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IV

(Notices)

NOTICES FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

COURT OF AUDITORS

In accordance with the provisions of Article 287(1) and (4) of the TFEU and Article 258 of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 and Article 43 of Council Regulation (EU) 2018/1877 of 26 November 2018 on the financial regulation applicable to the 11th European Development Fund, and repealing Regulation (EU) 2015/323

the Court of Auditors of the European Union, at its meeting of 18 July 2019, adopted its

ANNUAL REPORTS

concerning the financial year 2018

The reports, together with the institutions' replies to the Court's observations, were transmitted to the authorities responsible for giving discharge and to the other institutions.

The Members of the Court of Auditors are:

Klaus-Heiner LEHNE (President), Henri GRETHEN, Ladislav BALKO, Lazaros S. LAZAROU, Pietro RUSSO, Baudilio TOMÉ MUGURUZA, Iliana IVANOVA, Alex BRENNINKMEIJER, Danièle LAMARQUE, Nikolaos MILIONIS, Phil WYNN OWEN, Oskar HERICS, Bettina JAKOBSEN, Janusz WOJCIECHOWSKI, Samo JEREB, Jan GREGOR, Mihails KOZLOVS, Rimantas ŠADŽIUS, Leo BRINCAT, João FIGUEIREDO, Juhan PARTS, Ildikó GÁLL-PELCZ, Eva LINDSTRÖM, Tony MURPHY, Hannu TAKKULA, Annemie TURTELBOOM, Viorel ŞTEFAN, Ivana MALETIĆ.

ANNUAL REPORT ON THE IMPLEMENTATION OF THE BUDGET

(2019/C 340/01)

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General Introduction

0.1. The European Court of Auditors (ECA) is an institution (1) of the European Union (EU) and the external auditor of the EU's finances (2). In this capacity, we act as the independent guardian of the financial interests of all EU citizens, notably by helping to improve the EU's financial management. More information on our work can be found in our annual activity reports, our special reports, our landscape reviews and our opinions on new or updated EU laws or other decisions with financial management implications (3).

0.2. This annual report, our 42nd on the implementation of the EU budget, covers the 2018 financial year. A separate annual report covers the European Development Funds.

0.3. The EU's general budget is approved annually by the Council and the European Parliament. Our annual report, combined as appropriate with our special reports, provides a basis for the discharge procedure in which the Parliament, acting on a recommendation from the Council, decides whether the Commission has satisfactorily met its budgetary responsibilities. On publication, we forward the annual report to national parliaments, the European Parliament and the Council.

0.4. The central part of our report is the *statement of assurance* on the reliability of the EU consolidated accounts and the legality and *regularity of transactions*. This statement is supplemented by specific assessments for each major area of EU activity.

0.5. As in previous years, the report this year is structured as follows:

— chapter 1 contains the statement of assurance and a summary of the results of our audit on the reliability of accounts and the regularity of transactions;

— chapter 2 presents our analysis of budgetary and financial management;

— chapter 3 focuses on what the EU budget performance indicators tell us, presents significant results from our 2018 special reports on performance, and analyses the Commission's implementation of the recommendations we made in special reports published in 2015;

— chapter 4 presents our findings on EU revenue;

— chapters 5 to 10 show, for the main headings of the current *multiannual financial framework (MFF)* (4), the results of our testing of the regularity of transactions and our examination of the Commission's annual activity reports, other elements of its internal control systems and other governance arrangements.

0.6. As there are no separate financial statements for individual MFF headings, the conclusions to each chapter do not constitute an audit opinion. Instead, the chapters describe significant issues specific to each MFF heading.

0.7. We aim to present our observations in a clear and concise way. We cannot always avoid using terms specific to the EU, its policies and budget, or to accounting and auditing. On our website, we have published a glossary with definitions and explanations of most of these specific terms (5). The terms defined in the glossary appear in *italics* when they first appear in each chapter.

0.8. The Commission's replies to our observations (or, where appropriate, the replies of other EU institutions and bodies) are presented with this report. It is our responsibility, as external auditor, to report our audit findings and draw the necessary conclusions so as to provide an independent and impartial assessment of the reliability of the accounts and the regularity of transactions.

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(1) The ECA was established as an institution by Article 13 of the Treaty on European Union, also known as the Maastricht Treaty (OJ C 191, 29.7.1992, p. 1). However, it was first established by the Treaty of Brussels in 1977, as the new Community body responsible for the external audit function (OJ L 359, 31.12.1977, p. 1).

(2) Articles 285 to 287 of the Treaty on the Functioning of the European Union (TFEU) (OJ C 326, 26.10.2012, p. 47).

(3) Available on our website: www.eca.europa.eu

(4) We do not provide a specific assessment for spending under heading 6 ('Compensations') or for expenditure outside the MFF. Our analysis of heading 3 ('Security and citizenship') and heading 4 ('Global Europe'), in chapters 8 and 9 respectively, does not include an estimated level of error.

(5) https://www.eca.europa.eu/Lists/ECADocuments/GLOSSARY_AR_2018/GLOSSARY_AR_2018_EN.pdf

CHAPTER 1

The statement of assurance and supporting information

CONTENTS

The Court's Statement of Assurance provided to the European Parliament and the Council – Independent auditor's report

Opinion

I. We have audited:

(a) the consolidated accounts of the European Union, which comprise the consolidated financial statements [1] and the budgetary implementation reports [2] for the financial year ended 31 December 2018, approved by the Commission on 26 June 2019, and

(b) the legality and regularity of the underlying transactions, as required by Article 287 of the Treaty on the Functioning of the European Union (TFEU).

Reliability of the accounts

Opinion on the reliability of the accounts

II. In our opinion, the consolidated accounts of the European Union (EU) for the year ended 31 December 2018 present fairly, in all material respects, the EU's financial position as at 31 December 2018, the results of its operations, its cash flows and the changes in its net assets for the year then ended, in accordance with the Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector.

Legality and regularity of the transactions underlying the accounts

Revenue

Opinion on the legality and regularity of revenue

III. In our opinion, the revenue underlying the accounts for the year ended 31 December 2018 is legal and regular in all material respects.

Expenditure

Qualified opinion on the legality and regularity of expenditure

IV. In our opinion, except for the effects of the matter described under 'Basis for qualified opinion on the legality and regularity of expenditure', the expenditure accepted in the accounts for the year ended 31 December 2018 is legal and regular in all material respects.

Basis for opinion

V. We have conducted our audit in accordance with the IFAC International Standards on Auditing (ISAs) and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are described in more detail below under 'Auditor's responsibilities for the audit of the consolidated accounts and underlying transactions'. We have also met independence requirements and fulfilled our ethical obligations under the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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(1) The consolidated financial statements comprise the balance sheet, the statement of financial performance, the cash flow statement, the statement of changes in net assets, and a summary of significant accounting policies and other explanatory notes (including segment reporting).

(2) The budgetary implementation reports also comprise explanatory notes.

Basis for qualified opinion on the legality and regularity of expenditure

VI. In 2018 we found that high-risk expenditure (mainly spending on a reimbursement basis, which is subject to complex rules) [3] is materially affected by error. Our estimated level of error for high-risk expenditure is 4,5 %. Our overall estimated level of error (2,6 %) remains above our materiality threshold, but it is not pervasive. Low-risk expenditure, which is mainly made on an entitlement basis and subject to simplified/less complex rules is not affected by a material level of error [4].

Key audit matters

We assessed the potential impact on the 2018 accounts of the United Kingdom's withdrawal from the European Union

VII. On 29 March 2017, the United Kingdom (UK) formally notified the European Council of its intention to leave the EU. On 10 April 2019, the European Council agreed to extend the deadline for the UK's departure date [5] for as long as necessary but, in any event, until no later than 31 October 2019. According to the Council's decision, the UK is due to leave the EU on the first day of the month following the completion of the ratification procedures or on 1 November 2019, whichever is earlier. The United Kingdom will remain a Member State until the new withdrawal date, with full rights and obligations under Article 50 of the Treaty on European Union, and has the right to revoke its notification at any time.

VIII. As indicated in paragraph II, the 2018 EU consolidated accounts have been prepared to reflect the EU's financial position as at 31 December 2018 and the 2018 results, cash flows and changes in net assets. The 2018 EU consolidated accounts reflect the state of the negotiations as of 31 December 2018. On that date, and up until the date we completed our audit work, the UK still was an EU Member State.

IX. We have not identified any events relating to the withdrawal process that would require adjustments according to the international accounting standard on events after the reporting date [6].

X. We will continue to assess the potential impact on the EU consolidated accounts of the United Kingdom's withdrawal from the European Union. Future EU consolidated accounts will need to reflect the state or outcome of the withdrawal process. As of the date we completed our audit of the 2018 accounts, it was not yet known whether the UK would actually leave the EU and, if so, on what date and on what terms.

XI. Based on this current situation, there is no financial impact to report in the 2018 EU consolidated annual accounts, and we conclude that the accounts as at 31 December 2018 correctly reflect the withdrawal process at that date.

We assessed the liability for pension and other employee benefits

XII. The EU balance sheet includes a liability for pension and other employee benefits amounting to 80,5 billion euros at the end of 2018. This is one of the most significant liabilities in the balance sheet, accounting for more than a third of the total 2018 liabilities of 235,9 billion euros.

XIII. Most of this liability for pension and other employee benefits (70,0 billion euros) relates to the Pension Scheme of Officials and Other Servants of the European Union (PSEO). The liability recorded in the accounts reflects the amount which would have been included in a pension fund had one been set up to pay existing retirement pension obligations [7]. In addition to retirement pensions, it covers invalidity pensions and pensions paid to widows or orphans of EU staff. The benefits paid under the pension scheme are charged to the EU budget. Member States jointly guarantee the payment of the benefits, and officials contribute one third of the cost of financing the scheme. Eurostat calculates this liability on behalf of the Commission's accounting officer, using the parameters assessed by the Commission's actuarial advisors.

(3) This amounted to 61,0 billion euros. We provide further information in paragraphs 1.19 to 1.21 of our 2018 annual report (OJ C 357, 4.10.2018, p. 1).
(4) This amounted to 59,6 billion euros. We provide further information in paragraph 1.18 of our 2018 annual report.
(5) EUCO XT 20013/19 – European Council Decision taken in agreement with the United Kingdom extending the period under Article 50(3)TEU.
(6) See International Public Sector Accounting Standard (IPSAS) 14 Events after the Reporting Date.
(7) See IPSAS 39 — Employee benefits. For the PSEO, the defined benefit obligation reflects the present value of expected future payments that the EU will be required to make in order to settle the pension obligations resulting from employee service in the current and prior periods.

XIV. The second most significant part of the liability for pension and other employee benefits (8,7 billion euros) is the EU's estimated liability towards the Joint Sickness Insurance Scheme (JSIS). This liability relates to EU staff members' healthcare costs, which must be paid during post-activity periods (net of their contributions).

XV. As part of our audit, we assessed, for the pension liability, the actuarial assumptions made and the resulting valuation. We based this evaluation on work done by external actuarial experts to produce a study on the pension and JSIS liabilities. We checked the numerical data, the actuarial parameters and the calculation of the liability, as well as the presentation in the consolidated balance sheet and the notes to the consolidated financial statements. As stated in note 2.9 to the consolidated financial statements, the Commission has continued to work towards strengthening its processes for calculating the employee benefits liability, which we will keep under review.

We assessed significant year-end estimates presented in the accounts

XVI. At year-end 2018, the estimated value of eligible expenses incurred by beneficiaries but not yet reported was 99,8 billion euros (year-end 2017: 100,9 billion euros). These amounts were recorded as accrued expenses ([8]).

XVII. At year-end 2018, the estimated amount unused by the financial instruments under shared management and aid schemes recognised in the EU accounts was 6,5 billion euros (year-end 2017: 4,7 billion euros), shown in the balance sheet as "Other advances to Member States".

XVIII. In order to assess these year-end estimations, we examined the system the Commission had set up for the cut-off calculations and ensured its correctness and completeness in the Directorates-General where most payments are made. During our audit work on the sample of invoices and pre-financing payments, we examined the relevant cut-off calculations in order to address the risk of accruals having been misstated. We sought additional clarification from the Commission's accounting services on the general methodology for establishing these estimates.

XIX. We conclude that the estimate of the overall amount of accrued charges and other advances to Member States stated in the consolidated balance sheet is fair.

Other matters

XX. Management is responsible for providing 'other information'. This term encompasses the Financial Statement Discussion and Analysis, but not the consolidated accounts or our report on these. Our opinion on the consolidated accounts does not cover this other information, and we do not express any form of assurance conclusion on it. Our responsibility in connection with the audit of the consolidated accounts is to read the other information and consider whether it is materially inconsistent with the consolidated accounts or the knowledge we have obtained in the audit or otherwise appears to be materially misstated. If we conclude that the other information is materially misstated, we are required to report this accordingly. We have nothing to report in this regard.

Responsibilities of management

XXI. In accordance with Articles 310 to 325 of the TFEU and with the Financial Regulation, management is responsible for preparing and presenting the EU's consolidated accounts on the basis of internationally accepted accounting standards for the public sector, and for the legality and regularity of the underlying transactions. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. The Commission is ultimately responsible for the legality and regularity of the transactions underlying the EU's accounts (Article 317 of the TFEU).

([8]) These comprise accrued charges of 62,9 billion euros on the liabilities side of the balance sheet and, on the assets side, 36,9 billion euros reducing the value of pre-financing.

XXII. When preparing the consolidated accounts, management is responsible for assessing the EU's ability to continue as a going concern, disclosing any relevant matters and using the going concern basis of accounting unless it either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

XXIII. The Commission is responsible for overseeing the EU's financial reporting process.

XXIV. Under the Financial Regulation (Title XIII), the Commission's accounting officer must present for audit the consolidated accounts of the EU first as provisional accounts by 31 March of the following year and as final accounts by 31 July. The provisional accounts should already give a true and fair view of the EU's financial position. It is therefore imperative that all items of the provisional accounts are presented as final calculations, allowing us to perform our task in line with Title XIV of the Financial Regulation and by the given deadlines. Any changes between provisional and final accounts would normally result from our observations only.

Auditor's responsibilities for the audit of the consolidated accounts and underlying transactions

XXV. Our objectives are to obtain reasonable assurance as to whether the EU's consolidated accounts are free from material misstatement and the underlying transactions are legal and regular and on the basis of our audit, to provide the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions. Reasonable assurance is a high level of assurance, but it is not a guarantee that the audit has necessarily detected all instances of a material misstatement or non-compliance that may exist. These can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence any economic decisions taken on the basis of these consolidated accounts.

XXVI. For revenue, our examination of VAT and GNI-based own resources takes as its starting point the macroeconomic aggregates from which these are calculated, and assesses the Commission's systems for processing these up to the point at which the Member States' contributions have been received and recorded in the consolidated accounts. For traditional own resources, we examine the customs authorities' accounts and analyse the flow of duties up until the amounts have been received by the Commission and recorded in the accounts.

XXVII. For expenditure, we examine payment transactions once expenditure has been incurred, recorded and accepted. This examination covers all categories of payments other than advances at the point they are made. Advance payments are examined once the recipient of funds has provided evidence of their proper use and the institution or body has accepted that evidence by clearing the advance payment, which might not happen until a subsequent year.

XXVIII. As part of an audit in accordance with ISAs and ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the consolidated accounts and of material non-compliance of the underlying transactions with the requirements of EU law, whether due to fraud or error. We design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Instances of material misstatement or non-compliance resulting from fraud are more difficult to detect than those resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Consequently, there is a greater risk of such instances not being detected.

(b) Obtain an understanding of internal control relevant to the audit in order to design appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

(c) Evaluate the appropriateness of the accounting policies used by management and the reasonableness of management's accounting estimates and related disclosures.

(d) Conclude as to the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, as to whether material uncertainty exists owing to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that such material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated accounts or, if these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the entity to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the consolidated accounts, including all disclosures, and assess whether the consolidated accounts fairly represent the underlying transactions and events.

(f) Obtain sufficient appropriate audit evidence regarding the financial information on the entities covered by the EU's scope of consolidation to express an opinion on the consolidated accounts and the underlying transactions. We are responsible for directing, supervising and carrying out the audit, and are solely responsible for our audit opinion.

XXIX. We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including findings of any significant deficiencies in internal control.

XXX. Of the matters discussed with the Commission and other audited entities, we determine which were of most significance in the audit of the consolidated accounts and are therefore the key audit matters for the current period. We describe these matters in our report unless law or regulation precludes public disclosure or, as happens extremely rarely, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh any public interest benefits.

18 July 2019
Klaus-Heiner LEHNE
President

European Court of Auditors
12, rue Alcide De Gasperi, Luxembourg, LUXEMBOURG

Introduction

The role of the European Court of Auditors

1.1. We are the European Union's independent auditor. In accordance with the Treaty on the Functioning of the European Union (TFEU), we:

(a) give our opinion on the EU's accounts;

(b) check whether the EU budget is used in accordance with applicable laws and regulations;

(c) report on whether EU spending is economic, efficient and effective ([9]); and

(d) advise on proposed legislation with a financial impact.

1.2. The work we do for the *statement of assurance* (explained in ***Annex 1.1***) fulfils the first and second of these objectives. In most EU spending areas ([10]), the work we do for the annual report also addresses the economy, efficiency and effectiveness of spending. We report on different aspects of the system put in place by the Commission to ensure that EU funds are well spent ([11]). Taken together, our audit work also provides a key input into our opinions on proposed legislation.

1.3. This chapter of the annual report:

(a) sets out the background to our statement of assurance and gives an overview of our findings and conclusions on the reliability of accounts and the *regularity of transactions*;

(b) includes information on cases of suspected fraud we report to OLAF;

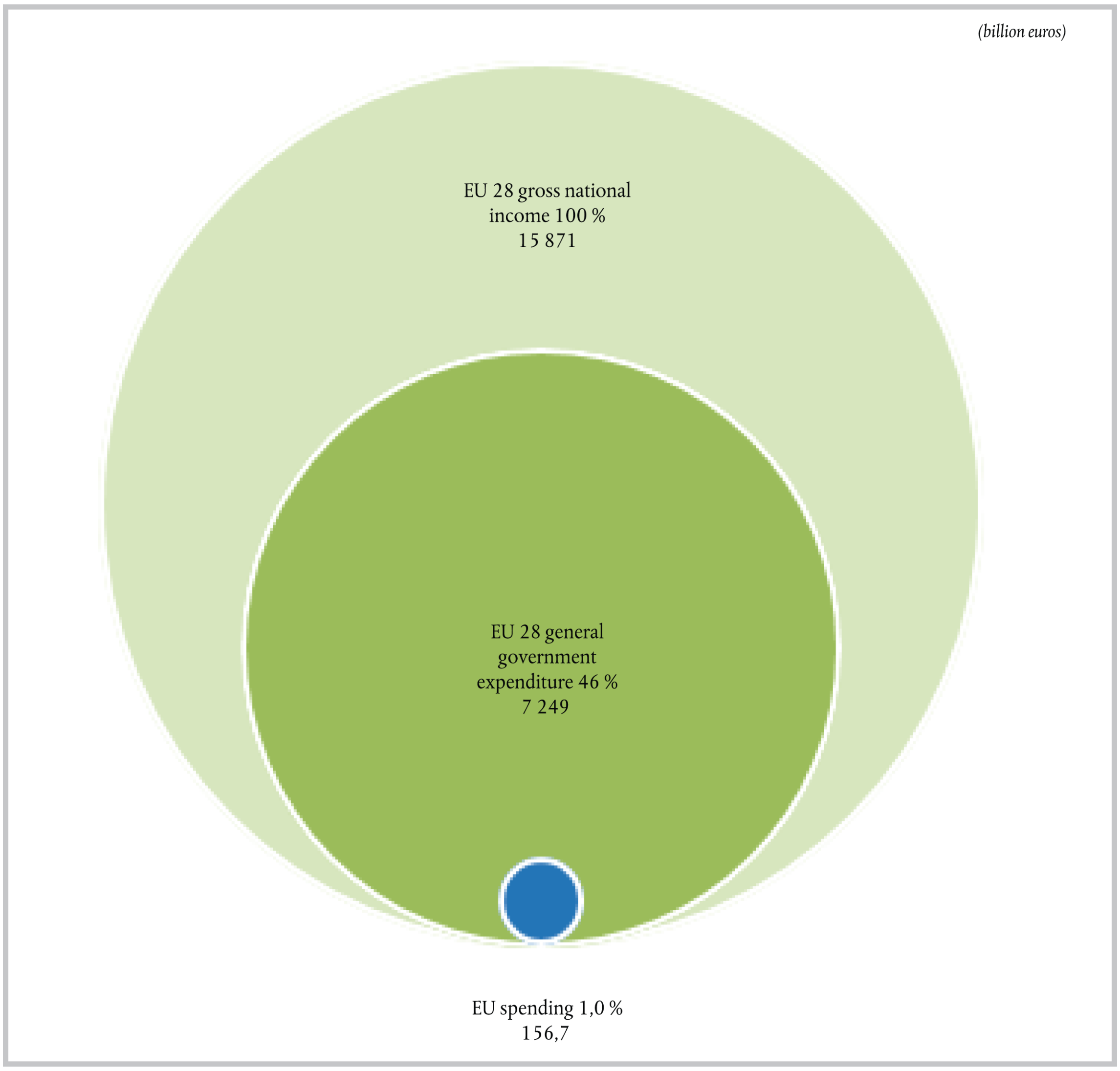
(c) summarises our audit approach (see ***Annex 1.1***).

EU spending is a significant tool for achieving policy objectives

1.4. EU spending is an important – but not the only – tool for achieving policy objectives. Other important tools include the use of legislation and the freedom for goods, services, capital and people to move throughout the EU. In 2018, EU spending amounted to 156,7 billion euros ([12]), representing 2,2 % of EU Member States' total general government spending and 1,0 % of EU gross national income (see ***Box 1.1***).

([9]) See glossary: *sound financial management*.
([10]) See ***Parts 2*** of chapters 5, 6, 7, 8 and 9.
([11]) See chapter 3.
([12]) See 2018 consolidated annual accounts of the EU, budgetary implementation reports and explanatory notes, 4.3 MFF: Implementation of payment *appropriations*.

Box 1.1
2018 EU spending as a share of gross national income (GNI) and general government expenditure

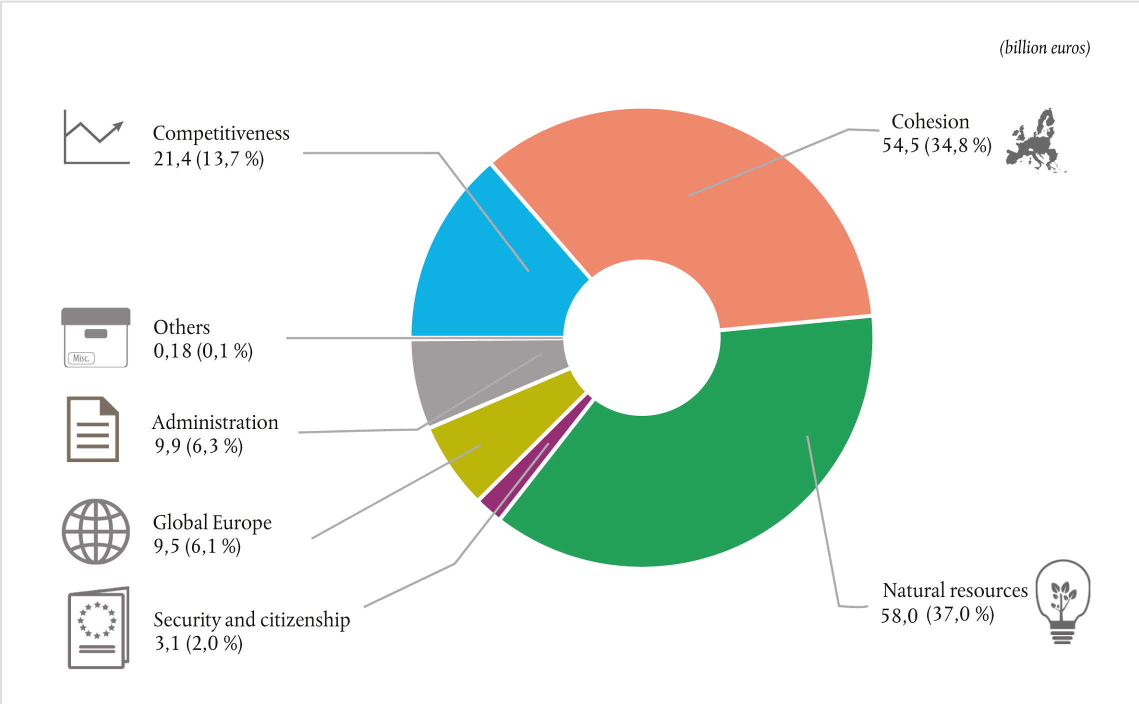


Source: Member States GNI: 2018 annual accounts of the European Commission – Annex A – Revenue; Member States general government expenditure: Eurostat — annual national accounts; EU spending: European Commission – 2018 consolidated annual accounts of the European Union.

1.5. EU funds are disbursed to beneficiaries either through single payments/annual instalments or through a series of payments within multiannual spending schemes. Payments from the 2018 EU budget comprised 126,8 ([13]) billion euros in single, interim or final payments, plus 29,9 billion euros in pre-financing. As ***Box 1.2*** shows, the largest share of the EU budget went to 'Natural resources' followed by 'Cohesion' and 'Competitiveness'.

([13]) 37,4 billion euros of these interim payments are made under MFF1b for the 2007-2013 and 2014-2020 programming periods. In line with our approach for this area these payments are not part of our audit population for the 2018 annual report.

Box 1.2
2018 payments per Multiannual Financial Framework (MFF) heading



MFF 1a - Competitiveness for growth and jobs ('Competitiveness')

MFF 1b - Economic, social and territorial cohesion ('Cohesion')

MFF 2 - Natural resources

MFF 3 - Security and citizenship

MFF 4 - Global Europe

MFF 5 – Administration

MFF 6 - Compensations ('Others')

Source: ECA.

Audit findings for the 2018 financial year

Reliability of the accounts

The accounts were not affected by material misstatements

1.6. Our observations concern the European Union's consolidated accounts [14] (the 'accounts') for the 2018 financial year. We received them, together with the accounting officer's letter of representation, on 26 June 2019, before the final date for presentation allowed under the Financial Regulation [15]. The accounts are accompanied by a 'Financial Statement Discussion and Analysis' [16]. This analysis is not covered by our audit opinion. In accordance with the auditing standards, however, we have assessed its consistency with the information in the accounts.

1.7. The accounts published by the Commission show that, at 31 December 2018, total liabilities amounted to 235,9 billion euros, compared with 174,4 billion euros of total assets. The economic result for 2018 is 13,9 billion euros.

1.8. Our audit found that the accounts were not affected by material misstatements. We present our observations on the financial and budgetary management of EU funds in Chapter 2.

Key audit matters relating to the 2018 financial statements

1.9. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In accordance with the International Standard of Supreme Audit Institutions (ISSAI) 1701, we report on key audit matters in our statement of assurance.

Regularity of transactions

1.10. We examine EU revenue and expenditure to assess whether it is in compliance with the applicable laws and regulations. We present our audit results for revenue in chapter 4 and for expenditure in chapters 5 to 10.

Our audit covers expenditure accepted by the Commission in 2018

1.11. To carry out our audit, we examined the transactions underlying the EU's accounts. For expenditure, these comprised transfers of funds from the EU budget to final recipients of EU spending. We examine expenditure at the point when final recipients of EU funds have undertaken activities or incurred costs, and when the Commission has accepted the expenditure ('*accepted expenditure*'). In practice, this means that our population of transactions covers interim and final payments. We did not examine pre-financed amounts unless they had been cleared in 2018.

1.12. As highlighted in our 2017 annual report, the modifications to the 2014-2020 sectoral legislation for 'Cohesion' have had an impact on what the Commission considers 'accepted expenditure' in this area [17]. Therefore, since 2017 our audit population for this MFF heading consists of final payments (including pre-financing which had been cleared) for the 2007-2013 period and expenditure included in the accounts accepted on an annual basis by the Commission, for the 2014-2020 period (see paragraphs 2 to 4 of ***Annex 1.1*** and paragraphs 6.7-6.8). This means that we tested transactions for which Member States had implemented all relevant corrective actions arising from errors that they themselves had identified.

[14] The consolidated accounts comprise:
(a) the consolidated financial statements covering the balance sheet (presenting the assets and liabilities at the end of the year), the statement of financial performance (recognising the income and expenses of the year), the cash-flow statement (disclosing how changes in the accounts affect cash and cash equivalents) and the statement of changes in net assets, as well as the notes to the financial statements;
(b) the budget implementation reports covering the revenue and expenditure for the year, as well as the related notes.

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

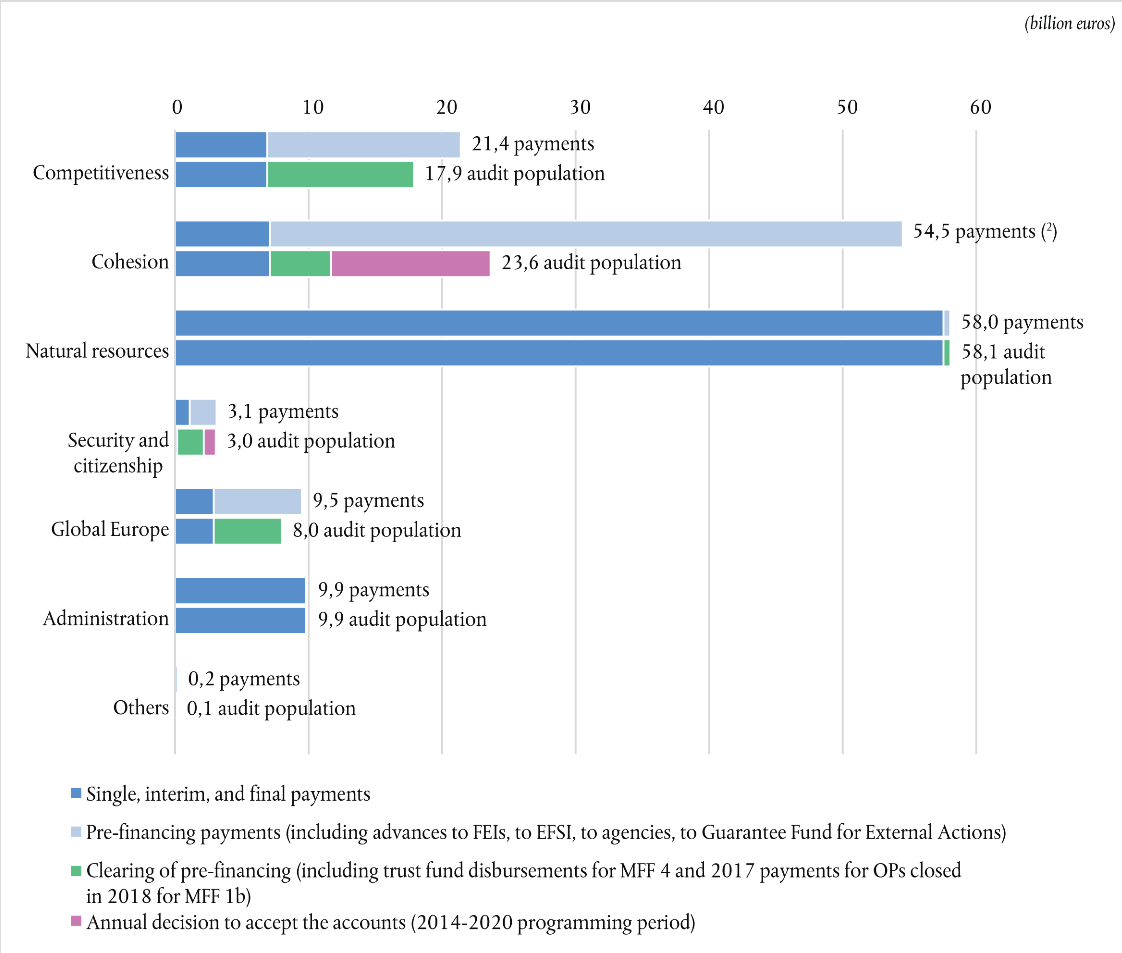
[16] See Recommended Practice Guideline 2 (RPG 2) 'Financial Statement Discussion and Analysis' of International Public Sector Accounting Standards Board (IPSASB).

[17] See paragraphs 1.12 and 1.13 of our 2017 annual report.

1.13. ***Box 1.3*** shows the breakdown of our 2018 audit population into single, interim (where accepted by the Commission) and final payments, clearings of pre-financing and annual decisions to accept the accounts. Our audit population for 2018, was worth a total of 120,6 billion euros. For 'Cohesion', interim payments made in 2018 for the 2014-2020 period will be included in our population in a later year once the accounts have been accepted by the Commission and cleared through an annual decision.

Box 1.3

Comparison of our audit population (120,6 billion euros) and EU spending (156,7 billion ([1]) euros) by MFF heading in 2018



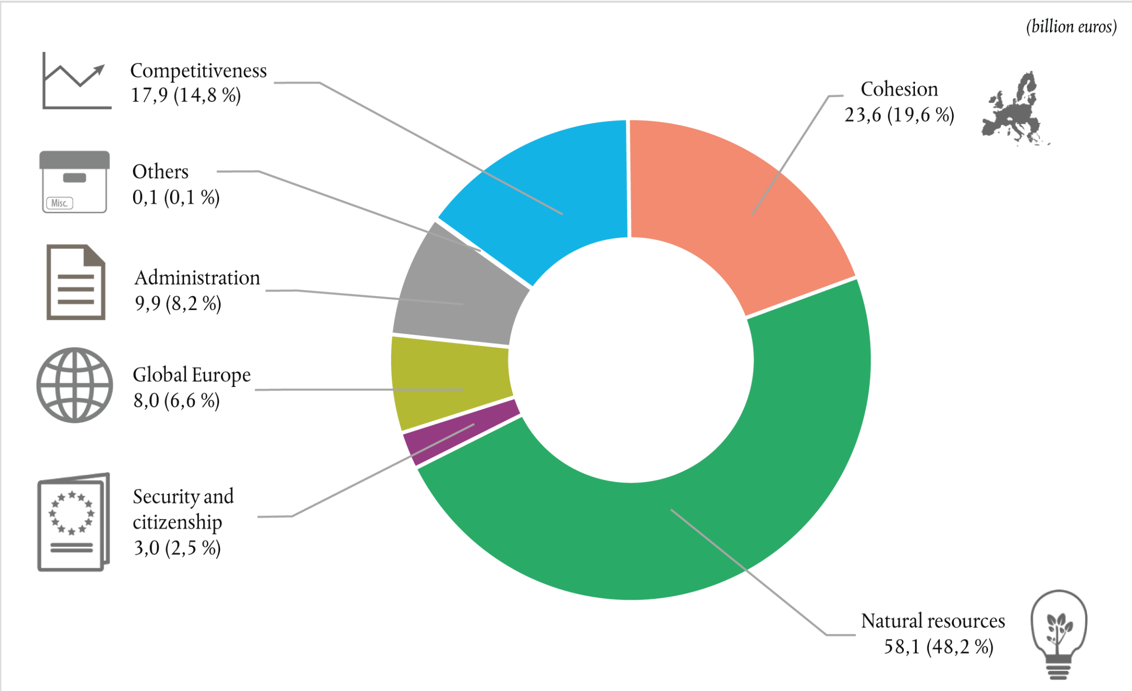
([1]) Due to rounding, payments per MFF heading add up to 156,6 instead of 156,7.

([2]) For 'Cohesion', the 47,4 billion euros pre-financing amount includes interim payments for the 2007-2013 and 2014-2020 programming periods amounting to 37,4 billion euros. In line with our approach for this area, these payments are not part of our audit population for the 2018 annual report.

Source: ECA.

1.14. ***Box 1.4*** shows that 'Natural resources' makes up the largest share of our overall population (48,2 %), followed by 'Cohesion' (19,6 %) and 'Competitiveness' (14,8 %).

Box 1.4
Overview of our 2018 audit population of 120,6 billion euros by MFF heading



Source: ECA.

Our 2018 audit results show that error is confined to specific types of spending

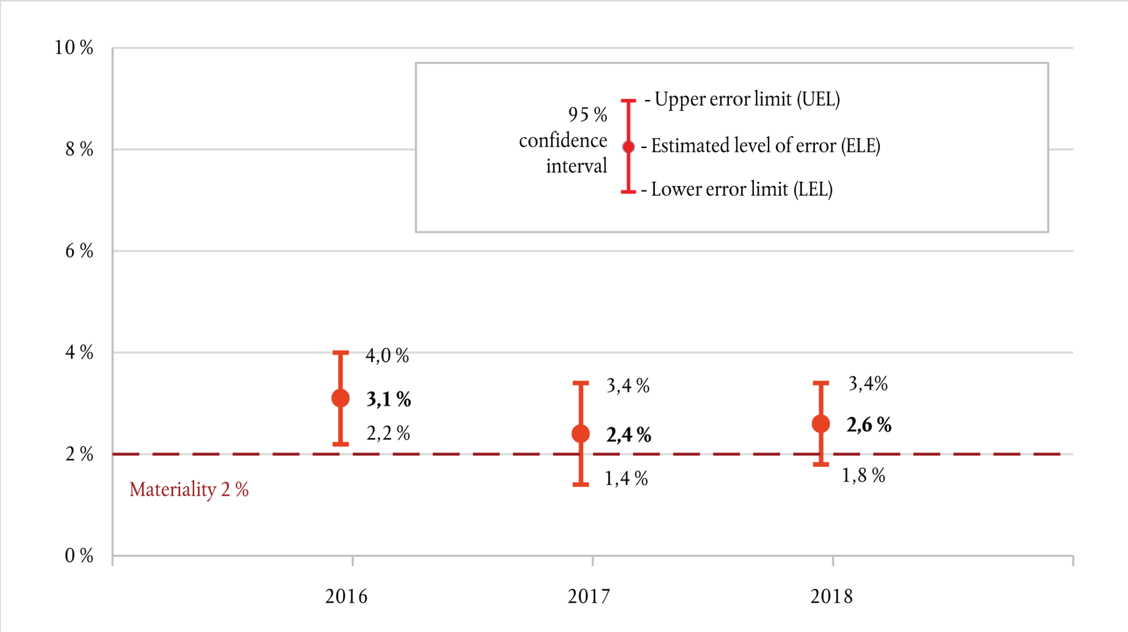
1.15. For the regularity of EU revenue and expenditure, our key findings were:

(a) Revenue was free from material error. Overall, the revenue-related systems we examined were effective, but the key internal *traditional own resources (TOR)* controls we assessed at the Commission and in certain Member States were only partially effective (see paragraph 4.22);

(b) For expenditure, our overall audit evidence indicates that the level of error was material. We estimate the overall level of error in expenditure at 2,6 % [18], but material error was confined to expenditure subject to complex rules (mainly reimbursement-based) (see paragraphs 1.19 - 1.21), representing around 50,6 % of our audit population. Our overall estimated level of error increased slightly on last year (see ***Box 1.5***).

(18) We have 95 % confidence that the estimated level of error in the population lies between 1,8 % and 3,4 % (the lower and upper level error limits respectively).

Box 1.5
The estimated level of error (2016 to 2018)



Source: ECA.

An **error** is the amount of money that should not have been paid out from the EU budget, because it was not used in accordance with EU rules and thus does not comply either with what the Council and Parliament intended with the EU legislation concerned or with specific national rules in the Member States.

The complexity of rules and the way EU funds are disbursed has an impact on the risk of error

1.16. Following a risk analysis based on past audit results, we have divided our audit population of underlying transactions into high-risk and low-risk expenditure. Our 2018 audit results confirm our findings from previous years: namely, that the way funds are disbursed has an impact on the risk of error.

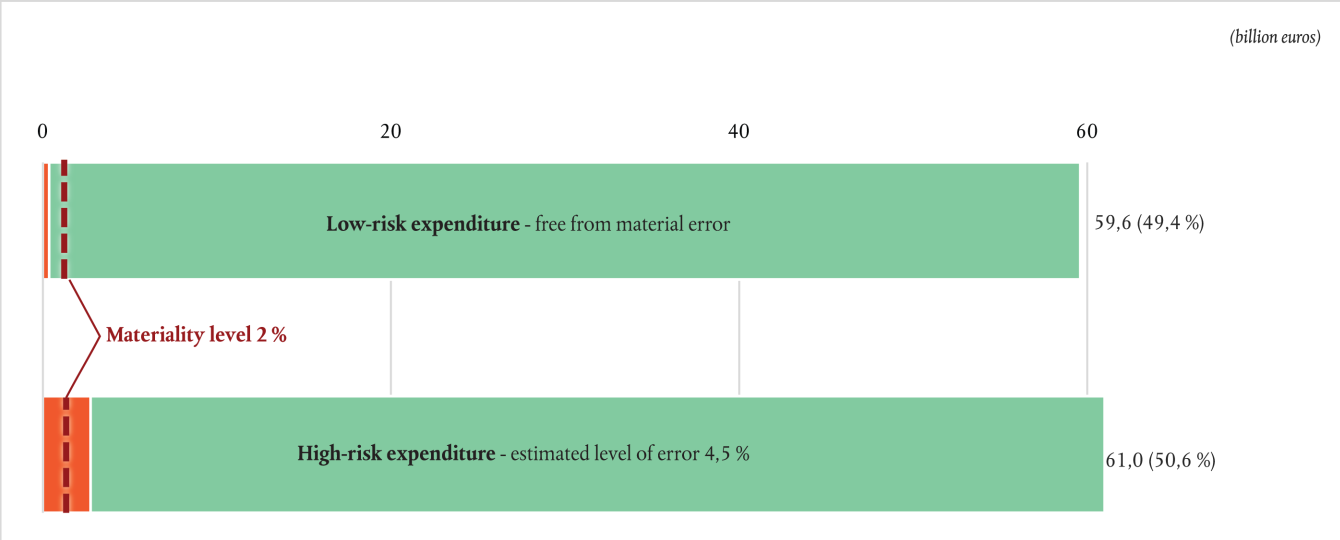
— The risk of error is high for expenditure subject to complex rules. This is mainly the case for **reimbursement-based payments** where beneficiaries have to submit claims for eligible costs they have incurred. To this end, as well as demonstrating that they are engaged in an activity eligible for support, they must provide information showing the costs incurred for which they may claim reimbursement. In doing so, they must follow complex rules regarding what can be claimed (eligibility) and how costs can be properly incurred (public procurement or state aid rules).

— The risk of error is lower for expenditure subject to simplified/less complex rules. This type of expenditure comprises **mainly entitlement-based payments**, where beneficiaries receive payment if they meet certain conditions. Such payments represent a lower risk of error if the conditions set are not overly complex.

1.17. In 2018, we continued to find that low-risk (mainly entitlement-based) expenditure ([19]) was free from material error, but that high-risk (mainly reimbursement-based) expenditure continued to be affected by material error (see ***Box 1.6***).

([19]) Entitlement-based expenditure includes administrative expenditure.

Box 1.6
2018 breakdown of expenditure between low-risk and high-risk

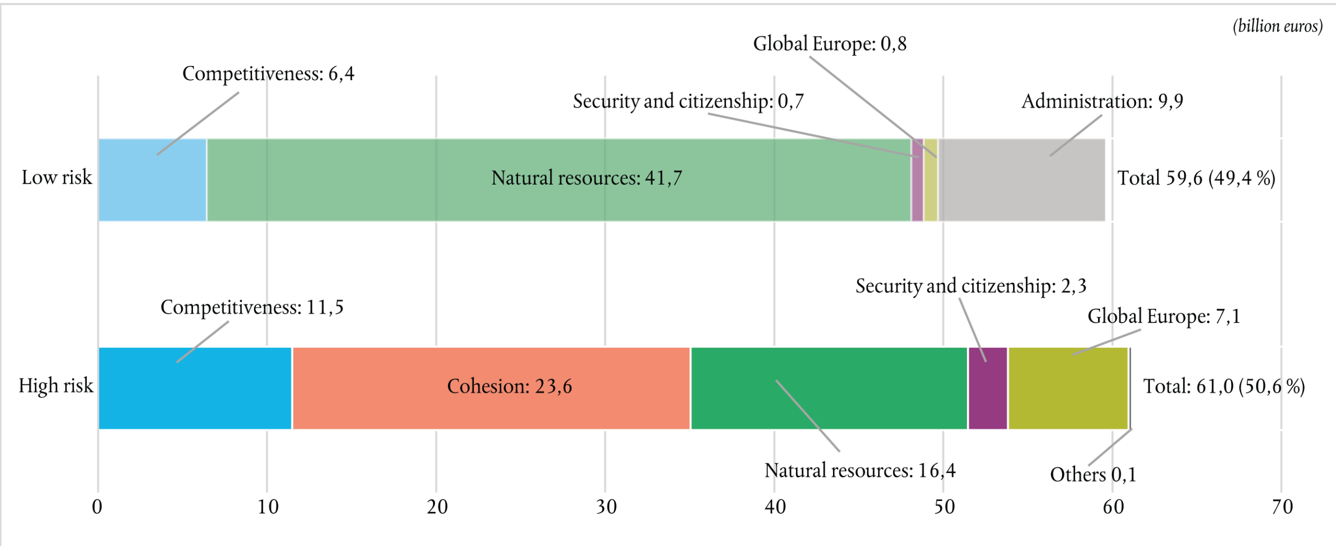


Source: ECA.

Around 50 % of our audit population is free from material error

1.18. For 49,4 % of our audit population, we conclude, based on our audit work, that the estimated level of error is below our materiality threshold of 2 %, as it was in 2017. Low-risk expenditure mainly comprises entitlement-based payments and administrative expenditure (see ***Box 1.7***). Entitlement-based payments include student and research fellowships ('Competitiveness' – chapter 5), *direct aid* for farmers ('Natural resources' – chapter 7) and budget support for non-EU countries ('Global Europe' – chapter 9). Administrative expenditure mainly comprises the salaries and pensions of EU civil servants ('Administration' – chapter 10).

Box 1.7
Breakdown of high-risk and low-risk expenditure by MFF heading (1)



(1) Due to rounding, low-risk expenditure adds up to 59,5 instead of 59,6.

Source: ECA.

Material error persists in expenditure with complex eligibility conditions

1.19. Where complex conditions are in place, we found a high risk of error. This applies to reimbursement-based expenditure and to a small proportion of entitlement-based expenditure where complex conditions apply (some rural development schemes). This high-risk type of expenditure represents around 50,6 % of our audit population. We estimate the level of error in this type of expenditure at 4,5 % (2017: 3,7 %), which exceeds the materiality threshold of 2 % (see ***Box 1.6***).

1.20. Most reimbursement-based EU funds are spent on research projects ('Competitiveness' – chapter 5), employment-related projects ('Cohesion' – chapter 6), projects in regional and rural development ('Cohesion' – chapter 6 and 'Natural resources' – chapter 7) and development projects in non-EU countries ('Global Europe' – chapter 9) (see ***Box 1.7***).

1.21. This complexity leads to errors which affect our conclusion for 'Competitiveness' (see paragraph 5.35), 'Cohesion' (see paragraph 6.71) and 'Natural resources' (see paragraph 7.37).

We found a material level of error in spending on 'Competitiveness', 'Cohesion' and 'Natural resources'

1.22. This year, as we did in 2017, we provide a specific assessment for four MFF headings: 'Competitiveness', 'Cohesion', 'Natural resources' and 'Administration'.

1.23. We do not estimate levels of error for other areas of expenditure, including 'Security and citizenship' (chapter 8) and 'Global Europe' (chapter 9). In total, expenditure covered by our statement of assurance in these two areas amounted to 11,0 billion euros (9,1 % of the expenditure covered by our audit). Work performed in these areas continues to contribute to our overall conclusions on 2018.

1.24. 'Competitiveness' (chapter 5): our estimated level of error is lower than in the last two years. As in previous years, research expenditure remains high-risk and is the main source of error. Errors in research spending include different categories of ineligible costs (in particular direct personnel costs and other *direct costs*, *indirect costs* and subcontracting costs).

1.25. 'Cohesion' (chapter 6): expenditure in this area is dominated by reimbursements. The main types of error detected by audit authorities were ineligible costs and infringements of public procurement rules. For these errors, Member State authorities applied corrections with a view to reducing the residual error rates for programmes below the 2 % materiality threshold. However, we also found errors that audit authorities had not detected, such as infringements of the EU's state aid rules. Neither the Member States nor, to date, the Commission have applied any corrections for these errors. Based on errors that either audit authorities or we ourselves detected, and considering all relevant financial corrections, we estimate that the level of error is material.

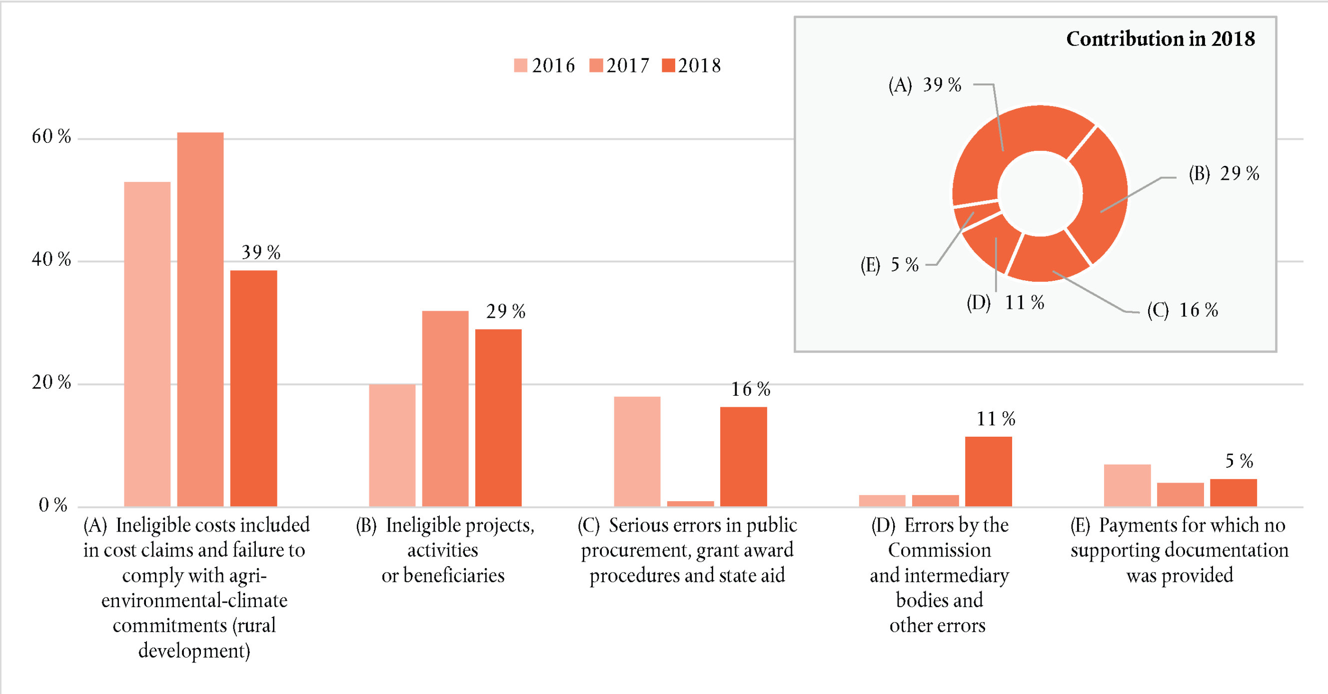
1.26. 'Natural resources' (chapter 7): as a whole, this area is materially affected by error. However, direct payments from the *European Agriculture Guarantee Fund (EAGF)*, which account for 71,8 % of spending in this area, are free from material error. Direct payments to farmers are entitlement-based and have benefited from simplified land eligibility rules and an effective control system (IACS – Integrated Administration and Control System), which allows automated cross-checks between databases. We continue to find a material level of error in the other spending areas (rural development, EAGF market measures, fisheries, environment and climate action). Expenditure in these areas mainly takes the form of reimbursement of costs and is subject to complex eligibility conditions. Ineligible beneficiaries, activities or declared costs and the provision of inaccurate information on areas or animals account for more than half of the estimated level of error for this MFF heading.

1.27. 'Administration' (chapter 10): this area is free from material error. Most administrative expenditure takes the form of salaries, pensions and allowances paid by EU institutions and bodies.

Eligibility errors continue to contribute most to the estimated level of error for expenditure subject to complex rules

1.28. As in recent years, we focussed more closely on the types of error found in expenditure subject to complex rules (mainly reimbursement-based), as this is the area in which material error persists. ***Box 1.8*** provides a breakdown of the 2018 estimated level of error 4,5 % for high-risk (mainly reimbursement-based) spending by error type. It also provides the corresponding figures for the 2017 (3,7 %) and 2016 (4,8 %) estimates.

Box 1.8
Contribution to the 2018 estimated level of error of high-risk (mainly reimbursement-based) expenditure by error type



Source: ECA.

1.29. The biggest contributors to our 2018 estimated level of error for high risk expenditure were 'Cohesion' (43,0 %), followed by 'Rural development, EAGF market measures, fisheries, environment and climate action' under 'Natural resources' (30,2 %), 'Competitiveness' (12,2 %) and 'Global Europe' (4,5 %).

1.30. As in previous years, eligibility errors (i.e. ineligible costs in costs claims and ineligible projects, activities or beneficiaries) contributed most to the estimated level of error for high-risk expenditure. However, their impact was less than in 2017 (2018: 68 %; 2017: 93 %). This was because in 2018 we found a significantly higher number of errors in relation to public procurement, state aid rules and grant award procedures. These errors contributed 16 % of our estimated level of error for high-risk expenditure (2017: 1 %) and were mainly in 'Cohesion' and 'Natural Resources'.

1.31. This year, expenditure accepted under the European Regional Development Fund (ERDF) and the Cohesion Fund made up 74 % of total 'Cohesion' expenditure. Operations co-financed by these funds are more prone to public-procurement related errors (see paragraphs 6.26-6.28).

1.32. 'Cohesion' and 'Natural resources' accounted for most administrative errors by *intermediary bodies* ([20]) (see category "other" in ***Box 6.2*** and category "administrative errors" in ***Box 7.2***). Such errors include incorrect aid calculations.

The Commission's regularity information

1.33. According to Article 317 of the TFEU, the Commission is ultimately responsible for implementing the EU budget and manages EU spending together with Member States ([21]). The Commission accounts for its actions in three reports, which are included in the 'Integrated Financial Reporting Package' ([22]):

(a) EU consolidated accounts (provisional in March; final in June);

([20]) In shared management, intermediary bodies are national authorities.
([21]) Article 317 of the TFEU:
'The Commission shall implement the budget in cooperation with the Member States, in accordance with the provisions of the regulations made pursuant to Article 322, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management. Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management.'
([22]) https://ec.europa.eu/info/publications/annual-management-and-performance-report-2018-0_en

(b) Annual Management and Performance Report for the EU budget (AMPR) (no provisional version; final version in June);

(c) Report on the follow-up to the discharge of the previous financial year (July).

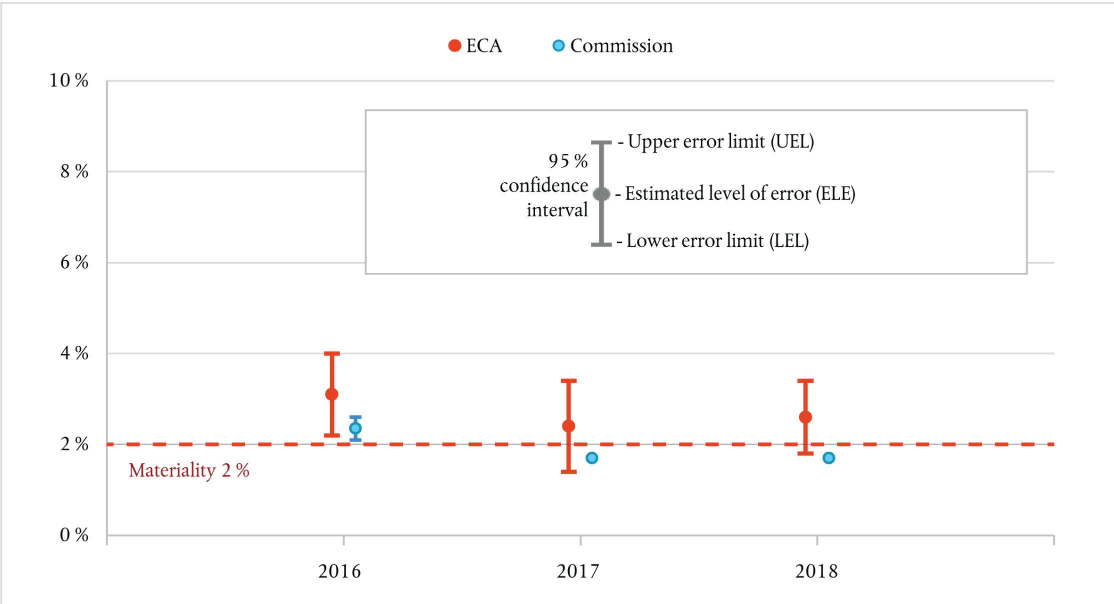
1.34. Under our 2018-2020 strategy, we set out to base our statement of assurance on an *attestation approach*, meaning that in future, we intend to provide assurance on the Commission's (management) statement. This builds on our experience of applying this approach since 1994 when auditing the reliability of the accounts. For the regularity of transactions underlying the accounts, we are working with the Commission to establish the conditions necessary to progress towards this approach. An important element is the timely availability of information for compilation and audit ([23]).

The Commission's estimate of error is slightly below our range

1.35. In the AMPR, the Commission presents, for the transactions underlying the 2018 accounts, its assessment of the risk at payment. The risk at payment represents the Commission's estimate of the amount, at the moment of payment, that has been paid not in accordance with the applicable rules. This concept is closest to our estimate for the level of error.

1.36. ***Box 1.9*** presents the Commission's figures for the risk at payment alongside the range of our estimate of error. The Commission's estimate of the risk at payment for 2018 is slightly below our range at 1,7 %. Our estimated level of error is 2,6 % (2017: 2,4 %), in a range between 1,8 % and 3,4 %.

Box 1.9
The Commission's estimate for the risk at payment versus our estimate



Source: ECA.

([23]) See special report 27/2016 'Governance at the European Commission — best practice?', recommendation 2(f).

The individual components of the Commission's estimate are not always in line with our findings

1.37. The Commission uses the statements of assurance made by its directors-general in their annual activity reports (AARs) as the basis for its overall assessment of the risk at payment for the different policy areas. The risk at payment is based mainly on the results of ex-post checks performed by the Commission in areas under direct or indirect management or by national authorities in areas under shared management. ***Box 1.10*** illustrates the basis for establishing the risk at payment for the different spending areas.

Box 1.10
Basis for the Commission's estimate of the risk at payment

— '**Competitiveness**' - For Horizon 2020, the Commission's Common Audit Service (CAS) draws a representative sample of cost statements on average every 18 months. It estimates the risk at payment based on the results of audits completed by the end of 2018. For the 2018 estimate, research DGs used audit results based on samples of expenditure since the start of the programme up until the end of February 2018. For the Seventh Framework Programme (Horizon 2020's predecessor), the audit results refer to expenditure incurred in the years before 2016.

— '**Cohesion**' – Most of the 2018 expenditure had not yet passed through the whole control cycle. DG REGIO and DG EMPL therefore estimated the risk at payment by applying either the confirmed *residual total error rate* for expenditure (expenditure from the 2016-2017 accounting year) or the residual total error rate reported by the audit authorities for the accounting year 2017-2018, depending on which was higher.

— '**Natural resources**' – DG AGRI uses the national control statistics it receives from the paying agencies. It also makes adjustments based on the results of the certification bodies' audits, and on its own checks and professional judgement, to arrive at the adjusted error rate for direct payments, rural development and market measures.

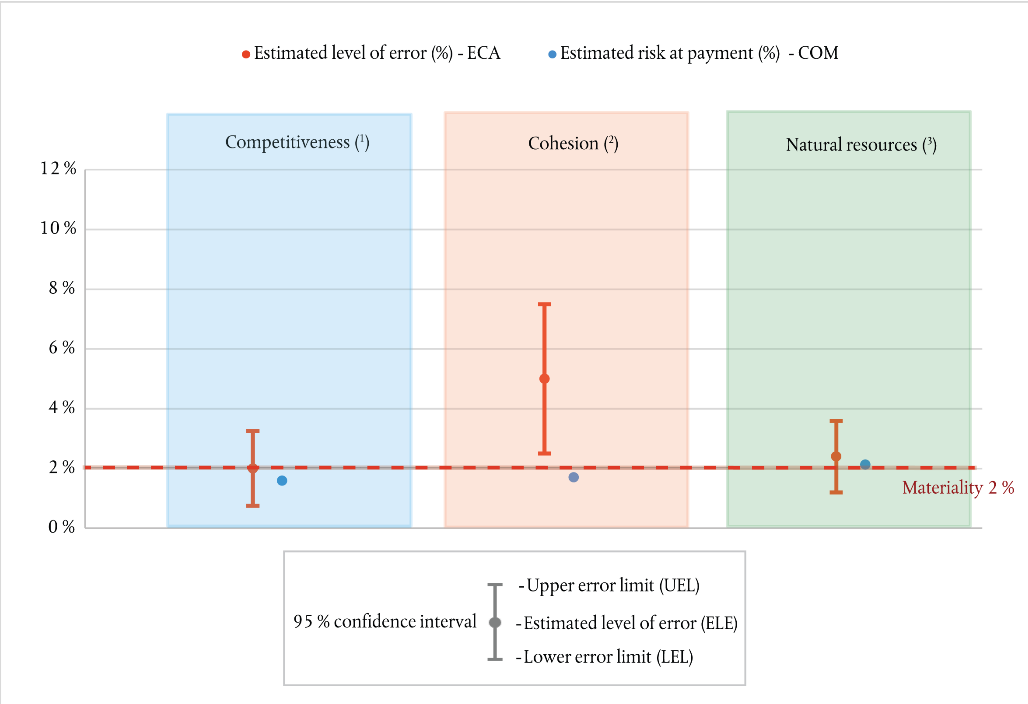
— '**Global Europe**' – the Commission bases its estimate of the risk at payment for this area mainly on a Residual Error Rate study commissioned annually by DG DEVCO and DG NEAR. The objective of this study is to estimate the level of error which has evaded all management checks. The Residual Error Rate study for a given year (year n) is based on contracts closed between 1 September of year n-1 to 31 August of year n. The study excludes contracts for which the last underlying transaction dates back more than five years and those for which it is not possible to do the necessary work.

— '**Administration**' – the risk at payment is based on the results of checks on 2018 expenditure.

1.38. The Commission presents the risk for a specific grouping of policy areas rather than per MFF heading ([24]). In ***Box 1.11***, we juxtapose our estimated level of error for those MFF headings for which we provide a specific assessment with the individual components of the Commission's overall estimate. We have taken account of the difference between the way we estimate the level of error and the way the Commission presents its figures in the AMPR ([25]).

Box 1.11

Our estimate of level of error versus the Commission's estimate of the risk at payment for MFF headings ([4])



([1]) Commission DGs and services: CNECT, EAC, EASME, ECFIN, ENER, ERCEA, FISMA, GROW, INEA, JRC, MOVE, REA, RTD and TAXUD. Some DGs were allocated to more than one MFF heading (EACEA, ECHO and INEA).

([2]) DG REGIO, INEA and DG EMPL

([3]) DGs AGRI, CLIMA, ENV and MARE.

([4]) For administrative expenditure, neither we nor the Commission found a material level of error.

([24]) Whereas we provide specific assessments and estimate the level of error for MFF headings 1a 'Competitiveness', 1b 'Cohesion', 2 'Natural resources' and 5 'Administration'.

([25]) For example, the Commission presents the figures of DG MARE under 'Cohesion, Migration and Fisheries' while in ***Box 1.11***, the figures are included under 'Natural resources'.

1.39. We found that:

— for '**Competitiveness**', the overall estimate of the risk at payment for the MFF heading (1,6 %), which we calculated based on the information included in the AMPR, is within the range of our estimated level of error (see paragraphs 5.36 and 5.38).

— for '**Cohesion**', the Commission's overall estimate for the MFF heading ([26]) is (1,7) %, which is below the range of our estimated level of error (see paragraphs 6.56 and 6.74).

— for '**Natural resources**', the overall estimate of the risk at payment for the MFF heading (2,1 %), which we calculated based on the information included in the AMPR, as well as the Commission's estimates for CAP spending as a whole and for direct payments, are consistent with our conclusion (see paragraphs 1.38 and 7.37-7.38).

The risk at closure depends on estimated future corrections and recoveries

1.40. The Commission presents a further regularity indicator in the AMPR called the *risk at closure*. This is the risk at payment (see paragraph 1.36) minus the estimated future corrections and recoveries that managers of EU funds expect to make in respect of 2018 expenditure during the next year(s) of the current programmes.

1.41. To prepare an estimate of future corrections and recoveries, the Commission uses a historical average based on transactions over the previous years. To ensure it is relevant for current programmes, Commission internal guidance requires DGs to adjust the historical averages or to use another estimation method as appropriate, and to disclose these adjustments and the approach they have taken in their AARs. In 2018, most Commission DGs adjusted their historical averages.

We report suspected fraud to OLAF

1.42. We cooperate closely with the European Anti-Fraud Office (OLAF) in fighting fraud against the EU budget. We forward to OLAF any suspicion of fraud, corruption or other illegal activity affecting the EU's financial interests that we identify in the course of our audit work (including our work on performance) or on the basis of information provided to us directly by third parties. OLAF then follows up on these cases, decides whether to launch an investigation and cooperates as necessary with Member State authorities.

1.43. In 2018:

(a) we assessed the regularity of 728 transactions for our audit work on the annual report and produced 35 special reports;

(b) we reported to OLAF 9 instances of suspected fraud found during our audits (13 in 2017); we did not refer any cases to OLAF based on information provided by third parties (6 in 2017).

1.44. The suspected fraud cases arising from our work in 2018 that we referred to OLAF most frequently concerned the suspicions of artificial creation of the necessary conditions for EU financing, declaration of costs not meeting the eligibility criteria, or procurement irregularities. Some of the suspected fraud cases we reported to OLAF involved several irregularities.

([26]) See table B of Annex 2 of the 2018 Annual Management and Performance Report for the EU budget, p. 205.

1.45. In 2018, we referred to OLAF nine cases arising from audit work. OLAF has opened two investigations. In seven cases, OLAF did not open an investigation, for one of the following reasons:

— OLAF considered that a national authority or EU institution, body, office or agency was better placed to deal with the case and transferred it accordingly;

— there was already an ongoing investigation at national level, of which we were not aware;

— for proportionality reasons;

— due to insufficient suspicion.

1.46. Based on audit information it received from us between 2010 and 2018, OLAF has recommended the recovery of a total of 312,8 million euros. The underlying financial recommendations relate to 24 cases arising from our audit work ([27]).

Conclusions

1.47. The key function of this chapter is to support the audit opinion presented in the statement of assurance.

Audit results

1.48. We conclude that the accounts were not affected by material misstatements.

1.49. As for the regularity of transactions, we conclude that revenue was free from material error. For expenditure, our audit results show that the estimated level of error increased slightly on last year. As we did last year, we conclude that expenditure subject to simplified/less complex rules (mainly entitlement-based) is free from material error. A material level of error is confined to expenditure subject to complex rules (mainly reimbursement-based), which this year accounted for 50,6 % of our audit population.

([27]) The information is provided by OLAF and is not examined by us.

ANNEX 1.1

AUDIT APPROACH AND METHODOLOGY

(1) Our audit approach is set out in the Financial and Compliance Audit Manual, which is available on our website [1]. We use an assurance model to plan our work. In our planning, we consider the risk of errors occurring (inherent risk) and the risk of errors not being prevented or detected and corrected (control risk).

PART 1 – Approach in line with our 2018-2020 strategy for the statement of assurance

(2) In 2018, the first year of our strategy, we improved the added value of our statement of assurance.

(3) Our recent annual reports show improvements in management and control systems and in the availability of legality and regularity information provided by our auditees. In light of these developments, we strive to make better use of our auditee's legality and regularity information in areas where this is feasible. Our ultimate goal is to move in future years towards an attestation approach [2]. Under this approach, the auditor gathers sufficient and appropriate evidence to provide a conclusion on the assurance expressed by the responsible entity. In practice, this would mean that in areas where we had made sure that information was of sufficient quality and could draw assurance from the legality and regularity information provided by our auditee, we would review and, if necessary, re-perform their work.

(4) Since 2017, we have amended our audit approach for 'Economic, social and territorial cohesion' to take account of changes in the design of the control systems for the 2014-2020 programming period. Our objective is, in addition to contributing to the 2018 statement of assurance, to conclude on the reliability of the Commission's key regularity indicator for this area – the residual risk of error [3].

PART 2 - Audit approach and methodology for the reliability of accounts

(5) We examine the EU's consolidated accounts to determine their reliability. These consist of:

(a) the consolidated financial statements; and

(b) the budgetary implementation reports.

(6) The consolidated accounts should properly present, in all material respects:

(a) the financial position of the European Union at year end;

(b) the results of its operations and cash flows; and

(c) the changes in net assets for the year ended.

(7) In our audit, we:

(a) evaluate the accounting control environment;

(b) check the functioning of key accounting procedures and the year-end closure process;

(c) analyse the main accounting data for consistency and reasonableness;

(d) analyse and reconcile accounts and/or balances;

(e) perform substantive tests of *commitments*, payments and specific balance sheet items, based on representative samples;

(f) use the work of other auditors where possible, in accordance with international standards on auditing, particularly when auditing borrowing and lending activities managed by the Commission for which external audit certificates are available.

(1) https://www.eca.europa.eu/en/Pages/AuditMethodology.aspx

(2) See ISSAI 4000, paragraph 40.

(3) See background paper: The 'ECA's modified approach to the Statement of Assurance audits in Cohesion' available on our website (https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=44524).

PART 3 - Audit approach and methodology for the regularity of transactions

(8) Our current approach for assessing whether the transactions underlying the accounts comply with EU rules and regulations is to rely mainly on direct testing of compliance for a large, random, representative sample of transactions.

(9) However, we consider whether we can make efficient use of the checks on regularity already performed by others. If we want to use the results of these checks in our audit work, in line with audit standards, we assess the independence and competence of the other party and the scope and adequacy of its work.

How we test transactions

(10) Under each MFF heading where we provide a specific assessment (chapters 5, 6, 7 and 10), we test a representative sample of transactions in order to estimate the share of irregular transactions in the overall population.

(11) For each selected transaction, we determine whether or not the claim or payment was made for the purpose approved in the budget and specified in legislation. We examine how the amount of the claim or payment was calculated (for larger claims: based on a selection representative of all items in the transaction). This involves tracing the transaction from the budgetary accounts to the final recipient (e.g. a farmer, or the organiser of a training course or development aid project), testing compliance at each level.

(12) When testing revenue transactions, our examination of value added tax and GNI-based own resources takes as a starting point the macroeconomic aggregates based on which these are calculated. We examine the Commission's controls on these Member State contributions up to the point they were received and recorded in the consolidated accounts. For traditional own resources, we examine the customs authorities' accounts and the flow of duties — again up to the point they were received and recorded by the Commission.

(13) On the expenditure side, we examine payments once expenditure has been incurred, recorded and accepted. This applies to all categories of payments (including those made to purchase assets). We do not examine advances at the point they were made, but rather once:

(a) the final recipient of EU funds (e.g. a farmer, a research institute, a company providing publicly procured works or services) has provided evidence of their use; and

(b) the Commission (or other institution or body managing EU funds) has accepted the final use of the funds by clearing the advance.

(14) Our audit sample is designed to provide an estimate of the level of error for the expenditure as a whole rather than for individual transactions (e.g. a particular project). We use *monetary unit sampling* to select claims or payments and, at a lower level, individual items within a transaction (e.g. project invoices, parcels in a claim by a farmer). The error rates reported for these items should not be seen as a conclusion on their respective transactions, but rather contribute directly to the overall level of error for EU expenditure as a whole.

(15) We do not examine transactions in every Member State, beneficiary state and region in any given year. While we may name certain Member States, beneficiary states and/or regions, this does not mean that the examples do not occur elsewhere. The illustrative examples presented in this report do not form a basis for conclusions to be drawn on the specific Member States, beneficiary states and/or regions concerned.

(16) Our approach is not designed to gather data on the frequency of error in the whole population. Therefore, figures presented on the number of errors detected in an MFF heading, in expenditure managed by a DG or in spending in a particular Member State are not an indication of the frequency of error in EU-funded transactions or in individual Member States

How we evaluate and present the results of transaction testing

(17) An error may concern all or part of the amount involved in an individual transaction. We consider whether errors are quantifiable or non-quantifiable, i.e. whether or not it is possible to measure how much of the amount examined was affected by the error. Errors detected and corrected prior to and independently of our checks are excluded from the calculation and frequency of error, since their detection and correction demonstrate that the control systems have worked effectively.

(18) Our criteria for the quantification of public procurement errors are described in the document 'Non-compliance with the rules on public procurement – types of irregularities and basis for quantification' ([4]).

(19) Our quantification may differ from that used by the Commission or Member States when deciding how to respond to the misapplication of the public procurement rules.

Estimated level of error

(20) For most MFF headings and for the overall EU budget, we present an 'estimated level of error' (ELE). The ELE takes account of quantifiable errors only and is expressed as a percentage. Examples of errors are quantifiable breaches of applicable regulations, rules or contract or *grant* conditions. We also estimate the lower error limit (LEL) and the upper error limit (UEL).

(21) We use the level of 2 % as materiality threshold for our opinion. We also take account of the nature, amount and context of errors.

(22) We no longer base our statement of assurance solely on our overall estimate of error. Since 2016, we have continued to identify low-risk areas of the EU budget, where we expect to find a non-material level of error in accepted expenditure, and high-risk areas, where we assume that there will be a material level of error. This enables us to determine as efficiently as possible whether material errors found are pervasive.

How we examine systems and report the results

(23) The Commission, other EU institutions and bodies, Member State authorities, beneficiary countries and regions establish systems for managing the risks to the budget and overseeing/ensuring the regularity of transactions. It is helpful to examine these systems in order to identify areas for improvement.

(24) Each MFF heading, including revenue, involves many individual systems. We select a sample of systems each year and present the results together with recommendations for improvement.

How we arrive at our opinions in the statement of assurance

(25) We plan our work to obtain sufficient, relevant and reliable audit evidence for our opinion on the regularity of transactions underlying the EU's consolidated accounts. This work is reported on in chapters 4 to 10. Our opinion is set out in the statement of assurance. Our work allows us to arrive at an informed opinion as to whether errors in the population exceed or fall within the materiality limits.

(26) Where we find a material level of error and determine its impact on the audit opinion, we must determine whether or not the errors, or the absence of audit evidence, are 'pervasive'. In doing so, we apply the guidance contained in ISSAI 17 05 (extending this guidance to apply to issues of legality and regularity, in accordance with our mandate). Where errors are material and pervasive, we present an adverse opinion.

(27) An error or an absence of audit evidence are deemed 'pervasive' if, in the auditor's judgment, they are not confined to specific elements, accounts or items of the financial statements (i.e. they are spread throughout the accounts or transactions tested), or, if they are so confined, they represent or could represent a substantial proportion of the financial statements, or relate to disclosures which are fundamental to users' understanding of the financial statements.

(28) Our best estimate of the level of error for overall spending in 2018 is 2,6 %. We did not assess this error as pervasive, as it is confined to expenditure subject to complex rules (mainly reimbursement-based). The estimated level of error found for the different MFF headings varies, as described in chapters 5 to 7 and 10.

([4]) http://www.eca.europa.eu/Lists/ECADocuments/Guideline_procurement/Quantification_of_public_procurement_errors.pdf.

Suspected fraud

(29) If we have reason to suspect that fraudulent activity has taken place, we report this to OLAF, the EU's anti-fraud office. OLAF is responsible for carrying out any resulting investigations. We report several cases per year to OLAF.

PART 4 — Link between the audit opinions on the reliability of accounts and on the regularity of transactions

(30) We have issued:

(a) an audit opinion on the consolidated accounts of the EU for the financial year ended; and

(b) audit opinions on the regularity of the revenue and expenditure underlying those accounts.

(31) Our work and our opinions follow the IFAC's International Standards on Auditing and Codes of Ethics and INTOSAI's International Standards of Supreme Audit Institutions.

(32) Where auditors issue audit opinions on both the reliability of accounts and the regularity of transactions underlying those accounts, these standards state that a modified opinion on the regularity of transactions does not, in itself, lead to a modified opinion on the reliability of accounts.

CHAPTER 2

Budgetary and financial management

CONTENTS

Introduction

2.1. This chapter presents our review of budgetary and financial management issues. It also identifies risks and challenges facing the EU budget in future years, based on our current work and on views expressed in our special reports, rapid case reviews, briefing papers and opinions.

2.2. In May 2018, the Commission submitted its proposal for the new *Multiannual Financial Framework* (MFF) 2021-2027 [1] to the European Parliament and Council (which together form the *budgetary authority*). Negotiations are in progress with a view to reaching an agreement before the end of 2019. We have expressed our views on the subject in a briefing paper [2].

2.3. The withdrawal of the United Kingdom from the EU does not affect the 2018 budgetary accounts. In parts of our analysis, we make projections about future EU budgets. In such cases, we have assumed that the draft withdrawal agreement between the United Kingdom and the EU [3] will be approved and implemented.

Budgetary management in 2018

Commitments and payments available in the budget were almost fully used

2.4. Each year, the budgetary authority sets a limit on new EU financial obligations (*commitment appropriations*) and on payments that can be made from the EU budget (*payment appropriations*).

2.5. In 2018, commitment appropriations were used almost entirely. Out of 160,7 billion euros available in the 2018 EU budget, 159,9 billion euros were used (99,5 %) (see ***Box 2.1***).

2.6. The EU used also nearly all the available payment appropriations included in the final budget [4]. Of the 144,8 billion euros available, payments of 142,7 billion euros were made (98,6 %) [5] (see ***Box 2.1***). This followed two years of lower-than-initially budgeted payments. There was a significant increase in payment claims from Member States in 2018 for the European Structural and Investment Funds (ESI Funds) [6]. These funds account for around 43 % of the 2014-2020 MFF [7].

2.7. The difference between the initial and the final budget was small. The six amending budgets adopted in 2018 added only 583 million euros [8] of commitment appropriations and 87 million euros of payment appropriations.

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(1) Proposal for a Council regulation laying down the multiannual financial framework for the years 2021 to 2027 - COM(2018) 322 final.

(2) Briefing paper: The Commission's proposal for the 2021-2027 Multiannual Financial Framework, July 2018.

(3) Draft Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (OJ C 66 I, 19.2.2019, p. 1).

(4) The final budget comprises the initial budget and subsequent amending budgets adopted by the budgetary authority.

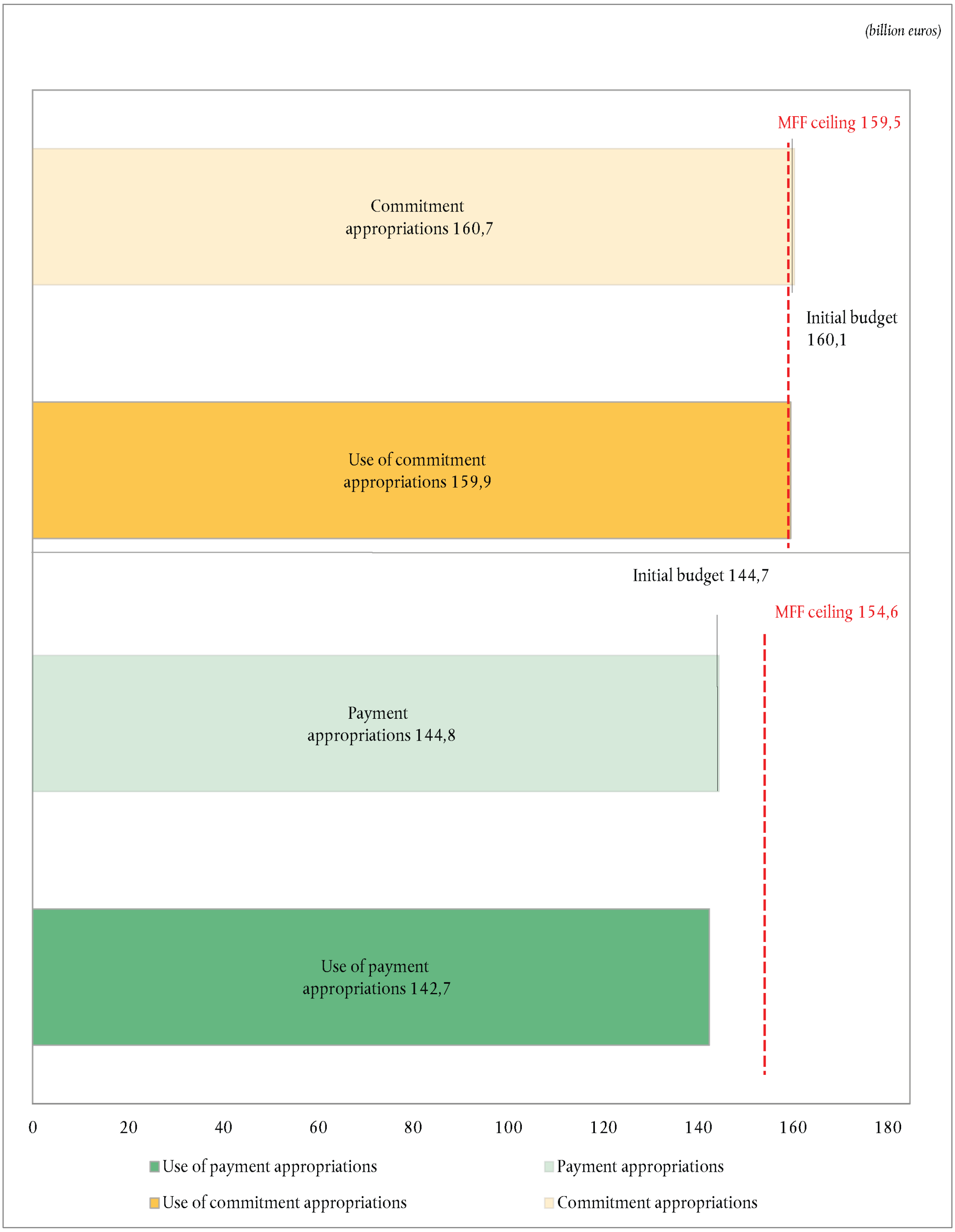
(5) Total payments in 2018 were 156,7 billion euros, made-up of payments from 2018 final budget of 142,7 billion euros, *carryovers* of 1,9 billion euros and *assigned revenue* of 12,1 billion euros. We exclude carryovers and assigned revenue because they are not part of the adopted budget and follow different rules. For further information, see part A4-A5 of the 'Report on budgetary and financial management of the European Commission – for the financial year 2018'.

(6) The ESI Funds are made up of the Cohesion Funds of the previous MFF, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime Fisheries Fund (EMFF).

(7) Based on figures provided by the Commission of the allocation to Member States of ESI Funds programmes of 464,9 billion euros and MFF 2014-2020 commitment appropriations of 1 087,2 billion euros as adjusted by the 2018 technical adjustment — COM(2017) 473.

(8) The biggest was amending budget No 3, which provided 500 million euros towards the Facility for Refugees in Turkey as part of the 'second tranche' of 3 billion euros to the Facility over the period 2018–2019 as agreed by the EU-Turkey Statement of 18 March 2016.

Box 2.1
Budget implementation in 2018



Note: The MFF ceiling is the maximum annual amount that can be used under the current MFF Regulation. However, commitment appropriations and their use are allowed to exceed the ceiling by the value of special instruments (see Article 3(2) of the MFF Regulation).

Source: Consolidated annual accounts of the European Union – Financial year 2018, Budgetary implementation reports and explanatory notes – notes 4.1-4.3 and the 2018 technical adjustment.

Implementation of the MFF was affected by the delays in the implementation of ESI Funds

2.8. The ESI Funds influence the planning and implementation of the MFF for two main reasons. Firstly, they are a substantial part of the MFF. Secondly, they are implemented via multiannual *commitments*, and requests for payment may come in any of the subsequent years. The delays in the ESI Funds' implementation, which the Commission has previously noted and we have confirmed ([9]), continue to impact the final years of this MFF. We note that, for the European Agricultural Fund for Rural Development (EAFRD), the implementation rates were considerably higher than for other ESI Funds. Payment claims for a substantial value have been delayed and will be submitted in future years. This has affected the use of pre-financing and the evolution of outstanding commitments, and will affect payment appropriation needs at the start of the next MFF, as described below.

Due mainly to delays, substantial amounts of unused annual ESI Funds pre-financing returned to the EU budget

2.9. Every year, Member States receive annual pre-financing for ESI Funds operations (except the EAFRD) from the EU budget ([10]). If a Member State submits claims for an amount less than the pre-financing received, the unused pre-financing is returned to the EU budget the following year. This happens as part of the annual examination and acceptance of accounts procedure for the ESI Funds, which was introduced in the current MFF and first applied in 2017.

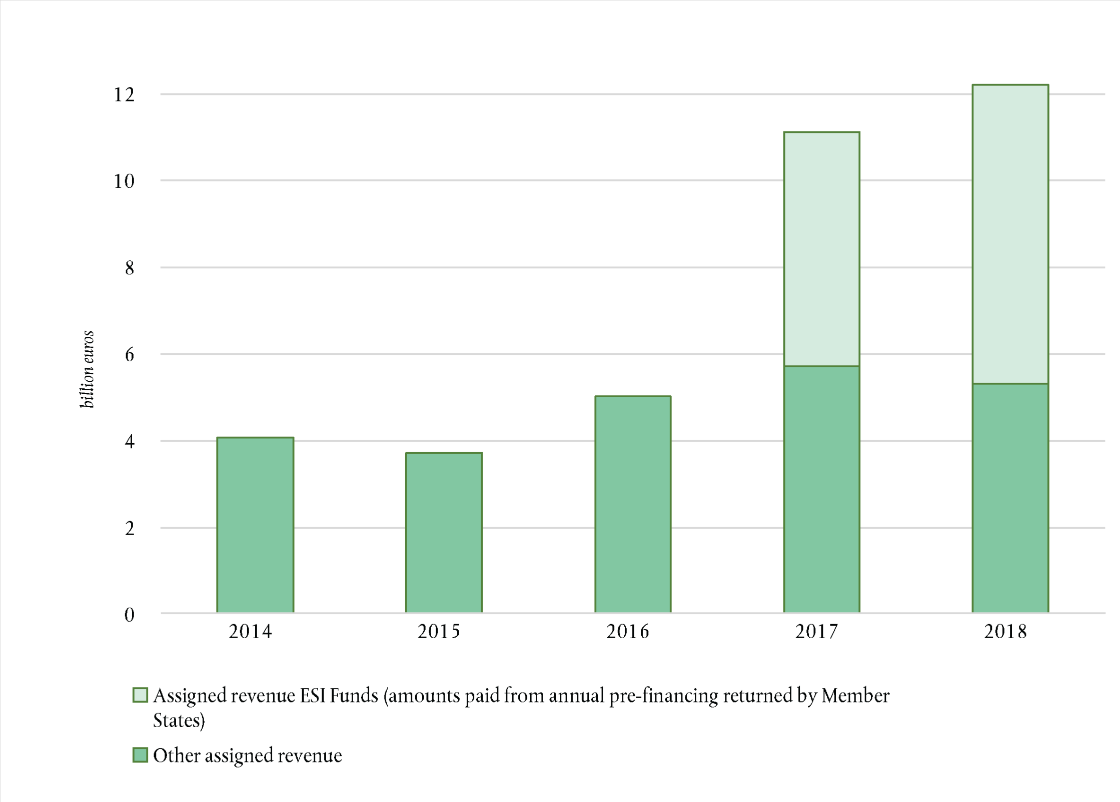
2.10. These unused pre-financing amounts are re-entered in the budget as assigned revenue. They are earmarked for use for the relevant ESI Funds budget lines only. They become commitment and payment appropriations on top of the appropriations in the year's budget. Commitment appropriations are used immediately. Payment appropriations must be used for payments to Member States either the same or the following year to prevent them from being cancelled.

2.11. Member States received annual pre-financing of 6,8 billion euros in 2016 and 9,0 billion euros in 2017. Due mainly to the delays in implementation, Member States returned substantial amounts of this unused annual pre-financing, 6,6 billion euros in 2017 and 8,1 billion euros in 2018 respectively. This significantly increased assigned revenue in these two years. The payment appropriations created by these returned amounts were used to make payments on claims from Member States over and above the approved budget for the year, amounting to 5,4 billion euros in 2017 and 6,9 billion euros in 2018 (see ***Box 2.2*** below). If these payment appropriations had not been available for re-use, this might have necessitated the use of the global margin for payments (GMP) in 2018.

([9]) See paragraphs 2.5 – 2.16 of our 2017 annual report, and the Commission's corresponding replies.

([10]) For the EAFRD, pre-financing is paid only in the first three years of the 2014-2020 period (in accordance with Article 35(1) of Regulation (EU) No 1306/2013).

Box 2.2
Amounts paid from assigned revenue



Source: ECA, based on the Reports on budgetary and financial management of the European Commission 2014-2018.

A significant amount of the global margin for payments was not needed

2.12. The global margin for payments (GMP) is a mechanism introduced in the current MFF to make payment appropriations more flexible. Its aim is to avoid running out of payment appropriations, as occurred in the last years of the previous MFF ([11]). The mechanism allows each year's unused appropriations, up to the MFF ceiling, to be transferred for use in future years.

([11]) See paragraphs 1.51 – 1.53 of our 2012 annual report.

2.13. The amount of available GMP transferred to 2018-2020 from previous years is 33,7 billion euros (2018: 5,3 billion euros, 2019: 12,9 billion euros and 2020: 15,5 billion euros) (see ***Box 2.3***). The MFF placed a ceiling of 36,5 billion euros on the use of the GMP in 2018-2020 (2018: 8,0 billion euros, 2019: 12,9 billion euros and 2020: 15,5 billion euros).

Box 2.3
Available GMP and ceilings

Note: The allocation of the GMP of a year is based on the profile of payment needs expected by the Commission.

Source: ECA, based on the technical adjustments to the MFF, the budgetary implementation reports and the explanatory notes to the *consolidated accounts* of the EU.

2.14. In 2018, there was no need for additional payments, and the 5,3 billion euros of available GMP from previous years were not needed. However, they could not be transferred forward because the 2019 and the 2020 GMP ceilings had been reached. For the same reason, an additional amount of 11,2 billion euros in payment appropriations not used in 2018 ([12]) likewise could not be transferred to 2019 or 2020.

([12]) Only a small GMP margin of 219 million euros (183 million euros in 2011 prices) from the 11,4 billion euros available in unused payment appropriations from 2018 was carried forward to 2020. See COM(2019) 310, p. 7.

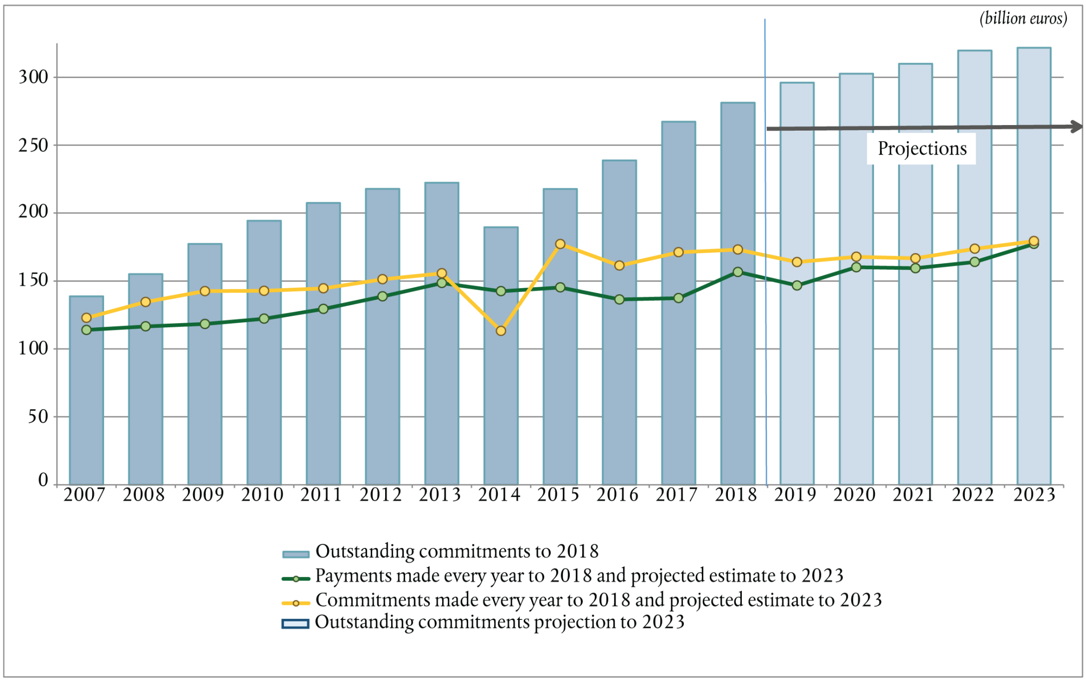
2.15. According to the initial budget for 2019, the 12,9 billion euros of GMP available for the year will also not be needed to cover payment requirements ([13]). In addition, according to the draft budget for 2020 ([14]), the full 15,5 billion euros of available GMP may not be needed in 2020. Therefore, a total of 33,7 billion euros in available GMP may not be needed in 2018-2020.

2.16. Unless payment needs increase in 2019-2020, the 33,7 billion euros available under the GMP will remain unused by 2020. Together with the 11,2 billion euros of unused payment appropriation from 2018 that could not be transferred to future years (see paragraph 2.14) this gives a total of 44,9 billion euros in payment appropriations that may remain unused by 2020. The flexibility provided by the GMP ends with the current MFF in 2020. It cannot address any flexibility needs in the next MFF (see paragraphs 2.19 - 2.21).

Outstanding commitments continue to rise

2.17. Outstanding commitments have continued to grow, reaching 281,2 billion euros at the end of 2018 (2017: 267,3 billion euros). They have increased by 36 % (73,7 billion euros) over the past seven years since 2011, the corresponding year of the previous MFF (see ***Box 2.4***). Based on the Commission's long-term forecast ([15]), outstanding commitments will reach 313,8 billion euros by 2023, which is close to our projections.

Box 2.4
Outstanding commitments, commitments and payments including projections to 2023



Source: For 2007-2018: consolidated annual accounts of the EU. For projections: ECA, based on the 2019 budget and COM(2018) 687 final - Report from the Commission to the European Parliament and the Council - Long-term forecast of the inflows and outflows of the EU budget (2019-2023).

([13]) The payment appropriations ceiling for 2019 is 166,7 billion euros and includes the GMP. Even if the GMP of 12,9 billion euros is deducted, the ceiling will still be higher than the 148,2 billion euros of payment appropriations in the 2019 voted budget.
([14]) See draft budget for 2020: COM(2019) 400.
([15]) COM(2018) 687 final — Report from the Commission to the European Parliament and the Council — Long-term forecast of future inflows and outflows of the EU budget (2019-2023).

2.18. We have extensively analysed outstanding commitments in our rapid case review 'Outstanding commitments - a closer look' ([16]), which covers the period up to the end of 2017. We concluded that three main reasons contributed to their rise: the annual gap between commitments and payments, slow implementation of the ESI Funds and the increase in the size of the EU budget.

Future budgets are at risk of insufficient payment appropriations

2.19. A risk exists that not enough payment appropriations will be available to cover all amounts due in the first years of the new MFF. The Commission projected, in its long-term forecast ([17]), that payment appropriations in 2019 and 2020 would be well below the ceilings ([18]). This suggests that payment needs that were previously planned to be covered in 2019-2020 will be carried forward to the first years of the new MFF.

2.20. The value of claims submitted in the period 2021-2023 will largely depend on Member States' implementation of their ESI Funds *operational programmes*. Based on our review, payment appropriations available at the start of the 2021-2027 MFF may not be enough to cover all payment requirements in the first years of the period. This may be particularly true for 2021, the first year of the new MFF.

2.21. In the Commission's long-term forecast, projected payment appropriations for 2021 relating to pre-2021 commitments under Headings 1b and 2 ([19]), which mostly relate to the ESI Funds, amount to 63,7 billion euros. Under the 2007-2013 MFF, around 40 % of *Cohesion Funds*' commitments still outstanding at the end of the 2013, the final year of that MFF, were paid in 2014, the first year of the current MFF. Assuming that a similar proportion (40 %) of ESI Funds commitments from the current MFF still outstanding by the end of 2020 will be due for payment in 2021, the projected payment appropriations of 63,7 billion euros may not be enough. Outstanding commitments from the ESI Funds had reached 200,9 billion euros by the end of 2018 and will be even higher by the end of 2020; 40 % of 2018's outstanding ESI Funds commitments is already 80 billion euros (considerably more than the projected payment appropriations of 63,7 billion euros), so 40 % of 2020's outstanding commitments will probably be even higher. The risk of insufficient payment appropriations is all the greater given that the implementation of the ESI Funds has been even more delayed than in the previous MFF and that more claims may be submitted than in 2014.

Financial management issues related to the 2018 budget and the future

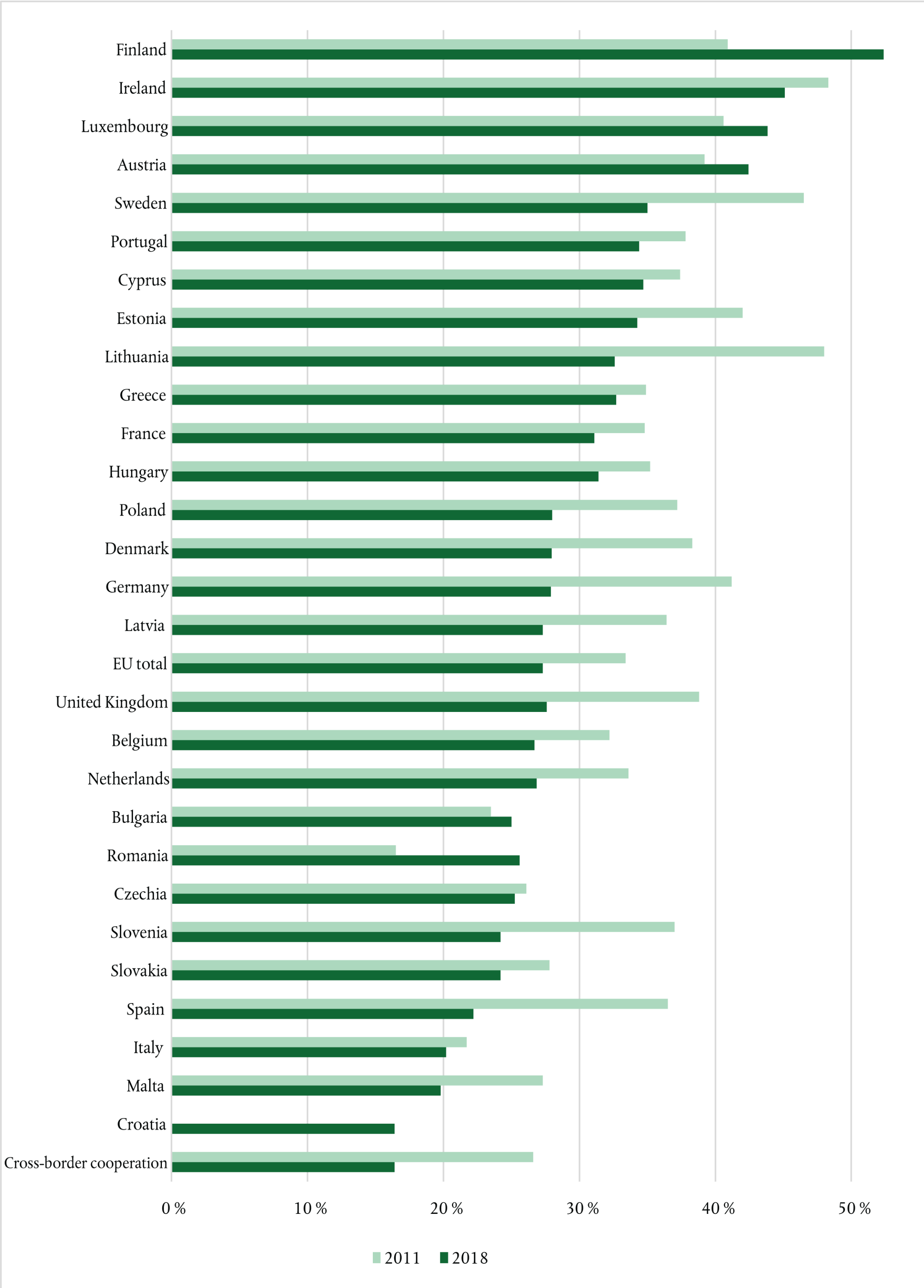
Member States' ESI Funds absorption continues to be a challenge

2.22. ESI Funds *absorption* gained momentum in 2018, the fifth year of the current MFF. However, by the end of the year, on average only 27,3 % of total allocations for the whole MFF had been paid to the Member States, compared with 33,4 % by the end of 2011, the corresponding year of the previous MFF. During 2018, 10,9 % of total allocations were paid, similar to the proportion of the previous MFF's allocations paid in 2011 (11,3 %). Because of slower-than-anticipated implementation in the earlier years of the current MFF ([20]), the cumulative implementation rate is lagging significantly behind that of the previous MFF. In addition to the risk of insufficient payment appropriations at the beginning of the next MFF, there will be substantial overlap between MFF periods, which is likely to overload Member State administrations with work and cause similar delays in the first years of the 2021-2027 MFF to those experienced in the current MFF.

2.23. The chart in ***Box 2.5*** shows how much of the total ESI Funds allocation for the current MFF had been paid by the end of 2018 and how much had been paid by the end of 2011, the corresponding year of the previous MFF. It reveals that only Bulgaria, Luxembourg, Austria, Romania and Finland have a faster absorption rate during the current MFF than during the previous one.

([16]) Published in April 2019.
([17]) See footnote 15.
([18]) This was confirmed by the voted budget for 2019, which included payment appropriations of 148,2 billion euros – 18,5 billion euros below the ceiling of 166,7 billion euros.
([19]) Heading 1b Economic, social and territorial cohesion: 48,5 billion euros and Heading 2 Sustainable Growth — Natural Resources: 15,2 billion euros.
([20]) See our 2017 annual report, paragraphs 2.13 - 2.19.

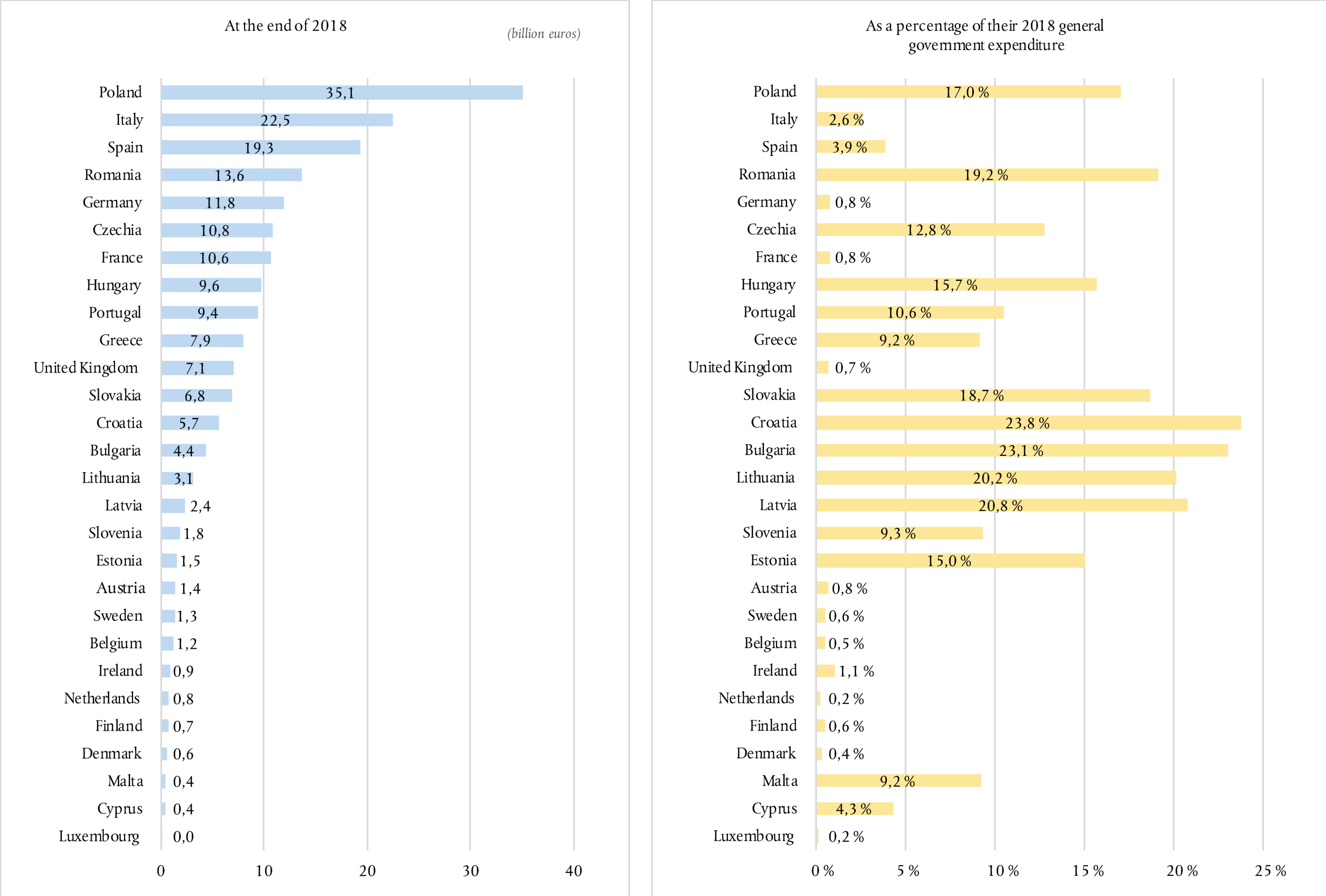
Box 2.5
Member States' ESI Funds absorption rates at the end of 2018 and the end of 2011



Source: ECA based on information from the Commission.

2.24. The low absorption of ESI Funds has contributed to increasing ESI Funds outstanding commitments. ***Box 2.6*** below shows each Member State's outstanding commitments, both as an amount in euros and as a percentage of its 2018 general government expenditure.

Box 2.6
ESI Funds outstanding commitments per Member State

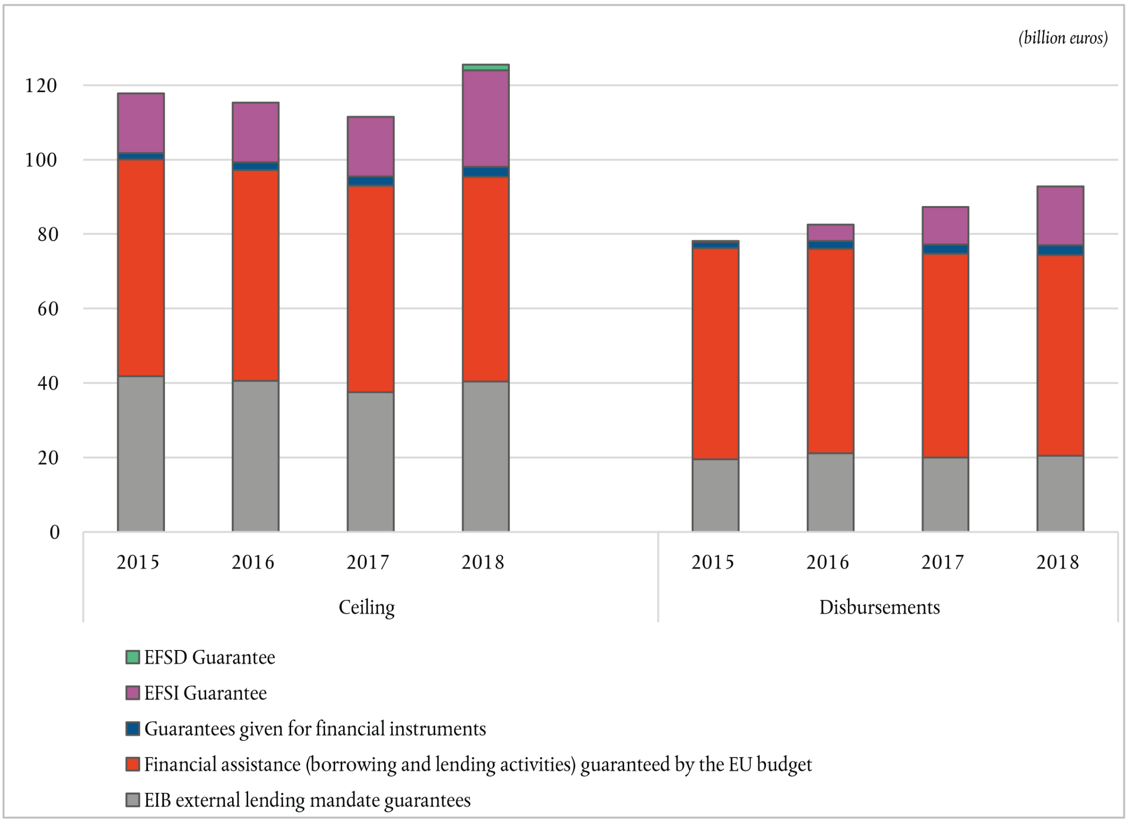


Source: ECA, based on information from the Commission. Eurostat data on general government for 2018.

The increase in guarantees adds to the EU budget's exposure to risk

2.25. As shown in ***Box 2.7*** below, guarantees have grown in the last few years, mainly due to the addition of the *European Fund for Strategic Investments* (EFSI) guarantee and the European Fund for Sustainable Development (EFSD) guarantee. The aim of these guarantees was to leverage external funds in order to increase the potential impact of the EU budget. Other guarantees supported by the EU budget include *external lending mandate* guarantees given to the EIB ([21]) and EU guarantees backing borrowing and lending activities, which are mainly loans to Member States ([22]) and have existed for many years at a fairly consistent level. However, this growth has exposed the EU budget to potential risks, which must be continuously monitored so that they do not become excessive ([23]).

Box 2.7
Maximum possible and actual exposure of the EU budget to guarantees



Source: ECA, based on the consolidated accounts of the European Union 2015-2018.

2.26. The ceilings show the maximum possible exposure of the EU budget. The extension of EFSI ([24]) and the introduction of the EFSD guarantee increased the ceilings in 2018, reaching 125,5 billion euros at the end of 2018. The actual exposure will increase gradually as disbursements ([25]) are made. In total, the actual exposure at the end of 2018 was 92,8 billion euros.

([21]) These guarantees are supported by the Guarantee Fund for External Actions, providing a liquidity cushion against potential losses. This fund must be maintained at 9 % of the guaranteed loans outstanding at year-end. Payments are made from the guarantee fund when calls are made on the guarantees.

([22]) See paragraphs 2.42-2.45 of our 2017 annual report and Notes 4.1.1 - 4.1.3 to the consolidated financial statements of the European Union for the financial year 2018.

([23]) The EU budget supports various liabilities: actual liabilities in the balance sheet, budgetary liabilities such as outstanding commitments and contingent liabilities, which are mainly guarantees.

([24]) Regulation (EU) 2017/2396 of the European Parliament and the Council of 13 December 2017 amending Regulations (EU) 1316/2013 and (EU) 2015/1017 as regards the extension of the duration of the European Fund for Strategic Investments as well as the introduction of technical enhancements for that Fund and the European Investment Advisory Hub (OJ L 345, 27.12.2017, p. 34).

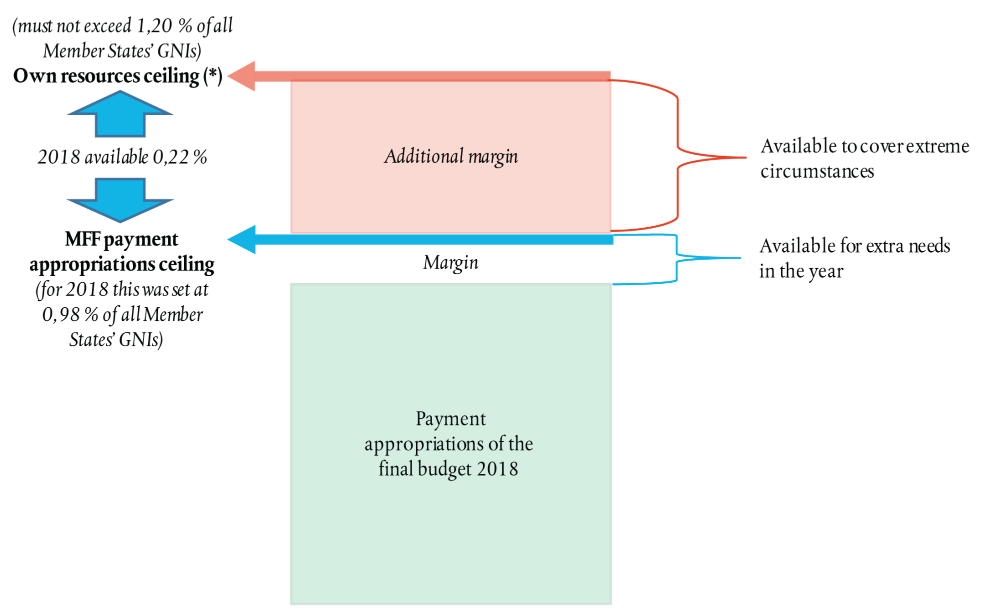
([25]) Disbursements represent the amounts provided to final beneficiaries backed by the guarantees.

2.27. Some of these guarantees are supported by guarantee funds, providing a liquidity cushion against potential losses. The assets held by the three guarantee funds at the end of 2018 totalled 8,3 billion euros (5,5 billion euros in the EFSI Guarantee Fund, 2,5 billion euros in the Guarantee Fund for External Actions and 0,3 billion euros in the EFSD Guarantee Fund). Payments are made from these guarantee funds when calls are made on the guarantees. As of the end of 2018, no significant calls had been made on these guarantees.

2.28. Future events may trigger calls on guarantees that will require immediate payment. The Commission bases its assessment of the risk of these events occurring on historical evidence, benchmarks, prevailing conditions and professional expertise. An example of a risk assessment is included in the Commission's re-evaluation of the EFSI guarantee as part of its proposal for an extension to EFSI ([26]). The Commission also produces a report annually on guarantees covered by the budget, which analyses such risks ([27]).

2.29. Various arrangements exist to provide immediate support in case guarantees are called, such as the guarantee funds ([28]). These funds cover losses in relation to the EU guarantees and have been established using funds from the EU budget within the limits of the MFF ceiling. Under normal circumstances, payment needs can be covered by such guarantee funds and by payment appropriations up to the MFF ceiling. In addition, an own resources ceiling exists over and above the MFF ceiling (see ***Box 2.8***) as a safety buffer to cover extreme circumstances such as severe economic downturns. The sum of all own resources collected from Member States in a given year must not exceed 1,20 % of the sum of all the Member States' GNIs. The amount available between the MFF ceiling and the own resources ceiling to cover payment appropriations each year varies and is recalculated annually as part of the technical adjustment to the MFF, irrespective of the amounts of other revenue. For 2018, it was 33,9 billion euros, 0,22 % of the sum of all the Member States' GNIs.

Box 2.8
MFF and own resources ceilings



(*) Without prejudice to any other revenue potentially received.

Source: ECA based on the 2018 technical adjustment.

([26]) SWD(2016) 297 final – Commission staff working document - Evaluation, accompanying Commission proposal COM(2016) 597 final.
([27]) The latest report is COM(2018) 609 final – Report from the Commission to the European Parliament and the Council on guarantees covered by the general budget - Situation at 31 December 2017.
([28]) See Note 2.4.1 to the consolidated financial statements of the European Union for the financial year 2018.

2.30. The withdrawal of the United Kingdom from the EU will decrease the sum of the Member States' GNIs, and the inclusion of the European Development Fund (EDF) in the EU budget will increase the MFF ceilings. Due to these adjustments, the Commission has proposed for the next MFF increasing the own resources ceiling by 0,09 % ([29]) to 1,29 % of the sum of all the Member States' GNIs to take these changes into account.

2.31. Furthermore, for the 2021-2027 MFF, the Commission will pool guarantee funds in a common provisioning fund based on an effective provisioning rate ([30]) in order to facilitate better management of the guarantees provided ([31]).

2.32. The new *Financial Regulation* recognises the increasing importance of guarantees, financial assistance and *financial instruments*. It has consolidated all relevant *provisions* into a new Title X (Articles 208-220) to address issues relating to this area. In our opinion on the Financial Regulation, we welcomed the inclusion of Title X ([32]).

The European Investment Bank – an integral part of the EU's architecture, but different accountability arrangements

2.33. The objective of the EIB Group ([33]) is to grant loans, guarantees and other kinds of support on a non-profit-making basis in order to serve EU interests. At the end of 2018, the aggregate total of outstanding loans granted by the EIB Group was 536 billion euros (2017: 548) ([34]).

2.34. Part of the EIB Group's activities is governed by a series of mandates from the EU (see ***Annex 2.1***). In recent years, the EU has increasingly made use of financial instruments and budgetary guarantees provided to the EIB Group to cover part of its financing activities. The most notable increase has been through EFSI, since 2015. In total, by the end of 2018, the EIB had signed 53,6 billion euros worth of EFSI-supported financial operations (2017: 36,7 billion euros). We published a special report on the operation of EFSI in 2019, setting out what actions we consider necessary to make EFSI a full success ([35]). In addition, we have previously reported on the EIB Group's management of other EU funds ([36]).

([29]) COM(2018) 325 – Proposal for a Council Decision on the system of Own Resources of the European Union.

([30]) This is the rate used to determine the amount of cash and cash equivalents needed in the common provisioning fund to honour guarantee calls.

([31]) Article 213 of the Financial Regulation (Regulation (EU, Euratom) 2018/1046).

([32]) Opinion No 1/2017 concerning the proposal for a revision of the 'Financial Regulation'.

([33]) The EIB Group consists of the European Investment Bank (EIB), the European Investment Fund (EIF) and the EU Microfinance Platform.

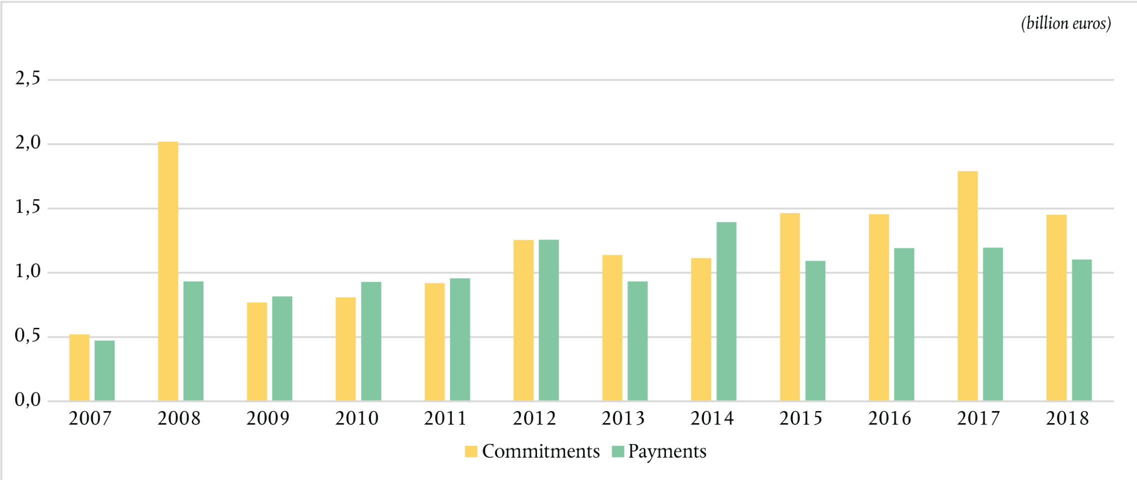
([34]) Financial report of the EIB Group 2018, p. 44.

([35]) Special report 3/2019 – 'European Fund for Strategic Investments: Action needed to make EFSI a full success'.

([36]) For example, see special report 19/2016 – 'Implementing the EU budget through financial instruments — lessons to be learnt from the 2007-2013 programme period', special report 1/2018 'Joint Assistance to Support Projects in European Regions (JASPERS) – time for better targeting'.

2.35. ***Box 2.9*** shows commitments and payments from the EU to the EIB Group each year since 2007, in particular for fees for advisory services and management of EU funds and transfers relating to financial instruments. The amounts include spending from all parts of the budget, except MFF heading 5 'Administration'. Most spending is from MFF heading 1 'Smart and inclusive growth' and heading 4 'Global Europe'. During the period 2007-2018, a total amount of 14,7 billion euros was committed from the EU budget to the EIB Group and a total amount of 12,3 billion euros was paid (37). The chart indicates a solid long-term trend for payments to the EIB Group with year-to-year variations (38).

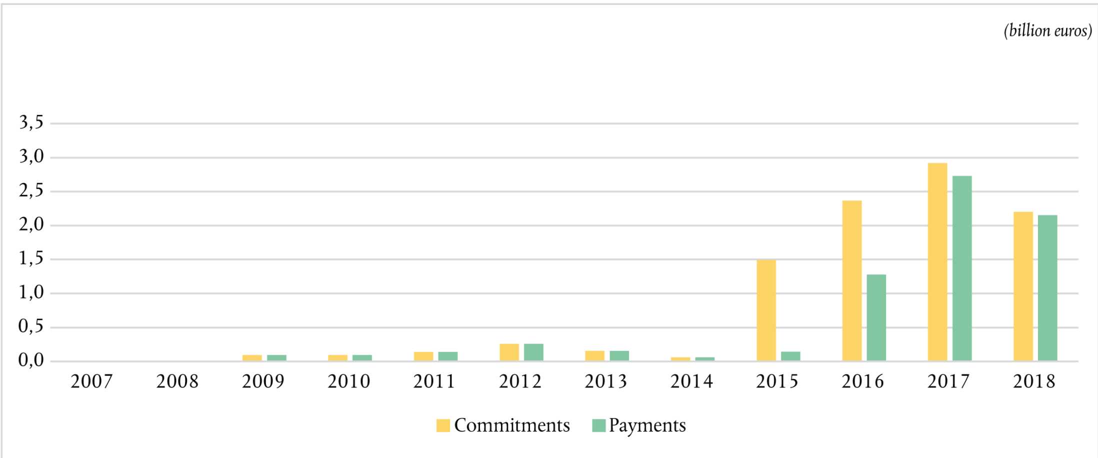
Box 2.9
Annual commitments and payments to the EIB Group



Source: ECA based on Commission data.

2.36. ***Box 2.10*** shows commitments and payments from the EU budget since 2007, for the annual provisioning of the Guarantee Fund for External Actions and the EFSI Guarantee Fund (39). Commitments for the provisioning of the two guarantee funds amounted to 9,8 billion euros and payments to 7,1 billion euros over the same period, most of which stem from the period 2015-2018.

Box 2.10
Annual commitments and payments to two guarantee funds



Source: ECA based on Commission data.

(37) These amounts include commitments and payments from the EU budget and the EDF.
(38) The peak in 2008 coincides with the start of the 10th EDF. The high amount in 2008 is due to the way EDFs account for commitments – making all commitments for the whole programme period at the start of the seven-year period. The EU budget accounts for commitments annually.
(39) The EFSI Guarantee Fund is managed by the Commission, while the Guarantee Fund for External Actions is managed by the EIB.

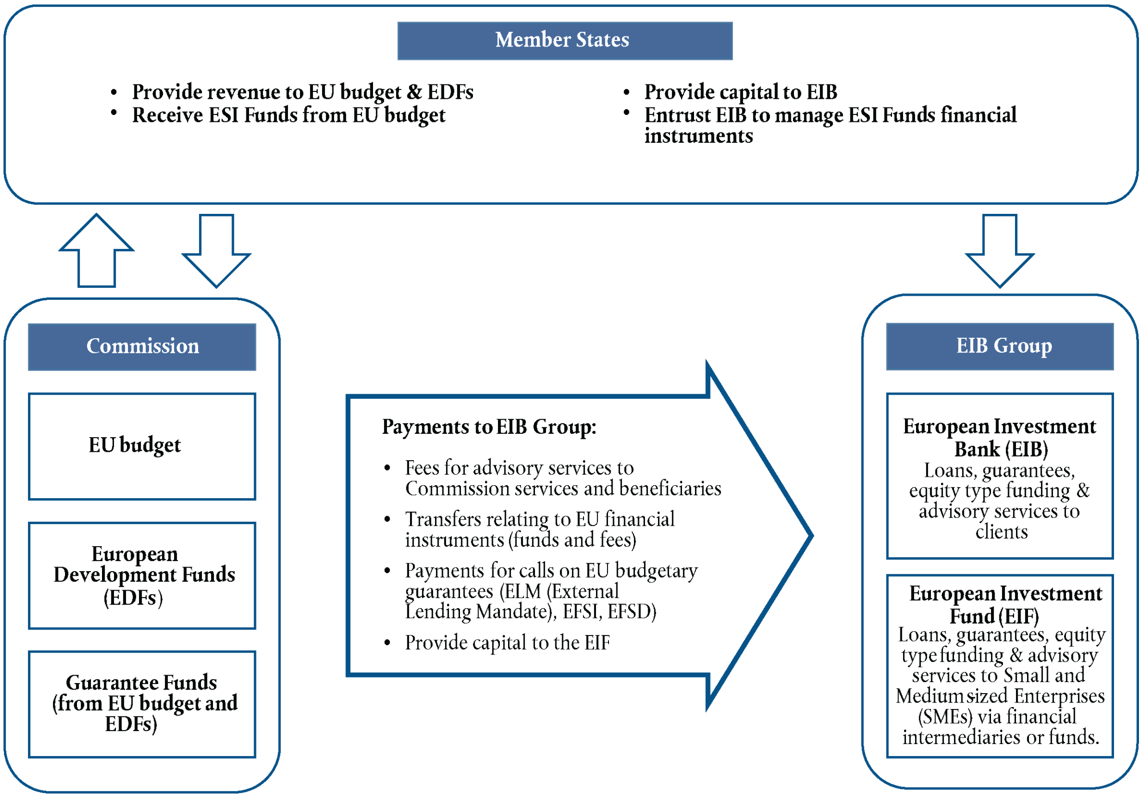
2.37. The two charts illustrate the EIB Group's growing importance over time as a partner in implementing the EU budget. The most significant increase has come from the provisioning of the EFSI Guarantee Fund.

2.38. The relationships between the EU budget and the EIB Group are complex and significant, even though the EIB Group is not part of the budget. The EU budget provides its support from various budget lines in many different ways, including direct grants, EU budget guarantees backed by guarantee funds and EU funding assigned to the EIB Group through Member State authorities under shared and *indirect management*. The EIB Group also manages a high number of financial instruments for the EU, supporting different EU policies (see ***Annex 2.2***). The EIB informed us that, as of 2018, almost 35 % of its annual lending volume comes from operations under mandate, much of which are with the EU.

2.39. The EIB only disclosed to us at a very late stage of the audit the financial volume of the EU mandates under its management, financed from the EU budget or the EDFs, which did not allow us to perform a solid analysis and checking of the information provided. In ***Box 2.11***, we map the main components of the financial relationship between the EU budget and the EDFs on one hand and the EIB Group on the other. The chart shows the management and flow of funds between the Member States, the Commission and the EIB Group.

Box 2.11

Management and flow of funds between the Member States, the Commission and the EIB Group



Source: ECA.

2.40. Based on a provisional and partial agreement reached between the European Parliament and Council in April 2019, the EIB Group is expected to play a major role in implementing EU policy in the next MFF through the InvestEU programme, which builds on the experience of EFSI (see ***Box 2.12***).

Box 2.12
InvestEU programme

The InvestEU programme consists of the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal. It is intended to support competitiveness, growth and employment through investment and innovation in the EU.

The Commission proposed the InvestEU programme based on the EFSI budgetary guarantee model. The programme aims to trigger 650 billion euros in additional investment by providing a guarantee from the EU budget of 38 billion euros. The expected provisioning rate of the guarantee is 40 %, meaning the programme will set aside 15,2 billion euros from the EU budget to cover any calls on the guarantee.

The main EU implementing partner will be the EIB Group.

Source: Commission's proposal COM (2018) 439

2.41. The EIB Group is not an EU institution, but is nevertheless an integral part of the EU's architecture and has been established under the EU treaties to serve EU objectives. In order to take account of its special nature, however, it has different management and governance arrangements compared to the rest of the EU budget. At present, EIB Group operations that are not financed by the EU budget but serve the same EU objectives do not come under our audit mandate. This means that the ECA is not able to provide a full picture of all EIB Group operations. In our briefing paper on the future of EU finances (February 2018), we proposed that we should also be invited to audit the EIB's non-EU-budget-related operations. This would not prevent the EIB from maintaining its present audit arrangements with private audit firms for the reliability of the accounts. The European Parliament supported our proposal in its resolution on the Annual Report on the control of the financial activities of the EIB for 2017 ([40]).

Conclusions and recommendations

Conclusions

2.42. Based on our observations, we highlight below the main issues affecting the EU's budgetary and financial management in 2018, some of which may pose risks to future budgets, in particular in the first years of the next MFF.

2.43. Commitment and payment appropriations available in the final budget were almost fully used (see paragraphs 2.4 - 2.7).

2.44. The delays in the implementation of the ESI Funds have affected the implementation of the MFF in various ways and may also affect the future MFF:

— Substantial amounts of annual pre-financing were returned to the EU budget (see paragraphs 2.8 - 2.11).

— A significant amount of the GMP was not needed but cannot be transferred to the new MFF (see paragraphs 2.12 - 2.16).

— The high level of outstanding commitments is mainly due to the slow implementation of the ESI Funds, but also to the annual gap between commitments and payments and the increase in the size of the EU budget. Outstanding commitments continued to rise in 2018 (see paragraphs 2.17 - 2.18).

— The first years of the new MFF may be at risk of insufficient payment appropriations (see paragraphs 2.19 - 2.21).

2.45. Overall, Member States' ESI Funds absorption was lower than in the corresponding year of the previous MFF (see paragraphs 2.22 - 2.24).

([40]) See paragraph 72 of P8_TA-PROV (2019)0036 — European Parliament resolution of 17 January 2019 on the Annual Report 2017 on the control of the financial activities of the EIB for 2017 (2018/2151(INI))

2.46. Guarantees supported by the EU budget have increased in recent years. This increases the EU budget's exposure to risk. The level of losses expected by the Commission is covered by guarantee funds, which the new MFF will pool into a common provisioning fund (see paragraphs 2.25 - 2.32).

2.47. The EIB Group is an integral part of the EU's architecture. In recent years, the EU has increasingly made use of financial instruments and budgetary guarantees provided to the EIB Group. It is also expected to play a major role in implementing EU policy in the next MFF. The EIB Group has a complex relationship with the EU budget and different accountability arrangements to EU institutions. At present, EIB Group operations that are not financed by the EU budget but which serve the same EU objectives do not come under our audit mandate. This means that the ECA is unable to provide a full picture of the links between EIB Group operations and the EU budget. We therefore maintain our proposal that we should be invited to audit the EIB's non-EU budget-related operations (see paragraphs 2.33 - 2.41).

Recommendations

2.48. We recommend that the Commission

Recommendation 2.1

Take measures to avoid undue pressure on the level of payment appropriations in the first years of the 2021-2027 MFF. Such measures could include:

(a) improving the accuracy of forecasts of payment needs;

(b) inviting the European Parliament and the Council to:

   (i) provide for an orderly balance between the budgeted commitment and payment appropriations for the next MFF. This could be achieved by increasing payment appropriations, changing decommitment rules and/or decreasing commitment appropriations;

   (ii) in doing so, take into account the possibility of a high amount of payment claims in 2021 and 2022 and the fact that unused payment appropriations cannot be transferred to the next MFF;

(c) facilitating the timely adoption of legal frameworks and promoting early planning of programmes by Member States.

Timeframe: by the start of the post-2020 period.

Recommendation 2.2

Ensure, as soon as the common provisioning fund is established, effective management and up-to-date monitoring of the EU budget's exposure to the related guarantees. In this context, the Commission should base its calculation of the effective provisioning rate on a prudent methodology based on recognised good practice.

Timeframe: by the start of the post-2020 period.

Recommendation 2.3

Present annually to the budgetary authority the overall amount and the breakdown of funds transferred from the EU budget for financial instruments managed by the EIB Group.

This would provide the budgetary authority with relevant information to support its work on the scrutiny of the EIB Group and its operations while also increasing the transparency of such operations.

Timeframe: by mid-2020.

ANNEX 2.1

EIB MANDATES FROM THE EU – MAIN CATEGORIES

The EIB informed us that they classify the mandates from the EU into six main categories based on the underlying structure, design and deployment of partners' funds.

Mandate categories	Examples
The ***Risk Sharing*** Mandate – the partners' funds are deployed to provide a first loss piece protection for the eligible operations. It is based on a mechanism to share the risks associated with the underlying *transactions* in the portfolio (or sub-portfolio) of loans based on predefined risk sharing conditions and in line with set leverage objectives for the contribution of the two.	Innovfin – EU Finance for innovators is a programme under the EU Research and Innovation programme Horizon 2020 including financing tools covering a wide range of loans, guarantees and equity–type funding EFSI – The European Fund for Strategic Investments is an initiative launched jointly by the EIB Group and the Commission to help overcome the current investment gap in the EU.
The ***Portfolio Guarantee*** Mandates – the partner provides a guarantee covering a pre-defined proportion of the EIB's exposure, up to a maximum total ceiling.	The External Lending Mandate (ELM) is the legal framework to grant an EU guarantee to the EIB against losses under loans and loan guarantees for projects outside the EU.
The ***Direct Investment of Third Party Funds*** Mandates – the EIB directly invests the partners' funds.	Cotonou Investment Facility – The Cotonou Agreement is an agreement between the EU and the African, Caribbean and Pacific Group of States. The EIB is entrusted with the management of the Investment Facility established within the Cotonou Agreement.
The ***Blending*** Mandates – the EIB requests access to external grant funding on a case-by-case basis. Mandate based on a combination of loans and other financial instruments with different financial terms and characteristics (such as grants, loans and guarantees).	AIP – The Africa Investment Platform is a financial mechanism that combines grants with other resources such as loans from Development Finance Institutions in order to leverage additional financing for development and increase the impact of EU aid. NIP – The Neighbourhood Investment Platform is a mechanism aimed at mobilising additional funding to finance capital–intensive infrastructure projects in EU partner countries covered by the European Neighbourhood Policy.
The ***Trust Funds*** – the donors' funds are pooled in a trust fund managed by the EIB; these funds are available either for the EIB's exclusive use or to all eligible financial institutions.	EPTATF – The Eastern Partnership Technical Assistance Trust Fund is a multi-donor, multi-sector trust fund. ERIF – The Economic Resilience Initiative Fund aims to support the capacity of economies in the Southern Neighbourhood and Western Balkans, following a call from the European Council.
The ***Guarantee Instrument*** Mandates – EIB undertakes to make a payment if conditions specified in the guarantee have occurred.	PF4EE – Private Finance for Energy Efficiency is a joint agreement between the EIB and the Commission funded by the LIFE programme providing credit risk protection to financial intermediaries co-financing energy efficiency projects together with the EIB.

ANNEX 2.2

EU FINANCIAL INSTRUMENTS MANAGED BY THE EIB GROUP

	Financial instruments — as at 31 December 2018	Managed by
1	Cultural and Creative Sectors – Guarantee Facility	EIF
2	Erasmus + Student Loan Guarantee Facility	EIF
3	*Small and Medium-Sized Enterprise* (SME) Guarantee Facility under the Competitiveness and Innovation Framework Programme (CIP)	EIF
4	Multiannual Programme for enterprise and entrepreneurship (MAP) Equity Facility (ETFSU 2001)	EIF
5	Employment and Social Innovation Capacity Building	EIF
6	High Growth and Innovative SME Facility under CIP	EIF
7	Technology Transfer Pilot projects	EIF
8	Employment and Social Innovation Microfinance and Social Entrepreneurship Guarantees and Capacity Building Window	EIF
9	European Progress Microfinance fund	EIF
10	European Progress Microfinance Guarantee Facility	EIF
11	Loan Guarantee Facility under the EU programme for the Competitiveness of Enterprises and SMEs(COSME)	EIF
12	Equity Facility for Growth under COSME	EIF
13	Guarantee Facility I under the Western Balkans Enterprise Development and Innovation Facility (WB EDIF)	EIF
14	Guarantee Facility II under WB EDIF	EIF
15	Guarantee Facility II under WB EDIF – Serbia Window	EIF
16	Guarantee Facility under WB EDIF – Young Employment	EIF
17	EU SME Initiative	EIF
18	Horizon 2020 EIF – InnovFin Equity Facility for Research and Innovation (R&I)	EIF
19	Risk Sharing Finance Facility under the Framework Programme 7	EIF/EIB
20	Horizon 2020 EU Finance for Innovators (InnovFin) SME Guarantee Facility	EIF/EIB
21	Horizon 2020 InnovFin Loan Services Facility for R&I	EIB
22	Private Finance for Energy Efficiency Instruments (PF4EE)	EIB
23	Risk Sharing Debt Instrument under the Connecting Europe Facility	EIB
24	Natural Capital Finance Facility (NCFF)	EIB
25	Neighbourhood Investment Platform (NIP) – EU Deep and Comprehensive Free Trade Area Facility	EIB
26	Risk Capital Facility for the Southern Neighbourhood countries (funded under NIP)	EIB
27	EU Trade and Competitiveness Programme in Morocco, Tunisia, Egypt & Jordan (funded under NIP)	EIB
28	Africa Investment Platform (AIP)	EIB

	Financial instruments — as at 31 December 2018	Managed by
29	Investment Facility for Central Asia (IFCA)	EIB
30	Asia Investment Facility (AIF)	EIB
31	Latin America Investment Facility (LAIF)	EIB
32	Caribbean Investment Facility (CIF)	EIB
33	Investment Facility for the Pacific (IFP)	EIB

CHAPTER 3

Getting results from the EU budget

CONTENTS

Introduction

3.1. Each year, in this chapter, we analyse a number of aspects relating to *performance*, the *results* achieved by the EU budget, which is implemented by the Commission in cooperation with the Member States ([1]). This year we have looked at:

(1) what the EU budget performance indicators tell us;

(2) the main results from our 2018 special reports on performance;

(3) and the implementation of the recommendations we made in the special reports we published in 2015.

Part 1 — What do the EU budget performance indicators tell us?

3.2. The last two years, we reviewed how the Commission's approach to performance reporting compared with good practice. We also assessed whether the Commission had used performance information appropriately in decision-making. This year, we have analysed performance information published by the Commission. In particular, we have reviewed the performance indicators in:

(i) the programme statements accompanying the 2019 draft budget ([2]),

(ii) the 2014-2020 EU Budget Programmes' Performance Overview (PPO), issued for the first time in May 2018 ([3]).

3.3. The PPO dedicates two pages to each programme. This includes a half-page summary of both the general and specific objectives and progress made for a selection of indicators; however, the rationale for the selection is not well explained. Publishing the PPO is a big step forwards and demonstrates the Commission's willingness to produce reader-friendly reports. The Commission indicated that the PPO was an extract from the programme statements attached to Draft Budget 2019. It was designed to present all EU spending programmes (2014-2020) in a concise and uniform way; explain what each programme was about and how it was intended to benefit EU citizens; provide information on implementation status; present the programme performance framework; and highlight recent key achievements.

3.4. The programme statements take the form of a 557-page document that is not very reader-friendly. It does not contain an overview of how well the 60 programmes in the 2014-2020 MFF are performing.

3.5. For our analysis, we selected 22 of the 60 spending programmes, choosing the four programmes with the highest planned expenditure for each of the five 2014-2020 *multiannual financial framework* (MFF) heading, plus two programmes for special instruments. The 22 selected programmes covered 97 % of the financial programming for the seven-year period (see ***Annex 3.1*** for list of programmes).

3.6. In section A, we summarise at an aggregate level, the information provided by the EU budget performance indicators. Any interpretation of this analysis should consider the limitations of the information provided by the EU budget performance indicators, which we describe in section B.

([1]) Article 317 of the Treaty on the Functioning of the EU.

([2]) See 'Draft General Budget of the European Union for the financial year 2019 – Working document – Part I – programme statements of operational expenditure – COM(2018)600 – May 2018'.

([3]) See 'EU Budget 2014-2020 Programmes' Performance Overview – Extract from programme statements of operational expenditure Draft Budget 2019 – COM(2018)600 – May 2018'.

Section A – The indicators show significant variation in achievements and suggest moderate progress overall

3.7. Measuring the achievements of EU priorities, policies and programmes is challenging. It can be difficult to isolate the effect of the EU budget from that of national budgets and external factors. However, effective performance monitoring is essential in order to grasp the situation, identify emerging issues and take evidence-based decisions to ensure proper performance.

3.8. We focused our review on the quantitative information provided by performance indicators. As we noted in the 2016 annual report ([4]), the Commission does not provide information on the reliability of the underlying data in programme statements.

3.9. We provide two sets of performance information for each programme examined:

— Progress calculated from the baseline ([5]) towards the target according to the data available in the programme statements. This methodology is widely used and is easy to calculate ([6]). The Commission referred to this approach in its 'Better Regulation Guidelines', advising: 'The expected significance of *impact*s should be assessed in terms of changes relative to the baseline' ([7]).

— Progress calculated from zero towards the target as included in the Commission's PPO ([8]). The figures presented are different from those in the first indent above because they are based on a selection of indicators made by the Commission and were generally calculated as the latest actual result divided by the target value without taking account of the baseline. They also included percentage forecasts for progress towards the target that are much higher for two programmes, the *Cohesion Fund* (CF) and the European Regional Development Fund (ERDF). This explains most of the difference between our calculations on the basis of the programme statements and those on the basis of the PPO at an overall level.

Box 3.1 illustrates the differences in these two ways of calculating progress.

Box 3.1
Different ways of calculating progress

	Baseline	Actual result	Target	Progress	Progress %
Progress calculated from baseline towards target	40	70	100	30	30/(100-40)=50 %
Progress calculated from zero towards target	40	70	100	70	70/100=70 %

Source: ECA

3.10. The progress from baseline percentages are the averages of all indicators from a programme for which the necessary data was available in the programme statements. We consider that such averages should provide useful indications of programme performance if all programme indicators are of the required quality. For the Commission PPO, we calculated the average progress for the indicators selected. We also calculated weighted averages for each MFF heading based on 2014-2020 financial programming for both types of progress indicators. We note that such information may have limitations and that a full picture of performance is better captured by complementing it with qualitative information.

([4]) Note: in recommendation 5 of Chapter 3 of the 2016 annual report (paragraph 3.77), we asked the Commission to "indicate in core performance reports whether, to the best of their knowledge, the performance information is of sufficient quality".
([5]) The baselines depended on the availability of information but were in principle the data on the relevant aspect of the programme available on 1.1.2014.
([6]) See for example 'Measuring distance to the Sustainable Development Goal (SDG) targets – An assessment of where OECD countries stand – June 2017 – OECD' p. 15 'Table 3. Pros and cons of different normalisation procedures'.
([7]) See 'Commission Staff Working Document – Better Regulation Guidelines – SWD(2017)350 Final – 7.7.2017' p. 26.
([8]) As explained in the PPO "Methodological note" p. 2.

3.11. The availability of performance information varied depending on the programme management mode. For programmes under *direct management* by the Commission, the latest data available was generally from the end of 2017. For programmes under *shared management*, the latest data provided by Member States was generally from the end of 2016. Data for programmes under *indirect management* was mainly from 2017 or 2016, but in some cases dated back to 2015 or even earlier. Overall, for our sample, the latest available data was from 2016 in 42 % of cases and 2017 in 48 % of cases.

3.12. While the expected progress of performance indicators from 2014 to 2020 is in most cases not linear, had it been so, it would have been 43 % in 2016 and 57 % in 2017 ([9]). Overall, the data made available by the Commission shows a significant variation in programme achievements, with moderate progress overall (see ***Box 3.2***).

Box 3.2
Total sample of 22 programmes – Progress as shown by the EU budget performance indicators

MFF heading	Number of indicators		Average progress towards target calculated with different methodologies (see paragraph 3.9)	
	Total	Progress from baseline measurable	on the basis of programme statements	on the basis of the PPO
1A - Competitiveness for growth and jobs	147	57	46 %	71 %
1B - Economic, social and territorial cohesion	87	60	31 %	40 %
2 - Natural resources	105	54	31 %	51 %
3 - Security and citizenship	74	48	49 %	64 %
4 - Global Europe	65	49	49 %	68 %
Special Instruments	2	1	100 %	100 %
Total	480	269		

Note: Due to lack of data, the weighted average calculations of progress-to-target exclude EAGF and EUSF (for both the calculation on the basis of programme statements and on the basis of the PPO).

Source: ECA

Heading 1a: Indicators show good progress for Erasmus+ and EFSI and moderate progress for Horizon 2020 and the Connecting Europe Facility

3.13. We analysed the indicators of four of the 23 MFF heading 1A 'Competitiveness for growth and jobs' programmes (see also Chapter 5):

— Progress measured for the Framework Programme for Research and Innovation (Horizon 2020) was moderate at 40 % (see ***Box 3.3***). The Commission's PPO gave a more positive message on progress made. Based on the seven indicators selected by the Commission in its PPO, we calculated an average progress-to-target of 73 %.

([9]) After three and four years out of seven, respectively.

— It was not possible to measure the progress of the Connecting Europe Facility (CEF) for 31 of the 44 indicators due to missing data. The other indicators showed moderate progress of 37 %. The PPO figures only represent the sum of grant agreements, i.e. budget *absorption* rather than performance.

— The Commission's PPO rated progress for the Union Programme for Education, Training, Youth and Sport (Erasmus+) at 100 %. However, this measurement compared actual results with the 2017 milestone rather than the 2020 target. The progress from baseline of 69 % is based on the 26 indicators for which it could be calculated.

— The European Fund for Strategic Investments (EFSI) has a target to mobilise 500 billion euros in investments by 2020. The actual 2017 figure was 256,3 billion euros. The PPO compared results to the 315 billion euros target for mid-2018 initially set for the first three years of operation. The PPO selection of six indicators showed 100 % achievement of the 2017 intermediate targets ([10]).

Box 3.3
MFF heading 1a – Progress as shown by the EU budget performance indicators

Programme	Number of indicators		Average progress towards target calculated with different methodologies (see paragraph 3.9)	
	Total	Progress from baseline measurable	on the basis of programme statements	on the basis of the PPO
Horizon 2020	52	13	40 %	73 %
CEF	44	13	37 %	23 %
Erasmus+	38	26	69 %	100 %
EFSI	13	5	82 %	100 %
Total	147	57		
Weighted average			46 %	71 %

Source: ECA

Heading 1b: Indicators show relatively low progress for Cohesion due to late start

3.14. While the progress from baseline percentage calculation (31 %) was rather low, the figure we calculated on the basis of the Commission's PPO (40 %) showed moderate progress for MFF heading 1B 'Economic, social and territorial cohesion' when including forecast rather than actual data. These results are mainly explained by the late adoption of legislation and subsequent delay in the implementation of Cohesion programmes, i.e. the CF, the ERDF and the European Social Fund (ESF). This heading includes four programmes (see also Chapter 6), which were all part of our sample:

— The indicators for the CF and the ERDF showed little progress also because only results for fully implemented operations ([11]) were reported. Even including forecasts, for which the source is not explained, the figure we calculated on the basis of the Commission's PPO showed only moderate progress of 35 % for the CF and 34 % for the ERDF (see ***Box 3.4***).

([10]) Note: to calculate progress from the baseline, we considered that the baseline for indicators was zero even though this information was not included in the programme statements.
([11]) Modification of the relevant legislation is underway to allow reporting for partially implemented operations.

— For the ESF, the progress from baseline percentage of 75 % could only be calculated on the basis of three of the 13 indicators. The figure we calculated on the basis of the Commission's PPO ([12]) was lower, at 55 %.

— For the Fund for European Aid to the Most Deprived, we calculated moderate progress from baseline of 39 % for the only specific objective indicator measuring the 'Number of persons receiving assistance from the Fund'. Our overall progress percentage of 50 % was higher as the one general objective indicator on 'People at risk of poverty or social exclusion' showed 61 % progress.

Box 3.4
MFF heading 1b – Progress as shown by the EU budget performance indicators

Programme	Number of indicators		Average progress towards target calculated with different methodologies (see paragraph 3.9)	
	Total	Progress from baseline measurable	on the basis of programme statements	on the basis of the PPO
ERDF	50	42	13 %	34 %
ESF	13	3	75 %	55 %
CF	22	13	26 %	35 %
Fund for European Aid to the Most Deprived	2	2	50 %	100 %
Total	87	60		
Weighted average			31 %	40 %

Source: ECA

Heading 2: On the basis of the indicators, it was not possible to determine progress for most expenditure in the area of 'Natural resources'

3.15. The weighted average progress for heading 2 'Natural resources', based on our sample, was 31 % (see ***Box 3.5***) – the lowest for all MFF headings together with MFF heading 1b. The EU carries out its policy under MFF heading 2 through five programmes (see also Chapter 7), the four biggest of which we covered in our sample:

— For the *European Agricultural Guarantee Fund* (EAGF), chiefly because of a lack of quantitative targets, we could only calculate progress from baseline for one of the 27 indicators included in the Programme Statement. The one indicator in question – 'Percentage of expenditure (EAGF+EAFRD) with statistics or 100 % checks' –is not sufficient to provide a representative picture of the programme's achievements. The EAGF represents four fifths of the expenditure for heading 2.

([12]) Based on five indicators.

— For the *European Agricultural Fund for Rural Development* (EAFRD), progress was 28 %, based on 24 indicators. In most cases, this figure only reflected achievements in the first year of implementation. The most recent data was from 2016, and the vast majority of the rural development programmes through which Member States and regions implement the EAFRD had started in 2015. Progress was better for the 10 indicators selected by the Commission for the PPO.

— For the *European Maritime and Fisheries Fund* (EMFF) and the Programme for the Environment and Climate Action (LIFE), we were able to calculate progress from baseline for over half of the indicators. The result was 58 % for the EMFF (based on eight of the 15 indicators) and 77 % for LIFE (based on 21 of the 33 indicators).

Box 3.5
MFF heading 2 – Progress as shown by the EU budget performance indicators

Programme	Number of indicators		Average progress towards target calculated with different methodologies (see paragraph 3.9)	
	Total	Progress from baseline measurable	on the basis of programme statements	on the basis of the PPO
EAGF	27	1	N/A	N/A
EAFRD	30	24	28 %	51 %
EMFF	15	8	58 %	33 %
LIFE	33	21	77 %	89 %
Total	105	54		
Weighted average excluding EAGF			31 %	51 %

Note: Due to lack of data, the weighted average calculations of progress-to-target exclude EAGF (for both the calculation on the basis of programme statements and on the basis of the PPO).

Source: ECA

Heading 3: Indicators for 'Security and citizenship' show two programmes with good progress, one with moderate progress and one as lagging behind

3.16. We selected four of the eleven programmes under MFF heading 3 'Security and citizenship' (see also Chapter 8): the Asylum, Migration and Integration Fund, the Internal Security Fund, Food and Feed, and the Creative Europe Programme. Their combined weighted average progress from baseline was an overall reasonable 49 % (see ***Box 3.6***).

3.17. The average progress, when it could be calculated and using 2017 data, suggested that both the Asylum, Migration and Integration Fund (53 %) and the Internal Security Fund (56 %) were on track. The Creative Europe programme showed moderate progress of 41 %, while the Food and Feed programme appeared to be lagging behind with progress of 20 %.

Box 3.6
MFF heading 3 - Progress as shown by the EU budget performance indicators

Programme	Number of indicators		Average progress towards target calculated with different methodologies (see paragraph 3.9)	
	Total	Progress from baseline measurable	on the basis of programme statements	on the basis of the PPO
Asylum, Migration and Integration Fund	23	20	53 %	60 %
Internal Security Fund	20	19	56 %	55 %
Food and Feed	7	2	20 %	81 %
Creative Europe Programme	24	7	41 %	84 %
Total	74	48		
Weighted average			49 %	64 %

Source: ECA

Heading 4: Indicators show overall reasonable progress for 'Global Europe' programmes

3.18. We analysed four programmes of the 15 under MFF heading 4 'Global Europe': the Development Cooperation Instrument (DCI), the European Neighbourhood Instrument (ENI), the Instrument for Pre-accession Assistance (IPA II) and Humanitarian Aid (see also Chapter 9). The weighted average progress from baseline was overall reasonable at 49 % (for the 49 – out of a total of 65 – indicators for which it could be calculated – see ***Box 3.7***).

3.19. For all programmes except the DCI, the Commission's PPO showed a much higher level of progress, due to the selection of indicators. In the case of the DCI, the Commission exceptionally calculated progress towards the target from the baseline, without explaining in the PPO that this methodology had been used.

Box 3.7
MFF heading 4 - Progress as shown by the EU budget performance indicators

Programme	Number of indicators		Average progress towards target calculated with different methodologies (see paragraph 3.9)	
	Total	Progress from baseline measurable	on the basis of programme statements	on the basis of the PPO
DCI	11	11	50 %	31 %
ENI	24	18	46 %	79 %
IPA II	19	11	41 %	94 %
Humanitarian aid	11	9	67 %	93 %
Total	65	49		
Weighted average			49 %	68 %

Source: ECA

Special instruments: Insufficient information on the progress achieved

3.20. The programme statements indicate that the targets of the two MFF 2014-2020 special instruments were met, although this is not substantiated:

— For the European Union Solidarity Fund (EUSF), the Commission considered that the target had been achieved for 2017, with the combination of the measures taken covering 100 % of the population affected by a crisis situation. However, the information for actual results included in the programme statements issued in May 2018 only gave some information on four out of the 10 aid applications received in 2017.

— Thanks to the European Globalisation Adjustment Fund (EGF), 57 % of redundant workers were reported to have been reintegrated into employment, which is above the target of 50 %. However, the objective included in the legislation ([13]) was different as it refers to 'beneficiaries finding sustainable employment as soon as possible…'.

Box 3.8
Special instruments – Special instruments – Progress as shown by the EU budget performance indicators

Programme	Number of indicators		Average progress towards target calculated with different methodologies (see paragraph 3.9)	
	Total	Progress from baseline measurable	on the basis of programme statements	on the basis of the PPO
EUSF	1	0	N/A	N/A
EGF	1	1	100 %	100 %
Total	2	1		
Weighted average excluding EUSF			100 %	100 %

Note: Due to lack of data, the weighted average calculations of progress-to-target exclude EUSF (for both the calculation on the basis of programme statements and on the basis of the PPO)

Source: ECA

Section B – Indicators did not always provide a good picture of actual progress

3.21. In this section, we focus on weaknesses we identified in the performance information provided by the Commission. The legal acts underpinning the programmes for the 2014-2020 MFF define the performance indicators on which the Commission has to report.

([13]) Regulation (EU) No 1309/2013 of the European Parliament and of the Council of 17 December 2013 on the European Globalisation Adjustment Fund (2014-2020) and repealing Regulation (EC) No 1927/2006 (OJ L 347, 20.12.2013, p. 855).

Many indicators were not well chosen

Indicators mostly focused on inputs and outputs rather than results and impacts

3.22. Performance monitoring requires keeping track of programme *inputs, outputs,* results and impacts (see ***Table 3.1***). Input and output indicators are important for the day-to-day management of public spending programmes. Results and impact indicators are more useful for assessing the progress towards programme objectives, and are therefore more relevant for high-level performance reports, such as the programme statements.

Table 3.1
Inputs, outputs, results and impacts

	Indicator definition	Illustrative examples of indicators from the programme statements
Inputs	Financial, human and material resources that are mobilised for the implementation of the programme	— Total investment in energy saving and efficiency (EAFRD) — % of total *direct payments* that are decoupled (EAGF) — Volume of investment in projects of common interest (CEF)
Outputs [1]	The specific deliverables of the intervention	— Number of interventions to support the implementation of the 7th Environment Action Programme (LIFE) — Total length of new or improved tram and metro lines (ERDF) — The number of students and trainees participating in the Programme, by country, sector, action and gender (Erasmus +)
Results	The immediate effects of the intervention with particular reference to the direct addressees	— Number of jobs created through supported LEADER projects (EAFRD) — Decrease in annual primary energy consumption of public buildings (ERDF) — Patent applications and patents awarded in Future and Emerging Technologies (Horizon 2020)
Impacts	The intended outcome of the intervention in terms of impact on the wider economy/society beyond those directly affected by the intervention	— Share of EU agricultural exports in the world market (EAGF) — Value of aquaculture production in the EU (EMFF) — Share of renewables in gross final energy consumption (CF)

(1) For the definitions of 'Output', 'Result' and 'Impact', see Article 2 of the '*Financial Regulation* applicable to the general budget of the Union (July 2018)' and p. 49 of the 'Better Regulation Guidelines' (SWD(2017) 350 final).

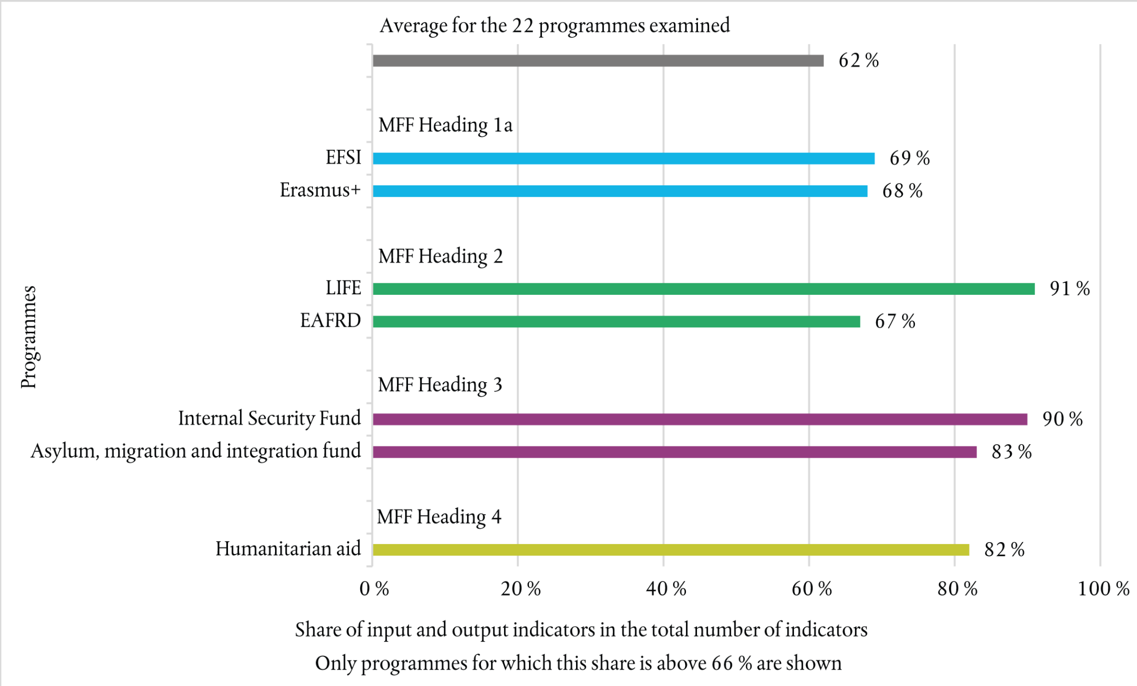
Source: ECA

3.23. Our analysis shows that more than 60 % of the indicators included in the programme statements were input or output indicators [14] (see ***Box 3.9***). This predominance of input and output indicators limits the usefulness of the information provided on progress in achieving objectives [15].

(14) In some cases, our classification of indicators differed from that used by the Commission or set out in the relevant EU legislation.

(15) The 'OECD Best Practices for Performance Budgeting' issued by the OECD Public Governance Directorate Public Governance Committee (GOV/PGC/SBO(2018)7, 23 November 2018) also makes this point. 'Best practice 3' includes the following: "Government uses a mix of performance measures, balancing the need to measure longer term policy outcomes with the need to monitor progress in the shorter term".

Box 3.9
High proportion of input and output indicators



Source: ECA.

Some performance indicators were not clearly linked to EU spending

3.24. One of the key functions of programme statements is to ‘provide information for each of the spending programmes on (…) progress on programme performance (…) and contribution to the main EU policies and objectives’ (16). This aim is best achieved through results and impact indicators that are closely linked to the programme objectives and can be meaningfully affected by the EU programme in question (17).

(16) COM(2018) 600 - May 2018: Draft general budget of the European Union for the financial year 2019; Working Document Part 1, programme statements of operational expenditure, p. 5.
(17) Where relevant, also by the accompanying non-spending policy (e.g. through EU regulation).

3.25. We found cases where the indicators used were almost completely irrelevant to the effects of EU spending (see ***Table 3.2***). In certain cases, the programme statements even highlighted the fact that the programmes did not affect the indicators ([18]).

Table 3.2
Examples of indicators with unclear links to EU spending and objectives

Programme	Stated objective	Indicator	Analysis
Humanitarian Aid	To provide ad hoc assistance and relief and protection for people in third countries who are victims of natural or man-made disasters, in order to meet the humanitarian needs resulting from these different situations.	Number of deaths due to natural disasters	The indicator is only very indirectly affected by the implementation of the programme
EAGF	To provide the Commission with reasonable assurance that Member States have put in place management and control systems (…) to protect the EU's financial interests.	Percentage of expenditure (EAGF+EAFRD) with statistics or 100 % check.	The objective and the indicator do not relate directly to the results of the programme

Source: ECA

No indicator for certain aspects of some programme objectives

3.26. Programme statements have a hierarchical structure, with objectives organised into two tiers: higher level 'general objectives' and lower level 'specific objectives' ([19]). Each objective (general or specific) has at least one indicator, and usually more than one. The links between general and specific objectives are clear in most cases, but are not explicitly indicated in the programme statements. Certain specific objectives can be linked to more than one general objective, and vice versa.

3.27. Our analysis of the 22 programme statements selected for review revealed that certain aspects of the objectives were not covered by an indicator, such as:

— CF: Specific objective 4 ('Promoting sustainable transport and removing bottlenecks in key network infrastructures') had six indicators but none addressing 'removing bottlenecks in key network infrastructures';

— DCI: Specific objective 1 ('Poverty reduction and fostering sustainable economic, social and environmental development') had five indicators but none covering "sustainable (…) environmental development";

— ERDF: Specific objective 9 ('Promoting social inclusion, combating poverty and any discrimination') had four indicators dealing with social inclusion but none dealing with combating poverty or discrimination.

([18]) See for example the following footnote to two general objective indicators from the Humanitarian Aid programme ("Number of deaths due to natural disasters as recorded in the EM-DAT database" and "Number of countries ranked very high risk to disasters in the INFORM Index"): "*It should be noted that a very important part of the annual results and evolution of this indicator depends on external factors which are entirely beyond the control of the Commission. The specific contribution of humanitarian aid to the evolution of this indicator is difficult to assess.*"

([19]) All programmes had specific objectives. Some programmes, however, did not have any general objectives.

Progress could not be calculated for many indicators

3.28. In section A, we presented our progress percentages for the various MFF headings. However, as shown in ***Box 3.10*** below, it was impossible to calculate this percentage for almost half the indicators in our sample (44 %), mainly because:

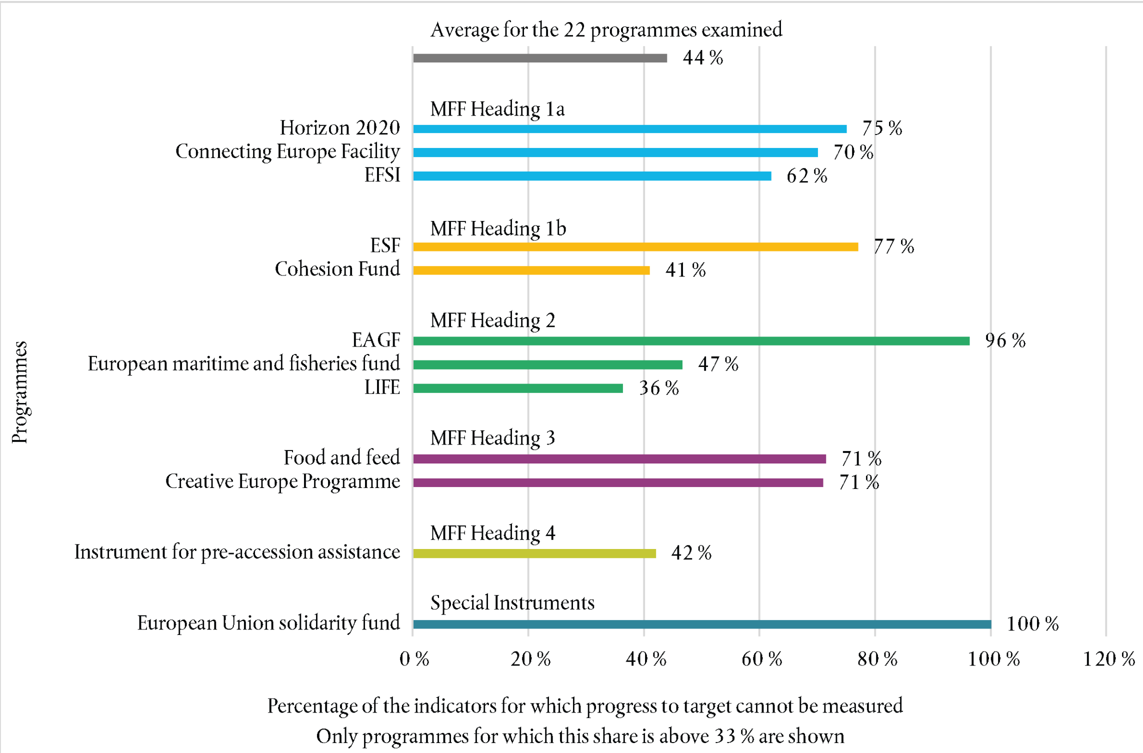
— there was either no specific, quantified target (e.g., target defined as 'to increase', 'to maintain', etc.); and/or

— the baseline value was not given;

— there was no data available on progress achieved;

— baseline, data on progress achieved and target were not presented in the same format.

Box 3.10
Progress-to-target cannot be calculated for almost half of all indicators



Source: ECA.

3.29. The EAGF and Horizon 2020 are two examples of programmes for which it was not possible to calculate the progress percentage for many indicators (26 of the 27 indicators and 39 of the 52 indicators, respectively). For the EUSF, there was only one indicator ([20]) for which the large quantity of data available did not enable progress calculation.

3.30. Annual milestones were frequently missing. Where milestones were available, the Commission had *reservations* about their use ([21]), whereas we consider them important for performance monitoring.

([20]) The "Number of population helped in overcoming a crisis situation where their living conditions have been affected".

([21]) The DG REGIO AAR Annex 11 performance tables, for instance, point out that "As regards the milestones figures included in the following tables, it should also be noted that they are purely indicative estimates that should not be used to identify cases of underperformance."

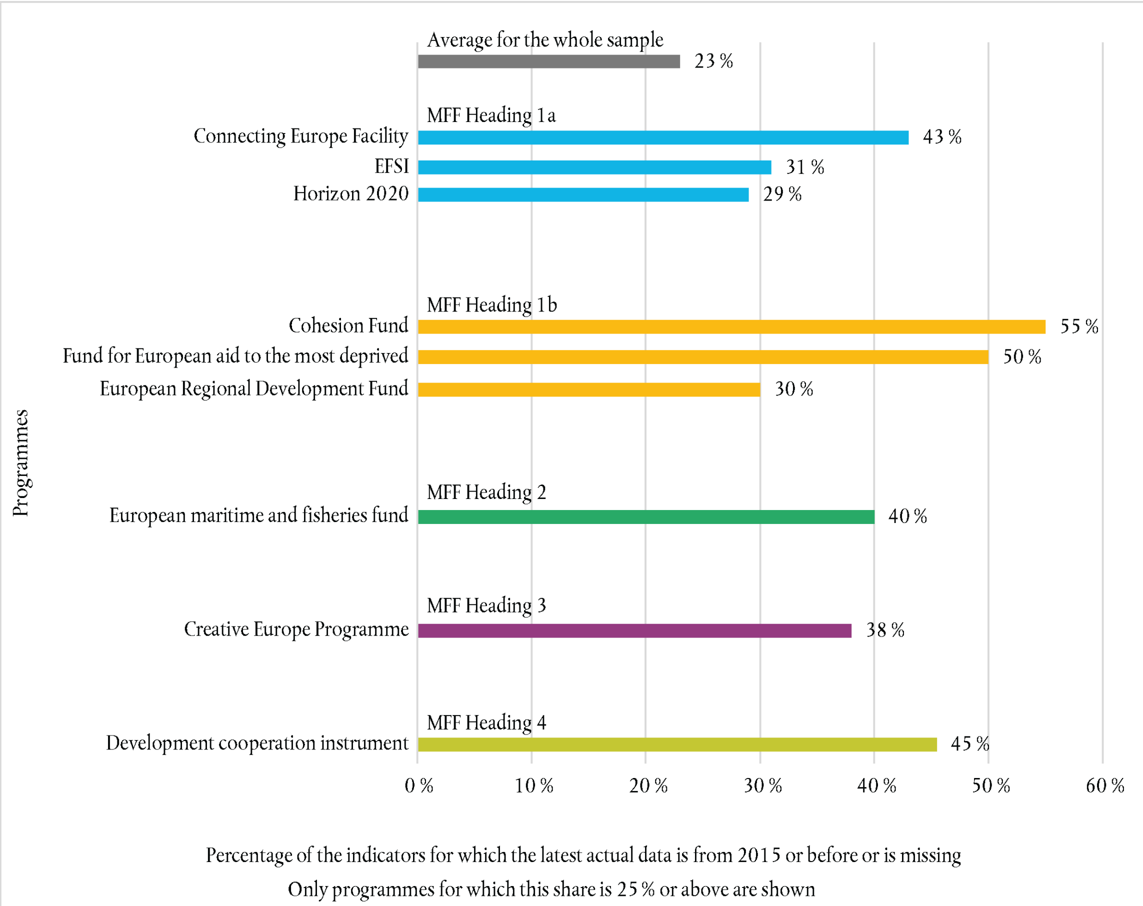
For some programmes, data available was of insufficient quality

For some programmes, many indicators had no data beyond 2015 or no data for progress achieved at all

3.31. We noted that for some programmes (see ***Box 3.11***), more than 25 % of indicators had no data beyond 2015 or no data for progress achieved at all. We also noted that the performance framework included certain indicators despite known problems concerning the availability of data ([22]).

3.32. In its recommendation on the *discharge* for the financial year 2017, the Council underlined the 'need to include up-to-date performance information in performance reporting on progress made towards achieving targets' ([23]). Similarly, the European Parliament in its 2017 discharge called on the Commission to 'include up-to-date performance information in performance reporting, including in the AMPR, on progress made towards achieving targets…' ([24]).

Box 3.11
No recent data or no actual data at all for many indicators



Source: ECA.

([22]) E.g. Development Cooperation Instrument (DCI), Specific objective 1, Indicator 2, "Proportion of pupils starting in grade 1 who reach last grade of the primary, gender disaggregated", for which a footnote indicates: "However, it should be noted that this indicator is not available yet: methodology not defined, no data. It will take 3 to 5 years before this indicator can be used according to UNESCO, which is leading on education SDG indicators."

([23]) "Council recommendation on the discharge to be given to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2017" Chapter 3 paragraph 3.

([24]) "Discharge 2017: EU general budget – Commission and executive agencies" P8_TA(2019)0242 paragraph 236.

Other data quality issues

3.33. A number of other data quality issues further complicate progress analysis, such as:

— **Significant changes to the scope of an indicator, resulting in inconsistencies between baseline, data on progress achieved and target**, e.g. the Development Cooperation Instrument (DCI), Specific objective 2, indicator 2, 'Number of projects funded from the DCI to promote democracy, the rule of law, good governance and respect for human rights in the DCI *beneficiary* countries'. The Common RELEX Information System (CRIS) codes used to extract data for this indicator were expanded significantly from the year 2016 'to cover a broader range of sectors included in the indicator'.

— **Baseline, milestone and data on progress achieved in different formats, making it impossible to assess the progress made**, e.g. Horizon 2020 Programme Specific objectives 8 to 12 indicator 2. The results ("number of patent applications") for these indicators are not in the same format as the baseline and the target, which show the 'number of patent applications for 10 million euros funding'.

— **Outdated indicator baselines, leading to unrealistic 'progress towards the target' and 'distance to target' results**, e.g. the ERDF programme General objective 1, indicator 3, 'Greenhouse gas emissions' (also used for Cohesion Fund General objective 1, indicator 1). The baseline for a planned 20 % reduction in greenhouse gas emissions by 2020 is the year 1990 but, according to the programme statements, a 19,8 % reduction had already occurred before the programmes began in 2014.

Some programmes include targets that are not sufficiently ambitious

3.34. A number of programmes (17 of the 22 programmes examined) included targets that we considered to be not ambitious. How ambitious a target is can be a matter of professional judgement. We identified the following categories that we considered to be unequivocally unambitious:

(1) **Targets fully achieved in the first few years of the seven-year programme implementation period**: e.g. the EMFF indicator 'Profitability of the EU fishing fleet by fleet segment', for which the target of having a net average profit margin of the EU fishing fleet from 10 to 12 % had already been achieved by 2015;

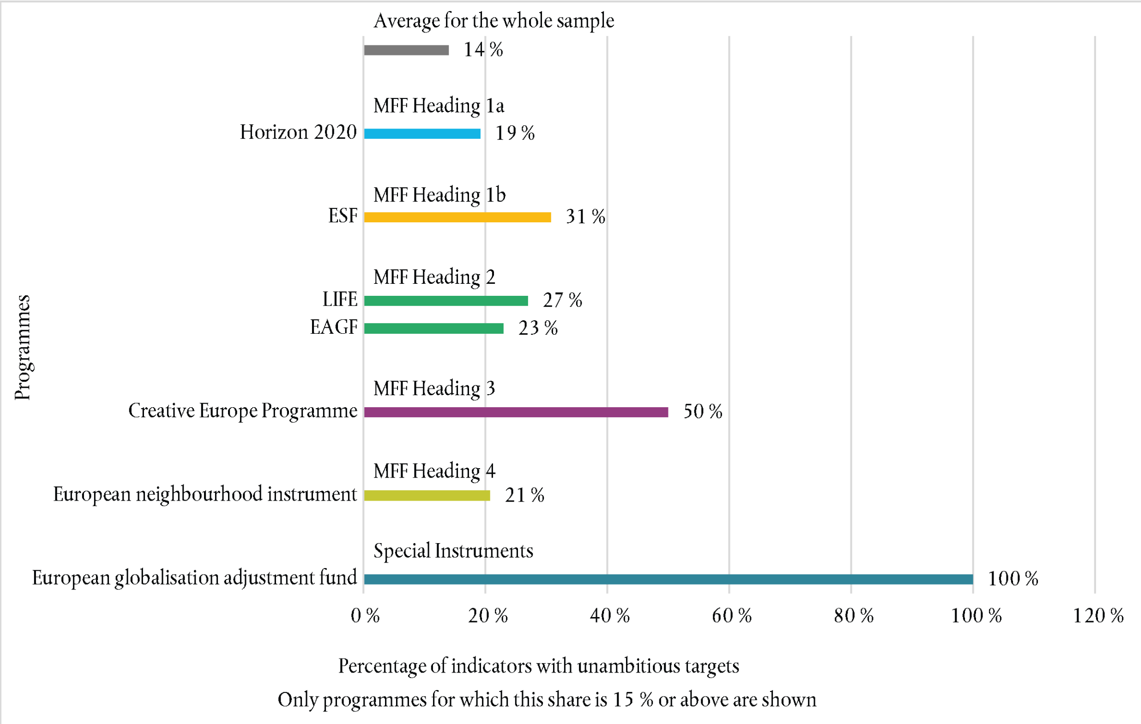
(2) **Particularly low targets**: e.g. the target for the Cohesion Fund indicator 'Total length of new railway line', set at 64 km (TEN-T) for the entire programme period, i.e. around 9 km per year for the whole of the EU ([25]).

(3) **Targets equivalent to/ close to the baseline**: e.g., the Horizon 2020 indicator 'Patent applications and patents awarded in the different enabling and industrial technologies' for specific objective 5, 'Industrial leadership', had a target even lower than the baseline ([26]).

([25]) Whereas the comprehensive network in the EU amounts to more than 138 000 km of railway lines.
([26]) The baseline and the target were respectively 3,2 and 3,0 patent applications per 10 million euros funding.

3.35. ***Box 3.12*** shows the programmes for which the proportion of such indicators with unambitious targets was 15 % or over.

Box 3.12
Many unambitious targets for some programmes



Source: ECA.

Part 2 — Results of the Court's performance audits: main conclusions and recommendations

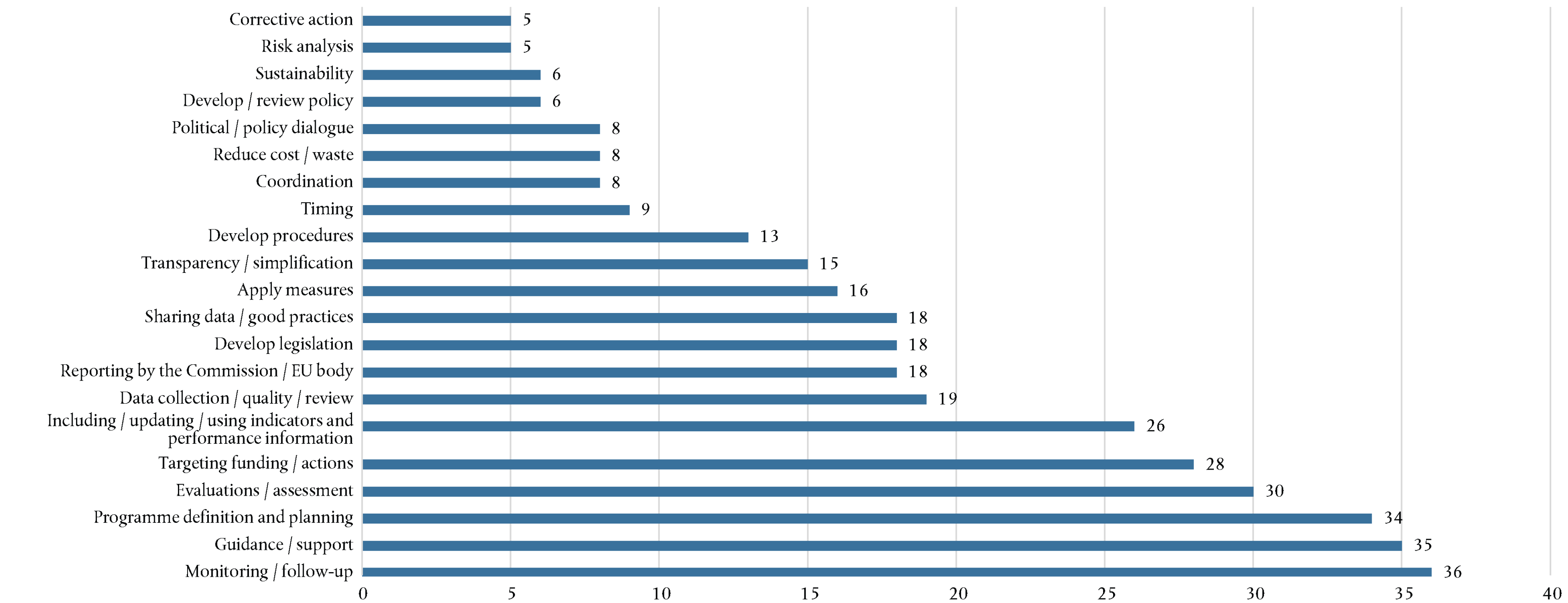
Introduction

3.36. Each year, we publish special reports in which we examine how well the principles of *sound financial management* have been applied in implementing the EU budget. In 2018, we published 35 special reports ([27]) ([28]). They covered all the MFF headings ([29]) and contained 380 recommendations on a wide range of topics (see ***Box 3.13***). The published replies to our reports show that our auditees fully accepted 78 % of our recommendations, compared with 68 % in 2017 (see ***Box 3.14***). ***Annex 3.2*** summarises the recommendations made to Member States in our 2018 special reports.

([27]) https://www.eca.europa.eu
([28]) Our 2018 publications also included nine review-based products: two landscape reviews, six briefing papers and one rapid case review.
([29]) 1a ('Competitiveness for growth and jobs'), 1b ('Economic, social and territorial cohesion'), 2 ('Sustainable growth: natural resources'), 3 ('Security and citizenship'), 4 ('Global Europe'), 5 ('Administration').

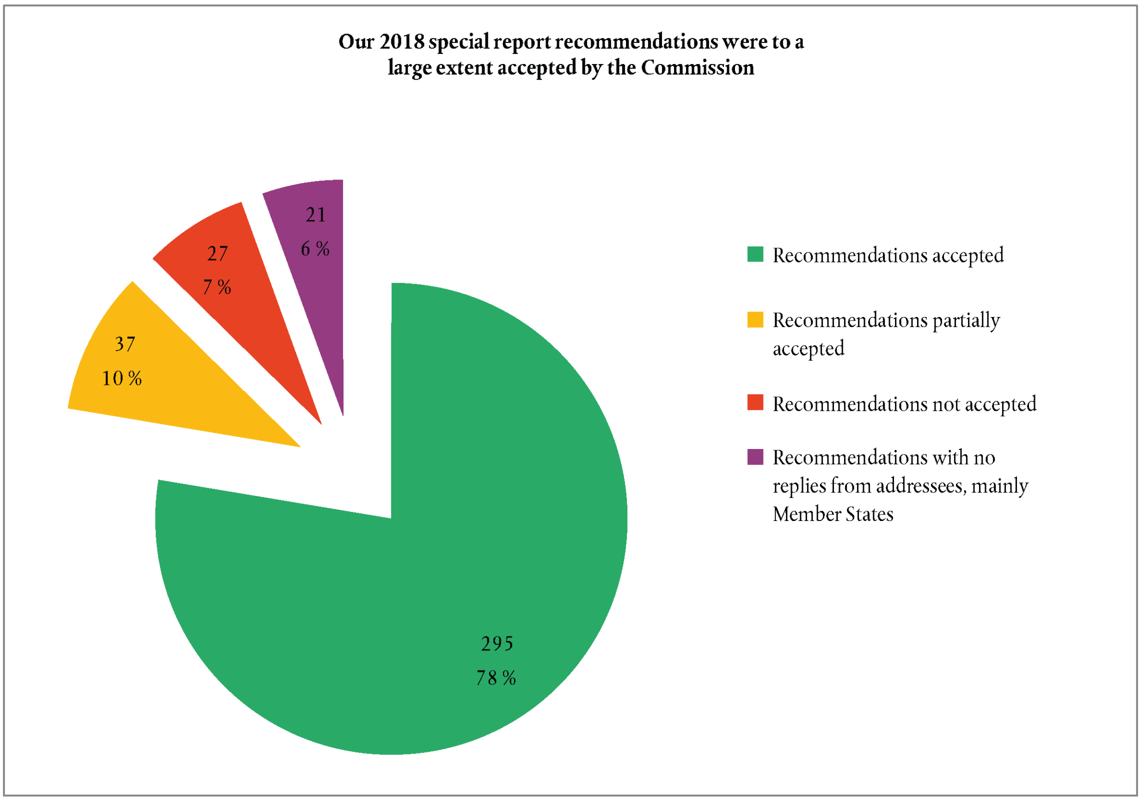
Box 3.13
Recommendations cover a wide range of topics

Number of 2018 special report recommendations and sub-recommendations by main category/ type



Source: ECA.

Box 3.14
Our auditees accepted the vast majority of our recommendations



Source: ECA.

Headings 1a 'Competitiveness for growth and jobs' and 1b 'Economic, social and territorial cohesion'

3.37. In 2018, we published twelve special reports for these MFF headings ([30]). We wish to draw attention to some of the key conclusions and recommendations from six of these reports.

(a) Special report 8/2018 – Durability of EU support for productive investments in businesses

3.38. We found that the projects audited had, in general, delivered the planned output and that, in most cases, that output still existed and was being used. However, in one fifth of the cases the results achieved did not last. We concluded that this was mainly due to a lack of emphasis by the Commission and national / regional authorities on the durability of results in management at both programme and project level.

3.39. We recommended that:

— the Commission pay particular attention to how Member States address the durability of project results during the approval process of *operational programmes*; and

— Member States improve project selection procedures and criteria.

([30]) Note: special reports addressing the EU environmental and climate action are included with heading 2 below.

(b) Special report 9/2018 – Public Private Partnerships (PPPs) in the EU

3.40. We found that while PPPs had the potential to achieve faster policy implementation and ensure good maintenance levels throughout their lifetime, the audited EU-supported PPPs were not always managed effectively and did not provide adequate value for money. Potential benefits of the audited PPPs were often not achieved, as – similarly to traditionally procured projects - they were subject to delays, cost increases and under-use of project outcomes. In addition, there was a lack of adequate analyses about the potential for PPPs to deliver additional value for money, as well as a lack of adequate strategies on the use of PPPs and of institutional and legal frameworks.

3.41. We recommended that the Commission and the Member States avoid promoting more intensive and widespread use of PPPs until the issues identified have been addressed.

(c) Special report 12/2018 – Broadband in the EU Member States

3.42. We found that although broadband coverage had generally improved across the EU, not all targets set for 2020 would be met. While all Member States had developed broadband strategies, the targets of the strategies we examined were not always consistent with Europe 2020. In addition, not all the Member States visited had established an appropriate legal and regulatory environment concerning competition between providers. Finally, financing needs for broadband infrastructure in rural and suburban areas were not always properly addressed.

3.43. We recommended that:

— Member States develop new plans for the period after 2020;

— the Commission clarify the application of *state aid* guidelines and support Member States' efforts to foster greater competition in broadband; and

— the European Investment Bank focus its support on small- and medium-sized projects in areas where public sector support is most needed.

(d) Special report 17/2018 – Absorption

3.44. We found that for both the 2007-2013 and 2014-2020 programming periods, the late adoption of the legislative framework meant late adoption of the operational programmes. This had a knock-on effect on when spending of the allocated funds began. While some of the measures taken by the Commission led to a marked increase in absorption during the 2007-2013 period, little consideration was given to results.

3.45. We recommended that the Commission:

— propose a timetable to the legislative authorities to ensure that implementation can start at the beginning of the programming period; and

— ensure that the focus is on the delivery of results.

(e) Special report 30/2018 – Passenger rights

3.46. We found the main modes of public transport to be covered in the regulations, making the EU framework for passenger rights unique globally. However, many passengers were not sufficiently aware of their rights and frequently could not benefit from them due to problems with enforcement. In addition, while the core rights are meant to protect all passengers across all four modes of public transport, the extent of protection depends on the mode of transport used.

3.47. We recommended that the Commission:

— improve the coherence, clarity and effectiveness of the EU passenger rights framework;

— take action to promote and coordinate the launch of awareness campaigns by the national enforcement bodies;

— address in its proposals to amend the existing regulations the need to provide National Enforcement Bodies with further tools for enforcing passenger rights.

(f) Special report 28/2018 – Horizon 2020

3.48. Our overall conclusion in this special report was that the majority of simplification measures taken by the Commission have been effective in reducing the administrative burden for beneficiaries in Horizon 2020, although not all actions produced the desired result and opportunities to improve still exist. Beneficiaries need more user-friendly guidance and tools, and the Commission has to further test the appropriateness and usability of new funding schemes. Stability in the rules is also important and, while beneficiaries are able to adapt to complexity, frequent modifications to guidance can cause confusion and uncertainty.

3.49. We recommend that the Commission:

— better communicate with applicants and beneficiaries;

— intensify testing of lump sums;

— explore greater use of two-stage proposal evaluations;

— re-examine remuneration conditions for expert evaluators;

— increase recognition of the Seal of Excellence;

— ensure stability for rules and guidance for participants;

— improve quality of outsourced audits;

— further simplify tools and guidance for SMEs.

Heading 2 'Natural resources'

3.50. We published eight special reports concerning sustainable growth and natural resources and environmental and climate action. We also published a briefing paper on the future of the *common agricultural policy* (CAP), followed by Opinion 7/2018 on proposals for regulations relating to the CAP for the post-2020 period.

3.51. Our special reports dealing with various aspects of the agriculture policy included recommendations for improving the performance of CAP instruments, funding and schemes, as follows:

— In special report 5/2018, we emphasized the potential synergies between renewable energy policy and funds designed to facilitate sustainable rural development, but noted that these synergies were mostly unrealised. Our recommendations addressed the sustainability of the future renewable energy policy.

— In special report 10/2018, we concluded that the *basic payment scheme* for farmers, although operationally on track, had only limited impact on the simplification, targeting and convergence of aid levels. We recommended that proposed income support measures for farmers be linked to appropriate operational objectives and baselines against which their performance could be compared.

— Special report 11/2018 examined the new options for financing rural development projects, which, although simpler, did not focus on results. We recommended that the Commission assess the potential for moving away from reimbursing costs towards results-based reimbursement.

3.52. The other special reports, covering policy areas such as energy, climate, the environment, air quality and animal welfare, also included recommendations aimed at improving the performance of the EU budget through enhanced synergies between sectors and greater accountability. For example:

— mainstreaming air quality policy into other EU policies (special report 23/2018);

— strengthening links between the cross-compliance system and animal welfare (special report 31/2018);

— improving coherence between agriculture, climate, environment and research frameworks to enhance soil protection (special report 33/2018);

— improving critical elements of governance and accountability in the EU programme for the demonstration of environmentally safe carbon capture and storage and innovative renewable energy technologies on a commercial scale (special report 24/2018);

— improving project selection based on objective and relevant criteria for flood prevention projects (special report 25/2018), carbon capture or innovative renewables projects (special report 24/2018).

Headings 3 'Security and citizenship' and 4 'Global Europe'

3.53. We published eight special reports concerning these MFF headings. We wish to draw attention to some of the key conclusions and recommendations from four of these reports.

(a) Special report 7/2018 - Turkey

3.54. We found that the assistance was generally well designed and projects had delivered their output. However, mainly due to a lack of political will and the fact that the Commission had made little use of conditionality, EU assistance had not sufficiently addressed some of the country's fundamental needs to improve its governance and the rule of law. Furthermore, the sustainability of results was often at risk. We therefore considered that the effectiveness of the funding was only limited.

3.55. We recommended that the Commission, and where applicable, the European External Action Service:

— target 'Instrument for Pre-Accession' funds more specifically in areas where reforms are overdue;

— improve sector approach assessments;

— increase the use of conditionality;

— improve project performance monitoring;

— reduce backlogs by applying indirect management selectively.

(b) Special report 20/2018 – The African Peace and Security Architecture (APSA)

3.56. We found that the EU support, funded under the European Development Fund, had had little effect and needed refocusing. Although a broad strategic framework was in place, EU support for the APSA had long focused on contributing to basic operational costs. Due to weak financial ownership by the African Union, the APSA had been heavily dependent on donor support for many years. Despite the EU's financial contributions to APSA components, capacity varied considerably and a number of challenges remained.

3.57. We recommended that the Commission, and where applicable the European External Action Service:

— foster African Union ownership of the APSA in order to achieve financial independence and focus EU support on capacity-building measures instead of supporting operational costs;

— make interventions consistently results-based, reduce delays in contracting and retroactive financing, improve monitoring and make coherent use of financing instruments.

(c) Special report 27/2018 – The Facility for Refugees in Turkey

3.58. We found that, in a challenging context, the Facility for Refugees in Turkey had rapidly mobilised 3 billion euros to provide a swift response to the refugee crisis. Nevertheless, it had not fully achieved its objective of coordinating the response effectively. The projects audited provided helpful support to refugees, most of them had achieved their outputs, but half had not yet achieved their expected outcomes. Furthermore, we found scope for increasing the efficiency of cash-assistance projects. We therefore concluded that the Facility could have been more effective and could achieve better value for money.

3.59. We recommended that the Commission:

— address refugees' needs for municipal infrastructure and socio-economic support more effectively;

— improve streamlining and complementarity of assistance by clearly dividing tasks between different funding sources;

— implement a strategy for the transition from humanitarian to development assistance;

— improve the efficiency of cash-assistance projects;

— work with the Turkish authorities to improve the operating environment for International NGOs;

— scale up monitoring and reporting regarding the Facility for Refugees in Turkey.

(d) Special report 32/2018 – EU Trust Fund (EUTF) for Africa

3.60. We found the EUTF for Africa to be a flexible tool. Considering the unprecedented challenges it faced, however, its design needed greater focus. The EUTF for Africa was faster than traditional instruments in launching projects, but faced similar challenges delaying implementation. Although the audited projects were at an early stage, they had started producing output.

3.61. We recommended that the Commission:

— improve the quality of EUTF for Africa objectives;

— revise the project selection procedure;

— take measures to speed up implementation;

— improve monitoring of the EUTF for Africa.

Heading 5 'Administration'

3.62. In 2018, we published three special reports in the area of administration. We wish to draw attention to some of the key conclusions and recommendations from one of these reports.

(a) Special report 34/2018 – Office accommodation of EU institutions

3.63. We found that the institutions managed their spending on office accommodation efficiently, but building strategies were not always officially documented. The institutions cooperated and applied similar decision-making principles. Reporting to the *budgetary authorities* did not, however allow for comparison and efficiency analysis. The financing mechanisms for the large construction projects we analysed were often complex, which affected transparency. Most of these projects were delayed, which in some cases led to additional costs.

3.64. We recommended that the institutions:

— update and officially document their building strategies, and regularly update planning documents;

— increase budgetary transparency regarding the use of financing mechanisms for construction projects;

— set up adequate management procedures for large construction and renovation projects; and

— improve the consistency of building portfolio data and monitoring.

Reports on the 'Functioning Single Market and sustainable Monetary Union'

3.65. Finally, we published four special reports on the 'Functioning Single Market and sustainable Monetary Union'. We wish to draw attention to some of the key conclusions and recommendations from three of these reports.

(a) Special report 2/2018 – The operational efficiency of the ECB's crisis management for banks

3.66. This audit assessed the operational efficiency of the European Central Bank's (ECB's) management of one specific supervisory task: crisis management. The ECB had established a framework for crisis management, but needed to address some design flaws and signs of inefficient implementation. Procedures for assessing banks' recovery plans were in place, and the assessors had access to useful tools and guidance. However, the results of recovery plan assessments were not systematically used for crisis identification and response. The ECB did not have a system for using bank-specific triggers, which could flag up any likely deterioration in a bank's financial condition. In addition, systems and guidance for a rapid early intervention assessment were underdeveloped, while management reporting on weak banks' asset quality and corresponding on-site capacity needed improving.

3.67. We recommended that the ECB:

— further develop its guidance on early assessment, including rapid crisis response;

— define a clear set of indicators for crisis identification and response;

— improve monitoring and use of recovery plan information.

(b) Special report 3/2018 – Macroeconomic Imbalance Procedure (MIP)

3.68. We examined the European Commission's implementation of the Macroeconomic Imbalance Procedure, which aims to identify, prevent and address macroeconomic imbalances that could adversely affect economic stability. We found that although the MIP was generally well designed, the Commission was not implementing it in a way that would ensure effective prevention and correction of imbalances. More generally, the country-specific recommendations (CSRs) issued by the Commission displayed several weaknesses; the classification of Member States with imbalances lacked transparency; the Commission's in-depth analysis, while of a good standard, had become less visible, and there was a lack of public awareness of the procedure and its implications. Moreover, the procedure did not adequately facilitate early identification of imbalances as its indicators were based on out-of-date data and moving averages, making it blind to recent events.

3.69. We recommended that the Commission substantially improve certain aspects of its management and give greater prominence to the MIP.

(c) Special report 18/2018 – Is the main objective of the preventive arm of the Stability and Growth Pact (SGP) delivered?

3.70. We found that in several Member States with high debt, the SGP had not delivered sufficient progress towards the medium term objectives within a reasonable time. The European Commission had used its discretionary powers extensively when setting rules for implementation and making individual decisions in order to reduce the adjustment requirements.

3.71. We recommended that the Commission:

— change the required adjustment rates contained in the 'matrix of requirements' to increase the adjustment requirements for Member States with a debt ratio above 60 % and address the cumulative effects of permitted deviation when granting multiple clauses;

— reform the current application of flexibility clauses, limiting flexibility to actual fiscal costs of reforms, and ensuring that the investment clause is discontinued in its current form, and reformed to ensure that all additional expenditure resulting from the deviation from the original path towards the MTO (i.e. in all years after granting the clause) is related to investment, and leads to an increase in public investment relative to GDP;

— ensure consistency between requirements under the preventive and the corrective arm;

— include clearer requirements in the country-specific recommendations, with better explanations of the requirements and the risks if they are not implemented on time.

Part 3 — Follow-up of recommendations

3.72. Every year, we review the extent to which our auditees have taken action in response to our recommendations. This follow-up of our recommendations is an important step in the audit cycle. It provides feedback on the impact of our work and encourages our auditees to implement our recommendations.

We analysed the implementation of all 2015 recommendations addressed to the Commission

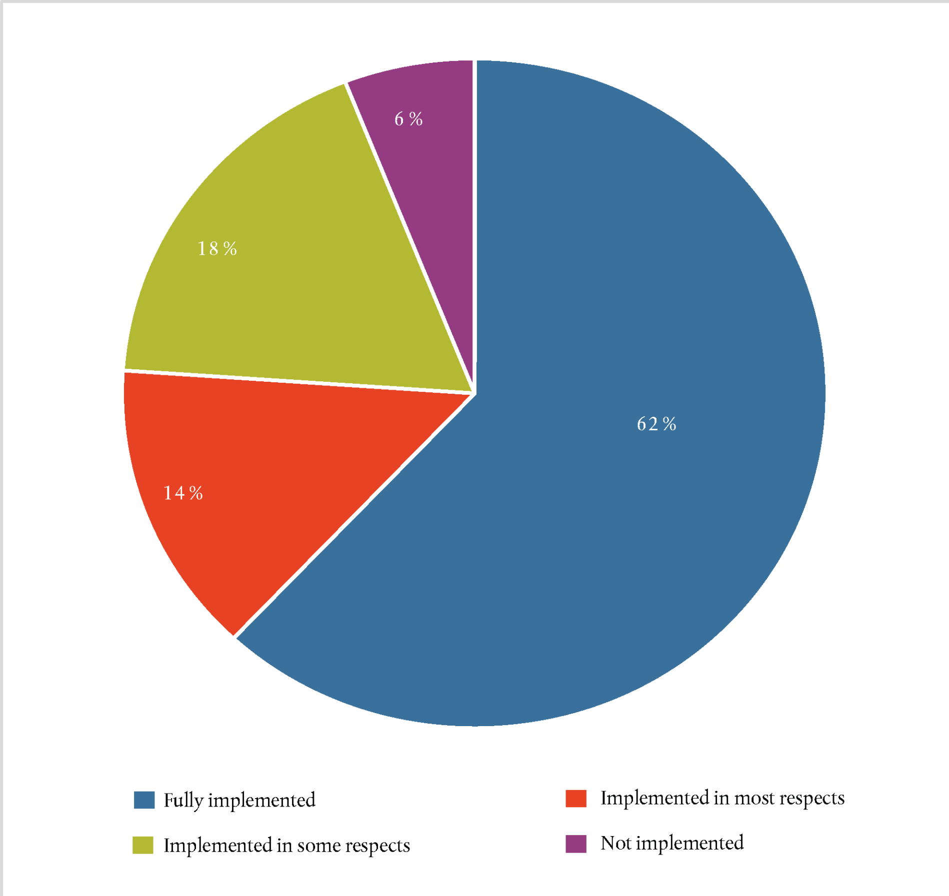
3.73. In previous years, we only analysed a selection of the recommendations made three years earlier. This year, we analysed all 185 recommendations addressed to the Commission in the 25 special reports adopted in 2015. We did not examine the implementation of one recommendation because it was no longer relevant. We did also not follow up the 48 recommendations addressed to Member States.

3.74. We used documentary reviews and interviews with Commission staff to carry out our follow-up. To ensure a fair and balanced review, we sent our findings to the Commission and took account of its replies in our final analysis.

How has the Commission addressed our recommendations?

3.75. Of the 184 recommendations followed-up, the Commission had fully implemented 114 (62 %). It had implemented 26 of the remaining recommendations (14 %) in most respects, 33 (18 %) in some respects, and had not implemented the other 11 (6 %) at all (see ***Box 3.15***). ***Annex 3.3*** shows the implementation status of the recommendations in detail.

Box 3.15
Implementation of our 2015 performance audit recommendations



Source: ECA.

3.76. In some areas, the Commission had been particularly responsive to our recommendations. For three special reports related to renewable energy in East Africa (SR 15/2015), financial assistance provided to countries in difficulties (SR 18/2015), and technical assistance to Greece (SR 19/2015), all recommendations had been implemented in full.

3.77. The Commission did not accept 15 recommendations and partially accepted 17. However, 10 of the 17 partially accepted recommendations were eventually fully implemented, while two of the recommendations rejected were addressed fully and another two were addressed in some respects.

3.78. In conclusion, we observed that our performance audits had led to several key improvements, although some of the weaknesses identified remained. ***Annex 3.4*** describes the weaknesses remaining for the partially implemented recommendations.

Conclusions and recommendations

Conclusions

(1) *The indicators show significant variation in achievements and suggest moderate progress overall (paragraphs 3.7 to 3.20)*

3.79. Overall, the data included in the programme statements suggests that progress towards the performance targets is moderate. The late, slow start for both the cohesion and rural development programmes was an important limiting factor.

(2) *Indicators did not always provide a good picture of actual progress (paragraphs 3.21 to 3.35)*

3.80. Both the calculation of progress towards the target from the baseline and the progress towards the target reported by the Commission in the PPO should be treated with caution for various reasons:

(a) *Many indicators were not well chosen (paragraphs 3.22 to 3.27)*

— Indicators focused on inputs and outputs rather than results and impacts;

— Certain indicators did not measure the achievements of the EU budget;

— There were no indicators for certain aspects of some programme objectives.

(b) *Progress could not be calculated for many indicators (paragraphs 3.28 to 3.30)*

— For almost half the indicators, it was not possible to calculate progress towards the target from the baseline. While this can be explained by various factors, the main reason was the absence of baseline, progress achieved and/or target figures.

(c) *For some programmes, data available was of insufficient quality (paragraphs 3.31 to 3.33)*

— For some programmes, numerous indicators had no data beyond 2015 or no data for progress achieved at all;

— A number of other data quality issues further complicated progress analysis.

(d) *Some programmes include targets that are not sufficiently ambitious* (paragraphs 3.34 to 3.35)

— Many programmes included targets that we consider to be unambitious. In seven programmes, these targets constituted at least 15 % of all targets.

3.81. ***Box 3.16*** summarises our conclusions on the extent to which programmes were particularly affected by the weaknesses identified in (a) to (d) above:

(a) programmes with a proportion of input and output indicators exceeding 66 %;

(b) programmes for which, for more than 33 % of indicators, progress could not be measured;

(c) programmes for which at least 25 % of indicators had no data beyond 2015 or no data for progress achieved at all;

(d) programmes for which at least 15 % of indicators had unambitious targets.

It shows that there is no single programme in our sample unaffected by these weaknesses.

Box 3.16
Summary of conclusions

Programmes reviewed and % of financial programming 2014-2020 in the sample in each box	Average progress towards target: ECA calculation (from baseline)		
	Average progress towards target equal to 20 % or below	Average progress towards target above 20 % and below 50 %	Average progress towards target equal to or above 50 %
Performance framework with none of the four weaknesses identified			
Performance framework with one of the four weaknesses identified	ERDF, Food & feed 21 % of financial programming in the sample	EAFRD, ENI, IPA II 13 % of financial programming in the sample	Erasmus+, Fund for European Aid to Most Deprived, Asylum Migration and Integration Fund, Internal Security Fund, DCI, Humanitarian Aid, European Globalisation Adjustment Fund 6 % of financial programming in the sample
Performance framework with at least two of the four weaknesses identified		Horizon 2020, CEF, CF, Creative Europe Programme 17 % of financial programming in the sample	EFSI, ESF, EMFF, LIFE 11 % of financial programming in the sample

Note: Progress to target could not be calculated for the EAGF and the European Union Solidarity Fund (32 % of financial programming in the sample).

Source: ECA

3.82. In paragraphs 3.36 to 3.71, we present key conclusions and recommendations from a selection of the special reports we published in 2018.

3.83. This year's follow-up of past recommendations (see paragraphs 3.72 to 3.78) confirmed that, as in previous years, 76 % of the recommendations we assessed had been implemented fully or in most respects. In 18 % of cases, recommendations had been implemented only in some respects with significant weaknesses remaining. Only 6 % of the recommendations had not been implemented.

Recommendations

3.84. ***Annex 3.5*** shows the findings of our follow-up review of the three recommendations we made in Chapter 3 of our 2015 annual report. All three had been implemented in some respects.

3.85. Based on our conclusions for 2018, we make the following recommendations:

Recommendation 3.1 – The Commission should promote the inclusion in the programme statements of indicators that:

(a) through a better balance between inputs, outputs, results and impacts, provide more relevant information on the achievements of EU spending programmes;

(b) have a clear link with the actions financed by EU spending programmes;

(c) reflect the achievements of EU spending programmes rather than the performance of the Commission and other bodies implementing them; and

(d) cover the programme objectives.

Implementation date: issue in 2022 of the programme statements for the 2023 budget

Recommendation 3.2 – To be able to calculate progress towards the target from the baseline, the Commission should propose performance frameworks for all programmes with the characteristics listed below for performance indicators. If the Commission deems this is not meaningful for a specific indicator, it should explain its choice in the programme statements.

(a) quantitative baselines, stipulating the year for the baseline;

(b) quantitative milestones;

(c) quantitative targets, stipulating the year of the target;

(d) data with the required level of quality so that progress towards the target from the baseline can easily be calculated.

Implementation date: issue in 2022 of the programme statements for the 2023 budget

Recommendation 3.3 – The Commission should aim to receive timely performance information for all performance indicators, for instance by introducing new reporting tools on internet platforms.

Implementation date: Project launch in 2021

Recommendation 3.4 – The Commission should document the targets proposed so that the budgetary authority can assess their level of ambition. This will involve proposing targets for all indicators in spending programmes.

Implementation date: issue in 2022 of the programme statements for the 2023 budget

Recommendation 3.5 – The Commission should further improve the Programmes' Performance Overview, especially by:

(a) using one method for calculating progress towards the target from the baseline. If the Commission deems this is not feasible for a specific indicator, it should explain its approach in the PPO;

(b) explaining the rationale used to select performance indicators for each programme.

Implementation date: 2021 issue of the Programmes' Performance Overview

ANNEX 3.1

LIST OF PROGRAMMES INCLUDED IN OUR SAMPLE

MFF heading	Acronym	Programme name
1a	CEF	Connecting Europe Facility
1a	EFSI	European Fund for Strategic Investments
1a	Erasmus +	The Union Programme for Education, Training, Youth and Sport
1a	Horizon 2020	The Framework Programme for Research and Innovation
1b	CF	Cohesion Fund
1b	ERDF	European Regional Development Fund
1b	ESF	European Social Fund
1b	—	Fund for European Aid to the Most Deprived
2	EAFRD	European Agricultural Fund for Rural Development
2	EAGF	European Agricultural Guarantee Fund
2	EMFF	European Maritime and Fisheries Fund
2	LIFE	Programme for the Environment and Climate Action
3	—	Asylum, Migration and Integration Fund
3	—	Creative Europe Programme
3	—	Food and Feed
3	—	Internal Security Fund
4	DCI	Development Cooperation Instrument
4	ENI	European Neighbourhood Instrument
4	IPA II	Instrument for Pre-accession Assistance
4	—	Humanitarian Aid
Special Instruments	EGF	European Globalisation Adjustment Fund
Special Instruments	EUSF	European Union Solidarity Fund

Source: ECA

ANNEX 3.2

2018 RECOMMENDATIONS TO MEMBER STATES

SR Number	SR Title	Recommendation to Member States – number and area / summary
5/2018	Renewable energy for sustainable rural development: significant potential synergies but mostly unrealised	1. Rural proofing of future renewable energy policy (i.e. when designing future renewable energy policy, taking into account the circumstances and needs of the rural community and economy) 5. Better project selection taking into account value added to rural areas and project viability Note: recommendation 1 was addressed to the Commission, in cooperation with the Member States, and recommendation 5 to the Commission with Member States.
6/2018	Free movement of Workers – the fundamental freedom ensured but better targeting of EU funds would aid worker mobility	1. (a) Measuring awareness amongst citizens of existing tools relating to information provision on the freedom of movement of workers and reporting discrimination 3. Improving the collection and the use of data on patterns and flows of labour mobility and labour market imbalances 5. (b) Improving the monitoring of the EaSI-EURES effectiveness, especially with regard to job placements Note: recommendations 1 (a), 3 and 5 (b) are addressed to both the Commission and Member States 6. Addressing the limitations of the EURES Job mobility portal
8/2018	EU support for productive investments in businesses – greater focus on durability needed	1. (a) Promoting durability of the results 2. Taking durability into account in selection procedures 3. Emphasising durability in monitoring and reporting 4. Taking durability into account in evaluations Note: recommendation 4. is addressed to both the Commission and Member States 5. (b) Consistently applying clear corrective measures
9/2018	Public Private Partnerships in the EU: Widespread shortcomings and limited benefits	1. Do not promote a more intensive and widespread use of PPPs until the issues identified are addressed and the following recommendations successfully implemented Note: recommendation 1. is addressed to both the Commission and Member States 2. Mitigate the financial impact of delays and re-negotiations on the cost of PPPs borne by the public partner 3. (a) Base the selection of the PPP option on sound comparative analyses on the best procurement option 4. (a) Establishment of clear PPP policies and strategies 5. (b) Improved EU framework for better PPP project effectiveness

SR Number	SR Title	Recommendation to Member States – number and area / summary
12/2018	Broadband in the EU Member States: despite progress, not all the Europe 2020 targets will be met	2. Strategic planning (i.e. Member States to develop revised plans to show how they intend to meet high level targets for broadband after 2020) 4. Regulatory environment (i.e. Member States to review the mandate of their National Regulatory Authorities in accordance with the revised EU regulatory framework for telecoms)
21/2018	Selection and monitoring for ERDF and ESF projects in the 2014-2020 period are still mainly outputs-oriented	1. Results-oriented selection (i.e. Member States have selection criteria requiring the beneficiaries to define at least one genuine result indicator and an assessment of these expected results and indicators is included in the applications' assessment report…) 2. (a) Results-oriented monitoring (i.e. Member States to include quantified result indicators in the grant agreement, contributing to the result indicators set at OP level)
33/2018	Combating desertification in the EU: a growing threat in need of more action	1. Recommendation addressed to "the Commission, in cooperation with the Member States": Understanding land degradation and desertification in the EU

Source: ECA

ANNEX 3.3

DETAILED STATUS OF 2015 RECOMMENDATIONS BY REPORT

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
SR 01/2015	Inland Waterway Transport in Europe - No significant improvements in modal share and navigability conditions since 2001	1	Par. 52 Rec 1(a)					x	
		2	Par. 52 Rec 1(b)			x			
		3	Par. 54 Rec 2(a)			x			
		4	Par. 54 Rec 2(b)			x			
		5	Par. 54 Rec 2(c)					x	
SR 02/2015	EU-funding of Urban Waste Water Treatment plants in the Danube river basin - further efforts needed in helping Member States to achieve EU waste water policy objectives	1	Par. 108 Rec 1(a)				x		
		2	Par. 108 Rec 1(b)	x					
		3	Par. 108 Rec 1(c)	x					
		4	Par. 108 Rec 1(d)	x					
		5	Par. 108 Rec 1(e)	x					
		6	Par. 110 Rec 2(a)			x			
		7	Par. 110 Rec 2(b)	x					
		8	Par. 115 Rec 3(a)				x		
		9	Par. 115 Rec 3(b)				x		
		10	Par. 115 Rec 3(c)		x				
		11	Par. 115 Rec 3(d)			x			
		12	Par. 115 Rec 3(e)	x					
		13	Par. 117 Rec 4(a)				x		
		14	Par. 117 Rec 4(b)		x				
		15	Par. 119 Rec 5(a)	x					
		16	Par. 119 Rec 5(b)				x		
SR 03/2015	EU Youth Guarantee - first steps taken but implementation risks ahead	1	Par. 89 Rec 1					x	
		2	Par. 90 Rec 2	x					
		3	Par. 91 Rec 3	x					

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
SR 04/2015	Technical assistance - what contribution has it made to agriculture and rural development?	1	Par. 90 Rec 1		x				
		2	Par. 90 Rec 2				x		
		3	Par. 90 Rec 3	x					
		4	Par. 93 Rec 4			x			
SR 05/2015	Are financial instruments a successful and promising tool in the rural development area?	1	Par. 98 Rec 1	x					
		2	Par. 99 Rec 2	x					
		3	Par. 100 Rec 3		x				
		4	Par. 101 Rec 4	x					
		5	Par. 102 Rec 5					x	
		6	Par. 103 Rec 6						x
SR 06/2015	The integrity and implementation of the EU ETS	1	Par. 91 Rec 1(a)			x			
		2	Par. 91 Rec 1(b)	x					
		3	Par. 91 Rec 1(c)	x					
		4	Par. 92 Rec 2			x			
		5	Par. 93 Rec 3(a)			x			
		6	Par. 93 Rec 3(b)		x				
		7	Par. 93 Rec 3(c)	x					
		8	Par. 93 Rec 3(d)					x	
		9	Par. 93 Rec 3(e)					x	
		10	Par. 94 Rec 4(a)	x					
		11	Par. 94 Rec 4(b)	x					
		12	Par. 94 Rec 4(c)					x	
		13	Par. 94 Rec 4(d)					x	
		14	Par. 94 Rec 4(e)					x	
		15	Par. 94 Rec 4(f)					x	
		16	Par. 96 Rec 5(a)	x					
		17	Par. 96 Rec 5(b)	x					

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
		18	Par. 96 Rec 5(c)					x	
		19	Par. 97 Rec 6(a)	x					
		20	Par. 97 Rec 6(b)					x	
		21	Par. 97 Rec 6(c)					x	
SR 07/2015	The EU police mission in Afghanistan: mixed results (EEAS)	1	Par. 81 Rec 1	x					
		2	Par. 85 Rec 2(a)			x			
		3	Par. 85 Rec 2(b)	x					
		4	Par. 85 Rec 2(c)	x					
		5	Par. 86 Rec 3(a)	x					
		6	Par. 86 Rec 3(b)			x			
		7	Par. 86 Rec 3(c)	x					
		8	Par. 86 Rec 3(d)			x			
		9	Par. 86 Rec 3(e)			x			
		10	Par. 86 Rec 3(f)			x			
		11	Par. 87 Rec 4					x	
		12	Par. 88 Rec 5(a)			x			
		13	Par. 88 Rec 5(b)		x				
SR 08/2015	Is EU financial support adequately addressing the needs of micro-entrepreneurs?	1	Par. 68 Rec 1		x				
		2	Par. 68 Rec 2	x					
		3	Par. 69 Rec 3		x				
		4	Par. 72 Rec 4				x		
SR 09/2015	EU support for the fight against torture and the abolition of the death penalty	1	Par. 54 Rec 1	x					
		2	Par. 55 Rec 2	x					
		3	Par. 55 Rec 3	x					
		4	Par. 55 Rec 4				x		
		5	Par. 56 Rec 5	x					
		6	Par. 56 Rec 6				x		

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
SR 10/2015	Efforts to address problems with public procurement in EU cohesion expenditure should be intensified	1	Par. 99 Rec 1(a)		x				
		2	Par. 99 Rec 1(b)					x	
		3	Par. 100 Rec 2				x		
		4	Par. 101 Rec 3	x					
		5	Par. 104 Rec 4	x					
		6	Par. 102 Rec 5		x				
		7	Par. 105 Rec 6(a)			x			
		8	Par. 105 Rec 6(b)					x	
SR 11/2015	Are the fisheries partnership agreements well managed by the Commission?	1	Par. 90 Rec 1(a)	x					
		2	Par. 90 Rec 1(b)			x			
		3	Par. 90 Rec 1(c)	x					
		4	Par. 90 Rec 1(d)	x					
		5	Par. 90 Rec 1(e)	x					
		6	Par. 93 Rec 2(a)			x			
		7	Par. 93 Rec 2(b)	x					
		8	Par. 93 Rec 2(c)	x					
		9	Par. 95 Rec 3(a)	x					
		10	Par. 95 Rec 3(b)	x					
		11	Par. 95 Rec 3(c)	x					
SR 12/2015	The EU priority of promoting a knowledge-based rural economy has been affected by poor management of knowledge-transfer and advisory measures	1	Par. 94 Rec 1(a)					x	
		2	Par. 94 Rec 1(b)		x				
		3	Par. 94 Rec 1(c)					x	
		4	Par. 94 Rec 1(d)		x				
		5	Par. 96 Rec 2(a)					x	
		6	Par. 96 Rec 2(b)		x				
		7	Par. 98 Rec 3(a)		x				
		8	Par. 98 Rec 3(b)		x				

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
		9	Par. 100 Rec 4(a)					x	
		10	Par. 100 Rec 4(b)			x			
		11	Par. 102 Rec 5		x				
SR 13/2015	EU support to timber-producing countries under the FLEGT action plan	1	Par. 58 Rec 1		x				
		2	Par. 58 Rec 2	x					
		3	Par. 58 Rec 3	x					
		4	Par. 58 Rec 4	x					
		5	Par. 59 Rec 5		x				
		6	Par. 59 Rec 6	x					
SR 14/2015	The ACP Investment Facility: does it provide added value? (EIB)	1	Par. 40 Rec 1	x					
		2	Par. 41 Rec 2	x					
SR 15/2015	ACP–EU Energy Facility support for renewable energy in East Africa	1	Par. 42 Rec 1(i)	x					
		2	Par. 42 Rec 1(ii)	x					
		3	Par. 43 Rec 2(i)	x					
		4	Par. 43 Rec 2(ii)	x					
		5	Par. 43 Rec 2(iii)	x					
		6	Par. 43 Rec 2(iv)	x					
		7	Par. 43 Rec 2(v)	x					
		8	Par. 44 Rec 3(i)	x					
		9	Par. 44 Rec 3(ii)	x					
SR 16/2015	Improving the security of energy supply by developing the internal energy market: more efforts needed	1	Par. 115 Rec 1	x					
		2	Par. 116 Rec 2(a)					x	
		3	Par. 116 Rec 2(b)	x					
		4	Par. 117 Rec 3		x				
		5	Par. 118 Rec 4	x					
		6	Par. 121 Rec 5(a)	x					
		7	Par. 121 Rec 5(b)	x					

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
		8	Par. 122 Rec 6(a)	x					
		9	Par. 122 Rec 6(b)	x					
		10	Par. 122 Rec 6(c)	x					
		11	Par. 123 Rec 7(a)	x					
		12	Par. 123 Rec 7(b)			x			
		13	Par. 123 Rec 7(c)		x				
		14	Par. 125 Rec 8		x				
		15	Par. 126 Rec 9			x			
SR 17/2015	Commission's support of youth action teams: redirection of ESF funding achieved, but insufficient focus on results	1	Par. 81 Rec 1					x	
		2	Par. 84 Rec 2(a)		x				
		3	Par. 84 Rec 2(b)			x			
		4	Par. 84 Rec 2(c)			x			
		5	Par. 84 Rec 2(d)	x					
		6	Par. 86 Rec 3		x				
SR 18/2015	Financial assistance provided to countries in difficulties	1	Par. 182 Rec 1	x					
		2	Par. 183 Rec 2	x					
		3	Par. 184 Rec 3	x					
		4	Par. 189 Rec 4	x					
		5	Par. 190 Rec 5	x					
		6	Par. 191 Rec 6	x					
		7	Par. 192 Rec 7	x					
		8	Par. 194 Rec 8	x					
		9	Par. 204 Rec 9	x					

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
SR 19/2015	More attention to results needed to improve the delivery of technical assistance to Greece	1	Par. 75 Rec 1	x					
		2	Par. 76 Rec 2	x					
		3	Par. 76 Rec 3	x					
		4	Par. 76 Rec 4	x					
		5	Par. 76 Rec 5	x					
		6	Par. 78 Rec 6	x					
		7	Par. 78 Rec 7	x					
SR 20/2015	The cost-effectiveness of EU Rural Development support for non-productive investments in agriculture	1	Par. 74 Rec 1(a)			x			
		2	Par. 74 Rec 1(b)					x	
		3	Par. 75 Rec 2(a)					x	
		4	Par. 75 Rec 2(b)	x					
		5	Par. 77 Rec 3(a)			x			
		6	Par. 77 Rec 3(b)					x	
		7	Par. 80 Rec 4(a)					x	
		8	Par. 80 Rec 4(b)	x					
		9	Par. 80 Rec 4(c)					x	
		10	Par. 80 Rec 4(d)	x					
		11	Par. 80 Rec 4(e)	x					
		12	Par. 81 Rec 5(a)					x	
		13	Par. 81 Rec 5(b)	x					
SR 21/2015	Review of the risks related to a results-oriented approach for EU development and cooperation action	1	Par. 83 Rec 1		x				
		2	Par. 83 Rec 2		x				
		3	Par. 83 Rec 3	x					
		4	Par. 83 Rec 4	x					
		5	Par. 83 Rec 5	x					

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
SR 22/2015	EU supervision of credit rating agencies – well established but not yet fully effective (ESMA)	1	Par. 110 Rec 1	x					
		2	Par. 110 Rec 2	x					
		3	Par. 110 Rec 3	x					
		4	Par. 110 Rec 4	x					
		5	Par. 110 Rec 5	x					
		6	Par. 110 Rec 6			x			
		7	Par. 110 Rec 7			x			
		8	Par. 110 Rec 8	x					
SR 23/2015	Water quality in the Danube river basin: progress in implementing the water framework directive but still some way to go	1	Par. 172 Rec 1(a)	x					
		2	Par. 172 Rec 1(b)	x					
		3	Par. 172 Rec 1(c)	x					
		4	Par. 172 Rec 1(d)					x	
		5	Par. 172 Rec 1(e)					x	
		6	Par. 172 Rec 1(f)					x	
		7	Par. 182 Rec 2(a)	x					
		8	Par. 182 Rec 2(b)					x	
		9	Par. 182 Rec 2(c)					x	
		10	Par. 182 Rec 2(d)					x	
		11	Par. 191 Rec 3(a)	x					
		12	Par. 191 Rec 3(b)			x			
		13	Par. 191 Rec 3(c)	x					
		14	Par. 191 Rec 3(d)			x			
		15	Par. 191 Rec 3(e)			x			
		16	Par. 191 Rec 3(f)					x	
		17	Par. 191 Rec 3(g)					x	

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
SR 24/2015	Tackling intra-Community VAT fraud: More action needed	1	Par. 113 Rec 1	x					
		2	Par. 114 Rec 2					x	
		3	Par. 114 Rec 3	x					
		4	Par. 115 Rec 4(a)	x					
		5	Par. 115 Rec 4(b)	x					
		6	Par. 115 Rec 4(c)	x					
		7	Par. 115 Rec 4(d)	x					
		8	Par. 115 Rec 4(e)	x					
		9	Par. 116 Rec 5					x	
		10	Par. 116 Rec 6				x		
		11	Par. 117 Rec 7				x		
		12	Par. 118 Rec 8	x					
		13	Par. 118 Rec 9					x	
		14	Par. 118 Rec 10					x	
		15	Par. 119 Rec 11					x	
		16	Par. 120 Rec 12	x					
		17	Par. 121 Rec 13	x					
		18	Par. 122 Rec 14					x	
SR 25/2015	EU support for rural infrastructure: potential to achieve significantly greater value for money	1	Par. 101 Rec 1(a)					x	
		2	Par. 101 Rec 1(b)			x			
		3	Par. 101 Rec 1(c)					x	
		4	Par. 101 Rec 1(d)			x			
		5	Par. 106 Rec 2(a)					x	
		6	Par. 106 Rec 2(b)		x				
		7	Par. 106 Rec 2(c)					x	

SR	Report title	No.	SR paragraph	Fully Implemented	Implemented in most respects	Implemented in some respects	Not implemented	Could not be verified	No longer relevant
		8	Par. 106 Rec 2(d)					x	
		9	Par. 109 Rec 3(a)			x			
		10	Par. 109 Rec 3(b)					x	

ANNEX 3.4

IMPROVEMENTS ACHIEVED AND REMAINING WEAKNESSES OF PARTIALLY IMPLEMENTED RECOMMENDATIONS BY REPORT

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 01/2015	Inland Waterway Transport in Europe - No significant improvements in modal share and navigability conditions since 2001	2	Par. 52 Rec 1(b)	Implemented in some respects	The award criteria for CEF calls, including those calls that give priority to IWW, refer to the relevance, maturity, impact and quality of the proposed actions.	There are no improvements regarding ESIF funds. The Commission cannot impose the selection of more relevant or advanced projects on Member States (MS). The Commission does not focus its funding on projects with advanced plans to eliminate nearby bottlenecks.
		3	Par. 54 Rec 2(a)	Implemented in some respects	The Commission is conducting studies related to the potential of waterborne transport. CNC annual work plans contain information on potential benefits of inland navigation.	There is no evidence of effective coordination efforts across MS.
		4	Par. 54 Rec 2(b)	Implemented in some respects	The CNC annual work plans are finalised with the MS and take into account the latest information received from them and stakeholders as well as the results of the latest calls of proposal.	There is no evidence that the Commission and MS agreed on specific and achievable objectives and precise milestones to eliminate bottlenecks on corridors, that coordination among different MS is effective and that the adopted CNC annual work plans are enforceable.
SR 02/2015	EU-funding of Urban Waste Water Treatment plants in the Danube river basin - further efforts needed in helping Member States to achieve EU waste water policy objectives	6	Par. 110 Rec 2(a)	Implemented in some respects	For agglomerations above 2000 p.e., the new formats for reporting information under UWWTD Article 17 provide information on forecast investments to achieve compliance.	No such information has been collected for agglomerations below 2000 p.e.
		10	Par. 115 Rec 3(c)	Implemented in most respects	A dedicated study has been carried out. The subsequent recommendations are currently being considered in the framework of the Urban Waste Water Treatment Directive (UWWTD) evaluation.	DG ENV's conclusion regarding our recommendation, i.e. the need for mandatory measurements of overflows, is still pending.
		11	Par. 115 Rec 3(d)	Implemented in some respects	Cost-benefit analysis quality has improved, thus allowing reduction of oversized Waste Water Treatment Plants (WWTP) in some cases.	There is still a risk of oversized wastewater treatment plants.
		14	Par. 117 Rec 4(b)	Implemented in most respects	In March 2016 the Commission adopted the Fertilising Products Regulation Proposal.	The adoption of the revised Fertilising Products Regulation is still pending. Inclusion of sewage sludge in the list of fertilisers depends upon the results of an ongoing technical study.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 04/2015	Technical assistance (TA) - what contribution has it made to agriculture and rural development	1	Par. 90 Rec 1	Implemented in most respects	The Commission has formally implemented the recommendation. To clarify the scope and application of TA, the Commission has issued a guidance fiche for the MS. To monitor implementation by the MS, the Commission has (as we recommended) introduced a split in the reporting table between administrative and other costs in order to monitor MS use of TA (other than NRN). Guidance fiche provided to MS on scope and eligible costs of TA. The Commission introduced the recommended split between administrative and other costs in the TA monitoring table.	The added value of the actions taken following the recommendation is questionable. While the Commission has implemented recommendation 1 (clarify and monitor), its action did not address our underlying finding identified in the report, i.e. that a large share of MS spending on TA "effectively amounts to budget support". The use of TA for general administrative costs is not against EU Regulations and is therefore allowed by the Commission. As part of the monitoring, proper evaluation of these costs and comparison between the MS could help to identify best/worst practices to be included in the guidance fiche and the recommendations to MS.
		4	Par. 93 Rec 4	Implemented in some respects	The Commission introduced the recommendation for all MS to include a suitable performance system to assess the contribution of TA to the policy, including SMART objectives.	The Commission did not take enough actions for the establishment of the performance framework at Commission level, according to the evidence available to the auditors. The Commission encouraged the MS, through the recommendation in its observation letters for 2014-2020 RDP approval, to set adequate indicators for TA, but this is not compulsory. No information about the state of implementation of the performance framework at MS level was available from the Commission. Very little required monitoring data was available, and this data was not used in practice. The indicators for NRN and for the other costs (which also cover TA support for capacity building) are not balanced taking account of the relative size of the expenditure related to these items.
SR 05/2015	Are financial instruments a successful and promising tool in the rural development area?	3	Par. 100 Rec 3	Implemented in most respects	Better alignment of leverage with specific target groups in rural development and a standard leverage of 5 foreseen in the new EIF AGRI guarantee facility (i.e. meaning 1 € invested by the EU fund results in 5 € invested in total). Increased revolving effects linked to stricter management of funds and less overcapitalisation.	The Commission has not defined exact targets for revolving effects. The actual impact of stricter fund management on revolving effects remains open.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 06/2015	The integrity and implementation of the EU ETS	1	Par. 91 Rec 1(a)	Implemented in some respects	A commodity derivatives task force with members of ESMA (European Securities and Markets Authority) and the Commission, DG FISMA, is as at May 2019 developing further activities. The Commission will conduct a reassessment of potential risks linked to the granting of exemptions from MiFID II to compliance traders and smaller market participants as part of the MiFID mid-term review in early 2020.	The results of the risk assessment and potential corrective measures are still outstanding.
		4	Par. 92 Rec 2	Implemented in some respects	The study, which will be the basis for the assessment of the legal status of the ETS, was finalised and approved in December 2018. This study would enable the Commission to analyse how it needs to react.	The legal nature of allowances and their benefits or disadvantages has still not been analysed by the Commission, and therefore the Commission is not aware of the need for and nature of action that could potentially be taken.
		5	Par. 93 Rec 3(a)	Implemented in some respects	MiFID II and MAR are applicable which changes the status of all ETS allowances to financial instruments. This also entails reporting and data gathering which facilitates the control of ETS transactions. The application of the reverse charge VAT mechanism by most MS reduces the risk of VAT fraud.	The analysis and reactive (corrective) response by the Commission to the newly applicable MiFID II package is still outstanding. Furthermore, there is still a lack of cross-border coordination.
		6	Par. 93 Rec 3(b)	Implemented in most respects	Enhanced control framework under MiFID II and the draft new registry regulation. Increased and systematic exchange of information, guidance and coordination provided by the Commission to the MS.	The MiFID II package is in application now and needs to be assessed for its results. The new Registry Regulation has been adopted by the Commission and, following a period of legislative scrutiny until 12 May 2019, is currently pending publication in the Official Journal of the EU. It will be applicable as from 2021 and only then can it be assessed.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 07/2015	The EU police mission in Afghanistan: mixed results (EEAS)	2	Par. 85 Rec 2(a)	Implemented in some respects	Evidence of pre-deployment training curriculum for international contracted and seconded staff.	No evidence of the actual training courses. No country specific elements. No evidence for the pre-deployment training of local staff.
		6	Par. 86 Rec 3(b)	Implemented in some respects	Mission staff awareness of local culture has increased via specific training.	Available evidence does not demonstrate implementation of the recommendation for local trainers/trainees.
		8	Par. 86 Rec 3(d)	Implemented In some respects	Some evidence of needs assessments for mentoring activities have been provided by the auditee.	Evidence for mentoring files, mentoring milestones and mentoring logbooks has not been identified.
		9	Par. 86 Rec 3(e)	Implemented in some respects	Written handover information is required from all outgoing staff, with specific guidelines for various targeted populations and situations.	Specific guidelines for handover for mentors have not been found in the supporting documentation.
		10	Par. 86 Rec 3(f)	Implemented in some respects	Enhanced approach introduced by EEAS to reinforce the links between mission implementation plans and operational planning/monitoring.	Specific instructions/evidence for synergies with mentoring activities and for clearly linking project objectives with MIP milestones have not been found by the auditors.
		12	Par. 88 Rec 5(a)	Implemented in some respects	Both the Commission and EEAS have improved their guidelines covering risks related to mission closure. Elements of standardised central support from HQ are already in the making or have been partially put in place e.g. the Mission Support Platform.	No comprehensive and common EEAS/Commission strategy has been developed yet for the downsizing and closure of CSDP missions. The weakness that mission closure plans are to be submitted only three months ahead of the end of the operational phase of the mandate has not been remedied. The available guidelines do not comprehensively address the different risks inherent in the downsizing and closure process.
		13	Par. 88 Rec 5(b)	Implemented in most respects	Development of improved HQ support: Mission Support Platform, Enterprise Resource Planning IT system, standardised inventory/accounting systems, Warehouse II project to provide enhanced capabilities: all these offering economies of scale, etc.	Specific instructions/evidence on how to avoid accumulation of assets and how to prevent financial risk exposure in accumulating assets have not been found by the auditors; nor have examples of timely central instructions/evidence from the EEAS and the Commission to CSDP missions for avoiding asset accumulation.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 08/2015	Is EU financial support adequately addressing the needs of micro-entrepreneurs	1	Par. 68 Rec 1	Implemented in most respects	The Commission has issued guidance on the ex-ante assessment for OPs, on ex-ante conditionality and on the thematic objectives. It also provided separate detailed guidance for ex-ante assessments of financial instruments.	As there is no specific indicator for micro-entrepreneurs, there is still no available information for the 2014-2020 period on how much grant funding is allocated to micro-entrepreneurs.
		3	Par. 69 Rec 3	Implemented in most respects	The requirements for setting up financial instruments for the 2014-2020 period include appropriate measures to identify specific market gaps and design appropriate instruments. The Commission has the possibility, by participating in the monitoring committees in an advisory capacity, of making recommendations on the criteria for selecting operations and any other issues relevant to the implementation of the programme.	With regard to grant schemes, in order to effectively address the recommendation, the Commission should review the eligibility criteria discussed in the monitoring committees and make real use of the possibility of making recommendations where necessary.
SR 10/2015	Efforts to address problems with public procurement in EU cohesion expenditure should be intensified	1	Par. 99 Rec 1(a)	Implemented in most respects	The Commission has updated the categorisation in IMS, so that it now includes 26 sub-categories for public procurement errors. In addition, the preparations for the setting-up of the analytical tool are currently being finalised. As soon as the desired dashboards have been tested successfully, the tool will be made available to all users. Analyses of the database have already been performed and the results submitted to national authorities.	Currently only about a fourth of the cases in IMS contain detailed information on the sub-category, which will improve with new cases being recorded and old cases being closed. The analysis tool and the interfaces between the IMS and MS databases are at an advanced stage but have still to be finalised.
		6	Par. 102 Rec 5	Implemented in most respects	For some infringement procedures and interruptions of payments, systematic issues with public procurement have been identified. The Commission should continue with interruptions and suspensions of payments, where justified by serious PP deficiencies.	Legality and regularity audits by the Commission should lead to net financial corrections for public procurement errors in cases of serious systematic deficiencies not detected and corrected by the MS before submission of the accounts. In 2018, the Commission started to carry out compliance audits.
		7	Par. 105 Rec 6(a)	Implemented in some respects	Improvement of the implementation of the e-procurement stages in MS. They are on a good track to meet the deadlines imposed by the Directive.	Further stages of e-procurement still need to be implemented as foreseen by the directive (e-invoicing by April 2019). The Commission should urge all MS to actively participate in and use the ARACHNE database.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 11/2015	Are the fisheries partnership agreements well managed by the Commission?	2	Par. 90 Rec 1(b)	Implemented in some respects	The Commission services promote similar technical provisions in SFPAs at regional level.	Since there are, however, no documented regional strategies, progress is still to be made with regard to the Commission's definition and documentation of regional strategies.
		6	Par. 93 Rec 2(a)	Implemented in some respects	DG MARE have taken measures to simplify the licensing process such as using direct communication with the third country partner.	However, current procedures for monitoring the licensing process are still affected by weaknesses. Progress remains to be made regarding the Commission's monitoring and the follow-up of the licensing process.
SR 12/2015	The EU priority of promoting a knowledge-based rural economy has been affected by poor management of knowledge-transfer and advisory measures	2	Par. 94 Rec 1(b)	Implemented in most respects	The guidance document for measure 1 was updated with a paragraph on the analysis of training needs.	The information in the guidance document is not detailed enough on how to conduct a recurrent analysis of training needs.
		4	Par. 94 Rec 1(d)	Implemented in most respects	The Commission has updated the guidance document for measure 2 with a specific paragraph on the need for MS to set up advisory services.	The MS' compliance concerning the setting-up of advisory services is not monitored by the Commission within the monitoring committees and the annual review meetings.
		6	Par. 96 Rec 2(b)	Implemented in most respects	The guidance documents for measure 2 and public procurement were updated with information on in-house delivery.	The monitoring by the Commission of MS procedures as required by our recommendation is not sufficient.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
		7	Par. 98 Rec 3(a)	Implemented in most respects	The recommendation to the Commission to strengthen the checks on the reasonableness of costs has been implemented, and the recommendation that the Commission and MS cooperate on ensuring effective managing authority control systems, in particular as regards risks of fraud and reasonableness of project costs, has been implemented in most respects. DG AGRI's new checklists for compliance testing, applied since early 2018, have strengthened checks on the reasonableness of costs. Moreover, the Commission has issued the "Guidance Document on Control and Penalty rules in Rural Development" for the MS, Annex 1 to which contains the checklist as we recommended for assessing the design of control systems in relation to the risks associated with the cost of the rural development projects.	The Commission provided little evidence of additional training to managing authorities discussing the issue of the reasonableness of costs when SCOs are not used. Despite having some common objectives, checks on the reasonableness of costs and the use of SCOs are not the same issue. The simplified cost options cover only a small part of total spending on rural development (see Special Report 11/2018) and therefore the need for the managing authorities to assess the reasonableness of costs remains. (No further best practice in administrative procedures for assessing the reasonableness of costs has been identified by the Commission in the ENRD platform).
		8	Par. 98 Rec 3(b)	Implemented in most respects	The Commission took several actions, including the introduction and approval of Partnership Agreements, and a stricter approach to ensure complementarity of EU funds in the 2014-2020 programming period compared to the previous one.	Discussion topics of the inter-service groups are general and do not cover individual programme measures. Moreover, our report (special report 16/2017) found shortcomings affecting partnership agreements and rural development programmes in terms of cross-sector complementarity and synergies.
		10	Par. 100 Rec 4(b)	Implemented in some respects	The guidance document for measure 1, "Knowledge transfer and information actions", was updated with a paragraph on the analysis of training needs.	The updated guidance document for measure 1 does not provide clear guidance for the execution of feedback procedures by the MS. Even though the example of standard methodology from our report also includes the evaluation of training programmes, this is not mentioned in the guidance text and the common understanding might be that the methodology is only for the analysis of needs.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
		11	Par. 102 Rec 5	Implemented in most respects	The Commission has started to perform conformity audits in the field of knowledge and innovation.	Several planned audits were not carried out in practice, and a possible reason for that is the low score from the risk analysis. Our auditors acknowledge that DG AGRI started to conduct conformity audits in the field of knowledge transfer and innovation after the publication of our special report in this field. However, according to DG AGRI's MAWP 2016-2018 (p. 49), the explanation for the absence of audits before SR 12/2015 is low expenditure during the 2007-2013 programme period. We have no assurance that the risk profile of knowledge transfer and advisory measures has been increased to the extent stated in the Commission's reply.
SR 13/2015	EU support to timber-producing countries under the FLEGT action plan	1	Par. 58 Rec 1	Implemented in most respects	The Commission developed a general Forest Law Enforcement, Governance and Trade (FLEGT) work plan for 2018-2022 that includes activities with deadlines (target years), a responsible party (EC and/or MS) and expected deliverables. The EC concluded a contract with an external organisation (CIFOR) that would allow for the creation of a comprehensive action plan and monitoring and evaluation system with indicators, targets and baseline values. The Commission is developing a FLEGT achievement database, which tracks the progress realised by the countries signatory to a VPA.	The work plan is concluded for 2018-2022 instead of 2016-2020. The different timeframe has an impact on the monitoring and reporting on the FLEGT programme (see recommendation 5). The draft work plan is not yet formally binding for the Commission, lacking all necessary approvals. It also lacks a dedicated implementing budget, rendering performance monitoring and accountability more difficult.
		5	Par. 59 Rec 5	Implemented in most respects	The work plan, which will serve as a basis for the required reporting, has been drafted. An evaluation of FLEGT was produced in 2016, a good substitute for a mere progress report. The Commission intends to prepare the next progress report in 2019. It should cover the activities of the work plan, which includes the main reporting elements required by our recommendation.	The work plan lacks all the necessary approvals to date. The deadline for the 2018 progress report has not been met.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 16/2015	Improving the security of energy supply by developing the internal energy market: more efforts needed	4	Par. 117 Rec 3	Implemented in most respects	The Commission made progress with the development and implementation of the legal framework.	Implementation is still ongoing. Market inefficiency is still to be resolved.
		12	Par. 123 Rec 7(b)	Implemented in some respects	The Commission uses tools to model energy markets and CBA methodologies are continually improving.	The Commission partially accepted and implemented the recommendation. Having analytical and modelling capacities created in-house could have considerable resource implications either for the Commission or for ACER.
		13	Par. 123 Rec 7(c)	Implemented in most respects	The Commission works with ENTSO-E and ENTSO-G so that the needs assessment functions as an input for internal energy market related infrastructure planning in the EU.	The approval of the new model to be submitted by the ENTSOs is pending.
		14	Par. 125 Rec 8	Implemented in most respects	The Commission refined its planning procedures and in particular the prioritisation and funding of projects of common interest.	The approval of the new model to be submitted by the ENTSOs is pending.
		15	Par. 126 Rec 9	Implemented in some respects	The Commission has taken up the underlying idea of the recommendation.	Commission has not made legal proposals.
SR 17/2015	Commission's support of youth action teams redirection of ESF funding achieved, but insufficient focus on results	2	Par. 84 Rec 2(a)	Implemented in most respects	The requirement to explain the intended effects in terms of their expected effectiveness in relation to EU and OP objectives is encoded in the legal framework of the ESI funds (see Article 30 CPR).	Weaknesses in the application of the requirement to justify the expected impact of the changes on the Union strategy for smart, sustainable and inclusive growth.
		3	Par. 84 Rec 2(b)	Implemented in some respects	Checklist documenting the conclusions of the assessment of OP amendments (incl. contribution of the OP to the Europe 2020 strategy and the achievement of economic, social and territorial cohesion, the expected results, indicators and performance framework).	Checklist did not document the analysis of the reasonableness of the additional results.
		4	Par. 84 Rec 2(c)	Implemented in some respects	Reprogramming / reallocation of funds is reported in the AIRs.	Past and expected effectiveness linked to the OP amendments are not sufficiently reported in the AIRs.
		6	Par. 86 Rec 3	Implemented in most respects	Checklists document consistency and plausibility checks carried out by the Commission on data reported in the AIRs. Audits on the reliability of performance data are planned.	No evidence of systematic reliability checks on AIR data or checks on information received following ad-hoc requests.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 20/2015	The cost-effectiveness of EU Rural Development support for non-productive investments in agriculture	1	Par. 74 Rec 1(a)	Implemented in some respects	The Commission has issued technical guidance on the Annual Implementation Report. Furthermore, the Commission supports MS with reporting in the annual implementation report through the Monitoring Committee meetings.	The recommendation that the Commission carry out monitoring through the MS annual implementation reports is still ongoing and its implementation can only be verified after the 2019 interim evaluation.
		5	Par. 77 Rec 3(a)	Implemented in some respects	The Commission has introduced guidance to encourage the MS to set up the additional results indicators.	As the guidance is not a binding and obligatory document for the MSs, the Commission cannot 'ensure' the degree to which the MS actually followed the guidance and defined the additional specific indicators. To what extent the Commission actions ensured the recommended monitoring or assessment of the NPI contribution during the evaluations for the 2014-20 programming period can be only assessed from the 2019 enhanced annual implementation report evaluations.
SR 21/2015	Review of the risks related to a results-oriented approach for EU development and cooperation action	1	Par. 83 Rec 1	Implemented in most respects	A Staff Working Document on 'A Revised EU International Cooperation and Development Results Framework in line with the Sustainable Development Goals of the 2030 Agenda for Sustainable Development and the New European Consensus on Development' – SWD(2018)444 – was published in October 2018, and contains an annex explicitly dedicated to results-related terminology.	A Practical Guide on Managing EU Interventions for International Cooperation, including fiches aiming to clarify key concepts and terminology related to results, was not yet available at the time of the follow-up. Moreover, inconsistencies in terminology usage were still present in key methodological documents. For example, a diagram presented by the Commission in its toolbox for evaluators of EU development actions still contained definitions that were inconsistent with the terminology adopted in the context of the results framework. In addition, targets and baselines are still missing in some action documents.
		2	Par. 83 Rec 2	Implemented in most respects	The Commission has put in place several measures to ensure that a clear link is established between actions and expected results, including cross-cutting issues, notably instructions and a template for completing action documents and relevant provisions in the handbook for Results-Oriented Monitoring.	some guidelines still needed to be completed, including a Practical Guide on Managing EU Interventions for International Cooperation.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 22/2015	EU supervision of credit rating agencies – well established but not yet fully effective (ESMA)	6	Par. 110 Rec 6	Implemented in some respects	ESMA has updated its Questions & Answers on the application of the CRA Regulation by adding a new section (Part V) on Disclosure and Presentation of Credit Ratings.	Finalisation of the on-going consultation and publication of a final report in view of issuing the Guidelines on Disclosure Requirements Applicable to Credit Ratings.
		7	Par. 110 Rec 7	Implemented in some respects	Integration of CEREP system with RADAR reporting system. During the process of integration, ESMA reviewed the data at rating level in both systems and corrected identified inconsistencies, resulting in improved data quality.	Despite the work done by ESMA so far to improve the information content of CEREP the following disclosures are still not available: average default rates, average transition matrices, multi-query downloads, information on and explanations of corrections of past errors in reported data, information on changes to methodologies.
SR 23/2015	Water quality in the Danube river basin: progress in implementing the water framework directive but still some way to go	12	Par. 191 Rec 3(b)	Implemented in some respects	The Commission continues to carry out the assessment of the minimum requirements by reference to their existence and relevance, and assesses the existence and adequacy of GAEC standards.	The Commission did not accept this recommendation.
		14	Par. 191 Rec 3(d)	Implemented in some respects	The Commission identified potential streamlining opportunities.	The Commission has already taken concrete action to implement this recommendation, and it should continue to take them forward in the next reporting process under the Nitrates Directive (2020) and the Water Framework Directive (2022).
		15	Par. 191 Rec 3(e)	Implemented in some respects	The Commission is preparing and planning to issue recommendations to several MS concerning the inclusion of environmental and resource costs in cost recovery in the next implementation report.	Within the Common Implementation Strategy, MS recently agreed to work on a technical report identifying the approaches currently in place regarding cost recovery for water services in line with the requirements of Article 9 of the Water Framework Directive (including in the field of diffuse pollution). Data and information needs in this field are due to be examined. An Ad-hoc Task Group on Economics will be established to carry out this task under the direction of the Strategic Coordination Group. This task is expected to be finalised by the end of 2020 (see Common Implementation Strategy Work Programme 2019 – 2021).

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
SR 25/2015	EU support for rural infrastructure: potential to achieve significantly greater value for money	2	Par. 101 Rec 1(b)	Implemented in some respects	As we recommended, the Commission has promoted the adoption of best practices in mitigating the risk of deadweight by ensuring that rural development programmes contain effective arrangements on complementarity. Prior to approval of the MS RD programmes, DG AGRI sent observations for improvements to the managing authorities asking that they be taken into account in subsequent versions.	The Commission has issued no specific guidance document on how to mitigate the risk of deadweight, or on how to avoid simple substitution of other funds by the RDP resources. There is no evidence that deadweight has been effectively mitigated for the 2017-2020 programmes. DG AGRI intends to make an initial assessment of this based on the 2019 interim evaluation. The Commission has no evidence that the risk of replacing national funds with EADFR funds has been mitigated.
		4	Par. 101 Rec 1(d)	Implemented in some respects	DG AGRI has improved examination of the arrangements for ensuring complementarity between the EU funds due to greater attention being paid to these issues and with the help of the newly-created partnership agreements. DG AGRI estimates that initial conclusions assessing their effectiveness could be drawn from the 2019 interim evaluation of the programmes, as we recommended.	Effectiveness of the arrangements for ensuring complementarity between the different EU funds of the current programming period still unknown. Annual implementation reports will only be available later in 2019. Our special report 16/2017 found shortcomings affecting partnership agreements and rural development programmes in terms of cross-sector complementarity and synergies.
		6	Par. 106 Rec 2(b)	Implemented in most respects	The recommendation that the Commission strengthen checks on the reasonableness of costs has been implemented, and the recommendation that the Commission and MS cooperate on ensuring effective MA control systems, in particular as regards the risk of fraud and reasonableness of project costs, has been implemented in most respects. DG AGRI's new checklists for compliance testing, applied since early 2018, have strengthened checks on the reasonableness of costs. Moreover, the Commission has issued the "Guidance Document on Control and Penalty rules in Rural Development" for the Member States, Annex 1 to which contains the checklist as we recommended for assessing the design of control systems in relation to the risks associated with the cost of the rural development projects.	The Commission has provided no further evidence of additional MA training on the reasonableness of costs since our 2017 follow-up. No further best practice regarding administrative procedures for assessing the reasonableness of costs has been identified by the Commission in the ENRD platform.

SR	Report title	No.	SR paragraph	ECA Final Assessment	Improvements	Weaknesses
		9	Par. 109 Rec 3(a)	Implemented in some respects	The Commission has provided guidance on the evaluation of rural development programmes to managing authorities through the website of the European Network of Rural Development and through its Evaluation Helpdesk.	Collection of data necessary for assessing performance indicators and programme results in general is still insufficient. According to the Commission's reply to the follow-up audit, the Commission intends to assess "information allowing to draw conclusions on efficiency and effectiveness of the funds spend during the evaluations foreseen by CMEF" in 2019.

ANNEX 3.5

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS FOR PERFORMANCE FRAMEWORK ISSUES

Year	ECA recommendation	ECA's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	Not applicable	Insufficient evidence
			In most respects	In some respects			
2015	**Recommendation 1:** The Commission should translate the Horizon 2020 legislation high-level objectives into operational objectives at work programme level, so that, by assessing the performance of work programmes and calls, they can effectively be used as drivers for performance.			x			
	Recommendation 2: The Commission should further clarify the links between the Europe 2020 strategy (2010-2020), the multi-annual financial framework (2014-2020), the Commission priorities (2015-2019) through, for instance, the strategic planning and reporting process (2016-2020).This would strengthen monitoring and reporting arrangements and enable the Commission to report effectively on the contribution of the EU budget towards Europe 2020 objectives.			x			
	Recommendation 3: The Commission should, across all its activities, use the terms input, output, result and impact consistently and in line with its better regulation guidelines.			x			

Source: ECA

CHAPTER 4

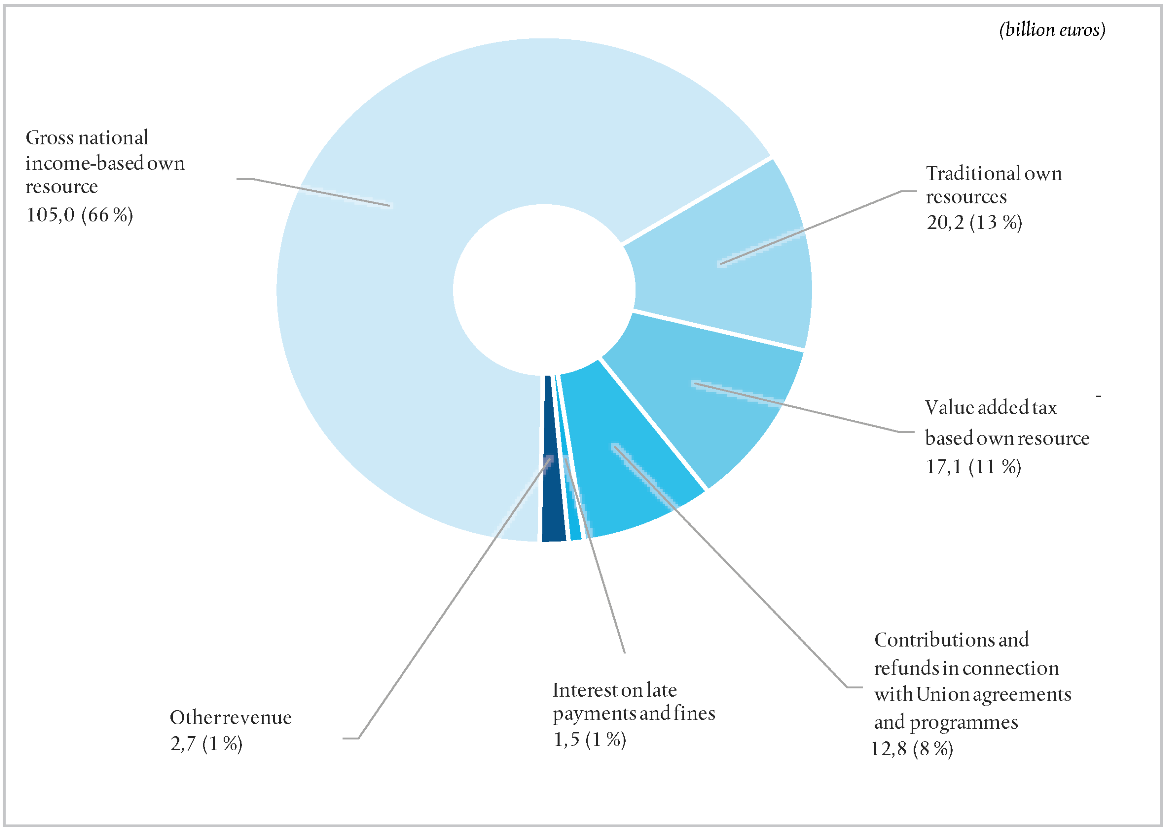
Revenue

CONTENTS

Introduction

4.1. This chapter presents our findings for revenue, which comprises *own resources* and other revenue. ***Box 4.1*** gives a breakdown of revenue in 2018.

Box 4.1
Revenue – 2018 Breakdown



Total revenue 2018 (1) **159,3 billion euros**

(1) This amount represents the EU's actual budget revenue. In the statement of financial performance, the amount of 163,1 billion euros is calculated using the accrual-based system.

Source: 2018 *consolidated accounts* of the European Union

Brief description of revenue

4.2. Most revenue (90 %) comes from the three categories of own resources:

(a) The ***gross national income*-based (GNI-based) own resource** provides 66 % of the EU's revenue, and balances the EU budget after revenue from all other sources has been calculated. Each Member State contributes proportionally based on its GNI [1].

[1] The initial contribution is calculated based on forecast GNI. Differences between the forecast and final GNI are adjusted in subsequent years, and affect the distribution of own resources between Member States rather than the total amount collected.

(b) ***Traditional own resources*** **(TOR)** provide 13 % of the EU's revenue. They mainly comprise customs duties on imports. These are collected by the Member States. The EU budget receives 80 % of the total amount; Member States retain the remaining 20 % to cover collection costs.

(c) The ***value added tax-based*** **(VAT-based) own resource** provides 11 % of the EU's revenue. Contributions under this own resource are calculated based on a uniform rate ([2]) applied to Member States' harmonised VAT assessment bases.

4.3. Revenue also includes amounts received from other sources. The most significant of these sources are *contributions* and refunds arising from Union *agreements* and programmes ([3]) (8 % of EU's revenue).

Audit scope and approach

4.4. Applying the audit approach and methods set out in ***Annex 1.1***, we have drawn assurance for our audit opinion on revenue by assessing key selected systems, complemented by transaction testing. We examined the following for revenue in 2018:

(a) a sample of 55 Commission recovery orders ([4]) designed to be representative of all sources of revenue;

(b) the Commission's systems for:

(i) ensuring that the Member States' GNI and VAT data is an appropriate basis for calculating own-resources contributions, and calculating and collecting these contributions ([5]);

(ii) managing TOR, verifying the reliability of Member States' reporting and ensuring that Member States have effective systems to collect, report and make available the correct amounts of TOR;

(iii) managing fines and penalties; and

(iv) calculating the amounts resulting from correction mechanisms.

(c) the systems for TOR accounting ([6]) in three selected Member States (Italy, France and Spain) ([7]); and

(d) the reliability of the regularity information in the *annual activity reports* of DG Budget and Eurostat.

Regularity of transactions

4.5. This section presents our observations on the *regularity* of *transactions*. We have based our conclusion on the regularity of the revenue transactions underlying the EU accounts on our assessment of the Commission's systems for calculating and collecting revenue ([8]) and our examination of a sample of 55 recovery orders, none of which were affected by *quantifiable error*. ***Annex 4.1*** provides an overview of the results of transaction testing.

Examination of elements of internal control systems and annual activity reports

4.6. As explained in paragraph 4.4, we selected and examined a number of systems. The observations which follow do not affect our overall opinion on the regularity of EU revenue (see chapter 1). However, they do highlight either weaknesses which are significant for individual categories of own resources or areas in which the calculation and collection of revenue could be improved.

([2]) A reduced VAT call rate of 0,15 % applies to Germany, the Netherlands, and Sweden, while the call rate for the other Member States is 0,3 %.
([3]) This mainly consists of revenue relating to the EAGF and EAFRD (particularly the *clearance of accounts* and *irregularities*), the participation of non-EU countries in research programmes, and other contributions and refunds to EU programmes and activities.
([4]) A recovery order is a document in which the Commission records amounts it is owed.
([5]) Our starting point was the agreed GNI data and the harmonised VAT base prepared by the Member States. We did not directly test the statistics and data produced by the Commission and the Member States.
([6]) Our audit used data from the visited Member States' TOR accounting systems. We could not audit undeclared imports or those that had escaped customs surveillance.
([7]) These three Member States were selected based on the size of their TOR contribution and on our risk assessment.
([8]) See paragraph 12 in ***Annex 1.1.***

Weaknesses in Member States' management of TOR

4.7. Each Member State sends the Commission a monthly statement of customs duties it has collected (the A accounts) and a quarterly statement of established duties not yet collected (the B accounts). The reliability of these statements is crucial for calculating TOR.

4.8. We analysed the drawing up of the A and B accounts in Italy, France and Spain, and the procedures for collecting the TOR amounts owed to the EU budget.

4.9. We did not identify significant problems in the drawing up of the monthly statements of customs duties collected in Italy or France. However, in Spain, we found weaknesses in the control systems for compiling these statements (see ***Box 4.2***).

Box 4.2
Weaknesses in TOR control systems in Spain

We found a lack of supervision of changes made in the Spain's TOR accounting system. The country's A account statement for May 2018 contained an entry reducing the amounts made available to the EU budget by half a million euros. Spain's national authorities explained that an accounting officer had made this entry manually to offset an automatic booking created by the accounting system in 2008. However, there was no evidence that his superiors had approved this entry.

After investigating the case, the Spanish authorities concluded that the May 2018 reduction should not have been made and corrected this error. This shows weaknesses in the control systems, which should have prevented this entry from being made in the first place.

4.10. In the three Member States we visited, we noted weaknesses in the management of established duties not yet collected. These mainly concerned delays in enforcing recovery of customs debts and the late recording or writing off of debts in the accounting system (9). We found similar weaknesses in other Member States in previous years (10). The Commission, in its inspections, also continues to detect and report shortcomings relating to the B accounts. We have previously made recommendations (11) regarding the B accounts, but these have not yet been fully implemented.

Weaknesses in the Commission's verifications of the Member States' TOR statements

4.11. We examined the Commission's systems for verifying the reliability of Member States' reporting and ensuring that Member States have effective systems to collect, report and make available the correct amount of TOR. We focused on the Commission's annual inspections in Member States and consistency checks on the A and B account statements.

4.12. We found that the Commission's 2018 inspection programme was not sufficiently supported by a structured and documented risk assessment, and that it did not rank Member States by level of risk or present the impact and probability of risks. Therefore, we could not confirm that inspections properly covered the highest-risk areas.

4.13. In addition, we noted that the Commission, upon receiving TOR statements each month or quarter, neither carried out a systematic analysis of unusual changes in the statements nor collected relevant information explaining the reasons for these changes.

The numbers of GNI and VAT reservations remain unchanged overall, while TOR open points have increased

4.14. When the Commission identifies cases of potential non-compliance with the own-resources regulations (12) in data provided by Member States, it leaves the data open for possible changes until it is satisfied that this data is compliant. For cases concerning GNI or VAT, this procedure is called setting a reservation; for TOR cases, the corresponding procedure is called creating an open point. The Commission determines the impact on the EU budget of the reservations and open points after obtaining the necessary information from the Member States.

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(9) We did not detect a material impact on the amounts recoverable from Member States reported in the EU consolidated accounts.

(10) See paragraph 4.15 of our 2017 annual report, paragraph 4.15 of our 2016 annual report, paragraph 4.18 of our 2015 annual report, paragraph 4.22 of our 2014 annual report, paragraph 2.16 of our 2013 annual report, and paragraphs 2.32 and 2.33 of our 2012 annual report.

(11) See ***Annex 4.3*** recommendations No 2 and No 3.

(12) Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements (OJ L 168, 7.6.2014, p. 39) and Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union (OJ L 168, 7.6.2014, p. 29).

4.15. ***Annex 4.2*** provides an overview of the outstanding reservations and open points resulting from the Commission's verifications and inspections. Overall, the numbers of GNI ([13]) and VAT reservations remained similar to the previous year, while the number of TOR open points increased by 14 %.

We noted delays in the Commission's follow-up and closing of TOR open points

4.16. Our review of selected TOR open points with financial impact revealed some delays in the Commission's follow-up and closing of these points. In addition, we noted that 27 % of the open points had been outstanding for more than five years.

The Commission expects to close its multi-annual GNI verification cycle in 2019, but will continue assessing the impact of globalisation on national accounts until 2024

4.17. The Commission continued to carry out its multi-annual GNI verifications in the Member States, which it expects to complete by the end of 2019. These verifications examine whether the compilation procedures Member States use for their national accounts comply with ESA 2010 ([14]), and whether GNI data is comparable, reliable and exhaustive ([15]).

4.18. In 2018, the Commission placed a general reservation relating to France's estimation of its GNI. It did so – exceptionally – because France had provided insufficient information on the compilation of its GNI (see ***Box 4.3***). The lack of sufficient information from France hinders the timely completion of the Commission's verification cycle and increases the risk of needing to correct the country's contributions at a later stage. It may also impact the calculation of the other Member States' contributions.

Box 4.3
The Commission acted promptly to protect the EU's financial interests by placing a general reservation on France's GNI data

The Commission verifies the comparability, reliability and exhaustiveness of the data used by the Member States to compile their GNI for the purpose of calculating own-resource contributions. This includes verifying Member States' GNI inventories. These inventories describe the compilation sources and methods used for estimating GNI.

France's original GNI inventory was of insufficient quality in terms of format, content and details. Therefore, the Commission was unable to carry out its verification according to the timetable it had agreed with the Member States. The Commission used France's GNI data to calculate the country's contribution, but nevertheless placed a general reservation on this data due to concerns about its quality. The Commission uses this category of reservations, exceptionally, when it considers there is a significant risk of failure to protect the EU's financial interests.

4.19. In our 2016 annual report, we reported that the Commission would need to carry out additional work to assess the potential impact of globalisation on GNI data ([16]). In 2018, it continued to work together with Member States on developing a methodology to assess the impact of globalisation on the compilation of GNI data, particularly with regard to the relocation of large multinational companies.

4.20. The Commission and the Member States agreed on the end of 2024 as the deadline for the necessary improvements. This implies that, at the end of the verification cycle, the Commission will have to set reservations relating to globalisation to keep the Member States' GNI data open for possible changes in their estimation of multinational activities.

([13]) There are two main categories of GNI reservations – specific and general. Specific reservations are divided into transaction-specific, transversal and process-specific reservations. In this paragraph, we refer to transaction-specific reservations. There were no transversal reservations open at the end of 2018. There are process-specific reservations on all Member States in order to ensure that, during the verification cycle, they can take the results of the Commission's work into account when calculating their GNI-based own resources for 2010 onwards. For general reservations, see paragraph 4.18.

([14]) ESA (European system of national and regional accounts) 2010 is the EU's internationally compatible accounting framework. It is used to create a systematic and detailed description of an economy. See Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (OJ L 174, 26.6.2013, p. 1).

([15]) See Article 5 of Council Regulation (EC, Euratom) No 1287/2003 of 15 July 2003 on the harmonisation of gross national income at market prices (GNI Regulation) (OJ L 181, 19.7.2003, p. 1). This was replaced by Regulation (EU) 2019/516 of the European Parliament and of the Council of 19 March 2019 on the harmonisation of gross national income at market prices and repealing Council Directive 89/130/EEC, Euratom and Council Regulation (EC, Euratom) No 1287/2003 (GNI Regulation) (OJ L 91, 29.3.2019, p. 19), see in particular Article 5(2).

([16]) See paragraphs 4.10 to 4.13, and 4.23 of our 2016 annual report.

Annual activity reports and other governance arrangements

4.21. The information provided in the 2018 annual activity reports published by DG Budget and Eurostat corroborates our observations and conclusions. For the third year in a row, DG Budget set a *reservation* on the value of TOR collected by the UK, due to the country's failure to make available to the EU budget customs duties evaded as a result of under-valued textile and footwear imports from China. We note that the scope of this year's reservation has been broadened to include other Member States' potential TOR losses as a result of the above under-valuation, which have not yet been estimated.

4.22. In our 2017 annual report ([17]), we reported on the *infringement procedure* ([18]) launched against the United Kingdom due to its failure to take adequate measures to mitigate the risk of customs fraud by under-valuation. In 2018, the Commission sent a reasoned opinion to the United Kingdom and calculated the total losses (principal and interest) to the EU budget at 2,8 billion euros ([19]). In March 2019, the Commission referred the case to the Court of Justice.

Conclusion and recommendations

Conclusion

4.23. The overall audit evidence indicates that the level of error in revenue was not material. The revenue-related systems which we examined were, overall, effective. The key internal TOR controls we assessed at the Commission and in certain Member States were partially effective (see paragraphs 4.7 - 4.13).

Recommendations

4.24. ***Annex 4.3*** shows the findings of our follow-up review of the five recommendations we made in our 2015 annual report. The Commission had implemented one recommendation in some respects, three in most respects and one in full.

4.25. Based on this review and our findings and conclusions for 2018, we recommend that the Commission

Recommendation 4.1

Implement a more structured and documented risk assessment for its TOR inspection planning, including an analysis of each Member State's level of risk and of risks in relation to the drawing up of the A and B accounts (see paragraph 4.12).

Timeframe: by the end of 2020

Recommendation 4.2

Reinforce the scope of its monthly and quarterly checks of TOR A and B account statements by carrying out a deeper analysis of the unusual changes in order to ensure a prompt reaction to potential anomalies (see paragraphs 4.9 and 4.13).

Timeframe: by the end of 2020

([17]) See paragraph 4.17 of our 2017 annual report.
([18]) This is the main enforcement action that the Commission can take when Member States do not apply EU law.
([19]) Claims against the UK amount to a total of 3,5 billion euros, including this infringement case. This is recorded in the 2018 EU consolidated accounts as part of the amount recoverable from Member States.

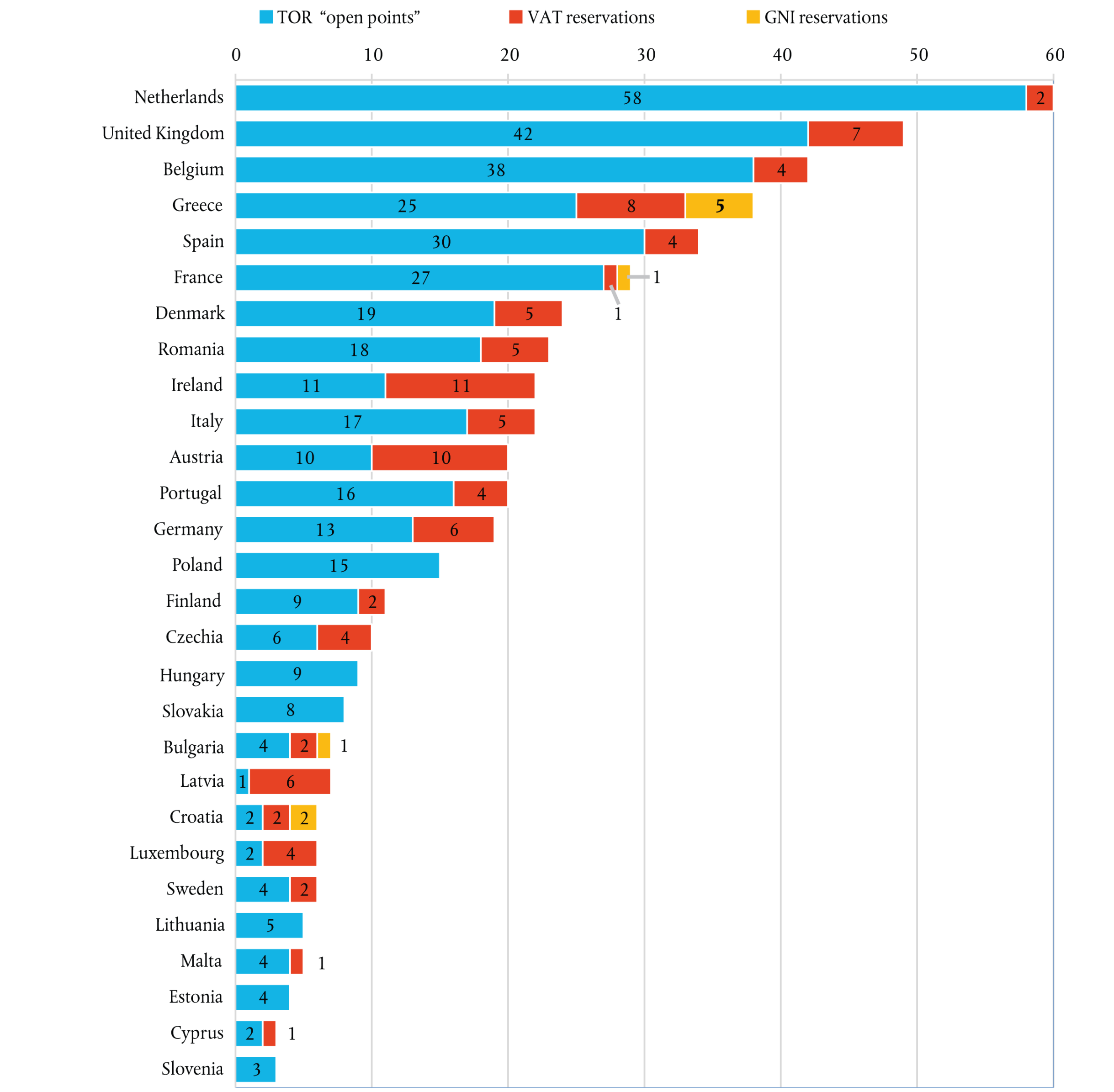
ANNEX 4.1

RESULTS OF TRANSACTION TESTING FOR REVENUE

	2018	2017
SIZE AND STRUCTURE OF THE SAMPLE		
Total transactions:	**55**	55
ESTIMATED IMPACT OF QUANTIFIABLE ERRORS		
Estimated level of error	**Free from material error**	Free from material error

ANNEX 4.2

NUMBERS OF OUTSTANDING GNI RESERVATIONS, VAT RESERVATIONS AND TOR OPEN POINTS BY MEMBER STATE AT 31.12.2018



	TOR "open points"	VAT reservations	GNI reservations
TOTAL 31.12.2018	**402**	**96**	**9**
TOTAL 31.12.2017	354	92	7

Source: European Court of Auditors ([1]).

([1]) Numbers for GNI reservations represent only transaction-specific reservations (covering the compilation of specific national accounts' components in a Member State). There are also GNI process-specific reservations outstanding in all Member States, covering the data compilation from 2010 onwards (except for Croatia, where they cover the period from 2013 onwards), and one general reservation for France (see paragraph 4.18).

ANNEX 4.3

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS FOR REVENUE

Year	Court recommendation	ECA's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	Not applicable	Insufficient evidence
			In most respects	In some respects			
2015	The Commission should: **Recommendation 1**: take the necessary steps to ensure that economic operators receive a similar treatment in all Member States as regards the time-barring of the debt notifications following a post-clearance audit.		X				
	Recommendation 2: provide Member States with guidance to improve their management of the items recorded in the B accounts.		X				
	Recommendation 3: ensure that Member States correctly declare and make available the amounts collected from the B accounts.		X				
	Recommendation 4: facilitate to the extent possible the recovery of customs debts by the Member States, where the debtors are not based in an EU Member State.			X			
	Recommendation 5: Improve the checks on the calculations of the EEA/EFTA contributions and correction mechanisms.	X					

Notes on our analysis of the progress made:

Recommendation 1: The Commission has proposed a Directive on the Union legal framework for customs infringements and sanctions (which has not yet been approved by the Council), and considered carrying out an enquiry across all Member States with a view to start legal investigations where necessary.

Recommendation 2: The Commission carried out several informative activities and issued two guidance documents that contribute to improving Member States' management of the B accounts. However, in our view, the Commission could provide more practical guidance on making entries in the different columns of the A and B account statements (as required by Commission Implementing Decision (EU, Euratom) 2018/194 of 8 February 2018) (see paragraph 4.10).

Recommendation 3: The inconsistencies between some Member States' A and B account statements have been eliminated. In the case of one Member State, this problem persists, but to a lesser extent than in previous years. The Commission indicates it will continue to follow up on the issue until it is resolved (see paragraph 4.10).

Recommendation 4: The entry into force of the Union Customs Code (UCC) in 2016 provided additional means to ensure the collection of relevant data. However, these improvements did not fully solve the problem. The Commission is assessing the effectiveness of the UCC provisions in addressing the issues we identified in relation to the recovery of customs debts. This work is still ongoing.

Recommendation 5: The Commission improved and strengthened the procedures and checklists for the calculations of the European Economic Area (EEA)/European Free Trade Association (EFTA) contributions and correction mechanisms.

CHAPTER 5

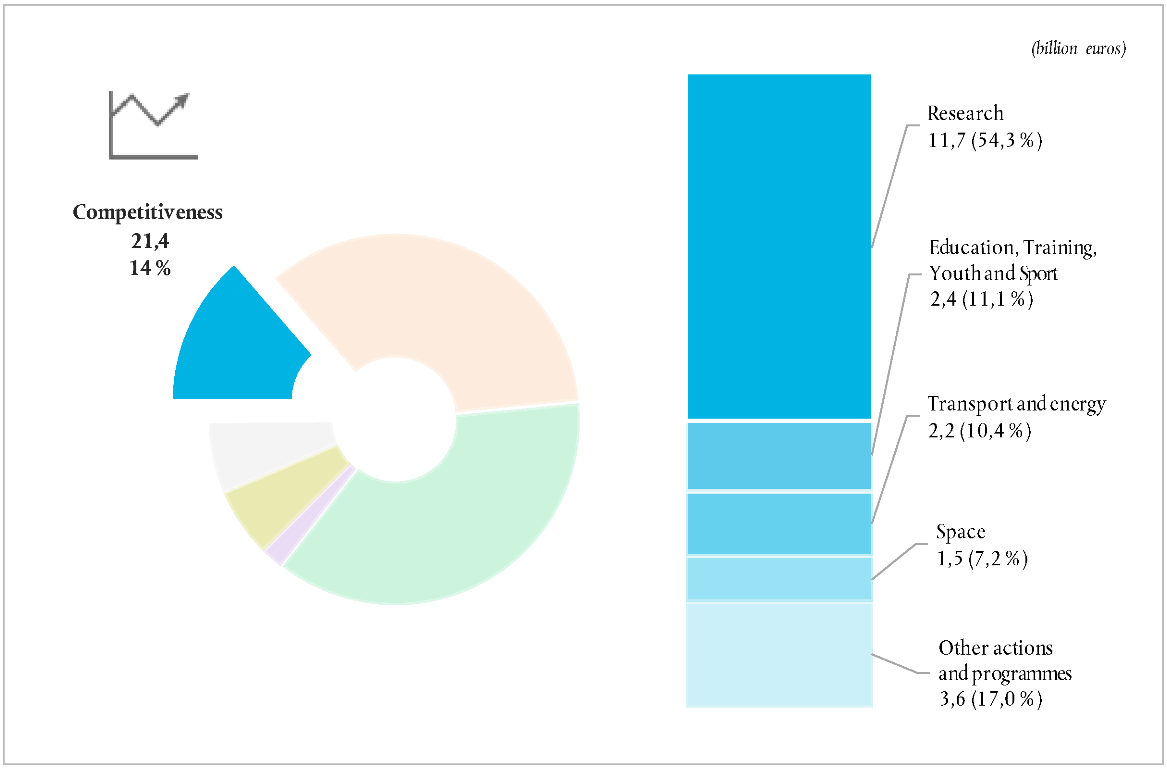
Competitiveness for growth and jobs

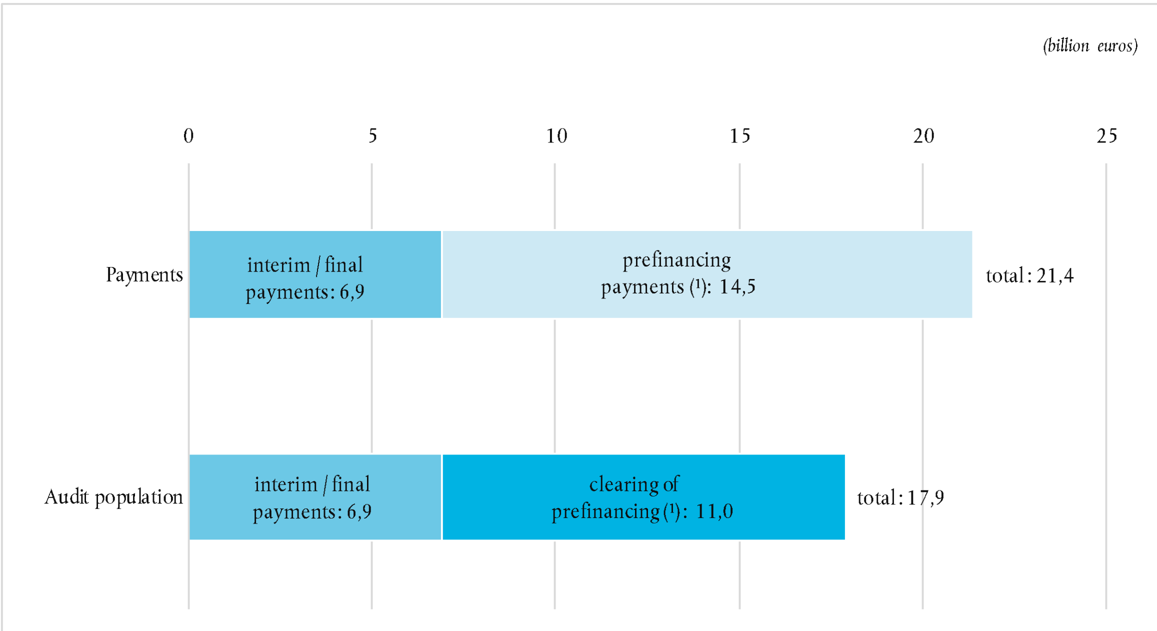
CONTENTS

Introduction

5.1. This chapter presents our findings for MFF sub-heading 1a ‘Competitiveness for growth and jobs’. ***Box 5.1*** gives an overview of the main activities and spending under this sub-heading in 2018.

Box 5.1
MFF sub-heading ‘Competitiveness for growth and jobs’ — 2018 Breakdown





(1) In line with the harmonised definition of underlying transactions (for details see ***Annex 1.1***, paragraph 13).

Source: 2018 *consolidated accounts* of the European Union.

Brief description of 'Competitiveness for growth and jobs'

5.2. The programmes financed by the expenditure allocated to this sub-heading lie at the heart of the European project and aim to foster an inclusive society, stimulate growth and create employment in the EU.

5.3. This policy area includes spending on research and innovation, education and training, trans-European networks in energy, transport and telecommunications, space programmes and business development. The main programmes financed under this sub-heading are the Seventh Framework Programme (FP7) ([1]) and Horizon 2020 ([2]) (H2020) for research and innovation, and Erasmus+ for education, training, youth and sport.

5.4. It also encompasses large infrastructure projects, such as the space programmes Galileo (the EU's global satellite navigation system) and EGNOS (the European Geostationary Navigation Overlay Service); the EU's contribution to the International Thermonuclear Reactor and the Connecting Europe Facility (CEF).

5.5. Most spending on these programmes is directly managed by the Commission and takes the form of *grant*s to public or private beneficiaries participating in projects. The Commission provides advances to beneficiaries upon signature of a grant agreement or financing decision and reimburses the EU-funded costs they report, deducting the advances. In the case of Erasmus+, expenditure is mostly managed by national agencies on behalf of the Commission (around 80 % of grants), with the Education, Audiovisual and Culture Executive Agency (EACEA) handling the remaining 20 %.

5.6. The principal risk to the *regularity* of transactions is beneficiaries declaring ineligible costs which are neither detected nor corrected before reimbursement. This risk is particularly high for programmes with complex rules concerning the reimbursement of eligible expenditure, such as the Research Programmes. These rules can be misinterpreted by beneficiaries, especially those less familiar with the rules, such as *small-and medium-sized enterprises* (SMEs) and first-time or non-member country participants.

Audit scope and approach

5.7. Applying the audit approach and methods set out in ***Annex 1.1*** to provide a specific assessment, we examined a sample of 130 transactions, in line with ***Annex 1.1***. The sample was designed to be representative of the full range of spending under this MFF sub-heading ([3]). It consisted of 81 transactions in research and innovation (22 under FP7 and 59 under H2020) and 49 transactions under other programmes and activities, notably Erasmus+, CEF and space programmes. The beneficiaries audited were located in 19 Member States and 4 non-member countries. Our objective was to contribute to the overall *statement of assurance* as described in ***Annex 1.1***.

5.8. We also examined the following for 'Competitiveness for Growth and Jobs' in 2018:

— the reliability of the regularity information in the *annual activity reports* of the Directorate-General for Research and Innovation (DG RTD), the EACEA and the Executive Agency for SMEs (EASME), the consistency of the methodology for estimating amounts at risk, future corrections and recoveries, and their inclusion in the Commission's Annual Management and Performance Report (AMPR).

— the reliability of the Commission's ex-post audit work on the regularity of transactions in H2020. We performed this work in view of our strategy aimed at applying an *attestation approach* in the future.

— For ***Part 2*** of this Chapter, the Commission's reporting on the *performance* of research and innovation projects.

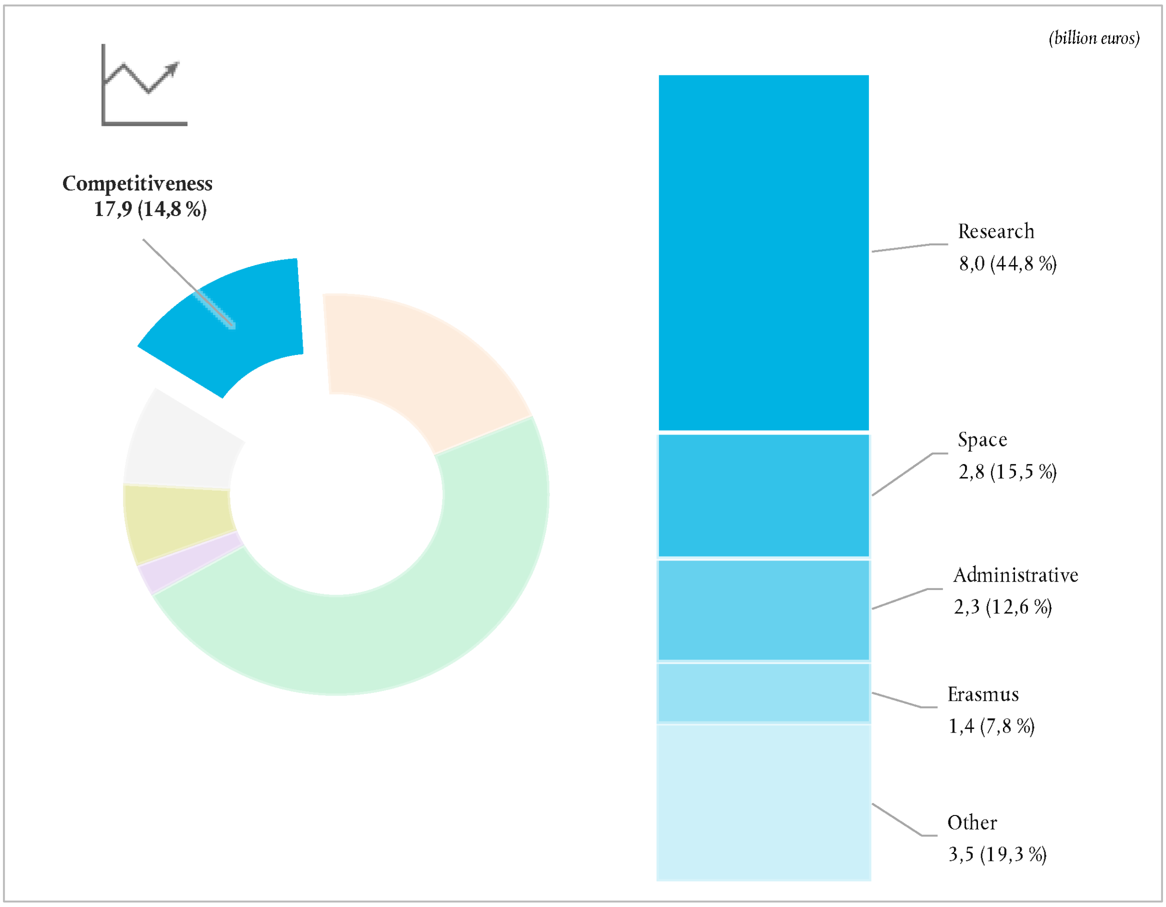
([1]) The Seventh Framework Programme for Research and Technological development (2007-2013).
([2]) The 2014-2020 Framework Programme for Research and Innovation (Horizon 2020).
([3]) This sample was divided into two main strata on the basis of our assessment of risk to regularity. The first stratum included high risk areas (notably FP7 and H2020) with an intensified audit coverage, and other high risk areas (such as CEF). The second stratum covered low-risk expenditure such as administrative expenditure and the Space programmes.

Part 1: Regularity of transactions

5.9. ***Annex 5.1*** provides an overview of the results of *transaction* testing. Of the 130 transactions examined, 54 (41,5 %) contained *errors*. On the basis of the 31 errors we have quantified, we estimate the level of error for the whole MFF1a area, including low-risk expenditure, to be 2,0 % ([4]). This figure is lower than the last two years, when the *estimated level of error* was slightly above 4 %.

5.10. Account should be taken of the significant diversity of the programmes and types of spending included in our audit population for this sub-heading and the differing levels of risk, and consequently error, this entails (see ***Box 5.2***).

Box 5.2
Breakdown of the 2018 audit population for MFF1a

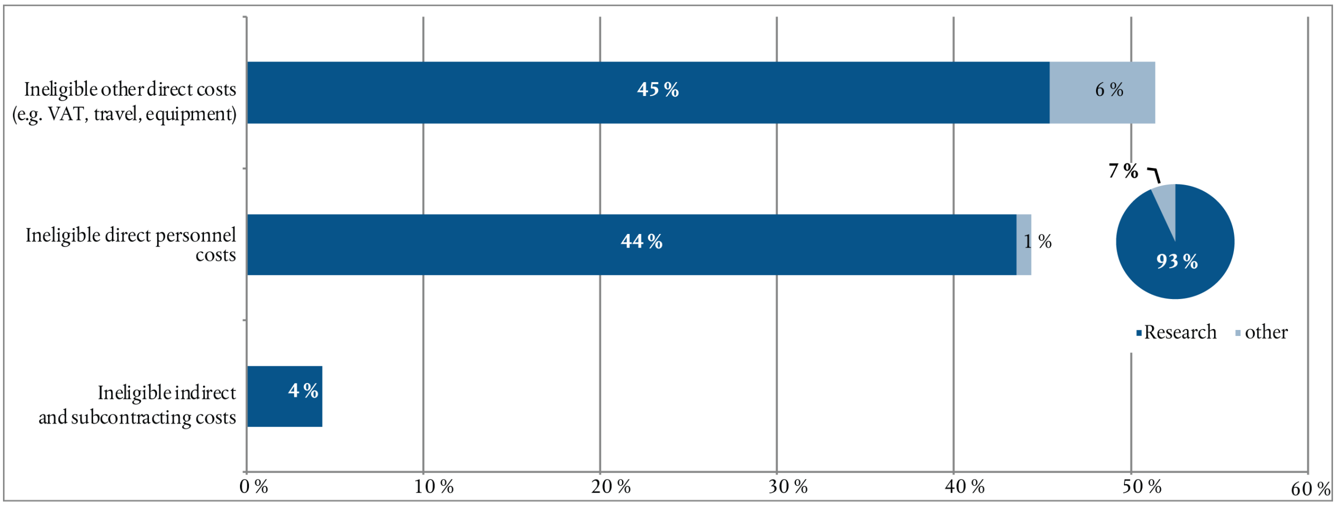


Source: European Court of Auditors.

([4]) We base our calculation of error on a representative sample. The figure quoted is the best estimate. We have 95 % confidence that the estimated level of error in the population lies between 0,7 % and 3,2 % (the lower and upper error limits respectively).

5.11. ***Box 5.3*** gives a breakdown of our estimated level of error for 2018, distinguishing between research and other transactions.

Box 5.3
Breakdown of the estimated level of error by transaction type and error characteristics



Source: European Court of Auditors.

5.12. As in previous years, research spending remains a higher-risk area and the main source of error. We found *quantifiable errors* relating to ineligible costs in 27 of the 81 sampled research and innovation transactions (8 under FP7 and 19 under H2020), accounting for 94 % of our estimated level of error for this sub-heading in 2018.

5.13. This is the first year in which H2020 has represented a major part of the research projects in our sample (over 70 %). The simplification measures introduced by this programme, in particular establishing a flat rate for *indirect costs* and giving beneficiaries the option of applying fixed annual productive hours for the hourly-rate calculation, have reduced the risk of error. This may have contributed to the decrease in the overall error rate for the sub-heading. However, despite the improvements in the programme design and the Commission's control strategy, our results show that research spending alone is still affected by material error. The Commission itself estimates that the H2020 error rate remains above the 2 % *materiality threshold* (see paragraph 5.28).

5.14. For other programmes and activities we detected quantifiable errors in 4 of the 49 sampled transactions. The errors concerned projects under the Erasmus+ and CEF programmes and consisted of:

(a) beneficiaries declaring costs for ineligible activities or incorrect calculation of student mobility or travel allowances (Erasmus+); or

(b) incorrect calculation of personnel costs or, in one case, ineligible VAT declared in the cost statement (CEF).

5.15. The Commission had applied corrective measures that directly affected four of the transactions we sampled. These measures had little *impact* on our calculations, as they reduced our estimated level of error for this chapter by only 0,1 percentage points. In eight cases of quantifiable error by the beneficiaries, the reimbursement claim contained sufficient information for the Commission, the national authorities or independent auditor to prevent or detect and correct the error before accepting the expenditure. Examples included incorrect methodology used to calculate personnel costs, and ineligible other costs being included in the cost claim. Had the Commission made proper use of all the information at its disposal, the estimated level of error for this chapter would have been 0,3 percentage points lower.

A significant number of the quantifiable errors found concerned ineligible personnel costs

5.16. With a funding model based on the reimbursement of eligible costs, the rules for declaring personnel costs are complex, and the calculation of these costs remains a major source of error in the cost claims. While Horizon 2020 generally has simpler funding rules than FP7, in some aspects the methodology for calculating personnel costs has increased in complexity, thereby increasing the risk of error. These observations were also made in our special report 28/2018 ([5]), in which we highlighted the difficulties some changes have created for beneficiaries.

5.17. One element introduced in H2020 that frequently leads to errors is the rule requiring the use of the annual hourly rate from the most recent closed financial year for declaring costs relating to the subsequent (non-closed) year of reporting. This rule is difficult to apply and does not always reflect the beneficiary's actual costs as it does not take into account any salary increases from one year to the next.

Frequent errors in other direct costs

5.18. The share of other direct costs in the estimated level of error is higher than last year. Some of the errors related to equipment costs being erroneously charged in full to EU projects. The large infrastructure costs declared by some beneficiaries also contributed to the estimated level of error (more information in paragraph 5.22). Other causes of error included ineligible VAT and the reimbursement of travel costs not related to the audited EU project.

Private entities, in particular SMEs and new entrants, are more prone to error

5.19. One of the strategies to boost European research is to increase the participation of the private sector, especially start-up companies and SMEs. More than 50 % of the quantifiable errors found (17 out of 31) involved funding for private beneficiaries, even though these transactions accounted for only 39 (30 %) of the 130 transactions sampled. New entrants and SMEs represented approximately 10 % of the overall sample but their share of the quantifiable errors is 30 %. A particularly prevalent source of error in our audits is the incorrect declaration of salary costs by SMEs. These results show that SMEs and new entrants are more error-prone than other beneficiaries, a pattern also confirmed by the Commission's audits. An example is provided in ***Box 5.4***.

Box 5.4 **Multiple errors in a single claim by an SME**
One SME in the United Kingdom healthcare sector declared 1,1 million euros in personnel, subcontracting and other costs over the reporting period for its first EU project. Nine of the 10 items audited contained material errors, which represented between 10 and 36 % of the value of the individual items tested. In particular, the beneficiary did not use a method to calculate personnel costs in line with H2020 rules.

Most non-quantifiable errors concerned time-recording and delays in distributing funds

5.20. Within the 130 transactions sampled, we also found 38 non-quantifiable errors relating to cases of non-compliance with funding rules ([6]). These cases arose more frequently in research and innovation projects and mainly concerned weaknesses in beneficiaries' time-recording systems, which often do not meet basic requirements and thus do not provide adequate assurance on the reliability of the hours worked on the funded projects.

5.21. We also found delays in the project coordinator's distribution of EU funds to the other project participants. Although some of these delays were understandable, they could have significant financial consequences for project participants, especially SMEs.

([5]) Special report 28/2018 'The majority of simplification measures brought into Horizon 2020 have made life easier for beneficiaries, but opportunities to improve still exist'.

([6]) Fifteen transactions contained both quantifiable and non-quantifiable errors.

Horizon 2020: large research infrastructure costs – cumbersome ex-ante verification procedures with little impact on error prevention

5.22. Under H2020 beneficiaries can declare capitalised and operating costs for large research infrastructure (LRI) if they comply with certain conditions and after having obtained a positive ex-ante assessment of their costing methodology from the Commission. The ex-ante verification requires considerable time and other resources and can take up to two years involving numerous visits by the Commission to the *beneficiary's* premises. This was the case with one of the beneficiaries we audited which had declared LRI costs. Moreover, despite the extensive ex-ante verification, we found that errors could still occur in the application of the methodology. In two out of three cases of LRI cost declarations, we found significant overclaims of these costs amounting to 75 000 (12 % of LRI costs) and 130 000 euros (30 % of LRI costs) due to incorrect application of the methodology.

Erasmus+: Divergence between national and EU rules

5.23. In our audits, we noted that beneficiaries of EU funding were obliged to follow national rules that were not fully coherent with EU principles (see ***Box 5.5***).

Box 5.5
Examples where national and EU rules are not fully coherent

Example 1

Under the Erasmus+ Vocational and Education Training scheme, staff accompanying students on exchange are entitled to a daily allowance ranging from 90 to 144 euros for stays of up to 14 days, and 70 % of this amount for longer stays. Under *simplified cost options*, the EU pays the allowance to the organisation that employs the staff accompanying the students. In Slovenia, however, the national rules set an amount of 44 euros per day for the daily allowances (only for meals) we audited, which is, even including amounts paid for accommodation, significantly less than the entitlements paid to the beneficiary organisation from the Erasmus+ budget.

Example 2

In Slovakia, we audited an Erasmus+ project implemented in a school whose budget is linked to a higher regional body. We found that in order to comply with the national financial rules of public authorities, when the school receives the Erasmus+ funding from the National Agency it is obliged to transfer the funds to the higher regional body. It then receives the funds back some days later when they are assigned to the school for the Erasmus+ project. These financial transfers between the school and the regional body are unnecessary for project implementation and may entail financial and implementation risks.

Erasmus+: Further improvements needed for grant management at the EACEA

5.24. In 2017, the Internal Audit Service of the European Commission (IAS) reported on Erasmus+ and Creative Europe grant management phase I (from the call to the signature of contracts). In 2018, it launched a follow-up and concluded that its audit recommendations have been implemented adequately and effectively.

5.25. In 2018, the IAS went on to audit grant management phase II (from project monitoring to payment). This led to four observations and recommendations, one 'critical' (functioning of internal control systems), two 'very important' and one 'important'. Based on a limited follow-up audit the IAS considers that, following the immediate action taken by the EACEA, the underlying risks have been partially mitigated. The IAS has therefore downgraded the recommendation from 'critical' to 'very important'. All recommendations remain open, although none of them are overdue, and their implementation is ongoing.

5.26. As stated in the EACEA's 2018 annual activity report (AAR) and confirmed in our review, 'the Agency acknowledges that major improvements concerning the functioning of its internal control system are needed, thus leading for the second consecutive year to a reservation on the internal control system'.

Annual activity reports give a fair assessment of financial management

5.27. The annual activity reports we examined (7) gave a fair assessment of the DGs' and agencies' financial management in relation to the regularity of underlying transactions. Overall, the information provided corroborated our findings and conclusions.

5.28. As in previous years, the reports of all DGs implementing research and innovation spending include a reservation for payments in reimbursement of cost claims under FP7 because the residual error rate is above 2 % (8). In the case of Horizon 2020, based on its own audits the Commission reported an expected representative error rate of 3,32 % and a residual error rate of 2,22 %.

5.29. The Commission has put in place a procedure to ensure that systemic errors by beneficiaries detected in an audit are corrected in ongoing projects. As regards the FP7 programme, the procedure was implemented in 3 932 cases out of 6 821 DG RTD projects with possible systemic errors. Thus by the end of 2018 the implementation rate for correcting systemic errors was only 57,6 %. This is lower than the expected implementation rate at this stage and increases the risk of non-recovery.

5.30. We also noted that at the end of 2018, DG RTD had 26 open IAS recommendations, nine of which were overdue. None of the overdue recommendations were classified as 'very important'. One 'very important' open recommendation recently made by the IAS concerns the monitoring of beneficiaries' compliance with contractual obligations and reporting requirements on the dissemination and exploitation of project results. Proper dissemination and exploitation contribute to the overall effectiveness of research and innovation funding. We observed that project assessment reports relatively frequently indicated issues relating to compliance with these requirements, which corroborates the need for more effort in this regard (see paragraph 5.43).

Review of the regularity information provided by the auditee

5.31. As part of our 2018-2020 strategy, we aim to make better use of the regularity information provided by the Commission. The Commission uses the results of its ex-post audit work as a basis for calculating the *amount at risk at payment*. For H2020 we selected a sample of twenty audit files closed by 1 May 2018 from the Commission's first Common Representative Sample. Our objective was to cover audits carried out by both the Commission itself and contracted external auditors and to establish whether we can rely on the results. We randomly selected 5 audits carried out by the Common Audit Service (CAS) (9) and 15 audits contracted to external auditors, 5 for each of the 3 private audit companies conducting audits on behalf of the Commission. We did not include the results of this work in our transaction testing for 2018 spending.

5.32. In the first phase of our assessment, we reviewed the audit files (working papers and supporting documentation) at the CAS and at the private audit companies. Based on this review, we identified eleven audits for which we had to perform additional audit procedures, mainly due to the need to obtain additional supporting documentation and/or discrepancies in the working papers preventing us from confirming the audit conclusions. We carried out these additional audit procedures either by desk review (additional documents requested from the beneficiaries in three cases) or via an audit visit to the beneficiary (eight cases).

5.33. These additional audit procedures revealed weaknesses in documentation, sampling consistency and reporting, as well as in the quality of the audit procedures in some of the files reviewed. For example, we found ineligible amounts not detected by the auditors due to insufficient testing in their audit, and errors in the calculation of the personnel costs claimed. Although, in some cases, the financial impact was not material, in 10 (10) of the 20 audit files sampled, we were not able to rely on the audit conclusions. Therefore, currently we cannot use the results of the Commission's audit work.

(7) Directorate General for Research and Innovation (DG RTD), the Education, Audiovisual and Culture Executive Agency (EACEA) and the Executive Agency for SMEs (EASME).

(8) The Commission reports a multi-annual representative error rate for FP7 expenditure of 5,26 %. It reports residual error rates only at the level of each DG involved which vary but are always above 2 %.

(9) Common Audit Service for Horizon 2020 Framework Programme for Research and Innovation expenditure at the European Commission (CAS) hosted by DG RTD.

(10) For two of these cases, concerning the SME Phase I projects, the CAS merely relies on ex-ante control procedures performed by other Commission services.

5.34. Further to the above, we found an issue relating to the methodology for calculating the error rate for H2020. The ex-post audits aim for maximum coverage of the accepted costs, but rarely cover all the costs. The error rate is calculated as a share of all the accepted costs, instead of the amount actually audited. This means that the denominator in the error calculation is higher, so the error rate is understated. In case the errors found are of a systemic nature, the error is extrapolated which partially compensates for the above-mentioned understatement. However, since extrapolation is not performed for non-systemic errors, the overall error rate is nevertheless understated. The understatement of the error rate cannot be quantified. It is, then, impossible to determine whether the impact of this understatement is significant.

5.35. As a result, in 2019 we will implement a further cycle of reviews of more recent audits closed since our initial selection to obtain a larger population of audit evidence on which to base our assessment. This will also enable us to take into account any subsequent improvements compared to the audits examined in 2018, which were carried out at the beginning of the H2020 programme.

5.36. We also reviewed the information in the Commission's 2018 AMPR regarding the estimated risk at payment for the policy areas included in sub-heading MFF1a. The Commission does not calculate a single rate for the whole sub-heading but rather two separate rates — one for Research, Industry, Space, Energy & Transport (1,9 %), and another for Other Internal Policies (0,7 %). Based on the Commission's figures, we calculated that the rate for MFF1a as a whole would be 1,6 %. This percentage is within the range of our own estimate of the level of error. However, in our view, it is understated due to the methodological issue outlined in paragraph 5.34 above.

Conclusion and recommendations

Conclusion

5.37. The overall audit evidence we obtained and presented in this chapter indicates that the level of error in spending on 'Competitiveness for growth and jobs' was at the materiality threshold. For this MFF sub-heading, our testing of transactions produced an estimated overall level of error of 2,0 % (see ***Annex 5.1***). However, our results indicate that research expenditure remains a higher risk area and the main source of error.

5.38. The *amount at risk at payment* set out in the AMPR is within the range of our estimate of the level of error (see paragraph 5.36).

Recommendations

5.39. ***Annex 5.2*** shows the findings of our follow-up review of the four recommendations we made in our 2015 annual report, and the four we made in our 2017 annual report for which the deadline for implementation was the end of 2018. The Commission had fully implemented four recommendations, and implemented four in most respects.

5.40. Based on this review and our findings and conclusions for 2018, we recommend that the Commission:

Recommendation 5.1

carry out more targeted checks of SMEs' and new entrants' cost claims and enhance its information campaign on the funding rules, targeting these important beneficiaries.

Target implementation date: 2020

Recommendation 5.2

for the next Research Framework Programme, further simplify the rules for calculating personnel costs and assess the added value of the mechanism for large research infrastructure costs and review how its methodology can be improved.

Target implementation date: end of 2020

Recommendation 5.3

for H2020, address the observations made in the context of our review of the ex-post audits concerning documentation, sampling consistency and reporting, as well as the quality of the audit procedures.

Target implementation date: mid 2020

Recommendation 5.4

promptly address the findings of the Commission's Internal Audit Service concerning:

— the EACEA's internal control systems on the grant management process for Erasmus+;

— the monitoring of compliance with contractual obligations and reporting requirements on dissemination and exploitation in research and innovation projects.

Target implementation date: mid 2020

Part 2: Performance issues in research and innovation

5.41. We assessed the Commission's reporting on the performance of 50 of the sampled research and innovation projects [11]. Twenty-one of these projects had already been completed. We did not directly assess the quality of the research undertaken or the projects' impact in terms of achieving the policy objective of improving research and innovation.

5.42. For each project, we reviewed the assessment report which the Commission Project Officer completes as part of the checks before reimbursement of the declared costs. We noted the Project Officers' conclusion on whether:

— reported progress on *outputs* and *results* was in line with the objectives set out in the grant agreement;

— costs charged to the project were reasonable in view of the reported progress;

— the project's outputs and results of the project had been disseminated in accordance with the requirements of the grant agreement.

Most projects achieved their expected outputs and results

5.43. According to the Commission's reports, most projects had achieved their expected output and results. However, the Commission's reports also revealed that several projects had been affected by issues that detracted from their performance:

— in ten cases, reported progress was only partly in line with the objectives agreed with the Commission and in two cases was not in line with these objectives;

— in three cases, the Commission considered that the reported costs were not reasonable in view of the progress achieved;

— in ten cases, the project outputs and results had only been partly disseminated. In two cases, no dissemination activities had taken place.

(11) We assessed the performance of collaborative projects involving multiple participants and excluded transactions such as mobility payments to individual researchers.

ANNEX 5.1

RESULTS OF TRANSACTION TESTING FOR 'COMPETITIVENESS FOR GROWTH AND JOBS'

	2018	2017
SIZE AND STRUCTURE OF THE SAMPLE		
Total transactions:	**130**	130
ESTIMATED IMPACT OF QUANTIFIABLE ERRORS		
Estimated level of error	**2,0 %**	4,2 %
Upper Error Limit (UEL)	3,2 %	
Lower Error Limit (LEL)	0,7 %	

ANNEX 5.2

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS FOR 'COMPETITIVENESS FOR GROWTH AND JOBS'

Year	Court recommendation	ECA's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	Not applicable	Insufficient evidence
			In most respects	In some respects			
2015	**Recommendation 1:** the Commission, national authorities and independent auditors should use all the relevant information available to prevent, or detect and correct errors before reimbursement;		X				
	Recommendation 2: the Commission should issue guidance to beneficiaries on the specific differences in Horizon 2020 compared to FP7 and similar programmes;	X					
	Recommendation 3: the Commission should issue common guidelines to the implementing bodies for research and innovation spending, in order to ensure consistent treatment of beneficiaries when applying audit recommendations for the recovery of ineligible costs;	X					
	Recommendation 4: the Commission should closely monitor the implementation of extrapolated corrections based on its ex-post audits of reimbursed costs under FP7.		X				

Year	Court recommendation	ECA's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	Not applicable	Insufficient evidence
			In most respects	In some respects			
2017	By the end of 2018 the Commission should: **Recommendation 1:** as regards Horizon 2020, further clarify the rules on personnel costs, review the personnel costs methodology, and complete the list of issues in certain countries.		X				
	Recommendation 2: as regards the CEF, improve the level of awareness among beneficiaries of the eligibility rules, in particular by drawing a clear distinction between an implementation contract and subcontract.		X				
	Recommendation 3: promptly address the weaknesses identified by the IAS: — in the EACEA's Erasmus+ grant management process; — in the monitoring of research and innovation projects.	X					

CHAPTER 6

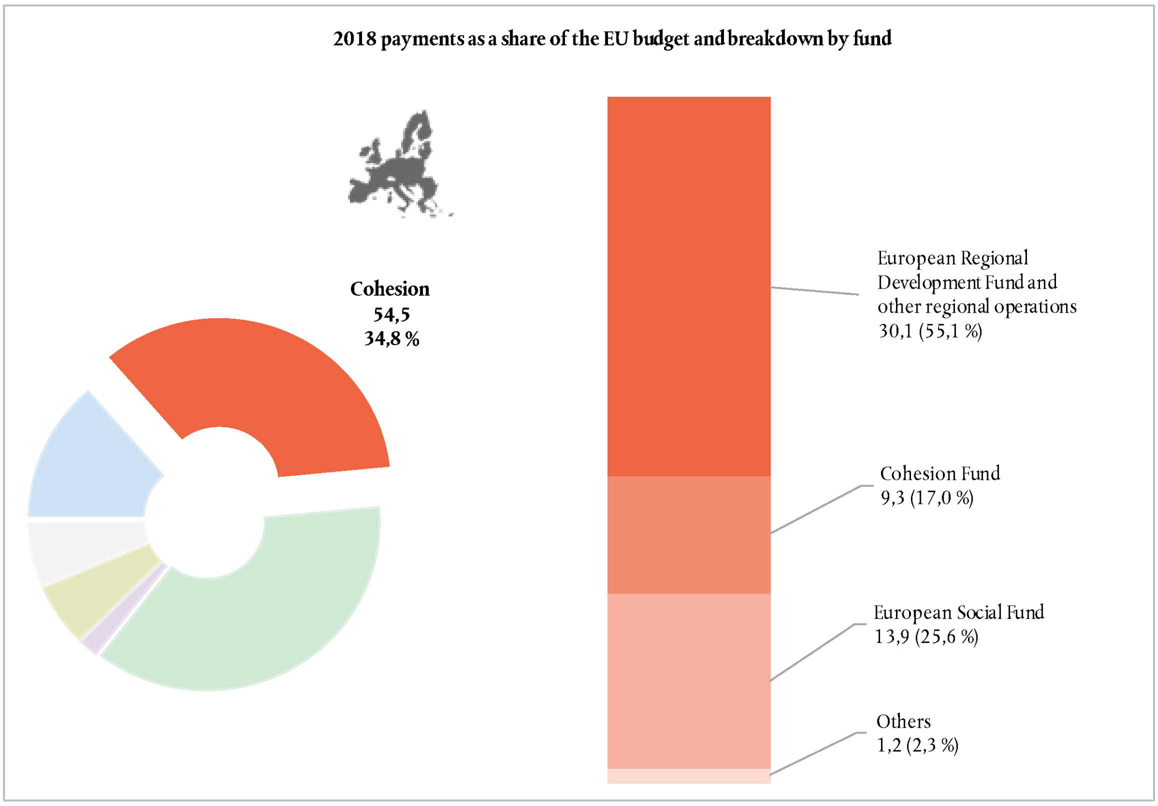
Economic, social and territorial cohesion

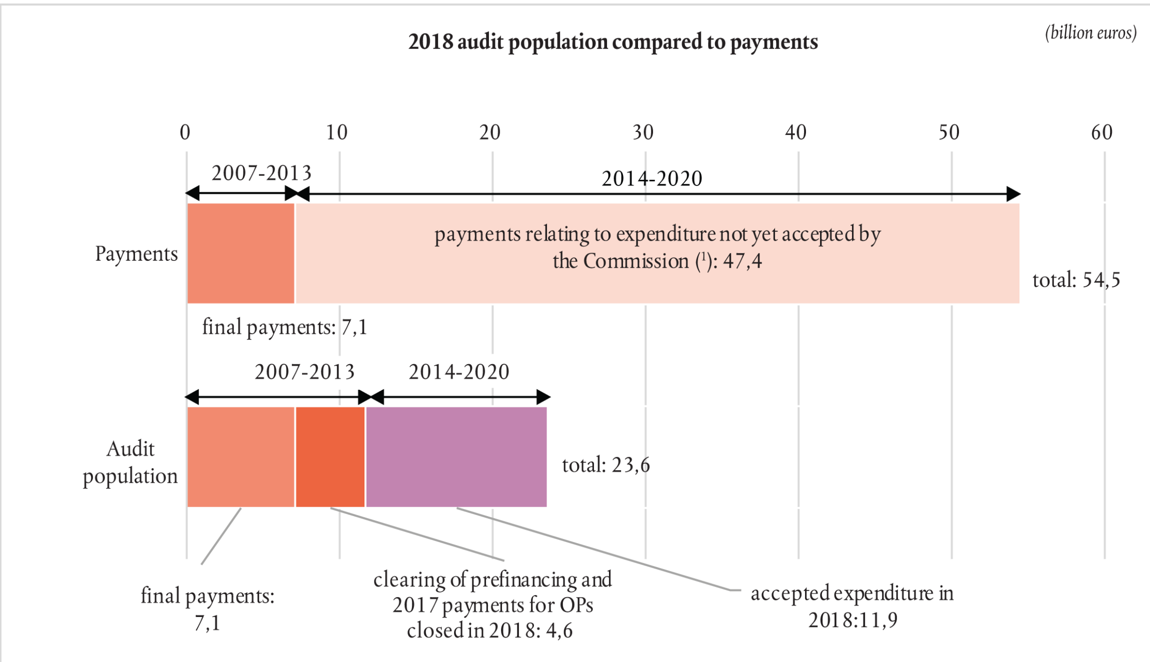
CONTENTS

Introduction

6.1. This chapter presents our findings for the MFF sub-heading 1b 'Economic, social and territorial cohesion'. The payments subject to our audit relate to the closure of the 2007-2013 and the implementation of the 2014-2020 *programming periods*. ***Box 6.1*** gives an overview of the main activities and spending under this sub-heading in 2018. For further details on our 2018 audit population see paragraph 6.7.

Box 6.1
MFF sub-heading 1b 'Economic, social and territorial cohesion' — 2018 breakdown





(1) The figure of 47,4 billion euros consists of annual advances and interim payments for the 2014-2020 programming period that were not included in the accounts underlying the assurance packages which the Commission accepted in 2018. In line with the harmonised definition of underlying transactions (for details see ***Annex 1.1***, paragraph 13), these payments are considered pre-financing and thus are not part of our audit population for the 2018 annual report.

Source: 2018 EU *consolidated accounts*

Brief description of 'Economic, social and territorial cohesion'

Policy objectives and spending instruments

6.2. Spending under this sub-heading focuses on reducing development disparities between the different Member States and regions of the EU and strengthening all regions' competitiveness ([1]). These objectives are implemented through the following funds/instruments:

— the European Regional Development Fund (ERDF), which aims to redress the main regional imbalances through financial support for the creation of infrastructure and productive job-creating investment, mainly for businesses;

— the Cohesion Fund (CF), which, in the interest of promoting sustainable development, finances environment and transport projects in Member States with a per capita *GNI* of less than 90 % of the EU average;

— the European Social Fund (ESF), which aims to encourage a high level of employment and the creation of more and better jobs, including measures through the Youth Employment Initiative (YEI) targeting regions with a high youth unemployment rate;

— other smaller schemes, such as the European Neighbourhood Instrument, the Fund for European Aid to the Most Deprived (FEAD) and a contribution to the *Connecting Europe Facility*.

Implementation and control and assurance framework

6.3. Member States generally submit multiannual *operational programmes* (OPs) at the beginning of each programming period for the entire duration of an MFF. After the Commission has given approval, responsibility for implementing an OP is shared between the Commission ([2]) and the Member State. *Beneficiaries* receive reimbursement through authorities in the Member State, and the EU budget co-finances the incurred and paid eligible costs of *operations* approved in line with the terms of the OP.

6.4. The revised control and assurance framework in place for the 2014-2020 programming period aims to ensure that the residual error rate ([3]) for these reimbursements to OPs remains below the 2 % *materiality threshold* set in the regulation ([4]). The main elements of the revised control and assurance framework are:

— The work performed by the *audit authorities* on expenditure included in the annual accounts. This work results in an annual control report which is submitted to the Commission as part of the Member States 'assurance packages' ([5]). It discloses the residual error rate for the OP (or group of OPs) and an audit opinion on the regularity of the expenditure declared and the effective functioning of the management and control systems.

— The annual acceptance of accounts. For this purpose the Commission carries out mainly administrative checks of completeness and accuracy of the accounts before accepting them and releasing the amount of 10 % retained earlier as a guarantee ([6]).

— Subsequently, Commission desk reviews of each assurance package and *regularity* audits in Member States. The Commission makes these checks so that it can conclude on and validate the *residual error rates* reported by audit authorities; it publishes these in its *annual activity reports* (AARs) for the following year.

6.5. The process that must precede the closure of OPs from the 2007-2013 programming period is comparable to that described in paragraph 6.4 which includes the assessment of the assurance packages in the 2014-2020 period.

6.6. We described the control and assurance framework in detail in our 2017 annual report ([7]). See also ***Figure 6.1*** below.

([1]) See Articles 174 to 178 of the Treaty on the Functioning of the European Union (OJ C 326, 26.10.2012, p. 47).

([2]) DG Regional and Urban Policy (DG REGIO) and DG Employment, Social Affairs and Inclusion (DG EMPL).

([3]) In its AARs the Commission refers to a 'residual risk rate' (RRR) when dealing with closure for the 2007-2013 programming period and to a 'residual total error rate' (RTER) when dealing with the 2014-2020 programming period. In this chapter, we refer to both as 'residual error rate(s)'.

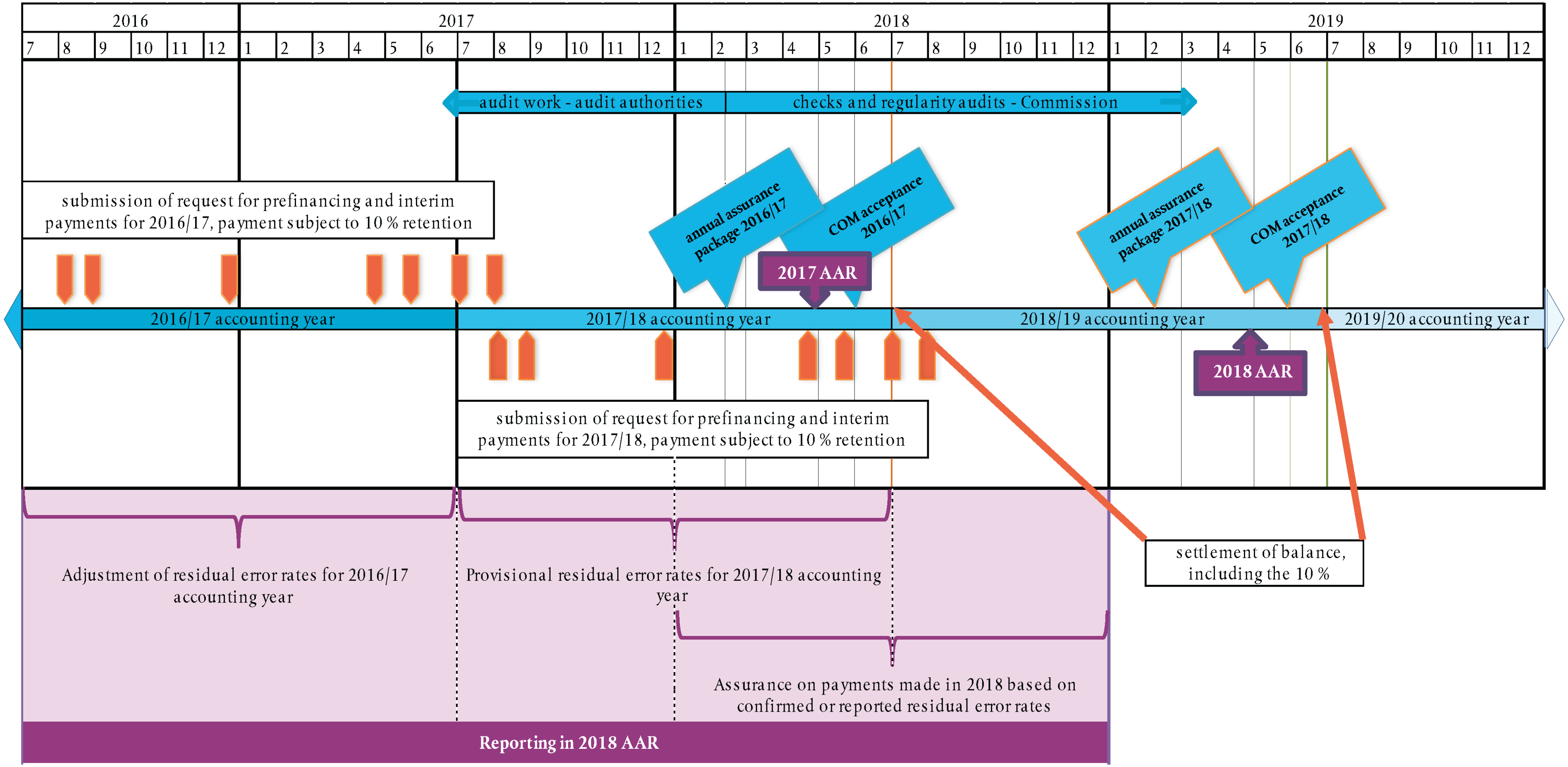
([4]) Article 28(11) of Commission Delegated Regulation (EC) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund (*Common Provisions Regulation*) (OJ L 138, 13.5.2014, p. 5).

([5]) Assurance packages are composed of a management declaration, an annual summary, the certified annual accounts, an annual control report and an audit opinion.

([6]) Article 130 of Regulation (EU) No 1303/2013 (the 'Common Provisions Regulation') limits the reimbursement of interim payments to 90 %. The remaining 10 % is released after the acceptance of the accounts.

([7]) Paragraphs 6.5 to 6.15.

Figure 6.1
Control and assurance framework for the 2014-2020 programming period



Source: ECA.

Audit scope and approach

6.7. In 2018, the Commission accepted accounts with expenditure for 248 out of 419 approved OPs (around 11,9 billion euros). These accounts came from 202 assurance packages submitted by all 28 Member States for the 2014-2020 programming period. In addition the Commission closed or partially closed [8] 217 OPs (around 11,7 billion euros) from the 2007-2013 programming period. Our audit population (around 23,6 billion euros) consisted of the expenditure included in these assurance packages for the 2016/2017 accounting year (2014-2020 period) and the expenditure certified by *certifying authorities* and underlying audit authorities' final control reports for 2007-2013.

6.8. Our objective was to contribute to the overall statement of assurance as described in ***Annex 1.1***. By taking account of the characteristics of the control and assurance framework for this spending area, we also aimed to assess the extent to which the audit authorities' and Commission's work can be relied upon. We did this with a view to possibly making increased use of their work in the future and, in that context, identifying where further improvements are needed.

6.9. For ***Part 1*** of this chapter, which focuses on regularity, applying the audit approach and methods set out in ***Annex 1.1***, we examined the following for 'Economic, social and territorial cohesion' in 2018:

(a) a sample of 220 transactions, designed to be statistically representative of the full range of spending under MFF sub-heading 1b, which the audit authorities had previously checked;

(b) the work done by audit authorities to validate the information contained in the 24 assurance/closure packages, also using the sample of 220 transactions;

(c) the Commission's audit work, after the acceptance of the accounts, to check regularity aspects of the 2014-2020 assurance packages;

(d) the Commission's work when reviewing and validating the error rates reported in the 2018 assurance/closure packages. We also looked at the relevance and reliability of the regularity information in the AARs of DG REGIO and DG EMPL and its inclusion in the Commission's Annual Management and Performance Report (AMPR).

6.10. We took the sample in two stages. First, we selected 24 assurance/closure packages (15 from the 2014-2020 programming period and nine from the 2007-2013 programming period) covering 53 of the 465 OPs for which there was a Commission settlement from the EU budget in 2018. Within those OPs, we then selected transactions which the audit authorities had previously checked. ***Annex 6.2*** contains a breakdown of the audited sample by Member State.

6.11. Our audit work this year was the same as we described in detail in our 2017 annual report [9].

6.12. For ***Part 2*** of this chapter, we assessed the Member States' systems for measuring and reporting performance. We also checked the work of audit authorities and the Commission in ensuring the adequacy and reliability of performance data. Where we re-performed audits of physically completed operations, we also assessed the extent to which the authorities reported meeting the targets set for output and result indicators.

Part 1 — Regularity of transactions

6.13. This part of the chapter consists of three sub-sections. The first concerns our testing of this year's sample of 220 transactions with a view to providing insight on the main sources of errors and material for the overall statement of assurance. The second sub-section concerns our assessment of audit authorities' work, and the third relates to the Commission's work. The results of all sub-sections provide a basis for us to conclude on the regularity information contained in the two responsible DGs' AARs and the Commission's AMPR.

[8] If issues having a material impact remain open, the Commission settles only the uncontested amount. The balance is settled and the OP closed once all outstanding issues have been resolved.

[9] Paragraphs 6.21 to 6.23.

Results of our review of transactions and re-performance of audit work

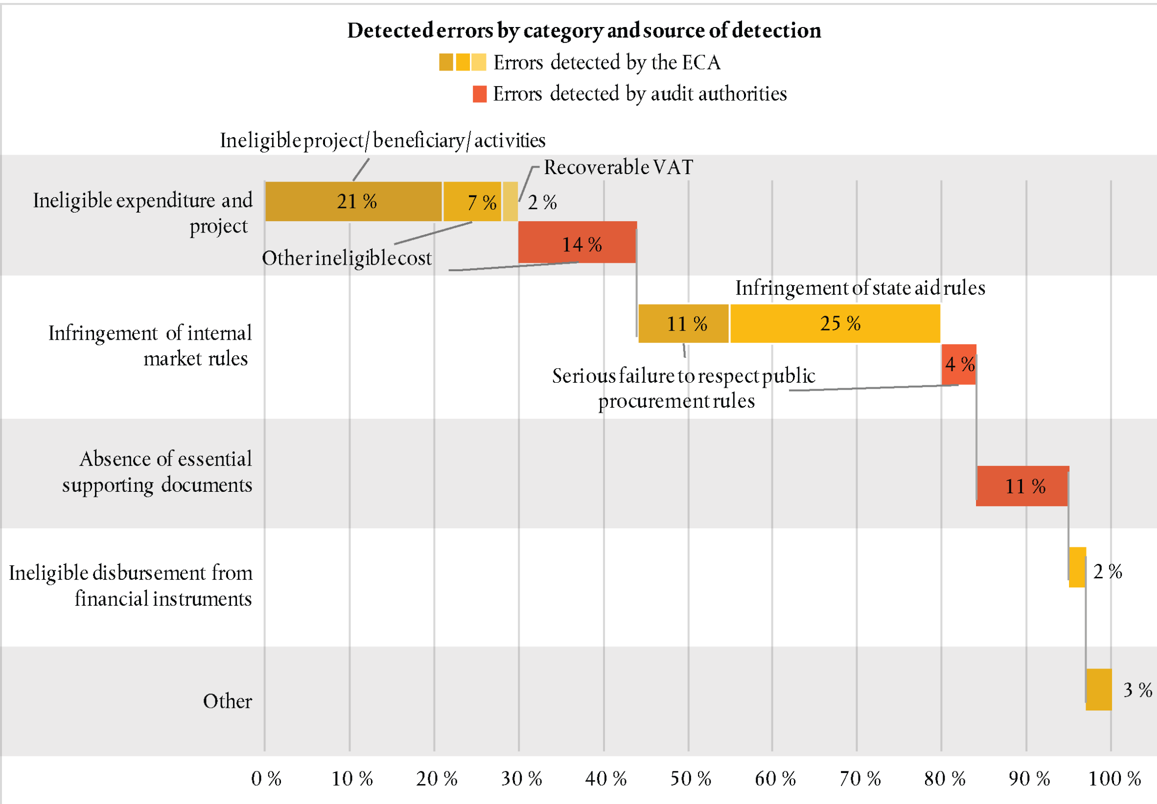
6.14. ***Annex 6.1*** provides an overview of the results of our transaction testing. In the 220 transactions we examined, we identified and quantified 36 errors which had not been detected by audit authorities. Taking account of the 60 errors previously found by audit authorities and corrections applied by programme authorities (worth a total of 314 million euros for both programming periods taken together), we estimate the level of error to be 5,0 % ([10]). The number and impact of the errors we found for transactions in the 2014-2020 period were higher than for transactions relating to closure of the 2007-2013 period.

6.15. Audit authorities had reported 60 quantifiable errors in the assurance/closure packages for the 220 transactions we sampled, which mainly concerned ineligible costs (37) and public procurement (18) followed by the absence of essential supporting documentation (3) ([11]).

6.16. The Member States applied *financial corrections*, extrapolating them as necessary, with a view to bringing the residual error rates below the materiality threshold of 2 %.

6.17. ***Box 6.2*** shows how the errors we found break down by category. It also shows the breakdown by source of all errors found, i.e. including those reported by audit authorities for the transactions we examined. Ineligible costs contributed most to our estimated level of error, followed by non-compliance with *state aid* and public procurement rules. Paragraphs 6.19 to 6.40 provide more information on these errors.

Box 6.2
'Economic, social and territorial cohesion' — Breakdown of errors



Source: ECA.

([10]) We base our calculation of error on a representative sample. The figure quoted is the best estimate. We have 95 % confidence that the estimated level of error in the population lies between 2,5 % and 7,5 % (the lower and upper error limits respectively).
([11]) A single transaction may be affected by more than one type of error.

6.18. The number and impact of the errors detected demonstrate that there are still persistent weaknesses with the regularity of the expenditure declared by managing authorities. This finding corroborates the results of the Commission's compliance audits during 2018, which concluded in five out of 26 cases that there were significant shortcomings in key requirement 4 concerning adequate management verifications.

Ineligible expenditure and projects

6.19. When declaring expenditure to the Commission, Member State authorities certify that it was incurred in compliance with a number of specific provisions laid down in EU or national rules, and that aid was granted to beneficiaries or operations that met the OP eligibility requirements.

6.20. Ineligible expenditure and projects are the main sources of error for both the ERDF/CF and the ESF. In 7 % of the transactions we examined, we found that the projects did not comply with the eligibility rules set either by the EU or by the Member State. These cases account for 44 % of all quantifiable errors, or approximately 1,9 percentage points of the estimated level of error.

6.21. The main causes of ineligible expenditure were project activities or participants that did not meet the eligibility rules. Half of the operations in which we found ineligible expenditure were affected in this way, and they accounted for 21 % of the estimated level of error.

6.22. According to the EU rules, VAT expenditure is eligible for co-financing only if it is not recoverable under national VAT legislation. Similarly to last year, we found 11 projects in four OPs in which the Member State authorities had declared recoverable VAT as eligible expenditure. Eight of these errors occurred in Poland, as reported in our last annual report. In all these cases, the audit authorities interpreted the eligibility rules incorrectly and did not report an irregularity. We did not quantify these eight errors because the Commission applied financial corrections. In our rapid case review on VAT ([12]) we provided more information on this subject and explained that the reimbursement of VAT is a frequent source of errors, as the rules are often inconsistently applied.

Simplification measures could prevent irregularities

6.23. A significant source of complexity arises for beneficiaries where national eligibility requirements go beyond what is required by EU legislation ([13]). Three errors we detected could have been avoided if the Member State authorities had not defined such complex national eligibility conditions (see an example in ***Box 6.3***).

Box 6.3
Complex national eligibility conditions — an example

The eligibility rules for a Polish OP included a condition prohibiting the use of an EU grant if another entity was carrying out the same type of business activity in the same premises. This requirement, which goes beyond what is set out in the EU regulations, was repeated in the grant agreement.

As one beneficiary, a lawyer, set up its activity in the same premises as another legal firm, the project was ineligible for co-financing.

We also found complex national eligibility conditions in Germany.

6.24. On the other hand, one simplification measure which can reduce the administrative burden for beneficiaries is the use of simplified cost options (SCOs). Where we have audited transactions which employ SCOs, we have found them to be less prone to error, but we note that SCOs are still used to a limited extent in cases where they might be appropriate.

([12]) Rapid case review, VAT reimbursement in Cohesion — an error-prone and sub-optimal use of EU funds, November 2018 (https://www.eca.europa.eu/Lists/ECADocuments/RCR-VAT/RCR-VAT_EN.pdf).
([13]) 'Simplification in post-2020 delivery of Cohesion Policy', May 2018, paragraph 23 (https://www.eca.europa.eu/Lists/ECADocuments/BRP_Cohesion_simplification/Briefing_paper_Cohesion_simplification_EN.pdf).

Infringement of internal market rules

6.25. This year we found 16 infringements of internal market rules, eight of which we quantified. The main infringements in 2018 related to public procurement or state aid.

Despite many corrections, public procurement remains a significant source of errors

6.26. Public procurement procedures are a key instrument for spending public money economically and effectively and for establishing the internal market. This year we examined 129 procedures for works, services and supplies. The vast majority of these procedures were for projects co-financed through ERDF/CF OPs, which are more prone to error.

6.27. In the course of their work, audit authorities had detected 18 cases of non-compliance with public procurement rules in the transactions we examined, in areas such as lack of procurement, incorrect application of the selection criteria and shortcomings in tender specifications. The authorities systematically imposed flat-rate corrections ranging from 5 % to 100 %, as provided for in the Commission guidelines ([14]).

6.28. We identified instances of non-compliance with EU and/or national public procurement rules which the audit authorities had not detected in nine procurement procedures (see ***Box 6.4***). Most of the errors we detected related to contracts with a value above the EU thresholds ([15]). Two were serious infringements unjustifiably restricting competition, and we reported these as quantifiable errors. They accounted for 6 % of all quantifiable errors we found, or approximately 0,7 percentage point of the estimated level of error. Other errors relating to tendering included non-compliance with publication and transparency requirements.

Box 6.4
Example of a public procurement infringement

During the 2007-2013 programming period, a beneficiary public authority in Italy awarded a three-year contract to a private company. The contracted services included the monitoring, management, reporting and implementation of corrections. In line with the terms of the tender notice, the beneficiary subsequently extended the contract period for a further three years. At the end of the second term, the beneficiary approached the contractor for additional services and signed a new contract for another 15 months. The additional services were foreseeable, and other companies in the market were capable of delivering them. Awarding the additional services without a procurement procedure made the costs ineligible for EU co-financing.

The audit authority wrongly found no irregularity in the beneficiary's approach.

We found another case of irregular public procurement in Hungary.

Four projects were ineligible because of an infringement of state aid rules

6.29. State aid, unless below a '*de minimis*' ceiling, is in principle incompatible with the internal market since it may distort trade between Member States. There are, however, exceptions to this rule, in particular if the project is covered by the General Block Exemption Regulation (GBER) ([16]). Member States must notify other cases of state aid so the Commission can form a view on its compatibility.

6.30. This year we identified seven ERDF projects in Spain, France and Portugal that infringed the EU's state aid rules. We consider that five of these projects, all of them in Portugal, should have obtained less or no public funding from the EU and/or the Member State. These errors make up approximately 1,6 percentage points of the estimated level of error.

([14]) C(2013) 9527 final Commission Decision of 19.12.2013 on the setting out and approval of the guidelines for determining financial corrections to be made by the Commission to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement.
([15]) As defined by Article 4 of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC (OJ L 94, 28.3.2014, p. 65).
([16]) Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.6.2014, p. 1).

6.31. Three of these five quantified state aid findings relate to the lack of an incentive effect and highlight a systemic weakness. The EU rules are based on the premise that state aid should only be allowed where it subsidises activities which would not have taken place otherwise. This 'incentive effect' is automatically assumed for schemes under the GBER if works start after the date of the application for funding ([17]).

6.32. The Commission had previously identified several operations affected by this error. The managing authority for the OP concerned excluded operations from the accounts ([18]) in which the Commission detected this kind of error. Both the Commission and the managing authorities were aware that this was a systemic problem. Although the Member State changed its national rules to ensure consistency with the EU rules and avoid further irregularities, no party took sufficient corrective action either to eliminate these errors in the 2016/2017 accounts or to offset the potential impact by a corresponding *financial correction*. The Commission accepted the accounts following the rule changes.

Non-compliance with rules governing the use of financial instruments

Irregular disbursements in financial instruments contributed less to the estimated level of error than in 2017

6.33. Up to the end of the 2016/2017 accounting year, 2,9 billion euros was paid in advances to *financial instruments*, out of which 2,3 billion euros was declared between 1 July 2016 and 30 June 2017 (17 % of the total amount paid in EU co-financing). During the 2016/2017 accounting year, 1,3 billion euros (43 %) was disbursed to final recipients.

6.34. Our audit covered disbursements to five financial instruments (two from the 2014-2020 programming period and three from 2007-2013). We examined 30 guarantees and 100 loans for these five instruments at financial intermediary level. This year we found 14 cases of ineligible disbursements to final recipients, relating to three of the instruments we examined. They concerned either ineligible loans or ineligible final recipients, and cancelled disbursements that the Member State incorrectly recorded as paid. Since the share of financial instruments within the audit population was much lower in 2018 than in 2017, these errors contributed to a lesser degree to the 2018 estimated level of error ([19]).

6.35. Information on the performance of a financial instrument and the actual use of funds (i.e. eligible expenditure at closure) is based on data reported by the Member States. Despite substantial efforts by the Commission in recent years to improve data quality, we still find inaccuracies in the implementation reports. In 2018, this was the case for two of the five financial instruments we examined (one for each period). In one case, the fund manager reported two cancelled loans as disbursements, which led to ineligible expenditure.

Weaknesses in audit arrangements for financial instruments managed by the EIB Group have been addressed, but not entirely resolved

6.36. In 2017 we pointed to the need for significant improvements in the audit arrangements for financial instruments managed by the EIB Group and highlighted that audit authorities have no legal right to carry out on-the-spot verifications to obtain assurance on regularity at financial intermediary level. The Commission accepted our recommendation in this regard and considered that it would be implemented through the entry into force of the *Omnibus Regulation*.

6.37. Given the seriousness of the issue and its horizontal impact on all financial instruments managed by the EIB Group, we followed up our recommendations from last year.

([17]) Article 6 of the GBER.
([18]) In line with Article 137(2) of the Common Provisions Regulation.
([19]) Paragraph 6.30 and box 6.4 of our 2017 annual report.

6.38. The Omnibus Regulation introduced a new requirement ([20]) for audit authorities to perform system audits and audits of operations on financial instruments at the level of financial intermediaries, including financial instruments managed by the EIB Group. The final approved text excludes *SME Initiative* programmes set up before 2 August 2018. Since all six SME Initiative programmes approved so far were set up before that date, adequate audit arrangements have not yet been put in place for all of them.

Unjustified withholding of EU funds from beneficiaries resulted in late payments

6.39. The EU rules normally require Member State authorities to pay beneficiaries the full public contribution (including EU support) no later than 90 days after the beneficiary's submission of a payment request unless certain conditions for interrupting payment are present ([21]). In two Member States, managing authorities had not respected this rule in six of the 220 transactions we examined.

6.40. The single beneficiary in four cases in Germany received the full amount only after the 2016/2017 accounts were sent to the Commission (eight months after the end of the accounting year). In two cases, amounts were outstanding even at the time of our audit. In France and Germany, this practice is designed, to some extent, to offset the effect of the Commission's retention of 10 % until acceptance of the accounts by unduly withholding the same percentage from reimbursements to beneficiaries.

Our assessment of the work of audit authorities

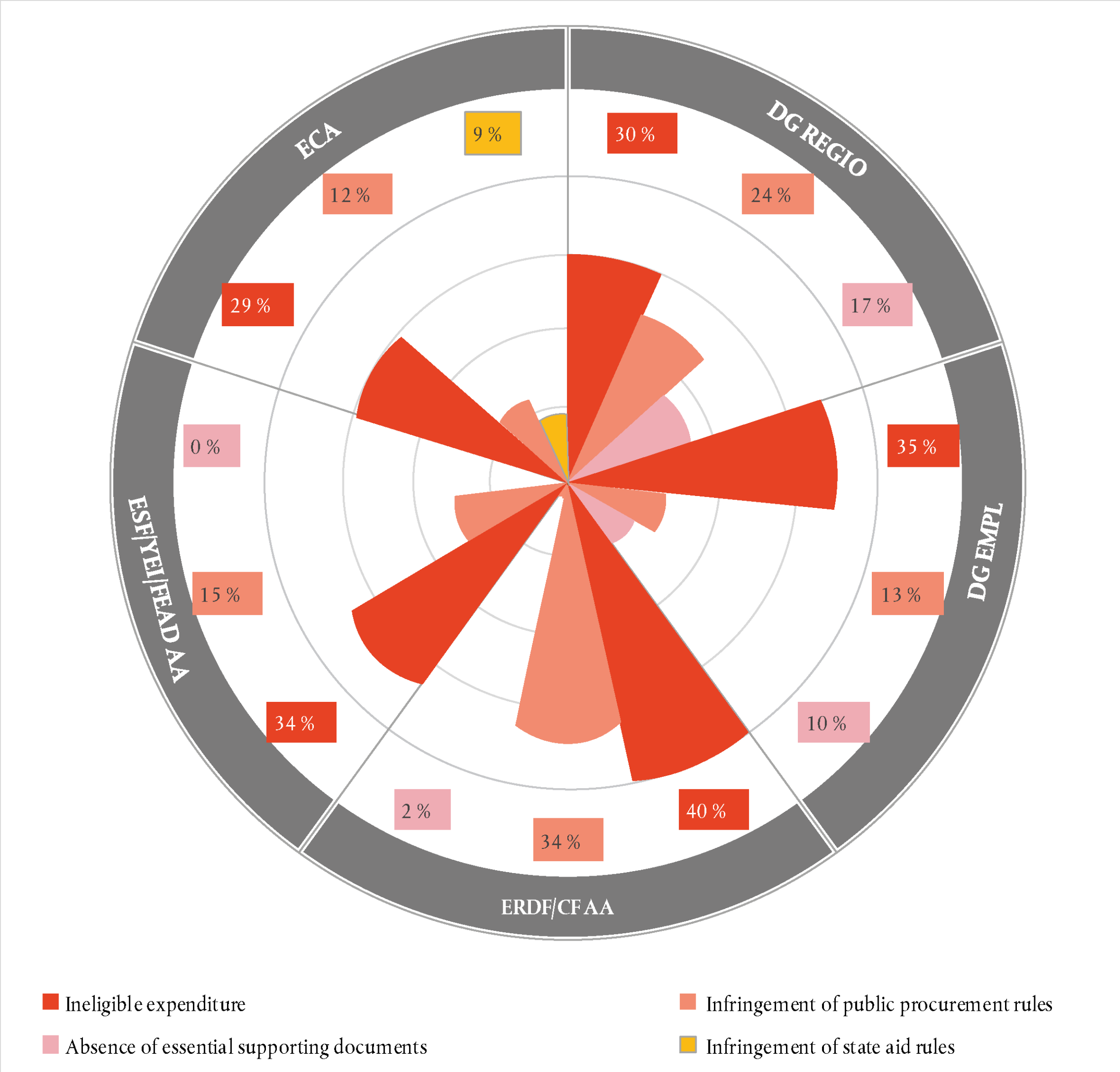
6.41. The work of audit authorities is a critical part of the framework for assurance and control of Cohesion spending. Our review of their work is part of a process which may mean that we make more use of the Commission's assurance model in the future. This year we assessed the work of 15 out of 126 audit authorities.

6.42. In all of the assurance and closure packages we examined, the audit authorities had reported a residual error rate below 2 %. Errors which the audit authorities failed to detect or correct affect these rates. The Commission's own work led it to report a residual error rate above 2 % for four assurance packages in our sample. The additional errors we detected in our sample of transactions examined by audit authorities in 24 assurance/closure packages, gave us sufficient evidence to conclude that the residual rate for another four of the 15 assurance packages for the 2014-2020 period and one of the nine closure packages for 2007-2013 was above 2 %.

6.43. In 2018, for the first time, audit authorities reported errors using a common typology agreed between the Commission and the Member States ([22]). ***Box 6.5*** shows how the types of errors most frequently reported by audit authorities compare with the additional errors most frequently detected by the Commission and by us. The results show that the most common types of irregularities for each audit body are ineligible expenditure and public procurement. It also shows however, that despite many irregularities found by audit authorities, the projects we examined remain affected by errors which have gone undetected or uncorrected by all internal control instances at an earlier stage (paragraph 6.32 gives an example of this).

([20]) Article 272(14).
([21]) Article 132 of the Common Provisions Regulation.
([22]) See page 68 of DG REGIO's 2018 AAR and page 56 of DG EMPL's 2018 AAR.

Box 6.5
Most frequent types of errors detected by audit bodies



Source: ECA.

Weaknesses in some audit authorities' sampling affected representativeness

6.44. Owing to the large number of operations co-financed by each OP, audit authorities have to use sampling to form an opinion on the eligibility of expenditure. To produce reliable results, samples must be representative of the audited population and, as a general rule, based on a statistically valid method ([23]). We checked the sampling method for the 24 assurance/closure packages we examined.

([23]) Article 127 of the Common Provisions Regulation.

6.45. We found weaknesses, such as insufficient sample size, overrepresentation of certain operations and the incorrect use of sampling parameters, in six of the 24 packages (four of them for 2014-2020). To some extent, two of these weaknesses affected the representativeness of the samples, and hence also the accuracy of the reported residual error rates. We present an example in ***Box 6.6***.

Box 6.6 **Sampling weakness**
DG EMPL identified weaknesses in the sampling method used for one German OP: it noted that one measure was greatly overrepresented in the sample given its weight in the population as a whole. We share this view, and we consider that the approach taken affected the sample's representativeness of the expenditure declared.

Despite improvements, shortcomings remain in the way audit authorities document their work

6.46. The international audit standards require auditors to document their checks, including clear references to all documents that are most relevant to the audited expenditure. This enables them to be accountable for their work and helps internal or external reviewers to conclude on the extent and sufficiency of the checks. Insufficient or inadequate questions or replies in checklists increase the risk of not detecting ineligible expenditure. The risk is intensified further if the audit authority has limited access to the underlying documentation, as we found in a case where the complex procurement rules of an international organisation had to be applied.

6.47. For 156 out of the sample of 220 transactions (71 %), we were able to conclude on the basis of our review of audit authorities' work. We identified shortcomings with the scope, quality and/or documentation of that work in 64 transactions (29 %), which required us to re-perform the corresponding audit procedures. The shortcomings related to 14 of the 24 assurance/closure packages we examined. For 48 transactions (22 % of the total), the shortcomings meant we had to visit the beneficiary. In 24 of the 64 transactions (in 13 assurance/closure packages) where we re-performed an audit, we found quantifiable errors that had not been previously identified by the audit authority.

6.48. Our results show an improvement compared to last year, when we needed to re-perform more than half of all audit procedures, one third of them at the beneficiary's premises. We also observed good practice in terms of the audit authorities' documentation of their work (see ***Box 6.7***).

Box 6.7 **Good practice in an audit authority's work**
The Lithuanian audit authority's checklists for the 2014-2020 programming period extensively explain the audit scope. The checklists are to be filled out by the auditors to describe what has been done and give details of the audited items. As a result, the checklist we reviewed allowed us, as external reviewer, to reach our own conclusions based almost entirely on this documentation.

The incorrect treatment of errors by four audit authorities had an impact on the error rates they reported

6.49. The correct calculation and the reliability of residual error rates depend, inter alia, on the way detected errors are then handled.

6.50. We found in seven transactions that, although the audit authority had detected an irregularity, it incorrectly used that information in the error rate calculation (see the 'Other' category in ***Box 6.2***). Examples of this, including wrong calculation of the error, or even failure to report the irregularity at all, caused the audit authority to underestimate the error rate for the transactions concerned, which also contributed to our estimated level of error.

The Commission's assurance work and reporting of residual error rate in its annual activity reports

Assurance for the 2014-2020 programming period

6.51. AARs are the Commission's main tool for reporting whether it has reasonable assurance that Member States' control procedures can ensure the legality and regularity of expenditure.

The Commission has made efforts to improve its arrangements for reporting on regularity

6.52. Last year we pointed out that the reporting requirements for AARs had not been sufficiently adapted to the 2014-2020 control and assurance framework ([24]). In its 2018 AARs, the Commission updated its key performance indicator (KPI) on regularity and calculated a residual error rate for the 2016/2017 accounting year. The KPI covers expenditure for which the Commission could obtain the necessary assurance from audit authorities and its own regularity work. It also neutralises the impact of advances paid to financial instruments.

6.53. The reported KPI was below 2 % for both DGs. Since the audit results for several OPs were still being discussed (see paragraph 6.64), both DGs also reported 'worst-case scenario' residual error rates above the 2 % materiality threshold ([25]).

6.54. The respective directors-general gave a declaration of assurance for expenditure incurred during 2018. For this, the DGs estimated the amount at risk using the confirmed residual error rate for the 2016/2017 accounting year or the rate reported by audit authorities for the 2017/2018 accounting year, whichever was higher. Where no assurance package was submitted for the 2016/2017 accounting year, the higher of 2 % or the reported 2017/2018 residual error rate was used.

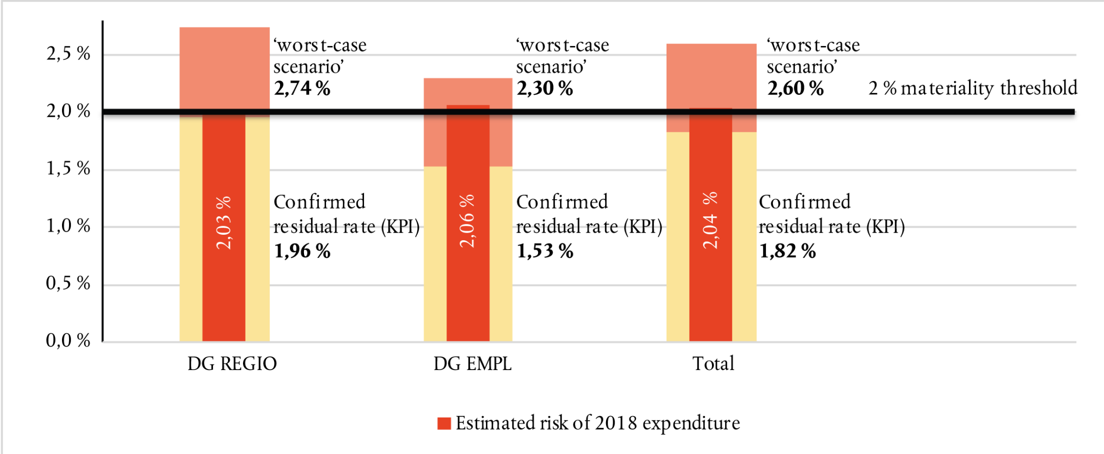
6.55. As required by the Financial Regulation, the figures for 2018 include expenditure which has not yet gone through the full control cycle ([26]). This will only happen as from 2020.

6.56. The Commission used the two DGs' estimated amounts at risk to provide information for 'Economic, social and territorial cohesion' in the 2018 AMPR. It therefore reported an overall amount at risk at payment, calculated on the relevant 2018 expenditure (see also paragraphs 6.54 and 6.55), of 1,7 % ([27]). In our view, this figure underestimates the level of irregularity.

([24]) Paragraphs 6.55 to 6.57 and recommendation 4 of the 2017 annual report.
([25]) See DG REGIO's AAR, footnote 12 and DG EMPL's AAR, footnote 38.
([26]) See Recommendation 4(i) of the 2017 annual report.
([27]) This figure is calculated for all management modes and includes expenditure from both the 2007-2013 and the 2014-2020 programming period.

6.57. In ***Box 6.8*** we provide an overview of the residual rates for the 2016/2017 accounting year and the estimated risk for the relevant 2018 expenditure reported in the 2018 AARs for the 2014-2020 programming period.

Box 6.8
Overview of information in AARs for the 2014-2020 programming period



Source: ECA, based on DG REGIO and DG EMPL 2018 AARs.

Compliance audits help the Commission to assess regularity of expenditure, but the residual error rate reported as a KPI can only be considered a minimum

6.58. The Commission performs compliance audits in which it reviews and assesses the reliability of audit authorities' work. The objective is to seek reasonable assurance that no serious weaknesses in management and control systems remain undetected, unreported and therefore uncorrected once the accounts have been submitted to the Commission.

6.59. The Commission selects OPs for its compliance audits on the basis of an annual risk assessment. Programmes with a high risk score and thus a high potential for material error are given priority.

6.60. In 2018, for the 202 assurance packages for the 2016/2017 accounting year, the Commission carried out 26 compliance audits. These audits covered 193 operations (entailing four visits to beneficiaries) and 25 assurance packages in 13 Member States. We reviewed eight of the Commission's audits in eight member States.

6.61. The Commission assessed in the draft reports on 21 (81 %) of its 26 compliance audits that the error rate reported in the audit authority's annual control report was underestimated. Fourteen (54 %) of these audits resulted in an error rate above 2 %.

6.62. The Commission's risk-based approach to selecting OPs is not designed to produce an overall residual rate reported as a KPI. The Commission cannot project the results of its compliance audits to OPs on which it only carried out a desk review. OPs not selected for compliance audit inherently present an audit risk of undetected errors. The Commission's overall residual error rate shown as a KPI should therefore be considered a minimum rate.

6.63. When the Commission selects an OP for compliance audit, its procedures state that audits of operations can be selected for re-performance using random sampling, a risk-based approach or a combination of the two. However, in no case does the Commission extrapolate its audit results. Therefore the recalculated error rate for the OP, which contributes to the KPI, is also only a minimum.

6.64. In its reply to our 2017 annual report ([28]), the Commission expressed the will to finalise its work on the regularity of expenditure within nine months. Of the eight compliance audits we reviewed, only one was final by May 2019. The errors the Commission found and the residual error rates it disclosed could still change following a *contradictory procedure* with the Member States on matters including the results of additional verifications required from the audit authorities. In the 2018 AARs, the DGs state that additional work may be done in subsequent years to assess the reliability of residual error rates. This implies that the Commission's conclusion for the 2016/2017 accounting year is not yet final.

Closure arrangements

2007-2013 period

6.65. For the 2007-2013 programming period the Member States had until 31 March 2017 ([29]) to submit closure packages to the Commission. Up to the end of 2018, the Commission had settled outstanding EU commitments for 358 out of 440 OPs.

6.66. In 2018, the Commission closed only OPs (or parts of OPs) for which it had assurance that the residual error rate was below materiality. However, in one of the nine closure packages we examined, we detected additional errors that materially affected the residual error rate for the uncontested expenditure (our recalculated rate exceeded 2 %).

6.67. In one Hungarian closure package the Commission identified several issues that could not be resolved. We found that it did not treat the impact of the potential irregularities in a consistent manner. There is a risk that the final balance includes irregular amounts.

2014-2020 period

6.68. The control and assurance framework set up for the 2014-2020 programming period aims to simplify the closure of OPs by introducing a procedure for the annual examination and acceptance of accounts, which includes regularity aspects. The Common Provisions Regulation assigns specific roles to each programme authority in the Member States, and to the Commission, for the process of preparing the annual accounts and checking and validating the financial information given in assurance packages, which include an assessment of the reliability of residual error rates. At the same time, Article 148 of the regulation provides for a shorter document retention period, mainly for small operations, than was required during the 2007-2013 programming period.

6.69. For the closure of 2014-2020 OPs, the Common Provisions Regulation requires each Member State to submit a final report on the implementation of each OP without specifying sufficiently its content and its date of submission. Besides that, most of the provisions dealing with the closure of 2014-2020 programmes delay the final assessment of the eligibility of the costs declared for some operations until a later stage, i.e. usually at closure. This is the case for investments made by financial instruments, the clearing of state aid advances, the final assessment of revenue-generating projects, the treatment of non-functioning projects, etc.

6.70. Unlike for the assessment of annual accounts, the Common Provisions Regulation does not define the role of each actor in this process or the work that has to be done to reassess and, if necessary, adjust the impact of possible ineligible costs on the residual rates for the years in question. These aspects need to be clarified in due time so that Member States understand what the Commission expects them to do for the closure of 2014-2020 programmes. Any uncertainty in this regard may also affect Member States' capacity to carry out the necessary checks to ensure that the final eligible expenditure at closure for each OP has a residual error rate below 2 %, given that the retention period for making documents available may have expired if some tasks are left until the very end of the programme (end of 2025).

([28]) See Commission's reply to paragraph 6.67 of the 2017 annual report.
([29]) Except Croatia.

Conclusion and recommendations

Conclusion

6.71. The overall audit evidence we obtained and have presented in this chapter indicates that the level of error in spending on 'Economic, social and territorial cohesion' was material (see paragraphs 6.14 to 6.40). For this MFF sub-heading, our testing of transactions produced an estimated overall level of error of 5,0 % (see ***Annex 6.1***).

6.72. The weaknesses found in the work of several audit authorities covered by our sample (see paragraphs 6.41 to 6.50) currently limits the reliance that can be placed on that work.

6.73. Because of this and issues we identified in the Commission's own work (see paragraphs 6.51 to 6.70), the residual error rates presented for the 2016/2017 accounting year in the Commission's AARs (KPI) are underestimated, and we cannot currently rely on them. Due to the additional errors detected, the recalculated rate was above the 2 % materiality threshold for eight out of 15 assurance packages for the 2014-2020 period and one out of nine closure packages for 2007-2013.

6.74. In the AMPR the Commission presents an estimated risk at payment for 'Economic, social and territorial cohesion'. However, this rate relates to expenditure which has not yet gone through the full control cycle (i.e. the Commission has not yet received assurance from the audit authorities and through its own audit work) and which is not the same as the expenditure we audited. Therefore we cannot rely on this rate.

6.75. The new control and assurance framework was designed to ensure that annual residual error rates are below 2 %. However, our audit showed that further improvements are necessary, in particular in terms of the framework's implementation by managing authorities, audit authorities and the Commission.

Recommendations

6.76. ***Annex 6.3*** shows the findings of our follow-up review of the five recommendations we made in our 2015 annual report and those four recommendations in the 2017 annual report which required immediate action. The Commission had implemented two recommendations in full, while four had been implemented in most respects, one in some respects and two had not been acted upon at all. We consider that last year's recommendations 1, 2, 4(ii) and 6, which concern issues that we found again this year, are still valid.

6.77. Based on this review and our findings and conclusions for 2018, we recommend that the Commission:

Recommendation 6.1 — Audit arrangements for SME Initiative programmes

Ensure that:

(a) regular checks, based on a representative sample of disbursements to final recipients, are carried out at the level of financial intermediaries either by the audit authority or by an auditor selected by the EIB Group;

(b) where such checks were insufficient, develop and implement appropriate control measures to prevent the possibility of material irregular expenditure at closure.

Target implementation date: immediate

Recommendation 6.2 – Irregular withholding of payments

Take the necessary steps to ensure that the checklists used by managing and audit authorities include verifications of compliance with Article 132 of the Common Provisions Regulation, which states that beneficiaries must receive the total amount of eligible expenditure due no later than 90 days from the date of submission of the related payment claim. Where relevant, make appropriate recommendations to programme authorities and encourage them to follow correct practice in the future.

Target implementation date: immediate

Recommendation 6.3 – 2014-2020 closure arrangements

Address weaknesses and ensure that no programme can be closed with a material level of irregular expenditure. The Commission should:

(a) identify the main risks that may affect the regular closure of programmes;

(b) where appropriate, develop targeted guidance on the arrangements for closure which includes adequate and timely corrective measures.

Target implementation date: (a) May 2020 and (b) December 2022

Part 2 — Assessment of project performance

6.78. For 208 transactions we examined this year (excluding financial instruments and operations under FEAD OP), we assessed elements of the performance system (in particular whether OPs had output and result indicators that were relevant to their objectives, and whether the output and result objectives specified in project documents ([30]) corresponded to the OP objectives for each priority axis). We also verified whether Member States had set up a database with information on performance at project level and to what extent audit authorities checked the reliability of that information.

6.79. We re-performed audits of 26 operations that were physically completed at the time of our audit. We assessed the performance of those operations, i.e. whether the authorities reported having met the targets set for each indicator and achieved their objectives.

Result indicators are not always an integral part of the design of performance systems at project level

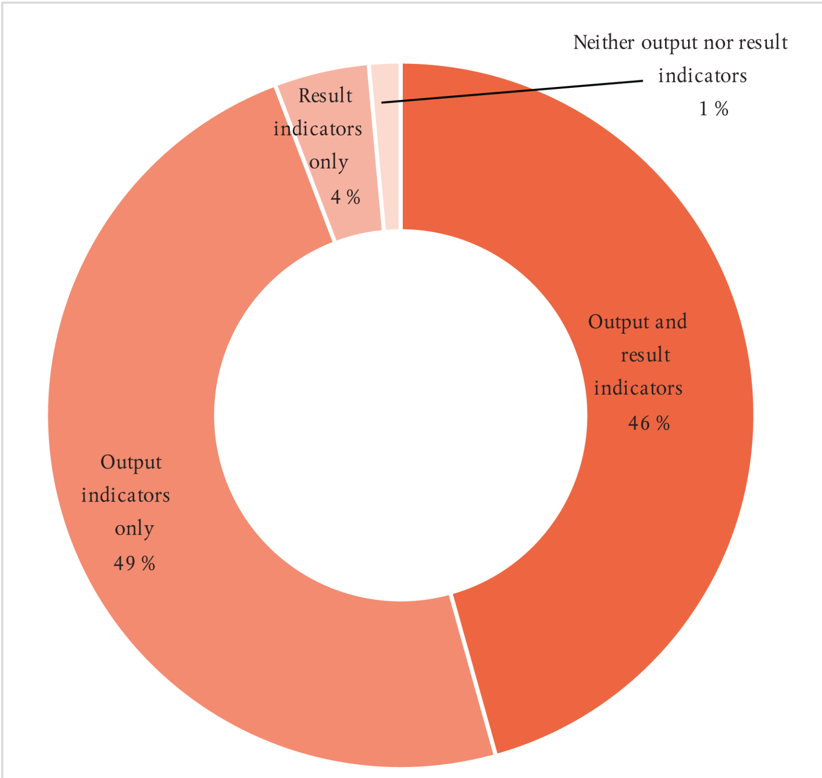
6.80. The EU regulations relevant to this spending area require beneficiaries to define and report on outputs. Member States also have the option of setting result indicators that link project results to the corresponding indicators for the OP priority axis. Setting result indicators, wherever possible and meaningful, is good practice as it allows the authorities to measure the specific contribution made by a project to objectives of the corresponding priority axis.

6.81. Our findings in this regard are similar to those of previous years. We detected a number of weaknesses in the way Member State authorities had set performance indicators at both OP and project level.

([30]) Project applications, grant agreements, contracts and/or co-financing decisions.

6.82. In 110 cases the authorities had not set result or output indicators at project level, and in three they had no indicators or targets at all with which to measure project performance. In the circumstances, it is not possible to determine whether these projects contributed to the overall programme objectives. Of these cases, 41 relate to the 2007-2013 period. Our findings are summarised in ***Box 6.9***.

Box 6.9
Assessment of elements of performance systems



Source: ECA.

6.83. In 5 of 205 projects where Member States had defined either an output or a result indicator, or both, there was no link between them and the OP objectives.

Member States have set up monitoring systems to record information on performance

6.84. Monitoring systems were in place in all 14 Member States we examined for 2018. They were also operational in all but one Member State (Slovenia), where the system did not become fully operational until 2019.

6.85. In the 2014-2020 period, audit authorities are required to examine the reliability of performance data. We found that they generally carry out checks of project performance during their audits of operations. In Poland and Portugal, however, we concluded that the audit authority had limited its verifications to output objectives.

6.86. In 2018, the Commission carried out audits to obtain assurance that Member States are reporting reliable data on indicators. It concluded that, despite the existence of IT systems to monitor performance data, there are still material shortcomings which put data reliability at risk.

Completed projects have not always fully achieved their performance objectives

6.87. Of the 26 completed projects for which we examined the achievement of objectives, we found that 17 had both result and output indicators. These had been reported fully achieved in six projects (23 %) and partially achieved in eleven (42 %).

6.88. Of the remaining nine projects where only either an output or a result indicator had been set, we found that these had been reported fully achieved in four (16 %). We were unable to assess the achievement of performance objectives in the remaining five projects (19 %) due to lack of relevant information.

ANNEX 6.1

RESULTS OF TRANSACTION TESTING

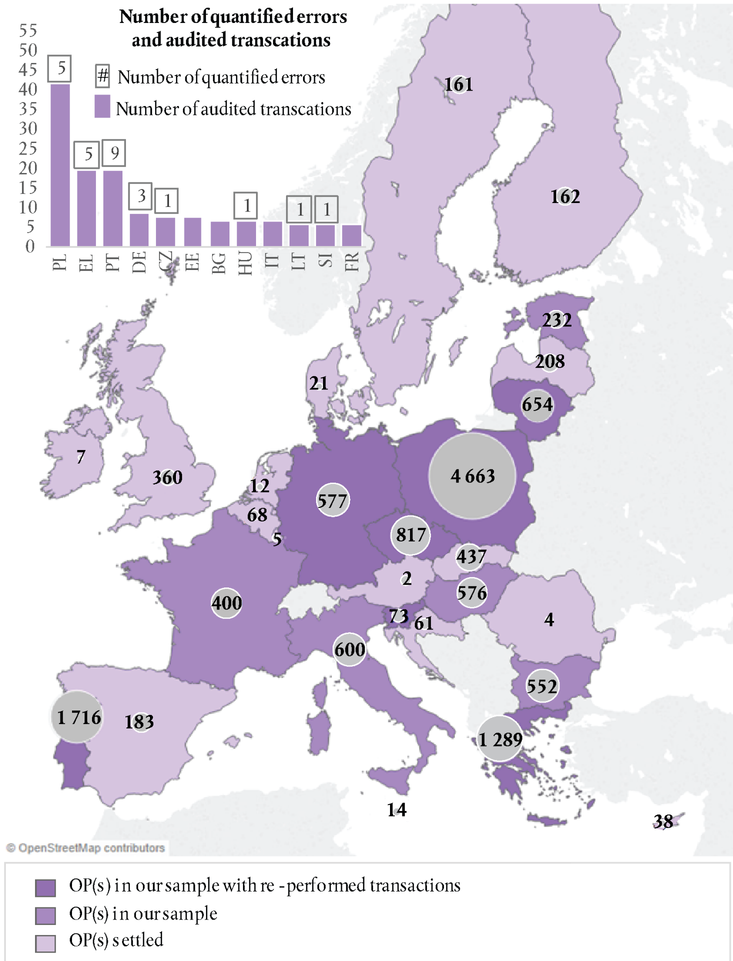
	2018	2017
SIZE AND STRUCTURE OF THE SAMPLE		
Total transactions	**220**	217
ESTIMATED IMPACT OF QUANTIFIABLE ERRORS		
Estimated level of error	**5,0 %**	3,0 %
Upper Error Limit (UEL)	7,5 %	
Lower Error Limit (LEL)	2,5 %	

ANNEX 6.2

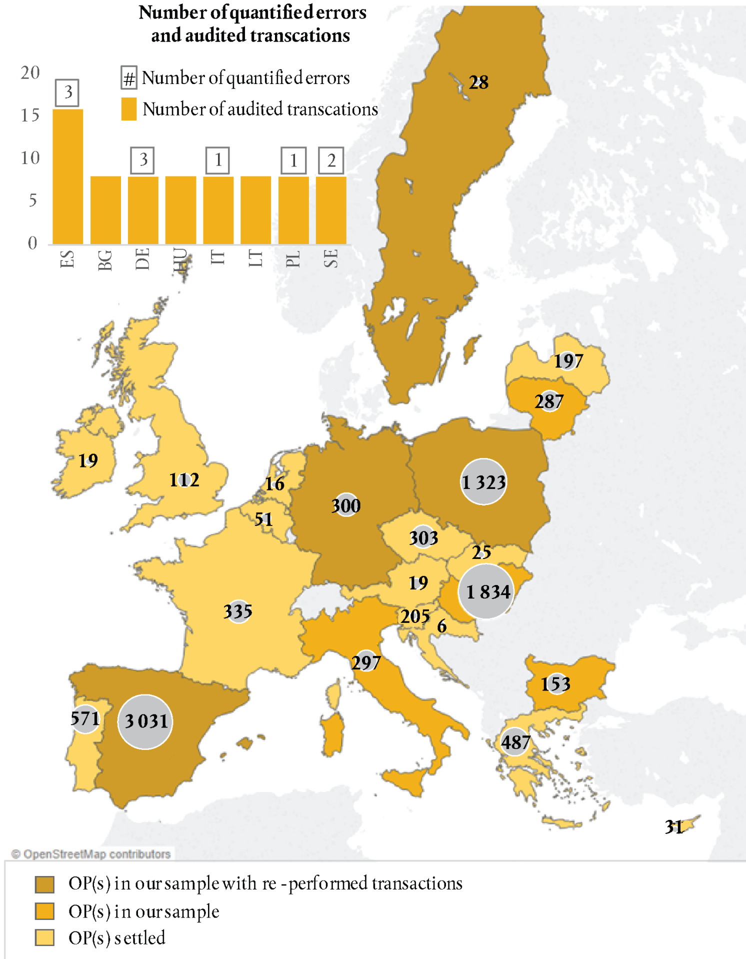
INFORMATION ON EU ACTION IN MEMBER STATES

A breakdown of our sample selected from OPs for which there was a Commission settlement in 2018 and the number of quantifiable errors we found per Member States. (Amounts in circles indicate the expenditure declared in million euros)

2014 - 2020 programming period



2007 - 2013 programming period



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ANNEX 6.3

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS

E = DG Employment, Social Affairs and Inclusion; R = DG Regional and Urban Policy; X = Common assessment for both DGs

Year	ECA recommendation	ECA's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	N/A under the current framework	Insufficient evidence
			In most respects	In some respects			
2015	**Recommendation 1**: the Commission should fundamentally reconsider the design and delivery mechanism for the ESI funds when making its legislative proposal for the next programming period taking also into account the suggestions of the high level simplification group. (target implementation date: final results before the Commission presents its proposal for the post-2020 period)		X ([1])				
	Recommendation 2: the Commission should make use of the experience acquired in the 2007-2013 programming period and report on a focused analysis of the national eligibility rules for the 2014-2020 programming period. Based on the above, it should provide guidance to Member States on how to simplify and avoid unnecessarily complex and/or burdensome rules that do not add value with respect to the results to be achieved by the policy ('gold-plating'), in particular when they result in significant and/or recurring errors. (target implementation date: end of 2018)		X ([2])				
	Recommendation 3: the Commission should submit a legislative proposal to amend, through a legislative act of equal legal value, Regulation (EC) No 1083/2006 with respect to the extension of the eligibility period for financial instruments under shared management to the Council and the Parliament. A change of the regulation is required to provide legal certainty to the Member States. (target implementation date: immediately)				X ([3])		
	Recommendation 4: for the 2014-2020 programming period, the Commission should clarify to Member States the notion of recoverable VAT, in particular for public beneficiaries, to avoid different interpretation of the term 'non-recoverable' VAT and avoid a sub-optimal use of EU funds. (target implementation date: mid 2017)	X					
	Recommendation 5: the Commission should ensure that all the expenditure related to ERDF and ESF financial instruments for the 2007-2013 programming period are included sufficiently early in the closure declarations to enable audit authorities to carry out their checks. In addition, the Commission should encourage all Member States that implemented financial instruments to carry out specific audits on the implementation of these instruments in view of the closure. (target implementation date: immediately)	X					

Year	ECA recommendation	ECA's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	N/A under the current framework	Insufficient evidence
			In most respects	In some respects			
2017	**Recommendation 1**: the Commission should ensure that the audit arrangements for financial instruments managed by the EIF are adequate at the level of financial intermediaries. When the EIB/EIF uses agreed-upon procedures with external auditors, the Commission should define the minimum conditions of such contracts with a view to the need to provide assurance, in particular the obligation for sufficient audit work at the level of the Member State. (Implementation date: immediate)		X (4)				
	Recommendation 2: the Commission should propose legislative changes for the post-2020 financial framework which would exclude reimbursement of VAT to public bodies from EU funds. (Implementation date: before approval of the post-2020 legislative framework)				X (5)		
	Recommendation 3: the Commission should address the weaknesses we have identified in its verification of the audit authorities' work in the context of the Commission's regularity audits. (Implementation date: immediate)		X (6)				
	Recommendation 6: the Commission should carry out sufficient regularity checks to conclude on the effectiveness of audit authorities' work and obtain reasonable assurance on the regularity of expenditure at the latest in the AARs it publishes following the year of accepting the accounts. (Implementation date: immediate)			X (7)			

(1) Despite the Commission's simplifications efforts, the draft common provisions regulation for the next programming period includes elements that pose risks to compliance with the rules and to sound financial management, as highlighted in our Opinion No 6/2018 *on the Commission's proposal of 29 May 2018 on the Common Provisions Regulation, COM(2018) 375 final and in the June 2019 briefing paper 'Delivering performance in Cohesion'*.
(2) The Commission has not reported on a focused analysis of national eligibility rules. However, it does provide guidance to Member States and reports on practices of gold plating identified during their audits.
(3) The Commission did not accept this recommendation.
(4) See paragraphs 6.36 to 6.38.
(5) The Commission made an alternative proposal making VAT eligible for projects below a total cost of 5 million euro. This does not address the problem for the reasons detailed in our rapid case review on VAT.
(6) See paragraphs 6.58 to 6.64.
(7) The Commission was able to conclude for only one out of eight audits within nine months. See paragraph 6.64.

CHAPTER 7

Natural resources

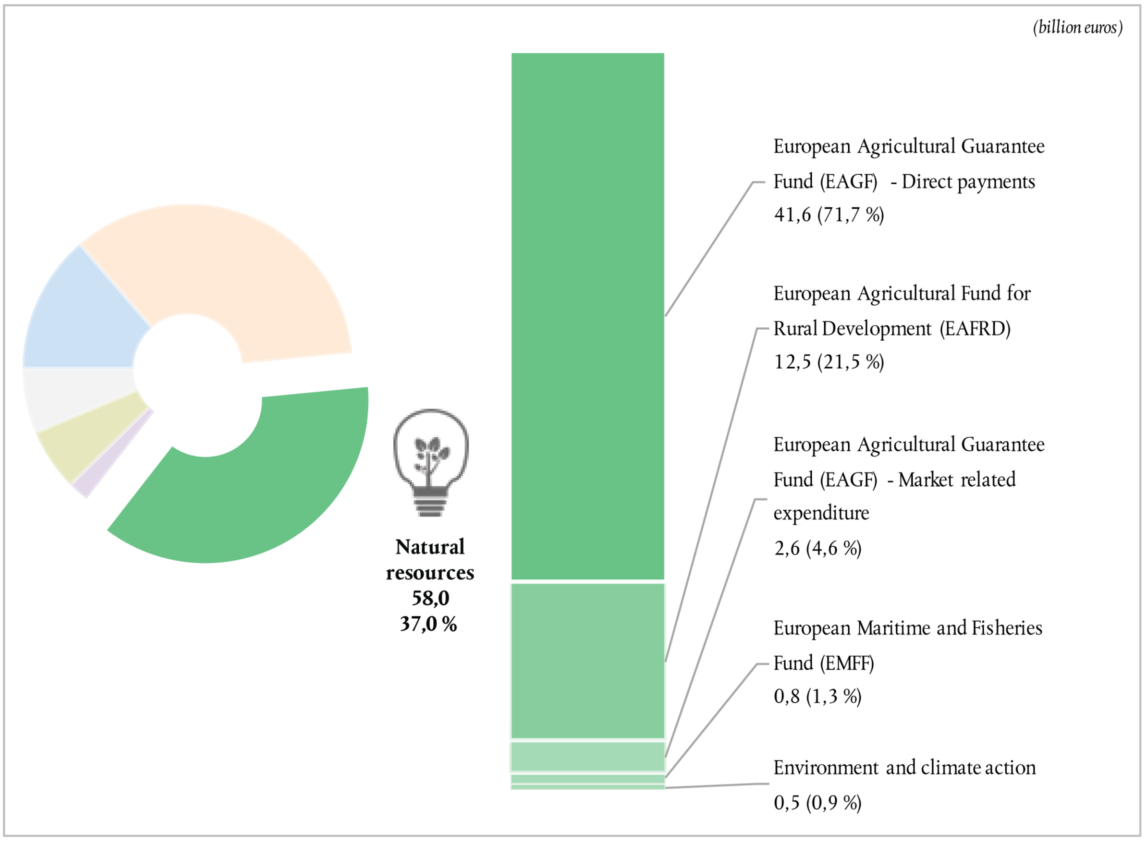
CONTENTS

Introduction

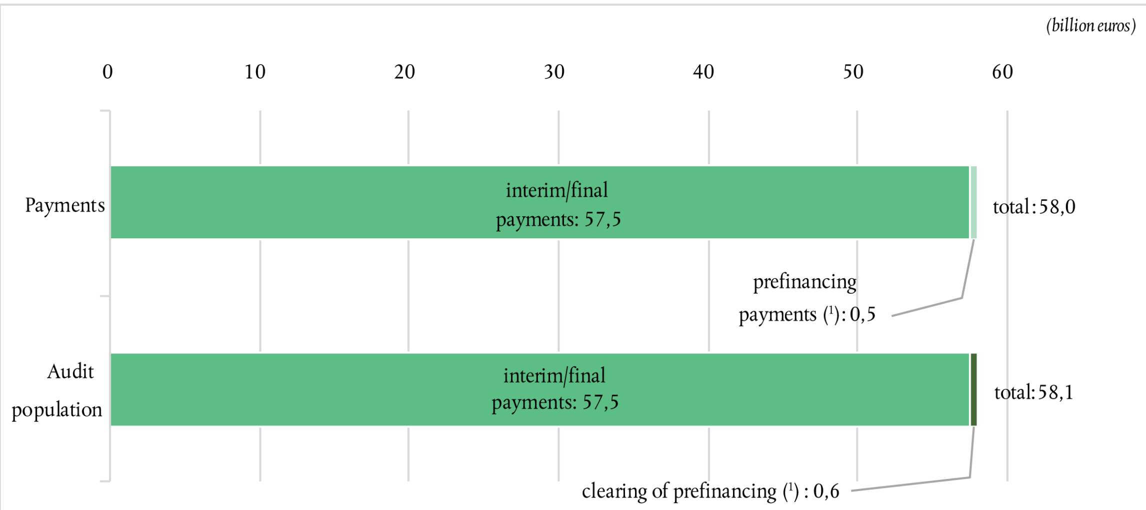
7.1. This chapter presents our findings for the MFF heading 'Natural resources'. ***Box 7.1*** gives an overview of the main activities and spending under this heading in 2018.

Box 7.1
MFF heading 2 'Natural resources' – 2018 breakdown

Payments breakdown:



Payments and audit population:



(1) In line with the harmonised definition of underlying transactions (for details see ***Annex 1.1***, paragraph 13).

Source: 2018 *consolidated accounts* of the European Union.

7.2. ***Part 1*** of this chapter sets out our findings on *regularity*. In ***Part 2*** of the chapter, focused on *performance*, we examine (i) the performance of a sample of rural development actions, and (ii) how the Commission and Member States measure and report on the performance of spending on agriculture and rural development, through the *common monitoring and evaluation framework* (1).

Brief description of 'Natural resources'

7.3. The *common agricultural policy* (CAP) accounts for 98 % of spending on 'Natural resources'. The three general objectives set for the CAP in EU legislation are (2):

(a) viable food production, with a focus on agricultural income, agricultural productivity and price stability;

(b) the sustainable management of natural resources and climate action, with a focus on greenhouse gas emissions, biodiversity, soil and water;

(c) balanced territorial development.

7.4. The Commission, in particular the Directorate-General for Agriculture and Rural Development (DG AGRI), shares management of the CAP with *paying agencies* in the Member States. Since 2015, EU law requires independent *certification bodies* in the Member States to give an annual opinion on the legality and regularity of the paying agencies' spending. CAP spending falls into three broad categories:

— *direct payments* to farmers, which are fully funded by the EU budget;

— agricultural *market measures*, also fully funded by the EU budget, with the exception of certain measures co-financed by the Member States, such as promotion measures and the school fruit, vegetable and milk scheme;

— Member States' rural development programmes, co-financed by the EU budget.

7.5. This MFF heading also covers EU spending on the *common fisheries policy*, and part of EU spending on the environment and climate action.

Audit scope and approach

7.6. For ***Part 1*** of this chapter on the regularity of *transactions*, applying the audit approach and methods set out in ***Annex 1.1***, we examined a sample of 251 transactions (3), in line with paragraph 11 of ***Annex 1.1***. The sample was designed to be representative of the full range of spending under this MFF heading. It consisted of transactions from 22 Member States (4). Our objective was to contribute to the overall *statement of assurance* as described in ***Annex 1.1***. We also examined the following for 'Natural resources' in 2018:

(a) the regularity information in the *annual activity reports* (AARs) of DG AGRI and of the Directorate-General for Climate Action (DG CLIMA), the consistency of the methodology for estimating amounts at risk, and their inclusion in the Commission's Annual Management and Performance Report (AMPR);

(1) Article 110(1) of Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008 (OJ L 347, 20.12.2013, p. 549).

(2) Article 110(2) of Regulation (EU) No 1306/2013.

(3) The sample consisted of 95 direct payments, 14 market measures, 136 payments under rural development programmes, and 6 payments for fisheries, the environment and climate action.

(4) Belgium, Bulgaria, Czechia, Denmark, Germany, Estonia, Greece, Spain, France, Italy, Cyprus, Hungary, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom. The sample also included three transactions under *direct management*.

(b) selected systems, which concerned key elements of the Commission's internal control framework for the CAP: the paying agencies' control data and statistics; the work of the certification bodies; DG AGRI's checks on the certification bodies' work; DG AGRI's audits in the Member States, and its calculations of the *error* rates published in its AAR.

7.7. For ***Part 2*** of this chapter, which focuses on performance, we examined:

(a) the delivery and costs of sampled rural development actions;

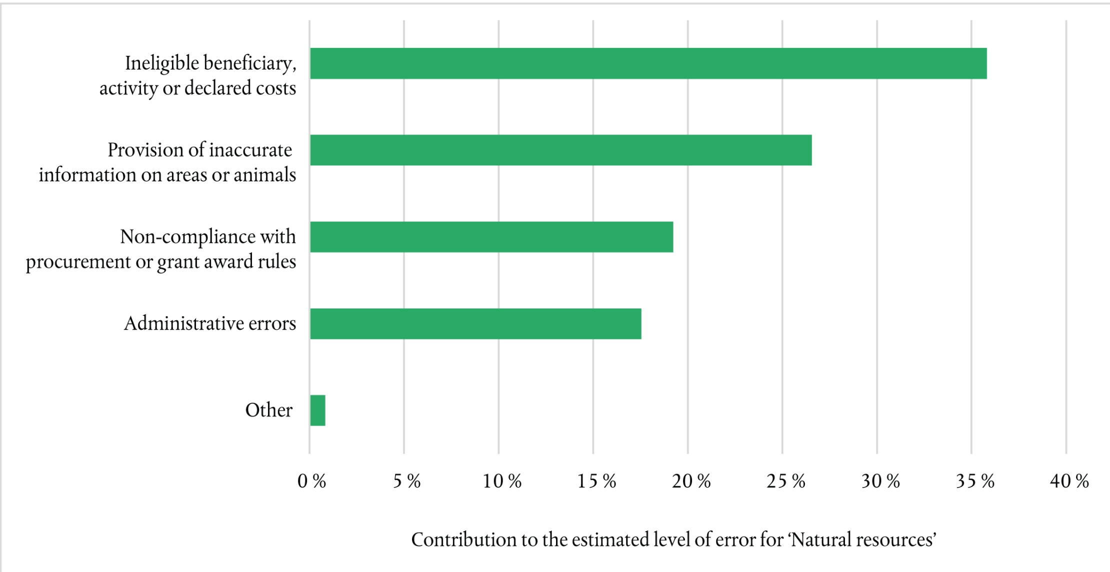
(b) the Commission and Member States' performance measurement and reporting under the CAP common monitoring and evaluation framework.

Part 1 — Regularity of transactions

7.8. ***Annex 7.1*** provides an overview of the results of transaction testing. Of the 251 transactions examined, 193 (77 %) were error-free. On the basis of the 46 errors ([5]) we have quantified, we estimate the level of error for 'Natural resources' to be 2,4 % ([6]).

7.9. ***Box 7.2*** gives a breakdown of our *estimated level of error* for 2018. Errors concerning ineligible *beneficiaries*, activities or declared costs account for more than a third of our estimated level of error of 2,4 %.

Box 7.2
Ineligible beneficiaries, activities or declared costs were the largest category of error



Source: ECA.

7.10. The Commission and the Member State authorities had applied corrective measures that directly affected 53 of the transactions we sampled. These measures were relevant to our calculations, as they reduced our estimated level of error for this chapter by 0,6 percentage points. In 12 cases of quantified error, the national authorities had sufficient information to prevent, or to detect and correct, the error before declaring the expenditure to the Commission. Had the national authorities made proper use of all the information at their disposal, the estimated level of error for this chapter would have been 0,6 percentage points lower.

([5]) We also found twelve cases of non-compliance, which had no financial impact.
([6]) We base our calculation of error on a representative sample. The figure quoted is the best estimate. We have 95 % confidence that the estimated level of error in the population lies between 1,2 % and 3,6 % (the lower and upper error limits respectively).

Direct payments as a whole were free from material error

7.11. Our work supports the conclusion that direct payments as a whole were free from material error. These account for 72 % of spending under the MFF heading 'Natural resources'.

7.12. Four main EAGF schemes account for 92 % of all direct payments:

(a) two schemes providing *decoupled income support* ([7]) based on the area of agricultural land declared by farmers: the '*basic payment scheme*' (16,3 billion euros in 2018) and the '*single area payment scheme*' (4,2 billion euros in 2018);

(b) a payment intended to support agricultural practices beneficial for the climate and the environment, commonly referred to as the '*greening*' payment (11,7 billion euros in 2018);

(c) *coupled support*, linked to specific types of agricultural produce (e.g. beef and veal, milk or protein crops) (5,9 billion euros in 2018).

Most direct payments we tested were unaffected by error

7.13. We tested 95 direct payments, covering all the main schemes. We visited 50 farms to check that the beneficiaries had complied with the rules, but did not visit the remaining 45, for which we had obtained sufficient evidence of compliance from satellite imagery, together with *orthophotos* and documentation provided by the paying agencies.

7.14. We found that 77 transactions were unaffected by error. Direct payments to farmers are entitlement-based: beneficiaries receive payment if they meet certain conditions. Such payments carry a lower risk of error provided the attached conditions are not overly complex (see paragraphs 1.16 and 1.18).

7.15. Without affecting our positive conclusion on direct payments, we detected minor overpayments (below 5 %) in eleven cases, mainly as a result of farmers overstating the number of eligible hectares or animals in their aid claims. We found errors exceeding 5 % of the amount examined in two direct payments, including one case where the error exceeded 20 %. For five payments we detected compliance issues without financial impact.

The Integrated Administration and Control System limits the level of error in direct payments

7.16. The main management tool for direct payments is the *Integrated Administration and Control System* (IACS) ([8]), which incorporates the *Land Parcel Identification System* (LPIS). IACS interlinks databases of holdings, applications and agricultural areas, which the paying agencies use to perform administrative cross-checks on all aid applications. LPIS is a geographical information system containing multiple-source spatial data sets, which together form a record of agricultural areas in the Member States.

7.17. Our findings confirm that LPIS makes a particularly significant contribution to preventing and reducing levels of error ([9]). As we have previously observed, Member States' action plans, supervised by the Commission, have improved the reliability of data on the eligibility of land contained in LPIS ([10]).

7.18. The introduction in IACS of the *geo-spatial aid application* ([11]), which enables farmers to submit payment claims online, and the fact that the paying agencies now carry out preliminary cross-checks on farmers' aid applications, have also helped to bring down the level of error in direct payments ([12]).

([7]) Decoupled aid payments are made for all eligible agricultural land, irrespective of whether it is used for production.
([8]) https://ec.europa.eu/agriculture/direct-support/iacs_en.
([9]) See paragraph 7.17 of our 2015 annual report, paragraph 7.13 of our 2016 annual report and paragraph 7.16 of our 2017 annual report.
([10]) See paragraph 7.17 of our 2015 annual report.
([11]) See paragraphs 7.46 to 7.55 of our 2017 annual report.
([12]) See paragraph 7.15 of our 2016 annual report and paragraph 7.16 of our 2017 annual report.

Other spending areas: complex eligibility conditions increase the risk of error

7.19. We tested 136 rural development transactions, 14 market measures, and 6 transactions drawn from spending on fisheries, the environment and climate action. Most spending in this area is reimbursement-based and subject to complex eligibility conditions, increasing the risk of error (see paragraphs 1.16, 1.19 and 1.20). ***Annex 7.2*** provides a breakdown by Member State of the results of transaction testing.

Rural development

7.20. The Commission has approved 118 national and regional rural development programmes in the Member States for 2014-2020 ([13]). These programmes include 20 measures and 67 sub-measures, falling into two broad categories of spending:

(a) aid to investment projects supporting social and economic development in rural areas;

(b) payments based on farm areas or numbers of animals.

7.21. The measures and sub-measures are governed by specific implementation rules and subject to generally complex eligibility conditions. Our transaction-testing covered 16 measures under 30 programmes in 18 Member States.

7.22. Of the 136 rural development transactions we tested, 104 were unaffected by error and 20 contained errors below 20 % of the amount examined. In 6 cases we found errors with an impact equal to or exceeding 20 %. For 6 payments, we detected compliance issues without financial impact.

7.23. We examined 66 payments to investment projects, such as modernisation of farms, business development projects, and support for basic services and village renewal in rural areas. We quantified 11 errors, including 3 cases where the beneficiaries had not met the eligibility conditions (see ***Box 7.3***) and 7 projects with ineligible declared costs. In the remaining transaction we identified an error due to non-compliance with *grant* award rules.

Box 7.3
Some beneficiaries failed to comply with the eligibility rules for on-farm investments and business development projects

In Poland, a *beneficiary*, together with other family members, submitted a joint application for support to construct a pigsty, with capacity for up to 600 sows. Each of the joint beneficiaries applied for the maximum level of support, which was around 215 000 euros. Since the purpose of the measure was to support the development of small and medium-sized farms, the eligibility conditions stipulated that applicants' holdings must have neither an economic size above 250 000 euros nor an area greater than 300 hectares. The beneficiaries claimed to operate independent businesses. We found that they held shares in a family company operating on the same site. When taking into account the beneficiary's share of the family company, his holding exceeded the ceiling for economic size. We had previously found large eligibility errors in several Member States involving beneficiaries who did not meet the conditions for support for *small and medium-sized enterprises* ([14]).

In Estonia, a beneficiary received start-up aid as a young farmer setting up a business on an agricultural holding. The eligibility rules specified that all members of the Management Board must be young farmers, to ensure that young farmers would hold control over the holding throughout the period of business set-up. After payment of the initial aid instalment, but still within the start-up period, the Board took on a second member, who was not a young farmer. At this point the beneficiary became ineligible. The Estonian authorities paid a second instalment without identifying the breach of the eligibility conditions.

In Italy we found a further ineligible beneficiary who had received start-up aid as a young farmer. The reason for this error was similar to that described in the Estonian case above. The Italian authorities decided to recover the payment following our audit visit.

([13]) Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005 (OJ L 347, 20.12.2013, p. 487).

([14]) See paragraph 7.26 of our 2016 annual report.

7.24. We examined 70 transactions based on the area or animal numbers declared by farmers, such as payments for meeting *agri-environment-climate commitments*, compensation payments to farmers in areas with natural constraints, or payments for organic farming. Among these, we found 14 cases of overstated eligible area or animal numbers, although 10 had been overstated by less than 5 %. We also found one case where the paying agency had incorrectly calculated the aid.

Market measures

7.25. Agricultural market measures form a number of diverse schemes, subject to a variety of eligibility conditions. Among the 14 sampled transactions, we found 3 cases where paying agencies had reimbursed ineligible costs, and one instance of non-compliance with *public procurement* rules.

Fisheries, the environment and climate action

7.26. The selection criteria and eligibility requirements for projects in the fisheries, environment and climate action policy areas also vary. Among the six transactions we examined, we found three projects that did not comply with all the eligibility conditions and therefore impact our error rate.

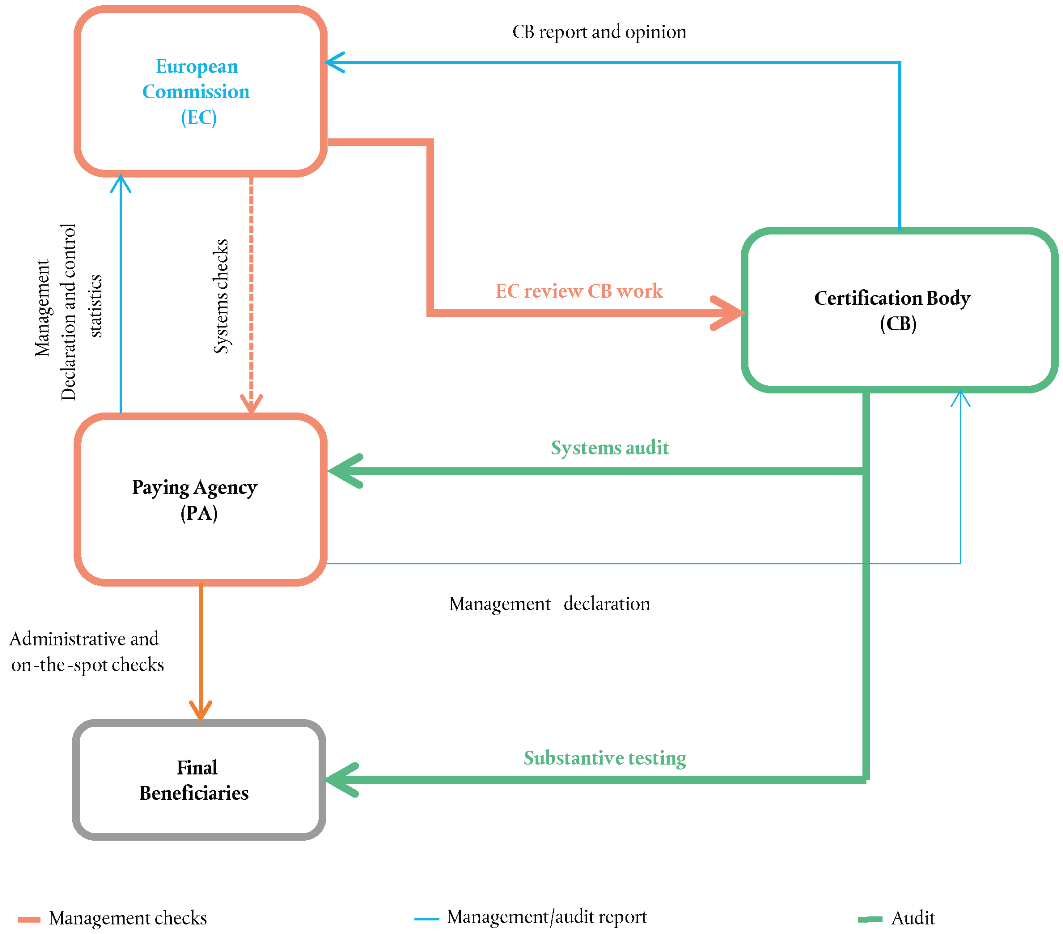
Annual activity reports and other governance arrangements

DG AGRI's reporting on the regularity of CAP spending

7.27. CAP payments are checked using IACS (see paragraphs 7.16 to 7.18 for direct payments), as well as other control systems (see ***Box 7.4***). The director of each of the 76 paying agencies provides DG AGRI with an annual management declaration on the effectiveness of their control systems, together with a report on the paying agency's administrative and on-the-spot checks ('control statistics'). Since 2015, in order to provide additional assurance, the certification bodies have been required to give an annual opinion for each paying agency on the legality and regularity of the expenditure for which Member States have requested reimbursement ([15]).

([15]) See also our special report 7/2017: 'The certification bodies' new role on CAP expenditure: a positive step towards a single audit model but with significant weaknesses to be addressed'.

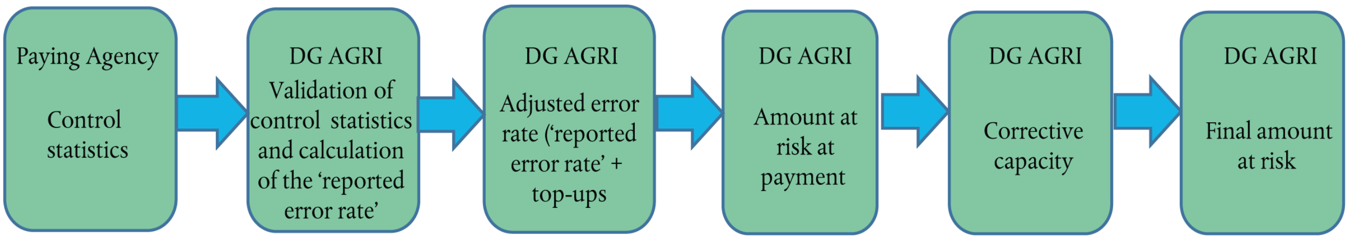
Box 7.4
CAP assurance model 2014-2020



Source: ECA

7.28. DG AGRI uses the national control statistics it receives from the paying agencies. It also makes adjustments based on the results of the certification bodies' audits, and on its own checks and professional judgement, to arrive at the 'adjusted error rates' for direct payments, rural development and market measures. It then deducts estimated ([16]) future *financial corrections* and recoveries from this figure to calculate a final amount at risk (see ***Box 7.5***).

Box 7.5
DG AGRI's regularity information



Source: ECA

7.29. We examined DG AGRI's reports of its 18 review visits to certification bodies in 2018, and for five paying agencies ([17]), we reviewed:

— DG AGRI's and the certification bodies' checks on the control statistics;

— DG AGRI's calculation of the adjusted error rate.

7.30. We also reviewed DG AGRI's overall calculation of the CAP adjusted error rate, the estimation of future corrections and recoveries, and the calculation of the final amount at risk presented in its AAR.

DG AGRI applied its methodology consistently

7.31. DG AGRI applied its methodology consistently in its review of the paying agencies' control statistics, its visits to certification bodies and the presentation of regularity information in its AAR. The changes recently introduced in DG AGRI's audit manual are in line with our ([18]) recommendations and those of the Commission's Internal Audit Service ([19]).

DG AGRI's review visits identified shortcomings in certification bodies' work

7.32. In 2018, DG AGRI carried out 18 review visits to 17 certification bodies and identified several issues, including the following:

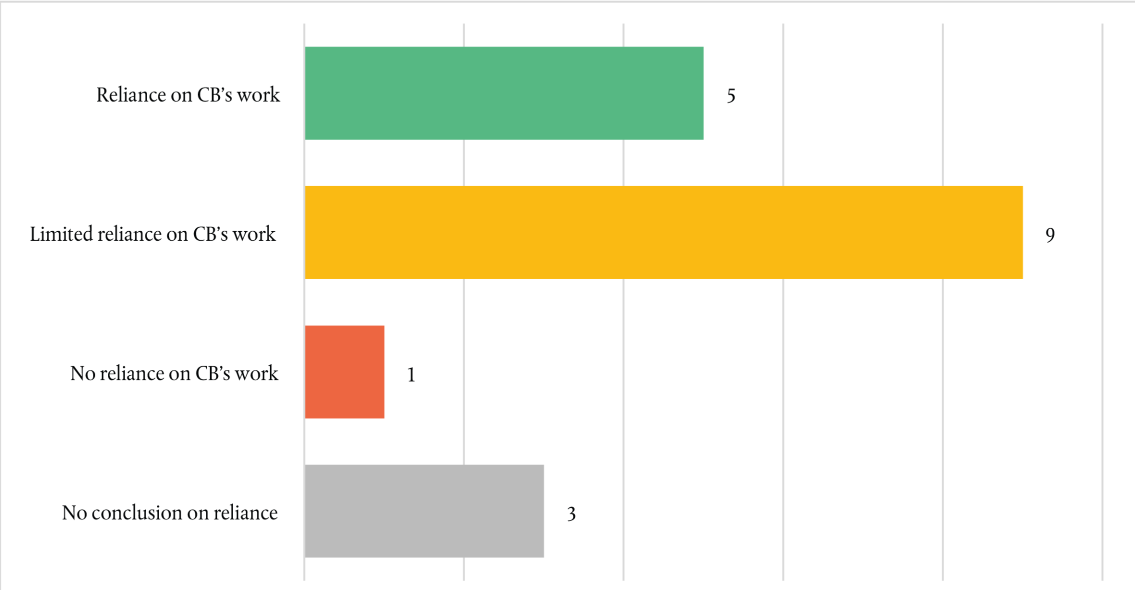
— the sampling methodology of 9 certification bodies was not fully in line with the guidelines issued by the Commission, and for 3 of these the Commission found that this undermined the representativeness of the certification bodies' samples;

— 9 certification bodies, including 8 from the indent above, insufficiently checked the eligibility conditions or farming commitments.

([16]) DG AGRI uses an adjusted rolling average of financial corrections and recoveries in order to estimate its *corrective capacity*.
([17]) Spain (Andalusia and Aragon, Italy (AGREA), Poland, the United Kingdom (Scotland)
([18]) In paragraph 7.67 (Recommendation 5) of our 2015 annual report, we recommended that the Commission 'update DG AGRI's audit manual by including detailed audit procedures and documentation requirements for the verification of the data supplied by Member States and used for calculating financial corrections'.
([19]) Following its audit in 2017 on DG AGRI's control strategy for the CAP 2014-2020, the Internal Audit Service recommended that 'DG AGRI should strengthen its procedure for the calculation of financial corrections and update the audit manual where necessary'.

7.33. Over the past four years (2015-2018), DG AGRI has carried out review visits covering selected categories of spending to around 80 % of the certification bodies and concluded that it could rely fully on their work in around one quarter of cases. Our summary of the results of the 18 review visits carried out in 2018 is presented in ***Box 7.6***. As we noted last year, continued improvement in the certification bodies' work is required if the Commission is to use their work as its primary source of assurance on the regularity of CAP spending [20].

Box 7.6
Summary of the results of DG AGRI review visits covering selected categories of spending checked by certification bodies in 2018



Source: ECA, based on DG AGRI reviews.

Flat-rate adjustments to the Member States' reported error rates make up a significant part of DG AGRI's published error rates

7.34. Based on their paying agencies' control statistics, Member States reported an overall level of error close to 1 % [21] for CAP spending as a whole. We reviewed DG AGRI's adjustments to Member State error rates (see paragraph 7.28). As in previous years, DG AGRI based most of its adjustments on its own checks of paying agency systems and spending. DG AGRI calculates the majority of these adjustments as flat rates, intended to reflect the significance and extent of weaknesses it identified in control systems.

7.35. DG AGRI's AAR estimates the amount at risk at payment at around 2,1 % for CAP spending as a whole and at around 1,8 % for direct payments. The Commission also presents these results in its AMPR.

DG CLIMA's annual activity report

7.36. We reviewed DG CLIMA'S AAR. The report was prepared in line with the Commission's internal instructions. As we did not sample any transactions in the area of climate action in 2018, we have no audit results to compare with the information on regularity of spending reported by DG CLIMA.

(20) See paragraph 7.37 of our 2017 annual report.
(21) Member States have to submit two sets of statistical data to DG AGRI by 15 July each year: control data (a comprehensive database which contains all beneficiaries who submitted claims, indicating whether they were subject to administrative and on-the-spot checks and giving the results of those checks) and control statistics (summarised results of the checks under the main budget lines).

Conclusion and recommendations

Conclusion

7.37. The overall audit evidence we have obtained and presented in this chapter indicates that the estimated level of error in spending on 'Natural resources' as a whole was material. For 'Natural resources' as a whole, our testing of transactions produced an overall level of error of 2,4 % (see ***Annex 7.1***). However, our results indicate that the level of error was not material for EAGF direct payments, which account for 72 % of spending under this MFF heading.

7.38. The Commission's estimate of the amounts at risk at payment for CAP spending and for direct payments published in its AMPR (see paragraph 7.35) is consistent with our conclusion.

Recommendations

7.39. ***Annex 7.3*** shows the findings of our follow-up review of the six recommendations we made in our 2015 annual report. The Commission had implemented these recommendations in full.

7.40. In our 2017 annual report, we made recommendations to the Commission with a target implementation date end of 2019. They were related to Member States' actions to address the causes of errors and the quality of the work of certification bodies. These recommendations are also relevant to this year's findings and conclusions, and we will follow them up in due course.

Part 2 — Performance

7.41. In 2018, we published eight special reports on spending relating to the sustainable use of natural resources. Special reports on the CAP examined renewable energy in rural areas, the basic payment scheme, the options for financing rural development projects, and animal welfare. We also published reports on air pollution, carbon capture and storage, flood prevention, and desertification. In addition, we published a briefing paper on the future of the CAP and an opinion on the legislative proposals for the post-2020 CAP (see paragraphs 3.50 to 3.52).

7.42. During our testing of the regularity of transactions in 2018, we examined:

(a) the delivery and costs of sampled rural development actions, focusing on *outputs*;

(b) the Commission and Member States' performance measurement and reporting under the CAP common monitoring and evaluation framework, focusing on the *results* of actions.

Performance assessment of rural development actions

7.43. We reviewed 113 sampled rural development actions ([22]) in 18 Member States under 13 measures, which included:

— compensation payments to farmers undertaking agri-environment-climate commitments or farming in areas facing natural constraints;

— support for farm modernisation, such as the construction of buildings or purchase of new equipment;

— provision of business start-up aid to young farmers;

— support for basic services and village renewal in rural areas.

([22]) From the 136 sampled rural development transactions, we covered the 113 actions approved under the current (2014-2020) programming period.

7.44. We assessed whether:

— the actions had produced the expected outputs;

— Member States had checked the reasonableness of the costs declared in relation to investment projects;

— an appropriate use had been made of *simplified cost options*.

Most actions produced the expected outputs

7.45. At the time of our audit, 103 of the 113 actions we examined had been completed. In the 10 cases where the actions had not delivered the planned outputs, either the investments had not been carried out in line with the applicable rules and specifications, or the beneficiaries had overstated the eligible agricultural area.

Member States generally checked the reasonableness of costs, but made little use of simplified cost options

7.46. In 47 of the 49 on-farm investment and business development projects we examined, the Member States had put in place procedures aimed at verifying that the declared costs were reasonable, such as a procurement procedure, the use of reference costs or a comparison of offers. However, in one of these cases, the established procedures were not properly followed.

7.47. We have previously pointed out that, for some projects, simplified cost options have the potential to simplify administration and keep costs under control ([23]). This is especially the case for measures which contain actions with similar types of activity and expenditure ([24]).

7.48. Member States used simplified cost options, such as lump sums or flat rates, in three of the 49 projects (see an example in ***Box 7.7***). National authorities could have used simplified cost options, for at least some costs, in a further 16 projects. In our special report 11/2018, we made recommendations to the Commission aimed at encouraging the appropriate use of simplified cost options.

Box 7.7 **An example of use of simplified cost options**
In Finland, the EU budget funded the indirect costs of a local development project through flat rates. National authorities identified the indirect cost categories in advance and calculated the funding as a flat-rate percentage of the related direct costs of the project.

The CAP common monitoring and evaluation framework

7.49. The CAP common monitoring and evaluation framework (CMEF) is a set of rules, procedures and indicators intended to provide a comprehensive regular assessment of the progress, effectiveness and efficiency of each measure against the objectives of the CAP ([25]). Indicators are designed to: a) describe the product delivered by CAP action (*output* indicators); b) measure immediate changes brought about (*result indicators*); c) show the long-term consequences of an action in terms of its contribution towards the general objectives of the CAP (*impact* indicators) ([26]). The CMEF requires the Commission and the Member States to carry out evaluations on the basis of a multi-annual plan ([27]).

7.50. We reviewed the indicators for 113 rural development payments and 95 direct payments, taking into account the definitions shown in ***Box 7.8***. We focused on the result indicators, which are supposed to have a direct link to the actions. This examination complemented our work on the use of performance indicators at programme level, on which we report in ***Chapter 3***.

([23]) See paragraph 7.63 of our 2017 annual report.

([24]) See paragraph 56 of special report 11/2018: 'New options for financing rural development projects: simpler but not focused on results'.

([25]) https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cap-glance/cmef_en.

([26]) Special report 1/2016: 'Is the Commission's system for performance measurement in relation to farmers' incomes well designed and based on sound data?'

([27]) Member States were required to send the first evaluations for the 2014-2020 period by the end of June 2019.

Box 7.8
Definition of *input*, output, result, and impact

Input	The financial, human, material, administrative or regulatory means used to implement a project or programme.
Output	Something produced or achieved by an EU - funded project, such as training courses delivered, sewage plants constructed, length of road built.
Result	The **immediate effect** of a project or programme upon its completion, such as the improved employability of course participants or improved accessibility following the construction of a new road.
Impact	The long - term consequences of a completed project or programme, which may be socio-economic, environmental or financial.

Source: ECA.

7.51. We took into account our earlier findings on the CMEF ([28]). We had previously observed that the monitoring and evaluation system should provide information on where spending is, and is not, effective and efficient. In particular, result indicators should show the direct and immediate effects of action, i.e. what the spending has actually achieved ([29]).

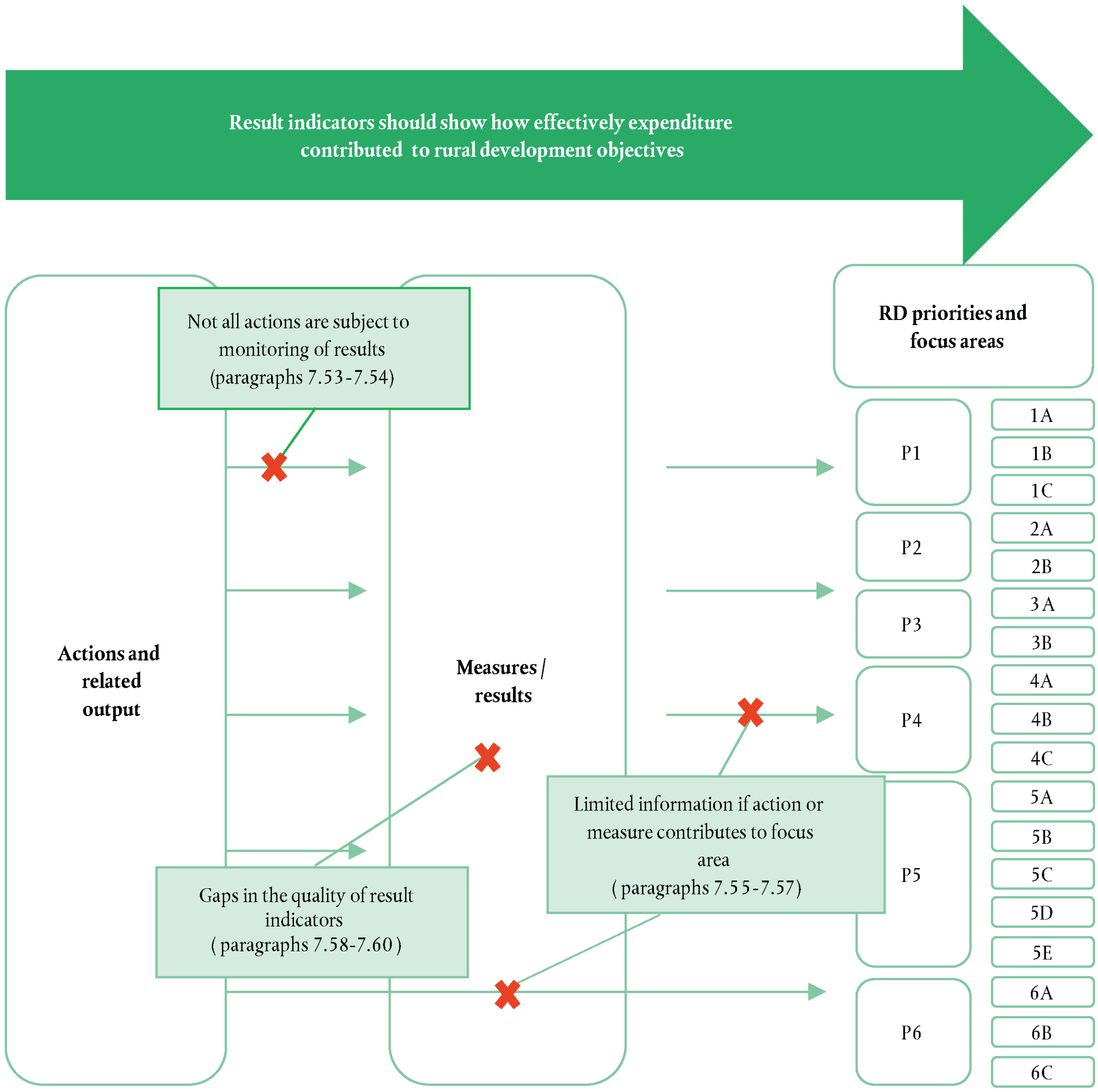
([28]) In particular, our special report 12/2013: 'Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?'; special report 12/2015: 'The EU priority of promoting a knowledge-based rural economy has been affected by poor management of knowledge transfer and advisory measures'; special report 1/2016: 'Is the Commission's system for performance measurement in relation to farmers' incomes well designed and based on sound data?'; special report 10/2017: 'EU support to young farmers should be better targeted to foster effective generational renewal'; special report 16/2017: 'Rural Development Programming: less complexity and more focus on results needed'.

([29]) Special report 12/2013: 'Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?'

Weaknesses in result indicators for rural development spending

7.52. We have previously reported that rural development actions may fail to achieve the intended results, despite delivering the agreed physical outputs ([30]). This year, while we found that most actions had produced the expected outputs (see paragraph 7.45), we continued to identify several weaknesses in the use of result indicators in rural development spending. The results of our review are summarised in ***Box 7.9*** and described in the paragraphs below.

Box 7.9
Weaknesses in measurement and reporting of performance in rural development spending



Source: ECA.

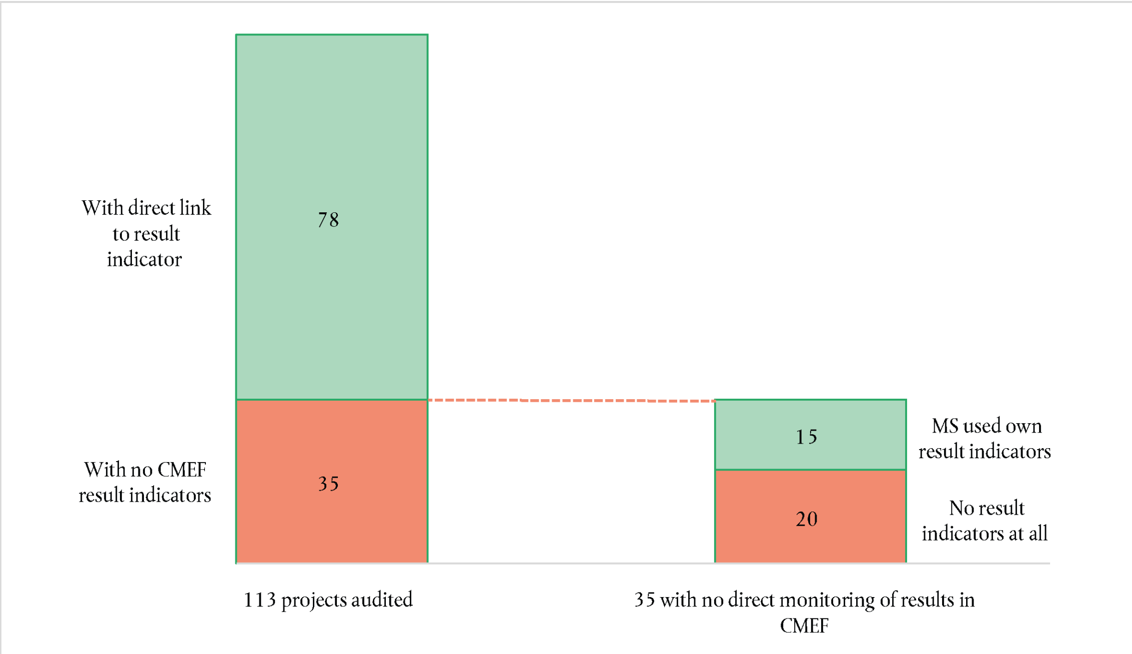
([30]) See paragraph 79 of special report 25/2015: 'EU support for rural infrastructure: potential to achieve significantly greater value for money'.

CMEF result indicators do not cover all rural development spending

7.53. Of the 113 rural development actions we examined, we found 35 had no relevant result indicator measuring the immediate and direct effects of the action (see ***Box 7.10***). This was the case for measure 13 ('Payments to areas facing natural or other specific constraints') and for five other sub-measures ([31]).

7.54. We found that in 15 of the 35 projects without a CMEF result indicator, Member States filled the reporting gap by setting their own national indicators (see ***Box 7.10***).

Box 7.10
20 out of 113 (18 %) rural development projects were not monitored for results



Source: ECA.

Limited information on whether spending contributes to the focus area

7.55. Five of the 14 focus areas examined had no clear link between their objectives and the underlying result indicators. As a consequence, there is limited information on whether the supported actions contributed to the achievement of objectives.

7.56. For example, focus area 2B was designed to 'facilitate the entry of adequately skilled farmers into the agricultural sector and generational renewal'. Most spending under this focus area consists of start-up payments to young farmers. The only result indicator is 'Percentage of agricultural holdings with supported business development plan/investments for young farmers'. This indicator provides limited information on the skills of farmers entering the agricultural sector and the actual rate of generational renewal.

([31]) 1.2 ('Demonstration activities and information actions'), 4.2 ('Investments in processing/marketing and/or development of agricultural products'), 4.3 ('Investments in infrastructure related to development, modernisation or adaptation of agriculture and forestry'), 8.3 ('Prevention of damage to forests from forest fires and natural disasters and catastrophic events') and 19.4 ('Support for running costs and animation').

7.57. We found three cases where the eligibility criteria for selecting the actions had no link to the related performance indicators (see examples in ***Box 7.11***). Therefore, these actions did not contribute to the focus area's objectives.

Box 7.11
Projects with no link to the focus area objectives

In Germany, a project to construct a flood prevention embankment to protect a medieval town district was implemented and reported under focus area 3B 'Supporting farm risk prevention and management'. The associated result indicator was 'Percentage of farms participating in risk management schemes'.

Swedish authorities reported support for events promoting and marketing agricultural activities as contributing to focus area 4B 'Improving water management'. The result indicator for this focus area was 'Percentage of agricultural land under management contracts to improve water management'.

Most result indicators with limitations and gaps

7.58. Few result indicators measure the direct effects of support. Indeed, 17 of the 25 result indicators for rural development measured the level of support given and not whether the support had contributed effectively to the focus area ([32]).

7.59. Some result indicators are imprecise. One of the indicators set up to measure the effects of measure 7 ('Basic services and village renewal in rural areas') is 'Percentage of rural population benefiting from improved services/infrastructures'. 'Population' is defined as the 'size of the population in the area (e.g. municipality, group of municipalities…) benefiting from the service/infrastructure'. In such cases, Member States may report the entire population of the municipality where an action has been implemented, irrespective of the actual number of users benefiting from the action. We had already identified this issue for the previous (2007-2013) *programming period* ([33]).

7.60. Six of the result indicators use surveys of samples of completed operations in relation to the focus area. The methodology for their calculation is based on general guidance, which was issued by the Commission once project implementation had already started.

Similar weaknesses in direct payments result indicators

7.61. Our examination of the sampled direct payments has confirmed the main weaknesses in their performance monitoring which we reported in two special reports: No 1/2016: 'Is the Commission's system for performance measurement in relation to farmers' incomes well designed and based on sound data?'; and No 10/2017: 'EU support to young farmers should be better targeted to foster effective generational renewal'.

7.62. One of the objectives of direct payments to young farmers is to 'Improve agricultural competitiveness'. However, the underlying result indicators are not clearly related to the substance of the payments, as they measure 'Value added for primary producers in the food-chain', 'EU agricultural trade' and 'EU commodity prices compared to world prices' ([34]).

7.63. We have previously reported on the performance of the greening payment ([35]). We had found that the Commission's result indicator measuring the 'Share of area under greening practices' was of limited use for monitoring the results achieved with greening.

([32]) For example 'Percentage of agricultural holdings with RDP support for investments in restructuring or modernisation' is the total number of agricultural holdings supported for investment in restructuring and/or modernisation under measure 4, divided by the total number of agricultural holdings in the base year.
([33]) See paragraph 81 of our special report No 25/2015: 'EU support for rural infrastructure: potential to achieve significantly greater value for money'.
([34]) See paragraphs 71 and 90 of our special report No 10/2017: 'EU support to young farmers should be better targeted to foster effective generational renewal'.
([35]) See paragraphs 7.43 to 7.54 of our 2016 annual report and paragraphs 26 to 33 of our special report No 21/2017: 'Greening: a more complex income support scheme, not yet environmentally effective'.

7.64. Following droughts in 2017 and 2018, some Member States permitted farmers to use land declared as ‘ecological focus areas’ ([36]) (mainly land lying fallow) for production. The Member States reported outputs and results based on farmers’ initially declared ecological focus areas, rather than the actual use of the land. This adversely affected the reliability of the output and result indicators for greening payments.

Conclusion and recommendations

Conclusion

7.65. Most of the completed rural development actions we examined had produced the expected output. While Member States generally followed procedures aimed at verifying that project costs were reasonable, they made little use of simplified cost options.

7.66. We identified several weaknesses in the way in which the Commission and Member States applied the CMEF result indicators to measure and report on the performance of agricultural and rural development spending of the current 2014-2020 programming period. In the proposal to introduce a performance-based delivery model for the CAP for post-2020 period, the Commission defined common output, result and impact indicators ([37]). In our opinion No 7/2018 on the proposal, while we welcomed the shift to a performance-based model, we found that these indicators were not yet fully developed ([38]) and made specific comments on the proposed indicators ([39]).

Recommendations

Recommendation 7.1 – Address weaknesses in CAP performance measurement and reporting

For the post-2020 period, the Commission should take into account the weaknesses we identified in the current framework, in order to ensure that result indicators properly measure the effects of actions and that they have a clear link to the related interventions and policy objectives (see paragraphs 7.52 to 7.64).

Target implementation date: 2020

([36]) Farmers with an arable area exceeding 15 hectares must ensure that at least 5 % of that area is an ecological focus area reserved for ecologically beneficial elements, such as fallow land, or hedges and trees.

([37]) See Annex I of COM(2018) 392: Proposal for a Regulation of the European Parliament and of the Council establishing rules on support for strategic plans to be drawn up by Member States under the common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulation (EU) No 1305/2013 of the European Parliament and of the Council and Regulation (EU) No 1307/2013 of the European Parliament and of the Council.

([38]) Opinion No 7/2018, paragraph 70.

([39]) Opinion No 7/2018, Annex I.

ANNEX 7.1

RESULTS OF TRANSACTION TESTING FOR 'NATURAL RESOURCES'

	2018	2017
SIZE AND STRUCTURE OF THE SAMPLE		
Direct payments	**95**	121
Market measures, rural development, fisheries, the environment and climate action	**156**	109
Total transactions 'Natural Resources'	**251**	230
ESTIMATED IMPACT OF QUANTIFIABLE ERRORS		
Estimated level of error: 'Natural Resources'	**2,4 %**	2,4 %
Upper Error Limit (UEL)	3,6 %	
Lower Error Limit (LEL)	1,2 %	

ANNEX 7.2

INFORMATION ON EU ACTION IN MEMBER STATES OR REGIONS

OVERVIEW OF THE RESULTS OF TRANSACTION TESTING FOR EACH MEMBER STATE FOR MARKET MEASURES, RURAL DEVELOPMENT, FISHERIES, THE ENVIRONMENT AND CLIMATE ACTION ([1])

Netherlands	
Error-free transactions:	3
Unquantified errors:	1
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	-
Total:	4

United Kingdom	
Error-free transactions:	3
Unquantified errors:	-
Errors quantified < 20 %:	1
Errors quantified ≥ 20 %	-
Total:	4

Germany	
Error-free transactions:	15
Unquantified errors:	1
Errors quantified < 20 %:	4
Errors quantified ≥ 20 %	-
Total:	20

Sweden	
Error-free transactions:	2
Unquantified errors:	-
Errors quantified < 20 %:	2
Errors quantified ≥ 20 %	-
Total:	4

Finland	
Error-free transactions:	6
Unquantified errors:	-
Errors quantified < 20 %:	2
Errors quantified ≥ 20 %	-
Total:	8

Latvia
No transactions examined for 2018

Lithuania
No transactions examined for 2018

Ireland
No transactions examined for 2018

Denmark
No transactions examined for 2018

Estonia	
Error-free transactions:	3
Unquantified errors:	-
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %:	1
Total:	4

Poland	
Error-free transactions:	5
Unquantified errors:	1
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	3
Total:	9

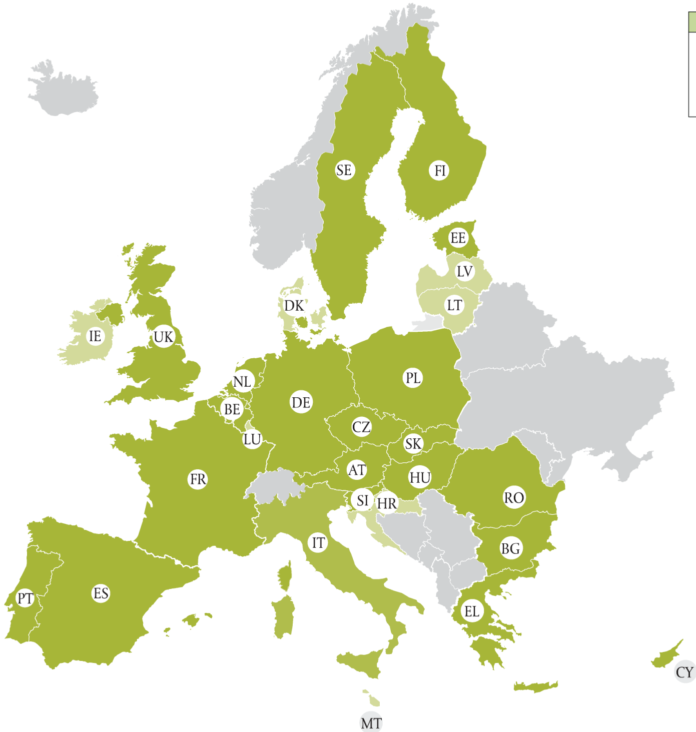
Belgium	
Error-free transactions:	1
Unquantified errors:	-
Errors quantified < 20 %:	1
Errors quantified ≥ 20 %	-
Total:	2

Luxembourg
No transactions examined for 2018

France	
Error-free transactions:	18
Unquantified errors:	-
Errors quantified < 20 %:	4
Errors quantified ≥ 20 %	-
Total:	22

Portugal	
Error-free transactions:	2
Unquantified errors:	-
Errors quantified < 20 %:	3
Errors quantified ≥ 20 %	-
Total:	5

Spain	
Error-free transactions:	9
Unquantified errors:	-
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	-
Total:	9



Czechia	
Error-free transactions:	4
Unquantified errors:	-
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	-
Total:	4

Slovakia	
Error-free transactions:	2
Unquantified errors:	-
Errors quantified < 20 %:	2
Errors quantified ≥ 20 %	-
Total:	4

Austria	
Error-free transactions:	4
Unquantified errors:	-
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	-
Total:	4

Hungary	
Error-free transactions:	5
Unquantified errors:	-
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	-
Total:	5

Romania	
Error-free transactions:	11
Unquantified errors:	-
Errors quantified < 20 %:	1
Errors quantified ≥ 20 %	1
Total:	13

Italy	
Error-free transactions:	12
Unquantified errors:	2
Errors quantified < 20 %:	2
Errors quantified ≥ 20 %	2
Total:	18

Slovenia	
Error-free transactions:	1
Unquantified errors:	-
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	-
Total:	1

Croatia
No transactions examined for 2018

Malta
No transactions examined for 2018

Greece	
Error-free transactions:	5
Unquantified errors:	-
Errors quantified < 20 %:	1
Errors quantified ≥ 20 %	1
Total:	7

Cyprus	
Error-free transactions:	-
Unquantified errors:	-
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	2
Total:	2

Bulgaria	
Error-free transactions:	3
Unquantified errors:	1
Errors quantified < 20 %:	-
Errors quantified ≥ 20 %	-
Total:	4

Our audit work produces estimates of the likely level of error in the population as a whole. It is based on a probability-proportional-to-size sampling methodology and therefore provides no information on the frequency of error in the populations we audit (this would require the random selection of transactions). For these reasons, the above figures should not be understood as indicating the frequency of error, either in EU-funded transactions or in individual Member States, and the frequency of error in samples drawn from different Member States is no guide to the relative level of error in those Member States.

Source: ECA

([1]) Excluding the three examined transactions under direct management.

ANNEX 7.3

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS

Year	Court Recommendation	Court's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	No longer applicable	Insufficient evidence
			In most respects	In some respects			
2015	*7.67. Following this review and the findings and conclusions for 2015, we recommend that the Commission, for EAGF:*						
	Recommendation 1: continue its efforts to follow up on cases where national legislation is not compliant with EU legislation, including all legal means at its disposal, in particular suspension of payments;	X					
	Recommendation 2: annually monitor the results of the LPIS quality assessments performed by Member States, and check that all Member States with negative assessments actually take the necessary remedial action;	X					
	for rural development:						
	Recommendation 3: ensure that all Member States' action plans addressing errors in rural development include effective actions on public procurement;	X					
	for EAGF and rural development:						
	Recommendation 4: monitor and actively support certification bodies in improving their work and methodology on the legality and regularity of expenditure so that they provide reliable information for the Commission's estimation of the adjusted error rate;	X					
	Recommendation 5: update DG AGRI's audit manual by including detailed audit procedures and documentation requirements for the verification of the data supplied by Member States and used for calculating financial corrections;	X					
	for fisheries:						
	Recommendation 6: improve the compliance of DG MARE's conformity audits with international auditing standards.	X					

CHAPTER 8

Security and Citizenship

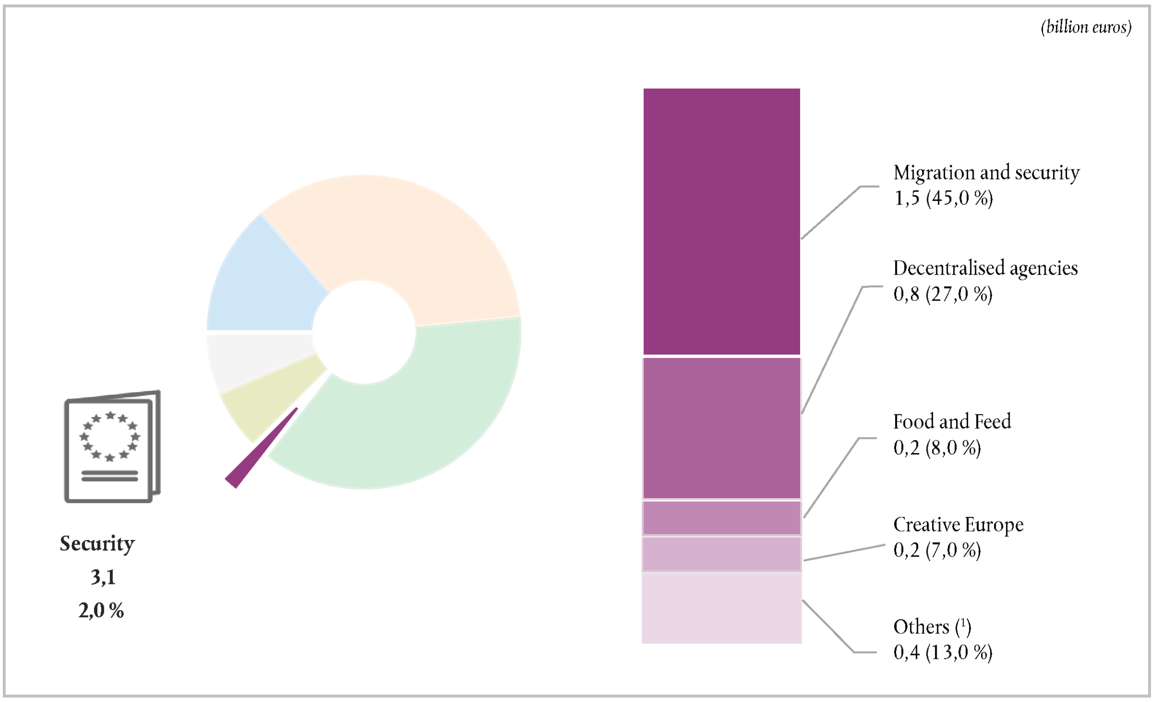
CONTENTS

Introduction

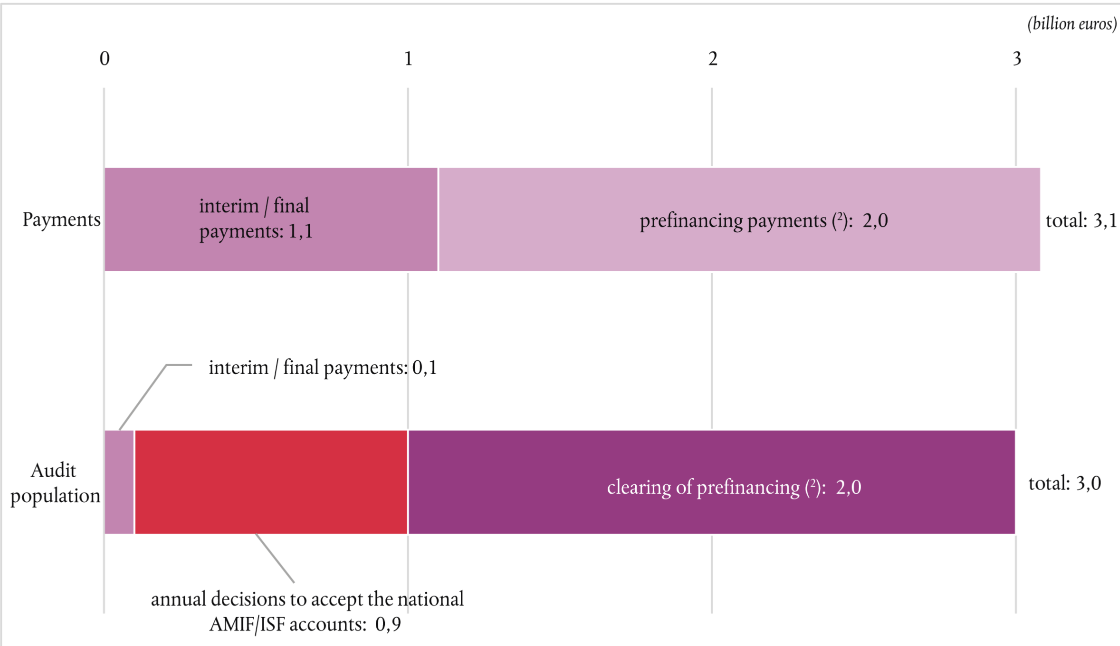
8.1. This chapter presents our findings for the MFF heading 'Security and citizenship'. ***Box 8.1*** gives an overview of the main activities and spending under this heading in 2018.

Box 8.1
MFF heading 'Security and citizenship' – 2018 breakdown

Payments breakdown:



Payments and audit population:



(1) Data includes expenditure on consumers, justice, rights, equality and citizenship.

(2) Advances and clearings are in line with the harmonised definition of underlying transactions (for details see ***Annex 1.1***, paragraph 13).

Source: 2018 *consolidated accounts* of the European Union.

Brief description of the MFF heading

8.2. This heading covers a range of policies whose common objective is to strengthen the concept of European citizenship by creating an area of freedom, justice and security without internal borders.

8.3. As shown in ***Box 8.1***, the most significant area of expenditure is migration and security. Thus most spending comes from just two funds – the Asylum, Migration and Integration Fund ([1]) (AMIF) and the Internal Security Fund (ISF) ([2]). The management of most AMIF and ISF funding is shared between the Member States and the Commission's DG for Migration and Home Affairs (DG HOME). The objective of AMIF is to contribute to the effective management of migration flows and bring about a common EU approach to asylum and immigration. The ISF aims to achieve a high level of security in the EU. It has two instruments ([3]): ISF Borders and Visa and ISF Police. The first provides support for harmonised border management measures and the development of a common visa policy, while the second focuses on cooperation between law enforcement agencies and on improving capacity to manage security-related risks and crises.

8.4. Another significant share of the budget heading consists of funding for 13 decentralised agencies ([4]) that are active in the implementation of key EU priorities in the areas of migration and security, judicial cooperation and health. Next come the 'Food and Feed' programme, which aims to ensure human, animal and plant health at all stages of the food chain, and 'Creative Europe', the EU framework programme of support for the culture and audio-visual sectors. Lastly, the budget covers a number of programmes aimed at fulfilling the common objective of strengthening the security and citizenship area; these are programmes on justice, consumers, and rights, equality and citizenship.

Audit scope and approach

8.5. Applying the audit approach and methods set out in ***Annex 1.1***, we examined a sample of 18 *transactions*, which was designed to help us form a view on spending from the budget as a whole, but not to be representative of the full range of spending under this MFF heading (i.e. we did not estimate the overall error that affects this heading). This choice was motivated by the relatively low level of payments for this policy area in 2018 (around 2 % of the EU total). The sample consisted of seven transactions under *shared management* with Member States ([5]), six under *direct management* and two under *indirect management* by the Commission, and three that involved the clearing of advances to agencies. We also examined the following for 'Security and citizenship' in 2018:

(a) the main systems used by DG Home and the Member States to provide assurance on the regularity of payments from AMIF and the ISF, and the systems used by the Commission's DG Health and Food Safety (DG SANTE) to provide assurance on the regularity of payments under the 'Food and Feed' programme;

(b) the reliability of the regularity information in the *annual activity reports* of DG HOME and DG SANTE, the consistency of the methodology for estimating amounts at risk, future corrections and recoveries;

(c) for part 2 of this chapter, we focused on performance indicators for AMIF and the ISF.

([1]) The legal act establishing AMIF can be found on the EUR-Lex website.
([2]) The two funds replaced the SOLID programme that ran during the previous programming period.
([3]) The legal acts establishing these instruments can be found on the EUR-Lex website: ISF Borders and Visa, ISF Police.
([4]) Health: ECDC, EFSA, EMA, ECHA-Biocides. Home affairs: Frontex, EASO, Europol, CEPOL, eu-LISA, EMCDDA. Justice: Eurojust, FRA, EIGE. Specific annual reports with our opinion on the legality and regularity of each of these agencies' operations can be found on the ECA website.
([5]) In Belgium, Germany, Greece, Spain, Lithuania, Romania and Sweden.

Part 1 — Regularity of transactions

8.6. Of the 18 transactions we examined, three (17 %) contained *errors*, of which one was quantifiable and above the materiality threshold of 2 %. This was a shared management transaction under AMIF in Spain (error of 9,4 %), explained in ***Box 8.2***. As the sample was not intended to be representative of spending under this heading, we have not calculated the overall error rate.

Box 8.2
Evidence for interpretation services not always sufficient

In Spain, AMIF supports the national authorities' processing of asylum applications by co-financing interpretation services for individuals seeking international protection. We checked the records of a sample of ten interpreting sessions to identify whether the conditions for payment were met. We found that, for one session, the records did not tally with the hours claimed, did not indicate how many people were assisted and were not properly signed off by an officer from the Spanish asylum service. The costs of this action were therefore overstated.

8.7. In addition, we found that selection and award criteria had been incorrectly applied in two transactions — one relating to a grant and the other to a contract for the provision of services. Failure to respect selection and public procurement rules can potentially affect the eligibility of the costs claimed and may undermine the sound financial management of EU spending. We describe how in ***Box 8.3***.

Box 8.3
Deficiencies in the application of public procurement rules

Under EU law, costs incurred by beneficiaries of EU funds must be reasonable, justified and compliant with the principle of sound financial management, in particular regarding economy and efficiency.

The EU's Education, Audiovisual and Culture Executive Agency awarded a grant under the Culture programme to a museum in the Netherlands. The general provisions of the grant agreement specified that, in the procurement of goods or services, the beneficiary must award any contract to the tender offering either the lowest price or the best value for money.

We checked a procurement procedure launched by the beneficiary for the editing and publication of three books. We found that the invitation to tender did not include clear eligibility and award criteria and did not state whether the award decision would be based on lowest price or best value for money. In addition, during the evaluation of tenders the beneficiary adjusted the price of one of the bids without consulting the bidder and applied award criteria not shown in the invitation to tender.

Consequently, the beneficiary did not guarantee that the expenditure arising from this contract was reasonable, justified or compliant with the principle of sound financial management.

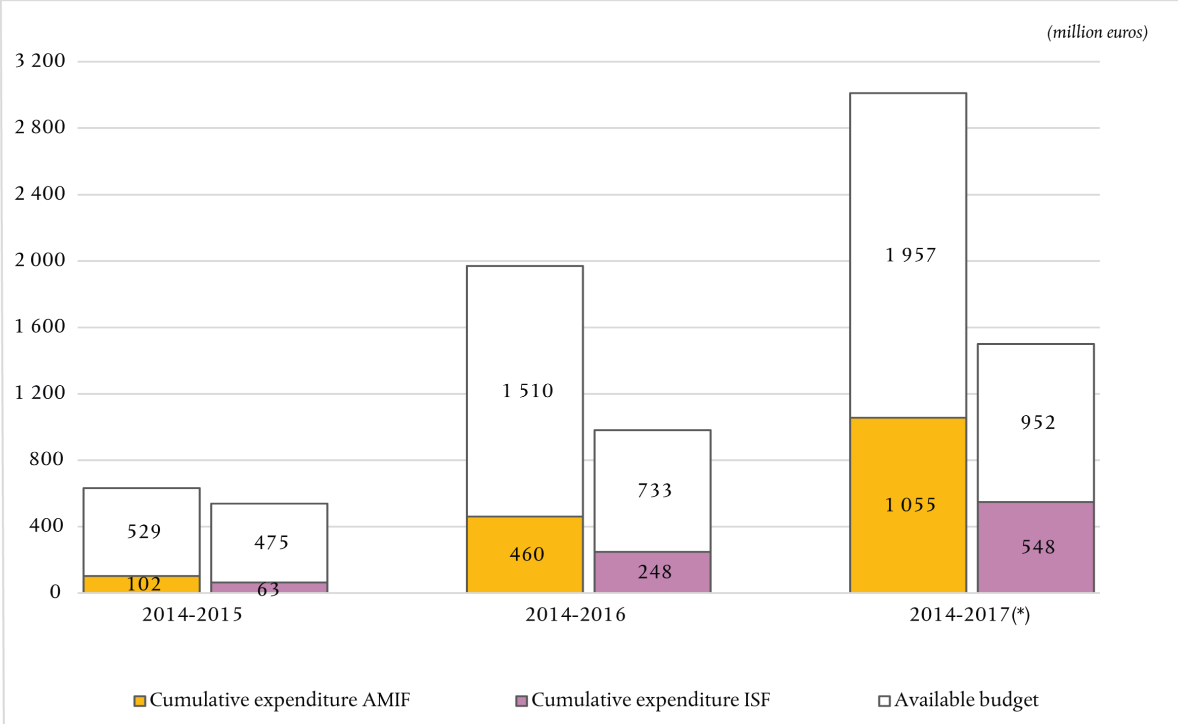
The Agency could prevent similar situations in the future by reinforcing its guidance to the beneficiaries and strengthening the administrative checks of their procurement procedures.

Examination of selected systems

AMIF and ISF shared management

8.8. Four years into the seven-year programming period, Member States have significantly increased the implementation rate of their national programmes. However, the value of unspent amounts continues to rise, which may increase the pressure on national authorities as programmes head towards closure. ***Box 8.4*** shows the annual payments which Member States have reported in their accounts since the beginning of the programming period and submitted to the Commission for clearance and subsequent reimbursement.

Box 8.4
Payments for AMIF and ISF national programmes have picked up the pace, but the available budget also keeps rising



(*) AMIF/ISF expenditure incurred at Member State level is declared to and approved by the Commission in the following year. Thus, the Commission's budget implementation for 2018 includes Member State expenditure from 2017.

Source: ECA.

8.9. We audited the management and control systems of seven authorities responsible for implementing AMIF/ISF national programmes in the Member States [6]. Our purpose was to confirm that the authorities' controls were adequate in respect of (a) the selection and award of grants, (b) the verification and validation of expenditure, (c) the audit trail and (d) the preparation of annual accounts [7]. All the authorities had developed detailed procedures, which were in general sufficient to address the requirements of the AMIF and ISF regulations. We also selected 70 files (ten from each national authority visited) and examined whether these procedures were properly implemented.

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(6) Belgium, Germany, Spain, Greece and Sweden for AMIF; Lithuania and Romania for the ISF.
(7) Key control requirements for the responsible authorities in the Member States — see Commission Implementing Regulation (EU) 2017/646.

8.10. Our audit revealed the following weaknesses:

Box 8.5
System weaknesses relating to AMIF and the ISF

Member States	
Weakness	**Potential impact**
(a) **Selection and award of grants:** In Sweden, when evaluating proposals for AMIF actions, the responsible authority did not rank projects or set a threshold below which projects would be rejected.	Projects less efficient than intended
(b) **Verification and validation of expenditure:** The Romanian authority responsible for the ISF national programme did not systematically check the reality of expenditure when making on-the-spot visits to beneficiaries. In Sweden, the controls for double funding were not exhaustive. In Spain and in Sweden, the controls of the authorities responsible for the AMIF national programme were not enough to ensure that beneficiaries comply with the national and/or EU procurement rules.	Failure to detect ineligible expenditure and procurement irregularities
(c) **Audit trail**: The German authority responsible for the AMIF national programme did not sufficiently document the work of the evaluation committee charged with awarding grants to project applicants.	Transparency of the award process
(d) **Preparation of the AMIF/ISF annual accounts:** The Belgian authority responsible for the AMIF national programme had not made appropriate IT arrangements for storing the financial data used to prepare the annual accounts. In Spain, the procedures for preparing the AMIF annual accounts were not always adequate to prevent the amounts reported from exceeding the maximum EU co-financing rate.	Reliability of the reported data

AMIF and ISF direct/indirect management

8.11. We reviewed DG Home's internal procedures for the evaluation of AMIF and ISF grant applications (including applications for emergency assistance) and its administrative checks to validate beneficiaries' payment requests. We found its management of calls for proposals and grant applications to be effective: applicants receive appropriate instructions and are fully informed about award decisions, and the evaluation committee's recommendations are generally taken into account before a grant agreement is signed.

8.12. Concerning the verification and authorisation of payment claims, we found that DG Home has a comprehensive risk-based control strategy that includes standard ex-ante controls, in-depth desk checks and ex-post audits.

8.13. However, our audit also revealed some weaknesses, as shown in the following table:

Box 8.6
System weaknesses relating to AMIF and the ISF

Commission	
Weakness	**Potential impact**
(a) Delays in the adoption of annual work programmes, the evaluation of grant applications and the signature of grant agreements	Late implementation of funded projects, which may be less effective than intended
(b) Certain emergency assistance grants have been awarded without obtaining all the information necessary for an exhaustive evaluation of the necessity and reasonableness of actions or costs	Projects less effective than intended
(c) The evaluation of certain proposals was not always fully consistent with the Commission's internal guidelines	Projects less effective than intended
(d) When making ex-ante administrative checks of payment claims, the Commission did not properly examine the supporting documentation it asked beneficiaries to provide on procurement	Failure to detect ineligible expenditure and procurement irregularities

Food and Feed programme

8.14. We reviewed DG SANTE's internal procedures for the evaluation and approval of national programmes and emergency measures under the 'Food and Feed' regulation ([8]) and its administrative checks prior to accepting and validating the payment requests made by Member States. We found that the DG's controls are adequate in this regard.

8.15. Our audit work showed that the implementation of grants is monitored throughout the year and that the Commission accepts interim reports, final reports and payment claims within the regulatory deadlines and as required by its own internal procedures. For the validation of payment claims, DG SANTE has developed a comprehensive risk-based control framework, which includes standard ex-ante controls, in-depth desk checks, ex-ante on-the-spot verifications and ex-post audits.

8.16. However, our work revealed the following weaknesses:

Box 8.7
System weaknesses in Food and Feed controls

Commission	
Weakness	**Potential impact**
(a) The Commission has not reviewed the unit costs and ceilings it uses to approve national programme budgets. According to the relevant Commission decision, it should have done this in 2016. The grants awarded in 2017 and 2018 were therefore based on old data.	Approved budgets do not reflect real costs
(b) When making in-depth ex-ante administrative checks of payment claims the Commission did not properly examine the supporting documentation it beneficiaries to provide on procurement	Failure to detect ineligible expenditure and procurement irregularities

([8]) Regulation (EU) No 652/2014 can be found on the EUR-Lex website.

Annual activity reports and other governance arrangements

8.17. We reviewed the annual activity reports of DG HOME and DG SANTE but found no information that might contradict our findings. However, our limited sample for 2019 (just 18 transactions) is not sufficient for us to compare our audit results with the information reported by the two DGs on the regularity of spending.

Conclusion and recommendations

8.18. The audit scope for this MFF heading (see paragraph 8.5) does not allow for a quantified conclusion on the level of error. Our work nevertheless highlighted one main issue where there is scope for improvement:

Recommendation 8.1 – Controls on procurement

Based on our findings for 2018, we recommend that the Commission ensures that, when making administrative checks of payment claims, it systematically uses the documentation it has required its grant beneficiaries to provide, in order to properly examine the legality and regularity of the procurement procedures these beneficiaries have organised.

The Commission should also instruct the Member State authorities responsible for AMIF and ISF national programmes to adequately check the legality and regularity of the procurement procedures organised by the funds' beneficiaries when making administrative checks of their payment claims.

Timeframe: during 2020.

Part 2 — Performance

8.19. This year, in addition to checking regularity, we assessed performance aspects for three of the seven AMIF/ISF shared management transactions we sampled. We selected three projects that were completed or nearly completed, and carried out checks on the spot in the Member States.

8.20. The AMIF and ISF regulations provide common output indicators for national programmes that are often general and, if needed, should be further specified at project level.

— We found in one AMIF project (interpretation services for individuals seeking refugee status) that this had not been done. The authorities only collected information on the number of times an interpreter was used, and had no data on the languages most used or needed or the availability of interpretation by location and language.

— In one ISF Borders project, although the common output indicators were not even relevant the responsible authority had not replaced them with project-specific ones. The objective of the project was to ensure that the communication equipment used by border police was operational around the clock. The beneficiary had not set up any means of indicating how much time the system was out of order or measuring whether and how downtime evolved after implementation of the ISF-funded action.

In both cases, it was difficult to accurately measure the project's impact.

CHAPTER 9

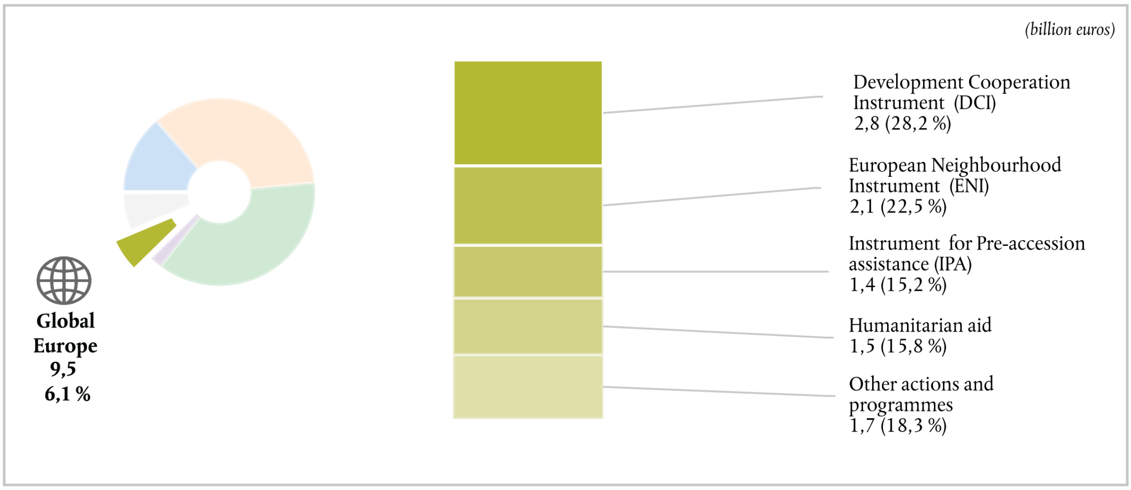
Global Europe

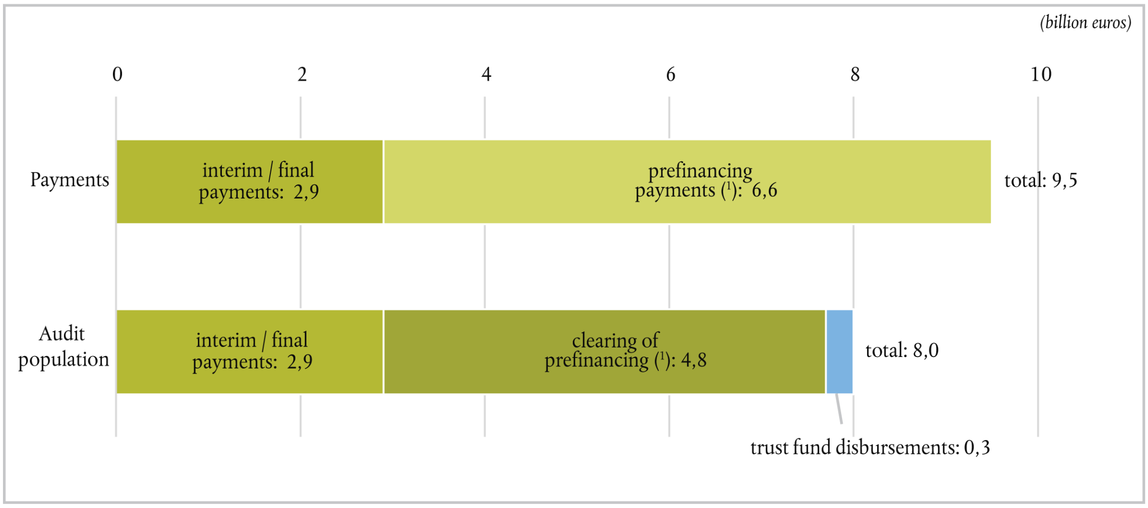
CONTENTS

Introduction

9.1. This chapter presents our findings for the MFF heading 'Global Europe'. ***Box 9.1*** gives an overview of the main activities and spending under this heading in 2018.

Box 9.1
MFF heading 'Global Europe' – 2018 breakdown





(1) In line with the harmonised definition of underlying transactions (for details see ***Annex 1.1***, paragraph 13).

Source: 2018 *consolidated accounts* of the European Union.

9.2. **Part 1** of this chapter sets out our findings on *regularity* while **Part 2** focuses on *performance*.

Brief description of 'Global Europe'

9.3. 'Global Europe' covers expenditure on all external action (foreign policy) funded by the EU general budget. These policies:

— promote EU values abroad, such as democracy, rule of law and respect for human rights and fundamental freedoms;

— address major global challenges, such as climate change and biodiversity loss;

— increase the *impact* of EU development cooperation, with the aim of helping to eradicate poverty and promote prosperity;

— foster stability and security in candidate and neighbourhood countries;

— enhance European solidarity after natural or man-made disasters;

— improve crisis prevention and conflict resolution, preserve peace, strengthen international security and promote international cooperation;

— promote EU and mutual interests abroad by supporting the external dimension of EU policies.

9.4. The main directorates-general involved in implementing the external action budget are the Directorate-General for International Cooperation and Development (DG DEVCO), the Directorate-General for Neighbourhood Policy and Enlargement Negotiations (DG NEAR), the Directorate-General for Civil Protection and Humanitarian Aid Operations (DG ECHO) and the Service for Foreign Policy Instruments (FPI).

9.5. In 2018, payments for 'Global Europe' amounted to 9,5 billion euros ([1]) and were disbursed using several instruments (see **Box 9.1**) and delivery methods ([2]), in more than 150 countries (see **Annex 9.1**).

Audit scope and approach

9.6. Applying the audit approach and methods set out in **Annex 1.1**, we examined a sample of 58 *transactions*, plus six transactions taken from the RER studies ([3]) and adjusted ([4]).The sample of transactions was designed to help us form a view on 2018 spending across the budget as a whole rather than be representative of spending under this MFF heading. The number of transactions audited was not sufficient to estimate the level of *error* ([5]). Therefore, we have not calculated an error rate for this MFF heading.

9.7. We also examined the following for 'Global Europe' in 2018:

(a) the reliability of the regularity information in the *annual activity reports* (AARs) of DG ECHO and DG DEVCO ([6]), the consistency of the methodology for estimating amounts at risk, future corrections and recoveries;

(b) for **Part 2** of this chapter, 15 projects across four EU delegations ([7]) from a performance perspective. DG NEAR had implemented 12 of these projects and DG DEVCO the other three.

([1]) Final implementation of payments, including assigned revenue.

([2]) Such as work/supply/service contracts, grants, special loans, loan guarantees and financial assistance, budget support and other targeted forms of budgetary aid.

([3]) DG NEAR and DG DEVCO contract RER studies annually to estimate the level of error which has evaded all management checks to prevent, detect and correct errors across their entire area of responsibility. An RER study does not constitute an assurance engagement or an audit; it is based on the RER methodology and the respective manuals of the DGs.

([4]) Through our review of RER studies, we have found that, compared with our audit work, the methodology behind DG DEVCO's RER study includes far fewer (up to nine) on-the-spot checks. In addition, both DG DEVCO's and DG NEAR's RER studies allow less scope to examine procurement procedures. Therefore, we weighted the result of the RER studies to take account of the share of compliance errors with *public procurement* rules (based on our SoA 2014-2017 findings for Global Europe).

([5]) We sampled 19 DG NEAR, 18 DG DEVCO, 10 DG ECHO and 11 other transactions. For the part of our population covered by DG NEAR's and DG DEVCO's 2018 RER studies (9 %), we included the results of these studies in our calculation.

([6]) The work on DG DEVCO's AAR is presented in detail in our annual report on the 8th, 9th, 10th and 11th European Development Funds.

([7]) Algeria, Ukraine, Bosnia and Herzegovina, and Laos.

Part 1 — Regularity of transactions

9.8. Of the 58 transactions examined, 11 (19 %) were affected by errors. We identified five *quantifiable errors* which had a financial impact on the amounts charged to the EU budget. We also found six cases of non-compliance with legal and financial provisions, particularly with procurement rules. When examining the regularity of transactions, we came across examples of effective external control checks, of which we present an example in ***Box 9.2***. We also present a finding on ineligible expenditure (see ***Box 9.3***) and another regarding non-compliance with contract award procedures (see ***Box 9.4***).

Box 9.2
The importance of effective Commission control checks

DG NEAR

We audited expenditure declared by a non-governmental organisation (NGO) under a *grant* contract signed with the Commission and managed by an EU delegation. The NGO had been contracted to propose a series of legal amendments to optimise state revenues from hydrocarbon production. The amount of the EU grant was 200 000 euros.

The financial audit carried out by an external auditor on behalf of the Commission at project-end detected 9 650 euros of ineligible expenditure following the application of an incorrect exchange rate. The Commission issued a recovery order to correct this error.

Box 9.3
Ineligible expenditure included in cost claim

DG DEVCO

We audited the expenditure declared by an international organisation under a *delegation agreement* signed with the Commission. The title of the action was 'Global Alliance on Health and Pollution' and its aim was to mitigate toxic health exposure in low and middle-income countries.

The total estimated budget of the action was over 6 million euros; the maximum EU contribution was set at 5 million euros.

The supporting documents show that 31 airplane tickets costing 13 300 euros were charged to the project for a staff retreat in Jamaica. This was not a planned part of the project. These costs are ineligible, as they do not comply with the eligibility rules.

Box 9.4
Non-compliance with contract award procedures

DG NEAR

The EU Financial Regulation stipulates that grants must be subject to the principles of transparency and equal treatment.

We reviewed the process by which the Commission issued a call for expressions of interest to repair the bridges across the Seversky Donets and Borovaya rivers in Ukraine. The budget for the project was 2 million euros.

Our work revealed that the Commission had published the call for expressions of interest without clear award criteria, resulting in an incomplete evaluation grid.

Finally, the evaluation committee did not comply with the procedures for notifying unsuccessful applicants, omitting to disclose the scores, reason for rejection and means of redress to contest the award.

In this case, the Commission did not respect the principles of transparency and equal treatment.

9.9. When EU funds are spent via *budget support* and implemented through a multi-donor project subject to the 'notional approach' (see paragraph 9.12), the level of error in the underlying transactions is low. In 2018, we reviewed 13 multi-donor 'notional approach' transactions and two budget support transactions, and detected an error in one of the former.

9.10. Budget support is a financial contribution either to a state's general budget or to its budget for a specific policy or objective. Budget support payments financed by the general budget in 2018 amounted to 885 million euros. We examined whether the Commission had complied with the conditions governing budget support payments to partner countries, and whether it had verified that the general eligibility conditions (such as a satisfactory improvement in public sector financial management) had been met before disbursement.

9.11. However, given the legal provisions' broad scope for interpretation, the Commission has considerable flexibility in deciding whether a *beneficiary* country has met the general conditions ([8]).

([8]) Checks on the public finances of partner countries are not within the scope of our SoA audits. A number of special reports consider the efficiency and effectiveness of budget support, the latest ones being SR 35/2016 'Revenue in Africa'; SR 32/2016: 'EU assistance to Ukraine' and SR 30/2016: 'The effectiveness of EU support to priority sectors in Honduras'.

9.12. Under the 'notional approach', when contributions from the Commission to multi-donor projects are pooled with those from other donors and not earmarked for specific, identifiable, items of expenditure, the Commission assumes compliance with the EU eligibility rules provided that the total pooled amount includes sufficient eligible expenditure to cover the EU's contribution. We took this approach into account in our substantive testing.

In 2018, payments to international organisations from the general budget amounted to 2,6 billion euros. We cannot state the proportion of this sum to which the 'notional approach' applied, since the Commission does not monitor it separately.

9.13. In three transactions implemented by international organisations (United Nations Children's Emergency Fund (Unicef) and the World Food Programme (WFP)), we experienced a lack of cooperation in the timely forwarding of essential supporting documents. This seriously affected our audit planning in 2018. The Treaty on the Functioning of the EU ([9]) establishes the ECA's right to be forwarded any document or information necessary to carry out its task. Our Opinion 10/2018 ([10]) recommends that the Commission consider reinforcing the obligation on international organisations to forward the ECA the necessary documents to allow us to complete our audits.

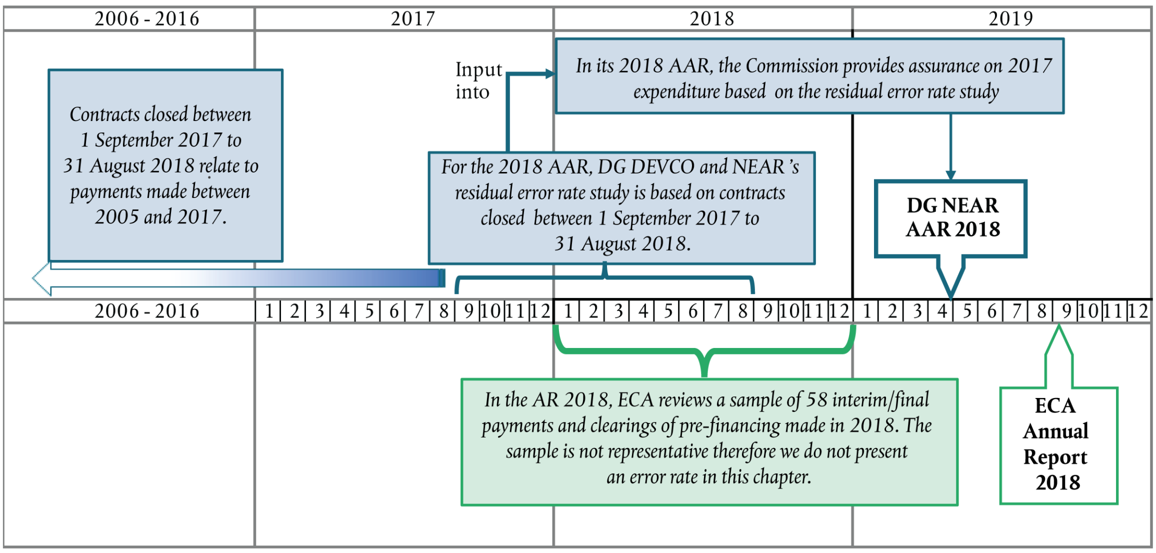
Annual activity reports and other governance arrangements

2018 residual error rate study of DG NEAR

9.14. In 2018, DG NEAR had its fourth *residual error rate* (RER) study carried out by an external contractor on their behalf. The aim of the study was to estimate how many errors within DG NEAR's area of responsibility had evaded or had been detected but not corrected by its internal control system. The study is an important element on which the Director-General bases the declaration of assurance.

9.15. The study reviews a representative sample of transactions made under contracts closed between September 2017 and August 2018 (see ***Box 9.5***), DG NEAR has been adapting its methodology since it was developed in 2012.

Box 9.5



Source: European Court of Auditors.

([9]) The ECA's right to access documentation is established in Article 287 of the Treaty on the Functioning of the European Union: 'Any natural or legal person in receipt of payments from the budget, shall forward to the Court of Auditors, at its request, any document or information necessary to carry out its task.'

([10]) The Court of Auditors' Opinion No 10/2018 concerning the proposal for a Regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument, paragraph 18.

9.16. DG NEAR presented the *results* of the 2018 RER study in its AAR. The estimated global RER for the DG was 0,72 %, i.e. below the 2 % materiality threshold set by the Commission.

9.17. In our review of the RER study, we observed that, as indicated in our 2016 annual report, there is scope for improving the degree of judgement left to the auditors when estimating the error for individual transactions. In addition, we saw double the number of transactions where no substantive testing had been performed due to full reliance being placed on previous control work ([11]). The purpose of the RER study is to measure 'errors that have evaded all prevention, detection and correction controls'. Since it relies fully on the results of previous controls for 23,6 % ([12]) of the sampled transactions, the RER does not measure these errors. Over-reliance on the audit work of others could affect the achievement of the main objective of the RER study by impacting the residual error rate.

DG ECHO's annual activity report

9.18. For the 2018 financial year, we reviewed DG ECHO's 2018 annual activity report.

9.19. DG ECHO estimated the total amount at risk at the time of payment for expenditure accepted in 2018 (1,8 billion euros) to be 12,5 million euros (0,69 % of the 2018 accepted expenditure). Of this total amount at risk, it estimated that 7,2 million euros (57,8 %) would be corrected by its checks in subsequent years. This led the Director-General to declare that the DG's financial exposure was below the materiality threshold of 2 %. Considering that we do not have a representative sample to estimate an error rate for the MFF heading 'Global Europe', we are not in a position to indicate whether this statement contradicts the results of our audit work. In addition, only a minor part of our checks (17 %) relates to transactions under the responsibility of DG ECHO.

9.20. In relation to DG ECHO's corrective capacity, we found that – despite DG ECHO's efforts to exclude recoveries on *pre-financing*, cancelled recovery orders and earned interest from the calculation – the reliability of the 2018 figure is impaired by undetected errors that led to an overstatement of the DG's corrective capacity. Though it is difficult to quantify the extent of this shortcoming, it does not affect the assurance provided by the Director-General.

DG DEVCO's annual activity report and RER study

9.21. The work done on DG DEVCO's 2018 annual activity report and its RER study are presented in detail in our annual report on the 8th, 9th, 10th and 11th European Development Funds (see paragraphs 28 to 37).

Conclusions and recommendations

9.22. The sample of transactions was designed to help us form a view on 2018 spending across the budget as a whole rather than be representative of spending under this MFF heading. The number of transactions audited was not sufficient to estimate the level of error. Therefore, we have not calculated an error rate for this MFF heading (see paragraph 9.6). Our examination of transactions and systems nevertheless highlighted three areas where there is scope for improvement.

Recommendations

9.23. ***Annex 9.2*** shows the findings of our follow-up review of the three recommendations we made in our 2015 annual report ([13]). The Commission has implemented two of them in full and one partially.

9.24. Based on our findings for 2018, we recommend that the Commission:

Recommendation 9.1

By 2020, take steps to reinforce the obligation on international organisations to forward the ECA, at its request, any document or information necessary to carry out its task as foreseen in the TFEU;

([11]) In 2018, the contractor placed full reliance on 118 IPA and ENI transactions (23,6 %), compared with 57 (12,2 %) in 2017 and 55 (13,0 %) in 2016.

([12]) 118 full reliance transactions from the total of 501 transactions (ENI+IPA+IMBC).

([13]) We chose our 2015 report for this year's follow-up exercise as enough time has elapsed for the Commission to implement our recommendations.

Recommendation 9.2

By 2020, take steps to adapt DG NEAR's RER methodology to limit full-reliance decisions, and that it monitor its implementation closely;

Recommendation 9.3

Revise the DG ECHO's calculation of the 2019 corrective capacity by excluding recoveries of unspent pre-financing.

Part 2 — Performance

9.25. We assessed performance aspects for a selection of 15 completed transactions within our sample. We carried out on-the-spot checks when visiting four EU Delegations in Ukraine, Algeria, Bosnia and Herzegovina, and Laos.

9.26. For each project, we assessed whether clear *output* and outcome indicators had been set. We also checked whether projects' output objectives had been achieved in terms of quantity, quality and timing. We made additional checks on the accepted costs of the projects, in order to verify that these were in line with the approved financial offers.

9.27. All the examined projects had clear and relevant performance indicators. Their logical frameworks were well structured, and their outputs were realistic and achievable. However, we found an issue detracting from performance in one of the projects (see ***Box 9.6***).

Box 9.6
Performance-related issues affecting projects visited

We audited an institutional building programme aimed at improving the capacity of civil protection and rescue units in the Republic of Serbia and in Bosnia and Herzegovina to respond to flood-related crises.

The output objectives linked to training activities were only partially achieved. Attendance was significantly lower than planned (below 50 %). For example:

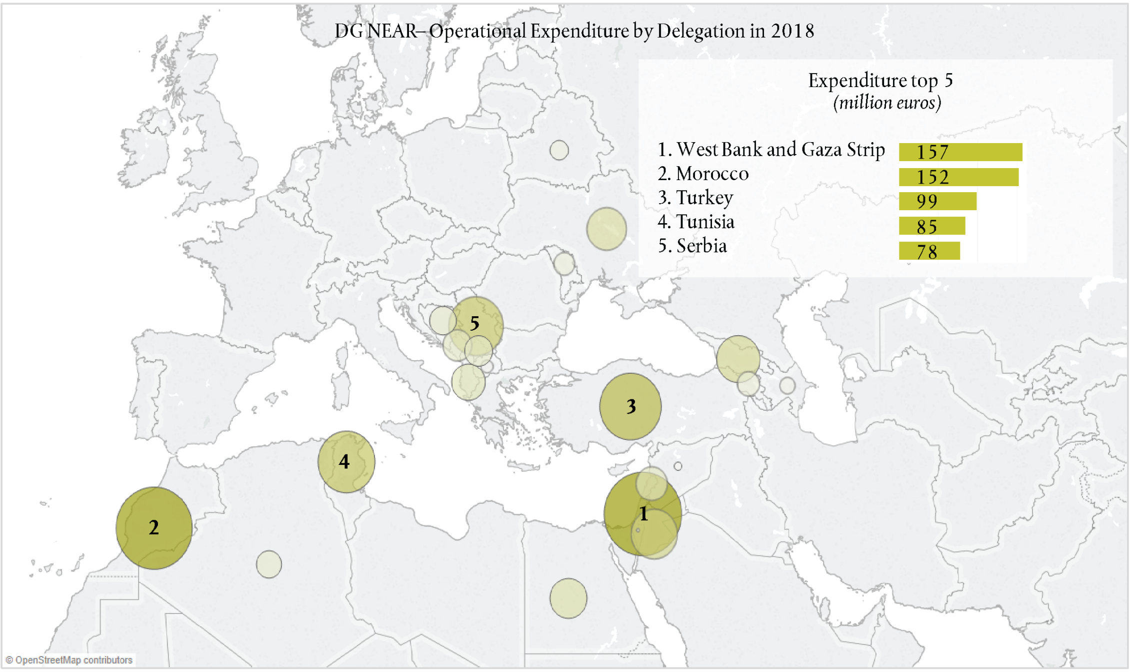
Workshops in Brčko and Brod were attended by 20 and 32 people respectively, compared with the 60 participants planned per event.

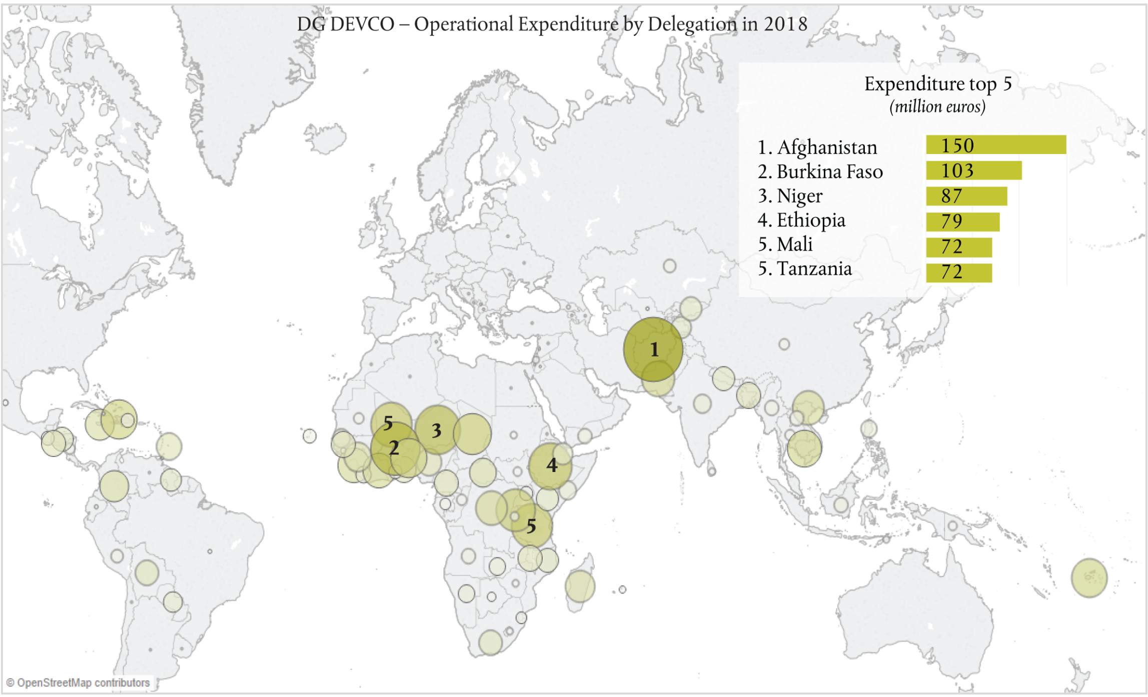
A joint demonstration exercise planned for 50 participants was replaced with a real-data exercise with 6 participants on communication in an emergency.

We consider these figures a sign of poor planning: the logical framework set overly optimistic output indicators.

ANNEX 9.1

OPERATIONAL EXPENDITURE BY DELEGATION IN 2018





Sources: Map background ©OpenStreetMap contributors licensed under the Creative Commons Attribution-ShareAlike 2.0 licence (CC BY-SA) and European Court of Auditors, based on the 2018 consolidated annual accounts of the European Union.

ANNEX 9.2

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS FOR GLOBAL EUROPE

Year	ECA's recommendation	ECA's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	Not applicable	Insufficient evidence
			In most respects	In some respects			
2015	**Recommendation 1:** DG DEVCO and DG NEAR enhance the quality of expenditure verifications contracted by beneficiaries, namely by introducing new measures such as the use of a quality grid to check the quality of the work performed by the beneficiary-contracted auditors and the revision of the auditors' terms of reference;					X	
	Recommendation 2: DG NEAR take action to ensure that funding channelled through a twinning instrument is in accordance with the non-profit rule and adheres to the principle of sound financial management;	X					
	Recommendation 3:DG NEAR revise the RER methodology in order to provide statistically accurate information on the amount at risk for payments made under IPA *indirect management*.	X					

CHAPTER 10

Administration

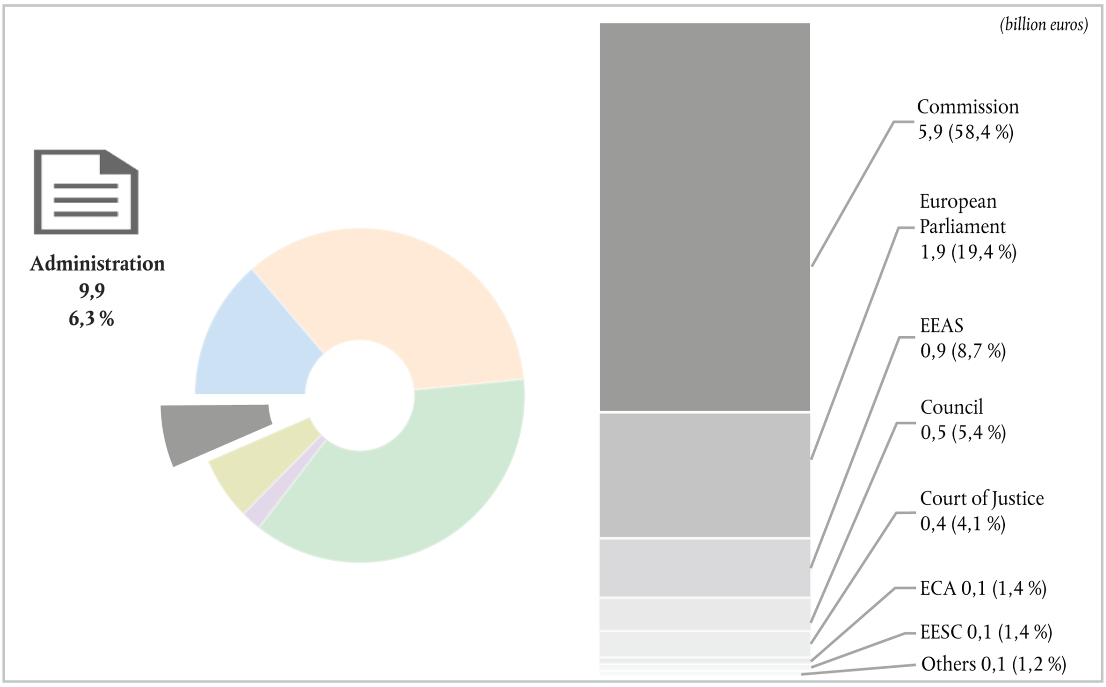
CONTENTS

Introduction

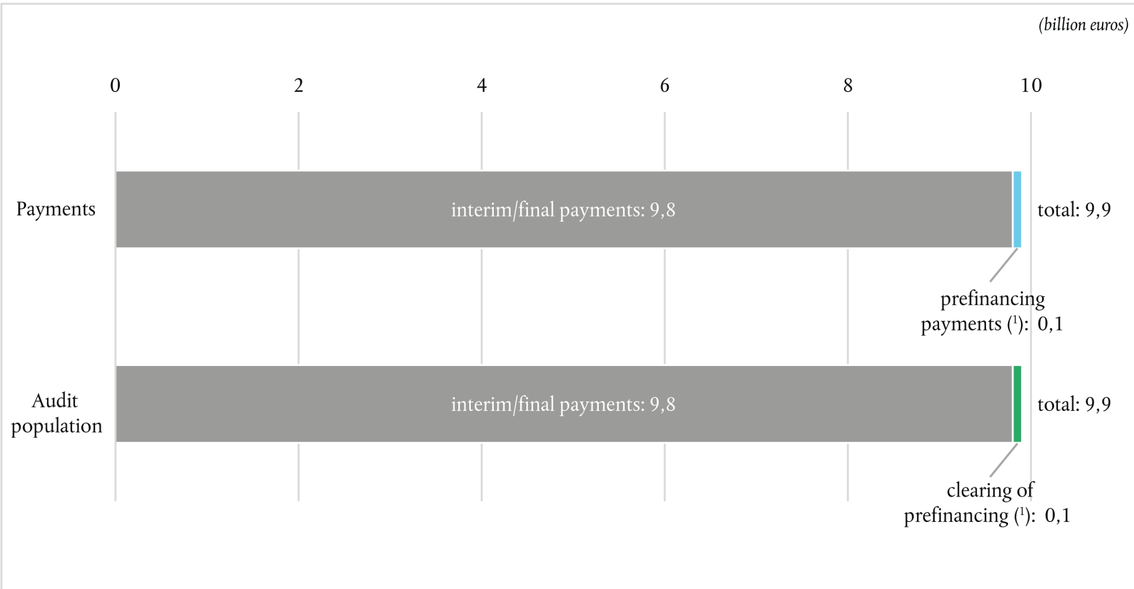
10.1. This chapter presents our findings for the MFF heading 'Administration' (1). ***Box 10.1*** gives an overview of the spending of each institution and body under this heading in 2018.

Box 10.1
MFF heading 5 'Administration' — 2018 breakdown

Payments breakdown:



Payments and audit population:



(1) In line with the harmonised definition of underlying transactions (for details see ***Annex 1.1***, paragraph 13).

Source: 2018 *consolidated accounts* of the European Union.

(1) This includes the administrative expenditure of all the EU institutions and bodies, pensions and payments to the European Schools.

10.2. We report separately on the EU agencies and other bodies ([2]) and on the European Schools ([3]). Our mandate does not cover the financial audit of the European Central Bank.

Brief description of the MFF heading

10.3. Administrative expenditure comprises expenditure on human resources, which accounts for about 60 % of the total, and on buildings, equipment, energy, communications and information technology. Our work over many years indicates that this spending is low-risk.

Audit scope and approach

10.4. Applying the audit approach and methods set out in ***Annex 1.1***, we examined the following for MFF heading 5 in 2018:

(a) a sample of 45 *transactions*, in line with paragraph 11 of ***Annex 1.1***. The sample was designed to be representative of the range of spending under this MFF heading (see ***Box 10.1*** and paragraph 10.3). Our objective was to contribute to the overall statement of assurance as described in ***Annex 1.1***;

(b) *public procurement* procedures organised by the European Parliament, the Council, the Commission and the Court of Justice to improve the security of people and premises ([4]);

(c) the reliability of the *regularity* information in the *annual activity reports* of all the EU's institutions and bodies, among them of the Commission's directorates-general (DGs) and offices primarily responsible for administrative expenditure ([5]), and its broad consistency with our own *results*.

10.5. The European Court of Auditors' own spending is audited by an external firm ([6]). The results of its audit of our financial statements for the year ending 31 December 2018 are presented in paragraph 10.7.

Regularity of transactions

10.6. ***Annex 10.1*** provides an overview of the results of transaction testing. Of the 45 transactions examined, 13 (28,9 %) contained *errors*. The error we have quantified led to an *estimated level of error* below the *materiality threshold*.

Observations on the main sample of transactions

10.7. Other than the issues discussed in paragraphs 10.9 to 10.13, we did not identify any specific issues concerning the Parliament, the Council, the Court of Justice, the Court of Auditors ([7]), the European Economic and Social Committee, the Committee of the Regions, the European Ombudsman, the European Data Protection Supervisor or the European External Action Service.

([2]) Our specific annual reports on agencies and other bodies are published in the Official Journal.

([3]) We issue a specific annual report which is submitted to the Board of Governors of the European Schools. We also send a copy of this report to the European Parliament, the Council and the Commission.

([4]) Our audit included four procurement procedures organised by the European Parliament, one by the Council, five by the Commission and three by the Court of Justice. We selected these procedures on a judgemental basis.

([5]) DG Human Resources and Security (HR), Office for the Administration and Payment of Individual Entitlements (PMO), Offices for Infrastructure and Logistics in Brussels (OIB) and in Luxembourg (OIL), and DG Informatics (DIGIT).

([6]) PricewaterhouseCoopers, Société à responsabilité limitée, Réviseur d'Entreprises.

([7]) The external auditor's report on the financial statements referred to in paragraph 10.5 states that 'the financial statements give a true and fair view of the financial position of the European Court of Auditors as at 31 December 2018, and of the results of its operations, its cash flows and the changes in net assets for the year then ended'.

Commission

10.8. We detected a greater number of internal control weaknesses in the management of family allowances for staff members than in previous years ([8]). We noted in particular that the PMO did not sufficiently monitor the accurate and timely updating of personal files to ensure that the basis used to calculate salaries and allowances is correct. For example, despite a well publicised reform of the family allowances system in France, the PMO did not update its records of family allowances paid by the French authorities and to be deducted from allowances paid by the EU institutions ([9]). We also found that, where a household allowance is paid, the spouse's annual income is only checked every four years. Lastly, the PMO did not regularly verify the place of residence of retired staff benefitting from a correction coefficient on their pension.

Observations on public procurement procedures to improve the security of people and premises

10.9. Owing to terrorist attacks in recent years, the institutions have found it necessary to strengthen the protection of people and premises as a matter of urgency. We therefore examined thirteen procurement procedures organised in this area by the European Parliament, the Council, the Commission and the Court of Justice between 2015 and 2018.

10.10. In doing so, we focused on the definition of needs, the nature of the procurement procedure used, the implementation of the procedure at all stages and the selection of contractors. We found weaknesses in the procedures organised by the Parliament and by the Commission. These weaknesses resulted mostly from the urgency of concluding contracts.

10.11. To procure specific security-related building works, the Parliament had recourse to framework contracts that were already in place. The design of these framework contracts allowed the Parliament to order works not included in the original price schedule on the basis of a single quotation from the contractor. The Parliament used this approach in two of the four procedures we examined, which may mean that the works were not procured at the lowest price ([10]).

10.12. We found that, in two of the five cases ([11]) we audited at the Commission, the institution had organised negotiated procedures although the criteria of the *Financial Regulation* for their use were not met. In the first case, the value of the contract was split to allow the purchase of video surveillance equipment on the basis of a negotiated procedure for middle-value contracts under the rules then in force ([12]). In the second case, the Commission invoked the 'extreme urgency' clause to contract building works following a negotiated procedure with a single candidate without prior publication of a contract notice ([13]). Since, however, the Commission had already taken several months to launch the procedure, it failed to demonstrate either any extreme urgency or the impossibility of compliance with the time limits applicable to standard procedures.

10.13. Furthermore, three of the procedures we examined at the Commission were affected by shortcomings relating to the evaluation process. In one case the tenderer did not meet one of the minimum requirements of the tender specifications, and in the other two cases the Commission did not properly check for compliance with the exclusion and selection criteria.

Annual activity reports and other governance arrangements

10.14. The annual activity reports we reviewed did not identify material levels of error; this is consistent with our own audit results.

([8]) See the 2017 annual report, paragraph 10.12, and the 2015 annual report, paragraph 9.12.
([9]) Under Article 67(2) of the Staff Regulations of EU Officials.
([10]) We reported the same type of finding in paragraph 10.9 of our annual report for 2017.
([11]) One low-value, three middle-value and one above the threshold of the Public Procurement Directive.
([12]) Article 136a of the 2016 Financial Regulation (between 60 001 euros and 135 000 euros).
([13]) Article 134(1)(c) of the 2016 Financial Regulation.

Conclusion and recommendations

Conclusion

10.15. The overall audit evidence indicates that the level of error in spending on 'Administration' was not material (see ***Annex 10.1***).

Recommendations

10.16. ***Annex 10.2*** shows the findings of our follow-up review of the four recommendations we made in our 2015 annual report. We did not review three recommendations because our audit work for 2018 did not cover the kind of transactions to which they related. The institution concerned by the other recommendation has now implemented it in some respects (see also paragraph 10.8).

10.17. Based on this review and our findings and conclusion for 2018, we recommend that:

Recommendation 10.1

The Commission improve[s] as soon as possible its systems for managing statutory family allowances by increasing the frequency of checks of staff members' personal situation and reinforcing consistency checks on the declaration of allowances received from other sources, especially when there are reforms of family allowance systems in Member States.

ANNEX 10.1

RESULTS OF TRANSACTION TESTING FOR 'ADMINISTRATION'

	2018	2017
SIZE AND STRUCTURE OF THE SAMPLE		
Total transactions:	**45**	55
ESTIMATED IMPACT OF QUANTIFIABLE ERRORS		
Estimated level of error	**Free from material error**	Free from material error

ANNEX 10.2

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS FOR ‘ADMINISTRATION’

Year	Court recommendation	Court’s analysis of the progress made				
		Fully implemented	Being implemented		Not implemented	Not applicable (*)
			In most respects	In some respects		
2015	**Recommendation 1**: the European Parliament should review the existing control framework for the implementation of budget appropriations allocated to political groups. In addition, the European Parliament should provide better guidance through reinforced monitoring on the application by the groups of the rules for authorisation and settlement of expenditure, and for procurement procedures (see paragraph 9.11).					X
	Recommendation 2: the European Commission should improve its monitoring systems with a view to the timely updating of the personal situation of staff members which may have an impact on the calculation of family allowances (see paragraph 9.12).			X		
	Recommendation 3: the EEAS should ensure that all steps in procedures to select local agents recruited in delegations are properly documented (see paragraph 9.13).					X
	Recommendation 4: the EEAS should improve its guidance on the design, coordination and execution of procurement procedures in delegations for contracts worth less than 60 000 euros (see paragraph 9.14).					X

(*) Our audit work for 2018 did not include an examination of transactions of this kind. These recommendations will be followed up in future years.

INSTITUTIONS' REPLIES TO THE ANNUAL REPORT ON THE IMPLEMENTATION OF THE BUDGET CONCERNING THE FINANCIAL YEAR 2018

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Chapter 1 — The statement of assurance and supporting information

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Audit findings for the 2018 financial year

Regularity of transactions

1.15 (b). The Commission notes with satisfaction the continuous improvements in the effectiveness of management and control systems put in place to ensure the legality and regularity of the expenditure from the EU budget and that the ECA confirms that **material error is confined to certain types of expenditure.** The overall level of error remains low compared to the years before 2017.

1.16 First indent. As regards the **complexity of rules**, the Commission agrees that this contributes to a higher risk of error. It is therefore continuously working to **simplify rules** to the extent possible (see also Commission reply to paragraph 1.18) and increase the use of simpler delivery mechanisms such as simplified cost options. Reducing red tape for beneficiaries was one of the guiding principles for the Commission's proposals for the next Multiannual Financial Framework, which also took into account recommendations made by the European Court of Auditors.

In parallel, the Commission has continued this year to give support to all programme authorities in Member States through various actions, meetings and guidance notes, in order to better prevent and correct errors and more generally strengthen their capacity to deal with the provisions of the current programming period. In particular, those actions focused on the need to favour the use of simplified cost options and promote enhanced transparency on public procurement procedures, following the implementation of the updated Public Procurement Action Plan.

1.18. The Commission notes with satisfaction that **nearly half of audited expenditure is not affected by a material error**. Material error is confined to certain types of expenditure (reimbursement-based expenditure). For this kind of expenditure, the ECA's conclusion is in line with the Commission's assessment in its 2018 Annual Management and Performance Report (AMPR).

1.19. The Commission continuously aims to **propose as simple rules as possible** for programmes in order to reduce the risk of error. However, it also aims at setting ambitious objectives to increase the performance of programmes and target aid, which may require a certain complexity of rules. Legality and regularity must thus be balanced with the achievement of policy objectives while bearing in mind the delivery costs. See also Commission reply to paragraph 1.16, first indent.

1.21. **In the area of Agriculture**, the Commission notes that direct payments of the European Agriculture Guarantee Fund (EAGF), which account for 71,8 % of spending in this area, are free from material error. **In the field of 'Competitiveness'** the level of error is at the materiality threshold of 2 %.

1.22. See Commission reply to paragraph 1.21.

1.24. **Within the policy field 'Competitiveness'**, the Commission notes that non-research expenditure is considered by the ECA to be of lower risk.

As explained in the legislative financial statement accompanying its legislative proposal, the Commission confirms that for Horizon 2020 it considers that a risk of error, on an annual basis, between 2 % and 5 % is realistic taking into account the inherent risks associated to the programme design and the costs of controls. The Commission nevertheless aims at achieving a level of error as close as possible to 2 % at the closure of the programme.

1.25. **In the field of 'Cohesion'**, the Commission stresses the importance of the work performed by audit authorities in detecting errors. It led to significant financial corrections before the 2014-2020 accounts were submitted to the Commission or 2007-2013 programmes could be closed.

The Commission notes that a diverging interpretation of applicable national or EU rules had an impact on the error rate calculated by the ECA (see Commission reply to paragraph 6.14).

The Commission will continue to **work closely with the managing and audit authorities** through various guidance notes, technical meetings and joint audit tools in order to ensure over time a residual level of error below the materiality level.

The Commission underlines that there are a number of operational programmes for which interruption and suspension procedures are on-going with a view to implement action plans, including financial corrections. It reports on weaknesses identified and actions taken in a transparent manner in the Commission departments' Annual Activity Reports.

1.26. **In the field of 'Agriculture'**, the Commission is satisfied with the ECA's finding that EAGF direct payments, representing 71,8 % of spending under natural resources or 41,6 billion euro, is free of material error. This conclusion is consistent with the error rate estimated by the Commission for this expenditure in DG AGRI's Annual Activity Report for 2018.

1.27. **In the field of 'administrative expenditure'**, the Commission's own control systems also confirmed that this expenditure was free from material error.

1.28. See Commission replies to paragraphs 1.19 and 1.26.

1.30. **In the area of 'Cohesion'** the Commission does not share the assessment of the ECA on 3 significant errors concerning the 2014-2020 period and 2 errors concerning the 2007-2013 period for cohesion policy. This is due to divergent interpretation of applicable national or EU rules with an impact on the calculated error rate. The Commission refers to the worst-case scenarios disclosed in the respective 2018 Annual Activity Reports for cohesion policy, which it believes reflect, taking into account the agreed errors, a reasonable estimate of the error rate.

The Commission stresses that, in respect of the errors confirmed, it will perform the necessary follow-up and will take any action it deems necessary.

1.31. The Commission notes that, in the field of 'Cohesion' , the audit authorities identified the majority of public procurement infringements in the transactions examined by the ECA. This shows the improved capacity of audit authorities to detect this type of errors. However, the Commission will continue its actions to ensure a better detection of these issues by first level management verifications, in particular through the implementation of its updated Public Procurement Action Plan.

The Commission's regularity information

1.33. **The Commission gives the highest priority to ensuring that the EU budget is well-managed and protected against errors and fraud.**

To fulfil its responsibilities, **the Commission has put in place a solid, transparent and effective assurance and accountability model as well as a robust internal control framework.** Within this framework — where applicable in collaboration with Member States and entrusted entities — the Commission departments take measures to prevent errors, irregularities and fraud; and, when these occur, they take action to remedy the situation.

On the basis of the declarations of assurance by the Commission's authorising officers by delegation (stating, inter alia, that the information contained in their annual activity reports gives a true and fair view), the College of Commissioners takes political responsibility for the management of the EU budget.

The Commission reports in a transparent manner on weaknesses identified by its management and control systems. Such weaknesses are highlighted by the reservations made by Commission departments in their Annual Activity Reports and disclosed in the Annual Management and Performance Report. Commission departments are obliged to set up actions plans on how the relevant weaknesses will be addressed whenever a reservation is made.

1.34. For the Statement of Assurance, **the Commission reiterates its support to the pilot approach for Cohesion policy** followed by the ECA. A common and harmonised understanding of the overall assurance framework is an essential precondition to such approach, in order to ensure a stable reporting framework, a robust assurance system for both Member States and the Commission and to allow for single auditing. The Commission stands ready to continue the discussion with the ECA to reach such common understanding.

1.37. Although EU spending is subject to common control features, individual spending programmes may be very diverse from one policy area to another. Therefore, **control strategies need to be adapted to differing management modes**, **policy areas and/or specific funding procedures and their associated risks.** This approach allows the DGs to identify the weaknesses affecting specific (parts) of spending programmes and to take targeted actions to address them.

Box 1.10 — Basis for the Commission's estimate of the risk at payment

Second indent: In order to contribute to the corporate reporting on the 2018 expenditure, both Directorates-General, REGIO and EMPL, estimated the risk at payment and at closure by using the most conservative approach based on the 2016-2017 confirmed residual error rates. The 2017-2018 non-confirmed residual error rates are only used in case they are higher than the confirmed 2016-2017 rates. The Commission underlines that, at the time the AARs are signed, expenditure declared in the calendar year under reporting is covered by a 10 % retention on interim payments.

Fourth indent: **In the policy field of 'Global Europe'**, the RER studies of DEVCO and NEAR are each based on representative samples of approximately 500 transactions. The Commission considers that the exclusion of old contracts improves the estimation of the risk relevant for the reporting year.

1.39 Second indent. The Commission is of the opinion that the risk at payment disclosed in the **Annual Management and Performance Report** gives a fair view of the risk to the legality and regularity of the relevant **expenditure under 'Cohesion'** made in 2018, which relates to a different period than the one audited by the ECA.

1.39 Third indent. **In the policy field of Agriculture'**, the Commission is very satisfied that the audit conclusion of the ECA is consistent with the risk at payment reported in the **Annual Management and Performance Report** and the DG AGRI **Annual Activity Report.** These low error rates (see paragraph 7.35) substantiate reasonable assurance for the declaration of assurance of the director-general of DG AGRI (see also Commission replies to paragraphs 7.35 and 7.37).

1.40. The Commission's objective is that the level of error is below 2 % at the end of the programmes' lifecycle (See **Annual Management and Performance Report** pages 151-152).

The multiannual nature of the EU's financial programmes, make it possible to correct errors even after the payments were made, in the years until the closure of the programmes. The Commission has estimated the overall future corrections to be 0,9 % of total relevant 2018 expenditure. Therefore, compared to the estimated risk at payment, the risk at closure is estimated at 0,8 % of 2018 total relevant expenditure.

1.41. The future corrections are estimated according to a common methodology, i.e. based on historic averages adjusted as necessary, especially to neutralise elements which are no longer relevant. As a result, the estimated future corrections are conservative and reflect the actual corrective capacity of the Commission's departments.

Conclusions

1.49. The Commission notes with satisfaction that around half of the audited expenditure is not affected by a material error. The material error is confined to certain types of expenditure (reimbursement-based expenditure). The overall level of error remains low compared to the years before 2017.

Chapter 2 — Budgetary and financial management

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Budgetary management in 2018

2.8. In 2018, an important acceleration took place in the **implementation of Cohesion policy programmes**. The project selection rate for ERDF and Cohesion Fund at end 2018 reached 76,6 %, which is 4,2 percentage points higher compared to 2007-2013 in the same reference period. The selection rate for ESF/YEI at the end of 2018 reached 70 %, which in the Commission's view is at a comparable level to 2007-2013.

In 2018, the voted budget was fully implemented, including assigned revenue.

Efforts continue to speed up implementation on the ground. The Commission is monitoring closely programmes considered at risk to help prevent under-absorption and potential de-commitment. A close dialogue is in place with the concerned Member States to improve the situation. The Commission services provide substantial support to Member States including technical assistance and advisory services.

Implementation of the 2014-2020 **rural development programmes**, financed by the EAFRD, is not affected by delays and continues to be at cruising speed.

2.9 to 2.11. The Commission does not share the ECA's assessment of the main reason for the unused **pre-financing**.

The implementation of Cohesion policy funds has shown that pre-financing rates for 2014-20 were set too high. Therefore, amounts of unused annual pre-financing were returned to the EU budget.

Furthermore, the introduction by the co-legislators of the n+3 automatic **decommitment rule** (instead of n+2) disincentivised faster budgetary implementation.

In order to incentivise sound financial management and timely implementation 2021-2027, the Commission's proposal for Common Provisions Regulation (COM(2018) 375) includes an n+2 automatic decommitment rule instead of the current n+3 automatic decommitment rule. For the same reason, the level of pre-financing has been reduced to an annual payment of 0,5 % based on the total support from the Funds.

The European Agricultural Fund for Rural Development is not concerned by paragraphs 2.9 to 2.11 as the pre-financing is paid only in the first 3 years of the programming period i.e. 2014 to 2016 (in accordance with Article 35(1) of Regulation (EU) No 1306/2013).

2.18. After a delayed start, the implementation of Cohesion policy programmes is progressing well.

2.19 to 2.21. When proposing the **payment ceilings for the next multiannual financial framework**, the Commission has factored in all the developments relevant to the payment estimations at that point in time, including the actual implementation of the EU budget in the preceding years and the expected needs in 2021-2027.

These estimates include also the Commission's proposal to lower the level of the annual pre-financing for the 2014-2020 programmes from 3 % for the period 2020–2023 to 1 % for the years 2021-2023 (see COM(2018) 614). This proposal is yet to be discussed in the Council.

After a delayed start, the implementation of Cohesion policy programmes is progressing well. The Commission considers that the project selection rate for the 2014-2020 Cohesion policy programmes as at the end of December 2018 indicated in its reply to paragraph 2.8 got ahead of the one at an equivalent point in time for the 2007-2013 programming period. Therefore, the Commission is of the opinion that the implementation of the ESI Funds has not been more delayed than in the previous MFF.

Financial management issues related to the 2018 budget and the future

2.22 and 2.23. The late adoption of the MFF for 2014-2020 and the consequent delay in adoption of the Common Provisions Regulation (6 months later than for 2007-2013) resulted in the delayed start of **implementation of 2014-2020 Cohesion policy programmes**. Nevertheless, as of 2018, implementation has reached cruising speed.

The overlap between programming periods is a natural consequence of having multi-annual programmes with an n+2/n+3 automatic de-commitment rule.

As regards the risk of insufficient payment appropriations at the beginning of the next MFF, see Commission replies to paragraph 2.8 and paragraphs 2.19 to 2.21.

2.26. The Commission underlines that the actual **exposure of the EU budget to guarantees** will not have to be borne by a single annual budget. The exposure borne by the annual budget is only a portion of the actual exposure and part of it is protected by a liquidity cushion (see also paragraph 2.27).

2.28. The Commission points out that for the risk management of the **EFSD**, which operates in emerging markets and fragile countries with a higher risk than operations guaranteed in Member States, it is assisted by the Guarantee Technical Assessment Group (GTAG), whose members are risk experts seconded on a personal basis by financial institutions acting as implementing partners.

Conclusions and recommendations

2.44. The late adoption of the MFF for 2014-2020 and the subsequent delay in adoption of the Common Provisions Regulation resulted in the delayed start of **implementation of 2014-2020 Cohesion policy programmes**. Nevertheless, as of 2018, the implementation is progressing well.

The Commission services provide substantial support to Member States to speed up implementation on the ground.

The Commission also underlines that the implementation of the 2014-2020 rural development programmes, financed by the EAFRD, is not affected by delays and continues to be at cruising speed.

2.44 First indent. The implementation of Cohesion policy funds has shown that **pre-financing** rates for 2014-2020 were set too high. Therefore, amounts of unused annual pre-financing were returned to the EU budget.

Furthermore, the introduction by the co-legislators of the n+3 automatic **decommitment rule** (instead of n+2) disincentivised faster budgetary implementation.

In order to incentivise sound financial management and timely implementation 2021-2027, the Commission's proposal for Common Provisions Regulation (COM(2018) 375) includes an n+2 automatic decommitment rule instead of the current n+3 automatic decommitment rule. For the same reason, the level of pre-financing has been reduced to an annual payment of 0,5 % based on the total support from the Funds.

2.44 Second indent. The Commission proposal for the next MFF takes into account that the **Global Margin for Payments (GMP)** cannot be transferred to the next MFF.

2.44 Third indent. Following a delayed start, implementation of Cohesion policy programmes is progressing well. The Commission considers that the **project selection rate** for the 2014-2020 Cohesion policy programmes as at the end of December 2018 indicated in its reply to paragraph 2.8 got ahead of the one at an equivalent point in time for the 2007-2013 programming period.

2.44 Fourth indent. The Commission proposal on the **payment ceilings** at the start of the next MFF factors in the estimated needs as well as the possible constraints of the own resources ceiling for those years.

2.45. The **ESI Funds implementation** continued to improve in 2018 compared to previous years. Full implementation of the voted budget was achieved in 2018. See also Commission's replies to paragraphs 2.8 and 2.22.

Recommendation 2.1 (level of payment appropriations)

(a) The Commission accepts the recommendation to the extent possible, taking into account the uncertainty and accuracy of the Member States' forecasts for the implementation of the ESI funds — the main driver behind the overall payment estimations

(b) The Commission accepts the recommendation.

The Commission proposal for the next Multiannual Financial Framework puts forward ambitious and realistic levels of commitments for the future spending programmes. In that context, the Commission has also proposed changes to the decommitment rules.

Based on the latest projections on payment needs post-2020, the Commission also proposed annual ceilings for payments corresponding to the expected needs and implementation of the new generation of programmes as well as of the outstanding commitments from the previous financial frameworks.

(c) The Commission accepts the recommendation.

The Commission has presented its legislative proposals on Cohesion policy well in advance of the start of the 2021-2027 programming period. At the same time, it stresses that the responsibility for the adoption of the legal framework rests with the European Parliament and the Council.

Recommendation 2.2 (common provisioning fund)

The Commission accepts the recommendation.

The Commission will continue to receive and to monitor the guaranteed outstanding which is covered by the three guarantee funds (ELM, EFSI, EFSD), and will continue to send regular reports to the budgetary authority in line with the provisions of the Financial Regulation. The methodology of the Effective Provisioning Rate will be the subject of a delegated act. In line with the Financial Regulation it will be phased-in in a prudent manner (Article 213(2) FR) having due regard to the initial phase of constitution of the global provisioning.

Recommendation 2.3 (financial instruments managed by the EIB Group)

The Commission accepts the recommendation.

The Commission will continue to provide the budgetary authority with an annual detailed report on all financial instruments. This report will also include the overall amount and the breakdown of the funds transferred to the financial instruments managed by the EIB Group.

Chapter 3 — Getting results from the EU budget

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Introduction

3.1. **The Commission is committed to improving the performance framework for the EU budget.** That improvement will happen continuously but gradually and in particular in the context of the next Multiannual Financial Framework. It requires full commitment also from all other entities implementing the EU budget, in particular Member States.

The **performance framework around the EU budget consists of three elements: (a)** the **legally obligatory reporting on indicators** that are part of the legal bases of the programmes, **(b)** the **monitoring of programme implementation**, using a much wider range of both quantitative and qualitative information and **(c)** the **regular evaluations** that are assessing programme performance. While the indicators can give indications of where attention should be focussed when considering which programmes could potentially raise performance concerns, additional quantitative and qualitative information is needed in order to understand whether there are actual concerns, what those are precisely and how they can be alleviated.

Part 1 — What do the EU budget performance indicators tell us?

3.3. The 'Methodological Note' accompanying the Programme Performance Overview (PPO) addresses the indicator selection: 'A selection of indicators was made based on certain criteria such as relevance, availability of data etc.'

3.4. The Commission recognises that the reader-friendliness of the Programme Statements (PS) can be improved, and is in the process of doing so, but underlines that the sheer amount of information contained therein – i.e. the progress in achieving programme objectives pursuant to Article 41(3)(h) of the Financial Regulation – is by its nature reference reading for specialists. It is precisely for this reason that the Commission has started to publish the PPO to have a more reader-friendly compilation of information on programme performance.

3.6. **The Commission is fully committed to collecting, analysing, publishing and acting upon high quality performance information.** To get a better understanding of the current state of performance reporting on the basis of indicators, the Commission has undertaken an internal analysis of the performance data of all spending programmes available as of March 2019 and which was published in the Programme Statements accompanying the Draft Budget 2020.

Moreover, the performance framework for the EU budget is based on multiple elements. Monitoring progress on the basis of performance indicators is one important part. However, progress on select indicators provides only part of the story and cannot be used to draw firm conclusions about programme performance. As the ECA itself points out in paragraph 3.8, qualitative information, such as examples of achievement, complement indicator information and provide a more complete picture of performance, also and in particular in cases where indicator data is missing or when the baseline is updated.

Section A – The indicators show significant variation in achievements and suggest moderate progress overall

3.7. **The current performance framework for the EU budget has been distinguished by the OECD** [1]**as best in class among its peers.** The Commission recognises that all performance frameworks require continuous improvement and further work is being done to improve the system, for example through the Commission's proposals for the next generation of financial programmes. There are many challenges associated with data collection and transmission, particularly for programmes under shared management. These and other factors, including the multiannuality of programmes, make European budget performance reporting a challenging task.

3.8. The Commission is committed to producing high-quality and reliable reports on the performance of the EU budget. For this, the Commission relies on the data provided by Member States and other sources. Through the instructions provided by central services, Commission services are requested to provide comprehensive performance information for each programme and to ensure the quality and reliability of information submitted.

Sources of the performance indicators are disclosed systematically in the annual activity reports (AARs). In addition, under the 2018 annual activity reports instructions, directors responsible for risk management and internal control were requested to declare that the information presented in both Parts, 1 and 2 of the AARs, was reliable, complete and accurate.

(1) https://www.oecd.org/gov/budgeting/budgeting-and-performance-in-the-eu-oecd-review.pdf

3.9 Second indent. The Commission notes the ECA's assessment that, generally, calculating performance progress is more indicative when taking a baseline as a starting point. However, not all programmes have defined numeric baselines in the 2014-2020 multiannual financial framework, which is why the decision was taken, for the sake of comparability, to calculate overall progress.

The Commission is of the view that using forecasts – based on decided projects – in addition to actual implementation figures, in the case of investment programmes such as the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) is legitimate. It is informative and allows experts and decision-makers alike to draw conclusions on implementation progress and thereby for the system as a whole to fulfil its intended objective.

3.10. **The Commission is of the view that the process of aggregating performance on indicators into programmes and headings has its limitations.** The Commission has intentionally not calculated an average of distance to target per programme. A single figure cannot fully capture the complexity inherent in spending tens of billions of euros.

3.11. The Commission is committed to improving data collection and availability, in particular for shared management, where the delays are currently longest. To this end, the Commission proposed in May 2018 a bimonthly reporting cycle pursuant to Article 37(1) of the proposed Common Provisions Regulation COM(2018) 375.

3.12. Performance is in most cases not linear over time but only starts slowly during implementation. It is therefore expected that progress from baseline will in most cases be lower than the linear percentages stated by the ECA. Progress made should also take into account delays in implementation. **With that in mind, the Commission considers progress from baseline is on track overall.** The Commission agrees however, it is necessary to monitor very carefully implementation progress and take necessary measures in case there are shortcomings.

Heading 1A: Indicators show good progress for Erasmus+ and EFSI and moderate progress for Horizon 2020 and the Connecting Europe Facility

3.13 First indent. The Commission stresses that the indicator selection for the Programme Performance Overview was based in particular on the relevance and availability of data and not on the resulting value of the indicator. In fact, there are instances in the report for every heading where the progress calculation based on the Programme Statements yields better results than based on the Programme Performance Overview. The Commission agrees that going forward the analysis needs to be more detailed and underlying assumptions better specified.

3.13 Second indent. **Significant efforts** have been made in the 2019 Programme Performance Overview **to improve the reporting of data on the Connecting Europe Facility.** The Connecting Europe Facility funds large, long-term infrastructure projects, or projects that need to be coordinated in a network. These projects often need to be developed under successive financial frameworks and there might be a significant delay between the time at which the project is launched and the availability of the data necessary to measure performance. The Commission's proposal on the continuation of the facility has put an increased focus on the performance framework, providing for 'transparent, accountable and adequate monitoring and reporting measures in order to assess the progress of the Programme (…) and promote its achievements'.

3.13 Third indent. In its PPO, the Commission made clear that the performance of the **Erasmus+** programme is being compared to 2017. The programme **is well on track** to deliver on its objectives by 2020.

3.13 Fourth indent. The Commission notes that the initial target of the **European Fund for Strategic Investments** (EFSI) was to mobilise 315 billion euros in investments by July 2018. On 30 December 2017, the Regulation to extend and enhance the EFSI (EFSI 2.0 Regulation) entered into force. It extended the duration of EFSI to end-2020 and increased its investment target to 500 billion euros. This Regulation foresaw that the EU guarantee necessary to enable the EFSI to support investments, would increase from 16 billion euros to 26 billion euros only as of July 2018 (i.e. after the initial period). Therefore, as at end-2017 the EFSI results were compared to the initial investment target of 315 billion euros.

Heading 1B: Indicators show relatively low progress for Cohesion due to late start

3.14. Forecasts – based on decided ongoing projects – are crucial information in the context of monitoring implementation. In addition to data on actual implementation, they provide insight to the project pipeline which, in the case of investment-heavy policies with long lead times such as cohesion, is perhaps the most valuable information during implementation.

Heading 2: On the basis of the indicators, it was not possible to determine progress for most expenditure in the area of 'Natural resources'

3.15. The Commission notes that the annual nature of the **European Agricultural Guarantee Fund** renders it less conducive to multiannual target setting. Work is however underway to develop the tools and metrics to ensure that mid-term performance reporting can also be conducted for the data of this fund.

3.15 First indent. The Commission notes that using the method applied by the ECA (as explained in paragraph 3.9 and Box 3.1) it is not possible to calculate progress from baseline for more than one of the 27 indicators.

However, the Commission considers that progress from the baseline can be assessed for all 27 indicators. Thus, the indicators selected do allow for monitoring progress.

A comprehensive analysis of the 27 indicators included in the Programme Statement should take into account the specific reality of the agriculture sector and the EAGF expenditure.

Heading 3: Indicators for 'Security and citizenship' show two programmes with good progress, one with moderate progress and one as lagging behind

3.17. The Commission notes that, in assessing the performance of the **Food and Feed programme**, one needs to take into account the unpredictability of outbreaks of animal and plant diseases. All work programmes have been adopted and implemented as foreseen.

Heading 4: Indicators show overall reasonable progress for 'Global Europe' programmes

3.19. The methodology to define indicators and targets for the **Development Cooperation Instrument** is explained in the *Revised EU International Cooperation and Development Results Framework* (SWD(2018) 444).

Special instruments: Insufficient information on the progress achieved

3.20 First indent. The Commission notes that the indicator takes into account only those disasters that satisfy eligibility criteria. The 6 cases from 2017 were still under investigation, therefore they were not taken into the calculation as it was still not clear whether they meet eligibility criteria. Finally, in 2017, two of the 10 applications were not accepted (Murcia flooding and Donana fires).

Section B – Indicators did not always provide a good picture of actual progress

3.21. With respect to the subtitle 'Many indicators were not well chosen', **the Commission notes that the performance indicators for the EU's financial programmes are defined in the legal acts underpinning these programmes.** The choice of indicators is the result of negotiation between the European Parliament and the Council on the basis of a proposal from the Commission. The Commission is obliged to report regularly on all the indicators defined in the legislation.

3.22. A high share of input/output indicators does not mean that indicators are poorly chosen. The Commission agrees that result and impact indicators are more appropriate to measure performance per se. However, especially for investment-heavy, long lead-time projects, outcome indicators are necessary in order to report on progress. Our view is therefore that a balance is necessary between types of indicators and this balance should be programme-specific.

3.23. **The Commission considers that a 60 % proportion of input and output indicators does not necessarily limit the usefulness of the information provided. While the Commission agrees that there should be a balance between different types of indicators, the appropriate balance can vary between different programmes.** The performance framework of the EU budget also contains a structured system of evaluations (interim and ex-post), as laid down in the Better Regulation Guidelines, precisely in order to distinguish between the various effects of a programme.

3.24. The Commission notes that it is exceedingly difficult to select impact indicators that are influenced only by the direct effects of the programme itself. Any wider result or outcome indicator will inevitably be affected by a variety of factors of which these programmes will only be one. The Commission therefore aims to use a set of indicators that explain and report on the performance of the programmes in the best way possible, but, due also to the nature of the programmes themselves, this is at times very challenging.

Efforts are however being made in particular for the next set of indicators in the post-2020 multiannual financial framework, to select result and impact indicators that best explain the programmes. In addition, the Commission also notes that only in a fully-fledged evaluation with the proper control variables will the effects of the EU spending programmes become discernible.

3.25. In relation to Table 3.2, the Commission agrees that in some cases indicators covering the **humanitarian aid domain** only have an indirect link to EU-funded humanitarian action and also that a number of external factors influence the value of the indicator. Thus, efforts will be made in the context of the next MFF to increase the relevance of the set of indicators for EU humanitarian action, i.e. to ensure clearer links of all indicators to the spending and objectives.

As regards the EAGF, effective management and control systems are also crucial for ensuring that the programmes are implemented in a manner that leads to the achievement of the objectives. Hence, the need for the indicator in the programme statement measuring to which extent expenditure is checked.

3.26. The Commission acknowledges that the Programme Statements are not structured in such a way as to clearly link specific objectives to the general objective. However, for the post-2020 spending programmes a clear hierarchical structure has been established linking specific objectives to general objectives and indicators to specific objectives. Moreover, the budget nomenclature is also being revised and will be structured along specific objectives. These measures will improve significantly both the structure and user-friendliness of the Commission's budget performance documents.

3.27. There is always a trade-off to consider between an exhaustive list of indicators covering every aspect of the objectives and the resources implied.

3.27 Second indent. The objectives of the **Development Cooperation Instrument** are, by nature, very broad and cannot be encompassed by a limited number of indicators. Nevertheless, actions related to climate change and environment are monitored annually using the methodology of the Rio markers, as developed by the OECD Development Assistance Committee (DAC).

3.28. As mentioned above, the Commission – relying also on Member States and other reporting entities – is continuously improving its performance reporting. In its analysis of the dataset available in March 2019 the Commission found that 63 % of the indicators have 'full performance information' meaning data points, baseline and target, which the Commission considers a reasonable figure. For the performance framework of the post-2020 spending programmes the Commission has now launched a broad project aiming to ensure that such underlying performance information is set for the programmes in a consistent manner and according to an agreed schedule.

3.28 Fourth indent. The Commission notes that in specific cases the baseline also changes when the official statistical data are updated.

3.29. For **EAGF** it is considered that the indicators selected allow assessing the progress (see Commission reply to paragraph 3.15, 1st indent).

The Commission is furthermore committed to ensuring that performance reporting for EAGF, Horizon 2020 and EUSF is continuously improved in particular for the next MFF period, for which reinforced monitoring provisions and streamlined indicators are proposed based on lessons learned from evaluations.

3.30. In cases referred to by the ECA, the Commission accepts the usefulness of defining annual milestones to monitor performance. The Commission notes however that some programmes in the 2014-2020 cycle do not have them or – in the case of shared management – there is insufficient information from Member State authorities as to the reported values. Here too the Commission is committed, where relevant, to improving this situation for the post-2020 financial programmes, for which the support of the Parliament, Council and the Member States will be vital.

3.31. With respect to the subtitle 'For some programmes, data available was of insufficient quality', the Commission notes that data availability and quality largely depend on reporting obligations that result from the legislative process. When data are reported by Member States and public authorities the Commission has limited capacity to influence their quality. The Commission notes that three-quarters of indicators had the most recent data available. For some programmes, data will only become available later in the implementation period.

3.32. **The Commission takes the recommendations of the European Parliament and the Council very seriously and always presents the latest available data in its performance reports.** As already set out, in a performance system as complex as that of the EU budget, and with the current legal framework, it is challenging to have fully up-to-date data. The Commission is aiming to improve on presenting as up-to-date information as possible in its reporting, while again noting that this depends in large part on timely and reliable data provision by Member States and other third parties. The Commission also points out that any reporting will always be a snapshot of a situation at a certain point in time, as underlying data are rarely static.

3.33. **The Commission accepts that there are certain, limited data quality issues with indicators but maintains that overall the performance framework is robust. The Commission also emphasises its commitment to improving the performance and reporting system for the next budgetary cycle**.

3.33 Second indent. The Commission is committed to ensuring that data quality behind the core performance indicators is improved, including the reported information on patents applications and publications. This is reflected in the regularly updated project results section of the Horizon Dashboard, published on the Funding & Opportunities online portal.

3.34. The Commission accepts that certain indicator targets might not be sufficiently ambitious but maintains that overall the performance framework is robust. The Commission also emphasises its commitment to improving the system in the next multiannual financial framework.

3.34 Second point. Policy priority, particularly for the Cohesion Fund (given the railway sector of the Member States eligible for these investments), was railway reconstruction and upgrade, with a target of 2 829 km. Targets for new railway lines financed by the ERDF were somewhat higher at 580 km but still only at 14 % of the target for reconstructed and upgraded line length.

3.35. The Commission accepts that targets on some indicators in some programmes might not be sufficiently ambitious. In order to identify those indicators and targets, it is necessary to assess in detail the meaning and context of the indicators.

Part 2 — Results of the Court's performance audits: main conclusions and recommendations

Headings 1a 'Competitiveness for growth and jobs' and 1b 'Economic, social and territorial cohesion'

(a) Special report 8/2018 – Durability of EU support for productive investments in businesses

3.38. The Commission notes that projects audited by the ECA had in general delivered outputs as planned and that in most cases those outputs still existed and were being used.

Compared to the programming period 2000-2006, the EU management approach to the issue of durability of investments has evolved significantly in 2007-2013. This is reflected not only by the specific and reinforced regulatory provisions, but also by the emphasis put on strategic planning for major projects as well as in the Commission's ex-post evaluations at programme level for Cohesion Policy.

As regards achieved results, at the time of the audit the Commission underlined the lack of data for many of the projects audited, rather than a dominance of weak or no durable results.

3.39 First indent. The Commission notes that this recommendation is related to the approval process of operational programmes in the post 2020 period.

(b) Special report 9/2018 – Public Private Partnerships (PPPs) in the EU

3.40 and 3.41. The Public Private Partnerships (PPPs) are one of the tools put at the disposal of Member States and project promoters as a potential instrument of policy implementation. The Commission contributes to the sharing of best practice, offers targeted technical assistance, analyses the national PPP frameworks regularly and provides policy recommendations on how to improve them ('European Semester'), where relevant. However, as regards the European Semester and Europe 2020 strategy, there is no specific encouragement for a more intensive use of PPPs. As regards sectoral instruments, the Commission does not have a legal basis to request Member States to use more or less PPPs compared to other procurement methods. Under shared management of the European Structural and Investment Funds, the discretion to use PPP is left exclusively to Member States.

(c) Special report 12/2018 – Broadband in the EU Member States

3.42 and 3.43. The Commission monitors the broadband objectives of the Digital Agenda and publishes relevant data in its Digital Economy and Society Index.

The Commission has called on Member States to review progress of their National Broadband Plans and update them with a time horizon of 2025.

The Commission recalls that the ultimate responsibility on the enforcement of the legal and regulatory environment lies with national regulatory authorities (NRAs). In its proposal for revised EU telecom rules (the European Electronic Communications Code) the Commission proposed enhanced provisions on the independence and regulatory capacity of NRAs, including available resources, power to directly impose penalties and a harmonisation of a minimum list of tasks.

In economically less viable areas, the Commission has also proposed revised telecom rules to incentivise deployment.

In addition, the Commission provides guidance to Member States for the application of State Aid for broadband and will continue to do so.

The Commission has set up a Rural Broadband Action Plan which focuses on the challenge of broadband in rural areas, notably through the exchange of best practices through the Broadband Competence Offices network, targeted missions in the Member States, closer monitoring of ESIF broadband spending and updated guidelines on broadband investment.

(d) Special report 17/2018 – Absorption

3.44. The Commission recalls that the adoption date of the legislative framework strongly depends on the co-legislators. The Commission also underlines that while early adoption of the legislation framework is important in relation to starting programme implementation, there are also other factors such as the de-commitment rule, the level of pre-financing or the designation requirements for 2014-2020, which had a significant effect on implementation.

The Commission notes with satisfaction that the measures it took in close cooperation with the concerned programme authorities, namely through the Task Force for better implementation it has established, led to a marked increase in absorption during the 2007-2013 period. It also underlined that on the basis of the results of the ex-post evaluation of the 2007-2013 programming period and of the 7th report on Economic, Social and Territorial Cohesion, Cohesion policy has shown overall good results.

3.45 *First indent*. For the 2021-2027 period, the Commission presented its proposal for the Common Provisions Regulation as early as 29 May 2018 (COM(2018) 375), i.e. 30 months prior to the planned start of the eligibility period. It has also started informal negotiations on partnership agreements with Member States ahead of the adoption of the legal framework by the co-legislator.

3.45 *Second indent*. The Commission services have continued to provide substantial support to Member States including technical assistance and advisory services in order to improve their capacity to implement the funds while focusing on the delivery of results.

A close monitoring allows setting up action plans tailored to the needs of each programme and following up on the specific issues identified to ensure sustained implementation, without any compromise on the delivery of results.

(e) Special report 30/2018 – Passenger rights

3.47 *First indent*. The Commission accepted the recommendations.

3.47 *Second indent*. The Commission accepted this recommendation considering it had an important role to play in increasing passenger awareness. It also accepted to further enhance the existing guidance.

3.47 *Third indent*. The Commission accepted the recommendation and will use its right of initiative to reflect on and propose solutions to the remaining challenges to enforcement.

(f) Special report 28/2018 – Horizon 2020

3.48. The Commission welcomed the assessment of the ECA as regards Horizon 2020. The Commission has accepted all the recommendations of the report. The Commission is consequently implementing the recommendations.

Heading 2 'Natural resources'

3.51 *First indent*. The Commission acknowledges that renewable energy projects have the potential to contribute to sustainable rural development.

It considers that by now it has addressed the design and sustainability of future renewable energy policy through the newly adopted legislation: the new Energy Union Governance Regulation (Regulation (EU) 2018/1999), the LULUCF Regulation (Regulation (EU) 2018/841), and the recast of the Renewable Energy Directive (Directive (EU) 2018/2001).

In this framework, the Member States, when drafting and finalising their integrated national energy and climate plans, could take into account the circumstances and needs of their rural areas.

It remains the choice of the Member States/Regions, when designing their rural development programmes and striking the balance between various objectives of their rural development strategies, whether the potential of EAFRD funding in this respect is realised.

3.51 Second indent. The Commission committed to take into account all available evidence on the performance of the policy so far and to use this information when analysing specific solutions for the future in the Impact Assessment underpinning the Commission proposal for the post-2020 CAP. The Commission also committed to consider the way to assess the performance of types of intervention, including where appropriate, income support.

3.51 Third indent. The use of Simplified Cost Options is to reduce administrative burden for authorities and beneficiaries. Simplified Cost Option reimbursement system should lead to the same results as conventional reimbursement systems, though in a simpler and quicker way. The Commission agreed to reflect on ways to move to systems that base Member State reimbursement on policy delivery.

3.52 Second indent. The Commission has strengthened the links between the cross-compliance system and animal welfare in particular by further sharing with Member States best practices and results of inspections on cross-compliance, as recommended by the ECA. This was done in the framework of meetings of the Experts Group on cross compliance organised in 2018.

3.52 Fifth indent. Concerning special report 25/2018, project selection (including the prioritisation of projects) is for the Member States to carry out. As regards ESI Funds, the legal provisions governing these do not provide for such a role of the Commission under shared management with regard to establishing criteria for the selection of operations, launching calls for proposals, evaluation and selecting the projects for funding. It is the role of the Member States to organise this process. This is not changed in the Commission's proposal for the period 2021-2027. However, as funding preconditions (called enabling conditions) for the ERDF/Cohesion Fund support, the Commission has proposed for the period 2021-2027 that the investments in risk prevention and management have to be in line with a national or regional disaster risk management plan. This is a similar approach to the 2014-2020 period, but strengthened and offering to look at all risks in an integrated manner.

Headings 3 'Security and citizenship' and 4 'Global Europe'

(a) *Special report 7/2018 — Turkey*

3.55 First indent. The Commission accepted this recommendation.

The Commission takes note of the target implementation date and will consider the refocussing under the 2018 programming exercise, keeping within the political guidelines.

The Commission notes that progress in such sensitive areas is not only dependent on IPA funding allocated but more importantly on the political will of the Turkish authorities

3.55 Second indent. The Commission accepted this recommendation.

3.55 Third indent. The Commission accepted this recommendation.

3.55 Fourth indent. The Commission accepted this recommendation.

3.55 Fifth indent. The Commission accepted this recommendation.

(b) *Special report 20/2018 – The African Peace and Security Architecture (APSA)*

3.56. EU support to the African Peace and Security Architecture (APSA) both in terms of capacities as well as of financial ownership, has been instrumental to contribute to the development of this architecture – although expected results have not systematically been reached.

Contributing to salaries or other operational costs is not an issue in itself as long as it is linked to achieving results and is part of a wider support strategy with a clear exit strategy.

3.57 First indent. The Commission and the EEAS accepted the recommendation. However, ad hoc support to operational costs may still be appropriate under certain conditions.

3.57 Second indent. The Commission accepted the recommendation.

(c) Special report 27/2018 – The Facility for Refugees in Turkey

3.59 First indent. The Commission accepted this recommendation.

The Commission considers that the support of similar type of activities through parallel instruments allowed for complementarity and did not lead to any duplication or overlap, and allowed the Commission to speed up its responses, as different instruments were mobilised at different times.

3.59 Second indent. The Commission accepted this recommendation.

3.59 Third indent. The Commission accepted this recommendation.

3.59 Fourth indent. The Commission accepted this recommendation.

The Commission notes that the implementation of this recommendation does not depend exclusively on the Commission but also on the willingness of the partners to accept these conditions.

3.59 Fifth indent. The Commission accepted this recommendation.

Despite the lack of access to beneficiary names, the partners established robust control mechanisms. Partners, as well as the Commission, will continue to advocate for better access to primary data to the Turkish Government, with due consideration for the legal framework

3.59 Sixth indent. The Commission accepted this recommendation.

The Commission will continue to engage with the Turkish authorities on this issue with the aim to ensure full data access for implementing partners, with due consideration of the applicable legal framework.

The Commission notes that the Facility is not meant to coordinate all EU assistance to refugees in Turkey; its mandate on monitoring and reporting relates to Facility assistance only. The Commission is already preparing, in a separate context, a Global Report on the Implementation of funding related to the migration crisis which will complement the specific reporting of the Facility.

(d) Special report 32/2018 – EU Trust Fund (EUTF) for Africa

3.60. The EUTF was designed as an implementing tool with flexible objectives to be able to respond to needs and emerging challenges originated by the complex crises, each of different nature, affecting the three regions.

3.61 First indent. The Commission accepted this recommendation.

3.61 Second indent. The Commission partially accepted this recommendation.

3.61 Third indent. The Commission accepted this recommendation.

3.61 Fourth indent. The Commission accepted this recommendation.

Heading 5 'Administration'

(a) Special report 34/2018 – Office accommodation of EU institutions

3.64 First indent. Concerning the building strategy, the main principles of the Commission's real estate policy as outlined in the Communication COM(2007) 501 are to the largest extent still up-to-date ([2]).

([2]) This policy might be reviewed in light of the developments concerning the New Ways of Working being implemented and on the outcome of 2021-2027 MFF negotiations.

The Commission only partially accepted the recommendation, given the planning documents (MAPFs and Working Document on Buildings accompanying the Draft Budget) are already updated annually.

3.64 Second indent. The Commission did not accept the recommendation but will assess margin for improvements.

The Commission could provide each year in the Working Document on Buildings accompanying the Draft Budget, the information about advance payments that would be made for the various projects.

3.64 Third indent. The Commission partially accepted the recommendation as it considers the required building management procedure is in place. This might be reassessed in the mid-term.

3.64 Fourth indent. The Commission accepted the recommendation and would like to highlight that in real estate matters the different size, needs and localisation of each institution lead to the specific characteristics that can have an important influence on comparison results.

Reports on the 'Functioning Single Market and sustainable Monetary Union'

(b) Special report 3/2018 – Macroeconomic Imbalance Procedure (MIP)

3.68. Overall, the Commission considers implementation of the MIP to be positive. The Court of Auditors surveyed Members of the Economic Policy Committee (EPC) and only about 10 % of them considered the MIP ineffective. To improve transparency, the Commission has made public in the MIP Compendium the principles that are followed to identify and assess imbalances as well as introduced MIP assessment matrices in the IDRs. Regarding the profile of the Commission's analysis, the IDR conclusions are reported in a Commission Communication accompanying the IDRs, not in the IDR themselves because, according to the regulation, they must take the general context into account. Finally, the initial identification of imbalances is not conceived of as an early warning system and so is based on variables of high quality data. However, the Commission's in-depth analysis does use the latest macroeconomic forecasts which, by design, take general market conditions into account, including possible sovereign conditions reflecting contagion from outside.

3.69. The Commission accepts most of the ECA's recommendations and is committed to implementing them. In fact, many recommendations contained in the report focus on reinforcing and improving aspects of the MIP that the Commission is already addressing.

(c) Special report 18/2018 – Is the main objective of the preventive arm of the Stability and Growth Pact (SGP) delivered?

3.70. The Commission is currently in the process of implementing those recommendations that it accepted. The Council issued its conclusions on the report in December 2018 and invited the Commission to reflect on the findings and recommendations of the ECA and to report back to the Council within two years. The Commission has accepted this deadline.

3.71 First indent. The Commission reviewed the parameters of the matrix of requirements as part of a wider review of flexibility under the SGP, published in May 2018. The Commission did not accept the recommendation to address the cumulative effects of permitted deviations as Regulation (EC) No 1466/97 specifically provides for the 0,25 % of GDP allowable margin of deviation and the Commission cannot impose restrictions on this.

3.71 Second indent. The Commission did not accept the recommendations referred to in this sentence, i.e. recommendations 2(a) and 2(b). The temporary deviation under the structural reform clause is not directly linked to the actual budgetary costs of the reform because some very beneficial structural reforms do not always create significant direct budgetary costs, while such reforms carry substantial economic or political costs. In such cases, directly linking the temporary deviation to the budgetary costs would effectively nullify the incentivizing intent of the clause. The Commission also did not accept the recommendation to discontinue the investment clause in its current form as it considers it to be an important element of the flexibility package introduced in 2015.

3.71 Third indent. The Commission will examine these issues as part of its upcoming review of the 2-pack and 6-pack legislation. The parameters of the matrix of requirements already sets higher requirements for more heavily indebted Member States.

3.71 Fourth indent. The Commission implemented these recommendations in time for the recent publication of its 2019 Spring Package.

Part 3 — Follow-up of recommendations

3.75. The 11 recommendations which are not implemented at all were not accepted by the Commission.

Conclusions and recommendations

Conclusions

3.79. Performance is in most cases not linear over time but only starts slowly during implementation. **Taking this and the late start of certain programmes into account, the Commission considers progress is on track overall.** The Commission agrees it is necessary to monitor very carefully implementation progress and take necessary measures in case there are shortcomings. The Commission is of the view that the process of aggregating performance on indicators into programmes and headings has its limitations. The Commission has intentionally not calculated an average of distance to target per programme. **A single figure cannot fully capture the complexity inherent in spending tens of billions of euros**.

3.80. **The current performance framework for the EU budget has been distinguished by the OECD** [3] **as best in class among its peers. The Commission has made proposals to improve it further for the future financial framework.** However, there are many challenges associated with data collection and transmission, particularly for programmes under shared management. These and other factors, including the multiannuality of programmes, make European budget performance reporting a challenging task.

(a) First indent: The performance indicators for the EU's financial programmes are defined in the legal acts underpinning these programmes. The Commission agrees that result and impact indicators are important to measure performance. A balance between types of indicators is necessary.

Second indent: The Commission agrees that all indicators should help to measure the achievements of the EU budget.

Third indent: There is always a trade-off to consider between an exhaustive list of indicators covering every aspect of the objectives and the resources implied.

(b) First indent: The Commission – relying also on Member States and other reporting entities – is continuously improving its performance reporting. In its analysis of the dataset available in March 2019 the Commission found that 63 % of the indicators have 'full performance information' meaning data points, baseline and target, which the Commission considers a reasonable figure. For the performance framework of the post-2020 spending programmes the Commission has now launched a broad project aiming to ensure that such underlying performance information is set for the programmes in a consistent manner and according to an agreed schedule.

(c) First indent: Data availability and quality largely depend on reporting obligations that result from the legislative process. When data are reported by Member States and public authorities the Commission has limited capacity to influence their quality. The Commission notes that three-quarters of indicators had the most recent data available. For some programmes, data will only become available later in the implementation period.

(d) First indent: The Commission accepts that certain indicator targets might not be sufficiently ambitious but maintains that overall the performance framework is robust. The Commission also emphasises its commitment to improving the system in the next multiannual financial framework.

3.81. The Commission agrees with the ECA that data availability could be improved. However, the Commission considers that a balance has to be achieved between different types of indicators but there is no particular proportion of input and output indicators that automatically presents a weakness (see Commission reply to paragraph 3.23). The fact that progress cannot be calculated is linked to both the availability of the data and how the available data is used to calculate that progress (see Commission reply to paragraph 3.28). While there might be unambitious targets on some indicators in some programmes, it is in most cases not straightforward to identify them (see Commission reply to paragraph 3.35).

(3) https://www.oecd.org/gov/budgeting/budgeting-and-performance-in-the-eu-oecd-review.pdf

Recommendations

Recommendation 3.1 (Indicators in the programme statements)

The Commission accepts the recommendation. The Commission is required pursuant to the Financial Regulation to report in the Programme Statements on all indicators set out in the legal bases of the spending programmes as agreed by the European Parliament and the Council based on proposals made by the Commission.

a) The Commission considers that an appropriate balance between types of indicators is necessary to monitor and evaluate performance and this balance should reflect the specificities of individual programmes.

Recommendation 3.2 (Performance frameworks for the programmes)

The Commission accepts this recommendation. The Commission notes that it will be necessary to use a limited number of indicators for which it is not meaningful to define quantitative baselines, milestones or targets.

d) The Commission notes that it has to take account of feasibility and cost considerations as well as the fact that it requires a corresponding commitment of, in particular, Member States and beneficiaries to submitting high quality data on time.

Recommendation 3.3 (Timely information for the performance indicators)

The Commission accepts the recommendation. The Commission notes that it has to take account of feasibility and cost considerations as well as the fact that it requires a corresponding commitment of, in particular, Member States and beneficiaries to submitting high quality data on time.

Recommendation 3.4 (Documentation of targets)

The Commission accepts the recommendation.

Recommendation 3.5 (Improvement of the Programmes' Performance Overview)

The Commission accepts the recommendation.

a) The Commission considers that it will be able to implement this part of the recommendation only at the start of the MFF 2021-2027.

Annex 3.3 — Detailed status of 2015 recommendations by report

Special report 01/2015: Inland Waterway Transport in Europe - No significant improvements in modal share and navigability conditions since 2001

Reply to paragraph 52, recommendation 1(a): The Commission notes that this recommendation was addressed to the Member States.

Reply to paragraph 54, recommendation 2 (a): The Commission took the actions that were possible within the timeframe defined for the implementation of the recommendation and considers it as implemented. It examined the situation of the inland navigation sector by means of a dedicated Market Observation analysis. The revision of the strategy itself will occur in the more general context of the revision of the TEN-T framework (see recommendation 2c below).

Reply to paragraph 54, recommendation 2 (c): This action will be completed with the revision of the TEN-T Regulation foreseen by 31 December 2023.

Special report 02/2015: EU-funding of Urban Waste Water Treatment plants in the Danube river basin – further efforts needed in helping Member States to achieve EU waste water policy objectives

Reply to paragraph 108, recommendation 1 (a): The Commission did not accept this recommendation.

Reply to paragraph 110, recommendation 2 (a): The Commission fully implemented the part of recommendation 2(a) that it accepted. For most of the waste water load (all agglomerations above 2 000 p.e.) financial information is reported. Only agglomerations below 2 000 p.e. do not report. The reasons for this are the following: a) unjustifiable additional administrative burden, b) would increase delays in reporting (ECA recommends elsewhere reducing the delay in reporting), c) no explicit reporting obligation in the Directive.

Reply to paragraph 115, recommendation 3 (a): The Commission did not accept this recommendation.

Reply to paragraph 115, recommendation 3 (b): The Commission did not accept this recommendation.

Reply to paragraph 115, recommendation 3 (c): The Commission considers this recommendation fully implemented.

Reply to paragraph 115, recommendation 3 (d): The Commission considers this recommendation fully implemented. The Commission has taken the recommended action.

For the 2014-2020 programming period requirements on reporting on financial instruments are provided in Article 46 Common Provisions Regulation (Regulation (EU) No 1303/2013), and Annex I of the Commission Implementing Regulation (EU) No 821/2014. The latter sets out a model for reporting on financial instruments. In section VIII of the reporting model the Member States have to provide information on the amount of other contributions, outside European Structural and Investment Funds raised by financial instruments, including public and/or private contributions, both committed in the funding agreements and paid at the level of final recipients.

Reply to paragraph 117, recommendation 4 (a): The Commission did not accept this recommendation.

Reply to paragraph 117, recommendation 4 (b): This recommendation is partially implemented.

Reply to paragraph 119, recommendation 5 (b): The Commission did not accept this recommendation.

Special report 03/2015: EU Youth Guarantee – first steps taken but implementation risks ahead

Reply to paragraph 89, recommendation 1: This recommendation is addressed to the Member States.

Special report 04/2015: Technical assistance – what contribution has it made to agriculture and rural development?

Reply to paragraph 90, recommendation 1: The Commission considers the recommendation as fully implemented. Under the principle of shared management, Member States describe in their Rural Development Programmes how technical assistance will be used and are in the position to provide an overall assessment of how it is implemented.

Furthermore, it should be underlined that monitoring indicators only provide a part of the information needed for evaluation and that evaluation goes well beyond the data analysis of the monitoring tables. The Common evaluation questions for rural development, as laid down in Annex V of the Commission Implementing Regulation (EU) No 808/2014 include Question 20: 'To what extent has technical assistance contributed to achieving the objectives laid down in Article 59 of Regulation (EU) No 1303/2013 and Article 51(2) of Regulation (EU) No 1305/2013?'

The ex-post evaluation of the Rural Development Programmes is expected to be prepared and submitted to the Commission by December 2024.

Reply to paragraph 90, recommendation 2: The Commission did not accept this recommendation.

Reply to paragraph 93, recommendation 4: The Commission considers the recommendation as fully implemented. Monitoring Table B2.3 distinguishes for Technical Assistance support - other than National Rural Network – the total public expenditure for administrative costs and other costs, the latter including studies and training. As a general principle, the definition of additional indicators to be collected by Member States and Regions has to keep the right balance between the added value on one hand and the administrative burden on the other. This is the reason why the amount of detailed information collected at this level is intentionally kept limited.

The Commission is not in the position to provide ex-ante evidence on the eventual outcomes of the evaluation questions. Under shared management, the evaluation of the rural development programmes is done at the level of the Member States or Regions in accordance with the common evaluation approach as laid down in Article 14 of the Commission Implementing Regulation (EU) No 808/2014.

Special report 05/2015: Are financial instruments a successful and promising tool in the rural development area?

Reply to paragraph 100, recommendation 3: The co-legislators have not provided legal requirements for setting up targets for revolving effects. The reason for that is that the revolving nature associated with every financial instrument is specific to each instruments and its design. It also depends on external factors such as market demand and economic development. Similarly, the Commission only provided additional implementing rules related to revolving in its implementing Regulations (EU) No 964/2014 and (EU) 2016/1157, placed in the sections on lending policy. The legal framework and implementing rules can only provide principles for setting the targets and for the management of resources paid back.

In particular, the target lending volume and range of interest rate cannot be set at the EU level ex-ante with pre-defined targets. It can only be assessed case by case within the ex-ante assessment of each financial instrument (in accordance with Article 37 of Regulation (EU) No 1303/2013) and shall be taken into account to determine the nature of the instrument (revolving or non-revolving instrument). The aspect of leverage also has to be examined during the ex-ante assessment process. Resources paid back to financial instrument shall be either reused within the same financial instrument (revolving within the same financial instrument) or after being paid back to managing authority or fund of funds they shall be used in accordance with Article 44 (for the same objective set under a priority before the end of the eligibility period) and Article 45 (in accordance with the aim of the programme after the end of the eligibility period) of Regulation (EU) No 1303/2013.

With these provisions as amended in the Omnibus Regulation (Regulation (EU, Euratom) 2018/1046) the Commission considers the recommendation as implemented, with the exception of the targets that can only be defined in the ex-ante assessment of each financial instruments and cannot be set horizontally by the Commission.

Special report 08/2015: Is EU financial support adequately addressing the needs of micro-enterprises?

Reply to paragraph 68, recommendation 1: Concerning the still remaining weakness mentioned by the ECA in Annex 3.4, it should be noted that to include specific indicators in an OP is optional for Managing authorities. However, the regulation foresees a mandatory common output indicator for entities (Regulation (EU) No 1304/2013, Annex I (2)).

Reply to paragraph 72, recommendation 4: The Commission did not accept this recommendation.

Special report 09/2015: EU support for the fight against torture and the abolition of the death penalty

Reply to paragraph 55, recommendation 4: While agreeing with the ECA's conclusion that this recommendation has not been implemented, the Commission reiterates that it does not accept the recommendation.

Reply to paragraph 56, recommendation 6: While agreeing with the ECA's conclusion that this recommendation has not been implemented, the Commission reiterates that it does not accept the recommendation.

Special report 12/2015: The EU priority of promoting a knowledge-based rural economy has been affected by poor management of knowledge-transfer and advisory measures

Reply to paragraph 94, recommendation 1(b): The recommendation by ECA is considered as fully implemented. There are different methodologies to conduct a recurrent analysis of training needs and the most appropriate approach depends on the design of the respective Agricultural Knowledge and Innovation System (AKIS), which varies by Member State. Therefore, the Measure Fiche can only describe in general terms the most efficient way of conducting such a needs assessment.

The update to the Measure Fiche as implemented by the Commission is considered to provide the appropriate degree of detail and to be sufficient to guide Member States to conduct a recurrent needs-assessment.

Reply to paragraph 94, recommendation 1(d): The recommendation by ECA is considered as fully implemented. All rural development measures are only approved to be added in the Rural Development Programmes if a Member State demonstrates an underlying strategic need. That need would be evident from the Rural Development Programme strategy which in turn is based on the SWOT analysis and the resulting needs assessment each Member State had to conduct at the outset of the Rural Development Programming phase.

In the Annual Review Meetings and Monitoring Committees the 'Annual Implementation Reports (AIR)' are assessed, which report on the implementation progress of all programmed measures of the Rural Development Programmes. In case of implementation difficulties or delays, the situation is analysed and remedial action is sought.

Reply to paragraph 96, recommendation 2(b): The recommendation by ECA concerning the guidance documents and public procurement including information on in-house delivery is considered as fully implemented.

As regards the monitoring of Member States procedures by conformity audits see Commission reply to Recommendation 5 in relation to Special report 12/2015.

Reply to paragraph 98, recommendation 3(a): The recommendation by ECA is considered as fully implemented. The Commission provides guidance, which serves as a document to clarify certain legal interpretations and to disseminate examples of good practices of implementation of the EU law to the Member States.

The issue of the reasonableness of costs is regularly discussed with Member States in various contexts: the latest event was the Error rate seminar that took place in June 2018 during which aspects of the reasonableness of costs and the use of Simplified Cost Options were discussed.

Trainings may be organised upon Member States' requests, and several trainings have already been organised concerning this topic. It should also be noted, that the uptake of Simplified Cost Options is significantly increasing throughout the implementation of the Rural Development Programmes, which means that the assessment of the reasonableness of costs is used less frequently by the Member States.

Reply to paragraph 98, recommendation 3(b): The recommendation by ECA is considered as fully implemented. Article 51 of Regulation (EU) No 1303/2013 requires that in 2017 and 2019 the annual review meetings between the Commission and each Member State cover all programmes. These review meetings shall take into account the progress reports on the implementation of the Partnership Agreement. Among others, this report shall set out information on the implementation of mechanisms to ensure coordination between the European Structural and Investment Funds and other Union and national funding instruments and with the European Investment Bank. These review meetings are additional means to ensure the complementarity and synergies between European Structural and Investment Funds programmes in a given Member State, and provides a basis to introduce improvements when necessary.

Reply to paragraph 100, recommendation 4(b): The Commission remains of the position that it is not responsible for monitoring that feedback systems to improve upcoming trainings are in place.

As to reliable information on the quality and effectiveness of the knowledge-transfer and advisory services, Annex V of Implementing Regulation (EU) No 808/2014 specifies the common evaluation questions (EQ) for rural development: EQ 1, referring to Focus Area 1A, reads: 'To what extent have RDP interventions supported innovation, cooperation and the development of the knowledge base in rural areas?' This EQ shall be answered in the enhanced Annual Implementation Report submitted in 2019 and in the ex-post evaluation.

The recommendation by ECA is therefore considered as fully implemented.

Reply to paragraph 102, recommendation 5: The Commission considers this recommendation as fully implemented. As regards the audits in the field of knowledge transfer and innovation that were not carried out in the practice were planned in the Multiannual Work Programme 2016-2019 for year n+2 i.e. for 2018-2019. Following a new Central Risk Assessment carried out in 2017 their risk scoring was lower due to the lower expenditure and, given the available resources, it was decided to take on board other audits (with higher risk and more expenditure).

After the Special report, the risk profile of the audit field was increased. As a consequence, DG AGRI selected and carried out 5 audits (in AT, DK, FR, IT, SE). It should be understood that, due to expenditure being very low, even if an increase of the risk factor of the audit field in the risk analysis was done, the number of selected transactions is still limited.

Moreover, in the new audit approach that DG AGRI is carrying out since July 2018, the focus is on the work of the Certification Body (CB) for all non-IACS measures, including the measures related to knowledge transfer and innovation. Whenever such a measure is in sample 1 of the CB it will also be selected by DG AGRI in its audit.

Special report 13/2015: EU support to timber-producing countries under the FLEGT action plan

Reply to paragraph 58, recommendation 1: This recommendation was partially accepted in 2015 by the Commission, as earmarking a budget for implementing the FLEGT Action Plan is only feasible for thematic programmes/budget lines. For the period 2014-2020, the Commission earmarked 145 million euro for implementing the FLEGT Action Plan under the Thematic Programme Budget Line and developed Annual Action Plans detailing what action areas of the FLEGT action plan were to be financed.

Special report 16/2015: Improving the security of energy supply by developing the internal energy market: more efforts needed

Reply to paragraph 117, recommendation 3: The Commission considers the recommendation is fully implemented through the extension of the regulatory framework and the setup of a platform.

Reply to paragraph 123, recommendation 7 (b): The Commission had partially accepted the recommendation and took the requested action on the accepted elements.

Reply to paragraph 126, recommendation 9: The Commission had not accepted the recommendation. However, it took the actions considered necessary to address the underlying issues.

Special report 17/2015: Commission's support of youth action teams: redirection of ESF funding achieved, but insufficient focus on results

Reply to paragraph 84, recommendation 2 (a): The Commission considers the recommendation is fully implemented.

The Commission insists that the examination of opportunities to improve results, is an on-going, standard practice. The Commission examines each reprogramming request, whether triggered by the need to incorporate new additional funds or not, primarily with a view of achieving better results, and discusses at length with the Member State. So far, the Commission had not taken the initiative to propose new modifications as it would have been unnecessary and highly inefficient.

Reply to paragraph 84, recommendation 2 (b): The Commission considers the recommendation is fully implemented.

The Commission insists that such as assessment is carried out diligently and has always been standard practice. Reporting on every single detail of the assessment process, on elements that are required by the Regulations and have always been standard practice, is seen as unnecessary and inefficient, hence the absence of detailed information on the checklists.

Reply to paragraph 84, recommendation 2 (c): The Commission insists that this recommendation is fully implemented to the degree that it remains relevant. This recommendation has lost relevance during the 2014-2020 as Annual Implementation Reports are no longer considered as the means of communicating detailed, but only summarised information. The Commission insists that sufficient, relevant information is transmitted through the Annual Implementation Reports and more detailed information is provided through other means of reporting (e.g. evaluation reports; technical meetings and monitoring committees – the discussions of which are reflected in minutes and notes to the file).

Reply to paragraph 86, recommendation 3: The Commission considers the recommendation is fully implemented.

The Commission insists that systematic plausibility and reliability checks are carried out as standard practice. Evidence exists on this being a standard practice (guidance documents from the evaluation unit and from the ESF coordination unit; checklists for accepting reports). Documenting every single check carried out, would be unnecessary and inefficient.

Special report 20/2015: The cost-effectiveness of EU Rural Development support for non-productive investments in agriculture

Reply to paragraph 74, recommendation 1 (a): According to Article 75 of Regulation (EU) No 1305/2013, the enhanced Annual Implementation Report 2018 will be submitted by the Member States to the Commission end of June 2019. The Commission will only be in the position to complete the respective monitoring at that time.

Reply to paragraph 77, recommendation 3 (a): The Commission considers this recommendation as implemented as the required action of advising the Member States to set up additional indicators was accomplished. The Commission monitors the implementation of the Rural Development Programmes through the set of common context, result and output indicators under the 2014-2020 Common Monitoring and Evaluation System.

Evaluations are carried out by/on behalf of the Member States while the synthesis of these evaluations at EU level is done under the responsibility of the Commission services. The mandatory elements of the 2014-2020 Common Monitoring and Evaluation System, contained in the implementing act, include a list of the indicators to be used to monitor the performance of the policy. Beyond these indicators, the Commission cannot do more but only to advise/encourage the Member States to set up the additional indicators.

The recommendation to 'advise those Member States where Non-productive investments support is significant, to define specific result indicators for the Non-productive investments types most frequently funded' was fulfilled through the guidelines on the 'Assessment of Rural Development Programmes results: How to prepare for reporting on evaluation in 2017'.

The Commission cannot oblige the Member States to establish such additional indicators as it goes beyond the mandatory elements of the Common Monitoring and Evaluation System (CMES) framework for 2014-2020.

Reply to paragraph 81, recommendation 5 (b): The Assurance and Audit Directorate of DG AGRI will continue including ECA's findings in its preparatory work for the Multiannual Work Programme (MAWP). ECA's findings are among the standard criteria used when establishing the MAWP.

Special report 23/2015: Water quality in the Danube river basin: progress in implementing the water framework directive but still some way to go

Reply to paragraph 172, recommendation 1 (d): This recommendation is addressed to the Member States.

Reply to paragraph 172, recommendation 1 (e): This recommendation is addressed to the Member States.

Reply to paragraph 172, recommendation 1 (f): This recommendation is addressed to the Member States.

Reply to paragraph 182, recommendation 2 (b): This recommendation is addressed to the Member States.

Reply to paragraph 182, recommendation 2 (c): This recommendation is addressed to the Member States.

Reply to paragraph 182, recommendation 2 (d): This recommendation is addressed to the Member States.

Reply to paragraph 191, recommendation 3 (b): The Commission did not accept this recommendation.

Reply to paragraph 191, recommendation 3 (e): Further work is foreseen and this recommendation is expected to be fully implemented by the end of 2020.

Reply to paragraph 191, recommendation 3 (f): This recommendation is addressed to the Member States.

Reply to paragraph 191, recommendation 3 (g): This recommendation is addressed to the Member States.

Special report 24/2015: Tackling intra-Community VAT fraud: More action needed

Reply to paragraph 116, recommendation 6: The Commission did not accept this recommendation. The recommendation has been overtaken by the Commission's proposal, currently discussed by the Council, for a 'definitive VAT system', overhauling the current VAT system for intra-EU trade and including new rules on reporting obligations.

Reply to paragraph 117, recommendation 7: The Commission did not accept this recommendation. The sectorial reverse charge mechanism as an anti-fraud measure is optional and mainly oriented towards specific national fraud problems. The Commission proposal for 'definitive VAT system', currently discussed by the Council, foresees the abolition of the sectorial reverse charge (in relation to goods in a first phase) as it deals structurally with the root of the intra-EU fraud problem.

Special report 25/2015: EU support for rural infrastructure: potential to achieve significantly greater value for money

Reply to paragraph 101, recommendation 1(b): The Commission considers that the recommendation is fully implemented.

The platform for exchange of best practice – the European Network for Rural Development – is established and used by Member States as projects and best practices in implementation appear during the current programming period 2014-2020. Further assessments as to potential deadweight can only be done on a case-by-case basis and during programme evaluation, for which the Commission has issued guidance.

In addition, the Commission has, with the adoption of the rural development programmes for the current period 2014-2020, mitigated the risk of non-achievement of added value for the EU funds.

Reply to paragraph 101, recommendation 1(d): The Commission considers this recommendation as partly implemented, as its implementation is on-going. Regular contacts are established between the different services of the Commission. When rural development programmes are approved or amended, other services of the Commission are included in the process via formal Inter-Service Consultations and contributions are taken into account. Moreover the modifications of Partnership Agreements are also jointly done. The enhanced Annual Implementation Reports for 2018, to be submitted in 2019 are supposed to provide more insights as to the effectiveness of arrangements for ensuring complementarity between EU funds. A revised guidance for these Annual Implementation Reports has been published in September 2018.

Reply to paragraph 106, recommendation 2(b): The Commission considers this recommendation as fully implemented. The Commission has delivered several presentations on the new options introduced with the Omnibus Regulation (Regulation (EU, Euratom) 2018/1046) on simplified cost options. There was a presentation in the Rural Development Committee and a presentation during the European Innovation Partnership for 'Agricultural Productivity and Sustainability' (EIP-AGRI) seminar in October 2018, as well as a presentation for the Spanish Paying Agencies Conference in November 2018. During those presentations, discussions took place on how the use of Simplified Cost Options can replace the need to assess the reasonableness of costs, and how Member States can overcome any difficulties concerning this aspect. The European Network for Rural Development workshop is scheduled for 20 of June 2019, titled ENRD Workshop 'Simplified Cost Options: experience gained and new opportunities'.

Reply to paragraph 109, recommendation 3 (a): The Commission intends to assess the efficiency and effectiveness of the funds under the Rural Development Programmes 2014-2020, in accordance with the Common Monitoring and Evaluation System (Article 110 of Regulation (EU) No 1306/2013). It will be done based on the Member States' interim evaluations reported in 2019 and ex-post evaluations submitted to the Commission by the end of 2024 (Article 78 of Regulation (EU) No 1305/2013).

Annex 3.4 — Improvements achieved and remaining weaknesses of partially implemented recommendations by report

Special report 01/2015: Inland Waterway Transport in Europe - No significant improvements in modal share and navigability conditions since 2001

Paragraph 54, recommendation 2 (a): There is no evidence of effective coordination efforts across MS.

Reply: The recommendation was to carry out in-depth analyses in view of further development of the strategy. The Commission took the actions that were possible within the time frame defined for the implementation of the recommendation and considers it as implemented. It examined the situation of the inland navigation sector by means of a dedicated Market Observation analysis. In addition to this the Commission is also conducting studies related to the potential of waterborne transport (ports and inland waterways) according to different scenarios of evolution of the EU economy and of infrastructure developments. The revision of the strategy itself will occur in the more general context of the revision of the TEN-T framework. The study conducted by the Commission related to the potential of waterborne transport (ports and inland waterways) according to different scenarios of evolution of the EU economy, industrial trends and TEN-T developments was to be concluded in February 2019. However, due to delays faced by the consultant in charge of the study as well as the need to bring significant improvements to the study, the final report is currently under approval by the Commission services

Following discussions with the Council and the EP, the Commission has started the work with the MS and stakeholders for the preparation of the future Naiades III programme, to be put in place after 2020, to further improve the efficiency of the inland navigation sector.

Special report 02/2015: EU-funding of Urban Waste Water Treatment plants in the Danube river basin – further efforts needed in helping Member States to achieve EU waste water policy objectives

Paragraph 110, recommendation 2 (a): No such information has been collected for agglomerations below 2 000 p.e.

Reply: The Commission duly considered recommendation 2(a) and did not accept the part of this recommendation for agglomerations below 2 000 p.e. The Commission did not accept to request Member States to provide information on the financial amounts for agglomerations below 2 000 p.e. The reasons for this are the following: a) unjustifiable additional administrative burden, b) would increase delays in reporting (ECA recommends elsewhere reducing the delay in reporting), c) no explicit reporting obligation in the Directive.

Paragraph 115, recommendation 3 (c): DG ENV's conclusion regarding our recommendation, i.e. the need for mandatory measurements of overflows, is still pending.

Reply: Following ECA's recommendation, the Commission has carried out a dedicated study on the issue of storm water overflows and has included this question as part of the evaluation of the Urban Waste Water Treatment Directive (UWWTD). The evaluation is coming to a close and will be published by the fourth quarter of 2019. The evaluation is backward-looking but it does look at the residual impact of combined sewer overflows under a full compliance scenario. This has been modelled and conclusions will be integrated in the Evaluation Staff Working Document (expected by the fourth quarter of 2019). Based on the evaluation conclusions, the Commission can decide to follow-up with an impact assessment on whether the UWWTD should be amended, including with regard to setting requirements concerning measurements and rules for overflows. In view of the above, the Commission considers that the recommendation is now fully implemented.

Paragraph 115, recommendation 3 (d): There is still a risk of oversized wastewater treatment plants.

Reply: The Commission considers this recommendation fully implemented. The Commission has taken the recommended action.

For the 2014-2020 programming period requirements on reporting on financial instruments are provided in Article 46 Common Provisions Regulation (Regulation (EU) No 1303/2013), and Annex I of the Commission Implementing Regulation (EU) No 821/2014. The latter sets out a model for reporting on financial instruments. In section VIII of the reporting model the Member States have to provide information on the amount of other contributions, outside European Structural and Investment Funds raised by financial instruments, including public and/or private contributions, both committed in the funding agreements and paid at the level of final recipients.

Paragraph 117, recommendation 4 (b): The adoption of the revised Fertilising Products Regulation is still pending. Inclusion of sewage sludge in the list of fertilisers depends upon the results of an ongoing technical study.

Reply: The Fertilising products Regulation was adopted in May and will be published on 25 June. A Delegated Act on the basis of the STRUBIAS study may introduce new component material categories in Annex 2 of the Regulation establishing recovery rules for certain materials, such as ashes and precipitation salts recovered from sewage sludge, and sold on the market as Fertilising Products with the CE mark (European conformity mark).

Special report 04/2015: Technical assistance (TA) – what contribution has it made to agriculture and rural development

Paragraph 90, recommendation 1: The added value of the actions taken following the recommendation is questionable. While the Commission has implemented recommendation 1 (clarify and monitor), its action did not address our underlying finding identified in the report, i.e. that a large share of MS spending on TA 'effectively amounts to budget support'. The use of TA for general administrative costs is not against EU Regulations and is therefore allowed by the Commission. As part of the monitoring, proper evaluation of these costs and comparison between the MS could help to identify best/worst practices to be included in the guidance fiche and the recommendations to MS.

Reply: Under the principle of shared management, Member States describe in their Rural Development Programmes how technical assistance will be used and are in the position to provide an overall assessment of how it is implemented.

Furthermore, it should be underlined that monitoring indicators only provide a part of the information needed for evaluation and that evaluation goes well beyond the data analysis of the monitoring tables. The Common evaluation questions for rural development, as laid down in Annex V of the Commission Implementing Regulation (EU) No 808/2014 include Question 20: 'To what extent has technical assistance contributed to achieving the objectives laid down in Article 59 of Regulation (EU) No 1303/2013 and Article 51(2) of Regulation (EU) No 1305/2013?'

The ex-post evaluation of the Rural Development Programmes is expected to be prepared and submitted to the Commission by December 2024.

The Commission considers the recommendation as fully implemented.

Paragraph 93, recommendation 4: The Commission did not take enough actions for the establishment of the performance framework at Commission level, according to the evidence available to the auditors. The Commission encouraged the MS, through the recommendation in its observation letters for 2014-2020 RDP approval, to set adequate indicators for TA, but this is not compulsory. No information about the state of implementation of the performance framework at MS level was available from the Commission. Very little required monitoring data was available, and this data was not used in practice. The indicators for NRN and for the other costs (which also cover TA support for capacity building) are not balanced taking account of the relative size of the expenditure related to these items.

Reply: Monitoring Table B2.3 distinguishes for Technical Assistance support - other than National Rural Network – the total public expenditure for administrative costs and other costs, the latter including studies and training. As a general principle, the definition of additional indicators to be collected by Member States and Regions has to keep the right balance between the added value on one hand and the administrative burden on the other. This is the reason why the amount of detailed information collected at this level is intentionally kept limited.

The Commission is not in the position to provide ex-ante evidence on the eventual outcomes of the evaluation questions. Under shared management, the evaluation of the rural development programmes is done at the level of the Member States or Regions in accordance with the common evaluation approach as laid down in Article 14 of the Commission Implementing Regulation (EU) No 808/2014.

The Commission considers the recommendation as fully implemented.

Special report 05/2015: Are financial instruments a successful and promising tool in the rural development area?

Paragraph 100, recommendation 3: The Commission has not defined exact targets for revolving effects. The actual impact of stricter fund management on revolving effects remains open.

The co-legislators have not provided legal requirements for setting up targets for revolving effects. The reason for that is that the revolving nature associated with every financial instrument is specific to each instruments and its design. It also depends on external factors such as market demand and economic development. Similarly, the Commission only provided additional implementing rules related to revolving in its implementing Regulations (EU) No 964/2014 and (EU) 2016/1157, placed in the sections on lending policy. The legal framework and implementing rules can only provide principles for setting the targets and for the management of resources paid back.

In particular, the target lending volume and range of interest rate cannot be set at the EU level ex-ante with pre-defined targets. It can only be assessed case by case within the ex-ante assessment of each financial instrument (in accordance with Article 37 of Regulation (EU) No 1303/2013) and shall be taken into account to determine the nature of the instrument (revolving or non-revolving instrument). The aspect of leverage also has to be examined during the ex-ante assessment process. Resources paid back to financial instrument shall be either reused within the same financial instrument (revolving within the same financial instrument) or after being paid back to managing authority or fund of funds they shall be used in accordance with Article 44 (for the same objective set under a priority before the end of the eligibility period) and Article 45 (in accordance with the aim of the programme after the end of the eligibility period) of Regulation (EU) No 1303/2013.

With these provisions as amended in the Omnibus Regulation (Regulation (EU, Euratom) 2018/1046) the Commission considers the recommendation as implemented, with the exception of the targets that can only be defined in the ex-ante assessment of each financial instruments and cannot be set horizontally by the Commission.

Special report 07/2015: The EU police mission in Afghanistan: mixed results (EEAS)

Paragraph 85, recommendation 2 (a): No evidence of the actual training courses. No country specific elements. No evidence for the pre-deployment training of local staff.

Reply: The EEAS agrees with the ECA assessment.

Paragraph 86, recommendation 3 (b): Available evidence does not demonstrate implementation of the recommendation for local trainers/trainees.

Reply: The EEAS agrees with the ECA assessment.

Paragraph 86, recommendation 3 (d): Evidence for mentoring files, mentoring milestones and mentoring logbooks has not been identified.

Reply: The EEAS agrees with the ECA assessment.

Paragraph 86, recommendation 3 (e): Specific guidelines for handover for mentors have not been found in the supporting documentation.

Reply: The EEAS agrees with the ECA assessment.

Paragraph 86, recommendation 3 (f): Specific instructions/evidence for synergies with mentoring activities and for clearly linking project objectives with MIP milestones have not been found by the auditors.

Reply: The EEAS agrees with the ECA assessment.

Paragraph 88, recommendation 5 (a): No comprehensive and common EEAS/Commission strategy has been developed yet for the downsizing and closure of CSDP missions. The weakness that mission closure plans are to be submitted only three months ahead of the end of the operational phase of the mandate has not been remedied. The available guidelines do not comprehensively address the different risks inherent in the downsizing and closure process.

Reply: The EEAS agrees with the ECA assessment.

Paragraph 88, recommendation 5 (b): Specific instructions/evidence on how to avoid accumulation of assets and how to prevent financial risk exposure in accumulating assets have not been found by the auditors; nor have examples of timely central instructions/evidence from the EEAS and the Commission to CSDP missions for avoiding asset accumulation.

Reply: The EEAS agrees with the ECA assessment.

Special report 08/2015: Is EU financial support adequately addressing the needs of micro-entrepreneurs

Paragraph 68, recommendation 1: As there is no specific indicator for micro-entrepreneurs, there is still no available information for the 2014-2020 period on how much grant funding is allocated to micro-entrepreneurs.

Reply: Concerning the still remaining weakness mentioned by the ECA in Annex 3.4, it should be noted that to include specific indicators in an OP is optional for Managing authorities. However, the regulation foresees a mandatory common output indicator for entities (Regulation (EU) No 1304/2013, Annex I (2)).

Special report 10/2015: Efforts to address problems with public procurement in EU cohesion expenditure should be intensified

Paragraph 99, recommendation 1 (a): Currently only about a fourth of the cases in IMS contain detailed information on the sub-category, which will improve with new cases being recorded and old cases being closed. The analysis tool and the interfaces between the IMS and MS databases are at an advanced stage but have still to be finalised.

Reply: The Irregularity Management System (IMS) has been updated in order to include a specific category of irregularities related to public procurement infringements. This category is then articulated on 26 dedicated typologies which can describe in detail the main reasons for these breaches. This categorisation is fully aligned with that used by DG REGIO and national audit authorities.

Before exploiting the analytical possibilities offered by this new categorisation, a critical mass of data needs to be reached. To date, out of the 19 891 irregularities referring to infringement of public procurement rules, 7 593 (38 %) contain information based on this new categorisation. Consequently, a meaningful analysis of such data will be achieved progressively, as Member States update older irregularities and new ones come in.

The situation is therefore progressively improving and the Commission is reminding national authorities to update the information and be mindful to data quality whenever possible (dedicated subgroup of the COCOLAF committee or Annual coordination meetings with Audit Authorities).

Paragraph 105, recommendation 6 (a): Further stages of e-procurement still need to be implemented as foreseen by the directive (e-invoicing by April 2019).

The Commission should urge all MS to actively participate in and use the ARACHNE database.

Reply: The last legally binding phase of e-procurement (electronic submission of tenders) is in force since October 2018. As part of the Single Market Strategy, the Commission is supporting the development of contract registries in the Member States. Contract registries significantly contribute to increase the transparency of data in public procurement. A working group of the multistakeholders forum (EXEP) has been set up to work in this area to share good practices and has also produced a guideline on contract registers.

As regards data-mining tools, the Commission is taking the recommended action. It is actively promoting the use by responsible national authorities of Arachne, a preventive risk-scoring tool it has developed. This tool may bring significant improvements in management verifications, but also in the prevention and detection of various risks related, for example, to public procurement procedures, conflicts of interest and the concentration of grants under particular operators. It can also help identifying red flags of fraud suspicion. The Commission is aware and supportive of the use of other comparable data-mining tools.

The following actions have been taken:

1) Provision of technical and capacity building support to MS, particularly 'priority countries', for the implementation of e-procurement requirements in the public procurement directives by the end of 2018.

2) Sharing best practices to support e-procurement transition via the EXEP – Multi-stakeholder forum on e-procurement (last EXEP meeting was on 22 May 2019). A conference on Digital Transformation in Public Procurement has taken place on 18 October 2018.

3) Sharing best practices and supporting the implementation (notably via the activities of European Multi-Stakeholder Forum on Electronic Invoicing) of the EU e-invoicing standard which was published in 2017 and with a deadline of April 2019.

4) Handling of legal issues relative to e-procurement (State Aid, interpretation of the Directive, etc.).

Special report 11/2015: Are the fisheries partnership agreements well managed by the Commission?

Paragraph 90, recommendation 1 (b): Since there are, however, no documented regional strategies, progress is still to be made with regard to the Commission's definition and documentation of regional strategies.

Reply: The Commission takes note of the ECA final assessment. It considers that each individual evaluation made in the context of Sustainable Fisheries Partnership Agreement (SFPA) negotiations already integrates the regional context, aiming at ensuring consistency among the provisions of different SFPAs of a same region.

It will nevertheless define further SFPA regional strategies in the overall evaluation of SFPAs planned for 2020/2021.

Paragraph 93, recommendation 2 (a): However, current procedures for monitoring the licensing process are still affected by weaknesses. Progress remains to be made regarding the Commission's monitoring and the follow-up of the licensing process.

Reply: The Commission takes note of the ECA final assessment. Commission services managing the licensing process are already in a position to check accuracy and completeness of data on the basis of existing internal guidelines and record all requests received in a database.

To streamline further the process, an IT project has been developed which is currently on-going. The licensing process should therefore be fully automated by the end of 2021.

Special report 12/2015: The EU priority of promoting a knowledge-based rural economy has been affected by poor management of knowledge-transfer and advisory measures

Paragraph 94, recommendation 1 (b): The information in the guidance document is not detailed enough on how to conduct a recurrent analysis of training needs.

Reply: There are different methodologies to conduct a recurrent analysis of training needs and the most appropriate approach depends on the design of the respective Agricultural Knowledge and Information System (AKIS), which varies by Member State. Therefore, the Measure Fiche can only describe in general terms the most efficient way of conducting such a needs assessment.

The update to the Measure Fiche as implemented by the Commission is considered to provide the appropriate degree of detail and to be sufficient to guide Member States to conduct a recurrent needs-assessment.

The recommendation by ECA, therefore, is considered as fully implemented.

Paragraph 94, recommendation 1 (d): The MS' compliance concerning the setting-up of advisory services is not monitored by the Commission within the monitoring committees and the annual review meetings.

Reply: All rural development measures are only approved to be added in the Rural Development Programmes if a Member State demonstrates an underlying strategic need. That need would be evident from the Rural Development Programme strategy which in turn is based on the SWOT analysis and the resulting needs assessment each Member State had to conduct at the outset of the Rural Development Programming phase.

In the Annual Review Meetings and Monitoring Committees the 'Annual Implementation Reports (AIR)' are assessed, which report on the implementation progress of all programmed measures of the Rural Development Programmes. In case of implementation difficulties or delays, the situation is analysed and remedial action is sought.

The recommendation by ECA, therefore, is considered as fully implemented.

Paragraph 96, recommendation 2 (b): The monitoring by the Commission of MS procedures as required by our recommendation is not sufficient.

Reply: The recommendation by ECA concerning the guidance documents and public procurement including information on in-house delivery is considered as fully implemented.

As regards the monitoring of Member States procedures by conformity audits see Commission reply to Recommendation 5 in relation to Special report 12/2015.

Paragraph 98, recommendation 3 (a): The Commission provided little evidence of additional training to managing authorities discussing the issue of the reasonableness of costs when SCOs are not used. Despite having some common objectives, checks on the reasonableness of costs and the use of SCOs are not the same issue. The simplified cost options cover only a small part of total spending on rural development (see Special Report 11/2018) and therefore the need for the managing authorities to assess the reasonableness of costs remains. (No further best practice in administrative procedures for assessing the reasonableness of costs has been identified by the Commission in the ENRD platform).

Reply: The Commission provides guidance, which serves as a document to clarify certain legal interpretations and to disseminate examples of good practices of implementation of the EU law to the Member States.

The issue of the reasonableness of costs is regularly discussed with Member States in various contexts: the latest event was the Error rate seminar that took place in June 2018 during which aspects of the reasonableness of costs and the use of Simplified Cost Options were discussed.

Trainings may be organised upon Member States' requests, and several trainings have already been organised concerning this topic. It should also be noted, that the uptake of Simplified Cost Options is significantly increasing throughout the implementation of the Rural Development Programmes, which means that the assessment of the reasonableness of costs is used less frequently by the Member States.

In this respect, the recommendation by ECA is considered as fully implemented.

Paragraph 98, recommendation 3 (b): Discussion topics of the inter-service groups are general and do not cover individual programme measures. Moreover, our report (special report 16/2017) found shortcomings affecting partnership agreements and rural development programmes in terms of cross-sector complementarity and synergies.

Reply: Article 51 of Regulation (EU) No 1303/2013 requires that in 2017 and 2019 the annual review meetings between the Commission and each Member State cover all programmes. These review meetings shall take into account the progress reports on the implementation of the Partnership Agreement. Among others, this report shall set out information on the implementation of mechanisms to ensure coordination between the European Structural and Investment Funds and other Union and national funding instruments and with the European Investment Bank. These review meetings are additional means to ensure the complementarity and synergies between European Structural and Investment Funds programmes in a given Member State, and provides a basis to introduce improvements when necessary.

The recommendation by ECA, therefore, is considered as fully implemented.

Paragraph 100, recommendation 4 (b): The updated guidance document for measure 1 does not provide clear guidance for the execution of feedback procedures by the MS. Even though the example of standard methodology from our report also includes the evaluation of training programmes, this is not mentioned in the guidance text and the common understanding might be that the methodology is only for the analysis of needs.

Reply: The Commission remains of the position that it is not responsible for monitoring that feedback systems to improve upcoming trainings are in place.

As to reliable information on the quality and effectiveness of the knowledge-transfer and advisory services, Annex V of Implementing Regulation (EU) No 808/2014 specifies the common evaluation questions (EQ) for rural development: EQ 1, referring to Focus Area 1A, reads: 'To what extent have RDP interventions supported innovation, cooperation and the development of the knowledge base in rural areas?' This EQ shall be answered in the enhanced Annual Implementation Report submitted in 2019 and in the ex-post evaluation.

The recommendation by ECA is therefore considered as fully implemented.

Paragraph 102, recommendation 5: Several planned audits were not carried out in practice, and a possible reason for that is the low score from the risk analysis.

Our auditors acknowledge that DG AGRI started to conduct conformity audits in the field of knowledge transfer and innovation after the publication of our special report in this field. However, according to DG AGRI's MAWP 2016-2018 (p. 49), the explanation for the absence of audits before SR 12/2015 is low expenditure during the 2007-2013 programme period.

We have no assurance that the risk profile of knowledge transfer and advisory measures has been increased to the extent stated in the Commission's reply.

Reply: As regards the audits in the field of knowledge transfer and innovation that were not carried out in the practice were planned in the Multiannual Work Programme 2016-2019 for year n+2 i.e. for 2018-2019. Following a new Central Risk Assessment carried out in 2017 their risk scoring was lower due to the lower expenditure and, given the available resources, it was decided to take on board other audits (with higher risk and more expenditure).

After the Special report, the risk profile of the audit field was increased. As a consequence, DG AGRI selected and carried out 5 audits (in AT, DK, FR, IT, SE). It should be understood that, due to expenditure being very low, even if an increase of the risk factor of the audit field in the risk analysis was done, the number of selected transactions is still limited.

Moreover, in the new audit approach that DG AGRI is carrying out since July 2018, the focus is on the work of the Certification Body (CB) for all non-IACS measures, including the measures related to knowledge transfer and innovation. Whenever such a measure is in sample 1 of the CB it will also be selected by DG AGRI in its audit.

The Commission considers this recommendation as fully implemented.

Special report 13/2015: EU support to timber-producing countries under the FLEGT action plan

Paragraph 58, recommendation 1: The work plan is concluded for 2018-2022 instead of 2016-2020. The different timeframe has an impact on the monitoring and reporting on the FLEGT programme (see recommendation 5).

The draft work plan is not yet formally binding for the Commission, lacking all necessary approvals.

It also lacks a dedicated implementing budget, rendering performance monitoring and accountability more difficult.

Reply: The Commission recalled that this recommendation was partially accepted in 2015 as earmarking a budget for implementing the FLEGT Action Plan is only feasible for thematic programmes/budget lines.

The draft FLEGT Workplan was validated by Member States in September 2018. Therefore, the draft work plan has been approved by some responsible parties. In addition, the draft FLEGT Workplan is an accompanying document to the upcoming EU Communication on deforestation and forest degradation. Once this EU Communication is adopted, the FLEGT Workplan will automatically become a Staff Working Document and consequently will formally bind the Commission.

Paragraph 59, recommendation 5: The work plan lacks all the necessary approvals to date. The deadline for the 2018 progress report has not been met.

Reply: The Commission intends to produce the progress report of the first two years (2018-2019) by the end of 2019.

Special report 16/2015: Improving the security of energy supply by developing the internal energy market: more efforts needed

Paragraph 117, recommendation 3: Implementation is still ongoing. Market inefficiency is still to be resolved.

Reply: As regards the Commission, the recommendation is fully implemented through the extension of the regulatory framework and the setup of a platform.

Insofar as the ECA refers to 'market inefficiencies are still to be resolved', the Commission emphasises that the recommendation of the ECA was not to remove all issues and price distortions from the market, but to implement specific measures (trading mechanisms) to improve the situation.

The Commission considers that the recommendation should not be interpreted in relation to the impact of these measures as this impact would not directly materialise and would also be dependent on factors that are beyond the control of the Commission (behaviour of economic actors, market situation, regulatory environment, etc.). Moreover, addressing the market inefficiencies would essentially fall under the remit of Member States and economic operators.

Paragraph 123, recommendation 7 (b): The Commission partially accepted and implemented the recommendation. Having analytical and modelling capacities created in-house could have considerable resource implications either for the Commission or for ACER.

Reply: The Commission had partially accepted the recommendation and took the requested action on the accepted elements.

Paragraph 126, recommendation 9: Commission has not made legal proposals.

Reply: The Commission had not accepted the recommendation. However, it took the actions considered necessary to address the underlying issues.

Special report 17/2015: Commission's support of youth action teams redirection of ESF funding achieved, but insufficient focus on results

Paragraph 84, recommendation 2 (a): Weaknesses in the application of the requirement to justify the expected impact of the changes on the Union strategy for smart, sustainable and inclusive growth.

Reply: The Commission considers the recommendation is fully implemented.

The Commission insists that the examination of opportunities to improve results, is an on-going, standard practice. The Commission examines each reprogramming request, whether triggered by the need to incorporate new additional funds or not, primarily with a view of achieving better results, and discusses at length with the Member State. So far, the Commission had not taken the initiative to propose new modifications as it would have been unnecessary and highly inefficient.

Paragraph 84, recommendation 2 (b): Checklist did not document the analysis of the reasonableness of the additional results.

Reply: The Commission considers the recommendation is fully implemented.

The Commission insists that such as assessment is carried out diligently and has always been standard practice. Reporting on every single detail of the assessment process, on elements that are required by the Regulations and have always been standard practice, is seen as unnecessary and inefficient, hence the absence of detailed information on the checklists.

Paragraph 84, recommendation 2 (c): Past and expected effectiveness linked to the OP amendments are not sufficiently reported in the AIRs.

Reply: The Commission insists that this recommendation is fully implemented to the degree that it remains relevant. This recommendation has lost relevance during the 2014-2020 as Annual Implementation Reports are no longer considered as the means of communicating detailed, but only summarised information. The Commission insists that sufficient, relevant information is transmitted through the Annual Implementation Reports and more detailed information is provided through other means of reporting (e.g. evaluation reports; technical meetings and monitoring committees – the discussions of which are reflected in minutes and notes to the file).

Paragraph 86, recommendation 3: No evidence of systematic reliability checks on AIR data or checks on information received following ad-hoc requests.

Reply: The Commission considers the recommendation is fully implemented. The Commission insists that systematic plausibility and reliability checks are carried out as standard practice. Evidence exists on this being a standard practice (guidance documents from the evaluation unit and from the ESF coordination unit; checklists for accepting reports). Documenting every single check carried out, would be unnecessary and inefficient.

Special report 20/2015: The cost-effectiveness of EU Rural Development support for non-productive investments in agriculture

Paragraph 74, recommendation 1 (a): The recommendation that the Commission carry out monitoring through the MS annual implementation reports is still ongoing and its implementation can only be verified after the 2019 interim evaluation.

Reply: According to Article 75 of Regulation (EU) No 1305/2013, the enhanced Annual Implementation Report 2018 will be submitted by the Member States to the Commission end of June 2019. The Commission will only be in the position to complete the respective monitoring at that time.

Paragraph 77, recommendation 3 (a): As the guidance is not a binding and obligatory document for the MSs, the Commission cannot 'ensure' the degree to which the MS actually followed the guidance and defined the additional specific indicators. To what extent the Commission actions ensured the recommended monitoring or assessment of the NPI contribution during the evaluations for the 2014-20 programming period can be only assessed from the 2019 enhanced annual implementation report evaluations.

Reply: The Commission monitors the implementation of the Rural Development Programmes through the set of common context, result and output indicators under the 2014-2020 Common Monitoring and Evaluation System.

Evaluations are carried out by/on behalf of the Member States while the synthesis of these evaluations at EU level is done under the responsibility of the Commission services. The mandatory elements of the 2014-2020 Common Monitoring and Evaluation System, contained in the implementing act, include a list of the indicators to be used to monitor the performance of the policy. Beyond these indicators, the Commission cannot do more but only to advise/encourage the Member States to set up the additional indicators.

The recommendation to 'advise those Member States where Non-productive investments support is significant, to define specific result indicators for the Non-productive investments types most frequently funded' was fulfilled through the guidelines on the 'Assessment of Rural Development Programmes results: How to prepare for reporting on evaluation in 2017'.

The Commission considers this recommendation as implemented as the required action of advising the Member States to set up additional indicators was accomplished.

The Commission cannot oblige the Member States to establish such additional indicators as it goes beyond the mandatory elements of the Common Monitoring and Evaluation System (CMES) framework for 2014-2020.

Special report 21/2015: Review of the risks related to a results-oriented approach for EU development and cooperation action

Paragraph 83, recommendation 1: A Practical Guide on Managing EU Interventions for International Cooperation, including fiches aiming to clarify key concepts and terminology related to results, was not yet available at the time of the follow-up. Moreover, inconsistencies in terminology usage were still present in key methodological documents. For example, a diagram presented by the Commission in its toolbox for evaluators of EU development actions still contained definitions that were inconsistent with the terminology adopted in the context of the results framework. In addition, targets and baselines are still missing in some action documents.

Reply: While the revision of the Practical Guide is still ongoing, terminology regarding results was further streamlined in other revised and newly designed documentation. The template for development actions, which is annexed to the Chapter 6 of DEVCO Companion, has been revised recently to improve the overall consistency in terminology. This process has been extended as well to the annexes of 2018 PRAG concerning terminology and the newly published (2018) Sector Indicator Guidances. The methodological guidance for sector indicators provides detailed indications about the result chain at the sector level. This work informs the current revision of the Practical Guide.

Special report 23/2015: Water quality in the Danube river basin: progress in implementing the water framework directive but still some way to go

Paragraph 191, recommendation 3 (d): The Commission has already taken concrete action to implement this recommendation, and it should continue to take them forward in the next reporting process under the Nitrates Directive (2020) and the Water Framework Directive (2022).

Reply: The Commission accepted this recommendation and notes that it has been working on streamlining the monitoring and reporting under the nitrates directive and the water framework directive.

Special report 25/2015: EU support for rural infrastructure: potential to achieve significantly greater value for money

Paragraph 101, recommendation 1 (b): The Commission has issued no specific guidance document on how to mitigate the risk of deadweight, or on how to avoid simple substitution of other funds by the RDP resources. There is no evidence that deadweight has been effectively mitigated for the 2017-2020 programmes. DG AGRI intends to make an initial assessment of this based on the 2019 interim evaluation. The Commission has no evidence that the risk of replacing national funds with EADFR funds has been mitigated.

Reply: The Commission considers that the recommendation is fully implemented.

The platform for exchange of best practice – the European Network for Rural Development – is established and used by Member States as projects and best practices in implementation appear during the current programming period 2014-2020. Further assessments as to potential deadweight can only be done on a case-by-case basis and during programme evaluation, for which the Commission has issued guidance.

In addition, the Commission has, with the adoption of the rural development programmes for the current period 2014-2020, mitigated the risk of non-achievement of added value for the EU funds.

Paragraph 101, recommendation 1 (d): Effectiveness of the arrangements for ensuring complementarity between the different EU funds of the current programming period still unknown. Annual implementation reports will only be available later in 2019. Our special report 16/2017 found shortcomings affecting partnership agreements and rural development programmes in terms of cross-sector complementarity and synergies.

Reply: Regular contacts are established between the different services of the Commission. When rural development programmes are approved or amended, other services of the Commission are included in the process via formal Inter-Service Consultations and contributions are taken into account. Moreover the modifications of Partnership Agreements are also jointly done. The enhanced Annual Implementation Reports for 2018, to be submitted in 2019 are supposed to provide more insights as to the effectiveness of arrangements for ensuring complementarity between EU funds. A revised guidance for these Annual Implementation Reports has been published in September 2018.

The Commission considers this recommendation as partly implemented, as its implementation is on-going.

Paragraph 106, recommendation 2 (b): The Commission has provided no further evidence of additional MA training on the reasonableness of costs since our 2017 follow-up. No further best practice regarding administrative procedures for assessing the reasonableness of costs has been identified by the Commission in the ENRD platform.

Reply: The Commission has delivered several presentations on the new options introduced with the Omnibus Regulation (Regulation (EU, Euratom) 2018/1046) on simplified cost options. There was a presentation in the Rural Development Committee and a presentation during the European Innovation Partnership for 'Agricultural Productivity and Sustainability' (EIP-AGRI) seminar in October 2018, as well as a presentation for the Spanish Paying Agencies Conference in November 2018. During those presentations, discussions took place on how the use of Simplified Cost Options can replace the need to assess the reasonableness of costs, and how Member States can overcome any difficulties concerning this aspect. The European Network for Rural Development workshop is scheduled for 20 of June 2019, titled ENRD Workshop 'Simplified Cost Options: experience gained and new opportunities'.

The Commission considers this recommendation as fully implemented.

Paragraph 109, recommendation 3 (a): Collection of data necessary for assessing performance indicators and programme results in general is still insufficient. According to the Commission's reply to the follow-up audit, the Commission intends to assess 'information allowing to draw conclusions on efficiency and effectiveness of the funds spend during the evaluations foreseen by CMEF' in 2019.

Reply: The Commission intends to assess the efficiency and effectiveness of the funds under the Rural Development Programmes 2014-2020, in accordance with the Common Monitoring and Evaluation System (Article 110 of Regulation (EU) No 1306/2013). It will be done based on the Member States' interim evaluations reported in 2019 and ex-post evaluations submitted to the Commission by the end of 2024 (Article 78 of Regulation (EU) No 1305/2013).

Annex 3.5 — Follow-up of previous recommendations for performance framework issues

Recommendation 1: *The Commission should translate the Horizon 2020 legislation high-level objectives into operational objectives at work programme level, so that, by assessing the performance of work programmes and calls, they can effectively be used as drivers for performance.*

Reply: The Commission considers this recommendation fully implemented. The Commission has developed internal guidance for the preparation of the Work Programmes. This states out that the Horizon 2020 is implemented through work programmes which establish the objectives, budgets, and deadlines of calls for proposals (which is a further step in the process). Additionally, the use of indicators is required where possible (depending of the type of actions).

The above guidance was already relevant for the work programmes 2016-2017 and 2018-2020, where additional efforts were made to ensure the translation of the high level objectives to a more operational level through improved expected impact statements for each call. This work will be continued and reinforced for the future programme to reinforce the link between programme objectives and the activities implemented through improved intervention logics and indicator design (Key Impact Pathways).

Furthermore, this guidance establishes the Strategic Research and Innovation Group (SRIG), whose aim was to ensure the policy coherence of Horizon 2020 by focusing on strategic priorities and links with EU policies. It provides orientations for Horizon 2020 strategic programming, and guidance on issues that cut across different parts, particularly for key features such as climate action, international cooperation, gender equality, Social Sciences and Humanities, etc.

Recommendation 2: *The Commission should further clarify the links between the Europe 2020 strategy (2010-2020), the multi-annual financial framework (2014-2020), the Commission priorities (2015-2019) through, for instance, the strategic planning and reporting process (2016-2020). This would strengthen monitoring and reporting arrangements and enable the Commission to report effectively on the contribution of the EU budget towards Europe 2020 objectives.*

Reply: The Commission considers this recommendation fully implemented. The political priorities of the Commission are clearly defined in President Juncker's political guidelines. They provide a roadmap for the Commission's action that is fully consistent and compatible with Europe 2020 as Europe's long-term growth strategy. The differences in scope between the priorities and Europe 2020 reflect the Commission's duty to respond to challenges that have emerged or grown in prominence since the development of the Europe 2020 strategy, such as migration.

From 2016 onwards and based on the strategic plans produced by each Commission department, the annual activity reports of each Commission department as well as the annual management and performance report (adopted on 13 June 2017) of the Commission explain how specific objectives contribute to the political priorities and further clarify the links with Europe 2020.

Recommendation 3: *The Commission should, across all its activities, use the terms input, output, result and impact consistently and in line with its better regulation guidelines.*

Reply: The Commission considers this recommendation fully implemented. The Commission has a consistent set of definitions through the updated Better Regulation guidance, the revised Financial Regulation and the Commission's proposals for the post-2020 financial programmes.

Chapter 4 — Revenue

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Examination of elements of internal control systems and annual activity reports

4.9. The Commission will follow up on the problem identified by the ECA in Spain and the Member State will be required to take appropriate measures to address and resolve the weakness in the **control systems** identified.

4.10. The Commission continuously follows up any shortcomings identified for **B accounts** and Member States are held financially responsible for any Traditional Own Resource (TOR) losses due to their administrative errors.

The Commission will follow-up on the problems identified by the ECA's audit in certain Member States in its usual follow-up to the ECA's findings and the Member States will be required to take appropriate measures to address and resolve these problems.

4.12. The Commission considers that its **inspection programme** covered the highest risks areas identified, being valuation fraud (see the UK case with about 3 billion euros estimated TOR losses, interest included) and evasion of anti-dumping duties on solar panels.

Having regard to the magnitude of **potential TOR losses** involved, these inspection topics were prioritised in 2018 and 2019 and covered all Member States.

In drawing up its inspection programme the Commission uses a variety of internal and external risk indicators, documented in the annual inspection programme.

4.13. A reconciliation of **amounts recovered** from the B account and paid to the EU budget via the A account statement is systematically done. In addition, the Commission's authorised inspectors verify all TOR statements in preparing their on-the-spot inspections on unusual changes and particularities in these statements and any issue is talked through with the Member States concerned.

Moreover, for particularly evident spikes in the aggregated information provided by Member States via the A and B account statements, already in the past the Commission has directly contacted the Member States. For example, the UK was immediately contacted in 2017 regarding an individual case involving + 155 million pounds sterling.

4.16. The Commission recognises the delays observed by the ECA. Increased efforts are undertaken to follow up open points in a timely and promptly manner taking into account the priorities and constraints of other work.

*<u>Box 4.3</u> — **France** has made its **updated GNI inventory** available in March 2019.*

It is the Commission's view that France should further enhance its quality in line with the ESA 2010 GNI Inventory Guide.

4.19. The actions taken by the Commission in cooperation with Member States to address **statistical issues linked to globalisation on GNI data** have been overall progressing according to the schedule. These actions will enable the Commission to identify the deficiencies in the statistical treatment of the globalisation-related phenomena and to place GNI reservations, where needed, by the end of 2019, thus safeguarding the financial interest of the EU.

Conclusion and recommendations

Recommendation 4.1 (risk assessment for TOR inspection planning)

The Commission accepts recommendation 4.1.

The Commission will consider changes in its risk assessment and the way it is documented along the lines recommended by the ECA.

Recommendation 4.2 (checks of TOR A and B account statements)

The Commission accepts recommendation 4.2 subject to the results of the testing phase as described below.

The Commission will examine how reinforced desk checks focussing on unusual changes in the TOR statements could generate effective and efficient value added in detecting errors. Provided the results during the testing phase are positive, existing internal instructions would be adapted in line with the recommendation. See also Commission reply to paragraph 4.13.

Annex 4.3 — Follow-up to previous recommendations for revenue

Recommendation 1 (time-barring of debt notifications)

The Commission proposal for a Directive on the Union legal framework for customs infringements and sanctions (COM(2013) 884 final) would, if adopted, provide a harmonisation, to a certain extent, of the different treatment of economic operators in different Member States in this regard.

In relation to the specific legal investigations carried out by the Commission in the different Member States, the Commission services are currently undertaking the necessary steps in this regard. A horizontal enquiry was launched earlier in 2019.

Recommendation 2 (management of the items recorded in the B account)

The Compendium provides Member States with a comprehensive and systematic guidance on a practical level. It was updated in 2018. Further legal clarification on how to correctly complete the TOR A and B account statements is provided in Commission Implementing Decision (EU, Euratom) 2018/194 as applied from 1 September 2018 onwards. Already now, in each ACOR meeting Member States are provided an overview of the shortcomings (including those on incorrect reporting via the A and B statements) detected by the Commission services during their on-the-spot inspections and are informed on the Commission's services point of view how to resolve these shortcomings. More practical guidance on making entries in the different columns of the A and B account statements will be discussed in an upcoming ACOR meeting. This gives clear guidance to Member States on how they should manage their B account diligently.

Recommendation 3 (Member States: declare and make available amounts collected from the B accounts)

The Commission will continue to follow up the inconsistencies between the A and B accounts until the problem is resolved. The ECA rightly points out that these inconsistencies have been significantly reduced.

Recommendation 4 (recovery of customs debts)

Although the entry into force of the UCC on 1 May 2016 has not fully solved this issue, the UCC has nevertheless provided additional instruments to ensure debt collection. The use of mandatory guarantees has been expanded considerably.

The Commission will continue with a careful examination of this issue within the scope of the assessment previously promised, with a view of finalising it before the end of 2019.

Chapter 5 — Competitiveness for growth and jobs

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Part 1: Regularity of transactions

5.15. The Commission has a sound system of ***ex-ante* controls** in place including detailed automated checklists, written guidance and continuous training. The improvement of this system without imposing additional administrative burdens on beneficiaries, so that they can focus on the achievement of their research and innovation objectives, and whilst ensuring that payments to researchers are made promptly, is a constant challenge.

As regards **independent auditors** certifying cost claims, which account for 6 of the 8 cases mentioned by the ECA, this is a well-known issue, addressed in previous reports. The Commission has organised a series of meetings targeting beneficiaries and independent certifying auditors to raise awareness of the most common errors. In addition, feedback has been provided to certifying auditors who have made errors, and a more didactic template for audit certificates has been provided in Horizon 2020. For FP7, audit certificates are estimated to reduce the error rate by 50 % compared to uncertified claims. Therefore, while it is recognised that they do not identify every error, they are an important tool to reduce the overall error rate.

5.16. A number of **simplifications were introduced in Horizon 2020**, as well as moves to allow beneficiaries to use their normal accounting practices where this is possible. Nevertheless, the Commission will continue to simplify, taking into account the observations in the ECA Special Report 28/2018.

5.17. The introduction of a formula to calculate one single annual hourly rate is an important simplification of Horizon 2020. To increase flexibility, the Commission also allows calculations to be made based on a monthly rate. There have been a number of communication actions on this subject, which should decrease the number of errors in the future. Nevertheless, the Commission will reassess this rule for the next Framework Programme.

5.19. An important objective of Horizon 2020 was to increase the involvement in the Framework Programme of **new entrants** and of **small and medium-sized enterprises** (SMEs). At the end of 2018, 61,4 % of participants were newcomers to the research and innovation Framework Programmes, while 24,2 % of the budget for 'Leadership in Enabling and Industrial Technologies' and 'Societal Challenges' goes to SMEs, exceeding the target of 20 %. So, while the Commission is aware that new entrants and SMEs represent a particular risk of error, this risk has to be mitigated, not avoided.

The Commission has made special attempts to address newcomers and SMEs in its communication campaigns and, for Horizon 2020, has introduced simplifications aimed directly at this sort of beneficiary, including lump-sum payments for the SME stage one scheme.

5.21. The **Grant Agreement**, in accordance with the Rules for Participation, stipulates that the transfer of funds between consortium members be managed within the consortium. In accordance with Article 21 of the Rules for Participation, all participants are automatically notified once a payment is made to the coordinator.

The Commission has reminded coordinators of their obligation to transfer funds promptly and when a case of delayed distribution of funds is detected, or there is a complaint on this issue, the Commission's standard practice is to follow up with the project coordinator on the reason for this delay.

5.22. The Commission has dedicated considerable resources to the ***ex-ante* verification** of large research infrastructure. It notes that the issues identified did not concern the *ex-ante* assessment itself, but rather the application by the beneficiaries of their own large research infrastructure methodologies.

Box 5.5

Example 1: The use of a **system of unit costs** is intended to simplify the funding rules by using standard amounts for pre-set categories of costs: once the system is approved, such amounts should not be challenged by comparison with real costs.

However, in the specific case, the amount paid to the organisation, ranging between 90 and 144 euros, is intended to contribute to all the costs related with the stay of the staff abroad. Considered that the organisation pays to the staff a daily allowance for meals of 44 euros, the Commission is of the opinion that the remaining part of the contribution, ranging from 46 to 100 euros, is proportionate to all the other costs to be covered, such as accommodation and local transport.

Example 2: The **Erasmus+** Guide for National Agencies (NA) requires all NAs to have a 'computerised accounting system and adequate procedures and controls in place to ensure that accounting data… are accurate, complete and timely as set out in the Delegation Agreement and its annexes'.

For the specific case, the Commission obtains assurance on the legality and regularity of their transactions but it cannot impose a specific structure for the NA's or programme country's financial circuits.

Therefore, the Commission is of the opinion that the financial risk associated with the finding is of low impact and already sufficiently mitigated by the management and control system.

5.29. The fall in the level of implementation arises particularly from a number of important new cases at the end of 2018, which could not be treated before the end of the year. Work is ongoing and a number of cases have been resolved in the first part of 2019. Nevertheless, the Commission accepts that the extrapolation of **audit findings in FP7** remains difficult because there is no explicit legal basis to support extrapolation. In **Horizon 2020**, the extension of audit findings is mandatory for the beneficiary and the recovery process has been integrated into the IT workflows.

5.30. The implementation of all audit findings is closely monitored. The late **implementation of audit findings** is often justified by the need for IT development or by legislative deadlines or new priorities.

The Commission agrees that effective dissemination and exploitation of project results is vital to effective Research and Innovation funding. It is implementing the recommendation of the IAS in accordance with the action plan.

5.33. The Commission is analysing the ECA's observation concerning ***ex-post* audit** work and will continue to work closely with the ECA in this area. However, the Commission acknowledges that in most cases found by the ECA the financial impact was not material.

5.34. The main purpose of *ex-post* controls performed by the Commission is to protect the EU financial interest by recovering amounts unduly paid. In doing so, the Commission reviews the internal control system of beneficiaries and in case of identified weaknesses proposes recommendations in order to ensure that error is prevented and detected at beneficiary level. In addition, the Commission maximises the audited sample size within *ex-post* audits and in case of systemic errors, extrapolates within each individual audit as well as within the programme.

5.36. The Commission notes that the rate calculated by the ECA (i.e. 1,6 %) is within the range of their **estimated level of error**. The Commission will monitor closely on the ECA's observation in paragraph 5.34.

Conclusion and recommendations

5.37. The estimated error rate reported by the ECA, calculated on annual basis, is one indicator of the effectiveness of the implementation of EU expenditure.

Nevertheless, the Commission has a **multiannual control strategy** for research expenditure. On this basis, the Commission estimates a residual error rate, which takes account of recoveries, corrections and the effects of all their controls and audits over the period of implementation of the programme.

5.38. The Commission notes the ECA's observation that the **risk at payment** set out in the AMPR is within the range of the ECA's estimated level of error. The Commission will monitor closely on the ECA's observation in paragraph 5.34.

Recommendation 5.1 (SMEs and new entrants)

The Commission accepts recommendation 5.1.

The Commission will continue its communication campaign on funding rules, including for SMEs and newcomers as recommended by the ECA.

The Commission's existing *ex-ante* controls are already targeted at riskier transactions. It will examine how it can further target cost claims of SMEs and new entrants, in the light of the observations of the ECA and its own auditors. However, the extent of this targeting will have to take account of the fact that, at the end of 2018, there were already 23 458 SMEs and 15 876 new participants in the Framework Programme. The cost-effectiveness of additional controls will then need to be carefully considered.

Recommendation 5.2 (Next Research Framework Programme)

The Commission accepts recommendation 5.2.

The mechanism for large research infrastructure does not appear in the Commission's proposal for Horizon Europe. However, this proposal is under discussion by the legislative authorities.

Recommendation 5.3 (Horizon 2020)

The commission accepts recommendation 5.3.

The Commission underlines that any improvement introduced in the audit process following the recommendation of the ECA will need time to materialise given the length of the audit cycle.

Recommendation 5.4 (Findings of the Commission's Internal Audit Service)

The Commission accepts recommendation 5.4.

Part 2: Performance issues in research and innovation

5.43. Research and Innovation projects in most of the cases achieve the expected outputs and results. Nevertheless, they are, by definition, risky and uncertain.

There is a **project monitoring** process in place to assess the progress of the projects and to take the appropriate action if required. However, it is not possible to guarantee always in advance that scientific and technological objectives can be achieved.

Annex 5.2 — Follow-up of previous recommendations for 'Competitiveness for growth and jobs'

Recommendation 1 (2015 — Use of relevant information available)

The Commission has continued to review its *ex-ante* controls in the light of findings by the ECA and its own Internal Audit Service. The level of detectable error is much lower in 2018.

Recommendation 4 (2015 — Implementation of extrapolated corrections)

The Commission has continued to implement extrapolation of systematic errors identified by its auditors.

Recommendation 1 (2017 — Horizon 2020)

The Commission has continued to make additional explanations where needed in updates of the Annotated Grant Agreement. The Commission has also deployed an IT system (Personnel Costs Wizard) to help beneficiaries correctly calculate their eligible personnel costs. The list of issues in certain countries was updated twice in 2017 and once in 2018.

Recommendation 2 (2017 — CEF)

The Commission considers that this recommendation was fully implemented as it clarified the existing issues through a guidance that was published in January 2019 on INEA's website.

Chapter 6 — Economic, social and territorial cohesion

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Introduction

Brief description of 'Economic, social and territorial cohesion'

6.4 Third indent. **Regularity audits** constitute a part of the Commission assessment which entails a thorough and exhaustive desk review of all assurance packages. These regularity audits may entail a reassessment of the residual error rates and can trigger additional financial corrections where relevant, including after the year following receipt of the assurance packages. Following this assessment, the Commission carries out annually a risk-assessment to determine which audit authorities and programmes will be subject to on-the-spot audits. The main objective of these audits is to seek reasonable assurance that no serious system deficiency remained undetected or unreported by Member States and that the reported audit opinions and residual error rates are reliable.

6.6. The **2014-2020 control and assurance framework** aims to ensure that the residual error rate for expenditure reimbursed from the EU budget remains below the materiality threshold (2 %) for each operational programme, based on a thorough review of the assurance packages — including audit opinions and error rates — sent by audit authorities. Where considered necessary, the Commission applies additional financial corrections, including net ones, in the event of serious remaining deficiencies (see also Commission replies to the ECA 2017 annual report, paragraphs 6.5 to 6.15).

Part 1 — Regularity of transactions

Results of the review of transactions and re-performance of audit work

6.14 and 6.15. The Commission stresses the importance of the work performed by **audit authorities** in detecting errors which led to significant financial corrections and withdrawals before the 2016-2017 accounts were submitted to the Commission. The thorough audit work by audit authorities at and up to closure also led to significant financial corrections for the 2007-2013 programming period.

The Commission does not share the assessment of the ECA on three significant errors concerning 2014-2020 and two errors concerning 2007-2013 (see also Commission replies to paragraphs 6.71). This is due to diverging interpretation of applicable national or EU rules with an impact on the calculated **error rate**.

The Commission refers to the worst-case scenarios disclosed in the 2018 AARs, which it believes reflect, taking into account the agreed errors, a reasonable estimate of the error rate.

The increased amounts of certified expenditure across Member States as well as the risk-based approach applied by the Commission for its compliance audits explain the increase of the average residual total error rates reported in the respective AARs. The Commission disclosed in the 2018 **Annual Activity Reports (AARs)** the required additional financial corrections to be applied for each of the concerned programmes.

The Commission will continue to work closely with the managing and audit authorities of the concerned programmes, to follow up on the agreed conclusions and to ensure overtime a residual level of error below 2 % for all programmes.

6.17. In 2018, audit authorities reported for the first time irregularities they found in their audit of operations following **a common typology** agreed with the Commission and shared between the Member States.

Most of the irregularities reported concerned ineligible expenditure, followed by public procurement and financial instruments. This also corresponds to the most common types of irregularities identified by the Commission through its audits and by ECA for its additional findings, as shown in Box 6.2.

6.18. The results from the Commission's audits, some of which are still under contradictory procedure, show the pertinence of the risk assessment carried out.

As mentioned in its reply to paragraph 6.20 of the 2016 annual report and paragraph 6.28. of the 2017 annual report, the Commission addressed updated guidance to Member States for the 2014-2020 programming period which, combined with the required use of **simplified costs options (SCOs)**, should contribute to improving further the quality of **management verifications** in the future. This depends however on staff available to deal with increasing amounts of declared expenditure, and on the required stability of experienced staff in the concerned administrations.

In addition, the typology of audit findings reported to managing authorities by audit authorities allows them to integrate the more frequent sources of errors in their risk assessments and to adapt their management verifications approaches and tools accordingly.

6.20 and 6.21. For two errors with a significant impact (see Commission reply to paragraph 6.14), the Commission considers there was no breach, and therefore there was compliance with applicable national or EU rules. The Commission, thus, considers that either the relevant project or the recipient or the expenditure were eligible.

It also stresses that, in respect of the cases confirmed, it will perform the necessary **follow-up** and will take any action it deems necessary.

6.22. Since last year, the Commission has adopted guidelines and provided clarifications on **eligibility of VAT** to the Member States.

In its proposal for the 2021-2027 legal framework, the Commission proposed a simpler rule for the eligibility of VAT, based on a threshold of total cost of projects and independent from the private or public status of the beneficiary. The Commission considers that such rule will significantly reduce the risk of inconsistent or incorrect interpretation of the eligibility rules.

6.23. The Commission agrees that in principle **gold-plating** adds unnecessary complexity and is a source of errors. The Commission continues to recommend the programme authorities simplification at national level each time such complex rules are identified. See also Commission reply to paragraph 6.14.

6.24. The Commission agrees that **simplified cost options (SCOs)** are less error prone, as demonstrated by experience.

The recently adopted Omnibus Regulation offers more possibilities to use SCOs. Moreover, in the Commission's proposal for the 2021 – 2027 programming period, the Commission enlarged the scope for compulsory and optional use of SCOs to reduce the administrative burden for the beneficiaries, increase the focus on results and further reduce the risk of error.

6.26. The Commission continues the implementation of its updated **Public Procurement Action Plan**, which aims at improving compliance of public procurement procedures in cohesion policy. Particular emphasis was given in 2018 on the further professionalisation of procurers, in line with the public procurement package adopted by the Commission in October 2017.

The Commission highlights the recently updated **guidance for standardised financial correction of public procurement errors.** These guidelines aim to achieve homogeneous implementation in accordance with equal treatment among the Member States.

6.27 and 6.28. The Commission notes that the audit authorities identified the majority of public procurement infringements in the transactions examined by the ECA. This shows the **improved capacity of audit authorities** to detect this type of errors. However, the important share of public procurement errors that went through at managing authorities and intermediate bodies' levels shows that continuous action is needed to ensure a better detection of these issues by first level management verifications. The Commission will follow up these cases and apply the necessary additional financial corrections, including net ones when the regulatory conditions apply.

6.30 to 6.32. Three of the quantified errors detected by ECA in its sample refer to an issue with a national **state aid** scheme which had provisions not compatible with the EU state aid rules. The Commission had previously identified this non-compliance and had already requested from the Member State concerned to adopt necessary corrective measures and to change its practice without delay. The Member State has accordingly changed its legislation with immediate effect for future cases, thus putting an end to this specific systemic weakness.

The Commission is not aware of similar breaches in other Member States for the 2016-2017 accounts.

For one of the other seven cases identified by the ECA, the Commission refers to its reply to paragraph 6.14.

6.36 to 6.38. Concerning **financial instruments managed by the EIB Group**, a revised Article 40 of the Common Provision Regulation (CPR) sets out a new assurance model, which includes in particular control reports as well as audit reports from external auditors of the European Investment Bank/European Investment Fund (EIB/EIF), whose models are approved by an Implementing Act. This addresses recommendation 1 of the ECA's 2017 Annual Report by providing requested assurance.

The EIF has confirmed that it is prepared to voluntarily extend the use of the new types of audit reports to all SME Initiative programmes.

6.39. The Commission underlines the fact that the referred obligation for Member State authorities to pay the full due amount of the public **contribution in 90 days** has been fully respected in more than 97 % of the examined transactions.

However, in one Member State (France) authorities wait for the beneficiary (training provider) to send its final implementation report before paying the final instalment (10 %).

Our assessment of the work of audit authorities

6.40. The Commission is of the opinion that the practice identified in the two concerned programmes of not paying to the beneficiary the full amount of the public contribution within 90 days may be justified with the need to analyse whether the full amount was actually due to the beneficiary before the EU definitive amount could be calculated and paid.

In the specific case of Germany, the transfer of the ESF component by the Managing Authority to the final beneficiary (the 'Bundesagentur für Arbeit') — after reimbursement by the Commission — is an administrative internal measure between the Federal Ministry of Labour and Social Affairs and the beneficiary. This transfer applies only to one measure of the operational programme (OP) concerned.

6.42. The audit authorities ensure the **representativeness** of their samples at the level of each OP or group of OPs. This approach allows the Commission to disclose in the AARs detailed information at OP level and obtain the assurance also for each OP.

The Commission continues working extensively with all audit authorities to ensure that they work up to expected standards. Such cooperation includes various guidance notes on the assurance packages, the elaboration of a methodology for auditing financial instruments, technical meetings to discuss methodological issues, the development of jointly shared and agreed sampling techniques to ensure representative and reliable error rates (comprehensive guidance), and the adoption of joint audit tools and checklists.

The Commission's own thorough desk and risk-based on the spot audit work led it to report in the respective AARs of DG REGIO and DG EMPL 40 ERDF/CF and 47 ESF/YEI programmes for which it considered the residual error rate to be above 2 %. This was due to clerical mistakes, non-detection of issues raised by the Commission in the analysis of annual control reports or audit authorities' working papers or insufficient corrections taken at Member State level.

The Commission is working with the concerned audit authorities to improve their work for the future.

6.43. In relation to the **typology of errors** found by the Member States and EU auditors, the Commission refers to its reply to paragraphs 6.17 and 6.18.

The Commission agrees that further improvements are necessary in some **management and control systems** to ensure that all errors are timely detected and corrected, as reported in the 2018 AARs.

6.44 and 6.45. The Commission has developed a thorough and detailed **sampling guidance** to further clarify the provisions of article 127 CPR and of Regulation (EU) No 480/2014 and with a view to ensure a harmonised, agreed and coordinated implementation framework for audit authorities. The Commission underlines that sampling methods require the use of professional judgement at various stages of the process that may lead to different assessments by various actors.

The Commission will continue **technical dialogue** with the ECA in order to ensure a common understanding and provide the necessary certainty to audit authorities.

Box 6.6

Concerning the weaknesses identified in the sampling method used for one German OP, the Commission concluded that the error rate resulting from the sampling approach applied was acceptable, taking into account its sampling guidance note. However, it urged the audit authority to change its sampling method to monetary unit sampling for the future years. This was accepted and implemented.

6.46 and 6.47. The Commission welcomes the improvements noted by the ECA in paragraph 6.48 in relation to the **audit authorities' documentation.** In line with the ECA's 2017 recommendation, the Commission has established a working group with the participation of several audit authorities and ECA as an observer. The objective is to establish a common understanding and practice in this area, taking due account of the need for an appropriate balance to ensure sound and efficient administrative procedures.

The Commission will keep working closely with the audit authorities in order to address the issues raised by the ECA through sharing of best practices and exchange of audit tools and methodologies, including the Commission's own checklists.

6.48. The Commission welcomes the improvement noted by the ECA. It confirms that it is continuously working with the programme authorities and in particular audit authorities in order to strengthen their capacity to prevent and correct errors and therefore contribute to the **assurance process**.

6.50. The Commission notes that the seven errors referred to by the ECA in this paragraph had a limited impact on the error rates reported by the audit authorities concerned for these programmes. However, it will continue to work with the audit authorities for the correct treatment and quantification of errors.

The Commission's assurance work and reporting of residual error rate in its annual activity reports

6.51. The Member States' control procedures entail three programme authorities: the managing, certifying and audit authorities, responsible respectively for **management verifications** (first line of defence against errors), **certification** of legality and regularity **of expenditure** in the accounts taking account of all available control results, and audits so as to provide **audit opinions.** The Directorates-General conclude in their AARs on the three aspects linked to these controls, effectiveness of management and control systems, acceptability of accounts, and legality and regularity of underlying expenditure, after having assessed the submitted assurance packages.

6.53. Both DGs reported the **key performance indicator (KPI)** on regularity based on the audit work performed and audit evidence available at the date of the adoption of their respective AARs. The 'worst-case' scenario was estimated using conservative flat rates on the programmes where the error rates were still under contradictory procedure and therefore not yet confirmed. The worst-case scenario also reflects the risks of undetected errors remaining in the part of AA sample not audited by the Commission. Both Directors-General do a transparency effort to disclose all appropriate information by OP in their respective AARs (Annex 10 B).

Whenever possible, the Commission also took account of the results of the ECA's work. The Commission took a prudent approach and used a worst-case scenario for the OPs concerned when the ECA audit was ongoing and the preliminary results were pending completion of the clearing procedure.

6.54 and 6.55. In order to contribute to the corporate **reporting** on the 2018 expenditure, both DGs estimated the risk at payment and at closure by using the most conservative approach based on the 2016-2017 confirmed **residual error rates.** The 2017-2018 non-confirmed residual error rates are only used in case they are higher than the confirmed 2016-2017 rates. The Commission underlines that, at the time the AARs are signed, expenditure declared in the calendar year under reporting is covered by a 10 % retention on interim payments.

6.56. The Commission refers to its reply to paragraph 6.14. It is of the opinion that the estimated risk at payment disclosed in the **Annual Management and Performance Report (AMPR)** gives a fair view of the risk to the legality and regularity of the relevant expenditure under Cohesion made in 2018, which relate to a different period than the one audited by the ECA.

6.60. In 2018, apart from **compliance audits**, the Commission also conducted 27 early preventive **system audits** on the effective functioning of management control systems, and 14 **fact-finding missions** to audit authorities to review the content of the annual control reports and to clarify issues in view of the desk review. This contributes to the assurance process.

6.62. The Commission has designed its **assurance system** to allow the Directors-General to provide assurance on each of the 419 individual OPs, as per their obligation as authorising officers by delegation. This assurance model is based on a cost-efficient, two-step audit approach: a systematic desk review for all OPs and complementary risk-based, on-the-spot compliance audits for selected OPs. The Commission considers it has **reasonable assurance on the legality and regularity** of the underlying expenditure, except for programmes for which it reported potential additional financial corrections (see Commission reply to 6.42).

Moreover, an aggregated KPI is reported in the AARs as a weighted average of all confirmed error rates. The Commission also reported a worst-case scenario, taking into account all pending information still under validation (see Commission reply to paragraph 6.53).

6.63. For each compliance audit, the Commission auditors assess the risk of repetition, in the unaudited part of the audit authority's sample, of errors similar to those they have detected. When this is the case, appropriate **flat rates** are applied to estimate the worst-case scenario for the residual error rate in the AARs (see paragraph 6.53).

6.64. Providing a definitive confirmed residual total **error rate** for each operational programme each year is not always possible. Several factors can contribute to delay such assessment, including contradictory procedures on Commission's compliance audits or the need for additional verifications by the Commission, as allowed by the regulation up to the end of the period for beneficiaries to keep supporting documents.

This was the case for, respectively, 40 and 47 programmes in the 2016/2017 accounting year for REGIO and EMPL, as explained in the 2018 AARs. For these programmes the Commission will apply the required additional financial corrections to bring the residual error rate below 2 %.

6.66. The Commission considers that the expenditure certified at closure for the package concerned is compliant with the relevant regulations, in line with its reply to the ECA's 2016 annual report, when two identical errors were identified.

6.67. Following an OLAF final case report, financial recommendations were issued for one project included in the Hungarian closure package. Irrespective of the related expenditure, the programme presented enough eligible expenditure to allow the Commission to proceed with partial closure. Subsequent to the OLAF report, the competent court in one Member State has, at the end of 2018, dropped charges against the contractor. The investigation in the second Member State is still ongoing. The Commission will follow-up on the developments in this case and prevent any risk of irregular amounts in the final balance.

6.68 to 6.70. The provisions for **closure** in the CPR logically cover the specific expenditure which needs to be dealt with at closure, such as clearing of the advances paid into financial instruments implemented versus advances paid (Article 42 CPR). However, the majority of expenditure for most OPs will have gone through annual accounts and will be definitive.

The Commission considers that timely guidelines will be useful in view of the OP closure in 2025. Such guidelines may clarify further the template of the **final implementation report** (Article 142 CPR) to ensure it includes all appropriate information, and as for 2007-2013, may clarify the treatment at closure of various issues such as: the clearance of remaining state aid advances (Article 131(5) CPR), revenue generated after completion of projects (Article 61 CPR), unfinished projects (Article 2(14) CPR), phasing of projects, capping of the final EU payment (Article 129 CPR), etc.

Conclusion and recommendations

6.71. The Commission reported in full transparency in its 2018 AARs that there is a risk that the **error rate** remains material for 40 and 47 programmes respectively for REGIO and EMPL. It disclosed the concerned programmes in the 2018 AARs. In line with the 2014-2020 regulations, the Commission is committed to applying the required additional financial corrections to these programmes, including net ones where the regulatory conditions apply.

The increased amounts of certified expenditure across Member States as well as the risk-based approach applied by the Commission for its compliance audits explain the increase of the average residual total error rates reported in the respective AARs of the Commission, compared to 2017.

However, the Commission does not share the assessment of the ECA on three significant errors concerning 2014-2020 and two errors concerning 2007-2013. This is due to diverging interpretation of applicable national or EU rules with an impact on the calculated error rate.

The Commission refers to the worst-case scenarios disclosed in the 2018 AARs, which it believes reflect, taking into account the agreed errors, a reasonable estimate of the error rate.

The Commission will continue to work closely with the managing and audit authorities of the concerned programmes, to follow up on the agreed conclusions and to ensure overtime a **residual level of error below 2 %** for all programmes. The regulation provides the Commission with all necessary supervisory tools to stop interim payments or the payment of the annual balance, and to make additional financial corrections to ensure that over time all programmes present an acceptable residual error rate.

6.72. The Commission stresses the important work carried out by **audit authorities** in detecting errors which led to detailed audit opinions for all programmes, including negative ones in 11 cases, and significant financial corrections in annual accounts and at closure.

The Commission disclosed in the respective 2018 AARs that further improvements are necessary for seven audit authorities. For the rest, the audit authorities were found to function well, or only minor improvements were required, based on the Commission's detailed assessment of each audit authority and each programme.

Therefore, overall, the Commission relies on the work of audit authorities, except for a limited number of cases for which appropriate reservations were disclosed and action plans put in place to request the necessary improvements.

6.73. The Commission considers that it has a robust approach in place to obtain the required reasonable assurance on the functioning of management and control systems.

The Commission has designed its **assurance system** to allow the Directors-General to provide assurance on each of the 419 individual OPs, as per their obligation as authorising officers by delegation. This assurance model is based on a proportionate, administratively cost-efficient, two-step audit approach: a systematic desk review for all OPs and complementary risk-based, on-the-spot compliance audits for selected OPs. The Commission considers it has reasonable assurance on the legality and regularity of the underlying expenditure, except for programmes for which it reported potential additional financial corrections.

In the 2018 AARs, the Commission presented not only its estimate of the **overall residual error rates** but also the worst-case scenarios (including the ECA audit results when available). This included the use of flat rates for some programmes where it had indications that some errors could have remained undetected.

6.74. The Commission refers to its reply to paragraph 6.56. It is of the opinion that the estimated risk at payment disclosed in the AMPR gives a fair view of the risk to the legality and regularity of the relevant expenditure under Cohesion made in 2018, which relate to a different period than the one audited by the ECA.

6.75. The **control and assurance framework** was designed to ensure an annual residual error rate below 2 % for each programme. The Commission concluded this was the case for the majority of the programmes (70 %) but agreed that this was not yet the case for 30 % of all programmes clearly identified in its 2018 AARs. For these and for the confirmed cases where the ECA found additional errors, the Commission will follow up and apply the necessary additional financial corrections, including net ones when the conditions set by the co-legislator apply.

For these programmes the Commission agrees that further improvements are needed. The managing and audit authorities need to reinforce their respective **management verifications** and audits to better prevent errors in the future accounting years. The Commission will work with the concerned authorities to improve their control procedures.

6.76. On the two **recommendations of previous years** that are reported by the ECA as not acted upon at all, the Commission notes that:

— One recommendation has not been accepted by the Commission and therefore does not require any action;

— Action has been taken to clarify and simplify the VAT eligibility in the Commission's proposal for the post-2020 legal framework.

See also Commission replies to Annex 6.3.

Recommendation 6.1 (Audit arrangements for SME Initiative programmes)

The Commission accepts this recommendation.

(a) A revised Article 40 of the CPR sets out a new assurance model, which includes in particular control reports, as well as audit reports from external auditors of EIB/EIF, whose models are approved by an Implementing Act.

The EIF has confirmed that it is prepared to voluntarily extend the use of the new types of audit reports to all SME Initiative programmes. The new CPR assurance model and the voluntary implementation of the audit reports to the Small and Medium Enterprises (SME) Initiatives is considered to address the recommendation.

Recommendation 6.2 (Unjustified withholding of payments by Member State authorities)

The Commission accepts the recommendation and will take the necessary steps to ensure that managing and audit authorities pay the necessary attention to compliance with Article 132 CPR.

Recommendation 6.3 (2014-2020 closure arrangements)

The Commission systematically scrutinises each programme before closure to safeguard that the level of irregular expenditure is below materiality. This will also be the case for 2014-2020 programmes, the closure of which is planned in the regulation for 2025.

(a) The Commission accepts the recommendation and will identify the main risks that may affect the closure of 2014-2020 programmes, based on the lessons learnt during programme implementation, in view of its future closure guidelines to Member States.

(b) The Commission accepts as a matter of principle this part of the recommendation, but considers that there is no urgency to develop such guidance due to the regulatory timetable for closure foreseen in 2025. Moreover, such guidelines for closure should take account of experience drawn from the implementation of programmes.

Part 2 — Assessment of project performance

6.81. The Commission notes that there is no regulatory requirement for setting **result indicators** at project level. In the regulations governing the Funds for the 2007-2013 and 2014-2020 period the term 'result indicators' is only mentioned in the context of the priority axes.

A well-designed **intervention logic** as described in the operational programmes shall ensure that the outputs and results at project level contribute to achieving the expected results of the operational programmes, bearing in mind that these are also influenced by external factors

*6.82 and 6.83.*The Commission notes that in 95 % of the examined projects, output **indicators** or both output and result indicators were set at project level, in line with the requirements of the EU regulations applicable to this spending area.

Impact evaluations will also help with assessing the contribution of the co-financed operations to the OP objectives. The Commission considers that there is a difference between direct results at the level of projects and the results to be achieved at the level of the OP.

The Commission also notes that the legislation governing the 2014-2020 programming period has strengthened the intervention logic and focus on results.

6.84. The Commission notes with satisfaction that all audited Member States have put in place **monitoring systems** to record information on performance. For 2014-2020, the information on policy performance is an important component of the stronger **result-orientation**, based on the intervention logic and the monitoring of common indicators annually reported to the Commission through annual implementation reports.

6.85. With the recent modification of the Commission Delegated Regulation (EU) No 480/2014, audit authorities are now required to include the aspect of performance data reliability in their audits of operations, in addition to system audits. This will contribute to increased assurance on the quality and reliability of performance data reported to the Commission.

6.86. The Commission carried out a total of 43 risk-based audits in 17 Member States to assess the reliability of performance data reported by Member States. In nine cases material deficiencies were detected. Recommendations have been made to improve reporting and the IT systems whenever necessary, and to correct performance data. The lessons learned from these audits were shared with programme authorities to raise awareness of risks to performance data reliability and further improve the reporting.

6.87 and 6.88. It is important to recall that the ECA sample concerned a mixture of 2007-2013 and 2014-2020 projects, with a significant change to the performance approach and programmes intervention logic under the 2014-2020 regulation. The reported results are therefore providing a limited view of the specific results for 2014-2020 so far.

However, altogether, the Commission notes that 81 % of projects had fully or partially met their performance indicators, bearing in mind that result indicators may still evolve after the physical completion of projects.

Annex 6.3 — Follow-up of previous recommendations

Recommendation 1 (2015 — design and delivery mechanism for the ESI funds for the next programming period)

The Commission underlines that its legislative proposals contain over 80 measures for simplification directly inspired by the work of the High Level Group on simplification, past ECA recommendations and other stakeholders' contributions.

Recommendation 2 (2015 — provide guidance to Member States on how to simplify and avoid unnecessarily complex and/or burdensome rules)

The Commission continuously assesses the national rules on eligibility for those high risk programmes selected for on the spot audits. The audit methodology was completed to ensure that the Commission auditors also report identified unnecessary complex national rules (gold plating) and examples of good practices. With the Omnibus Regulation, the Commission also provided additional simplified cost options to programme authorities and provided enhanced legal certainty by setting rates in the regulation, directly usable by programme authorities to both reduce complexity, simplify management and rules for beneficiaries and enhance legal security for all.

Recommendation 3 (2015 — extension of the eligibility period for financial instruments)

The Commission did not accept the recommendation.

Recommendation 1 (2017 — audit arrangements for EIB/EIF instruments)

The Commission considers this recommendation has been fully addressed for EIB/EIF instruments outside the SME Initiative programmes. For SME Initiative OPs adopted before the Omnibus modification, the Commission refers to its reply to paragraph 6.36.

Recommendation 2 (2017 — reimbursement of VAT post-2020)

The Commission only partially accepted the ECA recommendation related to VAT. The Commission made a proposal to simplify eligibility of VAT for all beneficiaries, independently from the public/private or VAT related status of beneficiaries for the post 2020 legal framework. The Commission has explained the logic of its proposal and the difficulties that the ECA recommendation would raise. (see Commission reply to ECA recommendation in the 2017 AR and its replies to paragraphs 6.31 to 6.35 in the 2015 AR).

Recommendation 3 (2017 — verification of audit authorities' work)

The Commission follows up all ECA recommendations in relation to supervision of and support to audit authorities' work and has provided further guidance on treatment of financial instrument advances, State aid advances, audit check list and, audit documentation.

Recommendation 6 (2017 — sufficient checks on audit authorities to conclude in the AARs published following the year of accepting the accounts)

The Commission recalls that it has only partially accepted this recommendation, since objective difficulties linked to the contradictory procedure of its audits and legal requirements for additional controls after acceptance of accounts do not always make possible to definitely conclude on all reported error rates within one year. See Commission reply to paragraph 6.64. However, the Commission has taken into account its draft audit results in the assessment of KPI 5 as reported in the respective AARs. Therefore the Commission considers it has implemented this recommendation in most respects.

Chapter 7 — Natural resources

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Part 1: Regularity of transactions

7.8. The Commission notes that **98 % of the expenditure of this chapter is CAP expenditure**, for which an **error rate of 2,15 % is established by the Commission** and published in the 2018 Annual Activity Report (AAR) of the Directorate-General for Agriculture and Rural Development (DG AGRI). The error rate established by the Commission continues decreasing.

The Commission welcomes the fact that the level of error for the CAP expenditure established by the Commission is consistent with the conclusions of the ECA.

The Commission considers that the **risk to the EU budget is adequately covered by the corrective capacity**, which consists of net financial corrections and recoveries from beneficiaries. The corrective capacity reported in the 2018 Annual Activity Report of the Directorate-General for Agriculture and Rural Development amounted to 1,90 % of the relevant CAP expenditure. Therefore, the final amount at risk was estimated at 0,25 % of the relevant CAP expenditure.

7.11. The Commission is very satisfied with the ECA's finding that EAGF direct payments, representing 41,5 billion euros in financial year 2018, are free of material error. The **Commission estimated the level of error for direct payments at 1,83 %** (see DG AGRI's 2018 AAR). This is consistent with ECA's conclusion.

7.14. The Commission welcomes the ECA's assessment that 77 transactions were free of error and that direct payments to farmers carry a lower risk of error. See also Commission reply to paragraph 7.11.

7.15. The Commission considers that minor errors are impossible to avoid at a reasonable cost.

7.17. The Commission welcomes the **positive assessment by the ECA of the role of the Land Parcel Identification System** in preventing and reducing levels of error.

7.18. The Commission also appreciates the ECA's assessment of the **geo-spatial aid application**, which the Commission considers an important tool in preventing errors and in contributing to simplification for farmers and Paying Agencies. See also Commission reply to paragraph 7.17.

7.19. The Commission notes that in **Annex 7.2** the overview of the ECA transactions is not a guide to the relative level of error in the Member States in the sample. The Commission points out that the detailed information on the Commission's and Member State's audit results are presented for each Member State in the Annual Activity Reports and their technical annexes of the Commission departments implementing EU funds in shared management.

Box 7.3

On the ***Estonian case***: The Commission notes that the transaction **when paid** in Financial Year 2018 was legal and regular and that all eligibility conditions were fulfilled. The changes to the holdings structure were made after the controls of the PAs were carried out correctly and after the payment was made. Furthermore, after the announcement of the ECA's visit, the beneficiary corrected the inclusion of the second board member and so the Estonian authorities deemed that the payment was eligible.

On the ***Italian case***: As above, the Commission also notes that the transaction **when paid** in Financial Year 2018 was legal and regular and that all eligibility conditions were fulfilled. The recovery was decided as conditions changed after the payment was made. The Commission also understands that the Italian authorities have procedures through which they could have recovered the payment before the final payment even without the visit of the ECA.

7.26. **Fisheries, environment and climate action** account for 2 % of spending on 'Natural resources' and **management and control systems differ from those for CAP spending**.

As part of the control cycle, the Commission notes that national authorities have already made or may still make corrections in relation to the issues identified by the ECA, which are rather of administrative nature, to protect the EU budget.

7.31. The Commission welcomes the positive assessment by the ECA regarding the consistency in the **methodology applied by DG AGRI**.

7.32 and Box 7.6. The **Certification Bodies' work** on the legality and regularity of the expenditure was fed into the overall error rate for the CAP of 2,15 %. This means that more than 97 % of the CAP expenditure is free of error (see DG AGRI 2018 Annual Activity Report) and that **the Certification Bodies contributed considerably to the assurance building and preventively to the decrease of errors in the Member States**.

The CAP assurance is built based on the accredited Paying Agencies controls, on the work of the Certification Bodies and on DG AGRI's own audits. In order for DG AGRI to be able to rely on the Certification Bodies' work for its assurance building, it is continuously monitoring and assessing the Certification Bodies' work through numerous audits throughout the year to various Certification Bodies, as well as through the annual financial clearance for all Certification Bodies (see also box 1.10 of this ECA Annual Report).

7.32 First indent. DG AGRI considers that in general, the **Certification Bodies' sampling methodology** is in line with the Commission's guidelines and it provides statistically valid results. There were recommendations issued to Certification Bodies on how to improve their sampling, but their samples and extrapolated errors are considered representative. Only in 3 populations related to 3 certification bodies did the Commission encounter sampling issues that may possibly undermine the statistical representativeness of the Certification Bodies' sample.

7.32 Second indent. The Commission considers that whereas the work of these 9 Certification Bodies provides some assurance, there is need for improvement of these **Certification Bodies' re-verifications of the eligibility checks.** In any event, even if the Certification Bodies work is somewhat insufficient this does not render the paying agencies work insufficient or unreliable.

7.33. The Commission does place reliance on the Certification Bodies' work and does use their work as reflected in the DG AGRI 2018 Annual Activity Report. The Certification Bodies' results could be taken into account to a greater extent in the calculation of DG AGRI's adjusted error rate for financial year 2018 which was a result of the **increased reliance compared to financial year 2017**.

Furthermore, as can be seen in the DG AGRI 2018 Annual Activity Report the Commission assesses the Certification bodies work on legality and regularity by population and so reliance may be placed on one or more populations with only one being considered as less reliable. The conclusions reflected in Box 7.6 only cover certain populations: the Commission detailed assessment may place reliance on the work of these Certification Bodies for other populations.

The Commission is monitoring the Certification Bodies in order to ensure a continued improvement of their work.

7.34. The Commissions stresses that the work of the Certification Bodies was taken into account to a greater extent in the 2018 Annual Activity Report of DG AGRI (see page 92 of Annexes to the AAR) as compared to previous years. For the error rate in the Annual Activity Report, see Commission replies to paragraph 7.8 and 7.35.

7.35. The Commission considers that the **ECA conclusions are consistent with the error rates reported in DG AGRI's Annual Activity Report** (see Commission replies to paragraphs 7.8 and 7.11). The Commission's estimated error rate for overall CAP expenditure is close to materiality (2,15 %). The Commission also considers that the risk to the EU budget is adequately covered by the corrective capacity, which consists of net financial corrections and recoveries from beneficiaries. The corrective capacity reported in the 2018 Annual Activity Report of the Directorate-General for Agriculture and Rural Development amounted to 1,90 % of the relevant CAP expenditure. Therefore, the final amount at risk was estimated at 0,25 % of the relevant CAP expenditure, much below materiality.

Conclusion

7.37. The Commission welcomes the ECA result that the level of error for direct payments is not material, which is in line with the error rate established in the DG AGRI 2018 Annual Activity Report (1,83 %). The Commission notes that as this year errors were also established in areas of MFF heading 2 outside the CAP (see paragraph 7.26) **it is not possible to compare directly the ECA error rate for the chapter with the error rate in the CAP.** See Commission replies to paragraphs 7.35, 7.11, 7.8.

7.38. The Commission is very satisfied that the **audit conclusion of the ECA is consistent with the risk at payment reported in the Annual Management and Performance Report and the DG AGRI 2018 Annual Activity Report.** These low error rates (see paragraph 7.35) substantiate reasonable assurance for the declaration of assurance of the director-general of DG AGRI.

7.40. The Commission is actively monitoring the completeness and prompt implementation of the remedial action plans elaborated by the Member States and will continue to request such action plans when serious deficiencies are identified. The Commission continues to monitor and assess the quality of the work of the Certification Bodies and to provide the necessary guidance.

Part 2: Performance

7.53. Each CAP measure is monitored by the respective output indicators and reported accordingly, however, the assessment of its effects is subject to an evaluation. This assessment is backed by respective evaluation questions for which the CMEF indicators only represent a tool and will be complemented by other information. Most of the 35 actions examined concern payments for areas facing natural or other specific constraints (measure 13), which are basically an income support scheme, while the result indicators for restoring, preserving and enhancing ecosystems are focusing on improving farming practices. The number and the definition of **common indicators for the period 2014-2020** had to take account of the cost-effectiveness of the system and acceptable administrative burden for the Member States.

7.55. Effectiveness and efficiency of Rural Development Programmes will be assessed through extended evaluations for which the CMEF indicators only represent one tool, which **will be complemented by other information** in order to reply to the evaluation questions related to the individual focus areas.

7.56. The support to **young farmers** setting up is conditional to minimum requirements related to skills and training, which underpins the goal of facilitating the entering into the sector of adequately skilled (young) farmers.

While the support allows monitoring the effects of the support on the targeted population, the assessment of the effects of the support on generational renewal is a matter of evaluation.

7.57. The performance indicators cannot be designed to cover each payment.

7.58. **Result indicators** aim to monitor the intended effects of measures. They are, as much as possible, defined in percentage terms as this allows to measure amongst others the share of the targeted populations that receives support. Impact indicators measure the impact of the policy interventions at longer term and beyond immediate effects.

In order to be able to assess whether support has contributed effectively to the focus area, it is necessary to isolate the policy effect from other influencing factors (contextual facts, other related policies etc.). The so-called '**net impacts**' need to be measured. This is normally done through evaluations.

7.59. It is indeed the entire population of the municipality where an action has been implemented that can potentially benefit from the action e.g. not all inhabitants of a municipality will be willing to use new service/infrastructure. However, if they would like to do so, the service/infrastructure is available.

7.60. Six result indicators are based on surveys of samples carried out in each of the Member States. Although the general guidance was issued after project implementation had started, it was still available in time for conducting the survey.

7.62. **Direct payments to young farmers** are primarily intended to contribute to the specific objective of 'Contributing to farm incomes and limit farm income variability in a minimally trade distorting manner' as for all direct payments.

Of course, farms with a less vulnerable income are better placed to invest and become more competitive. This is particularly relevant for newly set-up young farmers. Besides, enhancing support to these newly set-up young farmers also serves the purpose of encouraging generational renewal in farming.

The underlying result indicators are therefore primarily 'Share of direct support in agricultural income' and 'variability of farm income'.

7.63. The Commission considers that the share of **area under greening practices** is a relevant indicator because it quantifies the area coverage of greening practices, which is an important element of its effectiveness.

7.64. The Commission has requested the Member States to provide the data on the use of the derogation for using in particular fallow land declared as 'ecological focus area'. However, the quality of data received did not allow obtaining a sufficiently reliable/comprehensive picture of the use of the derogation.

Conclusion and recommendations

7.65. The Commission welcomes the ECA assessment that **most of the completed rural development actions produced the expected output**.

The use of **simplified cost options** (SCOs) for non area or animal related measures is an option that is allowed for in the Regulation and can be taken up by Member States on a voluntary basis. The Commission notes however, that the use of SCOs has gradually increased throughout the programming period.

7.66. The proposal of **a performance-based delivery model for the CAP post 2020** builds on the current CMEF and, acknowledging its shortcomings, further develops appropriate indicators. By this, the Commission improved the system of indicators for the assessment of direct payments, rural development and sectorial programmes. All interventions are covered by output and result indicators (the latter allowing the setting of targets). Whereas output indicators ensure the quantitative counting of interventions (mainly used for performance clearance), result indicators reflect the purpose(s) and intended effects of interventions.

Recommendation 7.1 (CAP performance measurement and reporting)

The Commission accepts the recommendation.

In the Commission's proposal for a regulation establishing rules for support for a new strategic plan to be drawn up by Member States under the Common Agricultural Policy (COM(2018) 392), Annex I defines the common Impact, Output and Result indicators of the CAP. The proposed result indicators should serve (i) to establish operational targets for the implementation of relevant interventions included in the CAP Strategic Plans and (ii) to monitor progress towards achieving those targets. In this respect, result indicators play a fundamental role in policy planning and monitoring of implementation. The Commission proposal is currently being negotiated with the co-legislator (the Council and the European Parliament). The Commission will endeavour to ensure that the result indicators reflect the intended effects of interventions.

Chapter 8 — Security and citizenship

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Part 1: Regularity of transactions

8.6. The **Commission's control system** took the necessary preventive measures by not clearing fully the accounts for financial year 2017 for Spain during the clearance of accounts exercise in 2018. The same type of error identified by the ECA had already been identified by the **Spanish Audit Authority** during the audit of expenditure. The Audit Authority audited 20,35 % of related expenditure and calculated an error rate of 0,6 %.

<u>*Box 8.2*</u>

The Commission notes that only for one out of 10 sessions the records were not correctly kept (certificate not including all the necessary information or outdated). The Spanish authorities will take steps so that the beneficiary reports better on such similar cases.

The **internal control system** put in place by the Commission had already detected the error through the audit of the Audit Authority and corrected it through the clearance of accounts procedure. Please see also the reply to paragraph 8.6.

<u>*Box 8.3*</u>

The Commission will review its **internal procedures** to identify any further cost-effective measures to mitigate the risk of similar cases in the future. In this particular case, the Commission notes that the beneficiary received guidance to correctly perform the procurement procedure. In addition the final financial report submitted by the beneficiary was accompanied by an audit certificate on factual findings, signed by an approved auditor. In general, the Commission informs all beneficiaries engaged under the Culture Sub-Programme about the rules concerning subcontracting costs during kick-off meetings. In addition, the 'Practical Guidelines for managing your project' produced by EACEA give further guidance on relevant procurement rules.

Examination of selected systems

AMIF and ISF shared management

8.8. The Commission is committed to monitor closely the **implementation of the funds**, by assessing the annual implementation reports sent by the Member States and during monitoring visits.

Box 8.4 shows a positive trend in relation to the implementation of total available **funds at the level of the Member States** (14 % implementation for the 2014-2015 period, 24 % for the 2014-2016 period, 36 % for the 2014-2017 period).

8.9. The Commission is satisfied that all the **authorities had developed detailed procedures**, which were in general sufficient to address the requirements of the AMIF and ISF regulations.

<u>*Box 8.5*</u>

(a) **Sweden** has taken steps to remedy the deficiencies identified, which, when appropriately implemented, will satisfactorily address the findings.

(b) The **Member States** have put in place measures (revised checklists and controls) which, when appropriately implemented, will satisfactorily address the findings.

(c) The national authorities in **Germany** have already taken measures to address this weakness. The Commission followed up with the German Responsible Authority on the implementation of the announced measures (update of the internal manual).

(d) The Commission will follow up with the **Belgian Responsible Authority** the steps taken to remedy this weakness.

In relation to **Spain**, the ECA found an error in the calculation of the pre-financing. This is a calculation error, which is corrected during the final payment for the projects concerned. The fact that the final amounts cleared with the accounts do not exceed the EU contribution is part of the administrative and on-the-spot checks performed by the Responsible Authority.

AMIF and ISF direct/indirect management

8.11. The Commission is satisfied that its **management of calls for proposals and grant applications** is effective.

Box 8.6

(a) The delays noted by the ECA are the consequence of the high increase of the budget managed by DG HOME and should be seen in the broader context of the complex policy environment in which DG HOME is operating (migration crisis). Priority is always given to assurance on content and legality and regularity. These delays have been progressively reduced over the years.

(b) Due to the specific nature of **emergency assistance** in the area of migration, the evaluation committee does not always have all necessary information on each element of the action proposed. In many cases, the evaluation committee left it to the grant preparation stage to examine with the beneficiary issues such as the provision of output and outcome indicators, the eligibility of specific cost items (including whether they are necessary for the individual sub-action to be implemented or reasonable). In some cases, like the one found by ECA, it is only once the project is actually ongoing that all concrete elements planned can be confirmed.

(c) The Commission treated these cases by applying the general spirit of the guidelines and the principles of the **Financial Regulation**.

(d) The Commission will adapt its **internal guidelines** clarifying the documentation required and in which cases documents will be checked and the beneficiaries' procedures will be examined.

The Commission's control strategies are risk-based and take into consideration the available resources.

Box 8.7

(a) The Commission gathered information since 2016 to update the **unit costs** established in 2014, but considered the available data insufficient or of too poor quality for a new calculation of unit costs. This means that the unit costs of 2014 used in 2017 and 2018 programmes were based on the best data available at the time.

(b) The Commission will adapt its **internal guidelines** clarifying the documentation required and in which cases documents will be checked and the beneficiaries' procedures will be examined.

The **Commission's control strategies are risk-based** and take into consideration the available resources.

Conclusion and recommendations

Recommendation 8.1 (Controls on procurement)

The Commission accepts recommendation 8.1.

The Commission will adapt its internal guidelines clarifying the documentation required and in which cases documents will be checked and the beneficiaries' procedures will be examined.

The Commission's control strategies are risk-based and take into consideration the available resources.

The Commission will also instruct the authorities in the Member States to act adequately as recommended by the ECA.

Part 2: Performance

8.20. The AMIF and ISF regulations include common indicators, which the Member States are reporting as part of the **Annual Implementation Report** which is submitted to the Commission.

The Commission is checking the plausibility of the data provided by the Member States as part of the assessment of the report and following the recommendations of the Internal Audit Service, this plausibility assessment of indicator data was further formalised and included in the check-list of items to be assessed.

Chapter 9 — Global Europe

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Part 1 — Regularity of transactions

Box 9.3 — Ineligible expenditure included in cost claim

The beneficiary has stated to the Commission that they have in the meantime reverted to the contracting partner, who acknowledged that the costs reported to the United Nations Industrial Development Organization (UNIDO) were a posting error and that they will be reversed accordingly.

9.11. As regards **budget support**, the eligibility criteria are thoroughly assessed at the design and the disbursement phases in accordance with the budget support guidelines. The 2012 Council conclusions on budget support state: 'The EU will apply a tailor-made and dynamic approach to eligibility, focusing on progress in the implementation of credible and relevant sector reform strategies.'

9.12. The **notional approach** in the context of pooling Commission contributions to multi-donor projects with those from other donors, is foreseen in Article 155(5) of the Financial Regulation and shall be applied in all cases where a delegation agreement is signed and the respective action is jointly co-financed with other donors/organisations.

2018 residual error rate study of DG NEAR

9.15. The Commission considers the **RER study fit for the purpose of providing assurance to the authorising officer by delegation.** In the last two annual reports, the ECA has assessed the RER methodology and found it broadly fit for purpose. The Commission has implemented all recommendations made by the ECA in relation to the RER.

9.17. In the context of the RER study, the Commission points out that when applying full reliance, the errors identified by the initial auditors which had not been corrected have been taken into account to calculate the RER in line with the methodology. Consequently, the Commission considers that the identified risk of not attaining the objective is low. In addition, where full reliance applies to a transaction, the following procedures are performed: detailed examination of the earlier control work; documentation of the risk of remaining residual error following the control work; confirmation of recovery, where appropriate.

9.21. As regards **DG DEVCO's Annual Activity Report and RER study**, see Commission replies to paragraphs 28 to 34 in the EDF Annual Report.

Conclusions and recommendations

9.23. The Commission considers that part of the recommendation to use quality grids for beneficiary-contracted verifications is no longer applicable. The new, revised terms of reference aim to serve the same objective: improving the quality of audits and expenditure verifications.

Recommendation 1 (international organisations)

The Commission accepts the recommendation. The Commission will introduce a system of immediate contact of international organisations at central level whenever their operations are sampled by the ECA.

Recommendation 2 (DG NEAR's RER methodology)

The Commission accepts the recommendation.

Recommendation 3 (DG ECHO's corrective capacity)

The Commission accepts the recommendation.

Part 2 — Performance

Box 9.6 — Performance-related issues affecting projects visited

Largely due to climatic conditions, the number of participants was less than envisaged. The training component represents less than 3,5 % of the funded activities.

In addition, based on the final narrative and financial report, the Delegation assessed that the contract had attained the indicators at overall and specific objectives level (impact and outcome).

The joint demonstration had to be substituted with a real data exercise due to increase of the Sava river level and the declaration of the emergency situation in response to floods at the time of the exercise.

Chapter 10 — Administration

Replies of the European Parliament to the European Court of Auditors' 2018 Annual Report

10.11. Parliament agrees that, in view of the specific context (works to be effected within short notice in the security context at the time and the presence of few suppliers for the specific materials) competition may have been suboptimal. The new framework contracts awarded in this sector with 5 contractors are based on reopening of competition in order to ensure adequate price competition.

Replies of the Commission to the European Court of Auditors' 2018 Annual Report

Regularity of transactions

10.8. The Commission has already put in place several measures to further improve the update of the personal situation and the management of **family allowances.** Furthermore, it is currently carrying out a control of all situations of non-declared allowances received from other sources.

10.12 and 10.13. The Commission wants to underline that the selected **security-related procedures** were middle- and low-value procedures, below the thresholds in the Financial Regulation, with exception of one high-value procedure where no issues were found.

The Commission takes note of the observations encountered in the middle- and low-value procurement procedures and wants to emphasise the very specific context in which the activities were carried out, as mentioned in paragraph 10.9. The nature of the findings will first be analysed and the internal control weakness remediated through implementation of a tailored action plan as appropriate.

Conclusion and recommendations

Recommendation 10.1 (family allowances)

The Commission accepts the recommendation and it has already taken measures to further improve the management of family allowances and updates of personal situation:

— Use of the IT tool SYSPER for easier and direct encoding by agents

— Rights granted for a limited period or with a specific end date, allowing for regular controls

— Extended communication through dedicated channels and on exchanges of information on obligation of agents to update their information

In addition, the Commission is carrying out an exercise to update all relevant files, to be concluded by the end of 2019.

ANNUAL REPORT ON THE ACTIVITIES FUNDED BY THE 8TH, 9TH, 10TH AND 11TH EUROPEAN DEVELOPMENT FUNDS (EDFs)

(2019/C 340/02)

TABLE OF CONTENTS

Annual report on the activities funded by the 8th, 9th, 10th and 11th European Development Funds for the financial year 2018

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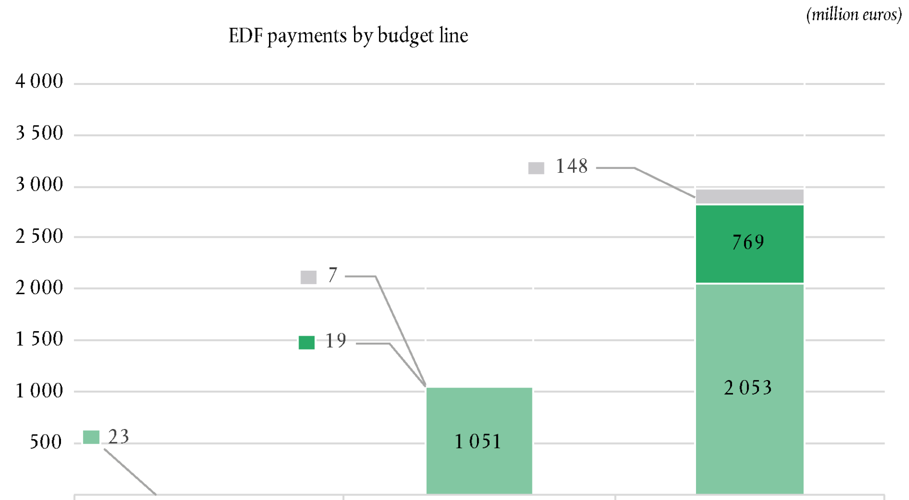
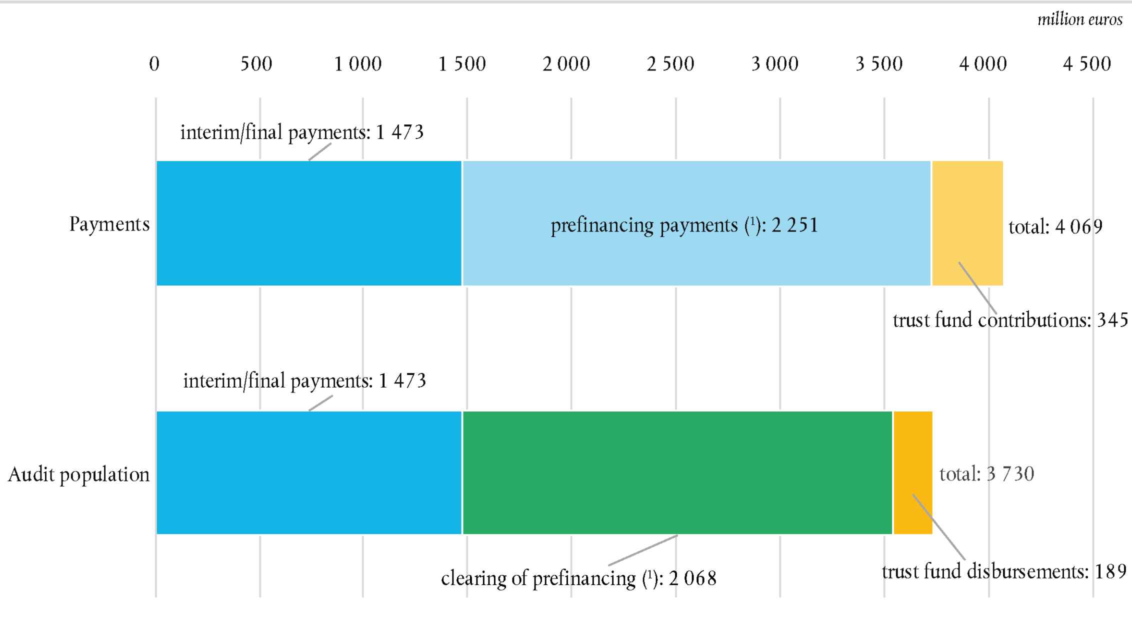
Introduction

1. This annual report presents our findings on the 8th, 9th, 10th and 11th European Development Funds (EDFs). ***Box 1*** gives an overview of the activities and spending in this area in 2018.

Box 1
European Development Funds – 2018 financial overview



	9th	10th	11th
TOTAL	23	1 076	2 970
Administration	-	7	148
Budget support	-	19	769
Projects	23	1 051	2 053



(1) In line with the harmonised definition of underlying transactions (see paragraph 13 of ***Annex 1.1*** to the ECA's 2018 annual report on the implementation of the budget).

Source: ECA, based on 2018 *consolidated accounts* of the 8th, 9th, 10th and 11th EDFs and DG DEVCO annual activity report 2018.

Brief description of the European Development Funds

2. Launched in 1959, the EDFs are the main instrument by which the European Union (EU) provides development cooperation aid to the African, Caribbean and Pacific (ACP) countries and overseas countries and territories (OCTs). The *partnership agreement* signed in Cotonou on 23 June 2000 for a period of 20 years ('the Cotonou Agreement') is the current framework governing the EU's relations with ACP countries and OCTs. Its primary objective is to reduce and ultimately eradicate poverty.

3. The EDFs are particular in that:

(a) they are funded by the Member States according to quotas, or 'contribution keys', which are set by the national governments at the Council of the European Union;

(b) they are managed by the Commission, outside the framework of the EU general budget, and the European Investment Bank (EIB);

(c) due to the intergovernmental nature of the EDFs, the European Parliament exercises a more limited role in their functioning than it does for the development cooperation instruments financed by the EU general budget; notably, it is not involved in establishing and allocating EDF resources. However, the European Parliament is still the *discharge* authority, except for the Investment Facility, which is managed by the EIB and therefore outside the scope of our audit (1) (2);

(d) the principle of *annuality* does not apply to the EDFs: EDF agreements are usually concluded for a commitment period of five to seven years, and payments can be made over a much longer time frame.

4. The EDFs are managed almost entirely by the Commission's Directorate-General for International Cooperation and Development (DG DEVCO) (3).

5. The expenditure covered in this report is delivered using a wide range of methods (4) implemented in 79 countries.

Chapter I — Financial implementation of the 8th, 9th, 10th and 11th EDFs

6. The budget of the 8th EDF (1995-2000) was 12 840 million euros, that of the 9th EDF (2000-2007) 13 800 million euros, and that of the 10th EDF (2008-2013) 22 682 million euros.

7. The Internal Agreement establishing the 11th EDF (5) (2015-2020) came into force on 1 March 2015 (6). The 11th EDF holds 30 506 million euros (7), of which 29 089 million is allocated to the ACP countries and 364,5 million to the OCTs.

8. ***Box 2*** shows the use of EDF resources both in 2018 and cumulatively.

(1) See Articles 43, 48-50 and 58 of Council Regulation (EU) 2015/323 of 2 March 2015 on the financial regulation applicable to the 11th European Development Fund (OJ L 58, 3.3.2015, p. 17).
(2) In 2012, a tripartite agreement between the EIB, the Commission and the Court (Article 134 of Council Regulation (EC) No 215/2008 of 18 February 2008 on the Financial Regulation applicable to the 10th European Development Fund (OJ L 78, 19.3.2008, p. 1)) set out the rules for the audit of these operations by the Court. The Investment Facility is not covered by the Court's statement of assurance.
(3) With the exception of the 5 % of the 2018 EDF expenditure managed by the Directorate-General for Humanitarian Aid and Civil Protection (DG ECHO).
(4) Such as works/supply/service contracts, grants, budget support, programme estimates.
(5) OJ L 210, 6.8.2013, p. 1.
(6) Between 2013 and 2015, funds were committed via a *bridging facility* to ensure continuity pending ratification of the 11th EDF.
(7) Including 1 139 million euros managed by the EIB.

Box 2
Use of EDF resources at 31 December 2018

(million euro)

	Situation at end of 2017		Budgetary implementation during the 2018 financial year (net) (6)					Situation at end of 2018					
	Total amount	Implement. rate (2)	8th EDF (3)	9th EDF (3)	10th EDF	11th EDF (3)	**Total amount**	8th EDF	9th EDF	10th EDF	11th EDF	**Total amount**	Implement. rate (2)
A - RESOURCES (1)	**76 924**		– 7	– 40	– 65	126	**14**	10 378	15 390	21 423	29 747	**76 938**	
B - USE													
1. Global commitments (4)	**65 852**	8,6 %	– 4	– 33	– 147	4 332	**4 148**	10 378	15 358	20 905	23 359	**70 000**	9,1 %
2. Individual commitments (5)	**59 243**	7,7 %	0	16	236	4 687	**4 939**	10 376	15 305	20 361	18 140	**64 182**	8,3 %
3. Payments	**49 498**	6,4 %	0	23	1 076	2 970	**4 069**	10 375	15 187	18 829	9 176	**53 567**	7,0 %
C - Outstanding commitments (B1-B3)	**16 354**	2,1 %						3	171	2 076	14 183	**16 433**	2,1 %
D - Available balance (A-B1)	**11 072**	1,4 %						0	32	518	6 388	**6 938**	0,9 %

(1) Include initial allocations to the 8th, 9th, 10th and 11th EDFs, co-financing, interest, sundry resources and transfers from previous EDFs.
(2) As a percentage of resources.
(3) Negative amounts correspond to decommitments.
(4) Global commitments relate to financing decisions.
(5) Individual commitments relate to individual contracts.
(6) Net commitments after decommitments. Net payments after recoveries.
Source: European Court of Auditors, based on the 2018 consolidated accounts of the 8th, 9th, 10th and 11th EDFs. The figures presented do not cover the EDF part managed by the EIB.

9. In 2018 DG DEVCO continued its efforts to reduce old *prefinancing* and unspent *commitment*s, with a target of 25 % ([8]) (see ***Box 3***).

Box 3
KPIs on reducing old prefinancing, unspent commitments and expired contracts

DG DEVCO exceeded its target, reducing old prefinancing by 43,79 % across its entire area of responsibility (40,33 % for the EDF) and old unspent commitments by 39,71 % (37,10 % for the EDF).

DG DEVCO also met its KPI target (target value below 15 %) on the share of old expired contracts, reaching 13,88 % overall. Although the target was not met for the EDF, the percentage improved compared with 2017. As in previous years, the main reason for the difference between the EDF and the rest of DG DEVCO's area of responsibility results from the technical complexity of closing EDF contracts that have uncashed recovery orders. Following the new procedure established in September 2017, DG DEVCO managed to bring down the percentage from 18,75 % in 2017 to 17,27 % in 2018.

([8]) This was set as both an overall target for DG DEVCO's entire area of responsibility and as a specific target for the EDFs.

Chapter II — The ECA's statement of assurance on the EDFs

The ECA's statement of assurance on the 8th, 9th, 10th and 11th EDFs to the European Parliament and the Council – Independent auditor's report

Opinion

I. We have audited:

(a) the annual accounts of the 8th, 9th, 10th and 11th EDFs, which comprise the balance sheet, the statement of financial performance, the cash flow statement, the statement of changes in net assets and the report on financial implementation for the financial year ended 31 December 2018, approved by the Commission on 26 June 2019;

(b) the *legality and regularity* of the underlying *transactions* of which financial management falls to the Commission [9].

Reliability of the accounts

Opinion on the reliability of the accounts

II. In our opinion, the annual accounts of the 8th, 9th, 10th and 11th EDFs for the year ended 31 December 2018 present fairly, in all material respects, their financial position as at 31 December 2018, the results of their operations, their cash flow and the changes in their net assets for the year then ended, in accordance with the EDF Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector.

Legality and regularity of the transactions underlying the accounts

Revenue

Opinion on the legality and regularity of revenue

III. In our opinion, the revenue underlying the accounts for the year ended 31 December 2018 is legal and regular in all material respects.

Expenditure

Adverse opinion on the legality and regularity of expenditure

IV. In our opinion, owing to the significance of the matter described under 'Basis for adverse opinion on the legality and regularity of expenditure', the expenditure accepted in the accounts for the year ended 31 December 2018 is materially affected by error.

Basis for opinion

V. We have conducted our audit in accordance with the IFAC *International Standards on Auditing* (ISAs) and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under these standards and codes are described in more detail in the 'Auditor's responsibilities' section of our report. We have also met independence requirements and fulfilled our ethical obligations under the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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[9] Pursuant to Articles 43, 48-50 and 58 of the Financial Regulation applicable to the 11th EDF, this statement of assurance does not extend to the EDF resources managed by the EIB.

Basis for adverse opinion on the legality and regularity of expenditure

VI. The expenditure recorded in 2018 under the 8th, 9th, 10th and 11th EDFs is materially affected by error. Our *estimated level of error* for expenditure accepted in the accounts is 5,2 %.

Key audit matters

VII. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Accrued charges

VIII. We assessed the accrued charges presented in the accounts (see note 2.8) which are subject to a high degree of estimation. At year-end 2018, the Commission estimated that eligible expenses incurred but not yet reported by beneficiaries amounted to 5 133 million euros (year-end 2017: 4 653 million euros).

IX. We examined the calculation of these accrual estimates and reviewed a sample of 30 individual contracts to address the risk that the accrual was misstated. The work performed led us to conclude that the accrued charges recognised in the final accounts were appropriate.

Potential impact on the 2018 EDF accounts of the United Kingdom's withdrawal from the European Union

X. On 29 March 2017, the United Kingdom (UK) formally notified the European Council of its intention to leave the EU. On 19 March 2018, the Commission published a draft withdrawal agreement that outlined the progress made in the negotiations with the UK. This draft withdrawal agreement states that the UK will remain party to the EDF until the *closure* of the 11th EDF and all previous unclosed EDFs, and will assume the same obligations as the Member States under the internal agreement by which the 11th EDF was set up, as well as the obligations arising from previous EDFs until their closure.

XI. The draft withdrawal agreement also states that, where the amounts from projects under the 10th EDF or from previous EDFs have not been committed or have been decommitted on the date of entry into force of this agreement, the UK's share of those amounts will not be reused. The same applies to the UK's share of funds not committed or decommitted under the 11th EDF after 31 December 2020. The negotiations on the UK's withdrawal from the European Union are still ongoing and, therefore, the final text of the agreement has not yet been confirmed.

XII. Based on this, there is no financial impact to report on the 2018 EDF accounts. We conclude that the EDF accounts as at 31 December 2018 correctly reflect the state of the withdrawal process at that date.

Responsibilities of management

XIII. In accordance with Articles 310 to 325 of the TFEU and with the 11th EDF Financial Regulation, management is responsible for preparing and presenting the EDF annual accounts on the basis of internationally accepted accounting standards for the public sector and for the legality and regularity of the underlying transactions. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Commission is ultimately responsible for the legality and regularity of the transactions underlying the EDF accounts.

XIV. When preparing the EDF accounts, the Commission is responsible for assessing the EDFs' ability to continue as a going concern, disclosing any relevant matters and using the going concern basis of accounting unless it either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

XV. The Commission is responsible for overseeing the EDFs' financial reporting process.

Auditor's responsibilities for the audit of the EDF accounts and underlying transactions

XVI. Our objectives are to obtain reasonable assurance as to whether the EDF accounts are free from material misstatement and the underlying transactions are legal and regular, and to provide, on the basis of our audit, the European Parliament and the Council with a *statement of assurance* as to the reliability of the accounts and the legality and regularity of the underlying transactions. Reasonable assurance is a high level of assurance, but it is not a guarantee that the audit has necessarily detected all instances of a material misstatement or non-compliance that may exist. These can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence any economic decisions taken on the basis of these EDF accounts.

XVII. As part of an audit in accordance with ISAs and ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the EDF accounts and of material non-compliance of the underlying transactions with the requirements of the EDF legal framework, whether due to fraud or error. We design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Instances of material misstatement or non-compliance resulting from fraud are more difficult to detect than those resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Consequently, there is a greater risk of such instances not being detected.

— Obtain an understanding of internal control relevant to the audit in order to design appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

— Evaluate the appropriateness of the accounting policies used by management and the reasonableness of management's accounting estimates and related disclosures.

— Conclude as to the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, as to whether material uncertainty exists owing to events or conditions that may cast significant doubt on the EDFs' ability to continue as a going concern. If we conclude that such material uncertainty exists, we are required to draw attention in our report to the related disclosures in the EDF accounts or, if these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the entity to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the annual accounts, including all disclosures, and assess whether the annual accounts fairly represent the underlying transactions and events.

XVIII. We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including findings of any significant deficiencies in internal control.

XIX. For revenue, we examine all contributions from Member States and a sample of other types of revenue transactions.

XX. For expenditure, we examine payment transactions once expenditure has been incurred, recorded and accepted. This examination covers all categories of payments (other than advances) at the point they are made. Advance payments are examined once the *recipient* of funds has provided evidence of their proper use and the institution or body has accepted that evidence by clearing the advance payment, which might not happen until a subsequent year.

XXI. Of the matters discussed with the Commission, we determine which were of most significance in the audit of the EDF accounts and are therefore the key audit matters for the current period. We describe these matters in our report unless law or regulation precludes public disclosure or, as happens extremely rarely, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh any public interest benefits.

11 July 2019
Klaus-Heiner LEHNE
President

European Court of Auditors
12, rue Alcide De Gasperi, Luxembourg, LUXEMBOURG

Information in support of the statement of assurance

Audit scope and approach

10. ***Annex 1.1*** to the ECA's 2018 annual report on the implementation of the budget sets out our audit approach and methods.

11. Our observations on the reliability of the EDF accounts are based on the financial statements ([10]) of the 8th, 9th, 10th and 11th EDFs, approved by the Commission in compliance with the EDF Financial Regulation ([11]), together with the accounting officer's letter of representation received on 27 June 2019. We tested amounts and disclosures, and assessed the accounting principles used, as well as any significant estimates made by the Commission and the overall presentation of the accounts.

12. To audit the regularity of transactions, we examined a sample of 125 transactions representative of the full range of payments within the EDF, comprising 96 payments authorised by 19 EU delegations ([12]) and 29 payments approved by Commission headquarters ([13]). Since part of our audited population was covered by DG DEVCO's 2018 *residual error rate* (the RER) study ([14]), we included 14 further transactions in our sample, to which we applied, after adjustment, the results ([15]) of this study. The total sample size was, then, 139, in accordance with the ECA's assurance model. Where errors were detected in the transactions, we analysed the relevant systems to identify weaknesses.

13. We also examined the following in 2018:

(a) all Member State contributions and a sample of other types of revenue transactions;

(b) certain systems used by DG DEVCO and the EU delegations, covering: (i) ex ante checks by Commission staff, external auditors (contracted by the Commission or the beneficiaries) or supervisors before payments were made, (ii) monitoring and supervision, notably the follow-up of external audits and the RER study mentioned above;

(c) the reliability of the regularity information in the *annual activity report* (AAR) of DG DEVCO, the consistency of the methodology for estimating amounts at risk, future corrections and recoveries, and their inclusion in the Commission's Annual Management and Performance Report (AMPR);

(d) the follow-up of our previous recommendations.

14. As stated in paragraph 04, DG DEVCO implements most of the external aid instruments financed from both the general EU budget and the EDFs. Our observations on systems, the reliability of the AAR and the Director-General's declaration for 2018 refer to DG DEVCO's entire area of responsibility.

([10]) See Article 39 of Regulation (EU) 2018/1877.

([11]) See Article 38 of Regulation (EU) 2018/1877.

([12]) Angola, Barbados, Botswana, Burkina Faso, Chad, Djibouti, Ethiopia, Guinea, Haiti, Jamaica, Kenya, Madagascar, Malawi, Mozambique, Niger, Sierra Leone, Sudan, Tanzania and Zimbabwe.

([13]) DG DEVCO: 124 payments; ECHO: 1 payment for humanitarian aid.

([14]) DG DEVCO contracts an RER study annually to estimate the level of error which has evaded all management checks to prevent, detect and correct errors across its entire area of responsibility. The RER study does not constitute an assurance engagement or an audit; it is based on the RER methodology and manual provided by DG DEVCO.

([15]) Our reviews of RER studies have shown that, compared with our audit work, the underlying methodology involves far fewer (up to nine) on-the-spot checks and allows less scope for examining procurement procedures. Therefore, this year we adjusted the results of the RER study to reflect the degree of non-compliance with public procurement rules. The basis for adjustment was the ECA's 2014-2017 SoA findings for EDFs.

Reliability of accounts

15. Our audit found that the accounts were not affected by material misstatements.

Regularity of transactions

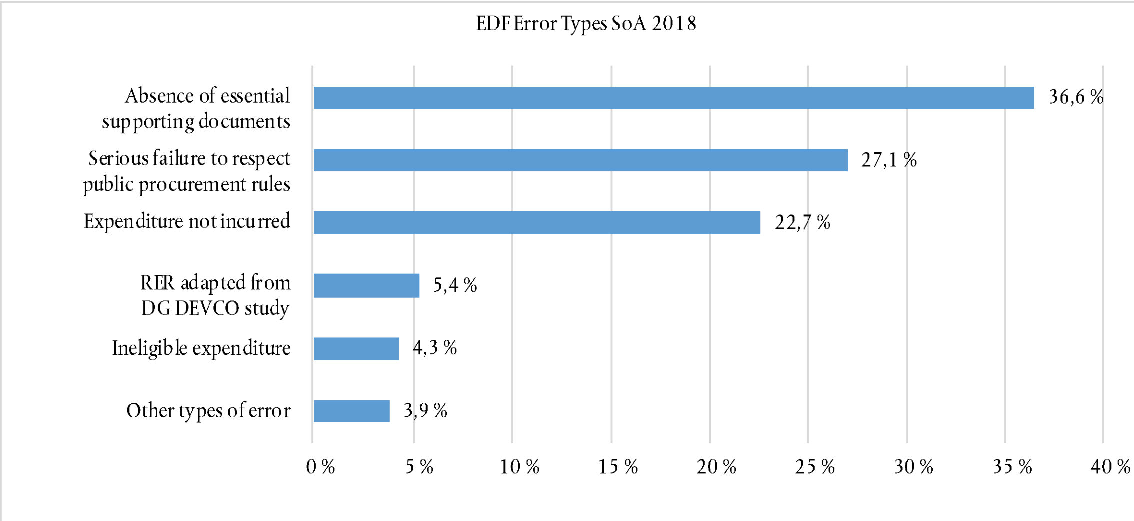
Revenue

16. Revenue transactions did not contain a material level of error.

Payments

17. ***Annex I*** provides an overview of the results of transaction testing of the 125 payment transactions examined, 51 (41 %) contained errors. On the basis of the 39 errors we have quantified and the adjusted results of the 2018 RER study (see paragraph 12), we estimate the level of error to be 5,2 % ([16]). Of the 39 payment transactions containing *quantifiable errors*, 9 (23 %) were final transactions authorised once all ex ante checks had been carried out. ***Box 4*** gives a breakdown of our estimated level of error for 2018 by error type. ***Box 5*** presents examples of these errors.

Box 4
Breakdown of the estimated level of error by error type



Source: European Court of Auditors.

18. As in previous years, the Commission and its implementing partners committed more errors in transactions relating to *programme estimates, grants, contribution agreements* with international organisations and *delegation agreements* with EU Member States' cooperation agencies than it did with other forms of support ([17]). Of the 61 transactions of this type examined, 33 (54 %) contained quantifiable errors, which accounted for 62,5 % of the estimated level of error.

([16]) We base our calculation of error on a representative sample. The figure quoted is the best estimate. We have 95 % confidence that the estimated level of error in the population lies between 1,2 % and 9,1 % (the lower and upper error limits respectively).

([17]) Such as works/supply/service contracts.

Box 5
Examples of quantifiable errors in project transactions

(a) Expenditure not incurred

The Commission concluded a contribution agreement with an international organisation (IO) regarding natural disaster risk management in the Caribbean. The total contract value and EU contribution was 12,29 million euros. The IO implemented parts of the project through sub-grants to other organisations. When examining 10 individual expenditure items, we identified four cases where the IO had reported advance payments to other organisations as incurred costs. We confirmed that the other organisations had either not started or not completed the project work, meaning the reported expenditure (573 494 euros) had therefore not yet been incurred.

(b) Absence of essential supporting documents

The Commission endorsed a grant contract with an association for the implementation of a cultural and educational project in Belize. The total contract value was 0,5 million euros; the maximum EU contribution was set at 0,4 million euros. The Commission erroneously accepted the project costs (360 000 euros) before receiving the final financial report, the request for payment or the expenditure verification report, as contractually required.

The Commission concluded an administration agreement with an IO concerning a disaster risk reduction programme in the ACP countries. The total contract value and EU contribution was 74,5 million euros. The IO implemented parts of the project through grants given to third parties. When examining 10 individual expenditure items, we did not receive supporting documents for two cases of third-party expenditure (247 497 euros) reported as project costs.

(c) Procurement error (unjustified decision taken by the evaluation committee)

The Commission concluded a grant contract with a non-governmental organisation (NGO) to implement a sanitation project in Haiti. The total contract value was 2,86 million euros; the maximum EU contribution was set at 2 million euros. We examined 10 individual expenditure items, including the final payment (8 768 euros) for the construction of sanitary blocks. The NGO issued a public tender and evaluated the bids received against technical and financial criteria. The contract was awarded to the tenderer with the second highest score instead of the tenderer with the highest score, without further justifications.

The Commission concluded a contribution agreement with an IO to support public finance management in Jamaica. The total contract value and EU contribution was 5 million euros. When procuring supplies (193 700 euros) for the project, the IO considered only its member countries as eligible suppliers. This excluded several countries, including some EU Member States, which should be eligible for EDF-funded projects.

(d) *Indirect costs* claimed as direct

The Commission concluded a contribution agreement with an IO to implement a nutritional well-being project in Kenya. The total contract value and EU contribution was 19 million euros. When examining 10 individual expenditure items, we saw that the IO partner's indirect costs (24 278 euros) had been reported as direct costs. As the IO claimed 7 % of indirect costs based on the total direct costs reported in the financial report, the partners' indirect costs should have been considered within the flat rate agreed between the Commission and the IO.

19. For 10 transactions implemented by international organisations, they did not forward essential supporting documents within a reasonable time frame. This had a negative impact on the planning and execution of our audit work; for example, in some cases we were unable to conduct on-the-spot visits to projects (see ***Box 6***). This lack of cooperation goes against the Treaty on the Functioning of the EU ([18]), which establishes the ECA's right to be forwarded the requested information. We recommend in our Opinion No 10/2018 ([19]) that the Commission consider reinforcing the obligation on international organisations to forward the ECA the necessary documents, to allow us to complete our audits.

([18]) Article 287 of the Treaty on the Functioning of the European Union: 'Any natural or legal person in receipt of payments from the budget, shall forward to the Court of Auditors, at its request, any document or information necessary to carry out its task.'

([19]) The Court of Auditors' Opinion No 10/2018 concerning the proposal for a Regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument, paragraph 18.

Box 6
Lack of cooperation from international organisations

In September 2018, we notified the Commission of a visit to Mozambique, to audit a water supply and sanitation project implemented by the Unicef and a food security and malnutrition prevention project implemented by the World Food Programme.

In order to prepare the audit visit and plan the on-the-spot checks of the projects, we requested the organisations to forward us the necessary documentation on the expenditure items sampled. However, in both cases, we were not provided with the information until we arrived to Mozambique in November 2018 to start the audit. This lack of cooperation prevented us from visiting the projects on the spot. In addition, when we arrived in Mozambique, the documentation available at the organisations' premises was still incomplete. As a result, we were not able to check whether the sampled items existed. Furthermore, some of the documentation was only provided after our visit, thereby significantly delaying the completion of our audit work.

We also faced lack of cooperation with other international organisations such as the African Union Commission, the Caribbean Development Bank, the United Nations Development Programme and the World Bank Group.

20. In 9 cases of quantifiable error and 8 cases of non-quantifiable error, the Commission had sufficient information to prevent, or to detect and correct, the error before accepting the expenditure. Had the Commission made proper use of all the information at its disposal, the estimated level of error would have been 1,3 percentage points lower. We found 5 other transactions with errors which external auditors and supervisors should have detected. These cases contributed 1,1 percentage point to the estimated level of error ([20]).

21. In addition, 17 transactions containing a quantifiable error ([21]) were subjected to an audit or expenditure verification. The information provided in the audit/verification reports on the actual work done did not allow us to assess whether the errors could have been detected and corrected during these ex ante checks.

22. In two areas, the transactions examined contained no errors. The first of these areas was *budget support* ([22]) (nine audited transactions). The second area comprised cases where the 'notional approach' had been applied in multi-donor projects implemented by international organisations (nine audited transactions). Paragraphs 9.9–9.12 in Chapter 9 of the ECA's 2018 annual report on the implementation of the budget give more details on the nature of these areas.

Annual activity report and other governance arrangements

23. In every annual activity report since 2012, DG DEVCO has issued a *reservation* on the regularity of underlying transactions. An action plan has therefore been adopted to address the weaknesses in the implementation of DG DEVCO's control system.

24. Last year we reported on the satisfactory progress achieved under the 2016 action plan: 10 actions had been completed, 2 partially implemented and 2 were ongoing.

25. In its 2017 action plan, DG DEVCO continued its efforts in reducing the error rate by taking measures targeting current or previously identified high-risk areas: funds under indirect management via international organisations and grants under *direct management*. At the same time, several actions were linked to adjustments for alignment with the new *Financial Regulation* — some of which had to be carried over due to the late adoption of the regulation itself. By April 2019, nine actions had been completed, one partially implemented and four were still ongoing.

([20]) For less than 0,1 percentage point of the error rate (1 case) the Commission committed the error itself and for 2,5 percentage points (11 cases) the error was made by the beneficiaries.
([21]) Contributing 1,7 percentage point to the estimated level of error.
([22]) Budget support payments financed by the EDFs in 2018 amounted to 796 million euros.

26. Two new targeted measures were added to the 2018 action plan, reflecting the need to clarify and promote *simplified cost options* and the results-based financing introduced by the new Financial Regulation. A pre-existing measure clarifying grant procedures was reformulated, and another targeting pillar assessments by IOs was broken down into three separate actions. In total, the 2018 action plan contained 13 measures, of which 7 had been carried over from previous years, 4 followed up on measures from previous years and 2 were new.

27. DG DEVCO's control system is based on ex ante checks conducted before the expenditure claimed by beneficiaries is accepted. Once again this year, the frequency of the errors found – including some contained in final claims which had been subjected to ex ante external audits and expenditure verifications – points to weaknesses in these checks.

2018 RER study

28. In 2018 DG DEVCO carried out its seventh RER study to estimate the level of error which had evaded all management checks to prevent, detect and correct errors across its entire area of responsibility ([23]). For the third year in a row, the study estimated the RER to be below the 2 % *materiality threshold* set by the Commission ([24]).

29. The RER study does not constitute an *assurance engagement* or an audit; it is based on the RER methodology and manual provided by DG DEVCO. As in previous years, we have identified limitations, such as the very few on-the-spot checks performed on transactions ([25]), the incomplete checks on *public procurement* procedures and calls for proposals ([26]), and the estimation of errors ([27]). All these limitations contributed to a lower residual error rate, which does not reflect reality.

30. The RER contractor has significant scope for interpretation of the methodology, as the RER manual provides mainly general guidance rather than detailed instructions. Furthermore, the RER study contract is concluded for only one year at a time, and so the contractor and approach taken might change each year. Were the RER methodology and the guidance by DG DEVCO more comprehensive, the level of consistency and assurance could be improved, even if the contractor changes.

31. Our review of the RER contractor's work identified errors and inconsistencies in the calculation and extrapolation of individual errors. We also noted errors in the contractor's working papers, such as arithmetical errors and the fact that the checks did not cover all the expenditure eligibility criteria. If these errors had been corrected, the residual error rate would be higher.

32. In our 2017 annual report, we noted that the number of transactions where no substantive testing had been performed due to full reliance being placed on previous control work was far higher in the 2017 RER study than in previous studies. This year, we note that the percentage of full-reliance transactions has returned to the level in the 2016 study. However, where the previous control work checked only a part of the expenditure, the errors identified are not extrapolated to the untested part of the expenditure. Therefore, the study assumes the untested part to be free from error, which decreases the residual error rate.

Review of the 2018 annual activity report

33. The Director-General's declaration of assurance in the 2018 AAR includes two reservations. The first relates to grants managed by DG NEAR on behalf of DG DEVCO. The second concerns indirect management via an international organisation, and explicitly refers to programmes managed by the African Union Commission that involve significant procurement. This second reservation was issued in 2017 and has been maintained for 2018.

([23]) EDFs and the EU general budget.

([24]) 2016: 1,7 %; 2017: 1,18 % and 2018: 0,85 %.

([25]) In the 2018 study, fieldwork in the country of project implementation was conducted for only 5 of the 219 transactions tested.

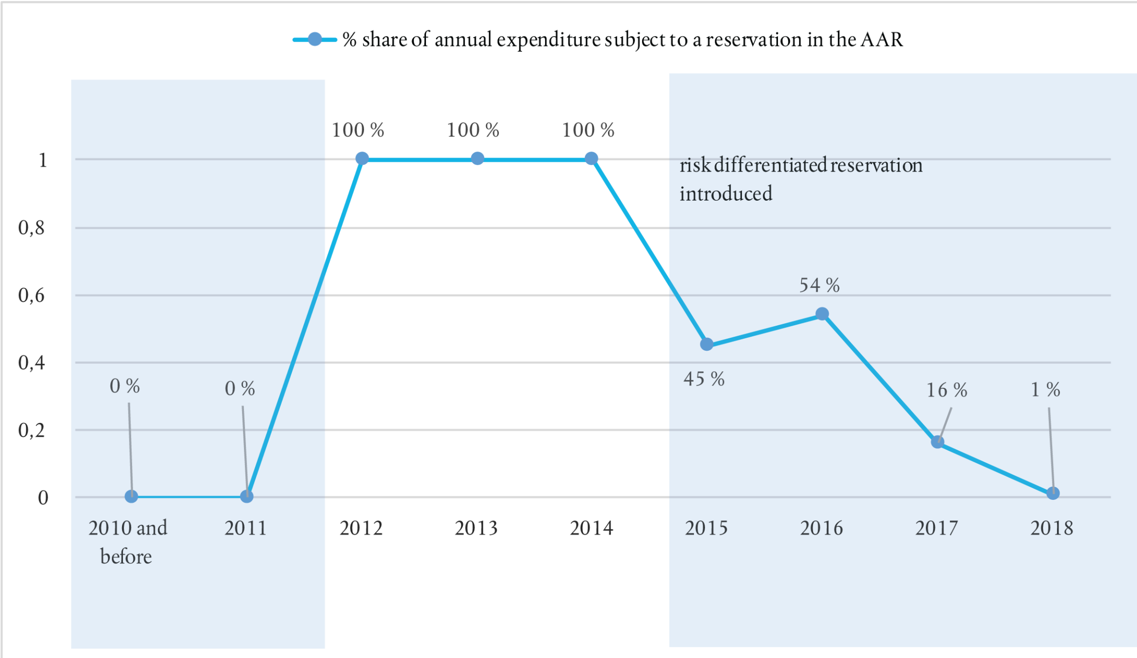
([26]) The RER work did not sufficiently cover certain aspects of the procurement procedures, such as the reasons for rejecting unsuccessful candidates or the winning tenderer's compliance with all selection and award criteria, nor did it check the call for proposals procedures or direct award justifications.

([27]) The RER-specific estimation method allows for a wide margin for judgement when estimating individual errors (e.g. missing documents and the validity of the reason for the missing documents).

34. The scope of the first reservation was tightened significantly in both 2017 and 2018. This is partly because the residual error rate has been below materiality three years in a row. Considering the limitations of the RER study in 2018 (see paragraphs 29-32) and in previous years, ([28]) the narrow scope of the first reservation is not sufficiently justified. As the RER study is one of the key elements in DG DEVCO's risk assessment, it needs to be supported by sufficiently detailed guidance in order to provide a reliable basis for the reservation. ***Box 7*** presents the evolution of the reservations presented in the AARs from 2011 to 2018.

Box 7
DG DEVCO AAR reservations 2011 – 2018

Share of expenditure subject to reservation has decreased sharply



Source: European Court of Auditors.

35. DG DEVCO estimated the overall amount at risk at closure to be 49,8 million euros ([29]). Based on the RER study, this estimate is 29 % down on the previous year. Our observations on the RER study also affect the estimates of the amounts at risk.

36. DG DEVCO estimated the overall amount at risk at payment to be 64,7 million euros ([30]) (1 % of 2018 expenditure). Of this amount, it estimates that 14,9 million euros (23 %) will be corrected by its checks in subsequent years ([31]).

([28]) See the ECA's annual report 2017 on the EDFs, paragraphs 34-38.
([29]) See DG DEVCO's 2018 annual activity report, p. 69.
([30]) This is the best conservative estimate of the amount of expenditure authorised during the year but not compliant with the contractual and regulatory provisions applicable at the time payment is made.
([31]) See DG DEVCO's 2018 annual activity report, p. 69.

37. In 2018 DG DEVCO took several steps to improve the quality of the data for calculating its *corrective capacity* and to address the shortcomings that we had identified in previous years. It increased its monitoring and controls of recovery orders and made further efforts to raise awareness of how to encode them correctly by, for instance, including a specific instruction on the recovery context in the note on the 2018 closure exercise. As far as the calculation of corrective capacity for 2018 is concerned, we did not identify any errors in our sample ([32]).

Conclusion and recommendations

Conclusion

38. The overall audit evidence indicates that the EDFs' accounts for the financial year ending 31 December 2018 present fairly, in all material respects, their financial position, the results of their operations, their cash flows and the changes in net assets for the year then ended, in accordance with the provisions of the Financial Regulation and the accounting rules adopted by the accounting officer.

39. The overall audit evidence indicates that, for the financial year ending 31 December 2018:

(a) the revenue of the EDFs was not affected by a material level of error;

(b) EDF payment transactions were affected by a material level of error (see paragraphs 17-22). We estimate the level of error to be 5,2 % based on our transaction testing, including the imported adjusted RER results (see ***Annex I***).

Recommendations

40. ***Annex III*** shows the findings of our follow-up review of the six recommendations we made in our 2015 annual report ([33]), of which DG DEVCO had implemented ([34]) recommendations 2, 3, 4 and 6 in full and recommendation 5 in most respects. Recommendation 1 is no longer applicable due to DG DEVCO's decision to improve the quality of its audits and expenditure verifications by modifying the terms of reference opposed to using quality grids.

41. Based on this review and our findings and conclusions for 2018, we recommend that, by 2020, the Commission:

Recommendation 1

Take steps to reinforce the obligation on international organisations to forward to the ECA, at its request, any document or information necessary to carry out its task as foreseen in the TFEU (see paragraph 19);

Recommendation 2

Improve the RER study's methodology and manual so that they give more comprehensive guidance on the issues we have identified in this report and, therefore provide appropriate support for DG DEVCO's risk assessment for the reservations (see paragraphs 29-34).

([32]) We tested 12 recovery orders amounting to 10,5 million euros, that is 58 % of the total population (18,2 million euros).

([33]) We chose our 2015 report for this year's follow-up exercise as, typically, enough time should have elapsed for the Commission to have implemented our recommendations.

([34]) The aim of this follow-up was to verify whether corrective measures had been introduced in response to our recommendations, and not to assess the effectiveness of their implementation.

Chapter III — Performance

42. Our on-the-spot checks allowed us to not only examine the regularity of transactions but also to make observations on *performance* aspects of the selected transactions.

43. While verifying the existence of purchased items during our on-the-spot checks, we noted cases where the items had been used effectively and contributed to the achievement of project objectives. By contrast, we also noted cases where the efficiency and effectiveness of the action had been compromised, as the items purchased/installations were not being used as planned.

Box 8
Examples of performance-related observations

(a) Efficient and effective use of purchased items/installations

In Saint Lucia, the Commission endorsed a contract for the supply of hospital equipment and related services. During our on-the-spot visit, we found that the items selected had been delivered, and were being well managed and used for their intended purpose, thus contributing to the achievement of the action's objectives and therefore the benefits to the final beneficiaries were clear.

(b) Project sustainability endangered

The Commission endorsed a works contract for the construction of a desalination plant in Djibouti. During our on-the-spot control, we found that the area originally dedicated to the project was substantially decreased and a new port and a military base were built instead in the immediate proximity of the desalination plant. The construction works and consequent operation of the port and the military base may affect the maritime currents and water quality as well as the location of the water intake. All these factors could have a significant impact on the viability of the desalination plant, risking its long-term sustainability.

(c) Purchased items/installations not in use

The Commission signed a contribution agreement with an IO to support public financial management in Jamaica. The IO implemented the project fully through its partners. During our on-the-spot check in 2019, we saw that one of the two computer servers purchased in the beginning of 2017 for the project had been installed in an office that was not in use at the time of our audit. The second server was still in its original box nearly two years after delivery.

In Haiti, the Commission concluded a grant contract with a non-governmental organisation (NGO) for a sanitation project. When we checked a public bathroom constructed under the grant, we found that the toilets were not functioning properly and some were not open for use.

(d) Principle of economy not respected

In Mozambique, the Commission concluded a grant contract with an IO to improve access to food and nutrition. One of the items selected for our examination was a payment for a radio-drama series intended to promote sustained behavioural change. The amount was charged based on an inter-agency agreement between the IO and a related organisation from the same family, whereby the IO agreed to contribute 180 000 euros to its sister organisation. We found that this sum had not been determined by cost analysis but was set arbitrarily between the two related IOs based on the EU funding available.

ANNEX I

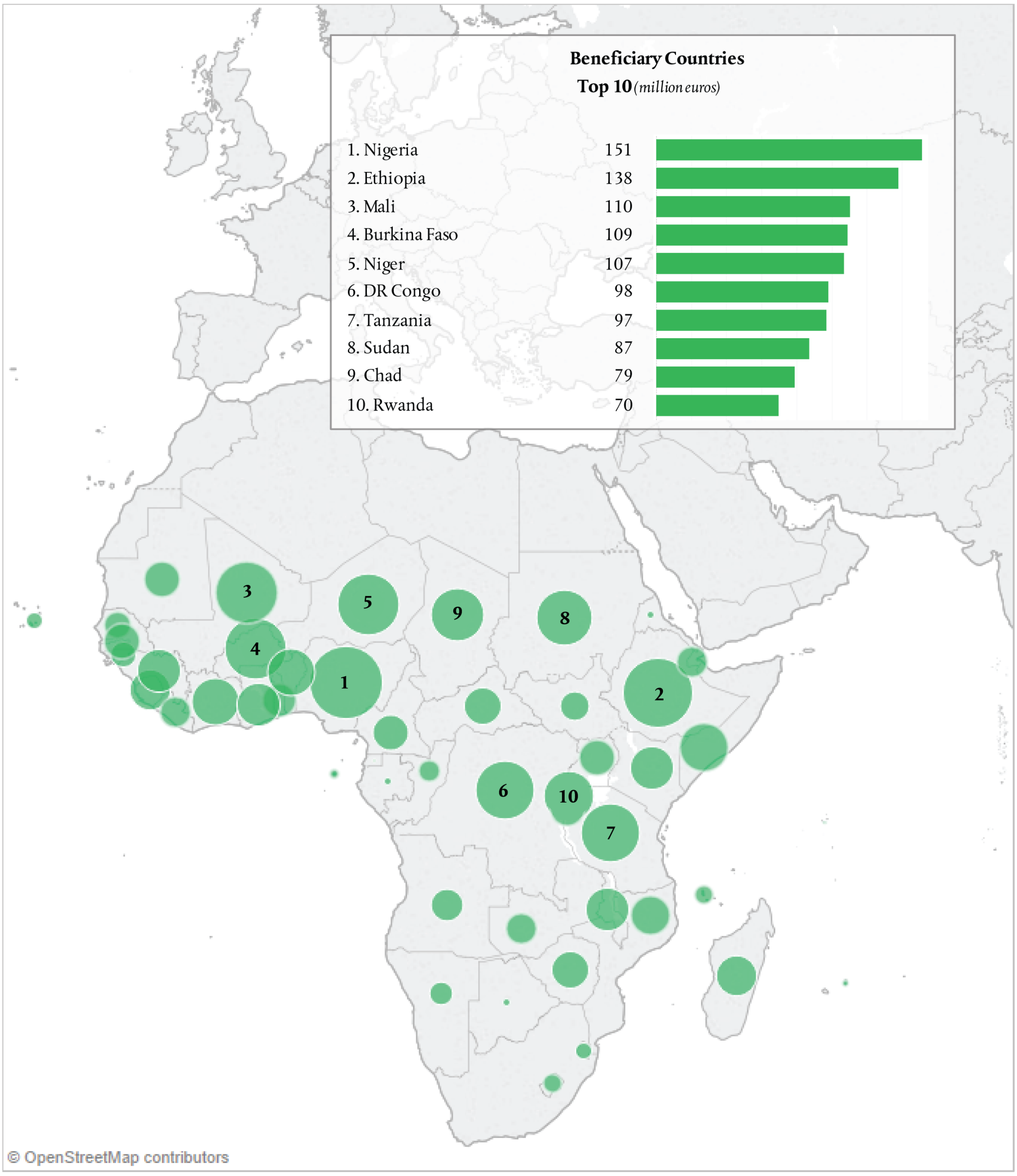
RESULTS OF TRANSACTION TESTING FOR THE EUROPEAN DEVELOPMENT FUNDS

	2018	2017
SIZE AND STRUCTURE OF THE SAMPLE		
Total transactions	**139**	**142**
ESTIMATED IMPACT OF QUANTIFIABLE ERRORS		
Estimated level of error	**5,2 %**	**4,5 %**
Upper error limit (UEL)	**9,1 %**	
Lower error limit (LEL)	**1,2 %**	

ANNEX II

EDF PAYMENTS IN 2018 BY MAIN REGION

European Development Fund Payments — Africa



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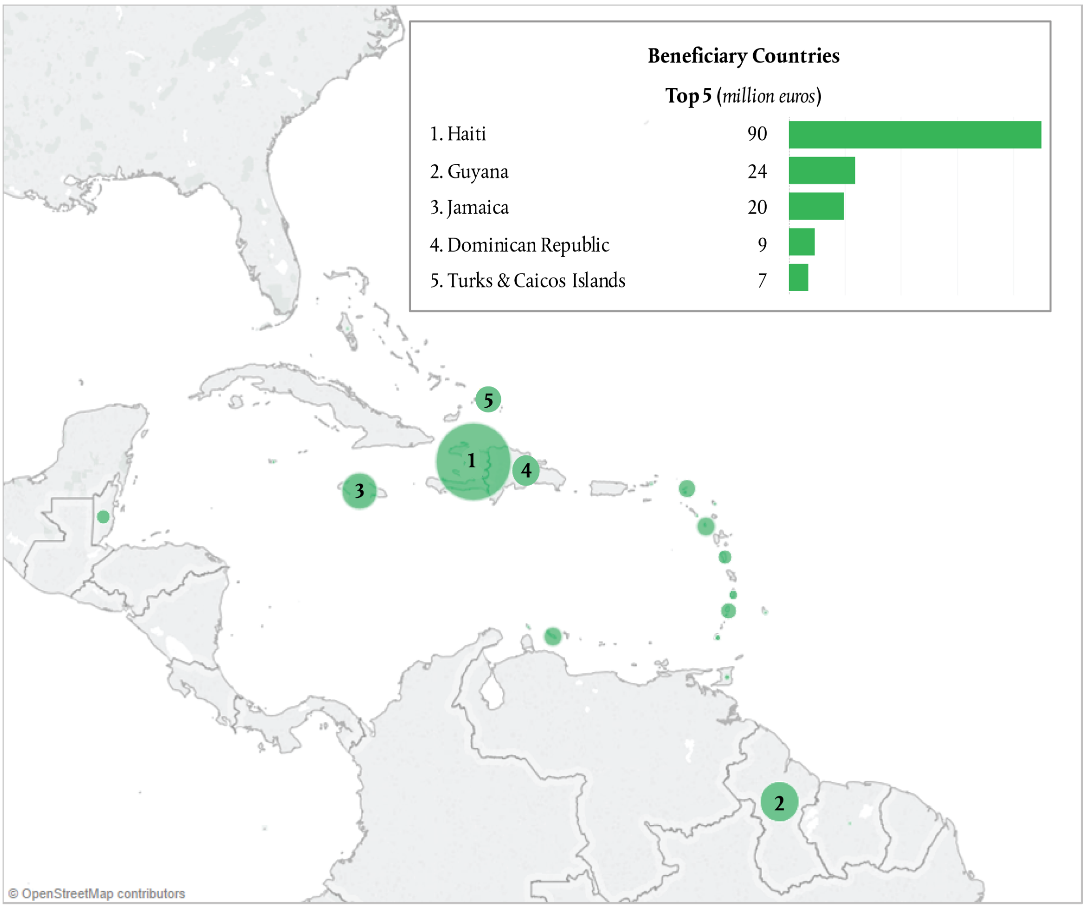
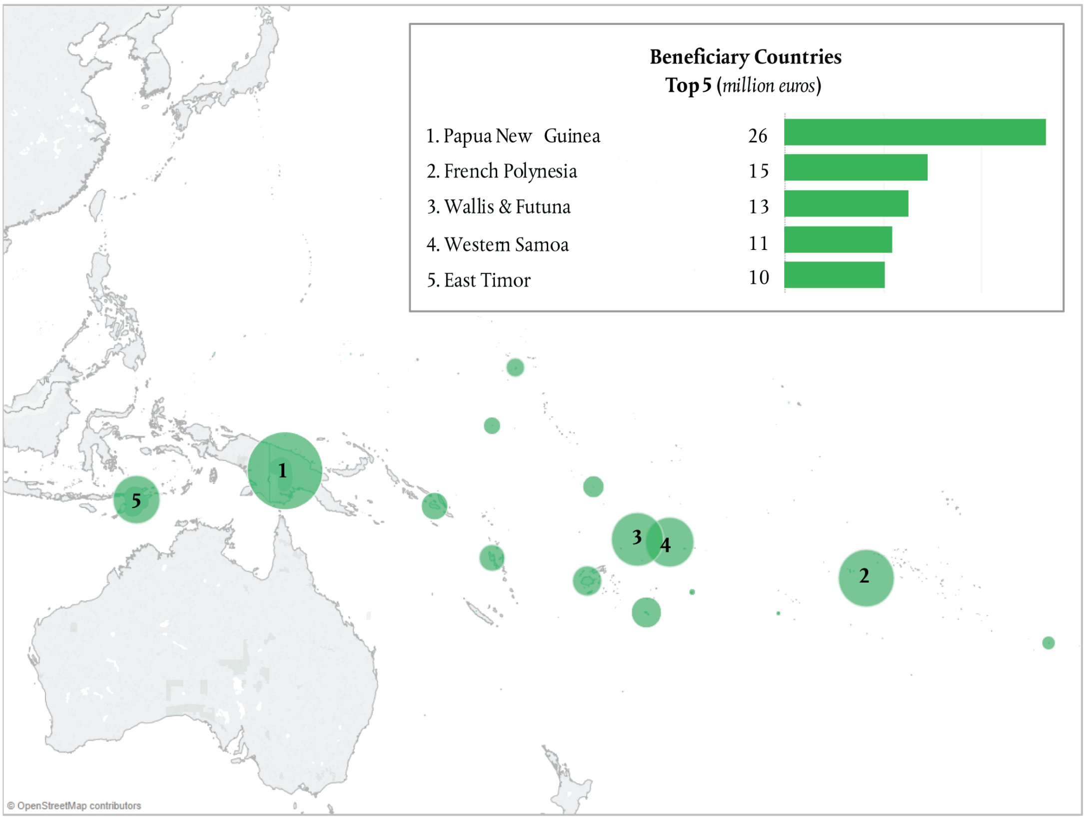
European Development Fund Payments — Caribbean and Pacific





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ANNEX III

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS FOR THE EUROPEAN DEVELOPMENT FUNDS

Year	Court recommendation	Court's analysis of the progress made					
		Fully implemented	Being implemented		Not implemented	Not applicable	Insufficient evidence
			In most respects	In some respects			
2015	**Recommendation 1:** expand the use of the quality grid to audits and expenditure verifications contracted directly by beneficiaries;					x	
	Recommendation 2: adapt the terms of reference of audits and expenditure verifications with a view to obtaining all relevant information on the actual work done that is necessary to assess their quality using the new quality grid;	x					
	Recommendation 3: assess the costs and benefits of improving the monitoring of audits and expenditure verifications contracted directly by beneficiaries by including them in the new audit application;	x					
	Recommendation 4: apply appropriate sanctions to entities that do not comply with their obligation to provide essential supporting documentation for the Court's audit;	x					
	Recommendation 5: for payments under indirect management with beneficiary countries, (i) support the declaration of assurance with the statistically most reliable evidence available, and (ii) distinguish between forms of aid with different risk profiles, as is done for payments under direct management;		x				
	Recommendation 6: revise the estimate of its future corrective capacity by excluding from the calculation (i) recoveries of unspent prefinancing and earned interest, and (ii) cancellations of recovery orders previously issued.	x					

REPLIES OF THE COMMISSION TO THE ANNUAL REPORT OF THE COURT OF AUDITORS ON THE ACTIVITIES FUNDED BY THE 8TH, 9TH, 10TH AND 11TH EUROPEAN DEVELOPMENT FUNDS (EDFs) CONCERNING THE FINANCIAL YEAR 2018

Chapter II – The ECA's statement of assurance on the EDFs

Box 6 — Lack of cooperation from international organisations

The Commission reached out to the international organisations concerned at all levels to facilitate the provision of the supporting documents requested by the ECA. It is currently analysing the specific cases raised by the ECA.

The Commission will introduce a system of immediate contact of international organisations at central level whenever their operations are sampled by the ECA.

Annual Activity Report and other governance arrangements

27. As regards **DG DEVCO's control system**, revised terms of reference (ToR) for expenditure verifications were adopted at the end of March 2018. They are expected to contribute to improved performance of *ex-ante* checks.

28. The **RER study is one of several elements in the assurance-building process.** The limitations noted by the ECA are well-known to the Commission and are taken into account by the Commission when assessing the strengths and weaknesses of its management system. All of these elements, taken together, ensure that the DEVCO Annual Activity Report presents the management information in a true and fair view.

30. Concerning the **RER manual**, the level of detail in the manual and methodology has to strike a balance between exhaustiveness and flexibility. The **RER study is contracted every year** in order to keep some flexibility in the definition of the specific terms of reference. At that moment, findings and recommendations of the ECA can be taken into account.

31. The differences in quantifiable errors identified by the ECA will indeed result in an increase of the residual error rate. However, the bulk of that increase comes from just one operation, which the Commission considers was implemented under exceptional circumstances. The Commission does not share the ECA's conclusion on this specific case.

32. The **approach has not changed compared to the previous year**. The errors identified in a previous control work report on which full reliance was placed, are not extrapolated if there is evidence that the Commission has issued related recovery orders or adjusted the final payment on the action based on the ineligible amount detected.

The contractor's work includes exercising professional judgement to determine when and in how far extrapolation of findings is allowed or required.

34. The Commission will look into ways of introducing more comprehensive **guidance**.

Even for other segments not under **reservation**, the control efforts are not reduced. In the description of the reservation it is explained that although the reservation relates to grants in direct management only, the actions relating to the other spending areas will also be continued.

Conclusion and recommendations

Recommendation 1 (international organisations)

The Commission accepts the recommendation. The Commission will introduce a system of immediate contact of international organisations at central level whenever their operations are sampled by the ECA.

Recommendation 2 (RER study's methodology and manual)

The Commission accepts this recommendation and will look into ways of introducing more comprehensive guidance.

Chapter III — Performance

Box 8 — Examples of performance-related observations

(b) Project sustainability endangered: The Commission is planning a technical audit and evaluation to assess the status of the project and identify potential risks in order to secure the viability of the project. The Commission also ensures a close follow-up with all parties involved.

(c) Purchased items/installations not in use: The Commission will look into both matters to check the status of use of the corresponding equipment and installations.

(d) Principle of economy not respected: The Commission would like to stress that the contribution was agreed in a contract between the two IO's and payments were executed in line with the contractual provisions. The progress report confirms positive results of the series as analysed by independent media research companies.

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