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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS
2016 Annual Management and Performance Report for the EU Budget

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Annex 1: Snapshot of the Commission-wide impact indicators

These statistical indicators are high-level context indicators designed to track the longer-term and indirect impacts of EU action. They were identified in the Strategic Plans of the Commission services. This annex presents an intermediate reporting on the current trends. The values indicated in this annex are those available at the time of the preparation of the Annual Activity Reports of the DGs (January-February 2017). The latest values are available through the bookmarks and hyperlinks provided for each indicator in this annex.

General objective: A New Boost for Jobs, Growth and Investment

1. Percentage of EU GDP invested in R&D (combined public and private investment)			
Baseline (2012)	Latest known value (2014 - provisional)	Target (2020)	Source
2.01 %	2.03 %	3 %	Eurostat [1]
2. Employment rate population aged 20-64			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
69.2 %	70.1 %	At least 75 %	Eurostat
3. Tertiary educational attainment, age group 30-34			
Baseline (2013)	Latest known value (2015)	Target (2020)	Source
37.1 %	38.7 %	At least 40 %	Eurostat
4. Share of early leavers from education and training[2]			
Baseline (2012)	Latest known value (2014 - provisional)	Target (2020)	Source
11.9 %	11 %	Less than 10 %	Eurostat
5. People at risk of poverty or social exclusion			
Baseline (2013)	Latest known value (2015)	Target (2020)	Source
122.7 million	118.8 million	At least 20 million people fewer than in 2008 (116.2 million)	Eurostat
6. GDP growth			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
1.6 %	2.2 %	Increase	Eurostat
7. Gross Fixed Capital Formation (GFCF) investments to GDP ratio			
Baseline (2014)	Latest known value (2015)	Target (2016-2020)	Source
19.4 %	19.5 %	21 %-22 % Mean GFCF for the period 2016-2020 having reached the range of 21 %-22 %	Eurostat
8. Labour productivity EU-28 as compared to US (US=100)[3]			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source

75 (US=100)	75.4	Increase	AMECO database of DG ECFIN
9. Resource productivity: Gross Domestic Product (GDP) over Domestic Material Consumption (DMC)			
Baseline (2010 – Eurostat estimate)	Latest known value (2015 – provisional, Eurostat estimate)	Target (2020)	Source
1.8 (EU-28)	2 (EU-28)	Increase	Eurostat

General objective: A Connected Digital Single Market

10. Aggregate score in Digital Economy and Society Index (DESI) EU-28[4]			
Baseline (DESI 2015)	Latest known value (DESI 2016)	Target (2020)	Source
0.50	0.52	Increase	DESI

General objective: A Resilient Energy Union with a Forward-Looking Climate Change Policy

11. Greenhouse gas emissions (index 1990=100)			
Baseline (2013)	Latest known value (2014)	Target (2020)	Source
80.2	77.1	At least 20 % reduction (index ≤80)	European Environmental Agency

12. Share of renewable energy in gross final energy consumption					
Baseline (2013)	Interim Milestone		Latest known value (2014)	Target (2020)	Source
	(2015/2016)	(2017/2018)			
15 %	13.6 %	15.9 %	16 %	20 %	Eurostat

13. Increase in energy efficiency – Primary energy consumption			
Baseline (2013)	Latest known value (2014)	Target (2020)	Source
1 569.1 million tonnes of oil equivalent (Mtoe)	1 507.1 million tonnes of oil equivalent (Mtoe)	20 % increase in energy efficiency[5]	Eurostat

14. Increase in energy efficiency – Final energy consumption			
Baseline (2013)	Latest known value (2014)	Target (2020)	Source
1 106.2 million tonnes of oil equivalent (Mtoe)	1 061.2 million tonnes of oil equivalent (Mtoe)	20 % increase in energy efficiency[6]	Eurostat

15. Number of Member States at or above the electricity interconnection target of at least 10 %				
Baseline (2014)	Interim Milestone (2018)	Latest known value (31 December 2016)	Target (2020)	Source
16 Member States at or above 10 % electricity interconnection target	25 Member States at or above 10 % electricity interconnection target	17 Member States at or above 10 % electricity interconnection target	26 Member States at or above 10 % electricity interconnection target[7]	ENTSO-e

General objective: A Deeper and Fairer Internal Market with a Strengthened Industrial Base

16. Gross value added of EU industry in GDP			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
17.1 %	17.3 %	20 %	Eurostat

17. Intra-EU trade in goods (% of GDP)			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
20.4 %	20.4 %	Increase	Eurostat

18. Intra-EU trade in services (% of GDP)			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
6.3 %	6.5 %	Increase	Eurostat

19. Share of mobile EU citizens as % of the labour force			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
3.4 %	3.6 %	Increase	Eurostat (age group 15-64)

20. Composite indicator of financial integration in Europe (FINTEC)[8]			
Baseline (2014)	Latest known value (September 2016)	Target (2020)	Source
0.5/0.3[9]	0.5/0.33	Increase	European Central Bank

General objective: A Deeper and Fairer Economic and Monetary Union

21. Dispersion of GDP per capita (Euro area MSs)			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
41.9 %	43.0 %	Reduce	Eurostat

22. Composite Indicator of Systemic Stress (CISS)[10]			
Baseline (Average range 2010-2014)	Latest known value (2015 average)	Target (2020)	Source
0.25 in normal times 0.8 in a crisis mode	0.11	Stable trend	European Central Bank

23. Income quintile share ratio[11]			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
5.2	5.2	Reduce	Eurostat

General objective: A Reasonable and Balanced Free Trade Agreement with the U.S.

24. Share US in total EU FDI stocks (US trade / extra trade)			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
Inwards 35.0 % Outwards 32.4 % Total 33.3 %[12]	Inwards 43.5 % Outwards 35.0 % Total 38.4 %	Increase	Eurostat

General objective: An Area of Justice and Fundamental Rights Based on Mutual Trust

25. Share of the population considering themselves as "well" or "very well" informed of the rights they enjoy as citizens of the Union			
Baseline (2015)	Latest known value	Target (2020)	Source
42 %	Next survey planned for 2019	Increase	Eurobarometer on Citizenship

26. Citizens experiencing discrimination or harassment			
Baseline (2015)	Latest known value	Target (2020)	Source
21 %	Next survey planned for 2019	Decrease	Eurobarometer on Citizenship

27. Gender Pay Gap (GPG) in unadjusted form, EU-28[13]			
Baseline (2013 - provisional figure)	Latest known value (2014 – provisional figure)	Target (2020)	Source
16.4 %	16.1 %	Decrease	Eurostat

General objective: Towards a New Policy on Migration[14]

28. Rate of return of irregular migrants to third countries			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source[15]
41.8 %	42.5 %	Increase	Eurostat 1: Return decisions Eurostat 2: Returns

29. Gap between the employment rates of third-country nationals compared to EU nationals[16], age group 20-64			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
Gap: 13.4 points EU nationals: 69.8 % Third-country nationals: 56.4 %	Gap: 14 points EU nationals: 70.7 % Third-country nationals: 56.7 %	Decrease	Eurostat

General objective: A Stronger Global Actor

30. GDP per capita (current prices-PPS) as % of EU level in countries that are candidates or potential candidates for EU accession			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
34 % for Western Balkans (excluding Kosovo[17]) 53 % for Turkey	34 % for Western Balkans (excluding KosovoError! Bookmark not defined.) 52 % for Turkey	Increase	Eurostat

31. Ranking to measure political stability and absence of violence in countries part of the European Neighbourhood Policy (ENP)[18]			
Baseline (2014)	Latest known value (2015)	Target (2020)	Source
NE: 33.89 - 4 countries above 30 NS: 11.99 - 4 countries above 10	NE: 29,84 - 4 countries above 30 NS: 12,75 - 4 countries above 10	NE: Increase the number of countries above 30 NS: Increase the number of countries above 10	Worldwide Governance Indicators (WGI) project (WB group)

32. Sustainable Development Goal 1.1.1: Proportion of population below international poverty line				
Baseline[19]	Interim Milestone	Latest known value[20]	Target (2030) UN Sustainable Development Goals	Source
16.8 % [21] 27.5 %[22] (excluding the graduated countries)	Rolling On course for 2030 based on annual progress report prepared by UN Secretary General.	15.2 % (including the graduated countries - Partnership countries for which bilateral assistance is phased out) 27.0 % (excluding the graduated countries)	0 %	0 % World Bank (poverty rate); UN Population Division (population weights)

33. EU Collective Net Official Development Assistance (ODA) as a percentage of EU GNI: a) in total, b) to LDCs (Least Developed Countries)				
Baseline (2014)	Interim Milestone (2020)	Latest known value (2015)	Target (2030)[23]	Source
In total: 0.43 % To LDCs: 0.11 % [24]	In total: n/a To LDCs: 0.15 %	In total: 0.47 % To LDCs: 0.11 %	In total: 0.70 % To LDCs: 0.20 %	OECD Development Assistance Committee (DAC)

General objective: A Union of Democratic Change

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

35. Number of opinions received from National Parliaments[25]				
Baseline (2014)	Latest known value		Target (2020)	Source
	(2015)	(2016)		
506	350	613	Increase	European Commission Annual report on relations between the European Commission and national parliaments

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

36. Trust in the European Commission			
Baseline (EB 83 – Spring 2015)	Latest known value (EB 85 – Spring 2016)	Target (2020)	Source
40 % tend to trust	37 % tend to trust	Increase	Standard Eurobarometer on Public Opinion in the European Union

37. Impact indicator: Staff engagement index in the Commission			
Baseline (2014)	Latest known value (2016)	Target (2020)	Source

65.3 %	64.3 %	Increase	European Commission

Annex 2: Amounts at risk & Annual Activity Reports reservations

2-A. Overall amount at risk at closure (EUR millions) reported in the 2016 Annual Activity Reports

The following table shows a consolidated overview of the overall amount at risk at closure.

To allow comparison with the previous AMPR, these groupings of Commission departments do not necessarily equal the ECA's Annual Report chapters (of which the number, the titles and even the compositions have changed in each of the at least 3 previous years). E.g. "Cohesion" includes all other DGs (beyond AGRI) which execute at least 50 % of their budget in shared management mode; i.e. not only REGIO and EMPL (which are indeed *cohesion*), but also MARE and HOME (which are resp. *natural resources* and *security & citizenship*).

DG DEVCO and the Total also include the EDFs' relevant expenditure (EUR 3350.5 million as payments made – EUR 1929.8 million as new pre-financing + EUR 1469.4 million as cleared pre-financing = EUR 2890.0 million as relevant expenditure)

DGs DEVCO, NEAR, RTD: for reconciliation with the relevant expenditure mentioned in their Annual Activity Reports, see the explanatory footnotes to their overall amount at risk tables in their respective AARs.

DG REGIO: the retentions released were EUR 22.5 million (as mentioned in their Annual Activity Report on p. 52 and 56), the values-ranges are between *average* and *maximum* (see AAR on p. 100).

PS: As the table above is based on rounded values (EUR millions, rounded to one decimal), its totals may differ up to 0.1 with the totals from the next table (which is based on EUR units)

Policy area	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by Cohesion family DGs *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by Cohesion family DGs *(e)*	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	**Estimated amount at risk at payment** *(g) = Average Error Rate applied on (f)*		**Estimated future corrections** *(h) = Adjusted rate of Average Recoveries and Corrections applied on (f)*		**Estimated amount at risk at closure** *(i) = (g)-(h)*	
							lowest value	highest value	lowest value	lowest value	highest value	lowest value
Agriculture	56 794.0	1 083.9		1 842.7		57 552.7	1 419.6 (2.47 %)	1 419.6 (2.47 %)	1 173.4 (2.04 %)	1 173.4 (2.04 %)	246.2 (0.43 %)	246.2 (0.43 %)
Cohesion	40 383.5	12 465.4	957.3	16 577.5	49.3	45 403.7	961.2 (2.12 %)	1 573.6 (3.47 %)	700.3 (1.54 %)	798.0 (1.76 %)	261.0 (0.57 %)	775.6 (1.71 %)
External relations	12 373.3	7 957.0		5 767.3		10 183.7	166.0 (1.63 %)	166.0 (1.63 %)	43.3 (0.43 %)	43.3 (0.43 %)	122.7 (1.20 %)	122.7 (1.20 %)
Research, Industry, Space, Energy and Transport	14 835.7	8 568.2		7 318.8		13 586.3	320.1 (2.36 %)	381.4 (2.81 %)	98.6 (0.73 %)	99.8 (0.73 %)	221.4 (1.63 %)	281.6 (2.07 %)
Other internal policies	5 501.5	3 257.0		2 287.5		4 532.0	35.1 (0.77 %)	39.4 (0.87 %)	8.1 (0.18 %)	8.1 (0.18 %)	27.0 (0.60 %)	31.4 (0.69 %)
Other services & Administration	5 904.1	91.1		56.6		5 869.5	12.2 (0.21 %)	14.9 (0.25 %)	0.5 (0.01 %)	0.6 (0.01 %)	11.8 (0.20 %)	14.3 (0.24 %)
Total	**135 792.1**	**33 422.6**	**957.3**	**33 850.5**	**49.3**	**137 127.9**	**2 914.2 (2.13 %)**	**3 594.9 (2.62 %)**	**2 024.2 (1.48 %)**	**2 123.2 (1.55 %)**	**890.1 (0.65 %)**	**1 471.8 (1.07 %)**

Policy area	DG	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by Cohesion family DGs *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by Cohesion family DGs *(e)*	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated amount at risk at payment *(g) = Average Error Rate applied on (f)*		Estimated future corrections *(h) = Adjusted rate of Average Recoveries and Corrections applied on (f)*		Estimated amount at risk at closure *(i) = (g)-(h)*	
								lowest value	highest value	lowest value	highest value	lowest value	highest value
Agriculture	AGRI	56 794.0	1 083.9	-	1 842.7	-	57 552.7	1 419.6	1 419.6	1 173..4	1 173.4	246.2	246.2
Cohesion	EMPL	8 794.8	2 835.5	260.4	3 182.8	26.8	9 375.7	279.0	279.0	205.0	205.0	74.0	74.0
	HOME	2 043.9	1 564.6	-	1 074.9	-	1 554.2	29.5	29.5	15.7	15.7	13.8	13.8
	MARE	540.7	193.7	1.3	33.8	-	382.1	8.2	8.2	2.4	2.4	5.9	5.9
	REGIO	29 004.1	7 871.6	695.6	12 286.1	22.5	34 091.7	644.5	1 256.8	477.2	575.0	167.3	681.9
External Relations	DEVCO	6 615.6	3 831.7	-	2 803.3	-	5 587.2	108.3	108.3	25.5	25.5	82.8	82.8
	ECHO	2 132.1	1 769.5	-	1 074.7	-	1 437.3	17.3	17.3	5.8	5.8	11.5	11.5
	FPI	578.8	504.1	-	441.3	-	516.0	10.4	10.4	1.5	1.5	8.9	8.9
	NEAR	3 027.5	1 847.0	-	1 442.2	-	2 622.7	29.9	29.9	10.5	10.5	19.4	19.4
	TRADE	19.2	4.6	-	5.8	-	20.5	0.1	0.1	-	-	0.1	0.1
Research, Industry, Space, Energy and Transport	CNECT	2 001.5	983.0	-	896.1	-	1 914.6	74.3	95.2	11.6	11.6	62.7	83.5
	EASME	1 013.4	795.8	-	100.5	-	318.1	14.6	14.6	0.4	0.4	14.2	14.2
	ENER	1 092.6	778.0	-	742.0	-	1 056.5	10.5	10.5	2.3	2.3	8.1	8.1
	ERCEA	1 457.7	667.4	-	523.6	-	1 313.9	14.7	14.7	3.5	3.5	11.2	11.2
	GROW	1 548.0	1 371.9	-	1 652.2	-	1 828.3	16.1	16.1	4.1	4.1	12.0	12.0
	INEA	2 447.7	1 754.7	-	751.8	-	1 444.9	16.4	22.5	4.3	5.4	12.1	17.0
	MOVE	423.8	156.6	-	147.0	-	414.2	5.5	5.5	1.4	1.4	4.0	4.0
	REA	1 642.9	1 106.5	-	837.3	-	1 373.7	37.9	41.0	16.0	16.0	21.9	25.1
	RTD	3 208.1	954.2	-	1 668.3	-	3 922.1	130.1	161.4	54.9	54.9	75.2	106.4
Other Internal Policies	CHAFEA	80.7	42.4	-	30.3	-	68.7	0.8	0.8	0.2	0.2	0.6	0.6
	CLIMA	26.0	7.5	-	4.8	-	23.2	0.0	0.0	-	-	0.0	0.0
	COMM	112.4	13.1	-	9.9	-	109.2	0.7	0.7	0.7	0.7	0.1	0.1
	EAC	2 252.8	2 188.5	-	1 261.1	-	1 325.4	13.3	13.3	0.2	0.2	13.1	13.1
	EACEA	647.3	510.0	-	492.8	-	630.1	11.9	11.9	2.3	2.3	9.6	9.6
	ECFIN	1 449.9	11.2	-	2.5	-	1 441.2	-	2.9	-	-	-	2.9
	ENV	261.9	177.1	-	200.3	-	285.1	3.7	3.7	1.7	1.7	2.0	2.0
	JUST	157.1	124.5	-	106.6	-	139.1	1.8	1.8	1.1	1.1	0.8	0.8
	SANTE	409.7	167.4	-	170.0	-	412.3	2.3	3.7	2.0	2.0	0.3	1.8
	TAXUD	103.8	15.4	-	9.3	-	97.6	0.6	0.6	0.0	0.0	0.6	0.6

Policy area	DG	Total payments *(a)*	New pre-financing paid *(b)*	Retentions made by Cohesion family DGs *(c)*	Pre-financing cleared *(d)*	Retentions (partially) released by Cohesion family DGs *(e)*	Total relevant expenditure *(f)=(a)-(b)+(c)+(d)-(e)*	Estimated amount at risk at payment *(g) = Average Error Rate applied on (f)*		Estimated future corrections *(h) - Adjusted rate of Average Recoveries and Corrections applied on (f)*		Estimated amount at risk at closure *(i) = (g)-(h)*	
								lowest value	highest value	lowest value	highest value	lowest value	highest value
Other services & Administration	BUDG	12.4	-	-	-	-	12.4	0.1	0.1	-	-	0.1	0.1
	COMP	7.8	0.4	-	0.4	-	7.9	0.0	0.0	-	-	0.0	0.0
	DGT	19.5	-	-	-	-	19.5	-	-	-	-	-	-
	DIGIT	264.3	-	-	-	-	264.3	-	-	-	-	-	-
	EPSC	0.4	-	-	-	-	0.4	-	-	-	-	-	-
	EPSO/EUSA	18.1	-	-	-	-	18.1	0.0	0.0	-	-	0.0	0.0
	ESTAT	51.3	6.3	-	6.7	-	51.7	0.2	0.2	0.1	0.1	0.0	0.0
	FISMA	46.6	37.5	-	39.0	-	48.2	0.2	1.0	0.1	0.1	0.1	0.9
	HR	260.6	-	-	-	-	260.6	0.3	0.3	-	-	0.3	0.3
	IAS	-	-	-	-	-	-	-	-	-	-	-	-
	JRC	475.7	1.1	-	2.5	-	477.0	2.4	2.4	0.1	0.1	2.3	2.3
	OIB	390.6	-	-	-	-	390.6	0.0	2.0	0.0	0.2	-	1.8
	OIL	111.5	-	-	-	-	111.5	0.6	0.6	-	-	0.6	0.6
	OLAF	76.5	9.7	-	3.4	-	70.2	0.7	0.7	0.0	0.0	0.7	0.7
	OP	107.0	-	-	-	-	107.0	0.0	0.0	-	-	0.0	0.0
	PMO	3 953.9	-	-	-	-	3 953.9	7.5	7.5	0.1	0.1	7.4	7.4
	SCIC	53.4	0.2	-	0.2	-	53.4	-	-	-	-	-	-
	SG	7.9	2.2	-	0.7	-	6.4	-	-	-	-	-	-
	SJ	3.4	-	-	-	-	3.4	0.0	0.0	-	-	0.0	0.0
	SRSS	43.1	33.8	-	3.7	-	13.0	0.1	0.1	-	-	0.1	0.1
TOTAL		**135 792.2**	**33 422.7**	**957.3**	**33 850.5**	**49.3**	**137 128.0**	**2 914.2**	**3 594.9**	**2 024.1**	**2 123.2**	**890.1**	**1 471.7**

2-B. Summary of reservations (EUR millions) reported in the 2016 Annual Activity Reports[26]

Policy Area	Description of reservation	Dept.	Impact on Legality and Regularity	Payments concerned = scope	Amount at risk at reporting = exposure
Agriculture	EAGF market measures (7 aid schemes in 8 MS)	AGRI	Quantified	1 394.0	66.1
	EAGF direct support (18 paying agencies in 12 MS, *plus also (non-quantified)* VCS schemes in 8 MS)	AGRI	Quantified	13 618.6	541.2
	EAFRD expenditure for rural development measures (20 paying agencies in 19 MS)	AGRI	Quantified	8 996.0 [27]	393.9
Cohesion	2014-2020 European Regional Development Fund / Cohesion Fund (2 programmes in 2 MS)	REGIO	NEW; Non-quantified	-	-
	2007-2013 European Regional Development Fund / Cohesion Fund / European Territorial Cooperation (66 programmes in 14 MS)	REGIO	Quantified	3 380.0	220.0
	2000-2006 Cohesion Fund (2 sectors in 2 MS)	REGIO	Non-quantified	-	-
	2014-2020 European Social Fund, Youth Employment Initiative, Fund for European Aid to the most Deprived (ESF/YEI/FEAD) (4 programmes in 4 MS)	EMPL	Quantified	102.0	5.3
	2007-2013 European Social Fund (23 programmes in 12 MS)	EMPL	Quantified	1 440.0	162.0
	2000-2006 European Social Fund (1 MS)	EMPL	Non-quantified	-	-
	2007-2013 European Fisheries Fund (EFF) (8 programmes in 8 MS)	MARE	Quantified	160.8	5.5
	2014-2020 Management and control systems for the Asylum, Migration and Integration Fund (AMIF) (Spain, France)	HOME	NEW; Quantified	56.2	1.1
	2007-2013 European Refugee Fund (ERF) and European Integration Fund (EIF) (both in Germany)	HOME	Quantified for ERF, Non-quantified for EIF	1.6	0.1
External Relations	Direct management grants and indirect management grants, programme estimates, International Organisations and MS Agencies	DEVCO	Quantified	3 373.0	60.1
	African Peace Facility (APF)	DEVCO	Quantified	206.2	10.5
	Common Foreign and Security Policy (CFSP) and the Instrument for Cooperation with Industrialised countries (ICI)	FPI	Quantified	272.0	7.0
	Projects in Syria and Libya, for which no assurance building is possible (no staff access to projects or auditors' access to documents)	NEAR	NEW; Non-quantified	46.8	-
Research, Industry, Space, Energy and Transport	Research FP7	RTD	Quantified	682.1	67.2
	Research FP7 - incl. funds paid to AAL Association and ECSEL Joint Undertaking	CNECT	Quantified	430.9	28.6
	Research FP7 - incl. FP7 funds paid to GSA Agency	GROW	Quantified	1.6	0.4
	Research FP7	HOME	Quantified	17.3	1.7
	Research FP7	ENER	Quantified	52.0	3.7
	Research FP7	MOVE	Quantified	2.1	0.2
	Research FP7 - Space and Security	REA	Quantified	206.9	7.1
	Research FP7 - small and medium-sized companies	REA	Quantified	172.3	10.3
	CIP (Competitiveness and Innovation Programme)	GROW	Quantified	10.8	1.2
	CIP ICT Policy Support Programme (PSP)	CNECT	Quantified	32.3	8.4
	CIP Intelligent Energy Europe (IEE II)	EASME	Quantified	40.4	3.4
	CIP Eco-Innovation	EASME	NEW; Quantified	14.5	1.6
	Coal and Steel Research Fund (CSRF)	RTD	Quantified	44.2	1.5
Other internal policies	2007-2013 Lifelong Learning Programme (LLP)	EACEA	Quantified	18.7	4.1
	2007-2013 Culture Programme	EACEA	Quantified	11.8	2.8
	2007-2013 Youth Programme	EACEA	Quantified	0.4	0.1
	Non-research grant programmes	HOME	Quantified	392.5	4.5
	Non-research grant programmes	JUST	Quantified	57.8	1.4
	EU Registry Emissions Trading System (EU ETS) - significant security weakness remaining	CLIMA	Non-quantified	-	-

Policy Area	Description of reservation	Dept.	Impact on Legality and Regularity	Payments concerned = scope	Amount at risk at reporting = exposure
Other services & Administration	Accountability in European Schools	HR	Non-quantified	26.0	-
			TOTAL	**35 261.8**	**1 621.2**
Revenue	EU's Traditional Own Resources (TOR), in view of OLAF's report about fraud in the UK's customs duties	BUDG	NEW; Quantified	20 094.1	517.4
			TOTAL	**20 094.1**	**517.4**

Annex 3: Definitions of the amount at risk

The Commission measures the **level of error** for assessing whether financial operations have been implemented in compliance with the applicable regulatory and contractual provisions. The level of error is defined as the **best estimation** by the authorising officer, taking into account **all relevant information** available and using **professional judgement**, of the expenditure or revenue found to be in breach of applicable regulatory and contractual provisions at the time the financial operations were authorised.

The Commission uses three indicators to measure the level of error:

- **Amount at risk** is the level of error expressed as an absolute amount, in value.
- **Error rate** is the level of error expressed as a percentage.
- **Residual error rate** is the level of error after corrective measures have been implemented, expressed as a percentage.

The level of error is measured at various moments in time:

- At the **time of payment;** when no corrective measures have been yet implemented.
- At the **time of reporting;** when some corrective measures have been implemented but others will be implemented in successive years.
- At the **time of closure**, when all corrective measures will have been implemented. *For multiannual programmes this refers to the end of programme implementation; for annual programmes this is calculated at the end of a multiannual period covering the implementation of corrective measures, depending on the programme.* [28]

The term **corrective measures** refers to the various (*ex-post*) controls implemented after expenditure is declared to the Commission and/or the payment is authorised[29], aimed to identify and correct errors through financial corrections and recoveries.

The **estimated future corrections** is the amount of expenditure in breach of applicable regulatory and contractual provisions that the DG conservatively estimates it will still identify and correct through (*ex-post*) controls implemented *after* the payment is authorised, i.e. not only including corrections already implemented at the time of reporting but also those that will be implemented in successive years. The estimates can be based on the average amount of financial corrections and recoveries in past years, but adjusted when necessary in particular to neutralise (i) elements which are no longer valid under the current legal framework and (ii) one-off events.

These concepts have the "**relevant expenditure**"[30] potentially at risk as calculation basis, which includes the payments made, subtracts the new pre-financing paid out (still owned by the Commission), and adds the previous pre-financing cleared (ownership transferred) during the financial year.[31] This is a 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general accounting.

As a result, the Commission presents **three types of amount at risk**, calculated as follows:

- The overall **Amount at Risk at Payment** in the relevant expenditure is calculated on the basis of the Detected Error Rates (DER in %) or its equivalents[32] for the DGs' expenditure segments, leading up to their total weighted Average Error Rates (AER). Consequently, these are 'gross' types of error rates – which are closest to the European Court of Auditors' Most Likely rate of Error (MLE, and its LEL-UEL range).

- The **Amount at Risk at Reporting** from the reservations is calculated on the basis of the Residual Error Rate (RER in %). This is typically a (cumulative) weighted average of the population segments audited and already cleaned (remaining error near 0 %) versus not (yet) audited (so presumed to be still affected by the DER). This concept assumes that the errors found and the corrections made so far in previous years (up to the time of reporting) apply similarly to the relevant expenditure of the reporting year as well. Consequently, this is an 'intermediate' type of error rate – up to that moment in the management cycle. *However, as this concept is based on (quantified*[33]*) Annual Activity Report Reservations only, it is not an "overall" concept given that it does not cover at all any relevant expenditure which is not under reservation (i.e. for which RER < 2%).*

- The overall **Amount at Risk at Closure** in the relevant expenditure is calculated by subtracting the Estimated Future Corrections from the Amount at Risk at Payment. Consequently, this is a 'net' type of error rate (in EUR and/or in %) – forward-looking to the point when all corrections will have been made.

Annex 4: Protection of the EU Budget

In previous reporting years, this was a separate Communication[34].

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

Key considerations for the protection of the EU budget

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

In **2016**, financial corrections and recoveries **confirmed** amount to EUR 3.8 billion. During **the period 2010-2016** the **average amount confirmed** was EUR 3.3 billion which **represents 2.4 % of the average amount of payments** made from the EU budget. The figures reported confirm the positive results of the multi-annual preventive and corrective activities undertaken by the Commission and the Member States by demonstrating that these activities ensure that the EU budget is protected from expenditure in breach of law.

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

For shared management, the Commission increasingly uses a number of preventive mechanisms and encourages Member States to address weaknesses in their management and control systems so as to prevent irregular expenditure. The Commission applies corrective mechanisms as a last resort where preventive mechanisms were not effective.

For Cohesion and the European Agricultural Fund for Rural Development (EAFRD), the vast majority of the financial corrections confirmed/implemented in 2016 relate to the 2007-2013 programme period. The corrections confirmed or implemented during the year relate to errors and irregularities detected in 2016 or in previous years. Overall, 91 % of the total financial corrections decided have been implemented by the end of 2016.

Agriculture and Rural Development

For the **European Agricultural Guarantee Fund (EAGF)**, the average correction rate for Commission financial corrections under conformity clearance of accounts for the **period 1999 to end 2016** was **1.8 % of expenditure** (all of which are net financial corrections).

Net corrections leading to a reimbursement to the EU budget are characteristic for Agriculture and Rural Development. In 2016 the main corrections relate notably to temporary exceptional measures for markets, specific deficiencies in the Integrated Administration and Control (IACS) system in some Member States and insufficient checks of the reasonableness of costs for investments measures under Rural development.

The Commission now applies a number of newly available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments. In 2016, the Commission has issued EAGF related decisions for the reduction of payments of EUR 20 million, for interruptions of EUR 288 million and for suspensions of EUR 185 million.

As regards the EAGF, Member States where the Land Parcel Identification Systems do not reach the necessary quality level are required to put in place appropriate action plans while facing the risk of financing suspensions should the action plan not be properly implemented.

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

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

In addition to the financial corrections, Member States' own reductions before payments to beneficiaries amounted to EUR 648 million at 31 December 2016.

Cohesion

For the European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF) 2007-2013 funds, at the end of 2016 the combined rate of financial corrections, based on Commission supervision work only, was 1.7 % of the allocations made.

For Cohesion Policy, net corrections are rather the exception under the 2007-2013 framework, due to the different legal framework and budget management type (reinforced preventive mechanism). The regulations for all programming periods enable the Commission to apply preventive measures, i.e. payment interruptions[35] and suspensions, and financial corrections. The regulatory provisions for the 2014-2020 period significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure and foresee the application of net financial corrections.

During the 2000-2006 and 2007-2013 programming period, where the Commission identifies individual irregularities[36] or serious deficiencies in the Member State management and control systems, it can apply financial corrections with the purpose of restoring a situation where all of the expenditure reimbursed by the Commission is brought back in line with the applicable rules. The Member States were able to replace irregular expenditure with new eligible expenditure if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced[37]. In 2016 Member States were able to replace EUR 712 million out of EUR 931 million of corrections.

The European Court of Auditors recently assessed the effectiveness of preventive and corrective measures taken by the Commission in cohesion policy for the 2007-2013 period[38] and concluded that overall the Commission had made effective use of the measures at its disposal to protect the EU budget from irregular expenditure and that the Commission’s corrective measures put pressure on Member States to address weaknesses in their management and control systems.

The new assurance model for the 2014-2020 programming period, set-up on a yearly basis, reduces the risk of having a material level of error in the accounts. The new legal framework foresees an increased accountability for programme managing authorities which have to apply sound verifications on time for the submission of programme accounts each year. During the accounting year the Commission retains 10 % of each interim payment until the finalisation of all national control cycle. Timely identification of serious deficiencies in functioning of the management and control system and reporting of reliable error rates is in the Member States' best interest since the Commission shall make net financial corrections in case Member States have not appropriately addressed them before submitting annual accounts to the Commission.

For the period 2014-2020, for ERDF/CF the Member States have applied financial corrections totalling EUR 11 million, while the financial corrections imposed for ESF/YEI and FEAD amounted to EUR 6 million.

Direct and Indirect Management

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

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

1. Financial corrections and recoveries at end 2016

1.1. Financial corrections and recoveries 2016

MFF Heading	Total EU budget payments in 2016	Total financial corrections confirmed in 2016	Total recoveries confirmed in 2016	Total financial corrections and recoveries confirmed in 2016	% of payments of the EU budget	Total financial corrections implemented in 2016	Total recoveries implemented in 2016	Total financial corrections and recoveries implemented in 2016	% of payments of the EU budget
Smart & inclusive growth	***56 265***	***1 193***	***266***	***1 459***	***2.6%***	***856***	***277***	***1 133***	***2.0%***
ERDF	21 067	706	-	**706**	*3.3%*	623	-	**623**	*3.0%*
Cohesion Fund	7 449	102	-	**102**	*1.4%*	1	-	**1**	*0.0%*
ESF	8 148	386	3	**389**	*4.8%*	232	3	**235**	*2.9%*
Internal policies	19 601	N/A	263	**263**	*1.3%*	N/A	273	**273**	*1.4%*
Sustainable growth: natural resources	***57 411***	***1 745***	***363***	***2 108***	***3.7%***	***1 862***	***183***	***2 046***	***3.6%***
EAGF	44 084	1 286	100	**1 387**	*3.1%*	1 544	118	**1 662**	*3.8%*
*Rural Development***	12 370	458	242	**700**	*5.7%*	243	43	**286**	*2.3%*
FIFG/EFF	422	8	6	**14**	*3.2%*	10	7	**17**	*3.9%*
EAGGF Guidance	48	(7)	2	**(5)**	*(11.0%)*	65	2	**67**	*140.1%*
Internal policies	487	N/A	13	**13**	*2.6%*	N/A	14	**14**	*2.8%*
Security & citizenship	***3 077***	***6***	***27***	***33***	***1.1%***	***6***	***26***	***32***	***1.0%***
Migration and home affairs	2 393	6	-	**6**	*0.3%*	6	-	**6**	*0.2%*
Internal policies	684	N/A	27	**27**	*3.9%*	N/A	26	**26**	*3.8%*
Global Europe	***10 277***	***N/A***	***173***	***173***	***1.7%***	***N/A***	***175***	***175***	***1.7%***
External policies	10 277	N/A	173	**173**	*1.7%*	N/A	175	**175**	*1.7%*
Administration	***9 325***	***N/A***	***4***	***4***	***0.0%***	***N/A***	***4***	***4***	***0.0%***
Administration	9 325	N/A	4	**4**	*0.0%*	N/A	4	**4**	*0.0%*
TOTAL	***136 355****	***2 944***	***833***	***3 777***	***2.8%***	***2 724***	***665***	***3 389***	***2.5%***

Table 1.1: Financial corrections and recoveries overview for 2016[39] in EUR millions

* Excludes EUR 61 million paid out under the Special Instruments heading.

** The Rural Development amounts include EUR 173 million of financial clearance decisions of 2015 that were reported as a reduction of the annual amounts in the 2015 Communication on the protection of the EU budget (COM(2016) 486 final of 18/7/2016).

1.1.1. Agriculture and Rural Development

The **financial corrections**[40] confirmed by the Commission in 2016 reflect the significant efforts made by the Directorate General for Agriculture and Rural Development (DG AGRI) in accelerating the conformity clearance processes, including processing long outstanding procedures. As regards correcting irregularities committed by the beneficiary, Member States must record and report on the **recovery**[41] of the amounts unduly spent within the annual financial clearance exercise. Recovering irregular payments directly from the final beneficiaries is the sole responsibility of the Member States.

1.1.2. Cohesion

2007-2013 programming period

Financial corrections under **ERDF/CF** in 2016 remained high as compared to previous years[42], thus confirming the multi-annual corrective capacity of the policy. This is also the result of the strict policy of interruption/suspension procedures by the Commission since the beginning of the programming period and the fact that we are at the closure of the programming period, with the last possibility for the Member States to declare new expenditure, after the application of the financial corrections requested by the Commission.

The Member States with the highest corrections in 2016 were Hungary (EUR 211 million), Greece (EUR 101 million), Spain (EUR 89 million) and Slovakia (EUR 41 million). As a result, at end 2016 the cumulative amount of financial corrections for 2007-2013 confirmed by Member States as consequence of the Commission supervisory role is EUR 2.9 billion[43].

For **ESF** the total amount of financial corrections confirmed in 2016 stands at EUR 256 million and in cumulative figures at EUR 1 454 million. There were no financial corrections decided by a Commission decision. The total amount of financial corrections implemented in 2016 stands at EUR 102 million out of which EUR 53 million have been confirmed in 2016 and EUR 49 million in the previous years. The total amount of financial corrections implemented for ESF stands at EUR 1 240 million in cumulative figures. 85 % of financial corrections confirmed during the year 2016 and previous years for the programming period 2007-2013 have been implemented, leaving an amount of EUR 213 million to be implemented at closure. Member States with the highest level of financial corrections implemented in 2016 are Spain (EUR 35 million), UK (EUR 18 million) and Romania (EUR 16 million).

2014-2020 programming period

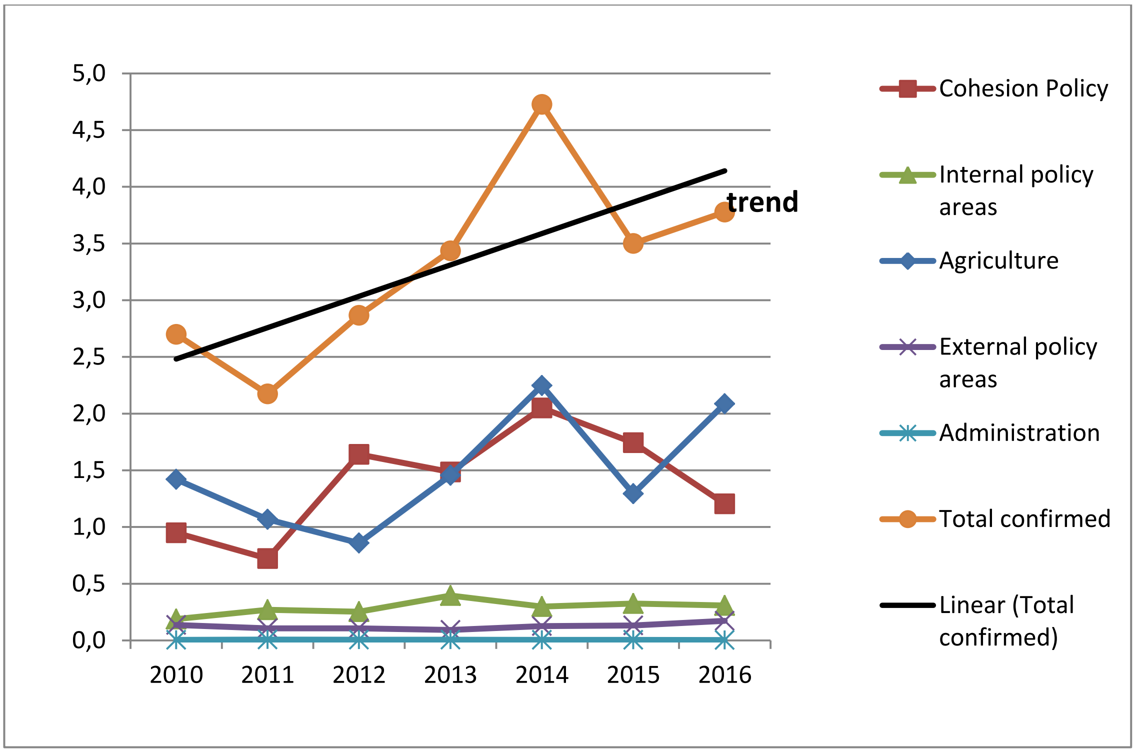
The process for the designation of programme authorities and bodies, which is a key step towards the effective implementation of new operational programmes, has continued throughout 2016 under close monitoring by the Commission services, with large number of mainstream programmes now having finalised their designation. However, no expenditure was certified in the annual accounts submitted to the Commission in 2016 and nor were any financial corrections imposed by the Commission following its audit activity.

1.2. Cumulative financial corrections and recoveries to end 2016

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

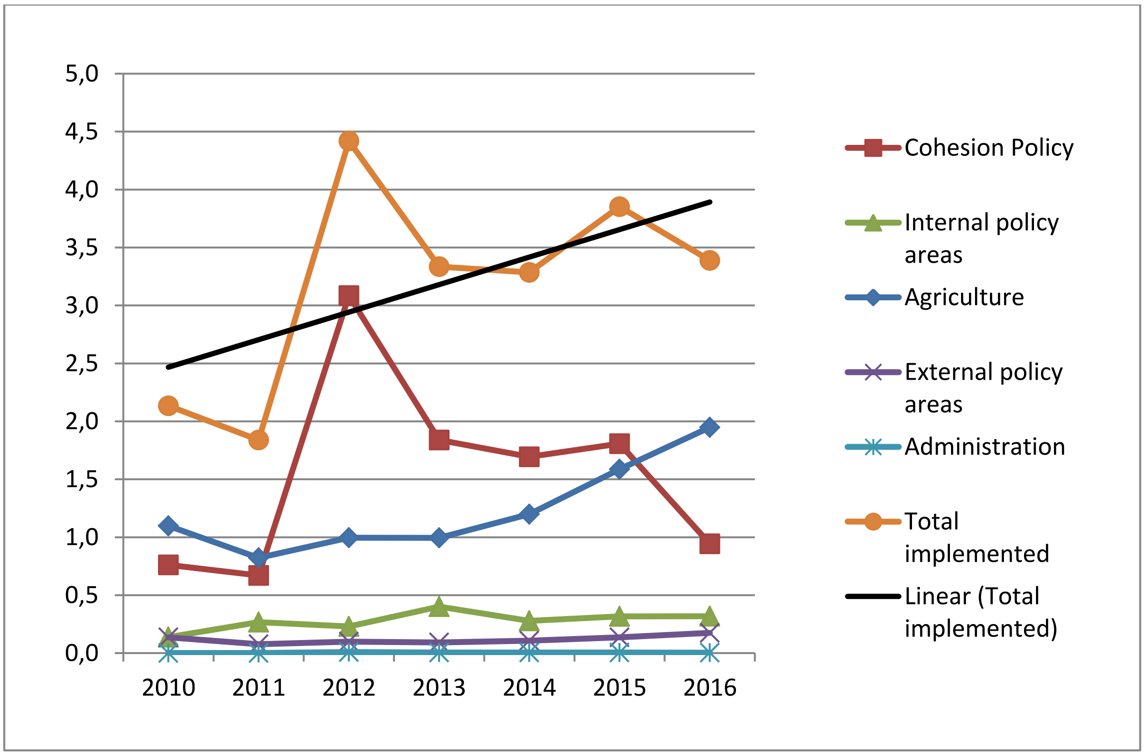
1.2.1. Period 2010-2016

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



Graphs 1.2.1: Financial corrections and recoveries 2010-2016 Financial corrections and recoveries confirmed 2010-2016 (EUR billions)

The average confirmed financial corrections 2010-2016 amount to EUR 3.3 billion which represents 2.4 % of average budget payments.



*Financial corrections and recoveries **implemented** 2010-2016 (EUR billions)*

The average amount of financial corrections and recoveries **implemented** for 2010-2016 was EUR 3.2 billion, which represents 2.3 % of the average amount of payments from the EU budget in that period.

1.2.2. Financial corrections implementation percentage at end 2016

	Programming Period			Cumulated EAGF decisions	Total financial corrections confirmed at end 2016	Implemen-tation % end 2016	Financial corrections confirmed at end 2015	Implemen-tation % end 2015
	1994-1999 Period	2000-2006 Period	2007-2013 Period					
Agriculture	**-**	**144**	**1 067**	**13 081**	**14 291**	**88.5%**	**12 692**	**85.4%**
EAGF	-	-	-	13 081	13 081	89.1%	11 766	85.7%
Rural Development	-	144	1 067	N/A	1 211	82.2%	926	81.3%
Cohesion Policy	**2 281**	**9 052**	**5 802**	**N/A**	**17 136**	**92.4%**	**15 943**	**93.4%**
ERDF	1 341	5 792	3 371	N/A	10 505	91.8%	9 800	92.1%
Cohesion fund	268	843	949	N/A	2 060	92.9%	1 958	97.6%
ESF	569	2 111	1 454	N/A	4 134	94.8%	3 748	98.4%
FIFG/EFF	100	136	28	N/A	264	64.8%	256	63.0%
EAGGF Guidance	3	171	-	N/A	174	100.0%	181	60.1%
Other	**-**	**-**	**-**	**N/A**	**38**	**99.5%**	**32**	**100.0%**
Total	**2 281**	**9 196**	**6 869**	**13 081**	**31 466**	**90.6%**	**28 666**	**89.9%**

Table 1.2.2: Cumulative financial corrections confirmed & implementation percentage to end 2016 in EUR millions

1.2.3. Cumulative recoveries 2010-2016

The tables below provide the amounts of recoveries confirmed and implemented for the period 2010-2016. See also section 1.3.1 below concerning the impact on the EU budget.

Recoveries	Years							Total
	2010	2011	2012	2013	2014	2015	2016	
Agriculture:								
EAGF	178	174	162	227	213	117	100	**1 172**
Rural Development	114	161	145	139	165	206	242	**1 172**
Cohesion	24	50	22	83	35	5	10	**229**
Internal policy areas	188	270	252	393	293	302	303	**2 001**
External policy areas	137	107	107	93	127	132	173	**876**
Administration	5	8	7	6	5	5	4	**40**
Total	**646**	**770**	**695**	**941**	**838**	**767**	**833**	**5 490**

Table 1.2.3: Recoveries confirmed 2010-2016 in EUR millions

Recoveries	Years							Total
	2010	2011	2012	2013	2014	2015	2016	
Agriculture:								
EAGF	172	178	161	155	150	155	118	**1 090**
Rural Development	114	161	166	129	167	152	43	**932**
Cohesion	25	48	14	81	32	7	12	**219**
Internal policy areas	162	268	229	398	274	293	313	**1 937**
External policy areas	136	77	99	93	108	136	175	**824**
Administration	5	2	9	6	5	5	4	**36**
Total	**614**	**734**	**678**	**862**	**736**	**749**	**665**	**5 038**

Table 1.2.4: Recoveries implemented 2010-2016 in EUR millions

1.3. Impact of financial corrections and recoveries

1.3.1 Impact on the EU budget

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

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

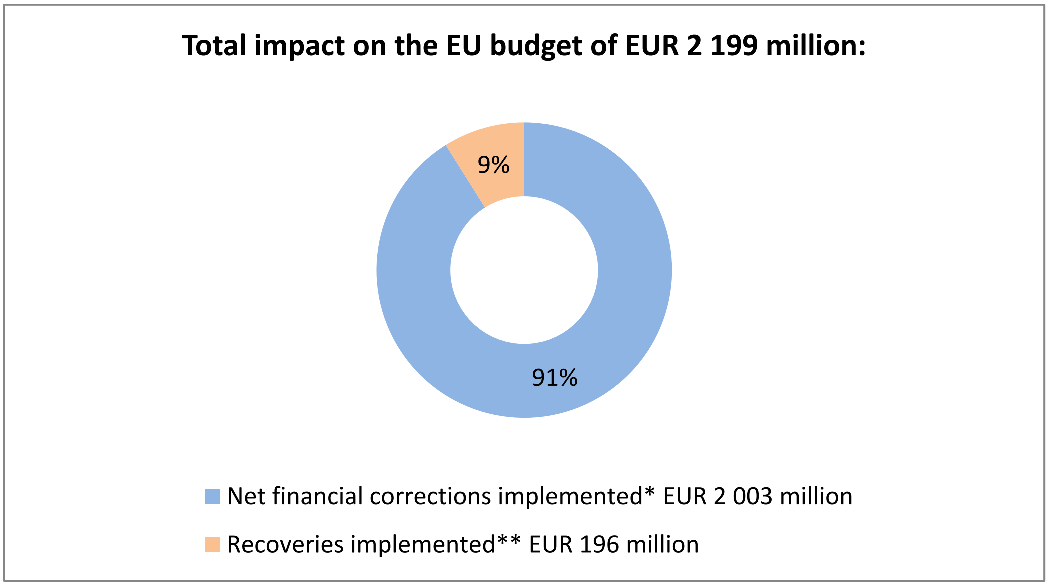
A **net financial correction** is a correction that has a net impact on the EU budget, (i.e. the corrected and recovered amounts are reimbursed to the EU budget).

Agriculture and Rural Development corrections (EAGF, EAFRD, EAGGF) lead almost always to a reimbursement to the EU budget whereas, due to the legal framework, for Cohesion Policy, the return of previously paid amounts to the EU budget were generally the exception during the implementation of the programmes.

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

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

However, a significant change was introduced for the 2014-2020 period: the Commission has the obligation to apply a net financial correction when serious deficiencies in the effective functioning of the management and control system not previously detected, reported nor corrected at Member State level are discovered by EU audits after the submission of the assurance packages. In such cases, the possibility of previous programming periods for the Member State to accept the correction and to re-use the EU funds in question is removed.



Graph 1.3.1: Impact on the EU Budget 2016

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

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

Revenues arising from net financial corrections and recoveries are treated as assigned revenue[44], noting that the Commission implements recoveries also "at source" by deducting ineligible expenditure (which has been identified in previous or current cost claims) from payments made. In general, assigned revenue goes back to the budget line or fund from which the expenditure was originally paid and may be spent again but it is not earmarked for specific Member States.

1.3.2. Impact on national budgets

Under shared management, all financial corrections and recoveries have an impact on national budgets regardless of their method of implementation. It has to be underlined that even if no reimbursement to the EU budget is made, the impact of financial corrections is always negative at Member State's level. This is because in order not to lose EU funding, the Member State must replace ineligible expenditure by eligible operations. This means that the Member State bears, with its own resources (from the national budget), the financial consequences of the loss of EU co-financing of expenditure considered ineligible under the EU programme rules (in the form of opportunity cost) unless it is possible to recover the amounts from individual beneficiaries. This is not always possible, for example in the case of flat-rate corrections at programme level (due to deficiencies in the national administration managing the programme) which are not directly linked to individual irregularities at project level.

2. Agriculture and rural development

2.1. Preventive actions

Preventive actions by the Member States

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

Preventive actions by the Commission

The Commission now applies a number of newly available preventive instruments such as the interruption, suspension and reduction of EU financing with a view to better protecting the EU budget and further incentivising Member States to reduce irregular payments. The Commission may interrupt payments for the second pillar (EAFRD) and reduce or suspend the payments for both pillars (EAGF and EAFRD). The Commission has decided to reduce payments by EUR 20 million, to interrupt EUR 288 million and to suspend EUR 185 million for EAGF in 2016.

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

Secondly, the Commission may reduce or suspend monthly (EAGF) or interim (EAFRD) payments where "*one or more of the key components of the national control system in question do not exist or are not effective due the gravity or persistence of the deficiencies found*"[45] (or there are similar serious deficiencies in the system for the recovery of irregular payments) and:

– either the deficiencies are of a continuous nature and have already been the reasons for at least two financial correction decisions,

or

– the Commission concludes that the Member State concerned is not in a position to implement the necessary remedial measures in the immediate future, in accordance with an action plan with clear progress indicators to be established in consultation with the Commission.

For **EAFRD**, the new Common Provisions Regulation (CPR)[46] also provides for the interruption of interim payments by the Authorising Officer by Delegation (i.e. the Director-General) as an additional, quick and reactive tool in case of concerns about the legality and regularity of payments.

For **EAGF**, the rhythm of the monthly payments would not allow for using such an interruption procedure. For EAGF suspensions of payments in the monthly payments due to deficiencies in the control system were made for a total amount of EUR 185 million (France and Poland). There were no reductions in the monthly payments due to deficiencies in the control system in 2016. The other reductions concern overruns of ceilings, deadlines and other eligibility issues.

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

2.2. Corrective actions

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

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

Furthermore, the execution of the decision may be delayed due to instalment and deferral decisions. Up to end 2016, instalment decisions for corrections of EUR 3.3 billion have been adopted. Deferral of reimbursement of financial corrections ending re-payment in 2016 concerned Greece (EUR 504 million) and Portugal (EUR 109 million).

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

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

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

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

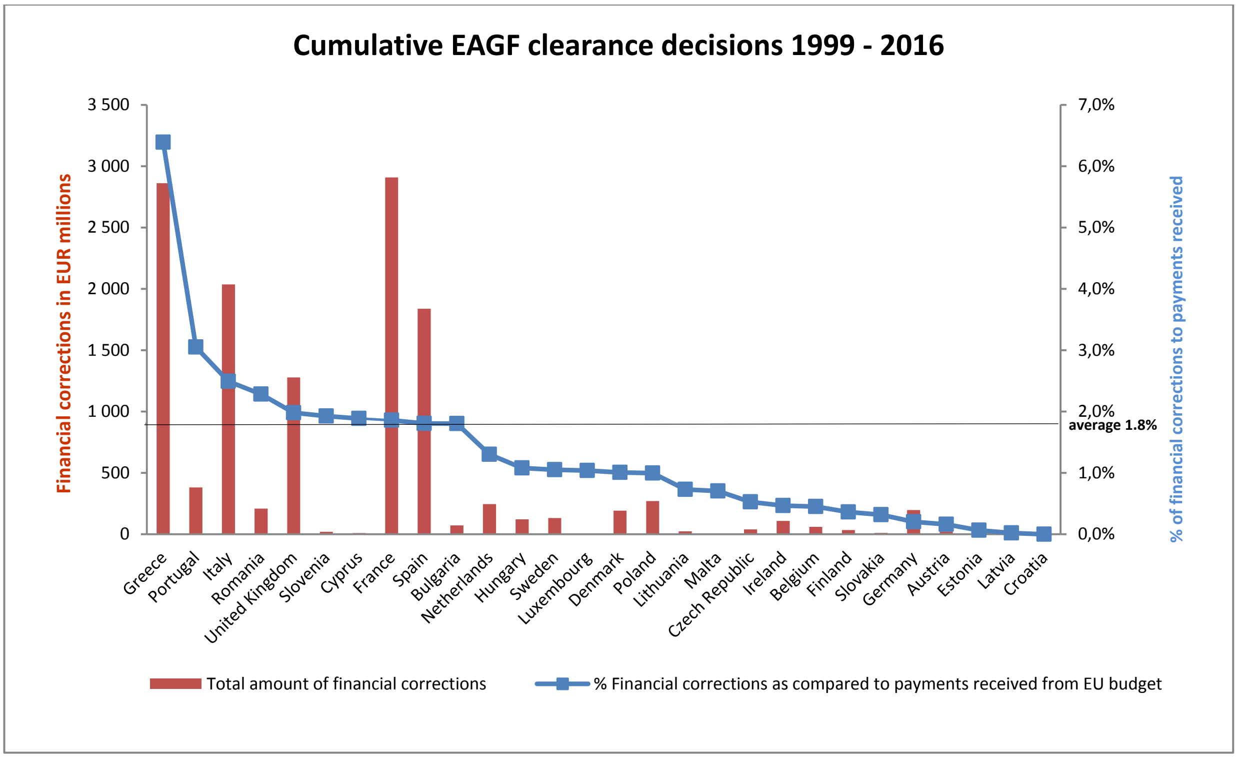
In general, the Commission has launched an ambitious simplification process intended to reduce complexity and administrative burden which will also contribute to bringing the risk of error further down.

2.4. Cumulative figures

Concerning **EAGF**, the average correction rate per financial year for the period 1999-2016 has been **1.8 %** of expenditure. Once decided by the Commission, the corrections are automatically implemented unless a Member State has been granted the possibility of paying in three annual instalments.

Member State	EAGF payments received from EU budget	% of payments received as compared to total payments	Cumulated EAGF financial corrections at end 2016	% as compared to payments received from EU budget	% as compared to total amount of financial corrections
Belgium	13 374	*1.8%*	60	*0.5%*	*0.5%*
Bulgaria	4 001	*0.5%*	72	*1.8%*	*0.6%*
Czech Republic	7 395	*1.0%*	39	*0.5%*	*0.3%*
Denmark	19 085	*2.6%*	192	*1.0%*	*1.5%*
Germany	97 916	*13.2%*	198	*0.2%*	*1.5%*
Estonia	866	*0.1%*	1	*0.1%*	*0.0%*
Ireland	23 163	*3.1%*	108	*0.5%*	*0.8%*
Greece	44 779	*6.1%*	2 861	*6.4%*	*21.9%*
Spain	101 813	*13.8%*	1 838	*1.8%*	*14.1%*
France	156 554	*21.2%*	2 908	*1.9%*	*22.2%*
Croatia	443	*0.1%*	-	-	-
Italy	81 721	*11.1%*	2 037	*2.5%*	*15.6%*
Cyprus	511	*0.1%*	10	*1.9%*	*0.1%*
Latvia	1 255	*0.2%*	0	*0.0%*	*0.0%*
Lithuania	3 329	*0.5%*	24	*0.7%*	*0.2%*
Luxembourg	545	*0.1%*	6	*1.0%*	*0.0%*
Hungary	11 269	*1.5%*	122	*1.1%*	*0.9%*
Malta	43	*0.0%*	0	*0.7%*	*0.0%*
Netherlands	18 879	*2.6%*	246	*1.3%*	*1.9%*
Austria	12 607	*1.7%*	20	*0.2%*	*0.2%*
Poland	27 113	*3.7%*	270	*1.0%*	*2.1%*
Portugal	12 510	*1.7%*	382	*3.1%*	*2.9%*
Romania	9 148	*1.2%*	209	*2.3%*	*1.6%*
Slovenia	1 051	*0.1%*	20	*1.9%*	*0.2%*
Slovakia	3 334	*0.5%*	11	*0.3%*	*0.1%*
Finland	9 510	*1.3%*	34	*0.4%*	*0.3%*
Sweden	12 624	*1.7%*	133	*1.1%*	*1.0%*
United Kingdom	64 499	*8.7%*	1 278	*2.0%*	*9.8%*
Total	**739 336**	***100.0%***	**13 081**	***1.8%***	***100.0%***

Table 2.4: EAGF Cumulative financial corrections decided under conformity clearance of accounts from 1999 to end 2016; Breakdown by Member State in EUR millions



Graph 2.4: EAGF Member States' cumulative financial corrections under conformity clearance of accounts from 1999 to end 2016 as compared to payments received from the EU Budget

2.5. Member States corrections

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

- For each aid support scheme financed by EAGF or EAFRD, ex-ante administrative and on-the-spot checks are performed and dissuasive sanctions are applied in case of non-compliance by the beneficiary. If on-the-spot checks reveal a high number of irregularities, additional controls must be carried out.
- In this context, the by far most important system is the Integrated Administration and Control System (IACS). The IACS covered in the financial year 2016 93.9 % of EAGF and Rural Development expenditure.
- A detailed reporting from Member States to the Commission on the checks carried out by them and on the sanctions applied is foreseen in the legislation and enables a calculation, for the main aid schemes, of the level of error found by Member States at the level of the final beneficiaries.

These reports from the Member States disclose the preventive effect of the ex-ante, administrative and on-the-spot controls carried out, which led to corrections amounting to EUR 648 million. The most important corrections related to Spain (EUR 114 million), Poland (EUR 111 million) and Romania (EUR 73 million).

Table 2.5: Member States own corrections in 2016 applied before payments to beneficiaries are executed (in addition to Commission reporting[47])

EUR millions

Member State	EAGF Market Measures	EAGF Direct Payments	EAFRD	Total 2016
Belgium	1.9	3.3	1.0	6.2
Bulgaria	0.1	14.8	7.2	22.1
Czech Republic	0.0	1.4	3.1	4.6
Denmark	0.3	1.0	1.6	2.9
Germany	3.3	18.7	11.1	33.1
Estonia	0.0	0.7	1.3	2.0
Ireland	0.1	0.4	1.0	1.4
Greece	0.4	15.7	5.2	21.4
Spain	30.2	65.3	18.7	114.2
France	5.8	23.6	4.2	33.6
Croatia	0.0	6.7	2.3	9.1
Italy	5.3	51.1	14.0	70.4
Cyprus	0.1	0.8	0.1	1.1
Latvia	0.0	1.4	0.8	2.2
Lithuania	0.0	2.2	3.6	5.8
Luxembourg	0.0	0.2	0.1	0.3
Hungary	2.9	35.6	5.8	44.3
Malta	0.0	0.1	0.6	0.7
Netherlands	9.1	17.4	3.7	30.2
Austria	0.4	1.3	3.2	4.9
Poland	1.6	93.7	16.1	111.4
Portugal	1.1	5.0	10.8	16.9
Romania	1.5	50.5	20.8	72.8
Slovenia	0.1	0.2	1.6	1.9
Slovakia	0.0	4.1	8.4	12.6
Finland	0.0	3.4	1.0	4.5
Sweden	0.5	3.2	2.1	5.7
United Kingdom	0.1	10.1	1.7	11.9
Total	**64.8**	**431.9**	**151.4**	**648.2**

3. Cohesion policy

3.1. Preventive actions

The regulations for all programming periods enable **the Commission to apply preventive measures**, i.e. payment interruptions[48] and suspensions, and financial corrections. The Commission policy on interruption and suspension of payments operates on a preventive basis, triggering the interruption of interim payments as soon as there is evidence to suggest a significant deficiency in the management and control system of all or part of an operational programme, thus avoiding the reimbursement by the EU budget of amounts which might be affected by serious irregularities. As regards **ERDF / CF** and **ESF** programmes, it is worth underlining that the remedial action plans agreed by the Member States as a result of the Commission's supervisory role also have a preventive impact on expenditure already incurred by beneficiaries and registered at national level in the certifying authority's accounts, but not yet declared to the Commission. For such expenditure, the certifying authority applies the financial correction requested by the Commission prior to declaring expenditure. Expenditure declared to the Commission is thus already net of irregular amounts.

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

Interruptions and suspensions are only lifted on the basis of reasonable assurance on the implementation of corrective measures and / or after financial corrections have been implemented.

It has to be highlighted that for the 2014-2020 programming period, the Commission is adapting its approach on interruptions/suspensions to the new assurance model, in particular taking account of the retention of 10 % on each interim payment. It will also continue to ensure preventive capacity building actions with programme authorities to improve the quality of spending and to cooperate closely with audit authorities under the single audit principle to timely and effectively address risks and ensure that reliable audit results are reported to the Commission. Should there be identified serious deficiencies in the management control system for which the estimate impact is above 10 % – in application of paragraphs a) or b) of Article 31(3) of Regulation 480/2014, an interruption will be launched, or in the absence of a payment application, a letter will be sent to warn of a possible interruption and financial correction if the issue is not resolved or the relevant expenditure is not withdrawn at the time of submission of accounts for further verifications[49].

Interruptions

Fund	Cohesion policy: 2007-2013 programming period							
	Total open cases at 31.12.2015		New cases 2016		Closed cases during 2016		Total open cases at 31.12.2016	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
ERDF & CF	51	1 730	64	2 633	66	2 675	49	1 688
ESF	26	762	9	267	22	648	13	381
EFF	2	8	17	127	4	45	15	90
Total	**79**	**2 500**	**90**	**3 027**	**92**	**3 368**	**77**	**2 159**

Table 3.1: Interruptions in EUR millions The table above presents for the ERDF & CF, the ESF and the EFF, a view on the evolution of the interruption cases both in number and in amount. The opening balance includes all the cases still open at end 2015, irrespective of the year when the interruption was notified to the Member State. The new cases only refer to the interruptions notified in the year 2016. The closed cases represent the cases for which the payment of cost claims resumed in 2016, irrespective of the year when the interruption started. The cases still open at end 2016 represent the interruptions that remain active at 31 December 2016, i.e. the payment deadline of cost claims is still interrupted pending corrective measures to be taken by the Member State concerned.

Concerning ERDF and CF, the 49 payments that remained interrupted at the end of 2016 concern mainly Spain (39). For ESF, the 13 payments that remained interrupted at the end 2016 represent Germany (3), Spain (2) and Italy (8) of which 11 were already interrupted at the end of 2015. There was one new interruption in 2016 related to programming period 2014-2020 concerning the

Youth Employment Initiative France, for which the payment remains interrupted at the end 2016. Concerning the EFF, the 15 payment applications that remained interrupted at the end 2016 represent Italy (14) and Spain (1). 2 out of these 15 payment applications were already interrupted at the end of 2015.

Suspensions

Concerning **ERDF** and the **Cohesion Fund** and the 9 suspension decisions still in force at end 2015[50], the decision was taken in 2016 to lift 7 suspension decisions following completion of the required corrective measures by the Member States.
The other 2 suspension decisions related to Spain remain in force at the end of 2016. 1 new suspension decision was adopted in 2016, relating to Hungary, leading to a total number of 3 suspension decisions active at the end of 2016.
The Commission services detected serious deficiencies in the management and control system of the programme 'Social Infrastructure' in Hungary, which affected the reliability of the procedures for certification of payments. These deficiencies were related to the management verifications and the organisation of the management and control bodies. The corrective measures taken by Hungarian authorities were not sufficient in relation to the corrective actions requested by the Commission in its letter of 29 September 2015. Therefore, pursuant to Article 92 of Regulation (EC) No 1083/2006, the interim payments from the European Regional Development Fund for the programme "Social Infrastructure" were suspended.

Concerning **ESF**, 15 operational programmes were suspended at the end of 2015, of which 8 were lifted during 2016. 1 suspension decision was adopted and lifted in 2016 (Belgium). At the end of 2016, suspensions concerning 7 operational programmes are still in force (Germany (1), Italy (3) and Spain (3)).

3.2. Corrective actions

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

During the 2000-2006 and 2007-2013 programming periods, **Member States were able to replace irregular expenditure with new expenditure** if they took the necessary corrective actions and applied the related financial correction. If the Member State did not have such additional expenditure to declare, the financial correction resulted in a net correction (loss of funding). In contrast, a Commission financial correction decision had always a direct and net impact on the Member State: it had to pay the amount back and its envelope was reduced (i.e. the Member State could spend less money throughout the programming period). In 2016 Member States were able to replace EUR 712 million out of EUR 931 million of corrections.

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

Financial corrections reported in 2016 for the ERDF/CF 2007-2013 programming period remained high compared to years prior to 2015, thus confirming the multi-annual corrective capacity of the policy. This is also the result of the strict policy of interruption/suspension procedures by the Commission since the beginning of the programming period and the fact that we are approaching the closure of the programmes, with the last possibility for the Member States to declare new expenditure, after the application of the financial corrections requested by the Commission.

As regards the other programming periods, EUR 8 million new financial corrections have been reported for for the closure of the 2000-2006 programmes while no corrections have been imposed yet by the

Commission for the new programming period. As a result, at end 2016 the cumulative amount of financial corrections for all programming periods confirmed by Member State as consequence of the Commission supervisory role is around EUR 12.6 billion.

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

As mentioned above, under shared management Member States are primarily responsible for the effective and efficient functioning of the management and control systems at national level. Nevertheless, the Commission seeks to ensure that the national systems better prevent errors before certification and takes a number of actions such as capacity building actions in Member States, pursuing further the single audit approach, carrying out complementary risk-based audits and exercising a strict supervision over programme management, using the available legal tools such as **interruptions, suspensions** and, where necessary, **financial corrections**.

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

A general administrative capacity initiative with the following measures already implemented or on-going:

A peer-to-peer exchange of expertise between authorities managing and implementing ERDF and CF programmes[51]. By December 2016, 110 exchanges have been approved and of these, 74 exchanges involving 1 148 participants have been implemented with positive feedback.

- A strategic training programme for Managing, Certifying and Audit Authorities and Intermediate Bodies on the implementation of the 2014 – 2020 Regulations (574 people trained).
- A Competency Framework for efficient management and implementation of ERDF and the Cohesion Fund, aimed at supporting further professionalisation of the fund management.
- Specific workshops in cooperation with OLAF in the 15 most affected Member States on implementing effective and proportionate anti-fraud/anti-corruption measures to increase the awareness of risks and greater acceptance that preventive measures are possible (incl. promoting the use of 'Arachne').
- Pilot Integrity Pacts in cooperation with Transparency International. 17 pilot Integrity Pacts are being set up in 11 Member States to run for a period of four years from 2016.

A dedicated action plan on public procurement for strengthening capacity in that field in close cooperation with DG Internal Market, Industry, Entrepreneurship and SMEs, other ESI Funds DGs and EIB. The action plan includes:

- Public Procurement Guidance for Practitioners on the avoidance of errors in ESI funded projects was published in October 2015 in all EU languages.
- Monitoring of the ex-ante conditionality action plans on public procurement with a focus on those Member States which are still implementing their action plans.
- A public procurement stock-taking study including more than 50 good practice examples in public procurement across the EU, has been widely disseminated.
- Promotion of transparency and open data on public procurement, including through the initiative for pilot Integrity Pacts mentioned above.

A State aid action plan designed in close cooperation with DG Competition. It aims at increasing awareness and understanding of the subject, at improving the co-operation between the various actors involved in the monitoring of State aid in the Member States, and providing pro-active support to the EU Member States and regions in the correct application of State aid rules. It includes measures for:

- Reviewing existing good practices and their dissemination.
- Strategic training programmes, including expert and country specific seminars.
- Exchanges between the Commission and Audit Authorities, for further dissemination of audit checklists adapted to the 2014 GBER (General Block Exemption Regulation) revisions.
- Customised assistance to Member States not fulfilling the ex-ante conditionality on State aid to help them implement their action plan.

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

3.4. Cumulative figures

3.4.1. Cohesion Policy: ERDF & ESF 2000-2006

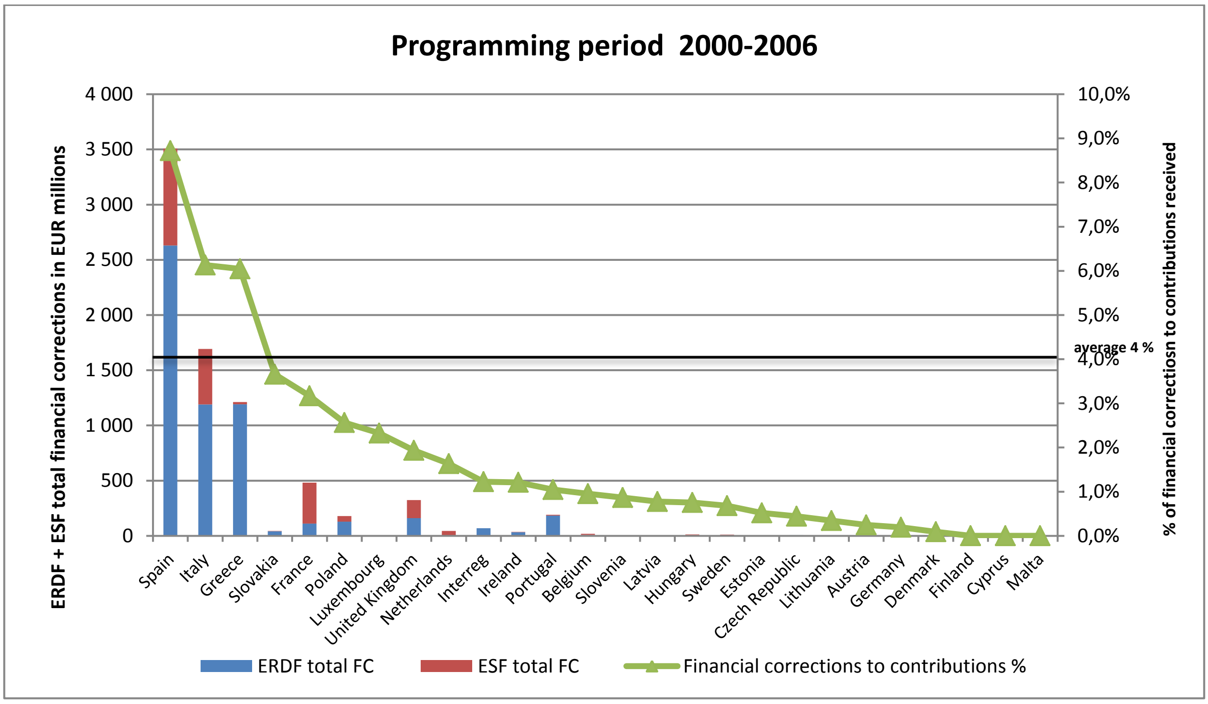
Member State	ERDF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	1 979	1.0%	19	1.0%	0.2%
Czech Republic	1 443	0.7%	6	0.4%	0.1%
Denmark	608	0.3%	1	0.1%	0.0%
Germany	27 387	13.8%	53	0.2%	0.7%
Estonia	306	0.2%	2	0.5%	0.0%
Ireland	3 003	1.5%	36	1.2%	0.5%
Greece	20 054	10.1%	1 212	6.0%	15.3%
Spain	40 229	20.3%	3 508	8.7%	44.4%
France	15 224	7.7%	482	3.2%	6.1%
Italy	27 612	14.0%	1 693	6.1%	21.4%
Cyprus	52	0.0%	-	0.0%	0.0%
Latvia	517	0.3%	4	0.8%	0.1%
Lithuania	772	0.4%	3	0.3%	0.0%
Luxembourg	80	0.0%	2	2.3%	0.0%
Hungary	1 709	0.9%	13	0.8%	0.2%
Malta	57	0.0%	-	0.0%	0.0%
Netherlands	2 695	1.4%	44	1.6%	0.6%
Austria	1 654	0.8%	4	0.2%	0.1%
Poland	7 015	3.5%	180	2.6%	2.3%
Portugal	18 149	9.2%	190	1.0%	2.4%
Slovenia	218	0.1%	2	0.9%	0.0%
Slovakia	1 225	0.6%	45	3.7%	0.6%
Finland	1 824	0.9%	0	0.0%	0.0%
Sweden	1 696	0.9%	12	0.7%	0.1%
United Kingdom	16 739	8.5%	324	1.9%	4.1%
Interreg	5 645	2.9%	69	1.2%	0.9%
Total	**197 893**	**100.0%**	**7 903**	**4.0%**	**100.0%**

Table 3.4.1: Programming period 2000-2006 - ERDF & ESF Financial corrections confirmed at 31 December 2016; Breakdown by Member State in EUR millions

For **ERDF** at the end of 2016, the Commission had closed 378[52] out of a total of 379 programmes (compared to 361 at end of 2015). The remaining programme (OP Sicily) was closed in May 2017 after the official acceptance of the closure declaration by the Member State.

Financial corrections imposed by the Commission to all Member States cumulatively up to the end of 2016 are EUR 5.8 billion[53], representing around 4.5 % of the total allocations for all 2000-2006 programmes. This process can be broken down into EUR 4.1 billion of financial corrections during the life cycle of the programmes and another EUR 1.6 billion of financial corrections applied at closure of the programmes. The main Member States concerned are Spain (EUR 2.6 billion), Italy (EUR 1.2 billion) and Greece (EUR 1.2 billion).

For **ESF**, the Commission has closed all 239 programmes proceeding to 29 partial and 210 full closures leaving remaining EUR 338 million which corresponds to EUR 100 million of suspended operations following judicial proceedings, and EUR 238 million of not released commitments related to ongoing financial correction procedures for Italy (Sicily). At the end of 2016 the total amount of financial corrections confirmed for 2000-2006 programming period - taking into account financial corrections in progress - amounted to EUR 2.4 billion, representing 3.5 % of the ESF allocation. This process can be broken down into EUR 1.2 billion of financial corrections during the life cycle of the programmes and another EUR 1.2 billion applied at closure. Comparing to 2015, no new financial corrections have been reported. Only financial corrections in progress in 2015 were accepted during 2016 for which the pre-contradictory procedures were lifted and closure completed.



Graph 3.4.1: Member States' cumulative financial corrections confirmed at 31 December 2016 for ERDF & ESF programming period 2000-2006 as compared to contributions received

3.4.2. Cohesion Policy: ERDF / CF & ESF 2007-2013

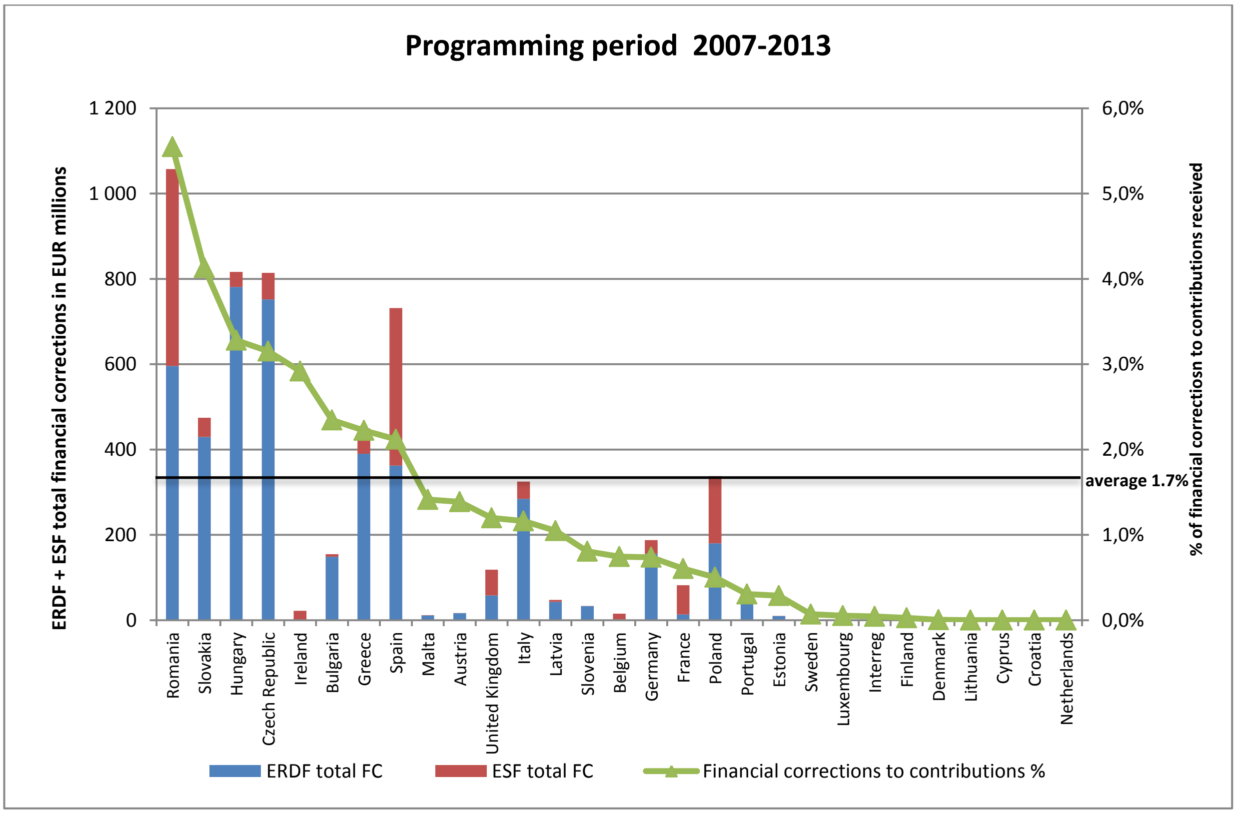
The lower volume of financial corrections reflects the improved capacity of the management and control systems to detect problems and to correct errors before expenditure is declared to the Commission, as reflected in the lower error rates for cohesion policy in the period 2007-2013 compared to the period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

Member State	ERDF/CF+ESF contribution amount	% of contribution amount to total contributions	Financial corrections confirmed	Percentage of financial corrections in relation to the ERDF/CF+ESF contributions	Share of financial corrections imposed compared to total financial corrections
Belgium	2 059	0.6%	15	0.7%	0.3%
Bulgaria	6 595	1.9%	155	2.3%	2.7%
Czech Republic	25 819	7.5%	814	3.2%	14.1%
Denmark	510	0.1%	0	0.0%	0.0%
Germany	25 458	7.3%	188	0.7%	3.2%
Estonia	3 403	1.0%	10	0.3%	0.2%
Ireland	751	0.2%	22	2.9%	0.4%
Greece	20 210	5.8%	449	2.2%	7.8%
Spain	34 521	10.0%	732	2.1%	12.7%
France	13 546	3.9%	82	0.6%	1.4%
Croatia	858	0.2%	-	0.0%	0.0%

Italy	27 940	8.1%	325	1.2%	5.6%
Cyprus	612	0.2%	0	0.0%	0.0%
Latvia	4 530	1.3%	47	1.0%	0.8%
Lithuania	6 775	2.0%	0	0.0%	0.0%
Luxembourg	50	0.0%	0	0.1%	0.0%
Hungary	24 893	7.2%	817	3.3%	14.1%
Malta	840	0.2%	12	1.4%	0.2%
Netherlands	1 660	0.5%	-	0.0%	0.0%
Austria	1 170	0.3%	16	1.4%	0.3%
Poland	67 186	19.4%	338	0.5%	5.8%
Portugal	21 412	6.2%	66	0.3%	1.1%
Romania	19 058	5.5%	1 057	5.5%	18.3%
Slovenia	4 101	1.2%	33	0.8%	0.6%
Slovakia	11 483	3.3%	474	4.1%	8.2%
Finland	1 596	0.5%	0	0.0%	0.0%
Sweden	1 626	0.5%	1	0.1%	0.0%
United Kingdom	9 878	2.9%	118	1.2%	2.1%
Interreg	7 956	2.3%	3	0.0%	0.1%
Total	**346 496**	**100.0%**	**5 774**	**1.7%**	**100.0%**

Table 3.4.2: Programming period 2007-2013 – ERDF / CF & ESF Financial corrections confirmed at 31 December 2016; Breakdown by Member State in EUR millions

As 2007-2013 programmes are multi-funds, no split is given between ERDF and CF in the above table.



Graph 3.4.2: Member States' cumulative financial corrections confirmed at 31 December 2016 for ERDF / CF & ESF programming period 2007-2013 as compared to contributions received

For **ERDF / CF** programmes, the Commission has imposed around EUR 4.3 billion of financial corrections[54] cumulatively since the beginning of the 2007-2013 programming period (which includes

EUR 1.4 billion of financial corrections applied by the Member States before or at the same time of declaring the expenditure to the Commission as a result of requested remedial actions). The main Member States concerned are Hungary (EUR 781 million), Czech Republic (EUR 752 million), Romania (EUR 596 million), Slovakia (EUR 429 million), Greece (EUR 390 million), Spain (EUR 362 million) and Italy (EUR 284 million).

For **ESF**, the Member States with the highest level of cumulative amount of financial corrections confirmed are Romania (EUR 461 million), Spain (EUR 369 million) and Poland (EUR 158 million). At this stage of the implementation and almost at closure of the programmes the cumulative amount of financial corrections stands at EUR 1.5 billion representing 1.9 % of the ESF allocation.

3.5. Member States corrections

Under the regulations for the 2007-2013 programming period, Member States have to report annually to the Commission the corrections[55] stemming from all controls performed. The Commission is performing risk-based audits and desk reviews to test the reliability of these figures as part of its assurance process.

Member State	ERDF/CF	ESF	EFF	Total
Belgium	4.8	31.9	0.0	**36.7**
Bulgaria	106.6	10.0	-	**116.6**
Czech Republic	389.6	14.8	0.3	**404.7**
Denmark	0.7	0.1	1.1	**1.9**
Germany	544.7	258.5	1.9	**805.2**
Estonia	25.5	1.1	2.8	**29.4**
Ireland	5.5	30.1	0.2	**35.8**
Greece	666.1	74.3	77.2	**817.6**
Spain	1 307.7	518.0	60.3	**1 886.0**
France	225.4	111.2	4.7	**341.3**
Croatia	2.1	0.4	0.0	**2.5**
Italy	566.9	142.9	11.6	**721.4**
Cyprus	9.2	1.9	0.7	**11.8**
Latvia	49.1	2.8	1.9	**53.8**
Lithuania	20.6	1.2	1.8	**23.7**
Luxembourg	-	0.2	-	**0.2**
Hungary	582.5	6.7	0.1	**589.3**
Malta	-	0.0	0.1	**0.1**
Netherlands	24.3	6.1	6.8	**37.2**
Austria	20.7	9.2	0.1	**29.9**
Poland	850.9	11.9	6.5	**869.3**
Portugal	299.0	79.3	14.6	**392.9**
Romania	386.4	85.7	24.3	**496.4**
Slovenia	105.1	8.5	0.0	**113.7**
Slovakia	140.9	16.3	0.9	**158.1**
Finland	2.8	1.4	1.0	**5.2**
Sweden	8.3	2.3	0.4	**11.0**
United Kingdom	251.3	81.9	8.1	**341.3**
Cross-border	58.3	-	-	**58.3**
TOTAL IMPLEMENTED	**6 655.1**	**1 508.7**	**227.6**	**8 391.4**

Table 3.5: Cumulative corrections at end 2016 reported by Member States for Cohesion Policy period 2007-2013[56] in EUR millions

It is highlighted that the Commission has taken a prudent approach[57], due to certain weaknesses in the Member State figures, so as to ensure that the amounts are not overstated – as a result some of them may in reality be higher. This, however, has no impact on the reliability of the Commission's own figures. The cumulative amounts (above) in question are very significant and when added to the results of the Commission's work, give a very clear indication of the success of the controls put in place by both parties.

Financial corrections declared by the Member States for Cohesion Policy period 2014-2020[58]

In February 2017 the Member State authorities have submitted the certified accounts for the second accounting year. According to the information received in the assurance packages, following the results of audit of operations, for ERDF/CF the Member States have applied financial corrections totalling EUR 11 million. The financial corrections imposed for ESF/YEI and FEAD amounted to EUR 6 million.

4. Direct and indirect management

For direct and indirect management expenditure, the Commission has control frameworks in place to prevent, detect, correct and thus deter irregularities at the different stages of the grant management process in order to achieve both operational and financial objectives. An overview of the controls made in two key areas of direct and indirect management expenditure, research and international aid, are given below.

For **Research expenditure**, the control framework applicable to both direct[59] and indirect[60] management modes starts with the development of a work programme, which goes through a wide-ranging consultation process to ensure that it best meets the expectations of all stakeholders and will maximise the research outcome. Following the evaluation of proposals, further controls are then carried out as the selected proposals are translated into legally binding contracts. Project implementation is monitored throughout the lifetime of the project. Payments against cost claims are all subject to ex-ante checks according to standard procedures, which include an audit certificate given by a qualified auditor. As well as standard controls, additional, targeted, controls can also be carried out according to the information received and the risk of the transaction.

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

In the field of **International Cooperation and Development**, the Commission has established a control framework to prevent, detect, correct and thus deter irregularities at the different stages of the implementation of funding, applicable to both management modes (direct and indirect[61]) used for this implementation. This strategy starts from the choice of the most appropriate tool when drafting the planning documents and the financial decisions, and translates into the actual checks carried out at all stages of the implementation. From the point of view of financial control, the system is made up of a number of instruments systematically applied to the implementation of contracts and grants for all management modes: ex-ante checks on payments, audits carried out by the Commission and foreseen in an audit plan, expenditure verifications carried out prior to payments by beneficiaries of grants, verification missions to international organisations and an overall ex-post control on the basis of the Residual Error Rate study carried out every year.

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

5. Detailed financial corrections and recoveries information

5.1. Net financial corrections 2016

Confirmed

MFF Heading	Net financial corrections confirmed in 2016*	Financial corrections with replacement of expenditure and other corrections confirmed in 2016	Total financial corrections confirmed in 2016
Smart & inclusive growth	***114***	***1 079***	***1 193***
ERDF	(2)	707	706
Cohesion Fund	(10)	112	102
ESF	126	260	386
Sustainable growth: natural resources	***1 739***	***6***	***1 745***
*EAGF***	1 279	7	1 286
Rural Development	458	-	458
FIFG/EFF	10	(1)	8
EAGGF Guidance	(7)	-	(7)
Security & citizenship	***1***	***5***	***6***
Migration and home affairs	1	*5*	6
TOTAL	**1 854**	**1 090**	**2 944**

Table: in EUR millions

** A total of EUR 669 million remain to be classified and is treated as non-net corrections in this table.*

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

Implemented

MFF Heading	Net financial corrections implemented in 2016	Financial corrections with replacement of expenditure and other corrections implemented in 2016	Total financial corrections implemented in 2016
Smart & inclusive growth	***146***	***710***	***856***
ERDF	26	597	**623**
Cohesion Fund	(6)	7	**1**
ESF	126	106	**232**
Sustainable growth: natural resources	***1 854***	***9***	***1 862***
EAGF	1 537	7	**1 544**
Rural Development	243	-	**243**
FIFG/EFF	8	2	**10**
EAGGF Guidance	65	-	**65**
Security & citizenship	***1***	***5***	***6***
Migration & home affairs	1	*5*	**6**
TOTAL	**2 000**	**724**	**2 724**

Table: in EUR millions

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

5.2. Breakdown of flat-rate[62] corrections 2016

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

	Total financial corrections confirmed (EUR million)	Flat-rate financial corrections* confirmed in 2016 (EUR million)	Total financial corrections implemented (EUR million)	Flat-rate financial corrections* implemented in 2016 (EUR million)
Agriculture* **				
EAGF	1 286	828**	1 544	-
EAFRD	458	244**	243	-
Cohesion				
ERDF & CF****	808	425	624	333
ESF	386	186	232	217
EAGGF guidance	(7)	(7)	65	-
EFF/FIFG	8	-	10	-
Internal policies	6	5	6	5
TOTAL	**2 944**	**1 681**	**2 724**	**555**

* *Includes extrapolated corrections.*

** *This represents a best estimate. The majority of financial corrections integrate amounts based on precise calculations and flat rates.*

*** *Implemented flat-rate figures for Agriculture are not available.*

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

5.3. Breakdown of financial corrections made at source 2016

Member State	At source financial corrections confirmed in 2016 (EUR million)	At source financial corrections implemented in 2016 (EUR million)
Belgium	0	0
Bulgaria	-	0
Czech Republic	0	3
Germany	0	0
Ireland	0	0
Greece	3	3
Spain	(1)	(1)
France	1	1
Italy	0	0
Lithuania	(2)	(2)
Hungary	167	(11)
Netherlands	0	0
Poland	(3)	48
Portugal	0	0
Romania	68	77
Slovakia	1	0
Sweden	0	0
United Kingdom	0	0

TOTAL	234	118

At source financial corrections are applied by the Member State authorities before or at the same time that new expenditure is declared to the Commission. In the majority of the cases they are the result of flat rate corrections imposed for deficiencies in the management and control system, identified following the Commission audits[63].

In 2016, the main financial corrections at source concern **ERDF/CF** and **ESF.**

For **ERDF/CF** the most significant confirmed corrections at source concern Hungary (EUR 165 million) and Romania (EUR 62 million) and for **ESF**, Romania (EUR 7 million) and Hungary (EUR 3 million).

5.4. Breakdown by Member State: Financial corrections in 2016 compared to EU payments received

Member State	Payments received from the EU budget in 2016 (EUR million)	Financial corrections confirmed in 2016 (EUR million)	Financial corrections confirmed in 2016 % as compared to payments received from the EU budget in 2016	Financial corrections implemented in 2016 (EUR million)	Financial corrections implemented in 2016 as % of payments received from the EU budget in 2016
Belgium	918	(3)	*(0.3%)*	5	*0.6%*
Bulgaria	2 208	21	*1.0%*	41	*1.8%*
Czech Republic	4 483	35	*0.8%*	16	*0.4%*
Denmark	1 042	3	*0.3%*	2	*0.2%*
Germany	7 760	15	*0.2%*	70	*0.9%*
Estonia	564	(2)	*(0.3%)*	0	*0.0%*
Ireland	1 764	80	*4.5%*	75	*4.2%*
Greece	5 382	254	*4.7%*	324	*6.0%*
Spain	10 536	596	*5.7%*	212	*2.0%*
France	9 437	345	*3.7%*	666	*7.1%*
Croatia	807	0	*0.0%*	0	*0.0%*
Italy	10 190	255	*2.5%*	432	*4.2%*
Cyprus	135	0	*0.0%*	0	*0.0%*
Latvia	680	0	*(0.1%)*	0	*0.0%*
Lithuania	1 293	1	*0.1%*	6	*0.5%*
Luxembourg	69	0	*0.0%*	0	*0.0%*
Hungary	4 270	445	*10.4%*	(8)	*(0.2%)*
Malta	158	12	*7.3%*	11	*7.3%*
Netherlands	1 058	10	*0.9%*	60	*5.6%*
Austria	1 487	33	*2.2%*	(1)	*0.0%*
Poland	10 087	200	*2.0%*	161	*1.6%*
Portugal	3 101	85	*2.8%*	110	*3.5%*
Romania	7 129	249	*3.5%*	192	*2.7%*
Slovenia	418	0	*0.1%*	6	*1.3%*
Slovakia	2 570	56	*2.2%*	113	*4.4%*
Finland	1 161	0	*0.0%*	(1)	*(0.1%)*
Sweden	1 143	13	*1.2%*	12	*1.0%*
United Kingdom	5 145	241	*4.7%*	217	*4.2%*
INTERREG	201	1	*0.5%*	1	*0.4%*
TOTAL	**95 197**	**2 944**	***3.1%***	**2 724**	***2.9%***

Negative amounts displayed in the above table may be due to Court of Justice judgements annulling financial correction decisions.

5.5. Agricultural amounts recovered from final beneficiaries by the Member States in 2016 as reported in the context of the annual financial clearance

Member State	EAGF	EAFRD	Total 2016
Belgium	9.3	0.7	10.0
Bulgaria	2.4	3.9	6.3
Czech Republic	0.6	1.3	1.9
Denmark	0.9	2.1	2.9
Germany	9.9	6.6	16.5
Estonia	0.5	1.0	1.5
Ireland	4.5	2.3	6.8
Greece	5.0	15.0	19.9
Spain	13.1	26.4	39.5
France	11.2	4.7	15.8
Croatia	1.0	0.1	1.1
Italy	17.8	54.1	71.9
Cyprus	0.3	0.1	0.4
Latvia	0.4	0.8	1.2
Lithuania	1.2	1.3	2.6
Luxembourg	0.1	0.1	0.2
Hungary	3.0	4.9	7.9
Malta	0.2	3.1	3.3
Netherlands	2.4	1.0	3.4
Austria	2.1	4.2	6.3
Poland	4.0	18.7	22.8
Portugal	5.0	15.3	20.3
Romania	16.0	28.2	44.2
Slovenia	0.0	0.5	0.5
Slovakia	1.7	4.2	5.9
Finland	0.8	0.9	1.6
Sweden	0.5	0.9	1.4
United Kingdom	4.5	5.2	9.7
Total	**118.4**	**207.6**	**326.0**

Table :in EUR millions

The above table sets out the amounts recovered in 2016 from the beneficiaries by the Member States (as reported by Member States in their debtors' ledger) and reimbursed to the Commission. These amounts are treated as **assigned revenue** for **EAGF**, while the amounts recovered for **EAFRD can be reallocated to the programme concerned**.

Annex 5: Assurance provided by the Internal Audit Service

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

The IAS has provided in its 2016 Internal Audit Report according to Article 99 (3) of the Financial Regulation conclusions on performance audits completed in 2016, made reference to the overall opinion on financial management for the year 2016 and reported on progress in implementing its audit recommendations.

The IAS concluded that 95 % of the recommendations followed up during 2012-2016 had been effectively implemented by the auditees. Of the 413 recommendations still in progress (representing 23 % of the total number of accepted recommendations over the past five years), none is classified as critical and 170 as very important. Out of these 170 recommendations rated very important, 18 were overdue by more than six months at the end of 2016, representing 0.99 % of the total number of accepted recommendations of the past five years. The IAS's follow-up work confirmed that, overall, recommendations are being implemented satisfactorily and the control systems in the audited departments are improving.

The IAS continued to carry out performance audits in 2016 as part of its work programme in response to the Commission's move towards a performance-based culture and greater focus on value for money. The IAS conclusions on these audits related to:

- Performance management and measurement: the IAS noted that important progress has been achieved over the years with, for instance, a number of new initiatives at corporate level or positive implementation in certain areas (e.g. the audit in DG EAC resulted in a positive conclusion and showed that it is possible to implement an effective performance management framework despite the fact that the DG is confronted with a diversity of policy activities and spending programmes). However, several IAS audits (DG AGRI, DG DEVCO, DG GROW, DG MOVE) focusing on performance management and measurement at DG level revealed that significant improvements are still necessary to enhance the maturity of the DGs performance management and measurement mechanisms.
- Human Resources management: in general, the audits concluded that the DGs and Executive Agencies have taken adequate measures to manage the Human Resources challenges to which they are confronted. Weaknesses were found and action plans are being implemented for DG ENV (monitoring and comparing workloads within the DG) and for the REA (selection process for contractual agents).
- IT management: several audits confirmed that there is room for improving the IT governance and portfolio management in DG GROW, the IT security in DG JRC, the effectiveness of measures taken to handle manual interventions in the "ABAC" IT system in DG BUDG, the physical security of the alternate data centre in the Publications Office, as well as the effective implementation of the electronic exchange of social security information project in DG EMPL.
- Other non-financial processes: in the areas of anti-fraud activities for traditional own resources, managing and sharing data on agro-environmental-climate issues, better regulation and ex-post audits by the Common Audit Service in the Common Support Centre, the audits showed that further steps are necessary to increase the overall performance of these processes.
- Based on the audits of performance in implementing policies and/or budget (operational and administrative appropriations), the IAS identified specific improvements to be made in the areas of:
  - Direct management: efficiency and effectiveness of grant management (DG HOME, DG JUST, DG RTD and REA),

efficient and effective use of external contractors working intra-muros in the Commission premises, effectiveness of the cooperation between EASME and its parent DG,

- Indirect management: adequacy and effectiveness of the supervision arrangements in place in DGs and Services dealing with EU decentralised Agencies (DG HOME, DG SANTE) and F4E/ITER (DG ENER),
- Shared management: efficiency of the monitoring of the voluntary coupled support scheme in DG AGRI and the effectiveness of simplification measures under 2014-2020 European Structural and Investment funds (DG REGIO, DG EMPL and DG MARE),
- Policy: supervision of the aviation and maritime security policy (DG MOVE).

In addition, as last year (following the centralisation of the internal audit function in 2015[64]), the IAS issued limited conclusions on the state of internal control to every DG and department in February 2017. These conclusions were intended to contribute to the 2016 Annual Activity Reports of the DGs and departments concerned. The conclusions draw particular attention to all open recommendations rated ‘critical’ or the combined effect of a number of recommendations rated ‘very important’ and in two cases (DG DEVCO and DG CLIMA) the IAS stated that the DG concerned should duly assess if they require the issuance of a reservation in the respective Annual Activity Report. In both cases the DGs have issued such reservations in line with IAS limited conclusions.

As required by its Mission Charter, the Commission's internal auditor also submitted an Overall Opinion, based both on its own work (2014-2016) and that of the former Internal Audit Capabilities (2014), and focusing on financial management. It considered that, in 2016, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance over the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations made in the Authorising Officers' by Delegation Declarations of Assurance and issued in their respective Annual Activity Reports.

In arriving at this opinion, the IAS considered the combined impact of amounts estimated to be at risk as disclosed in the Annual Activity Reports in the light of the corrective capacity as evidenced by financial corrections and recoveries of the past. Given the magnitude of financial corrections and recoveries of the past and assuming that similar levels of corrections will relate to payments made in 2016, the IAS considered that financial corrections and recoveries are estimated to be of a sufficient magnitude to protect adequately the EU budget in total (not for all individual policy areas) and over time (sometimes up to several years). This multi-annual character of the control systems is the reason why a positive (though qualified) overall opinion can be expressed despite the estimated level of amounts at risk for 2016 being (temporarily) just above the materiality threshold of 2%.

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

Supervision strategies regarding third parties implementing policies and programmes

Although it remains fully responsible for ensuring the legality and regularity of expenditure and sound financial management (and also the achievement of policy objectives), the Commission is increasingly relying on third parties to implement its programmes. This is mostly done by delegating the implementation of the EC operational budget (under indirect management mode) or certain tasks to third countries or international organisations, to National Agencies, Joint Undertakings, non-EU bodies and EU Decentralised Agencies. Moreover, in some policy areas, greater use is made of financial instruments under the 2014-2020 Multiannual Financial Framework or third parties/non-EU bodies (e.g. national authorities or private investors) funds. Such instruments and alternative funding mechanisms entail specific challenges and risks for the Commission, as highlighted by the European Court of Auditors.

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

The IAS recommended in a number of audits that certain DGs' control and supervisory strategies should set out more clearly their priorities and needs as regards obtaining assurance on sound financial management in those EU and non-EU bodies. In particular, the control strategies did not sufficiently take into account the different risks involved in entrusting tasks to the delegated entities and independent sources were not effectively used to build up the assurance. These DGs should undertake more effective and efficient supervisory activities.

Furthermore, the objectives of the supervisory/monitoring/reporting activities and how to assess their effectiveness were not sufficiently clear and the supervisory controls were limited in practice.

The IAS notes the recent initiative undertaken by the central services to develop specific guidance to the partner DGs on relations with their decentralised agencies, which covers, among other things, monitoring programming, performance and budgetary issues.

Annex 6: Compliance with payment time limits (Article 111.5 RAP)

The **statutory time limits** for payments are laid down in the main body of the Financial Regulation[65]. There are also some exceptionally applied time limits which are detailed in sector-specific regulations.

Article 92 of the Financial Regulation foresees that payments to creditors must be made within deadlines of 30, 60 or 90 days, depending on how demanding and complex it is to test the deliverables against the contractual obligations. Most of the payments have to be executed within 30 days (in volume a global average of 85% in 2014, 87% in 2015 and 2016). For contracts and grant agreements for which payment depends on the approval of a report or a certificate, the time limit for the purposes of the payment periods is no longer automatically suspended until the report or certificate in question has been approved.

The period of two months remains valid for payments under Article 87 of the Regulation of the European Parliament and the Council[66] laying down the general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

Compliance with payment time limits has been reported by the Services in their Annual Activity Reports since 2007[67]. In accordance with the applicable rules, the payment times reported in this annex have been calculated as follows:

For payments related to contracts and grant agreements signed before 2013 the time limits specified in the Financial Regulation of 2007 are applied.

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

For payments related to contracts and grant agreements signed as from 2013, the Financial Regulation of 2012 is applied:

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

The Commission's global average payment time is monitored by the Accounting Officer. It has evolved as follows in recent years:

	2014	2015	2016
Global average net payment time	28.2 days	24.9 days	21.4 days
Global average gross payment time	31.7 days	28.6 days	24.9 days

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

The table below illustrates the evolution of the "***late payments***" i.e. *payments made after expiry of the statutory time limit in recent* years. The data used has been extracted from the ABAC accounting system:

	2014	2015	2016
Late payments in number	19.8 %	17.9 %	12.4 %
Late payments in value	23.3 %	17.5 %	8.5 %
Average number of overdue days[68]	52.1 days	39.5 days	39.1 days

The number of late payments and the amounts associated with them have decreased significantly in 2016. This result is believed to be linked to the more stringent requirements associated with the FR 2012. Another reason is associated with the sufficient availability of payment appropriations. The average number of overdue days (delays calculated in days), for all time limits combined is stabilized since 2 years.

Concerning the *interest paid for late payments*[69] (see figures in the table below) the total amount paid by the Commission in 2016 decreases sharply when compared to previous years. The abnormally high amount of interest paid in 2014 and 2015 was mainly due to the lack of payment appropriations.

	2014	2015	2016
Interest paid for late payments	3 027 123.88 EUR	2 064 949.02 EUR	685 645.20 EUR

In general, payments delays and interest paid are a consequence of payment shortages. For that reason DG BUDG has summarised some possible measures which could be applied by the Authorising Officer to actively manage payment appropriations.

Other **causes of late payments** include the complexities of evaluating the supporting documents that are a prerequisite for all payments. This is particularly onerous when the supporting documents are reports of a technical nature (in average 15% of the payments in 2014, 13% in 2015 and 2016) that sometimes have to be assessed by external experts. Other causes are associated with difficulties in coordinating the financial and operational checks of payment requests, and issues with the management of payment suspensions.

The 2009 Communication establishing Commission-internal payment targets provided a clear incentive to services to reduce their payment times. There is scope for reducing payment times further. When setting up action plans in this area, services' should focus on further reducing late payments from their current levels of 12.4 % of payments in terms of their number, 8.5 % of their value. **The aim is to meet the statutory payment time for every payment.**

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

	2014	2015	2016
Total number of suspensions	27 004	27 254	26 595

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

Annex 7: Summary of Waivers of recoveries of established amounts receivable (Article 91.5 RAP)

In accordance with Article 91(5) of the Rules of Application, the Commission is required to report each year to the budgetary authority, in an annex to the summary of the Annual Activity Reports, on the waivers of recovery involving 100000 EUR or more.

The following table shows the total amount and the number of waivers above 100000 EUR per Directorate-General/Service for the EU budget for the financial year 2016. There was no transaction of this type and value for the European Development Fund in the reporting year.

EC budget:

Directorate-General/Service	Amount of waivers in EUR	Number of waivers
COMP	6 185 582.11	1
DEVCO	309 311.27	1
EACEA	120 455.30	1
ENER	737 905.16	4
JUST	100 691.05	1
MARE	7 520 000.00	1
NEAR	1 135 914.80	5
RTD	1 218 242.23	3
Total:	**17 328 101.92**	**17**

Guarantee Fund:

Directorate-General/Service	Amount of waivers in EUR	Number of waivers
GF (FP7)	832 753.56	6

Annex 8: Report on negotiated procedures (Article 53 RAP)

1. Legal basis

Article 53 of the Rules of application of the Financial Regulation requires authorising officers by delegation to record contracts concluded under negotiated procedures. Furthermore, the Commission is required to annex a report on negotiated procedures to the summary of the annual activity reports (AAR) referred to in Article 66.9 of the Financial Regulation.

2. Methodology

A distinction has been made between the 46 Directorates-general, services, offices and executive agencies which normally do not provide external aid, and those three Directorates-general (DEVCO, NEAR and FPI) which conclude procurement contracts in the area of external relations (different legal basis: Chapter 3 of Title IV of Part Two of the Financial Regulation) or award contracts on their own account, but outside of the territory of the European Union.

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

3. Overall results of negotiated procedures recorded

3.1. The 46 Directorates-general, services or offices, excluding the three "external relations" Directorates-general

On the basis of the data received, the following statistics were registered: 86 negotiated procedures with a total value of EUR 404 million were processed out of a total of 606 procurement procedures (negotiated, restricted or open) for contracts over EUR 60 000 with a total value of EUR 2465 million.

For the Commission, the average proportion of negotiated procedures in relation to all procedures amounts to 14.2 % in number (17.6 % in 2015), which represents some 16.4 % of all procedures in value (7 % in 2015).

An authorising service shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is "distinctly higher than the average recorded for the Institution" i.e. if it exceeds the average proportion by 50 %, or if the increase from one year to the next is over 10 % in the proportion.

Thus, the reference threshold for this year is fixed at 21.3 % (26.4 % in 2015).

Some 9 Directorates-general or services out of the 46 exceeded the reference threshold and 9 increased in addition, their number of negotiated procedures by more than 10 % in the proportion of the negotiated procedures launched last year (5 Directorates-general or services exceeded both indicators). Among these 13 DGs or services, it should be noted that 6 Directorates-general concluded only one to four negotiated procedures, but the low number of procedures conducted by each of them (up to 8), makes their average high. Consequently their results are to be considered as non-significant.

To be noted that, 21 out of 46 Directorates-general have not used any negotiated procedure, including 7 services that awarded no contract at all.

The assessment of negotiated procedures compared with the previous year shows a decrease in the order of 3.4 percentage points in terms of relative number and an increase of 9.4 percentage points in terms of relative value.

3.2. The three "external relations" Directorates-general

On the basis of the data received, the following statistics were registered: 97 negotiated procedures for a total value of contracts of EUR 99 million were processed out of a total of 420 procedures for contracts over EUR 20 000 with a total value of about EUR 880 million.

For the three "external relations" Directorates-general, the average proportion of negotiated procedures in relation to all procedures amounts to 23.1 % in number (28.7 % in 2015), which represents some 11.2 % of all procedures in value (20.2 % in 2015).

Thus the reference threshold for this year is fixed at 34.6 % (43 % in 2015) which represents an increase of 50 % the average proportion of 2015. No Directorate-general exceeds the reference threshold of 43.0 %.

If compared with previous year, these Directorates-general have registered a decrease of 5.6 percentage points in number of negotiated procedures in relation to all procedures and a decrease of 8.9 percentage points in terms of relative value.

4. Analysis of the justifications and corrective measures

The number of negotiated procedures in 2016 compared to 2015 has considerably decreased (from 117 to 86), while the overall number of procurement procedures has decreased (from 665 to 606).

The following categories of justifications to call for a negotiated procedure have been presented by those Directorates-general who exceeded the thresholds:

– **Statistical deviations** due to the low number of contracts awarded under all procedures. Indeed 11 out of these DGs have carried out less than 15 procurement procedures as a whole.

– **Objective situations of the economic activity sector,** where the number of operators may be very limited or in a monopoly situation (for reasons of intellectual property, specific technical expertise, confidential information, exclusivity rights etc.). Monopoly situations are met inter alia, in the climate change domain (COP meetings), in the health area, for example for the purchase of vaccines and antigens for animal diseases or building domain (technical captivity due to legal status of the economic operator i.e. the state owned firm S.T.I.B). Situations of technical captivity may also arise especially in the IT domain (owner of software, electronic databases licences or maintenance of complex servers hosting critical information systems) or in the nuclear research domain (purchase of guaranteed access rights in the Jules Horowitz Reactor (JHR).

– **Situations of emergency or crisis** that cannot be foreseen in advance by the contracting authority, as is the need to ensure contractual continuity of critical secured and highly available network services to key applications in the context of police cooperation, asylum policy, foreign policy, civil protection, money laundering.

– **Similar services/works** as provided for in the initial tender specifications. Some services in charge of large inter-institutional procurement procedures realise during the implementation of the contract (most likely in Framework contract procedures) that the needs initially foreseen do not often match with the consumption trend during the execution of the contract. Therefore, the leading service must start a negotiated procedure on behalf of all Institutions to increase the ceiling of the framework contract in question.

– **Additional services** not included in the initial contract which become necessary, due to unforeseen circumstances.

– **Unsuccessful open or restricted procedure**, leading to a negotiated procedure.

Regular available measures are proposed or implemented by the Central Financial Service and Directorates-general concerned to redress the use of negotiated procedures when other alternatives could be available:

– An **improved programming** of procurement procedures.

– **Improvement of the system of evaluation of needs**. The Commission's horizontal services will continue their active communication and consultation policy with the other DGs, institutions, agencies and other bodies along the following axes:

  - permanent exchange of information via regular meetings with user services and agencies in appropriate fora;
  - ad-hoc surveys prior to the initiation of (inter-institutional) procurement procedures for the evaluation of needs;
  - better estimate of needs of inter-institutional framework contracts and better monitoring with semester consumption reports from user services or agencies;

– **Training and improved inter-service communication**. The Central Financial Service provides regular practical training sessions on procurement.

– Regular update of **standard model documents and guidance documents** on procurement.

Annex 9: EU Trust Funds (Article 187.10 FR)

Comprehensive and detailed report to the European Parliament and the Council on the activities supported by Union trust funds, on their implementation and performance, as well as on their accounts. (FR Article 187.10) For the EUTFs' performance and results aspects, see AMPR subsection 1.5.

The Financial Regulation allows the European Commission to create and administer Union Trust Funds in the field of external action: these are multi-donor trust funds for emergency, post-emergency or thematic actions.

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

EU Trust Funds enhance the international role of the EU, as well as strengthen the visibility and efficiency of its external action and development assistance.

Another advantage is faster decision-making process in the selection of the measures to be implemented in comparison with traditional multiannual programmes devoted to development cooperation. This can prove crucial in emergency and post-emergency actions, the categories of measures (together with thematic actions) for which EU Trust Funds may be established.

One more benefit is the leverage of additional resources to devote to external action, since the establishment of an EU Trust Fund requires at least one additional donor.

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

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

The European Parliament and the Council have a right of scrutiny when the draft implementing act relates to a basic act adopted under the ordinary legislative procedure. The European Commission submits the draft decision to create an EU Trust Fund to the competent committee provided for in the basic act governing the instrument, which should provide the EU's financial contribution to the new Trust Fund. By means of such committees, the representatives of the Member States control the Commission's exercise of implementing powers.

After the adoption of the establishment and financing decisions, the following step is the signing of the constitutive act of the EU Trust Fund by the European Commission and the donors. The constitutive act details some important features of the Trust Fund, including its specific objectives, the rules for the composition and the internal rules of its board, as well as the duration of the trust fund, which is always limited in time. EU Trust Funds have so far all been set up for an initial 60 months (five years), apart from the Colombia EUTF set up in December 2016 for four years.

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

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

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

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

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

The following EU Trust Funds have been established:

- the EU Trust Fund for the Central African Republic: 'the BÊKOU EUTF' (EDF),
- the EU Regional Trust Fund in Response to the Syrian Crisis: 'the MADAD EUTF' (EU Budget),
- the European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa: 'the AFRICA EUTF' (EDF),
- the European Union Trust Fund for Colombia: 'the COLOMBIA EUTF' (EU Budget).

The BÊKOU EUTF

The BÊKOU EUTF (which means 'hope' in Sango, the primary language spoken in the Central African Republic) was established on 15 July 2014, by the European Union (represented by DG DEVCO, DG ECHO and the EEAS) and three of its Member States: France, Germany and the Netherlands. The Fund was established with the objective to support all aspects of the country's exit from crisis and its reconstruction efforts. It was furthermore designed taking into consideration the need to better link the reconstruction/development programmes with the humanitarian response (Linking Relief, Rehabilitation and Development - LRRD) in order to rebuild the capacity of the country.

In total 5 EU Member States and other donors have, by the 15 May 2017, contributed to this EUTF. The priority sectors that the Trust Fund supports include health, food security, access to water and reconciliation within Central African Republic society.

The MADAD EUTF

The EU Regional Trust Fund in Response to the Syrian Crisis, the 'Madad Fund', ('Madad' broadly means 'helping together' in Arabic), was established on 15 December 2014.

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

By 15 May 2017, the Madad Fund reached a total of EUR 1 303 million in signed contributions from 22 EU Member States (EUR 92 million), Turkey (EUR 24 million) and regular EU financing instruments (EUR 1 186 million). The majority of this funding has already been allocated to concrete projects.

Over EUR 440 million have been contracted to implementing partners in 14 large programmes with a duration of 24 to 48 months. The Madad Fund is an important implementation channel also for the Facility for Refugees in Turkey, with some 10% of the Facility's budget to be channelled via the Trust Fund.

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

The AFRICA EUTF

The EUTF for Africa was established on 12 November 2015. It provides a rapid, flexible and effective response to root causes of irregular migration and displaced persons in Africa as well as to the crisis in the Sahel and Lake Chad, the Horn of Africa, and the North of Africa regions. It has since then been extended to Ghana, Guinea and Ivory Coast.

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

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

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

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

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

Activities funded under the EUTF for Africa are implemented through a range of operating partners, including EU Member States cooperation agencies, NGOs and international organisations. Several implementation modalities are envisaged: delegated cooperation, calls for proposals, budget support, blending and direct awards in particular situations. Priorities of the EUTF for Africa have been identified through a dialogue with African partners and relevant local, national and regional stakeholders

In 2016 a total of 106 projects worth EUR 1 589 million have been approved by the EUTF as follows: 65 programs covering all 9 countries in the Sahel/Lake Chad region for a total amount of EUR 918.5 million; 35 programs in the Horn of Africa region for a total amount of EUR 606 million, and 6 programs in the North of Africa region for a total amount of EUR 64.5 million.

In total 25 EU Member States and two other donors (Switzerland and Norway) have, by mid-May 2017, contributed to this EUTF.

The COLOMBIA EUTF

The signature of the constitutive agreement of the EU Trust Fund for Colombia took place on 12 December 2016. The EUTF set to have close to EUR 95 million at its disposal, from the EU budget and from contributions of 19 EU Member States (Croatia, Czech Republic, Cyprus, France, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Spain, Sweden, the United Kingdom, Slovakia and Slovenia).

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

The **EUTFs' annual reports by their Trust Fund Managers** (as Authorising Officers by Sub-Delegation), can be found as annexes of the Annual Activity Reports of DG DEVCO and DG NEAR:

DG DEVCO

– EUTF "Bêkou"
– EUTF "Africa" - Horn of Africa Window
– EUTF "Africa" - Sahel and Lake Chad Window
– EUTF "Africa" - North of Africa Window

DG NEAR

– "Madad" Fund – The EU Regional Trust Fund in response to the Syrian crisis
– EUTF "Africa" - North of Africa window

Endnotes to the annexes

1 Please note that Eurostat periodically revises its published data to reflect new or improved information, also for previous years. The latest published data is available by clicking on "Eurostat".

2 The share of 18 to 24 year old persons who have at most lower secondary education and are not in further education and training.

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

4 DESI is a composite index that summarises relevant indicators on Europe's digital performance and tracks the evolution of EU Member States in digital competitiveness. The closer the value is to 1, the better. The DESI index is calculated as the weighted average of the five main DESI dimensions: 1 Connectivity (25%), 2 Human Capital (25%), 3 Use of Internet (15%), 4 Integration of Digital Technology (20%) and 5 Digital Public Services (15%). The DESI index is updated once a year.

5 No more than 1 483 Mtoe of primary energy consumption.

6 No more than 1 086 Mtoe of final energy consumption.

7 Spain and Cyprus to follow later.

8 The FINTEC indicator is a scale-free measure normalized to always lie between 0 and 1; 0 means no cross-border integration, 1 means full integration; for the price-based part 1 would mean total absence of any price differentials for comparable money market instruments; for the volume-based part, full integration would mean lack of any home bias on the side of investors.

9 The first entry is the price-based, the second the volume-based indicator value.

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

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

12 The figures were calculated subtracting "Special Purpose Entities" FDI from "Total" FDI in order to have "non-SPE" FDI figures that can be comparable with other international data.

13 The unadjusted Gender Pay Gap (GPG) represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees.

14 The indicator measures the % of effected returns compared to return decisions issued by the Member States.

15 Eurostat collects both the nominator and the denominator annually from the Ministries of Interior / Border Guards / Police of the Member States. The data depend very much on national circumstances and policies. In addition, the time lag between the return decision and its execution means that the reference population of the nominator and denominator are not the same.

16 Host-country nationals and other EU nationals counted together.

17 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

18 The indicator measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. Higher values in percentile rank indicate better governance ratings.

Neighbourhood East (NE): Number of countries in a percentile rank above 30.

Neighbourhood South (NS): Number of countries in a percentile rank above 10.

19 Computed on country level data from 2012 or before, drawing on World Bank data for the poverty rates, and UN Population Division data for the weights; extracted in November 2016 to take into account the revisions in the poverty line from $1.25 to $1.90.

20 Computed on country level data from 2014 or before, drawing on World Bank data for the poverty rates, and UN Population Division data for the weights; extracted in November 2016.

21 Including the graduated countries - Partnership countries for which bilateral assistance is phased out).

22 For the calculation of the baseline beneficiary countries under the Development Cooperation Instrument and European Development Fund have been taken into account. Beneficiaries under the European Neighbourhood Instrument and EU- Greenland Partnership Instrument have been excluded.

23 Council Conclusions of 26 May 2015, in the framework of the 2030 Agenda for Sustainable Development.

24 Based on analysis of final 2014 ODA spending by EU Member States and non-imputed spending by the EU institutions as reported by the OECD DAC. Final data for two EU Member States was not available so earlier data was extrapolated.

25 The number of opinions to a certain degree depends on the number of legislative proposals and policy communications put forward by the Commission.

26 'Scope' or 'payments concerned' and 'amount at risk at reporting' or 'exposure from the reservations' are reported in the reservation templates of the Annual Activity Reports.

27 For AGRI's EAFRD reservation, the scope is based on relevant expenditure (interim payments and cleared pre-financing)

28 For some programmes with no set closure point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

29 or equivalent, such as after the expenditure is registered in the EC accounting system, after the expenditure is accepted or after the pre-financing is cleared. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle.

30 equivalent to the European Court of Auditors' methodology (European Court of Auditors 2015 Annual Report methodological Annex 1.1 point 7)

31 "Payments made" are covered by the Delegated DG for (only) Co-Delegations Type 2; they remain with the Delegating DG for Cross-SubDelegations and (even) for the ('split') Co-Delegations Type 3. "Pre-financings paid/cleared" are covered by the Delegated DG for Cross-SubDelegations and for (both) Co-Delegations Types 2 and 3. In both cases, Co-Delegations Type 1 are 'divided' between DGs, with each DG fully covering its own 'share' of (both) payments and pre-financings.

32 In Shared Management, these are rather the "adjusted error rates" (AGRI, AAR p. 65), the "reportable error rates" (REGIO, AAR p. 100), the "average error rates" (EMPL, AAR p. 78).

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

34 Communication on the protection of the EU budget COM(2016) 486 final of 18/7/2016.

Communication on the protection of the EU budget COM(2015) 503 final of 8/10/2015.

Communication on the protection of the EU budget COM(2014) 618 final of 29/9/2014.

Communication on the protection of the EU budget COM(2013) 682 final/2 of 30/9/2013.

35 Not for the 2000-2006 period.

36 Including the ones of systemic nature.

37 The Member State could spend less money throughout the programming period.

38 Special Report No 4/2017 “Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period”

39 It should be noted that due to the rounding of figures into millions of euros, some financial data in the tables below may appear not to add-up.

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

41 As regards recoveries by Member States, DG AGRI uses the amounts reported in their debtor's ledger.

42 Except for the financial corrections reported in 2015, which had their peak since the beginning of the 2007-2013 programming period (see also page 11 of last year's Communication on the protection of the EU budget COM(2016) 486 final of 18/7/2016).

43 The amount does not include the financial corrections “at source”.

44 Article 21(3)(c) of the Financial Regulation.

45 Art. 41 of Reg. 1306/2013.

46 Regulation (EU) № 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 covered by the Common Strategic Framework and laying down general provisions on the European Regional Funds, the European Social Fund and the Cohesion Fund repealing Regulation (EC) № 1083/2006 – OJ L 347, 20.12.2013, p. 320.

47 Stemming from Member States' control statistics reported to the Commission.

48 Not for the 2000-2006 period.

49 For deficiencies in the management and control system for which there is evidence that the level of required financial correction should not exceed 10 % (paragraph d) of Regulation 480/2014), no interruption needs to be launched. Instead, a letter will be sent to the Member State to inform them that they should resolve the issue (i.e. relevant expenditure to be deducted) by the submission of the accounts; otherwise the Commission will launch an interruption and/or a financial correction.

50 Spain: DGCI IB (involved in 12 programmes), DGI (involved in 2 programmes), Melilla regional part, ICEF-IFM (involved in 1 programme); ETC: Slovakia-Czech Republic, Greece-Italy; UK: Lowlands and Uplands; Hungary (8 programmes); IPA CBC (Adriatic programme - TA priority) and IPA CBC (Adriatic entire programme).

51 'Technical Assistance and Information Exchange instrument TAIEX-REGIO PEER 2 PEER'.

52 These programmes include also the ones where conclusions on a certain number of projects cannot be achieved as they are awaiting the decision of national institutions under administrative and/or legal procedures (including court cases). Depending on the decision of national authorities it may result in the recovery of financial amounts or a decision to charge the amounts to EU budget. Out of 378 programmes closed, 20 are thus currently "partially" closed.

53 This amount does not include the at source financial corrections applied by the Member States before declaring the expenditure to the Commission, since there was no legal requirement to report such amounts. Consequently, the Commission does not have such information.

54 Including financial corrections at source.

55 At source corrections are excluded from this annual reporting, in line with the legal framework applicable for 2007-2013.

56 In addition to Commission reporting.

57 In order to eliminate the risk of double counting, the amounts reported in this section are calculated as the difference between the cumulative amounts reported by the Member States (Art. 20 reports on withdrawals and recoveries) and the financial corrections reported by the Commission (table 1.2.2 above).

58 This information has been transmitted in the assurance packages received in February 2017 for the second accounting year and is still under assessment by the Commission services (information as reported by the Member States, pending the Commission verifications).

59 Research budget implemented by the Commission and Executive Agencies.

60 Implementation of Research budget entrusted to joint undertakings.

61 Budget implementation by international organisations.

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

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

64 Following a Commission decision, the internal audit function was centralised in 2015 in the IAS. The former Internal Audit Capabilities of the Commission’s DGs and services ceased to exist on 15 February 2015.

65 Commission Delegated Regulation (EU) N° 1268/2012 of 29 October 2012 (OJ L 362, 312.12.2012, p.1).

66 Regulation (EC) No 1083/2006 of the European Parliament and of the Council laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion fund and repealing Regulation (EC) No 1260/1999 (OJ L 210, 31.7.2006, p. 25).

67 Based on available data in ABAC as of end of the financial year 2007.

68 i.e. above the statutory time limit.

69 i.e. no longer conditional upon the presentation of a request for payment (with the exception of amounts below 200 euros).