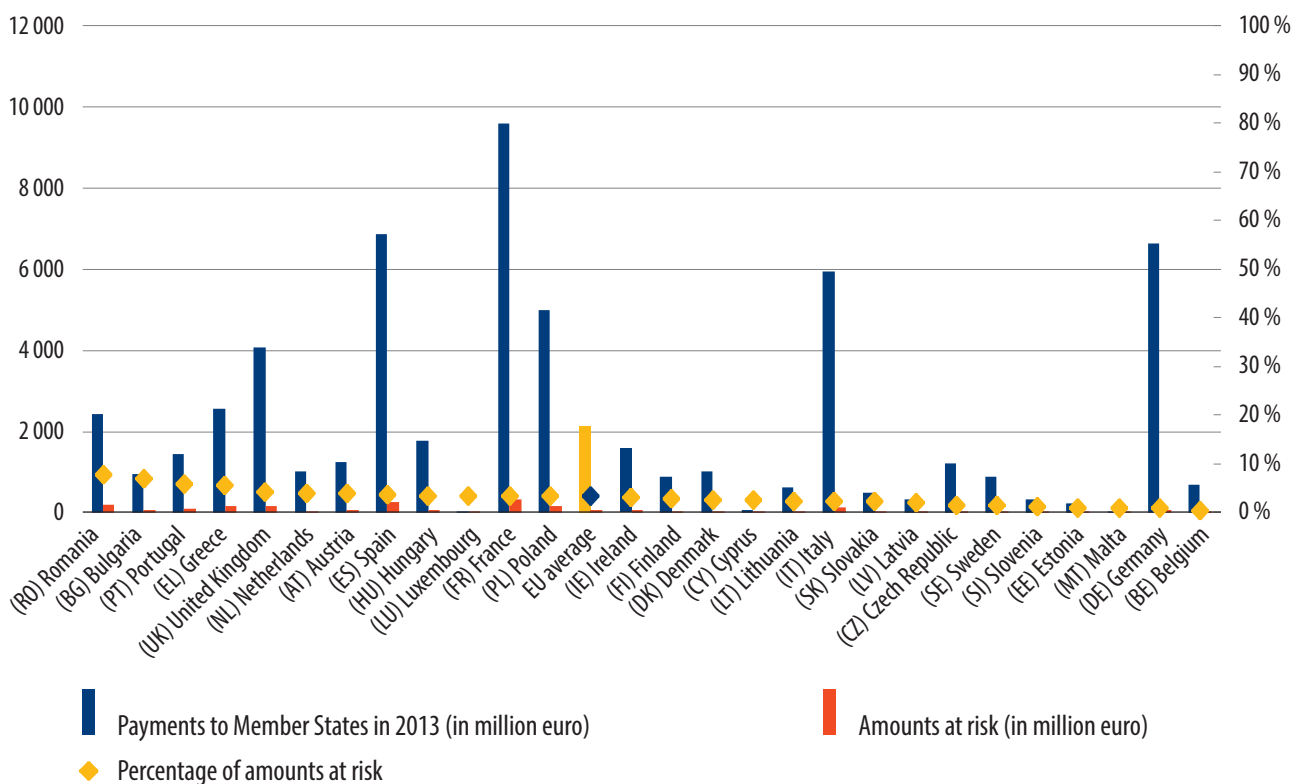
The Court’s audit results for each year from 2009 to 2013 show that there was a material level of error for cohesion and agriculture, with cohesion being more prone to error (see paragraph 23). As shown in **Table 1**, Commission estimates for 2013 indicate that it concludes that the error is higher in agriculture than in cohesion. This reflects in part the Commission’s varying methodology for quantifying the impact of corrective measures between agriculture and cohesion.

64

Graphs 12 and 13 show the payments to Member States in 2013 (in million euro), the Commission’s 2013 estimate of amounts at risk (in million euro) in these Member States and the percentage of funds at risk. The graphs are in descending order of the percentage of funds at risk.

Graph 12

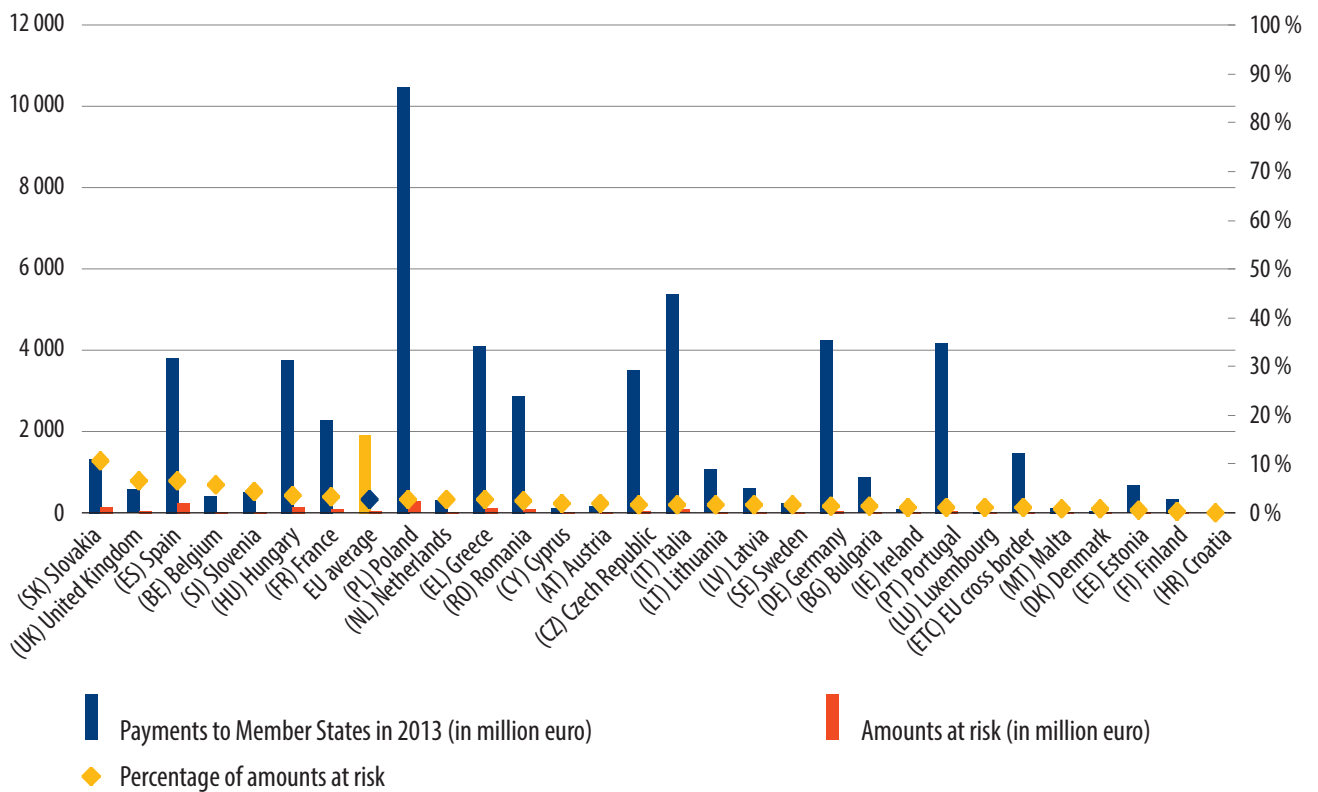
EAGF and EAFRD: Amounts paid to Member States and Commission estimates of amounts and percentage of funds ‘at risk’ by Member State (source data included in the 2013 annual activity report of DG Agriculture and Rural Development)



Source: Annual activity report of DG AGRI, (European Commission).

Graph 13

ERDF, ESF and CF: Amounts paid to Member States and Commission estimates of amounts and percentage of funds 'at risk' by Member State (source data included in the 2013 annual activity reports of DG Employment, Social Affairs and Inclusion and DG Regional and Urban Policy)



Source: Annual activity reports of DG EMPL and DG REGIO (European Commission).

65

The Commission summarises the main elements from these annual activity reports in the synthesis report. In the 2013 synthesis report the Commission estimates the impact of irregular spending at 2,8 % of EU spending as a whole. This equates to 3,0 % for agriculture and cohesion (see **Table 1**).

The Commission's supervision of agriculture spending

66

The Commission exercises its supervisory role in the area of agriculture and rural development principally via DG AGRI's two-stage clearance of accounts procedure:

- An annual financial clearance procedure covering the annual accounts and internal control system of each accredited paying agency. The resulting clearance of accounts decision is based on audits carried out by independent certification bodies in the Member States, which are submitted to the Commission. This decision may lead to financial corrections.
- A multi-annual conformity clearance procedure, which may lead to 'financial corrections' for the Member State concerned if expenditure has infringed EU rules in one or several years. The resulting conformity decisions are based on 'conformity audits' performed by the Commission (see paragraph 54).

Commission work has improved in the last three years

67

The annual work for the statement of assurance found³⁹ that over the last three years, the Commission's clearance of accounts audits have improved. Because of this, the Court has been able to use for 2013 the results of DG AGRI's rural development audits for the purpose of assessing the reliability of control systems in Member States.

68

The 2013 follow-up of the recommendations contained in special report No 7/2010 'Audit of the clearance of accounts procedure' concluded that the Commission had taken appropriate and timely action in proposing a greater role for certification bodies. As a result these will cover all aspects of legality and regularity from 2015.

69

The Commission has recently changed its approach to reporting errors in the annual activity report. Until 2011 the data presented in the annual activity report were entirely based on inspection statistics provided by authorities in the Member States. Although the Commission was aware of weaknesses in the work of the authorities concerned, it considered that a flat rate increase by 25 % of the error rates reported would adequately compensate the impact of these weaknesses. As a result of this, the Commission reported significantly lower error rates than the Court. This change of approach recognises the weaknesses reported by the Court in previous annual reports⁴⁰ and confirmed by the Commission's internal audit service.

Assessment of the Commission's supervisory role

70

In its 2012 and 2013 annual activity reports DG AGRI adjusted the error rates presented by authorities to take account of other sources of information. DG AGRI now takes account of its own conformity audits, as well as the Court's audits, the yearly reports of the certification bodies and any other available information in assessing the error rate for paying agencies. For 2013, DG AGRI adjusted the error rates reported by Member States for 43 out of 48 paying agencies audited by the Commission and the Court in the last three years. For instance, for EU direct aid these uplifts more than tripled the residual error rate calculated on the basis of the statistics reported by the Member States (2,33 % versus 0,69 %). For expenditure not covered by the Commission's or the Court's audits no adjustments were made.

The Member States carry out the key checks and inspections

71

The supervisory and control system covering the largest amount of agricultural subsidies is the IACS. It applies to all EU area or animal related aid schemes of the EAGF and the EAFRD⁴¹ amounting to around 47 billion euro in 2013.

72

As part of its annual statement of assurance audits, during the 2007–2013 period the Court examined the operation of IACS in 38 paying agencies in all 28 Member States. The paying agencies examined manage around 80 % of IACS managed expenditure. The Court has also examined supervisory and control systems for EAGF measures not managed under the IACS at a further four paying agencies.

73

The results of the Court's systems audits, show very significant variation within and between Member States. Only seven of the control systems were assessed as effective. A further 22 were found to be partially effective and nine control systems were assessed as ineffective⁴².

74

The Court's testing over the years has shown that the IACS makes a significant contribution to reducing the error rates in the expenditure it covers. DG AGRI's 2013 annual activity report confirms this, showing a rate of error for expenditure managed under IACS three times lower than that for market measures (not managed under IACS)⁴³.

The Commission's supervision of cohesion spending

75

In contrast to agriculture, the cohesion system does not have an annual clearance procedure. An examination and acceptance of accounts procedure will be introduced in the new period. Audit authorities already look at the legality and regularity of the operations. This section of the overview covers the Commission's supervision of the audit authorities.

76

For each period, on the basis of Member States' proposals, the Commission approves operational programmes (OP) and indicative financial plans which include the EU and national contributions. Member States bear primary responsibility for preventing or detecting and correcting irregular expenditure and report to the Commission.

77

Responsibility for day-to-day administration lies with designated managing authorities and intermediate bodies. These must ensure that all projects are eligible for EU funding and that the costs declared comply with all conditions specified in the regulations and/or national rules. Their verifications include inspections of projects on a sample basis and desk checks before certification of expenditure. Certifying authorities must ensure that adequate checks have been made and undertake additional verifications prior to declaring expenditure for reimbursement from the Commission.

78

In addition, for each OP (or a group of OPs), audit authorities in the Member States carry out system audits and, on a statistically representative sample basis, ex post audits of operations. As mentioned in paragraph 50, the audit authorities report to the Commission through annual control reports which include an annual audit opinion on the functioning of the systems and the audit authorities' error rate estimate.

79

In accordance with the regulations, if the Commission finds, based on its own work or the information reported by audit authorities, that an authority in the Member State has failed to remedy serious shortcomings in the management and control systems and/or to correct irregular expenditure which had been declared and certified, it may interrupt or suspend payments. If the Member State does not remedy any detected system failures or withdraw the irregular expenditure, the Commission may apply 'financial corrections' leading to a net reduction in EU funding for the OP. In practice, however, net reductions are rarely applied. An agreement with the Commission allows the authorities in the Member State to use the amounts 'corrected' for other expenditure in future claims.

Assessment of the Commission's supervisory role

80

The information provided by audit authorities in their annual control reports, audit opinions and systems audit reports is one of the main sources underlying the Commission's assessment, for each OP, of the legality and regularity of EU spending.

The Commission has progressively improved its approach

81

The Commission presents in the annual activity report an estimate of the extent to which operational programmes are affected by errors of legality and regularity. Since 2011, both cohesion DGs adjust the figures reported by authorities in the Member States to take account of identified weaknesses. For the interim and final payments authorised during 2013 under the ESF and the ERDF/CF (2007-2013 operational programmes) DG EMPL and DG REGIO estimate the amount at risk to lie in the range of 2,6 % to 3,5 % and of 2,8 % to 5,3 % respectively. Both ranges are above the 2 % materiality threshold set by the Commission.

82

The robustness of the Commission's assessment is affected by the accuracy and reliability of information reported by Member State authorities. Special report 16/2013 'Taking stock of "single audit" and the Commission's reliance on the work of national audit authorities in cohesion' observed that⁴⁴:

- some audit authorities underreported problems;
- the reported error rates were not always fully reliable;
- information on 'financial corrections' reported by Member States might not always be reliable or accurate, and
- the Commission's calculation method resulted in an underestimated residual error rate.

83

Over the 2007-2013 period, both DG EMPL and DG REGIO have strengthened their checks on audit authorities. The Commission now requests audit authorities to provide, in many cases, additional information on the calculation of the error rates reported in their annual control reports, such as a reconciliation of the audited population with the expenditure declared, a recalculation of the sample size or detailed information about specific audits of operations. In addition, the two DGs undertake fact finding missions to Member States to verify the data reported by audit authorities.

84

Based on the work of the audit authorities, the Commission publishes risk rates by Member State. The Court has reported in its 2013 annual report that there are weaknesses in some of the data provided by the national authorities and in some aspects of the review by the Commission⁴⁵. Care should be taken in using the data as a reliable indication of Member State relative success in complying with the different sets of eligibility rules and regulations.

85

The Commission has only limited information as to whether the systems put in place by Member States for imposing 'corrective measures' are effective and whether the information reported by certifying authorities is accurate, complete and reliable⁴⁶. This assessment is corroborated by the Commission's Internal Audit Service which considers that very limited assurance can be placed on the financial impact of corrective measures reported by Member States due to the way in which they are reported to the Commission, but also because audit authorities only perform limited checks on them⁴⁷. The Commission stated in its reply to paragraph 1.41 of the 2012 annual report that 'the existing problems are primarily caused by unreliable error rates communicated by the Member States. The Commission invests a lot of efforts in order to improve their reliability, in particular by correcting them upwards if deemed necessary.'

86

The Commission's scope for validating (and, where necessary, adjusting) the reported error rates is limited as long as audit authorities are not requested to provide the Commission with specific information on their audits of operations for its verification of the annual control reports.

There is a risk that the Commission underestimates residual error rate in cohesion spending

87

Overall, there is a risk that the Commission underestimates the 'residual error rate' and, as a result, that the Commission's assessment of the individual OPs and the financial impact of the reservations in the annual activity reports is not sufficiently robust.

88

In the special report No 16/2013 the Court recommended that the Commission should adopt a prudent approach in relying on Member States' information on audits and 'financial corrections', continue to provide methodological support and guidance to national audit bodies, propose a system of sanctions for audit bodies that repeatedly underreport problems, and arrangements to share with Member States the costs of auditing the EU regional spending.

Summary of key risks and weaknesses identified

Risks in agriculture relate to fields, to animals and to farmers

89

The common agricultural policy of the EU is implemented through the funds of EAGF and EAFRD. The annual report of the Court and more specifically chapters 3 and 4 summarise, among other things, the key risks and weaknesses of agricultural spending.

90

Agricultural subsidies are channelled through around 80 paying agencies in the 28 Member States who are responsible for making payments to beneficiaries. The complex legal requirements on EU and national level cover significant number of measures and aid schemes in place (for instance 4 axes with 46 measures and several thousands of sub-measures in EAFRD).

91

The main risks with regard to the regularity of direct payments are that area aid may be paid for ineligible land, to ineligible beneficiaries or to more than one beneficiary for the same plot of land, or that entitlements are calculated incorrectly or animal premiums are paid for non-existent animals (even though these risks are mitigated to some extent by the operation of IACS, see paragraph 74). In the case of interventions in agricultural markets and other non-area related measures, the main risks as regards regularity are that aid is granted to ineligible applicants or for ineligible or overstated costs or products. Intervention measures are mainly based on quantities declared by the beneficiaries, which cannot be checked using automated cross-checks with other databases. This increases the risk of error.

Rural development is particularly error prone

92

The EAFRD is particularly prone to error. In addition to those mentioned above, non-compliance with the agri-environment requirements, which concern the use of agricultural production methods compatible with protection of the environment, landscape and natural resources, as well as with specific requirements for investment projects and breach of EU and/or national public procurement rules are important factors increasing risk.

Risks in cohesion are still dominated by weaknesses in procurement

93

The cohesion policy of the EU is implemented through the funds of ERDF, CF and ESF. The annual report of the Court and more specifically chapters 5 and 6 summarise, among other things, the key risks and weaknesses of cohesion spending.

94

The first risk relates to non-compliance with EU and/or national public procurement rules when awarding contracts. For cohesion policy the poor application of procurement rules and procedures may occur deliberately in order to favour some suppliers or inadvertently because these rules are not well understood. A key area of error relates to the extension or modification of existing contracts, where EU procurement rules require that a new tendering exercise shall be undertaken.

95

The second risk is the funding of a project or expenditure that is not eligible according to the regulations and/or national eligibility rules or which do not comply with some specific rules (such as the EU state aid rules). Complex eligibility rules and other conditions can lead to poor targeting of EU funds and sub-optimal use of the EU budget.

96

The intangible nature of investments in human capital (for example under the ESF) and the involvement of multiple often small-scale partners in the implementation of projects increase the risk that ineligible costs are accepted or that calculation errors affecting the accuracy of claims are not detected by the systems in place because of their low financial impact. Beneficiaries with unequal administrative capacity might have differing interpretations or inconsistent application of the eligibility criteria and other conditions for EU financing.

Looking forward: EU agriculture and cohesion spending 2014-2020

A significant redesign of agricultural subsidies

97

As regards EAGF the 2013 CAP reform provides for eight direct aid schemes four of which are mandatory for all Member States and four are only optional. The mandatory schemes are the basic payment scheme (or the single area payment scheme⁴⁸), the greening payment scheme, the young farmer scheme and the payment scheme for cotton. The redistributive payment scheme, the payment scheme for farmers in areas with natural constraints, the coupled support schemes for certain sectors and the small farmer scheme remain optional. The new schemes with the highest levels of spending are the basic payment scheme and the single area payment scheme. The greening payment is a payment for practices beneficial for climate and environment. It represents 30% of the direct aid financial envelope and contains three requirements

- Crop diversification (minimum 2 crops on arable land).
- Maintenance of existing permanent grassland.
- Existence of ecological focus area.

98

The respect of the greening conditions is mandatory for all beneficiaries of the basic payment scheme and single area payment scheme.

99

Furthermore, the new CAP rules enlarge the possibilities for Member States to derogate from the principle of decoupling and to re-couple aid to production.

100

It is a feature of the CAP rules that the application of aid schemes and the definition of key eligibility criteria is left at the discretion of the Member States. The discretion conferred to the Member States includes key definitions such as 'active farmer', 'agricultural activity'.

Cohesion: a simplification of policy delivery but fewer changes to eligibility rules

101

The rules of cohesion for the new multi-annual financial framework are geared towards a focus on results through a simplification of policy delivery and an increased use of conditionality. For this reason important changes were introduced in the general regulation⁴⁹.

102

The provisions on eligibility rules are basically unchanged, therefore arrangements for cohesion spending remained complex. There are several layers of rules (common provisions, delegated acts, implementing acts, Commission's guidelines) as well as national legislations to comply with. Matters, even those considered key elements by the Court are (to be) covered by delegated acts.

103

In the opinion No 7/2011⁵⁰ on the cohesion regulation for 2014-2020 period Court has highlighted that EU spending must offer clear and visible benefits for the EU and for its citizens and in this perspective suggested recasting expenditure programmes in terms of acceptable outputs. The provision for the Common Strategic Framework and the introduction of ex-ante conditionalities (introducing intervention logic on the programming phase) should permit addressing the lack of coordination among different EU policies noted in the past.

104

Despite the claimed focus on results, the scheme however remains fundamentally input-based, and therefore oriented towards compliance rather than performance. The latter objective is essentially left to the introduction of a performance reserve (whose success will depend on the capacity to develop suitable indicators) and of joint action plans⁵¹.

Do the changes in the respective roles, responsibilities and reporting obligations of the Commission and national authorities give stakeholders better information on levels of irregularity?

105

From 2014 (for cohesion) and 2015 (for agriculture) a 'reinforcement of assurance system' is intended to provide the Commission with better information on errors in shared management. Independent audit bodies will carry out audits and annually calculate error rates (based on representative samples) for each Member State and policy area.

Looking forward: EU agriculture and cohesion spending 2014-2020

A basis for better information on legality and regularity in agriculture

106

Reinforcement of assurance should provide the Commission and the stakeholders with better information on error rates in payments per Member State. If information is of good quality and available in good time, this development would in principle allow the Court to make more use of the work of the Commission and the Member States. For this to be possible, the Court has to have earlier access to results and assurance on the scope and quality of the work performed (see also paragraph 109). Where the Court has reviewed the work of audit bodies carried out on a voluntary basis it has found limitations in the reliability of this work.

A stronger annual framework for accountability mechanisms in cohesion

107

In cohesion, rules for the new period place further emphasis on Member State responsibilities for systems set-up and financial management. Managing and certifying authorities⁵² are designated by the Member States. The Commission's approval of the designation process is not required.

108

The Commission introduced the concept of the accounting year (June (n-1) to June n) and the annual preparation of accounts under the new legislative framework. The financial accounts certified by the certifying authority have to be submitted to the Commission by February (n+1) and must be accompanied by:

- Management declaration and 'an annual summary of the final audit reports and of controls carried out, including an analysis of the nature and extent of errors and weaknesses identified in systems, as well as corrective action taken or planned'⁵³. It should cover the functioning of the management and control system, the legality and regularity of the underlying transactions and the respect of the principles of sound financial management.
- A control report (to be prepared by the audit authorities) with an audit opinion on the accounts, on the operation of systems, on legality and regularity of expenditure⁵⁴.

109

The Commission has to decide on the acceptance of the accounts by May (n+1). Thus Member States have 8 months⁵⁵ to prepare and submit the annual accounts, and the Commission – 3 months to conclude upon these accounts. For the Court to take account of the Commission validated information in its work, it needs to have earlier access to it.

110

Since the Commission will use the work of the national authorities as a source of assurance, it is essential that the scope and quality of the work that underlies the opinions and the declarations are appropriately clarified and that it reviews their systems and their performance in order to ensure that their work is reliable.

111

The general regulation extends the 'financial corrections' mechanism and foresees application of net corrections in some specific circumstances. This is foreseen for example when the Commission identifies irregularities relating to serious deficiencies of the effective functioning of the management and control systems, which were not reported in the annual accounts and related declarations. The Commission believes that this will provide a stronger incentive for national authorities to provide reliable information.

Implications of developments for accountability and the role of the Court: the challenge of auditing the reliability of control information provided by the Commission and the national authorities

112

The new provisions applicable to shared management for the 2014-2020 Financial Framework require the Member State audit bodies to provide certificates on legality and regularity of transactions, as well as, endorse the Member States' control statistics provided to the Commission. While the requirement has been in place for cohesion since 2007, for agriculture, this is a significant increase in the responsibilities of the certification bodies.

113

The Commission has been working on improvement of the quality and accuracy of control statistics reported by Member States for the past few years already. As mentioned earlier in this overview, in recent years the Commission has taken the initiative to adjust the control statistics provided by the Member States so as to disclose in the annual activity reports data which are closer to what the Commission considers as correct and representative.

114

This improvement in the quality of control statistics represents a major challenge for the Commission, as it involves not only monitoring and reviewing the provided numbers, but also taking action to adjust and improve the data itself, as well as to provide further guidance and support to those auditing the expenditure and producing the statistics.

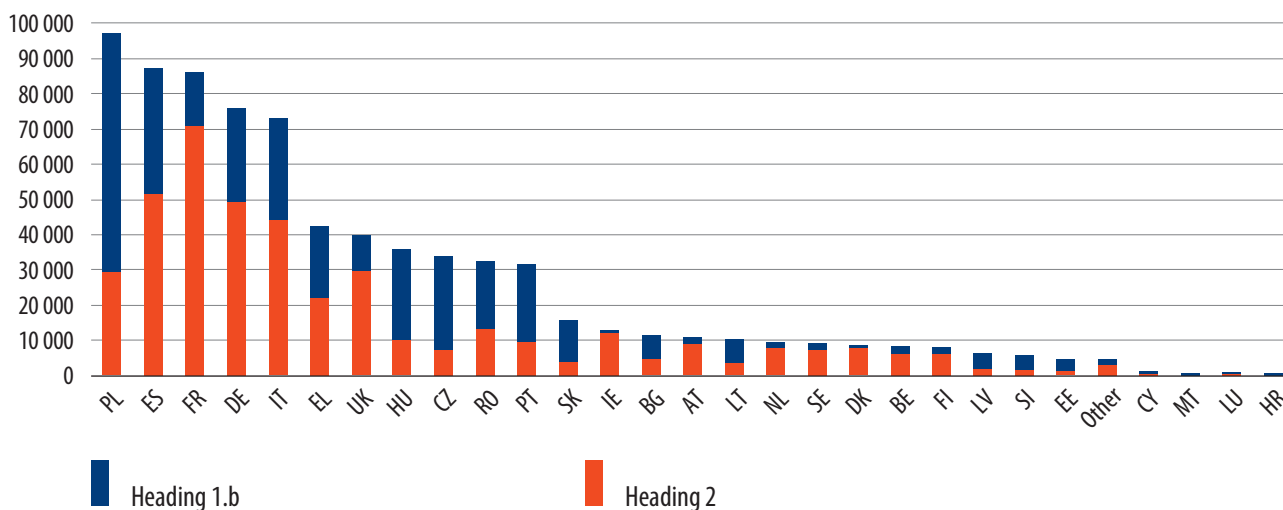
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The key conclusions of the overview are:

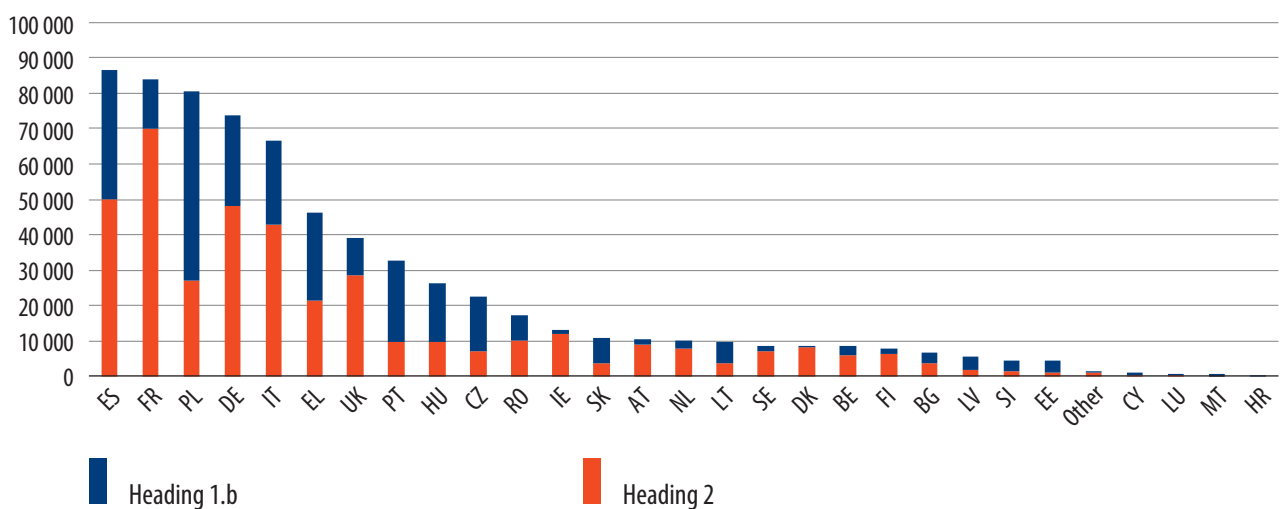
- Spending in the 2007-2013 period followed the pattern of previous periods. While spending was delayed, the overall volume of payments made was close to that expected, and there is likely to be little use of the automatic de-commitment of funds. Except for direct aid and market support for farmers in agriculture, the pressure to spend funds is a key component of risk for shared management expenditure.
- The main risks to regularity of agricultural spending are the ineligibility of land, animals, or costs on which subsidy payments are based, of beneficiaries in receipt of subsidies, and the incorrect calculation of subsidies (even though these risks are mitigated to some extent by the operation of IACS). Breaches of agri-environment requirements, of specific requirements for investment projects, and of procurement rules are important factors increasing the risk for rural development spending,
- The biggest risk in cohesion spending relates to breaches of EU and/or national public procurement rules. The next biggest risk is that expenditure (or projects) is not eligible for EU subsidy.
- While there is significant scope to improve control systems, the key challenge is to take action to make programmes easier to manage. All Member States for which a conclusion can be drawn are affected by material levels of error with a degree of fluctuation around the average for the EU budget as a whole. The Court finds error throughout the EU Member States. Over the period covered by this overview, the Court has examined many control systems in the Member States and in the Commission and has predominantly concluded that they are 'partially effective'. The fact that, despite this classification of systems, the Court finds errors in nearly half of transactions it examines illustrates inter alia the complexity of eligibility rules and of management systems for EU spending programmes.
- There have been improvements in reporting on risk and on error by authorities in the Member States, but the Commission continues to face significant challenges in ensuring that this information is reliable.
- Changes to regulations for the new period may not have overall a significant impact on the level of risk. While there is some welcome simplification of rules, some spending schemes will continue to pose challenges for managers in all Member States.
- Many errors have arisen because the overall management and control architecture is complex. The Commission and Member States should continue to seek opportunities to simplify it. However, in the meantime, experience shows that Member States have had difficulties in managing the current system and thus implementing the policy. Efforts being made in Member States to improve the situation need to continue.

Annex 1 Commitments and payments for headings 1.b (cohesion) and 2 (agriculture) by Member State

2007-2013 commitments for headings 1.b and 2 by Member State in million euro



2007-2013 payments for headings 1.b and 2 by Member State in million euro



Source: Reports on budgetary and financial management financial years 2007 – 2013.

Frequency of detected errors in audit sampling for agriculture and cohesion 2009- 2013

Member State	Total number of transactons examined	Number of transactions affected by one or more errors	Number of transactions affected by:				
			Other compli- ance issues and non quantifiable errors	Quantifiable errors	Quantifiable errors 0 %-20 %	Quantifiable errors 20 %-80 %	Quantifiable errors 80 %-100 %
Austria	56	27	5	22	17	2	3
Belgium	22	7	2	5	2	3	0
Bulgaria	44	18	11	7	5	0	2
Cyprus	1	1	1	0	0	0	0
Czech Republic	115	57	24	33	24	4	5
Germany	282	107	38	69	57	7	5
Denmark	30	16	0	16	15	1	0
Estonia	44	14	5	9	7	2	0
Spain	342	176	87	89	50	18	21
Finland	33	24	10	14	13	1	0
France	297	166	43	123	108	10	5
Greece	183	65	34	31	24	3	4
Croatia	0	0	0	0	0	0	0
Hungary	84	33	13	20	13	2	5
Ireland	26	14	0	14	13	1	0
Italy	240	110	57	53	37	7	9
Lithuania	49	22	16	6	3	1	2
Luxembourg	25	19	9	10	10	0	0
Latvia	47	7	4	3	1	1	1
Malta	5	4	3	1	0	0	1
Netherlands	28	17	5	12	7	4	1
Poland	383	128	75	53	33	11	9
Portugal	175	78	34	44	31	6	7
Romania	111	62	36	26	16	1	9
Sweden	34	15	4	11	8	3	0
Slovenia	33	8	4	4	3	1	0
Slovakia	67	39	27	12	10	0	2
United Kingdom	164	86	24	62	54	7	1
Total	2 920	1 320	571	749	561	96	92

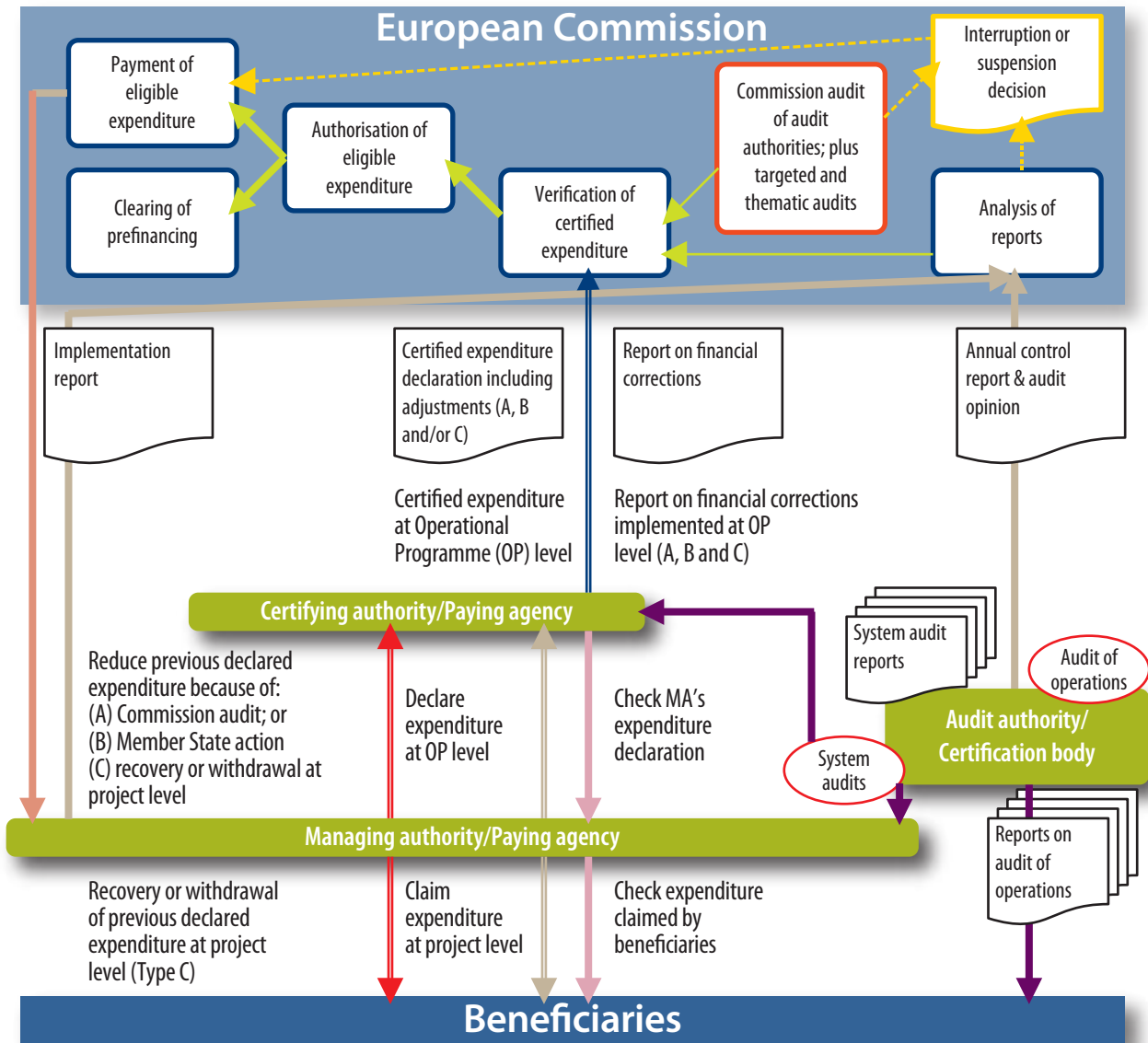
Frequency of detected errors in audit sampling for agriculture 2009- 2013

Member State	Total number of transactions examined	Number of transactions affected by one or more errors	Number of transactions affected by:				
			Other compliance issues and non quantifiable errors	Quantifiable errors	Quantifiable errors 0 %-20 %	Quantifiable errors 20 %-80 %	Quantifiable errors 80 %-100 %
Austria	41	18	0	18	16	2	0
Belgium	14	4	1	3	2	1	0
Bulgaria	25	10	5	5	3	0	2
Cyprus	1	1	1	0	0	0	0
Czech Republic	56	25	8	17	16	0	1
Germany	181	51	10	41	33	4	4
Denmark	22	15	0	15	14	1	0
Estonia	7	3	1	2	2	0	0
Spain	145	64	27	37	26	7	4
Finland	33	24	10	14	13	1	0
France	200	114	17	97	91	4	2
Greece	85	37	16	21	17	1	3
Croatia	0	0	0	0	0	0	0
Hungary	32	13	4	9	8	1	0
Ireland	26	14	0	14	13	1	0
Italy	138	53	20	33	24	6	3
Lithuania	16	8	5	3	2	1	0
Luxembourg	10	7	0	7	7	0	0
Latvia	24	7	4	3	1	1	1
Malta	5	4	3	1	0	0	1
Netherlands	20	13	1	12	7	4	1
Poland	132	59	32	27	20	4	3
Portugal	65	32	9	23	15	1	7
Romania	78	43	24	19	11	1	7
Sweden	16	11	3	8	6	2	0
Slovenia	10	3	2	1	1	0	0
Slovakia	15	10	1	9	8	0	1
United Kingdom	114	56	8	48	44	3	1
Total	1 511	699	212	487	400	46	41

Frequency of detected errors in audit sampling for cohesion 2009- 2013

Member State	Total number of transactions examined	Number of transactions affected by one or more errors	Number of transactions affected by:				
			Other compliance issues and non quantifiable errors	Quantifiable errors	Quantifiable errors 0 %-20 %	Quantifiable errors 20 %-80 %	Quantifiable errors 80 %-100 %
Austria	15	9	5	4	1	0	3
Belgium	8	3	1	2	0	2	0
Bulgaria	19	8	6	2	2	0	0
Cyprus	0	0	0	0	0	0	0
Czech Republic	59	32	16	16	8	4	4
Germany	101	56	28	28	24	3	1
Denmark	8	1	0	1	1	0	0
Estonia	37	11	4	7	5	2	0
Spain	197	112	60	52	24	11	17
Finland	0	0	0	0	0	0	0
France	97	52	26	26	17	6	3
Greece	98	28	18	10	7	2	1
Croatia	0	0	0	0	0	0	0
Hungary	52	20	9	11	5	1	5
Ireland	0	0	0	0	0	0	0
Italy	102	57	37	20	13	1	6
Lithuania	33	14	11	3	1	0	2
Luxembourg	15	12	9	3	3	0	0
Latvia	23	0	0	0	0	0	0
Malta	0	0	0	0	0	0	0
Netherlands	8	4	4	0	0	0	0
Poland	251	69	43	26	13	7	6
Portugal	110	46	25	21	16	5	0
Romania	33	19	12	7	5	0	2
Sweden	18	4	1	3	2	1	0
Slovenia	23	5	2	3	2	1	0
Slovakia	52	29	26	3	2	0	1
United Kingdom	50	30	16	14	10	4	0
Total	1 409	621	359	262	161	50	51

Commission supervision: agriculture and cohesion 2007-2013



Interruptions

In case of interruptions no payments from Commission to Member States until Commission has received a satisfactory update in the form of an improved or adjusted claim (or additional information) for (A) previously claimed amounts or (B) the declaration at hand.

Audit by Commission

Commission's examinations can lead to an adjustment of (A) previously certified and authorised payments. When Member State authorities do not agree the Commission can issue a recovery order (net correction). In some (less frequent, often at closure) the Commission's examination can affect (B) declarations not yet paid.

Audit authorities in Member States***Cohesion***

Member States' audit authorities examine system of managing and certifying authorities and operations at beneficiary level. Their reports. Other than the ones on operations which are sent only to the Commission, are sent to the managing and certifying authority and the Commission. The Commission receives an overall reporting including this substantive testing: the annual control report with an audit opinion. Based on the individual systems and/or operations reports; or the overall annual control report the Member State authorities (B) and the Commission can take action (A). The managing authority may decide to recover or withdraw expenditure at project level (C).

Agriculture

The certification body examines the reliability of accounts and the declaration of the management of the paying agency. The report is sent to the Commission. The certification body does not examine operations at beneficiaries.

Abbreviations

AGRI: Directorate-General for Agriculture and rural development

CAP: common agriculture policy

CF: Cohesion Fund

Commission: European Commission

Court: European Court of Auditors

DG: Directorate-General

EAFRD: European Agriculture Fund for Rural Development

EAGF: European Agriculture Guarantee Fund

EFF: European Fisheries Fund

EMPL: Directorate-General for Employment, Social Affairs and Inclusion

ERDF: European Regional Development Fund

ESF: European Social Fund

EU: European Union

GNI: gross national income

GDP: gross domestic product

IACS: Integrated Administration and Control System

LPIS: Land Parcel Identification System

MFF: Multiannual Financial Framework

n: the unidentified reference year n

REGIO: Directorate-General for Regional and Urban Policy

Endnotes

- 1 European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD), and European Fisheries Fund (EFF). Taken together, these funds account for 98,8 % of the heading 2 Natural resources in terms of commitments, and 98,6 % in terms of payments, the remaining expenditure being managed under other management modes.
- 2 European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund (CF). Taken together, these funds account for 99,7 % of the heading 1b Cohesion for Growth and Employment in terms of commitments, and 99,8 % in terms of payments, the remaining expenditure being managed under other management modes.
- 3 This figure includes 6 billion euro of flexibility instruments allowed to exceed the ceiling.
- 4 The commitments and payments in 2004 constant prices as set by the IIA amounted to 865 and 821 billion euro respectively. They were subsequently subject to technical adjustments (2 % per annum) to bring them to current prices, as well as amendments related to ITER and accession of Croatia. The increase in commitments and payments of 110 and 105 billion euro respectively is mainly due to the cumulative effect of annual technical adjustments.
- 5 Annex II paragraph 7 of Council Regulation (EC) No 1083/2006.
- 6 See European Commission Press release of 5 May 2014 IP/14/513 page 1 and Main economic indicators 1994-2015, (a) Real Gross Domestic Product (% change) at: http://europa.eu/rapid/press-release_IP-14-513_en.htm and the European Central Bank Monthly bulletin of October 2014 page 5 and 6 at: <http://www.ecb.europa.eu/pub/pdf/mobu/mb201410en.pdf>
- 7 Lower levels of inflation than the ones anticipated in the MFF and in actual commitments make the actual amounts payable lower than amounts originally envisaged. Lower levels of growth slow down or stop the execution of projects and delay or stop payments.
- 8 See paragraph 1.1 of the 2013 Annual Report.
- 9 European Parliament, Directorate-General for Internal Policies, policy department D budgetary affairs: 'EU budget and national budget: facts, figures and impact', March 2014.
- 10 http://ec.europa.eu/budget/mycountry/HU/index_en.cfm. The equivalent percentage for Hungary from the European Parliament study (see endnote 9) of EU spending is around 19 %.
- 11 Steffen Osterloh, 'The Fiscal Consequences of EU Cohesion Policy after 2013', 2009, Instituto de Estudios Fiscales.
- 12 Article 29 of Council Regulation (EC) No 1290/2005 on the financing of the common agricultural policy.
- 13 Article 93 of Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund: 'For Member States whose GDP from 2001 to 2003 was below 85 % of the EU-25 average in the same period, as listed in Annex II, the deadline referred to in paragraph 1 shall be 31 December of the third year following the year of the annual budget commitment from 2007 to 2010 under their operational programmes.
- 14 Regulation (EU) No 539/2010 stipulates that for the commitments of year 2007 the automatic de-commitment rule does not apply as of end 2009 (n+2) / end 2010 (n+3) but rather 1/6 of the total amount of 2007 commitments is added to the calculation of de-commitments for each of the subsequent years 2008 to 2013.
- 15 Regulations (EU) No 1311/2011 – ERDF, ESF, CF and 1312/2011 – EAFRD.

- 16 Regulation (EU) No 1297/2013.
- 17 2012 cumulative target consisted of commitments related to the years 2008, 2009 and 2010 plus 3/6 of the 2007 commitments for cases where (n+2) rule applied, and of commitments related to the years 2008, 2009 plus 2/6 of the 2007 commitments for cases where (n+3) rule applied.
- 18 Based on the Commission's report 'Analysis of the budgetary implementation of the Structural and Cohesion Funds in 2013' of May 2014.
- 19 In cohesion financial engineering instruments are those set up under Article 44 of Regulation (EC) No 1083/2006. As part of an Operational Programme, the Structural Funds may finance of the following:
- (a) Financial Engineering Instruments for enterprises, primarily small and medium-sized ones, such as Venture Capital funds, Guarantee funds and Loan funds,
 - (b) Urban Development Funds, that is, funds investing in Public-Private Partnerships and other projects included in an Integrated Plan for Sustainable Urban Development, and
 - (c) Funds or other incentive schemes providing Loans, Guarantees for Repayable Investments, or equivalent instruments, for energy efficiency and use of renewable energy in buildings, including in existing housing.
- As at 31 December 2013 there were over 900 financial engineering instruments in cohesion.
- In EAFRD the legal provisions in respect of financial engineering instruments are laid down in Article 71(5) of Regulation (EC) No 1698/2005 and in Articles 50 to 52 of Regulation (EC) No 1974/2006. These include:
- (a) Venture (capital) funds,
 - (b) Guarantee funds, and
 - (c) Credit (loan) funds.
- As at 31 December 2013 there were fewer than 20 financial engineering instruments in agriculture.
- 20 DG AGRI 2013 annual activity report, Annex 10, page 157.
- 21 See also paragraph 2.
- 22 See 2013 annual report, annex 1.1, paragraph 9: 'Errors in transactions occur for a variety of reasons and take a number of different forms depending on the nature of the breach and specific rule or contractual requirement not followed. Individual transactions may be wholly or partially affected by error. Errors detected and corrected before and independently of the checks carried out by the Court are excluded from the calculation and frequency of error, since they demonstrate that the control systems work effectively. The Court considers whether individual errors are quantifiable or non-quantifiable, taking account of the extent to which it is possible to measure how much of the amount audited was affected by error.' Further examples are discussed in the subsequent paragraphs.
- 23 Directive 2014/24/EU (replacing directive 2004/18/EC), Directive 2014/25/EU (replacing directive 2004/17/EC) and a new directive on concession contracts: Directive 2014/23/EU
- 24 See http://europa.eu/rapid/press-release_MEMO-14-20_en.htm?locale=en.

- 25 In its opinion No 4/2011 on the Commission's Green Paper on the Modernisation of Public Procurement Policy the Court noted that:
'The Court's experience when auditing public procurements suggests that recurrent problems of non-compliance are related to weak implementation of existing rules and that there is still substantial room for improvement at implementing level.'
and that
'The Court observes that some improvements could be made to reduce administrative burdens for both contracting authorities and enterprises; but this should not be done at the expense of the key principles of equal access, fair competition and efficient use of public funds. Some loopholes, obscure or ambiguous areas in the current legal framework entail risks to legal security of all operators, and to integrity of procedures. This may require rules to be specified more clearly.'
http://www.eca.europa.eu/Lists/ECADocuments/OP11_04/OP11_04_EN.PDF
- 26 See also special report No 16/2013, paragraph 11 and Box 2, for a comprehensive explanation.
- 27 For Member States receiving more than 2 % of payments in the years 2009 to 2013 the sample size is more closely aligned with payments than for those Member States receiving less than 2 % of payments. This is a result of clustering samples at the level of payments made by the Commission (see also FCAM part 1 section 2.3.8; http://www.eca.europa.eu/Lists/ECADocuments/FCAM_2012/FCAM_2012_EN.PDF).
- 28 These transactions represent 81 % of the total number of transactions examined by the Court in the years 2009-2013.
- 29 Paragraphs 1.18 to 1.35 of the 2009 and paragraphs 1.32 to 1.50 of the 2012 annual report.
- 30 Recoveries are mainly used in agriculture.
- 31 Paragraph 1.32 to 1.50 of the 2009 annual report, paragraph 1.19 to 1.35 of the 2012 annual report, paragraph 1.13 to 1.15 of the 2013 annual report.
- 32 This type of revenue is called assigned revenue as defined by Article 21(3)(c) of Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union: 'revenue arising from the repayment, in accordance with Article 80, of amounts wrongly paid'.
- 33 See the Court's special report No 7/2010 for agriculture 'Audit of the clearance of accounts procedure', paragraphs 68 to 73 and Graph 3 and special report No 3/2012 for cohesion 'Structural funds: did the Commission successfully deal with deficiencies identified in the Member States' management and control systems?'
- 34 Protection of the European Union budget to end 2013. COM(2014) 618 final of 29.9.2014.
- 35 Communication COM(2014) 618 final of 29.9.2014, 'Protection of the EU budget to end 2013'.
- 36 Paragraph 1.19 of the 2013 annual report.
- 37 2013 annual report, paragraphs 3.8, 4.8, 5.32 and 6.24.
- 38 Amount at risk is defined by the Commission 'as the value of the fraction of the transactions which is estimated not to be in full conformity with the applicable regulatory and contractual requirements after application of all controls (corrective measures) intended to mitigate compliance risks.' Source: 'Annexes to the Communication from the Commission to the European Parliament, the Council and the Court of Auditors. Synthesis of the Commission's management achievements in 2013'. See also link: http://ec.europa.eu/atwork/pdf/synthesis_report_2013_annex_en.pdf
- 39 For the 2011 annual report, this was reported in paragraphs 4.33-4.44, for the 2012 annual report in 4.26-4.39 and for the 2013 annual report in 4.22-4.30.
- 40 Paragraphs 3.67 of the 2009 annual report, 3.54 of the 2010 annual report and 3.41 of the 2011 annual report.

- 41 For area-related rural development measures, verification of certain key elements such as eligible area is made through IACS. Other eligibility requirements are governed by specifically designed controls.
- 42 Under the Court's methodology systems are classified as being effective in mitigating the risk of error in transactions, partially effective (when there are some weaknesses affecting operational effectiveness) or not effective (when weaknesses are pervasive and thereby completely undermine operating effectiveness).
- 43 See DG AGRI annual activity report 2013, page 119: 7,44 % residual error rate for market measures (NON IACS) and page 133: 2,33 % residual error rate for direct payments (IACS).
- 44 Special report No 16/2013 'Taking stock of "single audit" and the Commission's reliance on the work of national audit authorities in cohesion', paragraph 83.
- 45 Paragraphs 5.46-5.50 and 5.55-5.58.
- 46 Special report No 16/2013, paragraphs 35 to 40.
- 47 IAS Report: IAS.B2-2014-REGIO-003 'Final Report on the Limited Review of the Calculation and the Underlying Methodology of DG REGIO's Residual Error Rates for the 2013 Reporting Year' page 3.
- 48 The single area payment scheme laid down in Regulation (EC) No 73/2009 was due to end on 31 December 2013. In the context of the reform of the CAP, Member States applying this scheme were allowed to continue applying it for a further transitional period until the end of 2020 at the latest.
- 49 Regulation (EU) No 1303/2013 of the European Parliament and of the Council.
- 50 Opinion No 7/2011 on the proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006 (OJ C 47, 17.2.2012, p. 1).
- 51 These comprise a project or a group of projects as part of an operational programme, where EU funds are directly linked to the respect of specific objectives and outputs, agreed milestones, results indicators.
- 52 Managing authority (MA), certifying authority (CA), audit authority (AA).
- 53 Article 59(5)(b) of Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union.
- 54 'That opinion shall establish whether the accounts give a true and fair view, whether expenditure for which reimbursement has been requested from the Commission is legal and regular, and whether the control systems put in place function properly. The opinion shall also state whether the audit work puts in doubt the assertions made in the management declaration referred to in point (a) of the first subparagraph.' Article 59(5)(b) of Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union.
- 55 The accounts and the audit certificate must be presented in February of year n. The Commission can grant Member States one additional month to do so. A similar timeframe exists in agriculture, however for agriculture the accounts of paying agencies are closed on 15 October of year (n-1). For cohesion the financial year ends at 30 June year (n-1).

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