



2019

Annual Activity Report

**DG Regional and
Urban Policy**



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THE DG IN BRIEF

In 2019, Directorate General Regional and Urban Policy (REGIO) reported to Commissioners Crețu and Hahn, responsible for Regional policy and Commissioner Ferreira, responsible for Cohesion and Reforms (for the last month of 2019). With approximately 700 staff members, REGIO is composed of seven directorates: resources, audit, policy and four implementing directorates. The Resources Director is the Director in charge of Risk management and Internal Control.

REGIO activities are defined by the Treaties on the European Union and on the Functioning of the European Union (TFEU). Article 174 of the Treaty provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at **reducing disparities** between the levels of development of the various regions and the backwardness of the least favoured regions, and that particular attention is to be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps. To that end, Article 175 establishes the European Structural and Investment Funds (ESIF).

REGIO delivers its objectives through regional policy interventions financed under the **European Regional Development Fund (ERDF)** and the **Cohesion Fund (CF)**, which together with the other European Structural and Investment (ESI) Funds¹ are the European Union's main instruments for investment.

The implementation of these funds allows fulfilling the long-term regional policy objectives of strengthening economic and social cohesion in the European Union. Thanks to the policy's specific features (e.g. alignment of investment to EU-wide priorities, concentration of resources on less developed and transitional regions, multiannual programming, place-based approach, multi-level governance, interregional cooperation), the supported investments bring strong European added value, while respecting subsidiarity.

In addition, REGIO is also managing the **Instrument for Pre-accession Assistance (IPA)**, ensuring EU financial and technical support for reforms in 'enlargement countries' and the **European Union Solidarity Fund (EUSF)**, to grant financial assistance to Member States and accession countries, mainly in the event of major natural disasters.

The policy is implemented under different management modes:

Shared management (ERDF and CF; EUSF; IPA-CBC): The co-legislators fix the legal framework and overall funding and determine the allocations by Member States and category of region. The Commission adopts programmes and cooperates with Member State administrations in charge of the programmes' implementation including the selection of operations, audit and control and achievement of objectives.

Indirect management (IPA and Urban Innovative Actions): REGIO also manages an envelope of external aid delivered through indirect management under the IPA Component III (regional development) in 2007-2013. In addition, Urban Innovative Actions aimed to identify and test new solutions through pilot projects in cities are implemented over the 2014-2020 period under indirect management.

Direct management (technical assistance): Complementary actions facilitating the implementation of the instruments illustrated above also result from a limited share of funding implemented under direct management.

¹ European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF).

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of REGIO to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it makes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties².

a) Key results and progress towards the achievement of general and specific objectives of the DG

2019 was a year of major achievements and of transition, initiating reflection and paving the way for the von der Leyen Commission headline ambitions and the future long-term budget.

Regional policy³ continued to deliver on its primary objective enshrined in the Treaties: strengthening the economic, social and territorial cohesion by reducing disparities between regions. While disparities diminished between countries, regional disparities persist and even increased within countries. Over the years, regional policy has offered expertise in transition, structural transformation, administrative capacity building and policy implementation.

More than **EUR 322 billion**, representing 92% of the total envelope, were already allocated to projects implemented under 2014-2020 programmes. The absorption rate has continued to increase throughout the year (currently 34% of the overall envelope was paid to Member States), but is lower than expected and compared to the past programming period.

Regional policy, represents almost a **quarter of the total EU budget** and was a major source of public investments in many Member States during and after the financial crisis of 2008-2009, demonstrating its ability to react quickly to new circumstances. The policy continues to support economic growth and acts as catalyst for additional public and private funding through its co-financing requirement, leverage as well as its role in creating investors' confidence. The impact of the policy is particularly strong in cohesion countries⁴, contributing to a significant convergence of GDP per head. More than EUR 18 billion of ERDF and CF resources are planned to be delivered through **financial instruments** by 2023, constituting 7.2% of the overall allocation, creating an efficient and sustainable alternative to traditional grant-based support.

Starting from 2019, REGIO's involvement in the **European Semester** process was boosted by becoming a full member of the group of *core* DGs that steer the process, joining SG, ECFIN, EMPL and GROW. REGIO's contribution to the **Country Reports** was reinforced in terms of regional analysis and investment needs. In 2019, REGIO drafted, in cooperation with EMPL, a new investment guidance exclusively devoted to investment priorities to be supported by cohesion policy funds in the 2021-2027 programming period.

The challenge is to maintain the effectiveness of performance-based reforms of European regional policy introduced in the current programming period, while speeding up delivery of programmes.

² Article 17(1) of the Treaty on European Union.

³ Where reference is made to REGIONAL POLICY throughout this document, activities of REGIO linked to ERDF and CF investments are meant. Where COHESION POLICY is mentioned, REGIO and EMPL combined efforts through ERDF, CF and ESF investments.

⁴ Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia

In 2019, REGIO undertook, in cooperation with Member States, a **'performance review'** of all programmes, with reference to the set performance frameworks. Overall, the performing priorities accounted for 79% of the total performance reserve. The exercise was a good way to introduce performance incentives in the implementation of the policy.

REGIO provided the biggest EU investment support for Europe's ambitious **energy and climate** policies, supporting regions and cities on their path to reach the targets of climate neutrality by 2050 and contributing to a socially fair transition. The 2014-2020 programmes will invest over EUR **75 billion** into the low carbon economy and climate change adaptation by the end of 2023. ERDF and CF thus make a substantial contribution to delivering the ambitions of the **European Green Deal**.

REGIO plays a particular role in helping Member States and regions manage their transitions towards a climate neutral economy. REGIO is actively engaged in the **Coal Regions in Transition Initiative**, which provides tailor-made support for the clean energy transition in 13 pilot coal and carbon-intensive industrial regions. REGIO has also coordinated the preparation of the Commission's legislative proposal for a **Just Transition Fund** embedded in the cohesion policy legislative framework for the 2021-2027 period, aiming at alleviating the social and economic impacts of the transition.

Regional policy is also the main EU funding instrument for **disaster risk management**. The **EU Solidarity Fund** helps to increase Member States' and regions' resilience and preparedness in addressing the consequences of natural disasters.

ERDF also invested into health and social infrastructures with **27.5 million citizens benefiting from modernised health systems**. Investments in this area are likely to go beyond the originally planned EUR 4.6 billion by the end of the 2014-2020 period given the recent Coronavirus Response Investment Initiative, which prioritises investments in health care.

REGIO's investments are furthermore significant in contributing to the preservation of the **environment** with an allocation amounting to some EUR **32 billion**.

EUR **50 billion** from ERDF and CF are devoted to improving the **business environment** and entrepreneurship and additional EUR **65 billion** to strengthen **research and innovation**. Over **180 smart specialisation strategies** were drawn up by Member States and regions, mobilising more than EUR 120 billion and aiming to leverage considerably more private investment.

Investment in the **digital economy** for 2014-2020 will moreover reach EUR **18.4 billion**. This makes ERDF the main EU investment tool for digitalisation of the public sector and SMEs, and for the roll-out of broadband.

Furthermore, ERDF and CF are the largest EU sources supporting the modernisation of the European **transport** system. About EUR **70.3 billion** of EU support was allocated to programmes that address mobility.

Similarly, European Territorial Cooperation programmes contribute to increase the effectiveness of the Single Market through enhancing inter-regional, transnational and cross-border cooperation. REGIO made a key contribution to identifying **cross-border barriers to the single market** following the adoption of the Communication "Boosting growth and Cohesion in EU Border Regions" and set up a Border Focal Point to tackle these. REGIO also steered the implementation of the EU strategy for the **outermost regions** and mainstreamed these regions' specificities across policies and initiatives.

Finally, regional policy is also the most visible EU policy for citizens on the ground.

- Regional policy strives for direct contact with the regional and local level. Thanks to integrated territorial strategies, local authorities and stakeholders are directly involved in the design of local development. About **EUR 32 billion** (10%) of cohesion policy funds are planned for this purpose.
- In October, REGIO organised, in cooperation with the Committee of the Regions, the 17th edition of the **European Week of Regions and Cities**. It rallied more

than 9,000 participants, showcasing cities' and regions' capacity to create growth and jobs, implement European Union cohesion policy, and prove the importance of the local and regional level for good European governance.

- A high-level conference on **Engaging Citizens for Good Governance in Cohesion Policy** has been organised for February 2020. This conference allowed exploring innovative ways of how citizens and civil society can participate actively and contribute to good governance in the EU.

b) Key Performance Indicators (KPIs)

Progress continued on key policy performance indicators⁵. This is illustrated in the charts below. Progress is also broadly in line with trends observed during the previous (2007-2013) programming period.

Our user-friendly online **ESIF Open data platform⁶** offers transparent, timely and reliable data. In one central place, this platform collects a wealth of information measured and reported by the Member States. In 2019, we continued to improve it and enriched it with several new features. ERDF and CF-specific performance data can also be found in the **2021 Programme Statements**.

Interpretation of targets and achievements (KPI charts below)

Performance information is transmitted to the Commission by Member States once per year in the Annual Implementation Reports (AIR). Consequently, the latest available figures are from 2018. 2019 data will become available in July 2020 (upon submission of AIRs for 2019).

Legend

Target (end-of-period): At the beginning of the programming period (2014), targets are defined for indicators which the projects/programme should deliver by the end of the programming period. In practice, due to the N+3 rule, 2014-2020 implementation continues until end-2023. These targets are periodically fine-tuned and may explain variations compared to last year's (2018) AAR.

Forecasted achievements of selected projects: National authorities select projects for support under the programmes. These projects undertake to deliver achievements in the future and at the latest by end-2023.

Reported achievements: When implemented, the achievements of projects are reported to the Commission.

KPI 1 - Creation of jobs as a result of SME support has progressed well. The year-on-year evolution more than doubled. The forecasted job creation based on the selected projects at the end of 2018 reached 83% of the total job creation target (by end-2023).

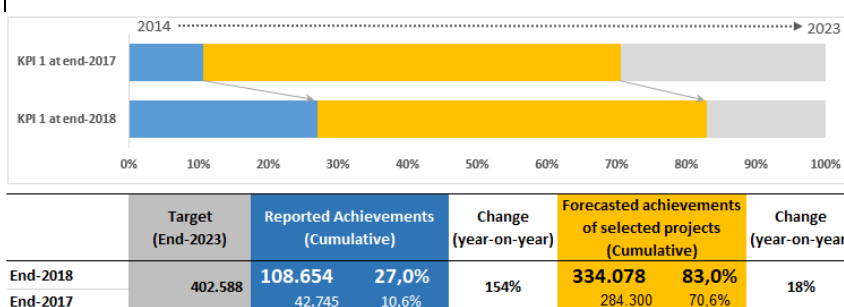
Related Policy Objective: General Objective 1 – Jobs, Growth and Investment

KPI 1

Jobs created as a result of SME support



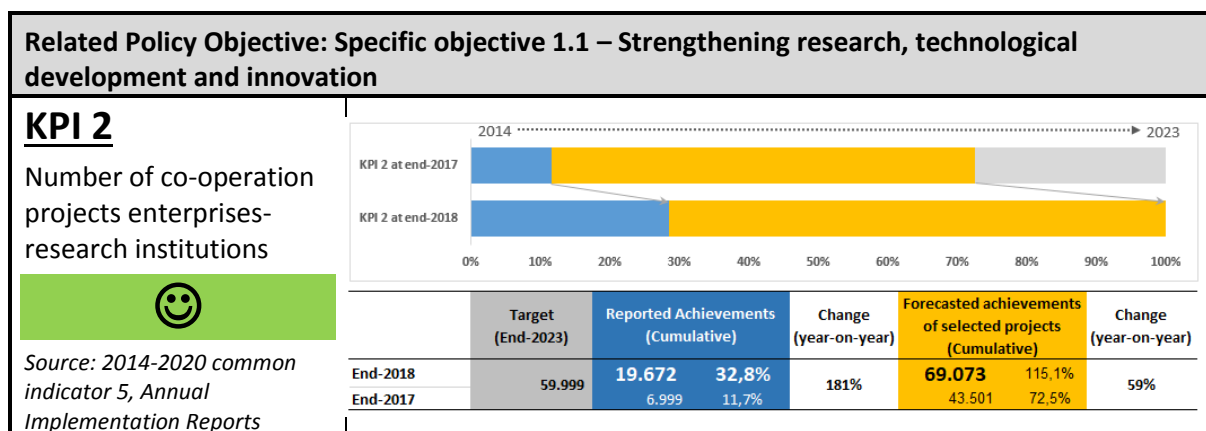
Source: 2014-2020 common indicator 8 (Employment increase in supported enterprises), Annual Implementation Reports



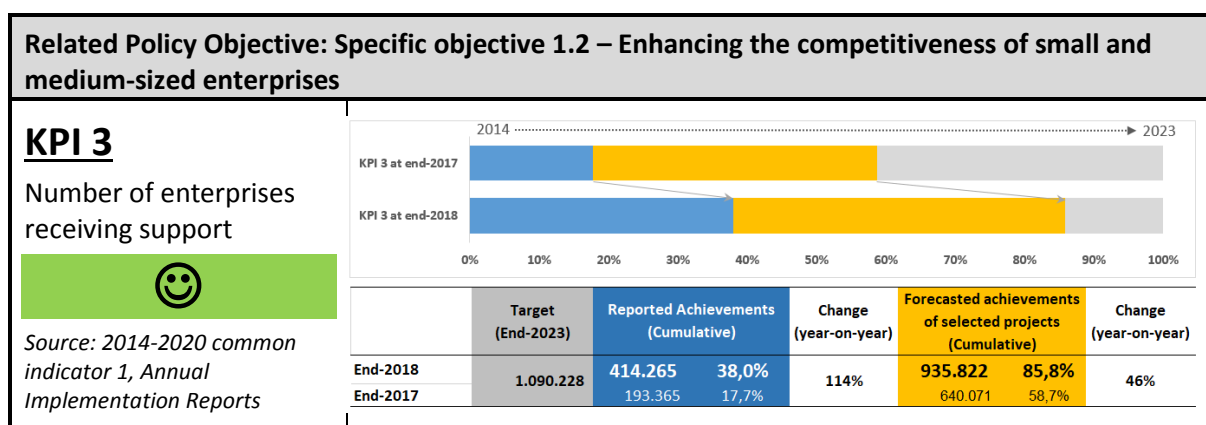
⁵ Reported achievements = the sum of achievements linked to CF and ERDF programmes reported by each programme, regardless of whether or not targets had been set. It expresses the most recent available estimate of the total achievements

⁶ <https://cohesiondata.ec.europa.eu/>. Figures are constantly updated and may slightly differ from the ones in this report.

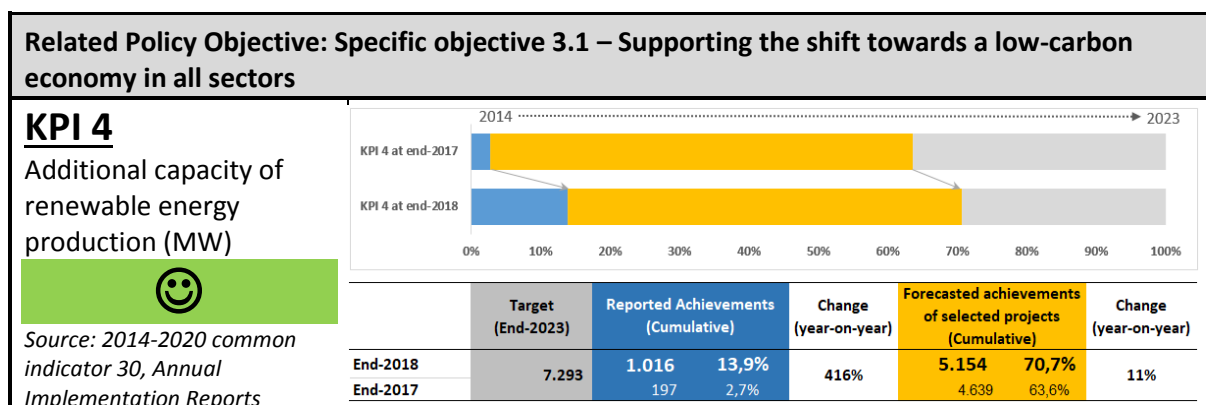
KPI 2 - The number of **co-operation projects** between **enterprises and research institutions** progressed very well. The year-on-year evolution indicates more than a doubling. The forecasted number of such co-operations has already reached the target.




KPI 3 - The number of **enterprises receiving support** shows good progress. The forecasted number based on the selected projects at the end of 2018 progressed by 46% and reached almost 86% of the end-2023 target.



KPI 4 - Achievements related to the **additional capacity of renewable energy production** also picked up. The year-on-year progression was multiplied by five. The forecast based on the selected projects at the end of 2018 increased to nearly 71% of the end-2023 target.



KPI 5 - The **residual total error rate in shared management** is **on average 2.7%** after completing the control cycle (national and Commission). The Directorate General also estimates that this could reach **a maximum of 3.8%** due to further risks under investigation. While for 82% of the programmes the confirmed residual total error rate is below the materiality level of 2%, the material level of residual error for the 2018-2019 accounting year is due to 46 programmes, for which we have at this stage evidence or strong indication that additional financial corrections are necessary to bring the residual total error rate down to 2%. For the estimate of the maximum risk, flat rates are used until the finalisation of the ongoing verifications or audit contradictory procedures.

Residual total error rate in shared management		
	Target	Latest confirmed results AAR 2019
KPI 5 Residual total error rate in shared management 	< 2%	2.7 %
<i>Source: See section 2 on the calculation of the confirmed residual total error rate for the accounting year 2017-2018 (programmes 2014-2020)</i>		up to 3.8 % (maximum risk)

Beyond supervising and steering the implementation of programmes in Member States, REGIO also carried out significant policy work in many areas. The main results of this work are illustrated in sections 1.1 and 1.2.

c) Key conclusions on Financial management and Internal control

In accordance with the governance arrangements of the European Commission and in line with its own mission statement, REGIO conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. REGIO has assessed its internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended. Please refer to section 2.1.3 for further details.

In addition, REGIO has systematically examined the available control results and indicators, including those aimed to supervise Member States and entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and by the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, for direct management, the Solidarity Fund and indirect management, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented.

As regards shared management, management has also reasonable assurance that suitable controls and corrective capacity are in place and work as intended as regards

ERDF/CF and IPA-CBC. The internal control system allowed detecting deficiencies in the management and control systems of:

- 67 programmes of the 2014-2020 programming period. The risk to the EU budget for these programmes is partially mitigated by the 10% retention applied on all interim payments throughout 2019.
- 10 programmes of the 2007-2013 programming period that are under closure. No payments of the respective balances allowing closing the programmes will be made until appropriate additional financial corrections will be applied by the Commission. Therefore no financial risk occurred in 2019.

The estimated average error rate at payment for the 2019 relevant expenditure for all management modes is between 2.4% and 3.5%. The need for additional corrections for a limited number of programmes was identified following completion of the control cycle and contradictory procedures. This will contribute to a reduction of the risk at closure.

On this basis, the Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by the following two reservations:

- A reservation for the 2014-2020 programming period concerning 67 programmes. The necessary preventive and corrective actions have been or are being requested from the concerned Member States;
- A reservation for the 2007-2013 programming period concerning 9 ERDF/CF and one IPA-CBC programmes (all non-financial).

d) Provision of information to the Commissioner

In the context of regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Ferreira, responsible for Cohesion and Reforms.

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

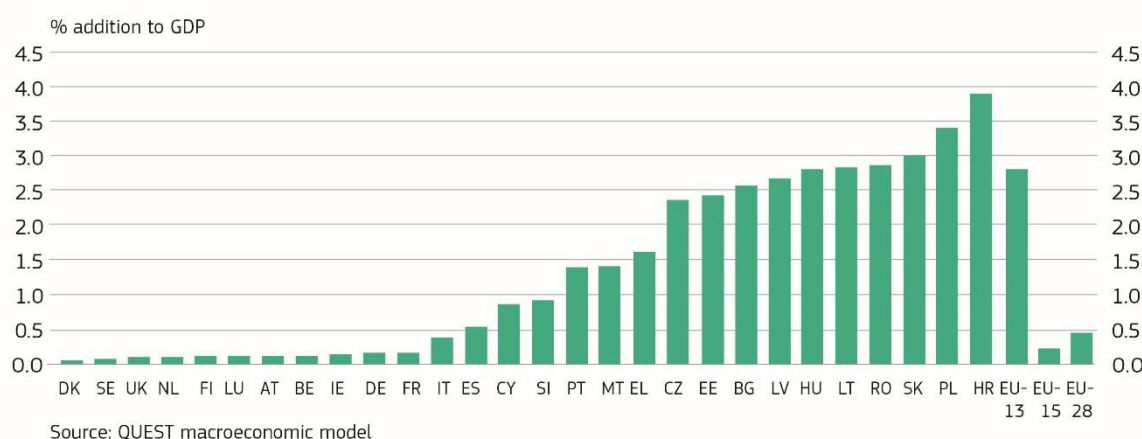
Regional policy programmes are delivered through shared management. Operational programmes are agreed with the European Commission once every seven years but can be adapted whenever necessary. Programmes are implemented over a ten-year period by Member State authorities who report annually on their progress. Policy achievements are the result of a combination of factors: the policy, the quality of implementation by the implementing bodies, the framework conditions for implementation in the Member States and the economic context.

Contribution to convergence

One of the main aims of regional policy, as provided for in the Article 174 of TFEU is to **reduce the economic and social disparities** between EU regions and the backwardness of the least favoured regions. The need for the EU to reduce regional disparities is very topical, as disparities seem to increasingly threaten citizens' support for the European project.

Regional policy effectively contributes to convergence. Its positive impact is particularly high in the less developed regions. It boosts economic growth, creates jobs and improves quality of life. All Member States benefit from regional policy, but funding is heavily concentrated in the less developed countries and regions to help them catch up with the rest of the Union. Regional policy also represents good value for money: once the expected impact of the policy will have materialised, a return of close to **3 euros of additional GDP** for each euro invested in regional policy will be generated⁷.

The financial crisis of 2008-2009 had a profound impact on the convergence process in EU regions. Before 2009, disparities among EU regions shrunk rapidly, but **convergence** was halted by the crisis and the recession, which followed. Since then, the disparities have not significantly changed, and some developed regions, notably in Southern Europe, Belgium, France and the UK keep drifting away from the EU average.



Impact of 2014-2020 programmes on Member States' GDP, 2023⁸

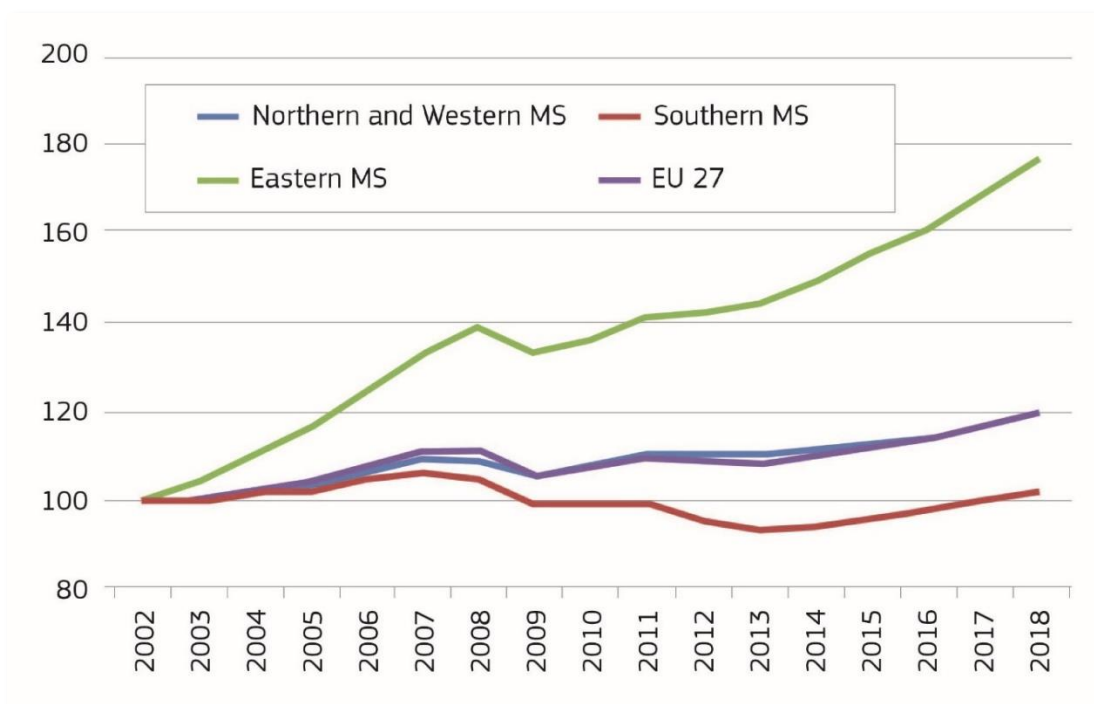
Regional policy has been **a major source of public investment** in many Member States during and after the financial crisis of 2008-2009. The policy continues to support

⁷ Source : [SWD \(2016\)318, 19.9.2016 : Ex-post evaluation of the ERDF and CF 2007-13](#)

⁸ Source : https://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion7/7cr.pdf (p.185)

economic recovery and convergence in the European Union and acts as catalyst for further public and private funding through its co-financing requirement, leverage and its role in creating investor confidence.

The impact of regional policy is particularly significant in cohesion countries⁹, contributing to a significant convergence of GDP per head, as shown in the graph below.



GDP per head, (constant prices, 2002=100)¹⁰

However, non-cohesion countries including net payers to the EU budget also benefit from **spill-overs** generated by investments in less developed areas, both directly (through selling investment goods) and indirectly, owing to increased purchasing power of households and from increased trade¹¹.

Regional policy proves on a continuous basis that it can be very responsive to crisis situations at the EU or Member State level.

Creating conditions for successful investments

Over the years, regional policy has offered expertise in transition, structural transformation and policy implementation. It has helped to create the conditions for growth enhancing investment, through ex-ante conditionalities. Overall, **99%** of the action plans to fulfil these conditionalities for the 2014-2020 period were completed. Consequently, regional policy contributed to ensuring that adequate regulatory and policy frameworks are in place together with sufficient administrative capacity to warrant the efficiency of public and private investment.

The 2014-2020 programmes continued to provide a significant impetus for Member States to implement structural changes and policy reforms, including those linked to

⁹ Cohesion countries = Member States (MS) benefiting from the Cohesion Fund: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia

¹⁰ Source: Eurostat and REGIO calculations. Northern and Western MS = Germany, Austria, the Netherlands, Luxemburg, Finland, Sweden, Ireland, Belgium, Denmark and France; Eastern MS = Poland, Croatia, Estonia, Latvia, Lithuania, Slovakia, Hungary, Slovenia, Czechia, Romania and Bulgaria; Southern MS= Italy, Spain Greece, Portugal, Cyprus and Malta

¹¹ Source see footnote 10 above: by 2023, the impact of the 2007-2013 programmes is estimated to be around 0.12% of GDP in non-cohesion countries, of which around a quarter is due to spill-overs from spending in cohesion countries.

Country Specific Recommendations issued in the context of previous cycles of the European Semester, through investments targeting structural weaknesses and growth bottlenecks. The 2019 exercise introduced for each Member State a new specific investment Country Specific Recommendation, aiming at focusing economic policies to the most relevant investment needs identified in the Country Reports.

Effective structural reform requires a coherent approach between the interventions co-financed by regional policy and other EU instruments. Under the new von der Leyen Commission, a single Commissioner responsible for both cohesion and reforms will help improve the coherence of its action. REGIO has started work to identify key reforms in Member States that are essential to improving the overall framework for successful investments. These will feed discussions with Member States on strategic priority areas for support from 2021 under the **Technical Support Instrument** (under the responsibility of DG REFORM).

Sound administrative capacity in Member States and regions is a key precondition for successful implementation. REGIO has continued to provide specific support and tools to programme authorities and beneficiaries. By 2019, TAIEX-REGIO **PEER2PEER**¹², the exchange tool for regional policy practitioners/experts in Member States, set up over 200 exchanges, involving over 3,000 participants.

18 **Integrity Pacts**¹³ implemented in 11 Member States allow closer citizen engagement and civic monitoring of EU-funded projects, in cooperation with Transparency International. In 2019, the Integrity Pacts pilot received the European Ombudsman Award for Excellence in open administration.



In the field of good governance, phase 1 of the **pilot action on frontloading administrative capacity building** was completed, in cooperation with the OECD. Five managing authorities from Bulgaria, Croatia, Greece, Poland and Spain received assistance to develop roadmaps and frontload actions for 2021-2027.

Consolidation of the results of the **Catching-up Regions** initiative continued – created to overcome key development bottlenecks and enhance the impact of regional policy investments in low-income regions in Poland, Slovakia, Romania and Croatia. This successful model of cooperation of EU, national and regional actors is being transferred to other European regions facing similar challenges.



Delivery of Commission priorities

Regional policy, representing almost one quarter of the total EU budget, continued throughout 2019 to contribute to the Commission priorities through investments in key policy areas. 2014-2020 investments will run until 2023, and quantitative targets are set until the end of that year. **Hereafter, progress (in %) is shown with regard to these 2023 targets**¹⁴.

- **EUR 50 billion** from ERDF and CF is devoted to improving the **business environment and entrepreneurship**. Overall, around 400,000 firms (38%) received support improving their

Portugal: integrated solution to improve energy efficiency and address social issues by supporting deprived areas

IFRRU 2020 (Instrumento Financeiro para a Reabilitação e Revitalização Urbanas) is a financial instrument that has been established to support urban renewal across the entire Portuguese territory. It uses EUR 102 million of ESI Funds resources to mobilise EUR 1.4 billion of public and private financing for urban development, with the aim of generating a total investment of around EUR 2 billion euros. The investment strategy of the fund of funds targets the overall improvement of buildings that are more than 30 years old, abandoned industrial spaces and units, social housing and public space. Typically, the investments will improve the general condition of buildings and must include interventions to improve the energy efficiency.

¹² https://ec.europa.eu/regional_policy/EN/policy/how/improving-investment/taix-regio-peer-2-peer/

¹³ https://ec.europa.eu/regional_policy/EN/policy/how/improving-investment/integrity-pacts/

¹⁴ All figures include national co-financing and can be found in the [ESIF Open data platform](#)

productivity and competitiveness. In addition, nearly 110,000 direct jobs (27%) have already been created as a result of business support, sustaining the employment rate in many Member States.

- **18.1 billion** of the ERDF and CF allocation (7.2%) is planned to be delivered by 2023 via **financial instruments** such as loans and guarantees, primarily for SMEs. While the selection of financial instruments stands at 89%, and the amount paid to financial instruments reached so far 34%, in line with amounts paid for other programmes, close to 100,000 final recipients were supported including about 83,000 SMEs. REGIO also promoted the **InvestEU** programme, which will expand the successful model of the Investment Plan for Europe by using guarantees from the EU budget to crowd-in other investors.
- EUR **65 billion** are allocated to strengthen **research, technological development and innovation**. ERDF is the main source of R&D investment in 12 EU Member States¹⁵. Investments made in the area of research reached 91% of the target, ensuring a significant level in this area and positively influencing the gross EU domestic expenditure on R&D. By the end of 2019, about 20,000 firms (33%) already benefited from ERDF schemes promoting cooperation with research institutes and nearly 37,000 researchers (40%) already benefited from an improved research infrastructure.

Work has continued on rolling out of over **180 smart specialisation strategies**,



mobilising more than EUR 120 billion and aiming to leverage considerably more private investment. Smart specialisation turns the diversity of our territories into a strength, by building on the specific assets in each region or Member State. REGIO, in cooperation with JRC provided support through the **Smart Specialisation Platform**, including the

work on 28 interregional partnerships. The pilot for interregional innovation partnerships¹⁶ complements the efforts of the thematic smart specialisation platforms in accelerating the commercialisation and scale-up activities of the 8 selected partnerships.

REGIO has also worked on the **pilot for industrial transition**¹⁷ in ten regions and two countries, providing support for economic transformation, building on smart specialisation strategies, a broad innovation concept, and addressing globalisation, automation, decarbonisation, emerging and digital technologies, skills and investment.

- Regional policy is the largest EU source to modernise the European **transport** system and adapting it to new challenges. About EUR **70.3 billion** has been allocated to programmes that address mobility. Support to the Trans-European Transport networks (TEN-T) with about EUR 33.6 billion plays a prominent role. For example, almost 700 km of railways (17%) were reconstructed under TEN-T. Investments into sustainable urban mobility makes travel cleaner, faster and safer.
- The overall allocation to the **digital economy** for 2014-2020 is EUR **18.4 billion**. This makes ERDF the main EU investment tool for digitalisation of the public sector and SMEs and for the rollout of broadband. With the support of regional policy, almost 3 million more households (30%) had access to broadband by the end of 2019. In the framework of the Commission priority to make Europe fit for the digital age, regional policy invests in improving the strategic policy frameworks for digital investments and enhancing administrative capacities of national and regional authorities.

¹⁵ All EU-13 countries, except CY. See: "[Science Research and Innovation Performance of the EU 2018](#)"

¹⁶ More information on [interregional innovation partnerships](#)

¹⁷ More information on [pilot for industrial transition](#)

- REGIO's investments are contributing to the preservation of the **environment** with an allocation amounting to some EUR **32 billion**. For example investments in flood protection covered already over 4 million people (25%). Conservation of habitats was implemented already on more than 2.8 million hectares (33%) and 1.9 million people (7%) already benefit from improved wastewater treatment.
 - Regional policy (ERDF + CF) provided the biggest EU investment support for Europe's ambitious **energy and climate** policies, supporting the EU's regions and cities in their path for reaching the targets of climate neutrality by 2050 and contributing to a socially fair transition. The 2014-2020 programmes will invest by the end of 2023 over EUR **75 billion** into the **low carbon** economy and **climate change** adaptation. ERDF and CF thus make a key contribution to delivering the ambitions of the **European Green Deal**. In addition, under the MFF 2021-2027, ERDF and CF will represent over 25% of the EU Budget's climate spending, expected to amount to some EUR 85 billion.
 - REGIO also plays a key role in managing the transition in Member States and regions. REGIO is actively engaged in the **Coal Regions in Transition Initiative**, which aims to provide tailor-made support for the clean energy transition in 13 pilot coal and carbon-intensive industrial regions. These efforts continue under the new Commission with the proposal for a **Just Transition Fund**¹⁸ embedded in the cohesion policy legislative framework, which aims at alleviating the social and economic impacts of the energy transition such as those arising through the closure of coalmines. The Just Transition Fund is expected to facilitate and accelerate the energy transition in the most affected territories through support for economic diversification or re/up-skilling of workers.
- Transition of coal regions in Czechia**

In the framework of the Coal regions in Transition initiative, re-programming of EUR 232 million to the Czech coal regions was undertaken in 2019 with the aim of reducing air pollution related to coal mining or steel production and supporting low-emission and zero-emission vehicles in the affected regions of North Bohemia and Silesia.
- Regional policy is the main EU funding instrument for **disaster risk management**, preparing EU countries for the adverse effects of climate change and other natural and manmade disasters. In addition, the **EU Solidarity Fund** (EUSF) helps to increase Member States' and regions' resilience and preparedness in addressing the consequences of natural disasters. In 2019, almost EUR 294 million were awarded to three Member States to help them finance emergency and recovery operations. In May, REGIO published the first ex-post evaluation¹⁹ of the EUSF interventions between 2002 and 2016, which confirmed the EU added value of the instrument.
 - REGIO also complements investments financed by the European Social Fund. For example, ERDF invests more than EUR **31 billion** in promoting sustainable and quality **employment** and supporting labour mobility, training and **education** infrastructure, **social inclusion** and **institutional capacity**.
 - ERDF support is instrumental in investing into **health** and **social infrastructures** by supporting measures making health systems more accessible, innovative (e-health) and affordable across Europe. 27.5 million (50%) citizens already benefited from ERDF supported modernisation of health systems. Overall investment in this area was originally planned to reach EUR **4.6 billion** until the end of 2014-2020 period, however this amount is likely to increase given the recent Coronavirus Response Investment Initiative which prioritises investments in health care.
 - **European Territorial Cooperation** programmes contribute to increasing the effectiveness of the Single Market through enhancing interregional, transnational and

¹⁸ More information on [JTF](#)

¹⁹ SWD(2019)187 final

cross-border cooperation. Apart from concrete projects, these programmes also directly involve citizens through 'people-to-people' projects to build trust across borders and to bring the EU closer to their everyday concerns.

It is also important that EU policies are designed and implemented and take into account the challenges and potential of borders. REGIO made a substantial contribution to identifying **cross-border barriers to the single market** following the adoption of the "Boosting growth and Cohesion in EU Border Regions"²⁰ Communication. Under the Border Focal Point, a range of different actions have been planned and implemented. They tackle cross-border obstacles in specific sectors or more horizontal structural issues.

EU Macro-regional strategies facilitate multi-stakeholders cooperation across regions. Following the adoption of the 2nd Commission report on the implementation of the EU macro-regional strategies²¹, the subsequent Council Conclusions²² further detail how the strategies can contribute to the internal market, for example by connecting smart specialisation strategies and clusters and linking industrial and innovation policies.

To tackle the challenges requiring a more comprehensive approach and involvement of all levels of governance across neighbouring countries, **15 transnational programmes** provide a tool to tackle for example environmental and climate change challenges between several countries. REGIO also implements **four inter-regional programmes** (Interreg Europe, Interact, Urbact and ESPON) to encourage exchange of experience between regions on thematic objectives and urban development.

The **IPA-CBC programmes** (2014-2020) managed by REGIO contribute to preparing the beneficiary countries for successful participation in EU regional policy after accession and to building trust and stability in the regions.

15 European **neighbourhood instrument cross border co-operation** (ENI-CBC) programmes worth around EUR 1 billion, involving Member States and eastern and southern neighbourhood countries, were transferred from NEAR to REGIO on 1 January 2020.

REGIO also steered the implementation of the EU strategy²³ for the **outermost regions** and mainstreamed these regions' specificities across policies and initiatives. REGIO regularly exchanges with the outermost regions through the Outermost Regions Working Group and citizens' dialogues workshops.

- Regional policy has actively contributed to **effective integration of migrants** via social inclusion, educational/vocational training and sustainable and quality employment projects. The publication of the Toolkit on the use of EU funds for the integration of people with a migrant background²⁴ was the result of a close cooperation between REGIO and other Commission services.

Delivery of ERDF and CF investments

Six years into the 2014-2020 period, the implementation of regional policy programmes progresses well, with EUR **324.6 billion** already allocated to projects in Member States by December 2019. This is more than **92%** of the Funds' total envelope and represents almost **380 thousand projects**. This shows further acceleration compared to the results registered at the end of 2018, which stood at 77% of total funding allocated to projects. This trend slightly exceeds the one of the last programming period and anticipates a sustained pace of implementation towards the end of the period.

²⁰ Link to the [Communication](#)

²¹ Link to the [Commission report](#)

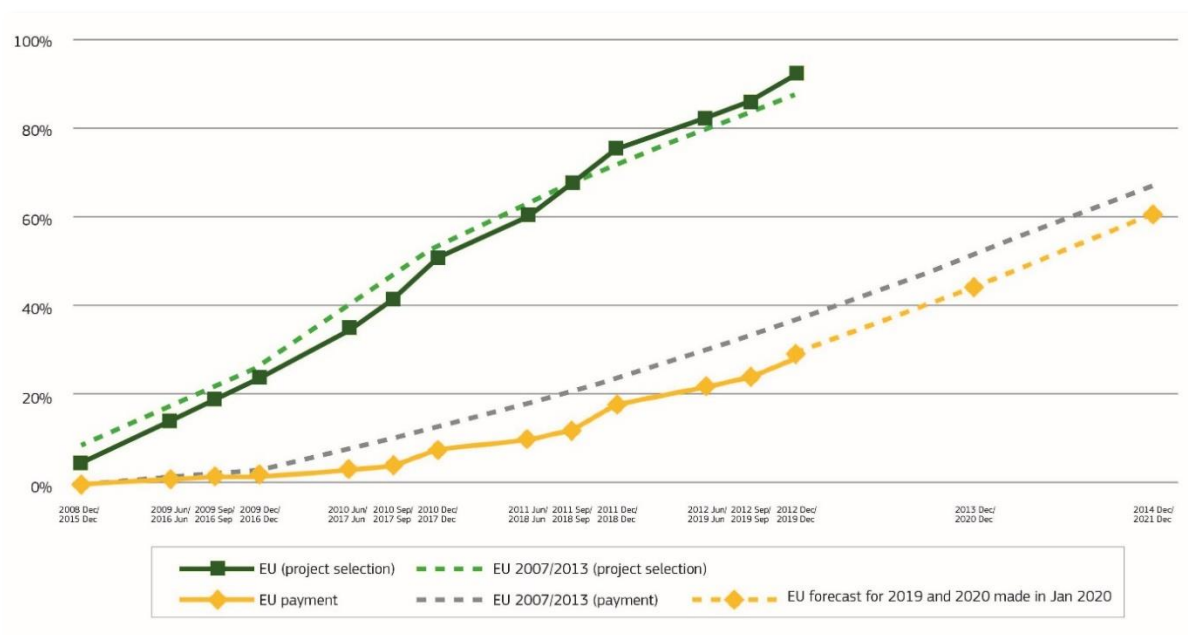
²² Link to the [Council Conclusions](#)

²³ Link to the [EU Strategy](#)

²⁴ Link to the [Toolkit](#)

The **absorption rate**²⁵ has continued to increase throughout the year, but is lower than expected. Cumulative payments (including advances) from the Commission to Member States for 2014-2020 programmes at end 2019 totalled EUR 94.1 billion, almost **34%** of the combined ERDF and CF allocation. Compared to the 2007-2013 programming period, the share of interim payments for 2014-2020 at the end of the 6th year of implementation is still lagging behind by 6.6 percentage points.

The above can be explained by the fact that a high selection rate does not automatically translate into prompt expenditure. Expenditure is slower to materialise for projects that are still in the planning or procurement stage, projects with multi-annual character or projects that are otherwise immature. The 2014-2020 regulatory provisions (e.g. N+3 rule, the level of pre-financing, coupled with the annual account and rolling closure processes, which have proven to create over-cautiousness towards net financial correction risks) reduced the pressure on Member States for prompt budgetary implementation. Despite the lower execution rate overall, the N+3 decommitment exercise in 2019 concerned only four programmes.



Project selection and absorption compared to the previous programming period

As regards **major projects** (large infrastructure projects implemented in the framework of programmes), good progress was registered in 2019, notably in Poland, Romania and Greece in the sectors of transport, water and wastewater, energy and solid waste. The total number of **submitted projects** rose to **336** (63% of all major projects expected for 2014-2020 period), representing total investments of EUR 93 billion. The JASPERS initiative²⁶ continued to provide advisory services to Member States and supports the Commission in the appraisal of all major projects. Two evaluations in the fields of transport and environment completed in 2019 (see Annex 9) confirmed the importance of EU support of major projects and, in general, large-scale environmental and transport infrastructure projects in achieving EU objectives.

At the end of 2019, the Commission issued the second **Strategic report**²⁷ on the implementation of the European Structural and Investment Funds. Based on the Member States' implementation and progress reports, the Commission reported on the achievement of the thematic objectives for the European Structural and Investment

²⁵ Absorption rate (financial implementation) = interim payment claims submitted by Member States/amounts decided

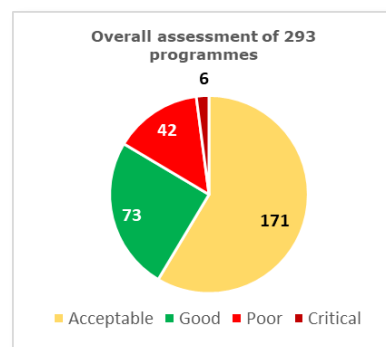
²⁶ Technical Assistance facility co-financed by the Commission and the EIB

²⁷ COM(2019)627 final

Funds, including ERDF and CF.

Performance of programmes

In line with the 2014 “Strategy to manage change towards a more performance based culture”, REGIO developed a methodology to assess the performance of programmes based on the assessment of annual implementation reports and of de-commitment risk per individual programme. In 2019, based on the overall assessment of 293 programmes, **41** of them were identified as **programmes ‘in difficulty’** (14%) and were put under close monitoring, putting in place corrective actions tailored to the needs of each programme and following-up on specific issues identified throughout high level meetings, technical exchanges, targeted advice and dialogue with national authorities. The list of programmes in difficulty is reviewed bi-annually by senior management.



The analysis on annual implementation reports was particularly important in 2019, when the Commission, in cooperation with Member States, undertook a review of the performance of programmes through the **'performance review'** exercise, with reference to the performance framework set out in the respective programmes at the beginning of the programming period. A performance reserve was consequently released to those priorities that met the mid-term milestones at the end of 2018. The performance review proved to be a good way to introduce performance incentives in the implementation of the policy.

Overall, the performing priorities accounted for 79% of the total performance reserve. For the ERDF and CF²⁸, the review resulted in the definitive release of EUR 15.9 billion out of a total of EUR 20.2 billion of the **performance reserve**, to be invested in performing priorities. The outstanding EUR 3.6 billion were linked to programmes and priorities that did not achieve their performance milestones and are to be reallocated to performing priorities.

For some programmes and Member States and for an amount of EUR 674 million, the performance review could not be carried out due to deficiencies linked to reliability of monitoring systems and data. Please refer to section 2.1.1.1 for more information on **performance data reliability** and the supervisory work undertaken by REGIO to ensure that performance information reported by Member States is correct, reliable and of good quality.



Also, in 2019, REGIO continued to provide specific support to Member States with a view to spreading and reinforcing their evaluation culture and capacity. The **Evaluation helpdesk** and network were the main tools used to achieve this

objective. The 8th **cohesion policy evaluation conference** “Investing in our shared future” was held in Bucharest bringing together over 500 participants from academia, managing authorities and different institutions. This is the most important event on cohesion policy evaluation organised at European level every three years.

Alignment between cohesion policy and EU economic governance

Starting from 2019, REGIO’s involvement in the European Semester process was boosted by becoming a full member of the group of *core* DGs that steer the European Semester process, by joining SG, ECFIN, EMPL and GROW.

²⁸ All values include national co-financing

REGIO's contribution to the **Country Reports** was reinforced both in terms of regional analysis and investment needs. In 2019, REGIO in coordination with EMPL drafted a new investment guidance Annex (D) exclusively devoted to investment priorities to be supported by cohesion policy funds²⁹ for the 2021-2027 programming period. This Annex provides the basis for the dialogue between Member States and the Commission in view of the future programming of cohesion policy funds. At horizontal level, REGIO also contributed to the various European Semester packages as well as to the elaboration of the new **Annual Sustainable Growth Strategy** and other key documents, part of the 2020 autumn package.

REGIO is actively contributing to the 2020 **European Semester**, in particular by providing key analyses of the economic and social challenges that territories face in their transition to a green and carbon neutral economy. In this respect, REGIO has developed a **dedicated investment guidance** for the programming of the newly proposed **Just Transition Fund**. It will be the basis for the dialogue between Member States and the Commission in view of the programming of the Fund and defining the territorial just transition plans, to be developed in that framework.

In addition, regional policy helped Member States and the EU to contribute to the implementation of the UN 2030 Agenda for sustainable development and attain the **Sustainable Development Goals** (see Annex 13 for more details).

Commission proposal for a modernised cohesion policy for 2021-2027

Further to the legislative proposals adopted by the Commission in spring 2018 and the co-legislators' establishing their respective positions, negotiations between the co-legislators started in February 2019. REGIO deployed intensive efforts to actively **help legislative negotiations progress** to ensure that the future policy framework is robust and offers significant simplification of the delivery of the policy. Technical trilogues helped prepare progress at political level, leading to a common provisional agreement on the three major blocks of the Common Provisions Regulation, necessary for the proper programming process. The planning, preparatory and organisational processes coupled with the assistance to the Presidency also necessitated substantial resources. Coordination and monitoring mechanisms were put in place to ensure consistency with other sectoral proposals by the Commission in the context of the next multi-annual financial framework.

REGIO also prepared the **Commission's proposal for a Just Transition Fund** and is involved in preparations of the broader Just Transition Mechanism.

In spring 2019, **launch events** took place in all Member States starting the informal dialogue on the new programming period. They were asked to send **roadmaps** by the end of June 2019 outlining their plans for submission of mature draft programming documents and expected dates of official submission. The Commission suggests an ambitious deadline for the official submission of the documents to be ready for adoption by the end of 2020. Delays in adopting the programming documents might lead to delayed implementation as shown in the current programming period.

The aim for the Commission is to have a constructive **informal dialogue** with Member States until the new legislation is adopted, in order to approve as many programmes as possible as soon as the regulations come into force and start the implementation without delay. In that respect, REGIO organised a **seminar on programming** in June, which almost 300 participants attended.

In November 2019, REGIO and EMPL reminded Member States about the role of the **partnership principle** during the programming process and requested them to make both draft and official programming documents public.

²⁹ ERDF, CF, ESF+

Also, full support was provided during the **transition to the next Commission**. Not only did this work serve to prepare the Commissioner and cabinet, but many themes were picked up for the work programme of the Commission as a whole.

In the context of **Brexit** contingency work, the Commission proposal to allow for the continuation of the territorial cooperation programmes PEACE IV (Ireland-United Kingdom) and United Kingdom-Ireland (Ireland-Northern Ireland-Scotland) was adopted in March 2019. Furthermore, the Commission tabled in September an amendment to the EU Solidarity Fund Regulation to provide financial assistance to Member States to cover serious financial burden inflicted on them following a withdrawal of the United Kingdom from the Union without an agreement. REGIO continued to work with European Structural and Investment Fund DGs and central services and provided support to the UK Task Force.

In the area of **international cooperation**, REGIO continues to share experience with strategic partners and other important countries in the area of regional policy, notably on territorial and urban matters. REGIO is shaping international thinking when it comes to the UN New Urban Agenda and plays an important role in the **European Neighbourhood Policy** through cross-border cooperation along the EU's external border and macro-regional strategies.

The territorial and urban dimension of regional policy

In regional policy, the territorial and urban dimension has been reinforced in the 2014-2020 period with various programming elements and tools. About **EUR 32 billion** (10%) of cohesion policy funds are planned for integrated territorial strategies. Within that, more than 16 billion (8%) of ERDF is dedicated to sustainable urban development.

The **Urban Innovative Actions**³⁰ is an instrument allowing the Commission to directly support cities to test new solutions to address challenges with a budget of around **EUR 372 million** for 2014-2020 implemented via indirect management. Four calls for proposals were completed (86% of the total ERDF allocation), with the selection of 75 projects from 18 Member States. A final call was launched in September 2019.



REGIO is also coordinating the implementation of the **Urban Agenda** for the EU. By focusing on concrete priority themes within the 14 established partnerships, the Urban Agenda seeks to improve the quality of life in urban areas.

³⁰ More information on [UIA](#)

2 ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains how the Directorate-General delivered the achievements described in the previous section. It is divided into two subsections:

(2.1) reports the audit and control results and all other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives³¹. It includes any additional information to establish that the available evidence is reliable, complete and comprehensive. It covers all activities and programmes under shared management (details for other management modes relevant to the DG are, due to their relative lesser significance, reported in Annex 10³²).

(2.2) deals with the other components of organisational management: human resources, information management and external communication.

2.1 Financial management and internal control

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

Management monitors the functioning of internal control systems on a continuous basis, supported by internal and external auditors. Results are documented and reported to the Director-General. Reports produced are:

- annual reports by Authorising Officers by Sub-Delegation;
- reports of the Audit Directorate: on-the-spot, risk-based audit plan, ex-post supervision, controls, including the assessment of system audit reports, annual control reports and audit opinions received by 15 February/ 1 March;
- contribution of the Internal Control Coordinator, including the results of internal control monitoring at DG level;
- opinion, observations and recommendations reported by the Internal Audit Service;
- observations and recommendations reported by the European Court of Auditors;
- information received from OLAF, including follow-up to final case reports.

This approach provides sufficient guarantees as to the **completeness and reliability of the information reported** and a complete coverage of the budget delegated to the Director-General of REGIO.

2.1.1 Control results

This section assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the relevant control systems for budget implementation. Annex 10 provides a detailed assessment of the control effectiveness and remaining deficiencies if any, audit opinions reported and confirmed error rates for each programme under shared management, and reservations.

³¹ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

³² See in particular Annex 10 I (European Union Solidarity Fund) and 10 J (Direct and indirect management).

Activity		Payments 2019 ³³ (EUR million)	% REGIO	IC indicators	Reservation
2014-2020 period	<i>ERDF / CF</i>	37,165.9	95.9	Residual total error rate < 2% Total error rate < 10%	Yes 67 ERDF/CF programmes
	<i>Cross border cooperation IPA- CBC/ENI;</i>	46.6	0.1	No risk on the advance payments	No
2007-2013 period	<i>ERDF / CF</i>	1,058	2.7	Residual risk rate < 2% Corrections applied at closure	Yes 9 ERDF/CF programmes
	<i>IPA – Cross border cooperation</i>	0.95	0.0	Error rate: 0.38%, RRR <2%	Yes 1 IPA- CBC programme
Up to 2006	<i>ERDF / CF</i>	43.6	0.1	Residual error rate <2%, (corrections applied at closure)	No
Solidarity Fund	<i>EUSF</i>	294.8	0.8	No significant findings	No
Indirect Management	<i>IPA Regional Development</i>	0	0.0	2019 error rates validated below materiality	No
	<i>Urban Innovative Actions</i>	44,2	0.1	No significant findings	No
Direct Management	<i>Technical assistance, Pilot project and Preparatory actions; incl. Cross-sub- delegations given</i>	93.75	0.2	Corrections with limited impact being carried out as a result of the checks and ex-post controls carried out No significant audit findings	No
Grand Total		38,747.8	100%		2 covering 77 programmes

2.1.1.1 Effectiveness of controls³⁴

REGIO identifies and assesses, in so far as possible, the benefits resulting from the controls, which are mostly qualitative. These benefits are further described in Annex 5 under column "Cost-Effectiveness indicators".

Legality and regularity of the transactions

REGIO is using internal control processes to ensure the adequate management of the residual risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes under the two programming periods 2014-2020 and 2007-2013 and the nature of the payments concerned under shared management. Annex 10 A also provides an explanation of the control architecture applicable to the shared management and regional policy Funds³⁵.

REGIO has no reported cases of confirmation of instructions (Art 92.3 Financial Regulation), cases of derogations from the principle of non-retroactivity (Art 193.2 Financial Regulation), neither, cases of flat rates for indirect costs exceeding 7% (Art 181.6 Financial Regulation) to disclose and is not concerned by cases of financing not

³³ Including pre-financing

³⁴ This chapter presents details on the effectiveness of controls of programmes under shared management. See Annex 10 J for more details on programmes under direct/indirect management

³⁵ See also Annex 10 E (2007-2013 and 2000-2006 ERDF/CF programmes: assurance at closure).

linked to costs (Art 125.3) or by Financial Framework Partnerships exceeding 4 years (Art 130.4)".

Shared management - ERDF and Cohesion Fund 2014-2020

The Directorate-General reviews audit information available for each programme in order to identify the need for reservations in line with the materiality criteria disclosed in Annex 4, and requiring additional corrective measures.

With respect to the legality and regularity of the transactions for the 2014-2020 period, the objective is to ensure that the estimated residual risk of error³⁶, after the control cycle is completed and the required financial corrections were implemented by the programme authorities, is below the materiality level of 2% for each programme. The process for the confirmation of the residual total error rates and the calculation of the risk to the relevant expenditure in 2019 is performed as follows:

- The Directorate General reports in this AAR its assessment of the reliability of residual total error rates reported for the **accounting year 2017-2018** (amounts certified and cleared in 2019). It confirms, where possible, individual rates per programme and the resulting average after the whole control process at national and Commission levels has been performed.
 - ✓ This average residual total error rate for 2017-2018 accounts represents the most relevant key performance indicator of the overall residual risk for year 2019 to the underlying programmes expenditure. It is reported as **KPI 5 in the AAR**³⁷.
 - ✓ Reported total and residual error rates for individual programmes are confirmed taking into account all available audit information, following a two-stage audit process: 1) a thorough desk review applied to all programmes (resulting, where relevant, in an assessment letter with recommendations), completed where needed by extended desk work³⁸ and/or fact finding missions, 2) followed for programmes considered at risk, by on-the spot compliance audits carried out (to re-perform audits reported by audit authorities and validate their results). This process may lead to either a confirmation or a re-calculation of the programme's residual total error rate for the accounting year at stake.
 - ✓ Where contradictory procedures for compliance audits are still ongoing at the moment of the adoption of this AAR, a prudent approach is followed when re-calculating the residual total error rates, i.e. using the most conservative results at that stage of the audit process; in some cases a flat rate is used (see Annex 10 B). For the concerned programmes REGIO may still further adjust downwards the residual total error rates upon completion of the contradictory procedure with the Member State (after signature of the AAR).
 - ✓ A similar approach is followed for ECA's preliminary results communicated on the 2017-2018 assurance packages, pending the results of the on-going contradictory procedure.
 - ✓ As a complement to KPI 5, REGIO is also estimating **a prudent maximum residual error rate** to take into account potential additional risks for some programmes, estimated at flat rate³⁹.

³⁶ Estimated through the Residual Total Error Rate of the amounts certified in the 2017-2018 accounts.

³⁷ After neutralising the impact of advances paid into financial instruments included (in line with Article 127 CPR) in the samples of audit authorities based on declared expenditure.

³⁸ E.g. a desk review of samples of underlying control reports obtained from audit authorities on request, when doubts occur.

³⁹ Namely to consider additional risks that may be present in that part of the audit sample of the audit authority that was not covered by the Commission services' audits as well as additional risks identified during the Commission services' desk reviews and during ECA audits.

The Commission therefore endeavours to confirm all residual total error rates in the subsequent AAR following reception of the assurance packages⁴⁰, notwithstanding the requirement for robust contradictory procedures in case of on-going audits.

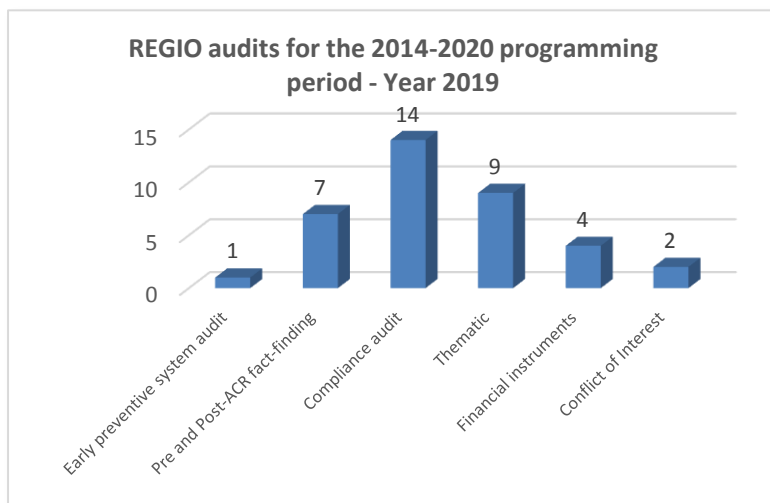
- In relation to the **accounting year 2018-2019** (assurance packages including residual total error rates communicated by the audit authorities by 1 March 2020, i.e. just before the AAR finalisation), a first preliminary consistency review has been carried out before signature of the AAR to identify potential inconsistencies or deteriorations in the effectiveness of management and control systems that would require reservations⁴¹. These error rates will then be comprehensively assessed in the course of 2020, through the two-step audit process described above, and confirmed in the 2020 AAR to be signed in April 2021.

For details of the calculation method for corporate risk “at payment” and risk “at closure”, please refer to Annex 4.

On-the-spot audit work carried out by REGIO in 2019

In line with its **Single Audit Strategy** REGIO annually updates its joint risk assessment with EMPL⁴² and sets, on this basis, the audit plan to be carried out on-the-spot. For 2019 this audit plan foresaw:

- A focus on **compliance audits** to review the work of audit authorities. The main objective of such audits is to seek reasonable assurance that no serious system deficiency remained undetected or un-reported by Member States and that the reported audit opinions (on the effective functioning of systems and on legality and regularity of the expenditure declared) and residual error rates are reliable. In addition, REGIO carried out pre- and post-fact-finding missions in relation to the annual control reports (ACR) under assessment⁴³. Compliance audits and ACR fact-finding missions are thus important preventive and corrective tools for reducing the risk of unreliable results reported in the assurance packages.



- **Thematic audits**, in particular in relation to the **quality of management verifications** to prevent and detect public procurement errors; although these constitute a more limited source of errors than in the past, they still have possibly high impact on the error rates. Thematic audits also covered ad hoc audits on two

⁴⁰ In line with the legal provisions, the Commission can for individual cases continue to carry out compliance audits, including on the spot, after signature of the AAR, covering expenditure certified in relation to previous accounting years. Any impact of such audits would lead to the appropriate additional financial corrections, where necessary. The Directorate General will disclose such corrections (additional to what was already disclosed in previous years) in the subsequent AARs.

⁴¹ See materiality criteria for reservations in annex 4.

⁴² To determine which audit authorities and programmes will be subject to compliance audits; the risk assessment is based on a set of risk criteria which are weighted to obtain a risk scoring for each audit authority and programme.

⁴³ Pre-ACR fact finding missions aim at checking the quality and the methods used to collect information before it is submitted to the Commission, thus being an important preventive tool. The post-ACR missions allow clarification of the assessment of results reported by the audit authorities.

Czech programmes⁴⁴ to follow up on specific **allegations of conflict of interest**.

- 2019 was also the first year of implementation of **audits on financial instruments** in line with the methodology developed and shared with Member States. Such audits contribute to build assurance up to closure, when the eligibility of financial instruments' underlying expenditure must be assessed (Article 42 CPR).

Some audits were performed jointly with EMPL to ensure synergies in particular for common management and control systems (multi-fund programmes, common audit authorities). The audit plan also took account of ECA's Statement of Assurance audits⁴⁵.

In 2019 REGIO thus carried out 14 risk-based compliance audits in 7 Member States⁴⁶ covering 14 assurance packages and programmes and 15%⁴⁷ of the EUR 24.8 billion certified in the annual accounts 2017/2018. REGIO also carried out four pre-ACR fact finding missions in three Member States⁴⁸, to preventively review the preliminary audit results to be reported in the 2019 ACRs, and three post-ACR fact finding missions covering all programmes of Spain, Poland and Slovakia with a view to clarifying audit information reported in the concerned ACRs.

As a result of these audits REGIO identified further irregularities to the ones detected by audit authorities in 14 cases, **leading to a re-calculated material residual risk in 8 cases** at this stage of the contradictory procedures⁴⁹. REGIO requested audit authorities to ascertain, in 12 cases, that no similar irregularities as the ones it found remained undetected in the parts of the audit samples not re-performed. Pending such verifications the risk has been reflected at flat rate in the maximum risk reported together with KPI 5.

Taking into account the cumulative audit work carried out under compliance audits so far as well as its desk review of assurance packages received, REGIO's preliminary conclusions are that it has reasonable assurance on the reliability of the work carried out by the 80 ERDF/CF audit authorities in total, except for eight audit authorities or their control bodies for which – pending the result of on-going contradictory procedures – it found deficiencies in their work⁵⁰. For these cases REGIO detected:

- shortcomings in the audit check-lists used, e.g. use of incomplete / inadequate checklists leading to the non-detection of errors, mainly in the areas of public procurement - or under-quantification of such errors - and State aid (DE/Sachsen, UK/Wales, two Spanish and one French regional control bodies, 1 ETC audit authority);
- inconsistencies in the reporting of audit results for financial instruments in one regional programme (PL);
- diverging interpretation and quantification of public procurement errors (LT);
- insufficient resources allocated to the audit services for five French regional control bodies, leading to important delays in the audit of operations at the time of annual control reports or risk to the independence of the audit authority (one Italian region).

REGIO also preliminary concluded that it could not follow the audit opinion or results reported by audit authorities for four programmes (AT, FR, 1 ETC) and requested further

⁴⁴ For 2014-2020, as well as on the corresponding two programmes of the 2007-2013 period.

⁴⁵ It can happen that the same programme or audit authority is selected for Commission and ECA audits, since ECA draws its random sample after the Commission has decided its audit plan. In such cases, REGIO endeavours, if possible, to select a separate sample of audits to be re-performed, complementary to the work of ECA to avoid repetition of audits or communicates its audit results to ECA so that ECA can take these results into account in its own assessment.

⁴⁶ Belgium, Germany, Spain, France, Poland, Romania, Slovenia.

⁴⁷ EUR 3.8 billion.

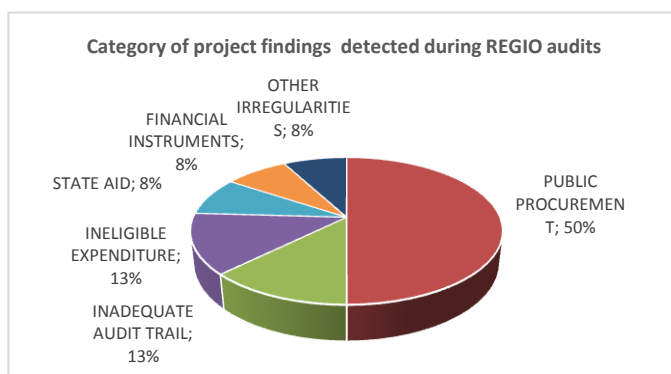
⁴⁸ Cyprus, Italy (2) and the United Kingdom.

⁴⁹ In addition in one case the RTER was recalculated at 2.06%.

⁵⁰ Out of a total of 80 ERDF/CF audit authorities (71 covering both mainstream and ETC programmes, and 9 only ETC programmes).

clarifications and explanations to the audit authorities. In all cases REGIO issued targeted recommendations to the concerned authorities to remedy the identified weaknesses, and has provided the authorities and control bodies the opportunity to provide further explanations or confirm the intended remedial actions during the ongoing contradictory procedures. Moreover, the different types of audits carried out in 2019 by REGIO also led to the identification of **126 system** and **166 project findings** in relation to the **266 ERDF/CF operations it has audited on the spot**, mostly at the level of managing or audit authorities to avoid duplication of audits and control burden to beneficiaries (see Annex 10D).

In line with the joint typology of errors agreed with audit authorities, the vast majority of the project findings related, pending contradictory procedures, to **public procurement irregularities (50%)**, ineligible expenditure and projects (13%), and inadequate audit trail (13%). These categories continue to represent main risk areas for the ERDF/CF implementation.



In 2019 audits REGIO identified a high frequency of public procurement irregularities compared to 2018 and to audit authorities' results. This is mainly due to a systemic issue detected in Spain due to the wrong transposition of the public procurement Directives into the prior national law⁵¹, the use of standards or brands without the mention "or equivalent" in Spain, Poland and Romania but also to a high number of such irregularities detected this year in Germany (22% of all public procurement irregularities). These irregularities were not detected or not sufficiently quantified by the audit authorities. Please also refer to Annex 10 D.

REGIO is taking action to tackle the most frequent errors, besides requesting programme authorities to apply appropriate financial corrections for past expenditure concerned in all cases. For each system finding, REGIO issues a recommendation and ensures a close follow-up to verify that the recommendation is effectively and timely implemented to fix the system and mitigate any risk for future expenditure. Requested remedial measures entail improvement of methodological tools, recruitment of additional staff including experts, training activities on newly developed tools or on the correct interpretation of most frequent errors, etc. This can include, for managing authorities and their intermediate bodies, to improve the quality of selection procedures or management verifications to filter out irregularities. Audit authorities are also encouraged to report back to managing and certifying authorities the main sources of irregularities they identified during their audits, so that management authorities can reinforce their internal control procedures in line with updated risk mappings, adjust their checklists and further train their staff and beneficiaries. For audit authorities, remedial actions refer mainly to improvements in capacity to detect irregularities through improvements of the audit check lists and methodology, clarification of applicable law (in particular in relation to public procurement errors), recruitment of additional staff and continuous professional training.

Capacity building events and joint workshops are also organised with managing or audit authorities as both preventive and corrective actions. The Commission has also been working closely with all audit authorities throughout the year, both bilaterally and multilaterally, in order to address the issues raised in EU and ECA audits (annual bilateral audit coordination meetings with each Member State's audit authority(ies), the annual Homologues Group Meeting and the Multilateral Technical meetings with representatives

⁵¹ Limitation of subcontracting. However, this issue has been solved with the adoption of the public procurement law in 2017 transposing the 2014 Directives.

from all audit authorities, joint Commission – audit authorities’ working groups (with the participation of ECA representatives as observers) on different targeted audit topics⁵². See also Annexes 10 A and D.

Finally, the 2019 thematic audits on two Czech programmes⁵³ for operations selected for co-funding up to the entry into force of Article 61 of the amended Financial Regulation, in August 2018, were coordinated with EMPL and AGRI to follow up on specific allegations of conflict of interest. Following a contradictory procedure the resulting final audit report was issued to the Member State’s authorities in November 2019 (followed by the national language version in February 2020). The Member State is now expected to implement the recommendations or to explain any disagreement. Meanwhile, as a precautionary measure no ERDF expenditure has been or is being reimbursed to the companies that could potentially be affected by the alleged conflict of interest and further audit conclusions. Given that the audit identified deficiencies in key elements of the Member State’s systems, which could result in irregularities above 10% for the concerned part of the programme and for which no adequate corrective measures to remedy the deficiencies have yet been implemented by the Member State concerned, the part of the programme concerned by the affected projects is subject to a partial, non-financial reservation in line with Annex 4 (as no payments have been made from the EU budget for these affected projects).

Accounting year 2017-2018 - Conclusions on the assessment of the assurance packages received by 1 March 2019 and overall assurance

The Commission auditors have looked at all evidence allowing them to complete their assessment of legality and regularity of expenditure included in the 2017-2018 certified accounts with an objective to confirm, where possible, the residual total error rates reported for the 258 programmes concerned in the annual control reports received in 2019.

At the time of signature of this AAR, the Directorate-General has completed its assessment of the concerned ACRs, based on the two-step desk and on the spot audit approach described above. It took account of the results of: the thorough and comprehensive desk review for each programme⁵⁴ with certified amounts, with specific points of attention given to sampling methodologies used, treatment of errors and the reporting of resulting financial corrections; REGIO compliance audits, complemented by pre or post ACR fact-finding missions (see above), as well as relevant audits from other Directorates General under the service level agreement; its assessment and follow-up given to 583 national system audit reports submitted throughout the year by audit authorities, resulting, when needed, in timely interruption of payments or requests for appropriate corrective measures by REGIO to safeguard the EU budget; preliminary audit results communicated by ECA in the

REGIO assessment on the reliability of reported risks based on:

- a thorough desk assessment of ACRs covering 258 programmes
 - results from its 14 risk-based compliance audits
 - complementary fact findings
 - relevant audits from other DGs (e.g. same audit authorities)
 - assessment of 583 national system audit reports and follow up measures (interruptions, remedial action plans)
 - taking account of ECA’s preliminary results communicated on its 2019 DAS audits
-

⁵² E.g. best use of management verifications, minimum appropriate documentation of the audit process to ensure an adequate audit trail (in line with the ECA’s recommendation in its 2017 annual report), statistical methodologies, audit methodology for specific topics such as conflict of interest or performance data reliability.

⁵³ For 2014-2020, as well as on the corresponding two programmes of the 2007-2013 period.

⁵⁴ Covered by 221 Annual Control Reports.

framework of its 2019 Statement of Assurance⁵⁵, and the follow-up to previous years' REGIO and ECA audits.

In the 2019 ACRs, audit authorities reported 221 residual total error rates⁵⁶ based on representative samples and have used **statistical methods** (mainly MUS⁵⁷) for programmes **representing 88% of the expenditure declared** in the accounting year⁵⁸. This resulted in a **significant audit coverage** (around **37%** of the expenditure declared) through the audit of more than **5,500 operations or part of operations** across all ERDF/CF programmes. Although coverage rates vary between programmes⁵⁹, this demonstrates that single auditing under shared management allows for a significant coverage of beneficiaries and expenditure by on-the-spot audits.⁶⁰

Audit authorities continued to report irregularities they found following a **common typology of errors** agreed and shared between the Commission and Member States⁶¹. Out of more than **2,270 irregularities**⁶² they identified, audit authorities reported (in line with last year's results) that 35% concerned ineligible expenditure, 25% public procurement irregularities (however the highest impact in amount), and 19% missing documentation. Detailed information is disclosed in Annex 10D.

As a result of its two-step assessment REGIO:

- confirmed a residual total error rate below materiality for 212 programmes⁶³ (including in some cases after adjustments without a material impact)⁶⁴;
- considers, at this stage, that 46 programmes covering 13 Member States present a confirmed residual total error rate⁶⁵ above 2%⁶⁶.

However, for 40 programmes in 13 Member States⁶⁷, the final outcome requires to take into account additional information and/or further audit contradictory procedures with the concerned authorities, therefore these results are not definitive. In order to cover potential additional risks, REGIO has estimated as well a prudent maximum residual error rate by using flat rates for these programmes. This is referred to as the maximum risk disclosed below, together with KPI5. The programmes at stake are also identified in the comments column of Annex 10 B.

For a majority of the cases, REGIO's adjustment of the reported total residual error rates above 2% reflects the non-detection of punctual irregularities (with however a material impact on overall results), and only in a limited number of cases it reflects serious deficiencies in the underlying audit work (see section on audit findings, pp. 24-25 above).

⁵⁵ REGIO has adjusted the residual total error rates reported by audit authorities following the results of ECA's audits as well. These ECA audits are under contradictory procedure and REGIO will therefore assess the final impact to the confirmed residual total error rates and will apply additional financial correction, where necessary.

⁵⁶ Some of them for programmes grouped under a common audit sample and annual control report.

⁵⁷ Monetary unit sample, a frequently used, standard sampling method, also used for example by ECA for its Statement of Assurance.

⁵⁸ In the remaining cases, non-statistical samples were used, the audit population being smaller than 150 units, in line with the Commission guidance). For the two 2 ETC OPs for which a non-statistical method was used for an audit population exceeding 150 units, REGIO has analysed the impact and confirms that, given the large audit coverage the reported total and residual error rates are not materially affected.

⁵⁹ Sub-sampling was used in some cases which were analysed to confirm a correct projection of the errors found.

⁶⁰ The extended methodological guidance on statistical sampling tools recommended by the Commission helps however to keep a balanced level of audit work at national level.

⁶¹ And also aligned with the OLAF database for reporting irregularities, IMS.

⁶² Several irregularities may be reported for the same sampling unit.

⁶³ Representing 82% of the programmes with certified accounts.

⁶⁴ For 6 OPs (1 DE, 2 FR, 1 HU, 1 IT, 1 PL), the estimated KPI 5 is above 2% once we remove the advance payments to financial instruments; however REGIO could confirm a residual total error rate below 2% taking into account the total population, as correctly reported by the audit authorities in line with the regulation.

⁶⁵ For 19 of these programmes (DE, PT, IT, IE, LT) REGIO applied professional judgement using flat-rates or the best information so-far available to estimate the impact of known systemic irregularities until final assessments are carried out by the concerned audit authorities.

⁶⁶ 1 BE, 5 DE, 6 ES, 2 FR, 1 HR, 2 IE, 9 IT, 1 LT, 5 PL, 10 PT, 1 RO, 1 SK, 2 UK.

⁶⁷ 1 BE, 4 DE, 17 EL, 3 ES, 1 FR, 1 HR, 1 HU, 2 IE, 1 IT, 1 LT, 5 PL, 1 RO, 2 UK.

Based on a prudent assessment of the results of the audit work described above⁶⁸, REGIO is in a position to confirm at this stage an **average total residual error rate of 2.7% for ERDF/CF programmes in the accounting year 2017-2018**. This rate has been calculated after neutralising the impact of advances paid into financial instruments, in line with ECA's 2016 recommendation⁶⁹. REGIO also estimates that the confirmed residual total error rate could reach a **maximum of 3.8%**⁷⁰, taking account of possible further errors in the remaining parts of audited samples that were not subject to detailed re-performance activities and of further information which might become available after adoption of the AAR.

REGIO has therefore reasonable assurance that, after the control cycle (national and Commission) has been completed, there is no material residual risk remaining in the 258 accounts accepted in 2019, except for 46 programmes for which there is at this stage evidence or indications that additional financial corrections are necessary to reach the objective of bringing the residual total error rate to materiality level for all programmes. The increase in the average residual total error rate as compared with the 2018 AAR may be explained by the more solid cumulated audit results currently available to REGIO⁷¹. A better mapping of relevant risks at the level of the audit authorities has enabled REGIO to better focus its desk and on-the-spot work on the remaining risks. Moreover, a specific issue of non-compliance of national law with the requirements of State aid incentive effect⁷², and the in-depth audit work in 4 Member States⁷³ concerning systemic irregularities in public procurement due to infringements of the EU-Directives by national public procurement laws, have also this year an important impact on the average residual total error rate.

The conclusions from the assessment of accounting year 2017-2018 are also taken into account for the ongoing review of the assurance packages in relation to the accounting year 2018-2019 and for the risk assessment that will support the next round of compliance audits to be carried out in 2020⁷⁴ for the preparation of the 2020 AAR.

Upon completion of the contradictory procedures on the concerned programmes, REGIO will launch the required additional financial corrections to bring the residual total error rate for each concerned programme below 2%. These estimated future corrections are used for the calculation of the amount at risk at closure (see table in conclusion, page 36). The list of confirmed total residual error rates by programme, as well as the Commission opinion on the functioning of the management and control system, are disclosed in Annex 10 B⁷⁵.

⁶⁸ And all audit evidence available at this date, pending the outcome of some contradictory procedures (conservative approach)

⁶⁹ The confirmed residual total error rate based on declared expenditure (including advance payments to financial instruments) is 2.5%, hence a limited impact of advance payments to financial instruments on the confirmed residual error rate (0.2 percentage points).

In its recommendation n° 2 a) in the 2016 Annual Report (paragraph 6.40) ECA also addressed State aid advances. In line with the Regulation, State aid advances may be partially cleared by expenditure during the accounting year. Given this inherent legal complexity for dealing with such advances in the error rate calculation, and the limited impact estimated in previous years (around 3% of the total certified amount in relation to accounting year 2017-2018), REGIO did not remove these advances in the KPI 5 calculation.

⁷⁰ After having adjusted upwards the rates for the concerned 41 programmes by using conservative flat rate estimations (considering also the upper error limits reported by audit authorities and confirmed by REGIO); see footnote 66.

⁷¹ As a result of audit work carried out by audit authorities, Commission auditors and Court of Auditors.

⁷² PT, 10 programmes concerned for which the Member State has quantified the impact of the non-compliance for the 2018-2019 (EUR 109.3 million) and has applied the required financial corrections and is currently assessing and quantifying the impact for the 2017-2018 accounts as well.

⁷³ DE, ES, IT, LT.

⁷⁴ Depending also on restrictions imposed to the on-the-spot audit work due to the consequences of the Covid-19 crisis.

⁷⁵ With a view to the implementation of provisions in Article 78 on conditions for enhanced proportionate (controls and audits) arrangements of Commission proposal C(2018) 375 for 2021-2027, see columns 1 to 3 of Annex 10 B.

Accounting year 2018-2019 - Assurance packages received by 1 March 2020

For the accounting year 2018-2019, ACRs were expected to be received by 1 March 2020. REGIO therefore assessed the information reported on the accounts (to be accepted or not by 31 May) and the assurance provided on the effective functioning of management and control systems, including through the evolution of the reported error rates.

**288 Accounts
2018- 2019
with ERDF/CF
expenditure**

**282 can be / 6 cannot
yet be accepted**

288 programmes (including 11 multi-fund programmes for which EMPL is chef de file) have submitted accounts with ERDF/CF certified amounts⁷⁶.

Upon receipt of these assurance packages, and in order to decide which reservations need to be issued with respect to the reporting year 2019, REGIO has carried out a preliminary assessment⁷⁷ of the information disclosed in the annual control reports and whether the reported audit opinions was in line with all other relevant information available to the Commission.

Following its assessment of the work carried out by audit authorities to substantiate their unqualified audit opinions⁷⁸, and taking account of adjustments made at our request for some programmes, REGIO concludes as of mid-April 2020 that 282 accounts (98%) can be accepted, having received unqualified audit opinions as to their completeness, accuracy and veracity⁷⁹. The Commission expects to formally accept these accounts by 31 May 2020, in line with the regulatory deadline. For the remaining 6 accounts (2% of programmes)⁸⁰, the Commission has informed the concerned Member States that it is not yet able to accept them, based on a qualified or adverse audit opinion issued by the audit authority. In line with the materiality criteria (Annex 4), the concerned programmes were put under reservation.

Effective functioning of management and control systems; residual total error rates reported by audit authorities

Based on audit opinions provided by audit authorities in the latest submitted ACRs, as a result of their system audits and audits on operations, and taking account of its own audit results and further EU audit results available, REGIO considers that management and control systems function effectively for 221 programmes⁸¹ (77% of the 288 ERDF/CF programmes with expenditure certified in the 2018-2019 accounts, representing 72% of such expenditure). This provides assurance that the underlying transactions and expenditure declared in these accounts, as well as expenditure further declared by these

⁷⁶ One programme (AT) did not submit the assurance package by 1 March 2020 in breach of Article 63(5) of Financial Regulation and an interruption of payments was immediately decided in line with Article 83 CPR. The programme subsequently submitted the required package on 25 March.

⁷⁷ In particular, the following aspects have been analysed, as part of the consistency checks carried out:

- that the Member States authorities have taken appropriate preventive and corrective actions to follow-up the interruptions and warnings issued by the Commission;
- that audit conclusions reported by the audit authorities are in line with the national system audit reports transmitted to the Commission during the period, and with the results of the Commission's own on-the-spot audit work; and
- that, in case REGIO does not rely on the audit work performed by the audit authority, there is an analysis of the risk for the expenditure certified.

⁷⁸ In accordance with the regulatory framework (Article 139 (2) CPR), the unqualified audit authority's opinion on the accounts is the key criterion to decide on the acceptance of the accounts.

⁷⁹ Acceptance of the accounts is independent from a legality and regularity issue, followed up separately, in line with Article 139(5) CPR.

⁸⁰ 5 FR, 1 ETC.

⁸¹ Including for 82 programmes where some improvements are needed but without material impact on the expenditure declared.

programmes in 2019 under the on-going accounting year 2019-2020, are not affected by a risk of material level of irregularities.

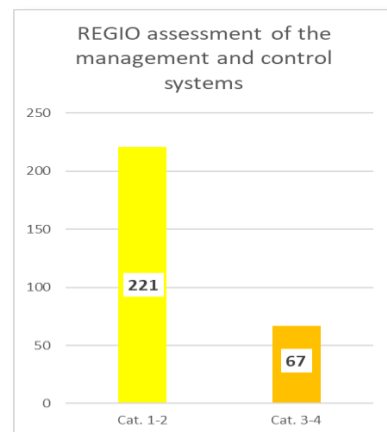
In addition, REGIO considers that for 67 programmes⁸² the management and control system (or part of this system) works only partially and substantial improvements due to serious deficiencies are needed. In all cases, system improvements are requested from the concerned Member States and programmes, with a view to prevent recurrent high risks of irregularities for expenditure to be declared in the on-going accounting year. However, all interim payments made by the Commission in 2019 have been subject to a 10% retention until the national control cycle is completed and accounts are accepted.

For another 15 programmes, although the management and control systems work overall, there are serious deficiencies affecting a specific part of these programmes (priority axis or intermediate body).

Annex 10 B provides further details by programme.

Where the risk is estimated above the 10% retention and in accordance with conditions set up in Annex 4, **reservations are made for the programmes or part of the programmes concerned.**

In addition, despite system deficiencies leading 119 programmes to report a total error rate above 2%⁸³, the authorities applied sufficient financial corrections on time for the accounts in 68 cases, thus allowing them to report a residual risk below 2% in the accounting year. For the remaining 51 programmes⁸⁴, material residual total error rates still affecting the accounts are reported, and REGIO will apply additional financial corrections upon finalisation of the legality/regularity assessment and on the basis of a confirmed residual total error rate. These programmes are put under reservation, in line with the materiality criteria foreseen in Annex 4.



Reservations in relation to the 2014-2020 period

Indicator	2019
Number of ERDF/CF programmes from the 2014-2020 programming period in reservation	67

Reservations are made in relation to the 66 programmes with serious deficiencies in the management and control systems leading to a risk to expenditure estimated above 10% (including for cases with a residual total error rate above 2% reported by 1 March 2020).

In addition, there is one reputational reservation for one ETC programme⁸⁵ due to the lack of designation of authorities and implementation progress.

The list of total error rates and total residual error rates reported by the audit authorities for the 2018-2019 accounting year as adjusted by REGIO where relevant, is disclosed in

⁸² 1 AT, 1 CZ, 2 DE, 11 ES, 19 FR (due in particular to incomplete audits at the time of the ACRs), 3 HU, 2 IE, 4 IT, 1 LT, 1 PL, 10 PT, 1 RO, 4 SK, 2 UK, 5 ETC.

⁸³ Either total error rate reported by the audit authority or reportable rate adjusted by REGIO at this stage of the assessment.

⁸⁴ In 13 out of these programmes, the audit authorities themselves have reported a residual risk above 2% due to insufficient financial corrections applied by the certifying authority in the certified accounts (6 FR, 2 HU, 2 IT and 3 ETC). For the remaining 38 programmes, REGIO auditors have been able to provide a recalculation of the reportable residual risk based on information available from own audits and from the extended desk review of the assurance packages as up to the moment of signature of this AAR (the assessment is ongoing). It should be noted that for 2 DE and 13 IT programmes (11 mainstream and 2 ETC) the increase of the residual risk above 2% is due to a systemic irregularity in the area of public procurement (national law incorrectly transposing the public procurement Directives). In the remaining 23 programmes the recalculation of the residual risk was due to the ongoing desk review of the assurance packages in 10 cases (1 AT, 6 ES, 1 SI and 2 ETC), and to the follow-up to previous Commission audits in 13 cases (2 DE, 2 ES, 2 IE, 1 IT, 1 LT, 2 PL, and 3 SK).

⁸⁵ 2014TC16RFCB043 France (Saint Martin-Sint Maarten)

Annex 10B. The list of programmes under reservation, with the reason for the reservation, is disclosed in Annex 10N.

Safeguarding the EU budget by preventive and corrective actions (interruption and financial corrections)

REGIO and EMPL follow a common approach regarding interruption of payments, as a balanced solution that protects the EU budget against serious irregularities and serious deficiencies in the management and control system. The Directorates-General decided to apply a strict but proportionate approach to interruptions, taking account, the annual acceptance of accounts and the 10% retention on reimbursement of interim payments until accounts are accepted (Articles 130 and 139 of the CPR).

An interruption of payments is therefore applied only where the serious deficiency in the management and control system would require a correction higher than the 10% retention or where the individual irregularity would have serious financial consequences⁸⁶. If no payment claim is submitted, a warning letter of possible interruption of payment deadline (in case a payment claim would be introduced) is sent to the Member State. In 2019, altogether 20 cases were interrupted (19 new ones and one carried over from 2018). The total interrupted volume amounted in 2019 to some EUR 1.2 billion. By the end of 2019, it was possible to waive interruptions for 16 payments amounting to EUR 1.1 billion, and it was not necessary to subsequently adopt in 2019 decisions suspending ERDF or CF payments as a result of these interruptions, since the programme authorities applied the required remedial action plans on time. In addition, throughout 2019, there were 6 letters issued to the national authorities, warning them that a payment deadline would be interrupted if the national authorities fail to implement preventive and corrective measures to improve the functioning of their management and control system. It was possible to lift 3 warnings of interruption of payment deadline overall in 2019.

A warning letter for corrective measures is also sent for cases of system deficiencies with estimated risk to the EU budget covered by the 10% retention. In such cases, the Member State is requested to take the necessary measures to improve the system and to include the related expenditure in the next accounts only if the legality and regularity of the expenditure is confirmed. Overall in 2019, for 19 programmes a letter requesting the national authorities to implement corrective measures was issued. The implementation of the necessary exit points allowed the services to close those warnings in 12 cases.

The Directorate-General is therefore required to launch financial correction procedures each time it concludes that the residual total error rate for a programme is still above 2% once the national control cycle is concluded. The Commission shall also apply net financial corrections should serious deficiencies be identified by its audit Directorates (or the European Court of Auditors), and which were not identified, reported and corrected by the Member State authorities when submitting the corresponding accounts⁸⁷.

In addition, with respect to the reliability of the monitoring system or of the data on common or specific indicators and as a result of the audit work and of the national system audit reports received from the audit authorities, REGIO also issued 7 pre-suspension letters due to deficiencies identified for this key requirement 6. By the end of 2019, 2 out of the 7 cases of pre-suspensions were already lifted since the programme authorities took the required corrective measures and improved their systems and reported data.

⁸⁶ Article 83 (1)(a) of Regulation 1303/2013; REGIO considers this refers to cases with an impact above 10% of the programme's financial allocation or EUR 50 million.

⁸⁷ In 2019 REGIO did not have to initiate procedures to reduce the programme allocations (net financial correction).

With regard to ex-ante conditionalities⁸⁸, one suspension decision⁸⁹ was adopted and one suspension decision⁹⁰ was repealed in 2019. One pre-suspension letter⁹¹ sent in 2018 was also lifted in 2019 following a reply to the pre-suspension letter with satisfactory action taken by the respective managing authority.

The table below shows the number of warnings, interruptions and pre-suspension letters issued by the Commission in 2019 and early 2020.

	Warning (risk < 10%)	Warning of possible interruption of payment (risk >10% but no pending payment claim)	Interruption of payment (risk >10% and pending payment claim)	Pre-suspension letters pending	Suspensions
2019	19	6	20	8	2
January 2020	7	3	4	5(0) ⁹²	1

Further to the warnings and interruptions issued by the Commission, the Member States undertake measures for safeguarding the EU budget by performing financial corrections during the accounting year and directly from the accounts.

Financial corrections applied by the Member States' authorities in the submitted accounts are presented in Annex 10 C. The total ERDF/CF expenditure certified in the received accounts is EUR 46 billion. This is a difference of EUR 3.1 billion compared to the related final interim payment applications for the accounting year submitted in July 2019. These deductions result from financial corrections implemented following audits, continued management verifications and on-going assessments on the legality and regularity of expenditure previously declared during the accounting year (Article 137(2) CPR). Out of these, EUR 527 million represent definitive deductions made by the Member States from the accounts as a direct result of financial corrections following audits of operations⁹³.

The **Commission also requires additional financial corrections** for past accounts, when it has concluded that the confirmed residual total error rate for a programme remains material. In relation to the **accounting year 2016-2017**, in the 2018 AAR REGIO identified 29 programmes with a residual error rate above 2% and 11 programmes for which additional corrections could be needed based on preliminary information. For an additional programme the need for additional financial corrections were identified after signature of the 2018 AAR.

At the date of signature of the present AAR, out of these 41 programmes, the requested additional financial corrections were applied or partially applied for 18 programmes (EL and BG); for one programme (FR) the financial correction procedure has been launched; for 10 programmes under one single ACR (PT), the contradictory process has confirmed the need for additional financial corrections (including as a follow-up to ECA's findings reported in their 2018 Statement of assurance) therefore financial correction procedures will be launched for these and another 9 programmes (18 in total⁹⁴) to bring the RTER down to 2%; finally for 4 programmes (3 FR, PL), the Member State completed its audit

⁸⁸ For a failure to complete actions to fulfil an ex ante conditionality.

⁸⁹ Commission Implementing Decision C(2019) 911 of 12 February 2019 concerning the suspension of interim payments from the European Regional Development Fund for the programme "Sicilia" for support under the Investment for growth and jobs goal for the region of Sicily in Italy (CCI 2014IT16RFOP016).

⁹⁰ Commission Implementing Decision C(2019) 1708 of 6 March 2019 repealing Commission Implementing Decision C(2018) 2358 of 23 April 2018 concerning the suspension of interim payments from the European Regional Development Fund for programme "Extremadura" for support under the Investment for growth and jobs goal for the region of Extremadura in Spain (CCI 2014ES16RFOP014).

⁹¹ For the waste sector in Romania.

⁹² The remaining five pre-suspensions in relation to key requirement 6 were lifted during January and February 2020.

⁹³ A detailed table for the financial corrections and other deductions is provided in Annex 10 C.

⁹⁴ 1 FR, 1 IT, 1 LT, 2 SK, 2 UK, 10 PT (covered under one single ACR), 1 PL

work and/or the contradictory process demonstrated that no additional corrections were finally needed.

These financial corrections already applied to expenditure certified in accounts previously accepted, and the procedures launched or about to be launched, notwithstanding delays inherent to the applicable legal procedures for thorough contradictory procedures, confirm the effective functioning of the multiannual corrective capacity of the 2014-2020 programmes.

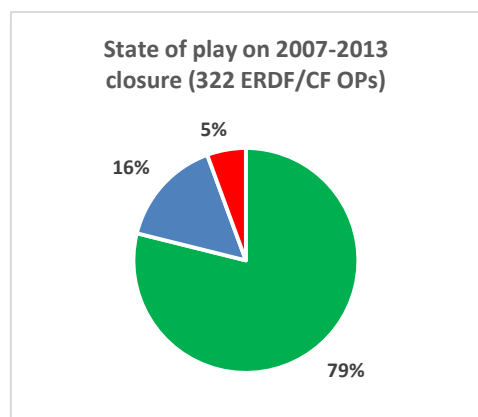
Shared Management – Closure of ERDF and Cohesion Fund (CF) 2007-2013

The pace of closure in the period 2007-2013 is two years faster compared to the preceding 2000-2006 programming period.

In 2019, REGIO made significant efforts to progress on its assessment of the additional information provided by Member States at its request to progress on the closure of the remaining 2007-2013 ERDF/CF programmes. As a result it could close additional programmes and pay more than **EUR 1 billion** (ERDF: EUR 0.7 million and CF: EUR 0.4 billion).

322 closure packages fully assessed
95% of the OPs fully closed or pre closed for the uncontested part
 Residual risk rate at closure is **0.37 %**

As a result, 305 programmes were closed (79%) or pre-closed (16%) so far, representing **95% of the 322 programmes** to be closed. Only 17 programmes (**5%**) remain fully open due to pending litigations, as shown in the pie chart.



For the 50 programmes with pre-closure, the Commission agreed to make a partial closure payment covering only the uncontested amounts, and withheld any expenditure affected by potential irregularities or on-going investigations at national (pending recoveries, fraud investigations, administrative/court proceedings) or EU level. The majority of these pre-closed programmes are affected by on-going procedures at national level for which it is difficult to predict the date of full closure.

The 17 programmes for which the Commission considers that serious issues remain open and therefore it cannot authorise the closure payment yet, concern 5 Member States and one cross border programme (1 DE, 9 IT, 1 HR, 1 HU, 4 RO, 1 CBC). Due to important amounts of corrections still to be applied, 10 of these programmes are put under reservation (see Annex 10N). REGIO continues to proactively monitor the process with the concerned Member States in order to (pre)close these remaining programmes as soon as possible.

Based on the data reported by certifying authorities and checked at closure by audit authorities, Member States have reported an average residual risk rate at closure for all programmes of 0.3%⁹⁵. Following its thorough examination, REGIO has either confirmed or further adjusted the reported error rates and residual error rates based on all additional information, including follow-up to its own audits. REGIO is therefore able to conclude at this advanced stage of closure that **the residual risk rate** applied to the expenditure certified for the whole **programming period 2007-2013** is **0.37%**. The additional financial corrections confirmed in 2019 (see Annex 10 E) have allowed to further reduce the residual risk rate provisionally reported in the 2018 AAR. The list of

⁹⁵ Based on the expenditure declared in the final payment applications.

programmes with error rates / residual risk rates and status on closure is presented in Annex 10 F.

This low residual risk indicates that **appropriate financial corrections were systematically applied up to closure**, as expected, by programme authorities. **This also confirms the effective implementation of the programmes multi-annual corrective capacity** and that closure acted as an additional filter to correct any remaining material level of errors.

The Commission services continues to carefully complete the assessment of this indicator for the programmes, which are not yet fully closed, and will apply additional financial corrections where necessary (including after all additional audit work requested from some audit authorities is reported and assessed).

ECA is also currently carrying out audits on closed programmes in view of its 2019 Statement of Assurance.⁹⁶ As part of its audit work on the 2018 Statement of Assurance, ECA had performed audits on nine closure packages (in eight Member States). It reported in its 2018 annual report that the number and impact of errors it found for transactions relating to closure of the 2007-2013 period were less than for 2014-2020⁹⁷. The Commission will ensure the follow-up of the Court's findings and impose additional financial corrections, where necessary.

Reservations in relation to the 2007-2013 period

Indicator	2019
Number of ERDF/CF and IPA/CBC programmes from the 2007-2013 programming period in reservation	10

As a follow-up to the 2018 AAR, the facts underlying reservations in 8 out of 18 programmes were resolved during 2019 and the programmes were closed or pre-closed.

As a result of the review of the closure documents and notably the Final Control Reports, there are 9 ERDF/CF programmes for which the level of financial corrections to be implemented, due to the significant deficiencies detected, exceeds the financial retention of the overall allocation made at programme level (5% or less for underspent programmes of the overall allocation made at programme level) and one IPA/CBC programme with important delays in payments to beneficiaries leading to a reputational reservation. All were kept from the 2018 reservation.

Further details as regards the reasons leading to the reservations for these 10 programmes are described in Annex 10N.

The final payment for these programmes will take place only when the relevant level of financial correction is accepted and implemented (or applied through a Commission decision).

Conclusion on the protection of the EU budget

In the context of the protection of the EU budget, the Directorate-General's estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level. REGIO's data is shown in the below table and its accompanying notes.

The **estimated overall risk at payment** for 2019 expenditure is **EUR 854.18 / 1211.99 million**. This is the AOD's best, conservative estimation of the amount of

⁹⁶ The contradictory process with the Member States is ongoing by the time of drawing up this annual activity report. REGIO will report in next year's annual activity report the results of these audits, whether they affect the reported residual risk rates at closure.

⁹⁷ See ECA annual report for 2018, paragraph 6.42

relevant expenditure during the year not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post financial corrections in cases of material level of errors identified for individual programmes. The **estimated future corrections** for 2019 expenditure are **EUR 477.76/ 835.57 million**. This is the amount of errors that REGIO conservatively estimates still to be corrected.

The difference between those two amounts leads to the estimated **overall risk at closure** for the 2019 expenditure of **EUR 376.42 million**.

Estimated overall amounts at risk at payment and at closure

DG REGIO	"payments made" (FY; m€)	minus new prefinancing (in FY; m€)	plus cleared prefinancing(in FY; m€)	plus 10% retention	minus deductions and cleared amounts	= "relevant expenditure" (for the FY; m€)	Average Error Rate (weighted AER; %)	estimated overall risk at payment (FY; m€)	estimated future corrections [and deductions] (for FY; m€)	estimated overall risk at closure (m€)	estimated overall risk at closure (%)
1	2	3	4	5	6	7	8	9	10	11	12
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing			= (2) - (3) + (4) + (5) - (6)	Detected error rates, or equivalent estimates	= (7) x (8)		= (9)-(10)	= (11)/(7)
ERDF/CF 2014-2020	37.165,90	7.109,94	1.384,78	3.341,42	3.119,47	31.662,70	(2,7% / 3,8%)	(841,05 / 1198,86)	(477,76 / 835,57)	363,29	1,1%
Cross border cooperation IPA-CBC/ENI;	46,62			5,08	0,88	50,82	0,0%	0,01	-	0,01	0,0%
ERDF/CF 2007-2013	1.058,00		611,14			1.669,15	0,3%	5,68	-	5,68	0,3%
IPA/CBC 2007-2013	0,95		65,08			66,02	0,5%	0,33	-	0,33	0,5%
ERDF/CF 2000-2006	43,58		88,99			132,56	0,5%	0,66	-	0,66	0,5%
Solidarity Fund	294,83	294,83	1.170,14			1.170,14	0,5%	5,85	-	5,85	0,5%
Urban Innovative actions	44,19	44,19	7,77			7,77	0,5%	0,04	-	0,04	0,5%
Direct Management	93,75	31,48	51,16			113,43	0,5%	0,57	-	0,57	0,5%
Overall, total	38.747,81	7.480,44	3.379,06	3.346,51	3.120,34	34.872,60	(2,4% / 3,5%)	(854,18 / 1211,99)	(477,76 / 835,57)	376,42	1,1%

Notes to the table

(1) Differentiated for the relevant portfolio segments at a level which is lower than the DG total

(2) Payments made or equivalent, e.g. expenditure registered in the Commission's accounting system, accepted expenditure or cleared pre-financing. In any case, this means that preventive (ex-ante) control measures have already been implemented earlier in the cycle. In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs. For Cross-Sub delegations (Internal Rules Article 12), they remain with the Delegating DGs.

(3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department). "Pre-financing" is covered as in the context of note 2.5.1 to the Commission annual accounts (i.e. excluding "Other advances to Member States" (note 2.5.2) which is covered on a purely payment-made basis). "Pre-financing paid/cleared" are always covered by the Delegated DGs, even for Cross-Sub-Delegations. * In Cohesion, the (10%) retention made.

(4) Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption'). * In Cohesion, the retention which is now released by the Commission.

(5) The concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out & adds the retentions made, and adds the previous pre-financing actually cleared & subtracts the retentions released; adds the 10% retentions and subtracts any deductions and cleared amounts during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(6) For ERDF 2014-2020, the calculation is made using KPI 5, weighted average confirmed residual total error rate 2017-2018. For low-risk types of expenditure, where there are indications that the equivalent error rate might be close to 'zero' (e.g. *administrative expenditure, operating subsidies to agencies*), it is nevertheless recommended that 0.5% be used as a conservative estimate.

(7) Financial corrections are made by programme to bring the confirmed total residual error rate down to 2

(8) 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.

Fraud prevention and detection and prevention of conflict of interest

2019 witnessed a high number of important anti-fraud initiatives, among which the **revision of the Joint Anti-Fraud Strategy** (JAFS) for ESI Funds⁹⁸. The strategy has been updated in December against the background of the results of the monitoring of Member States' fraud prevention measures by the Directorate-General, the update in April of the Commission overarching Anti-Fraud Strategy⁹⁹ and the conclusions of an ECA report on *Tackling Fraud in Cohesion Spending*.

In accordance with this updated JAFS various anti-fraud activities are planned to be carried out:

(1) With a view to "Capacity building on identifying and preventing fraud and corruption in the European Structural and Investment (ESI) Funds" a new project has been launched. REGIO also commissioned in 2019 a **report on single-bidding and non-competitive tendering procedures** in EU co-funded projects which has been published on InfoRegio, and is followed-up through targeted audits.

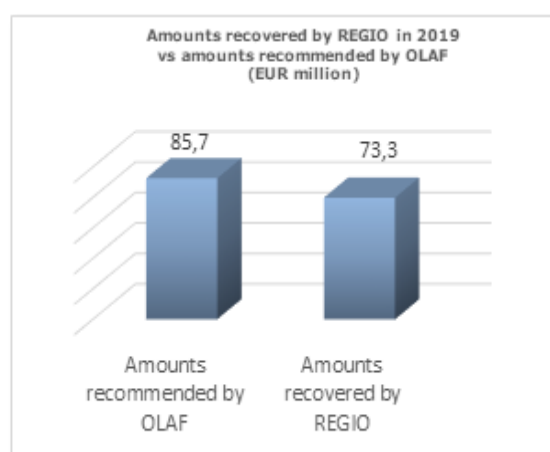
(2) The Commission continued to proactively promote the use of dedicated IT tools such as **Arachne** as a support to fraud prevention and detection in management verifications by Member States. Arachne is a voluntary preventive risk-scoring and detection tool developed by the Commission. By the end of 2019, 20 Member States use Arachne for one or more programmes, thus 55% of all Cohesion programmes (238) had their data uploaded in Arachne by the Member States, and updated on a regular basis.

(3) To encourage intensified cooperation between national authorities and other competent stakeholders, REGIO has continued to promote in a targeted manner **Integrity Pacts** which have been recognised as a global good practice for promoting integrity and transparency in infrastructure development. The **TAIEX-REGIO PEER 2 PEER** instrument continued to be supported in order to exchange good practices in area of anti-fraud, anti-corruption and transparency: in total 10 exchanges took place in 2019.

(4) REGIO also organised **anti-fraud seminars** in Cyprus, Poland and Spain. Moreover, REGIO offered in 2019 three EIPA **training courses** for Member States. In total, nearly 100 participants from 19 Member States attended.

(5) To raise further awareness, REGIO has organised **presentations for the staff** on measuring performance in government procurement and on the "open data and technology solutions to revitalise procurement markets".

(6) REGIO continued its close cooperation with OLAF and has given systematic follow-up to OLAF financial recommendations. A thorough exercise with management authorities is conducted in REGIO to follow-up to **OLAF** administrative and financial **recommendations**. In 2019, REGIO recovered amounts in follow up cases closed represent 86% of the total volume recommended. This is the consequence of three years of increased collaboration with OLAF. OLAF recommendations are now more targeted and precise, and allow more efficient recoveries by REGIO.



⁹⁸ Joint Anti-Fraud Strategy for Shared & Indirect Management 2020 – 2025, REGIO –EMPL –MARE, Ares(2019)7845154 of 20 December 2019, also available on : <https://ec.europa.eu/sfc/en/2014/anti-fraud>

⁹⁹ COM (2019) 196, 29.4. 2019.

These yearly figures must be interpreted with care. But the few cases in which the amount recovered was lower than the OLAF recommendation are explained by specific factual and legal reasons linked to the regulatory basis for imposing financial corrections and the Commission guidelines on imposing corrections for public procurement. In several cases, the recovery was higher than the amount recommended by OLAF as REGIO recovered the amounts for more programme/projects than were investigated by OLAF.

REGIO has also taken stock of the conclusions of the ECA performance audit devoted to Member States' involvement in the fight against fraud, "**Fraud in Cohesion**"¹⁰⁰ and ECA's conclusions that the provisions under 2014-2020 legislative framework (CPR) requiring managing authorities to have proportionate and effective anti-fraud measures in place, have improved the fraud risk assessment response of Member States. Improvements are still required for setting up comprehensive antifraud strategies or at least clear policy statements by programme, agile detection methods, as well as a more systematic use of data analytics such as Arachne. The Commission has accepted and is following-up all recommendations (see Annex 10 L).

REGIO together with the other DGs managing EU funds under shared management and DG Budget, is also involved in the implementation of the **new European legal framework on prevention and avoidance of conflicts of interest in shared management**. The new provisions of the Financial Regulation (Article 61), in force since August 2018, include in their scope financial actors in national authorities at any level, involved in EU-budget implementation and acts preparatory thereto and specifically refers to shared management. This encompassing European concept of conflict of interests has triggered further Commission initiatives to monitor and audit its correct implementation by Member States authorities. REGIO has supported the initiatives for a comprehensive implementation of relevant obligations in the management and control systems of the Member States under Cohesion together with DG Budget. Member States' authorities responsible for managing and auditing EU funds have received guidance during meetings held in November and December 2018. On the basis of feedback received from the conference on 10 April 2019 that brought together Member States authorities and the European Commission to discuss measures taken to deal with conflicts of interest, and to exchange best practices, further guidance was prepared by DG Budget and discussed with services at the time of drawing up this report, including REGIO. Member States have been asked about the measures they have taken to ensure respect of the revised rules. REGIO has reviewed procedures in place by all audit authorities to ensure that the new provisions are well understood and to confirm that appropriate audit procedures are in place in the Member States to cover and detect situations of conflict of interest.

In addition, REGIO is following up on allegations of conflict of interest in the Czech Republic. A coordinated audit was carried out by several Commission services (REGIO, EMPL and AGRI). As a precautionary measure and until the situation is clarified, no payments from the EU budget under the ESI Funds are being made to companies that could be potentially affected by the alleged conflict of interest.

To conclude, at this stage REGIO has taken all necessary measures to address the issue of conflict of interest in general and in relation to the Czech Republic in particular, and will continue to do so (see also audit results p.26).

¹⁰⁰ SR 06/2019 "Tackling fraud in EU cohesion spending: managing authorities need to strengthen detection, response and coordination"

Other control objectives: safeguarding of assets and information, reliability of reporting

Safeguarding of assets and information

REGIO manages a number of intangible assets (EUR 11.4 million, Annex 3, Table 4).

The intangibles assets for the DG are the IT applications that have been developed and continue to be developed are:

SFC, acting as an interface between Member States and the Commission for the management of structural funds; and

WAVE, as the workflow system designed by REGIO to support all decisional, financial and audit procedures.

The key control objectives for the DG are to ensure that these assets are appropriately accounted for and safeguarded, that information is protected, and that related weaknesses, errors, irregularities and losses are detected and addressed.

In the revision programme on the accounts of REGIO, controls are put in place to verify if the cost-centre is correctly encoded including by other DG's contributing and using our IT applications and to verify if the applications entered the Production phase. Once in production a linear depreciation over 10 years is applied.

Assets owned by REGIO follow the international accounting rules and the closure guidelines established by the accounting officer of the Commission. The control objectives are considered to be fully met.

Reliability of reporting

Shared management: Audits on the reliability of performance data indicators

After the specific audits in 2017 and 2018 (a total of 26 audits in 14 Member States), REGIO now primarily relies on the work of audit authorities to obtain reasonable assurance on the reliability of performance data indicators. System audits on key requirement 6 (KR6) are part of the audit authorities' audit plans since 2019. They also have the obligation to review the reliability of reported performance data as part of the audits of operations¹⁰¹. REGIO assesses the audit authorities' work through the review of the annual control reports and system audit reports, performing also testing during on the spot compliance audits. Furthermore, plausibility and consistency of data reported in the annual implementation reports is checked when reviewing these reports. In 2019, REGIO mapped the coverage of the Commission's and audit authorities' work on performance data reliability per programme, the assurance obtained and any remaining assurance gaps. For a vast majority (71%) of programmes REGIO has reasonable assurance on performance data reliability. Gaps exist where this aspect has not yet been covered by sufficient audit work (26%) or serious deficiencies have been detected (2% of programmes). The mapping was discussed with the audit authorities in the 2019 Homologues Group meeting, and the need to address the remaining assurance gaps and perform sufficient audit work to provide assurance at the latest at programme closure was reiterated in a subsequent letter to all audit authorities. Deficiencies in the reliability of performance data or monitoring systems detected either by the Commission or audit authorities are closely followed up and can lead to the launching of a procedure for suspending interim payments, as provided by the legal base (7 such procedures were launched so far by REGIO). Furthermore, the 2019 performance review was put on hold for those (4) performance frameworks with identified deficiencies concerning performance data reliability.

¹⁰¹ CDR (EU) 2019/886 of 12/2/2019

An IAS audit on 'Monitoring the implementation and performance of 2014-2020 operational programmes by the Directorates-General for Regional and Urban Policy, for Employment, Social Affairs and Inclusion, and for Maritime Affairs and Fisheries' also tackled the issue of performance of programmes. The IAS concluded that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations from the audit. Please refer to section 2.1.2 further below. These recommendations will be addressed in line with the agreed action plan.

2.1.1.2 Efficiency of controls

REGIO has assessed the efficiency of its control system. This section outlines the indicators used to monitor the efficiency of the control systems for each of the relevant management modes.

As illustrated in the introduction of part 2, REGIO manages funds under several management modes:

Management mode	% Payments
Shared management	99.64%
Indirect management	0.11%
Direct management	0.24%

A. Shared Management

The table below shows the results registered in 2019 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2019
% of Commission payments on time	98.5%
Average time to pay in days	37
% interruption of payments notified to Member States within 2 months	91%
Payment claims submitted in 2019 and interrupted in 2019	11

In terms of efficiency of payments, satisfactory results were achieved in 2019 as regards the time-to-pay, with close to **99%** of payments made within the legal deadlines for the shared management mode.

The available information in relation to the efficiency of the controls linked to the interruptions/suspensions of payments concerns only interruption procedures initiated in 2019. The related procedures were implemented smoothly and within the regulatory deadline.

B. Indirect management

The table below shows the results registered in 2019 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2019
% of Commission payments on time (vs Financial Regulation Target)	100%
Budget execution	100%

C. Direct management

The table below shows the results registered in 2019 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2019
% of Commission payments on time (vs Financial Regulation Target)	97.04%
Budget execution (payment appropriations)	100%

All the relevant indicators show very positive results as to the efficiency of controls surrounding the implementation of direct management budget lines. In particular, the timeliness of payments, which is compared to 2018 (98.3% compared to **97.04%**) a slight decrease, but still very positive considering the notable increase in payments (+20% vs. 2018). The latest results also confirm the efficiency gains provided by the dedicated TA cell in charge of tendering and contracting tasks for all operational units and of providing support for the effective implementation of TA actions.

2.1.1.3 Economy

Based on an assessment of key indicators and control results, REGIO has assessed the cost-effectiveness of controls for each of the management modes. The overall cost of controls at REGIO level (for all management modes combined) is **0.20%**¹⁰².

A. Shared Management

REGIO quantifies the costs of the resources and inputs required for carrying out controls described in Annex 5 and compares them to the volume of payments registered in the reference year. See Annex 10 M for more details on cost of controls.

The annual overall Commission cost is currently estimated at **0.19%** of total payments of the year, which remains stable compared the result reported in 2018 (0.19%)¹⁰³. Most staff costs included in the calculation correspond to supervisory and control activities by geographical and audit units.

In relation to the cost of controls in Member States, a study "**New assessment of ESIF administrative costs and burden**"¹⁰⁴, finalised in July 2018, assessed the cost at Member State level for the 2014-2020 period and concluded that **2.2%** of the total eligible costs for ERDF is spent on administrative tasks by programme authorities, compared to an overall figure of 4% for ESIF in general: ERDF and CF have the **lowest** administrative costs for managing and controlling per million Euros of eligible funding.

B. Indirect management

The estimated annual overall Commission costs amount to **1.06%** of total payments of the year managed indirect management.¹⁰⁵

C. Direct management

The estimated annual overall Commission costs amount to **2.7%** of total payments of the year managed under direct management mode.¹⁰⁶

¹⁰² Exact figure is 0.197%

¹⁰³ Costs considered: staff in geographical desks (controls in design, implementation and monitoring); staff involved in audit (assessment of management and control systems in Member States, including the Commission's ex-post audits); staff acting as service providers to geographical desks (competence centres and units responsible for evaluation activities and financial instruments); share of staff involved in financial circuits; staff responsible for legal affairs and IT systems; the cost of IT tools (development/maintenance) supporting 2019 control activities

¹⁰⁴ https://ec.europa.eu/regional_policy/en/information/publications/studies/2018/new-assessment-of-esif-administrative-costs-and-burden

¹⁰⁵ Increase compared to 2018 (0.34%), is partially explained by decreasing payments (divided by 4) and a shift from managing the 2014-2020 programmes to preparing the coming post-2020 period. The cost relates to staff involved in audit activities and part of the geographical staff involved in control and implementation activities for IPA (both in REGIO and in delegations).

D. Initiatives to improve economy and efficiency of financial and non-financial activities

Under the shared management mode the Commission cooperates with Member States' administrations in charge of the operational implementation. Efficient and effective implementation of actions supported by the ERDF and CF largely depends on good governance and partnership among all partners. In particular, processes such as project selection remain in the hands of programme authorities. REGIO has set up a control environment and put in place procedures aimed at inducing authorities in charge of the implementation to comply with the principles of economy (minimizing the cost of inputs), efficiency (relation between resources and results) and effectiveness (achievement of objectives). In addition, specific initiatives aimed at improving the DG's internal effectiveness and efficiency have been implemented in 2019.

Example 1: the Transnational Network (TN) of SCO ERDF and CF practitioners

Simplified cost options (SCO) are one of the most important simplification measures to reduce administrative costs and burden. As recognised by the European Court of Auditors¹⁰⁷, they are effective in reducing the error rate. They also facilitate access of small beneficiaries to the ESI Funds thanks to the simplification of the management process and allow organisations to focus more on the achievement of the objectives. Despite offering significant reductions in administrative bureaucracy, uptake of SCO varies amongst Member States. Some have embraced the simplification SCOs offer and use them where possible. Others have been reluctant to 'take the leap'. Insufficient experience in designing SCO methodologies is one of the most frequently cited reasons for not taking advantage of this key simplification measure. To respond to this challenge, REGIO put in place the Transnational Network (TN) of SCO ERDF and CF practitioners. The TN acts as a platform for regular exchanges of experience and practices around SCOs and supports the Member States from across the EU in improving the use of SCOs.

Example 2: Actions aiming at increasing the efficiency of internal processes

In order to continuously explore ways of enhancing the effectiveness and efficiency of its internal processes, REGIO has put in place a permanent Business Process Team (BPT). It is focused on strengthening the alignment between the mission of REGIO, its business processes and the underlying supporting IT tools, in particular in the on-going context of simplification and reduced human resources. Its mandate is to define and review business processes in REGIO and ensure simplification, coherence and completeness. In 2019, specific efforts continued to be devoted to the review and reengineering of internal processes. The selection of procedures were based on possible efficiency gains, frequency of the process, complexity, risks and other metrics. The identification of procedures selected for review was done taking into account the feedback and suggestions provided by client units. This ensured the focus of streamlining efforts on the areas with the highest potential for rationalisation. The BPT also successfully implemented a "Smart procedures" initiative, creating and promoting a channel open to all staff for the submission of concrete proposals for simplifying procedures. Moreover, the BPT strives to create efficient designs from the outset when analysing new procedures; this work has now begun in particular for the procedures needed for the start of the 2021-2027 programming period.

¹⁰⁶ Stable compared to 2.68% in 2018. The higher cost of controls referred to the payments processed in 2019 compared to other management modes can be justified by the higher inherent risk and the potential reputational consequences for the Commission of any significant irregularity affecting direct management operations. The slight increase is due to a notable increase in payments (+20% vs. 2018), which required an increase of staff working in this field. The FTEs allocated to the TA cell therefore increased from 0.7 FTE in 2018 to 2.4 FTE last year. The cost relates to staff of the newly established TA cell involved in financial advice, initiation, verification tasks and ex-post controls as well as a proportion of the operational staff involved in public procurement and contract management activities. The quantification of human resources involved is based on an estimation of FTEs needed for implementing the DG's technical assistance. Their role being primarily to deliver actions in support of political objectives, a differentiation between implementation and control tasks is difficult to establish. In view of this uncertainty, and in the absence of a cost-effective way to define which elements of their tasks are assessed as part of the control chain (as opposed to ensure the adequate implementation of policy objectives), REGIO estimated their involvement in the financial workflow at approximately 25% of their time.

¹⁰⁷ Paragraph 6.12. of ECA 2016 Annual Report read as follows: "Over the last five years, 135 of the 1 437 transactions we have examined have used simplified cost options (SCOs) to declare costs. During this period, we did not quantify any errors, but identified ten non-quantifiable errors relating to the use of SCOs. This demonstrates that projects using SCOs are less error-prone than reimbursements of actual costs. During the 2014-2020 programming period, Member States are generally encouraged to make wider use of SCOs in Cohesion, and this is compulsory for all ESF projects worth under 50 000 euro".

2.1.1.4 Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, REGIO has assessed the effectiveness, efficiency and economy of its control system and reached a **positive conclusion on the cost-effectiveness of the controls** for which it is responsible.

As regards **shared management**, REGIO's control strategy has proved to be effective in fulfilling the intended control objectives. As regards efficiency, the good performance is demonstrated notably by the fast processing of payments. This is achieved while ensuring a relatively low cost of controls, which are only a minimal fraction of the payments processed.

REGIO is also constantly looking to improve and periodically review its control activities so as to ensure an efficient allocation and use of the assigned resources. This is notably reflected in the following:

- Risk-based approach for audit activities: the efficiency of the DG's audit activities is ensured by the continuous focus on riskier programmes and areas while drawing maximum assurance from Member States' reported audit results, when considered reliable, under the single audit approach;
- Differentiated approach for monitoring and supervisory activities of the implementing units allows adapting the monitoring and supervisory efforts of implementing units to the specific needs of each programme/Member State, thus contributing to the optimisation of control efficiency;
- Revision of the control system in line with the simplification measures introduced with the 2014-2020 programming period - to enable the effectiveness of the control related simplification measures.

The focus and adequacy of resource allocation across various control functions, as well as within each unit typology is assessed during the annual workforce planning exercise.

Consequently, REGIO considers that an **adequate balance** has been achieved **between low error rates, fast payments and low costs of controls**.

A low error rate is also noted as regards **indirect management**, which confirms the effectiveness of REGIO's control strategy for the corresponding activities.

The indicators tracking the efficiency (time-to-pay) and the cost of the related controls also point to a cost-effective control architecture, taking into account the high inherent risk of irregularities, requiring extensive ex-ante controls and an intensive supervision. In view of that, REGIO considers that the related **controls are adequate and cost-effective**.

A similar conclusion can also be reached for **direct management** operations. In addition to the swift processing of payments, no errors or notable deficiencies have resulted from the ex-post controls on the related transactions. The higher cost of controls referred to the payments processed in 2019 compared to other management modes can be justified by the higher inherent risk and the potential reputational consequences for the Commission of any significant irregularity affecting direct management operations.

In view of that, and considering the improvements as regards efficiency of the related controls, resulting from the introduction of a dedicated TA Cell, REGIO considers that the related **controls are adequate and cost-effective**.

2.1.2 Audit observations and recommendations from the European Court of Auditors and the Commission internal audit service

This section sets out the observations, opinions and conclusions reported by auditors, including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of management measures taken in response to the audit recommendations

are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

REGIO is audited by both external and internal independent auditors: the European Court of Auditors and the Commission internal audit service (IAS).

A. European Court of Auditors

Annual report for 2018

The 2018 Statement of Assurance has relied for the second year concerning cohesion policy (REGIO and EMPL funds together) on the ECA pilot approach which focuses on the audit work already performed at national (and where timing allows Commission) level in assessing and testing management and control systems. This is a step that builds on the reinforced control and assurance framework for the 2014-2020 period.

A 2018 global error rate calculated by ECA at 5% for Cohesion spending

ECA reviewed 24 assurance packages for 2014-2020 programmes (15) and 2007-2013 closures (9). Audit authorities had reported 60 quantifiable errors in the assurance/closure packages for the 220 transactions the ECA sampled, which mainly concerned ineligible costs and public procurement issues.

In the sample it examined, ECA identified and quantified 36 additional errors that had not been detected by the audit authorities. Taking account of the errors previously found by the audit authorities and corrections applied by programme authorities (worth a total of EUR 314 million for both programming periods taken together), the ECA estimated the level of error to be 5.0% (up from 3.0% in 2017, and comparable to the 4.8% error rate in 2016 and 5.2% in 2015). The number / impact of the errors the ECA found for transactions in the 2014-2020 period were higher than for transactions relating to closure of the 2007-2013 period.

The Commission expressed its diverging views from for the assessment on five significant errors reported by ECA, three concerning 2014-2020 (two for REGIO and one for EMPL) and two 2007-2013 (both for EMPL). This is due to diverging interpretation of applicable national or EU rules and had an important impact on the calculated error rate.

Taking into account the agreed errors, the Commission considers that the worst-case scenarios disclosed in the 2018 AAR (2.74% for REGIO) reflect a fair estimate of the error rate.

Main sources of cohesion policy errors in the ECA 2018 annual report

The main sources of cohesion policy errors reported by ECA were the following:

- Ineligible costs, ineligible participants, errors in public procurement procedures and State Aid rules, issues with financial instruments, absence of essential supporting documentation as well as VAT-regulation interpretations leading to errors.
- Furthermore, the ECA is of the opinion that two Member States withheld, without a justified reason, EU funds from beneficiaries resulting in late payments. These errors did not contribute to the level of error estimated by ECA

The ECA's assessment of the work of audit authorities

The work of audit authorities is a critical part of the framework for assurance and control of Cohesion spending. This year, the ECA assessed the work of 15 out of 126 ERDF/CF and ESF/YEI audit authorities.

In all of the assurance and closure packages the ECA examined, the audit authorities had reported a residual error rate below 2%. The Commission's own work led it to report a

residual error rate above 2% for four assurance packages in the ECA's sample. The additional errors ECA detected in its sample of transactions examined by audit authorities led it to conclude that the residual rate for another 4 of the 15 assurance packages for the 2014-2020 period and 1 of the 9 closure packages for 2007-2013 was above 2%.

The Commission noted in its replies that the implementation of the programmes is subject to complex EU legislation (such as e.g. State Aid, Public Procurement) and in first instance national eligibility rules. This can lead to divergent understandings. In addition, the regulation and Commission guidance require the use of professional judgement in the audit work that can also be subject to different perceptions. The Commission therefore does not consider in all cases where divergent views occur between the ECA and the national auditors that this demonstrates a limited reliance to be placed on the work of audit authorities. The Commission has indeed obtained audit evidence that the vast majority of the audit authorities function well and that improvements are required for only a limited number of them, as reported in the respective AARs or REGIO and EMPL. The Commission also provides continuous support, advice, training and assistance to audit authorities in order to align methodologies, processes and procedures as much as possible. REGIO has committed to continuing such capacity building actions to ensure that all audit authorities perform to the same high-level standards.

REGIO's follow-up of accepted errors reported by ECA

REGIO is following-up all accepted errors reported by ECA and ensures for all cases that corrective measures take place, including financial corrections, or that appropriate remedial action plans are implemented in the concerned systems in order to prevent such errors in the future. ECA is copied in all recoveries made by the Commission as a follow-up to ECA findings.

The ECA's recommendations for cohesion policy

Based on its findings, the Court issued three new recommendations in Chapter 6 of its 2018 Annual Report for cohesion policy.

The first recommendation relates to the need to put in place suitable audit arrangements for the six SME Initiative programmes (financial instruments) actually not covered by the new requirements of the Omnibus regulation. The Commission accepted this recommendation and considers it as implemented as the EIF confirmed its intention to use the new types of control reports and annual audit reports established in the Omnibus regulation for the SME Initiative programmes, even if they are not legally within the scope of application of the regulation.

The second recommendation relates to the withholding of payments by managing authorities from beneficiaries and aims at ensuring that checklists used by both managing and audit authorities actually include the verification of the compliance with the 90 days rule in Article 132 of the Common Provisions Regulation. The Commission accepted this recommendation and confirmed that this issue was raised with audit authorities during the technical meeting held in December 2019.

The third recommendation relates to the need to ensure proper closure arrangements for the 2014-2020 period, including targeted Commission guidance where appropriate, so that no programme can be closed with a material level of irregular expenditure. The Commission has accepted the recommendation and has started to draft Closure Guidelines so that the necessary guidance is available in due time as recommended by the Court, and in any case well before closure planned for 2025.

The Court's performance audits and related reports

In 2019, the Court issued four special reports involving expenditure from regional and urban policy. These audits covered either thematic investments supported by cohesion policy funds such as *Wind and Solar Photovoltaic power*, or horizontal aspects linked to

the implementation of cohesion policy funds such as *Commission's tools for combatting fraud, Fraud in Cohesion, Action needed to make EFSI a full success*.

In addition to special reports, the Court also delivers reports that derive from other types of engagements such as Landscape reviews, Rapid case reviews and Briefing papers. In 2019, as regards cohesion policy, the Court issued a briefing paper on *Performance orientation in Cohesion* (evolution from the 2007-2013 period until the Commission's proposals for 2021-2027 period) as well as a Rapid case review on *Allocations of cohesion policy funding to Member States for the 2021-2027 period*. REGIO has fully cooperated with the Court also in the preparation of these new review instruments.

Detailed information on the main conclusions and recommendations of these special reports is available in Annex 10 L.

B. Internal Audit Service (IAS)

In 2019, the IAS completed two audits in REGIO:

1. *"Monitoring the implementation and performance of 2014-2020 operational programmes by the Directorates-General for Regional and Urban Policy, for Employment, Social Affairs and Inclusion, and for Maritime Affairs and Fisheries [(‘the DGs’)]"*. Overall, the IAS considered that the DGs are effectively monitoring the implementation and performance of the programmes and the performance review was well prepared. There remain however very important weaknesses: on assessing programme performance, identifying and following up on implementation weaknesses (finding 1) and on performance data reliability (finding 2). REGIO and EMPL's joint action plan to tackle this issue was accepted by IAS and is currently under implementation.

2. *"The effectiveness and efficiency of the new Early Detection and Exclusion System (EDES) in protecting the EU financial interests"*¹⁰⁸. IAS considered that EDES is overall effectively and efficiently designed, in line with applicable legal provisions to facilitate the early detection, exclusion and/or imposition of financial penalties on economic operators that pose a risk to the Union's financial interests. Nevertheless, significant efforts are necessary to bring the awareness and implementation of EDES to a mature state to ensure that it is operationally effective. In this context, one very important issue was identified for REGIO (Observation no. 1 – Guidelines and awareness raising). The proposed action plan to tackle this issue was accepted by IAS and is currently under implementation.

Finally, in 2019, the IAS has also carried out several follow-up assignments on previous audits.

The very important open recommendations and their state of play at the date of this report are the following:

	Audit title/audit year	Very Important Open recommendations	Deadline
1	<i>Major Projects (2017)</i>	Governance: JASPERS contractual and supervision arrangements	Mid 2020
109	<i>Early implementation of ESIF control strategy 2014-20 (2016)</i>	Audits on financial instruments	End 2019
2	<i>Effectiveness of simplification measures under 2014-2020 ESI Funds</i>	Uptake and impact of simplification measures and the DG's processes to promote and	Mid 2019

¹⁰⁸ IAS reports to be considered as final for 2019 are those for which final audit reports (FAR) were issued in the period 01/02/2019 – 31/01/2020. EDES' FAR was issued in Jan 2019. Nevertheless, we mention it here as the EDES audit was not reported in the 2018 AAR.

¹⁰⁹ The recommendation was closed by IAS - Ref. Ares(2020)611842 - 31/01/2020

		monitor these measures	
3	<i>Effectiveness of simplification measures under 2014-2020 ESI Funds</i>	Mitigating risks associated with simplified cost options	Jan 2019
4	<i>Effectiveness and efficiency of the new Early Detection and Exclusion System (EDES)</i>	Guidelines and awareness raising	End 2019
5	<i>Monitoring the implementation and performance of 2014-2020 operational programmes by the Directorates-General for Regional and Urban Policy, for Employment, Social Affairs and Inclusion, and for Maritime Affairs and Fisheries</i>	Assessing programme performance, identifying and following up on implementation weaknesses	May 2020
6	<i>Monitoring the implementation and performance of 2014-2020 operational programmes by the Directorates-General for Regional and Urban Policy, for Employment, Social Affairs and Inclusion, and for Maritime Affairs and Fisheries</i>	Performance data reliability	End 2020
	TOTAL	6	

At the date of writing, the follow-up to all recommendations (except the ones on *Monitoring the implementation and performance of 2014-2020 operational programmes*) was completed by REGIO and is ready for review by the IAS. An audit on the processes for coordinating technical support to the Member States in the DG for Structural Reform Support and another one on financial instruments were launched in 2019 and are ongoing.

In its contribution to the REGIO AAR, the IAS concludes that **the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations** from the audit: "*Monitoring the implementation and performance of 2014-2020 operational programmes by the Directorates-General for Regional and Urban Policy, for Employment, Social Affairs and Inclusion, and for Maritime Affairs and Fisheries*". These recommendations will be addressed in line with the agreed action plan.

REGIO considers that, **in view of the actions already put in place for risk mitigation, the residual risk related to the above-mentioned very important recommendations does not affect in a material way the achievement of the internal control objectives**, and therefore the assurance provided in the AAR.

2.1.3 Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

REGIO uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

REGIO's core tool is an annual assessment of the effectiveness of its internal control system. For 2019, it consisted of a multi-step exercise. Business owners oversee on a continuous basis the effectiveness of the internal control systems, in order to determine whether they work as intended and ensuring that any control weaknesses in the system are detected, analysed and considered for improvement.

In addition, management performs specific assessments to ascertain whether the internal control systems and their components are present and functioning. The purpose of these is to provide reasonable assurance that the internal control principles adopted by the Commission are implemented and functioning in the DG, that the assessment findings are evaluated and that any deficiencies are communicated and corrected in a timely manner, with serious matters reported as appropriate.

The self-assessment, performed on the basis of the data provided by the ICS Chefs de file was reviewed by taking into consideration mainly the following:

- The annual AOSD Management Reports;
- A register of reported non-compliance events and requested exceptions;
- The results of the IAS audits and the follow-up of their recommendations;
- The results of ECA's audits and the follow-up of their recommendations as reported in the Annex 10 L.

The DG has followed the methodology established in the "Implementation Guide of the Internal Control Framework of the Commission".

Main findings of the 2019 annual assessment

Targeted actions were carried out during 2019 in relation to several principles, with a view to further enhance their effectiveness and robustness. This notably concerned internal control principles **for which possible room for improvement was identified** in the framework of the final assessment of 2018. However, for the following principles, there is further need for improvement beyond 2019:

Control Environment (Component 1): As for Principle 1 (commitment to integrity and ethical values) the weaknesses detected require major improvements. In this regard, focus has been put on mitigating the fraud risks related to the particularities of a shared managed system. In addition, some improvements are needed for Principle 5 (accountability for internal control responsibilities). Both principles are interrelated and targeted actions to improve the mitigation of weaknesses in assessing fraud risks as well as to promote the high standards of conduct in the commission are continuously ongoing. However, a further need for action regarding several measures in the area of training of newcomers was detected and will be addressed in 2020.

Risk assessment (Component 2): Based on the end-of-the-year assessment, no weaknesses were identified which could have seriously affected REGIO's compliance and performance in 2019 with reference to the requirements foreseen for the component risk assessment. Yet, under principle 8 (risk assessment and fraud prevention) some improvements are needed. Risks of fraud at the level of some programmes remain. Risk should be further mitigated by REGIO guidelines to address the need for action already identified under Component 1. Therefore, anti-fraud measures must continue to receive particular attention in 2020.

Without prejudice to these findings, it can be considered that, in view of the actions already put in place for risk mitigation, the residual risk related to the above-mentioned recommendations **does not affect in a material way the achievement of the internal control objectives, and therefore the assurance provided in the AAR.**

The improvements and/or remedial measures implemented or envisaged are for:

Component 1 (Integrity and Ethical Values): REGIO will continue to implement targeted actions in 2020 in order to reduce internal fraud risks and to raise staff awareness in this area. Training sessions on ethics and integrity are compulsory for newcomers from outside the Commission; all involved actors have to be reminded of this. In this regard, senior managers have to underline continuously REGIO's commitment to the EC ethical values. In light of the deployment of these remedial actions, further progress in the participation rate of training/ awareness raising events is a key target in 2020.

Component 2 (Risk assessment): Anti-fraud measures must continue to receive major attention in 2020 in order to further ensure the functioning of the early warning and fraud prevention system in REGIO. With the updated joint anti-fraud strategy, REGIO has prepared the field, which now requires sound implementation of this strategy.

REGIO will continue to maintain the effectiveness of internal controls in other areas and seize all opportunities to strengthen related areas further in 2020. Building on the work

carried out in cooperation with the business owners, REGIO is operating on the basis of a sound system of internal controls. Please refer to Annex 11 for more details on assessment of the effectiveness of the internal control systems.

Conclusions about REGIO's internal control framework

REGIO has assessed its internal control system during the reporting year and has concluded that it **is effective overall, with some minor improvements needed** related to Component 1 (Control environment) and Component 2 (Risk Assessment). These components include principle 1-5 (Component 1) and principle 6-9 (Component 2).

With regard to the individual principles, Principle 1 (commitment to integrity and ethical values) has shown weaknesses that require major improvements. For Principle 5 (accountability for internal control responsibilities) and Principle 8 (risk assessment and fraud prevention) some improvements are needed.

For the reasons illustrated above (section 2.1.2 A and B and 2.1.3) and taking into account the mitigating measures being implemented (also described above), REGIO considers that the **residual risk related to the above-mentioned recommendations does not affect in a material way the achievement of the internal control objectives**.

2.1.4 Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in sections 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

Review of the elements supporting assurance

The information reported in part 2 of this report stems from the results of management and audit monitoring. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of REGIO.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the EC Treaty.

REGIO has systematically examined the available control results and indicators, including the results of its own audits and communicated audits from programme audit authorities, as well as the observations and recommendations issued by internal auditors, the European Court of Auditors and OLAF. These elements have been assessed to determine their impact on the management's assurance (part 2 of this report).

In addition, REGIO has assessed the effectiveness of its key internal control systems during the reporting year and identified areas for improvements, although **in no case the weaknesses identified were leading to assurance-related concerns**.

Reservations and overall conclusion on assurance

Regarding **shared management**, the **risk "at payment"** is calculated by applying the residual total error rate of the accounting year 2017-2018 as confirmed by the Commission services (KPI 5)¹¹⁰ to the "relevant expenditure" of the Commission reporting year (i.e. payments made during the reporting year excluding new pre-financing, including the 10% retained, including the cleared pre-financing minus the retentions released and any deductions applied in the accounts 2018-2019).

¹¹⁰ After neutralising the impact of the advances paid into financial instruments and included in the sample of audit authorities based on declared expenditure (in line with Article 127 CPR)

The **risk "at closure"** indicates the remaining risk to the 2019 relevant expenditure once the Commission will have applied the necessary additional financial corrections to bring the total residual error rates for all programmes down to 2%. By using the confirmed residual total error rate for accounting year 2017-2018 by programme as detailed in Annex 10 B, REGIO has been able to identify for which programmes additional financial correction will be required upon finalisation of the ongoing audit contradictory procedures.

The situation is as follows:

For the 2014-2020 programming period, the **estimated risk at payment linked to the 2019 relevant expenditure is calculated at 2.7%/3.8%** taking into account the financial corrections already made.

The **risk at closure is calculated at 1.1%** after estimating the future corrections still required to bring down to 2% the residual total error rates for all programmes. At this stage there are 46 programmes with a confirmed residual total error rate 2017-2018 above 2%.

REGIO concludes that it has **reasonable assurance** as regards legality and regularity of transactions **except for 67 programmes** due to the deficiencies detected affecting all or part of these programmes.

The quantification of the reservation for these (parts of) programmes is calculated at EUR 228.7 million.

There is an increase of the number of reservations compared to the 2018 AAR where the reservations covered 30 programmes. The increase is explained by the increase of programmes with ERDF/CF certified amounts (from 258 programmes in 2017-2018 accounting year to 288 in 2018-2019) and more solid cumulated audit results currently available to REGIO¹¹¹ allowing for a refined mapping of relevant risks and desk and on-the-spot work focussed on identified programmes and authorities at risk. Moreover, specific issues of non-compliance of national laws (with the requirements of State aid incentive effect in one Member State¹¹² and public procurement EU-Directives in 4 Member States¹¹³) have also this year an important impact on the average residual total error rates and number of reservations.

For the 2007-2013 programming period, the **estimated average risk linked to the 2019 relevant expenditure is calculated at 0.4%**.

As the 2007-2013 programming period is at the stage of closure, final payments are processed when the Commission is of the opinion that all the necessary financial corrections have been made and that the residual risk is below the materiality threshold of 2%, meaning that no additional future corrections should be estimated. Therefore, the estimated amount at risk at payment is based on the estimated residual risk after financial corrections.

REGIO concludes that it has **reasonable assurance** as regards legality and regularity of transactions **except for 9 ERDF/CF programmes and 1 IPA-CBC programme**, due to the level of financial corrections which still need to be applied as part of the closure process and an additional reputational reservation. There is no actual financial exposure due to these reservations.

¹¹¹ As a result of audit work carried out by audit authorities, Commission auditors and Court of Auditors.

¹¹² PT, 10 programmes concerned for which the Member State has quantified the impact of the non-compliance for the 2018-2019 (EUR 109.3 million) and has applied the required financial corrections and is currently assessing and quantifying the impact for the 2017-2018 accounts as well.

¹¹³ DE, ES, IT, LT.

For the **2000-2006 programming period**, the estimated average risk is projected at 0.5% and REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

Regarding **indirect management**, on the basis of analysis made at programme level REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions in 2019.

Finally, for **direct management and for the Solidarity Fund**, no material deficiencies were identified affecting the 2019 paid expenditure. On this basis, REGIO can conclude that it has reasonable assurance as regards legality and regularity of transactions.

Overall Conclusion

In conclusion, **management has reasonable assurance** that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by **two reservations** concerning the following:

Nr.	Title	Type	Quantification of the reservations ¹¹⁴	Scope / relevant expenditure affected
1	Management and control systems for the programming period 2014-2020 for 67 programmes (59 ERDF/CF Programmes impacting 13 Member States, 8 European Territorial Cooperation programmes)	Financial	228.7 million	8,565.6 million
2	Management and control systems for the programming period 2007-2013 for 10 programmes (9 ERDF/CF Programmes impacting 6 Member States and 1 IPA-CBC programme)	Non-Financial	0.0	0.0

For the overall risk at closure, please refer to table "Estimated overall risk at closure" on page 36.

¹¹⁴ Calculated on the basis of the relevant expenditure for 2019. Full plus partial financial reservations at the following rates (rounded figures):

1. 2014IT16RFOP016 ROP Sicilia ERDF @ 5%
2. 2014UK16RFOP005 United Kingdom - ERDF West Wales and The... @ 6%
3. 2014UK16RFOP006 United Kingdom - ERDF East Wales @ 14%
4. 2014FR16M0OP002 Regional programme Auvergne 2014-2020 @ 10%
5. 2014FR16M2OP010 Regional programme Rhône Alpes 2014-2020 @ 4%
6. 2014FR16RFOP005 Interregional programme Rhône 2014-2020 @ 0%
7. 2014ES16RFOP012 Ceuta ERDF 2014-20 OP @ 9%
8. 2014ES16RFOP018 Melilla ERDF 2014-20 @ 34%
9. 2014TC16M4TN003 Balkan-Mediterranean @ 10%
10. 2014HU16M0OP001 Economic development and innovation @ 0%

2.1.5 Declaration of Assurance and reservations

I, the undersigned,

Director-General of the Directorate General for Regional and Urban Policy

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view¹¹⁵.

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

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

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

However the following reservations should be noted (see tables next two pages):

- a reservation concerning ERDF/Cohesion Fund management and control systems for the 2014-2020 programming period in 13 Member States and 8 European territorial cooperation programmes***
- a reservation concerning ERDF/Cohesion Fund management and control systems for the 2007-2013 programming period in 6 Member States and 1 IPA-CBC programme***

Brussels, 24 April 2020

Marc Lemaître

"Signed"

¹¹⁵ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.

Reservation 1 concerning ERDF/Cohesion Fund management and control systems for the period 2014-2020 in several Member States

REGIO	
Title of the reservation, including its scope	<p>A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period: 59 programmes in Austria, Czechia, Germany, Spain, France, Hungary, Ireland, Italy, Lithuania, Poland, Slovenia, Slovakia and United Kingdom and 7 ETC programmes.</p> <p>B/ Reservation (reputational) concerning 1 ETC programme</p>
Domain	Structural and Cohesion Funds and IPA-ENI carried out under 'Shared Management Responsibility'
Programme in which the reservation is made and total (annual) amount of this programme	<p><u>13.03 ERDF, 13.04 Cohesion Fund.</u></p> <p>2019 ERDF/CF total payments made to programmes affected by reservations: EUR 11,447.7 million (relevant expenditure is 8,565.6 million)</p>
Reason for the reservation	<ul style="list-style-type: none"> - systems deficiencies leading potentially to risk above the 10% retention - total error rates above 10% - residual total error rate above 2% - non-acceptance of accounts
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems with a material risk to the EU Budget, Residual error rate >2%, material issues on the completeness, accuracy and veracity of the accounts
Quantification of the impact (=actual "exposure")	Total quantification of the reservation: EUR 228.7 million
Impact on the assurance	<p>The weakness affects the legality and regularity of the expenditure concerned and the effective functioning of the management and control systems in place.</p> <p>Financial impact is mitigated through:</p> <ul style="list-style-type: none"> - interruption/suspension of payments pending the correction by the Member States concerned of the identified weaknesses; - financial corrections to be applied before accepting the next expenditure statement.
Responsibility for the weakness	<p>The expenditure concerned is under shared management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures.</p> <p>The Commission supervises the national authorities in this respect (monitoring of execution of the remedial measures).</p>
Responsibility for the corrective action	<p><u>At Commission level</u></p> <ul style="list-style-type: none"> - warning letters / interruption of payment deadlines / launch of suspension and correction procedures, - audit work both desk or on the spot to check the ability of national auditors to fulfil their obligations, <p><u>At Member State level</u></p> <ul style="list-style-type: none"> - implementation of remedial actions including when necessary financial corrections in order to remedy the deficiencies, - audit by the audit authority of the effective implementation of remedial measures in management and control systems and of financial corrections when required.

Reservation 2 concerning ERDF/Cohesion Fund and IPA-CBC management and control systems for the period 2007-2013 in several Member States

REGIO	
Title of the reservation, including its scope	A/ Reservation concerning the ERDF/Cohesion Fund management and control systems for the period 2007-2013: 9 in Croatia, Germany, Hungary, Italy, Romania and Slovakia. B/ Reservation (reputational) concerning 1 IPA Cross Border programme.
Domain	Structural and Cohesion Funds and IPA-CBC programmes carried out under 'Shared Management Responsibility'
Programme in which the reservation is made and total (annual) amount of this programme	<u>13.03 ERDF, 13.04 Cohesion Fund,</u> 2019 ERDF/CF total payments made to programmes affected by reservations: EUR 0.0 (relevant expenditure is EUR 0.0) <u>13.05 IPA-CBC</u> 2019 IPA-CBC payments made: EUR 0.0 (relevant expenditure is 0.0 million). Reservation for programme Adriatic is reputational.
Reason for the reservation	Serious deficiencies in management and control systems for these programmes as detected by the programme audit authority and/or the Commission at closure which have significant financial impact (i.e. risk above the amount retained). In particular, these deficiencies concern one or several of the following key elements: - compliance with public procurement rules and directives /revenue generated project/eligibility rules, - high error rates following audit of operations, - audit work (incomplete, procurement irregularities not detected...), - suspicion of fraud.
Materiality criterion/criteria	Following the in-depth assessment of closure documents, reservations are made for programmes with estimated financial corrections to be implemented exceeding the retention of the overall allocation made at programme level (5% or less for underspent programmes of the overall allocation made at programme level)
Quantification of the impact (=actual "exposure")	Total quantification of the reservation: EUR 0.0
Impact on the assurance	The weakness affects the legality and regularity of the payments concerned and the effective functioning of the management and control systems in place. The Commission will not make the final payment until the Member States' authorities will have agreed all necessary additional financial corrections.
Responsibility for the weakness	The expenditure concerned is under shared management in which the Member State is primarily responsible for implementing the management and control systems. Therefore, the designated national and regional authorities of the programmes concerned are responsible for undertaking corrective measures. The Commission supervises the national authorities in this respect.
Responsibility for the corrective action	For each programme included in the reservation, with the aim to obtain assurance that the required corrective measures have been completed, the Commission has analysed the Final Control Reports received by 31 March 2017 (by 31 March 2018 for Croatia) and when needed has requested Member States to perform additional audit work and/or to apply additional financial corrections.

List of programmes in the 2019 reservation

2014-2020 PROGRAMMING PERIOD, ERDF/CF and IPA-CBC

Res No.	MS	Ref	Title	Reservation 2019
1	AT	2014AT16RFOP001	Investments in Growth and Employment Austria 2014-2020	Full
2	CZ	2014CZ16RFOP001	Enterprise and Innovation for Competitiveness	Partial Non-fin
3	DE	2014DE16RFOP004	OP Brandenburg ERDF 2014-2020	Full
4	DE	2014DE16RFOP011	OP Saarland ERDF 2014-2020	Full
5	DE	2014DE16RFOP012	OP Sachsen ERDF 2014-2020	Full
6	DE	2014DE16RFOP013	Sachsen-Anhalt	Partial fin
7	DE	2014DE16RFOP015	OP Thüringen ERDF 2014-2020	Full
8	ES	2014ES16RFOP002	Multiregional OP for Spain ERDF 2014-20	Full
9	ES	2014ES16RFOP003	Andalucía ERDF 2014-20 OP	Full
10	ES	2014ES16RFOP007	Canary Islands ERDF 2014-20 OP	Full
11	ES	2014ES16RFOP008	Cantabria ERDF 2014-20 OP	Full
12	ES	2014ES16RFOP010	Castilla-La Mancha ERDF 2014-20 OP	Full
13	ES	2014ES16RFOP011	Cataluña ERDF 2014-20 OP	Full
14	ES	2014ES16RFOP012	Ceuta ERDF 2014-20 OP	Partial fin
15	ES	2014ES16RFOP013	Comunidad Valenciana ERDF 2014-20 OP	Full
16	ES	2014ES16RFOP017	Madrid ERDF 2014-20 OP	Full
17	ES	2014ES16RFOP018	Melilla ERDF 2014-20 OP	Partial fin
18	ES	2014ES16RFOP001	SME Initiative	Full
19	FR	2014FR05M0OP001	Ile-De-France and Seine	Full Non-fin
20	FR	2014FR16M0OP002	Regional programme Auvergne 2014-2020	Partial fin
21	FR	2014FR16M0OP011	Martinique Conseil Régional	Full
22	FR	2014FR16M0OP014	Bourgogne	Full
23	FR	2014FR16M2OP001	Regional programme Basse-Normandie 2014-2020	Full
24	FR	2014FR16M2OP004	Corse	Full
25	FR	2014FR16M2OP005	Franche Comté et Jura	Full
26	FR	2014FR16M2OP010	Regional programme Rhône Alpes 2014-2020	Partial fin
27	FR	2014FR16RFOP007	Regional programme La Réunion Conseil Régional 2014-2020	Full
28	HU	2014HU16M0OP001	Economic development and innovation	Partial Non-fin
29	HU	2014HU16M2OP001	Territorial And Settlement Development	Full
30	HU	2014HU16M2OP002	Competitive Central-Hungary	Full
31	IE	2014IE16RFOP001	Border, Midland and Western Regional Operational Programme	Full
32	IE	2014IE16RFOP002	Southern & Eastern Regional Operational Programme	Full
33	IT	2014IT16M2OP002	ROP Puglia ERDF ESF	Full
34	IT	2014IT16M2OP004	National Operational Programme on Metropolitan Cities	Full
35	IT	2014IT16M2OP006	Calabria ERDF	Full
36	IT	2014IT16RFOP001	National Operational Programme on Culture	Full
37	IT	2014IT16RFOP002	National Operational Programme on Infrastructures and Networks	Full
38	IT	2014IT16RFOP005	ROP PA Bolzano ERDF	Full

Res No.	MS	Ref	Title	Reservation 2019
39	IT	2014IT16RFOP007	ROP Campania ERD	Full
40	IT	2014IT16RFOP008	ROP Emilia Romagna ERDF	Full
41	IT	2014IT16RFOP010	ROP Lazio ERDF	Full
42	IT	2014IT16RFOP012	ROP Lombardia ERDF	Full
43	IT	2014IT16RFOP015	ROP Sardegna ERDF	Full
44	IT	2014IT16RFOP016	ROP Sicilia ERDF	Partial fin
45	IT	2014IT16RFOP017	ROP Toscana ERDF	Full
46	IT	2014IT16RFOP018	ROP PA Trento ERDF	Full
47	IT	2014IT16RFOP022	ROP Basilicata ERDF	Full
48	LT	2014LT16MAOP001	EU Structural Funds	Full
49	PL	2014PL16M2OP008	ROP 8 Regional Operational Programme for Opolskie Voivodeship	Partial Non-fin
50	PL	2014PL16M2OP012	ROP 12 Regional Operational Programme for Slaskie	Full
51	PL	2014PL16M2OP015	ROP 15 Regional Operational Programme for Wielkopolskie Voivodeship	Full
52	PL	2014PL16RFOP001	Smart Growth	Partial Non-fin
53	SI	2014SI16MAOP001	Operational Programme for the Implementation of the EU Cohesion Policy in the period 2014 – 2020	Full
54	SK	2014SK16M1OP001	Integrated Infrastructure	Full
55	SK	2014SK16M1OP002	Quality of Environment	Full
56	SK	2014SK16RFTA001	Technical Assistance	Full
57	ETC	2014TC16M4TN003	Interreg V-B - Balkan-Mediterranean	Partial fin
58	ETC	2014TC16RFCB017	Interreg V-A - Germany/Saxony-Czech Republic	Full
59	ETC	2014TC16RFCB021	Interreg V-A – Romania-Bulgaria	Full
60	ETC	2014TC16RFCB034	Interreg V-A – France – Italy (ALCOTRA)	Full
61	ETC	2014TC16RFCB035	Interreg V-A – Italy - Switzerland	Full
62	ETC	2014TC16RFCB043	Interreg V-A - France (Saint Martin-Sint Maarten)	Reputational
63	ETC	2014TC16RFTN003	Interreg V-B - Central Europe	Full
64	ETC	2014TC16RFTN009	Interreg V-B - Indian Ocean area	Full
65	UK	2014UK16RFOP004	Scotland	Full Non-fin
66	UK	2014UK16RFOP005	United Kingdom - ERDF West Wales and The Valleys	Partial fin
67	UK	2014UK16RFOP006	United Kingdom - ERDF East Wales	Partial fin

2007-2013 PROGRAMMING PERIOD, ERDF/CF and IPA-CBC

Res. No	Member State	CCI	Title	Reservation 2019
1	DE	2007DE161PO007	Sachsen – Anhalt	Partial Non-fin
2	HR	2007HR161PO002	Transport	Full Non-Fin
3	HU	2007HU161PO010	Implementation	Partial Non-fin
4	HU	2007HU16UPO001	Electronic Public Administration	Full Non-Fin
5	IT	2007IT161PO005	Reti e mobilita	Full Non-Fin
6	IT	2007IT161PO006	Ricerca e competitivita	Full Non-Fin
7	RO	2007RO161PO003	Transport	Full Non-Fin
8	RO	2007RO161PO004	Environment	Full Non-Fin
9	SK	2007SK161PO007	Technical Assistance	Partial Non-fin
10	IPA-CBC	2007CB16IPO001	Adriatic IPA CBC	Reputational

2.2 Other organisational management dimensions

2.2.1 Human resources management

In the context of reduced human resources, REGIO concentrated resources on the delivery of the Commission's priorities and on core business.

For adequate HR planning and allocation, REGIO used the analysis of available **workforce, the training plan and competency gap analysis** to improve the matching of skills with the needs of the DG and identify areas where skills should be developed.

Decisions on the allocation of resources were taken by the HR Steering Committee, composed of the Director-General, the Deputy Director-General and the Resource Director. The HR Business Correspondent implemented the decisions.

Recruitment decisions are of strategic importance for REGIO. Recruitment of administrators is subject to a multi-layer process where the final stage is an interview with the High Level Panel composed of senior managers. Recruitment decisions take into consideration the alignment of the applicants' individual qualities with the strategic needs of the DG. The consolidation of new functions and processes between the Human Resource Business Correspondent Team and the external Account Management Centre.

In the 2018 **the Staff satisfaction survey**, on well-being and staff engagement, REGIO scored higher than the Commission average. REGIO colleagues see positive developments in most of the areas in comparison to the last survey in 2016: 84% of REGIO respondents see the Commission as an attractive workplace and are satisfied with their role and with the job content. People value highly teamwork and colleagues with 86% of respondents replying positively. A positive trend can also be observed on the performance of both the middle (70% positive) and the senior managers (65%). A subsequent internal reflection took stock of the results and identified 19 actions which were endorsed by the Board in June 2019.

The HR planning exercise for 2019 confirmed that the overwhelming majority of resources are allocated to the delivery of REGIO's annual priorities. A review was performed twice during 2019. In December, the Board agreed to review the methodology for staffing in the geographical units in 2020 and to take into consideration the staff needs for the new Commission priorities, such as the Just Transition Fund.

Lower staff mobility is the result of the start of the negotiations of the new programming period 2021-2027. Priority was given to ensuring business continuity mainly in the geographical units rather than to renew staff.

As regards **female representation in middle management**, the target set by the College in 2017 (34%) was reached in the first half of 2019. Nevertheless, several female managers moved to the new Cabinets and the representation finally decreased to 31% by the end of 2019.

2.2.2 Information management aspects

Sharing of information and knowledge

REGIO has implemented a comprehensive approach to knowledge management including change management initiatives, training sessions and staff incentives to better collaborate, collect information and share expertise and knowledge. The main achievement is **RegioWiki**, a knowledge management repository and collaboration platform, operational since February 2014, supported by a robust structure and vocabulary (taxonomy) and divided into 5 pillars: Geographic, Thematic, Policy, Regulation and Internal.

It is steered by the Board of Directors and the Knowledge Management Steering Committee. The Users' Committee and ad hoc networks of local correspondents and

contributors help engage all staff. REGIO has set up a very active Data Community, following the appointment of a local data correspondent in spring 2019.

The number of users reached 100% of REGIO staff in 2017 (over 700) and has remained stable since then. REGIO opened in 2018 the RegioWiki to all DGs. At the end of 2019, the number of external users exceeded REGIO users (6,000).

Priority was granted in 2019 to preparing the briefing for the new Commissioner, expanding the 2021-2027 contents, upgrading the geographical pillar and enriching the contents of the audit pages. A satisfaction survey of Wiki users returned an overall positive feedback, expressing the will to scale up the RegioWiki to better exploit information available in REGIO, other Commission services and even beyond.

Document management

The **Action Plan on Paper Archiving** was completed in 2019. Physical inventory tables are in place for all 32 units of the DG and provide an overview of paper files, their location and information on the post - administrative retention period action. 869 boxes were moved to the NOHE building in view of future transfer or elimination.

The implementation of the Electronic Archival Action Plan continued in 2019. Electronic filing was further improved. The DMO correspondents club continued to provide an informal platform for exchanges of good practices, sharing of experience and awareness raising among colleagues in charge of document management across the DG. Almost 37% of REGIO files are now shared. 490 contract files were created in 2019.

The REGIO DMO provided advice during the negotiations for the shared services with REFORM and started the preparation for the new filing plan for 2021-2027. For more details and for the Better Regulation components, please refer to Annex 2.

Data protection

REGIO continued to implement the Data Protection Action Plan¹¹⁶ to comply with Article 4 of the Data Protection Regulation (EU) 2018/1725 taking the following steps in 2019:

- Regular contacts with main controllers to implement the Action Plan; REGIO Data Protection Coordinator (DPC) assisted all units;
- The DPC set up a Data Protection Network in the DG: Directors were invited to appoint members, which meet on a regular basis. The main purpose is to discuss data protection issues to further develop our internal procedures;
- Obligations were embedded in the REGIO Internal Control Framework to ensure compliance and accountability;
- As the data protection coordinator is directly attached to the Director-General, bilateral meetings served for informing him about the state of play;
- Awareness-raising: The DPC publicised the Wiki page and reminded all staff of their obligations via email, Ares and MyRegio.

The dedicated page on Data Protection in REGIO Wiki was regularly updated in light of the improvement of relevant procedures/templates. All units can find guidance on how to comply with Data protection rules. The majority of REGIO records were prepared by end of 2019. REGIO expressed interest in making use of all corporate records. The REGIO DPC provides assistance to the data protection contact point of REFORM in the framework of shared services.

¹¹⁶ https://myintracomm.ec.europa.eu/sg/dpo/Documents/Data_protection_plan.pdf

2.2.3 External communication activities

REGIO's Communication Strategy for 2017-2020 (adopted on 27 March 2017) sets the priorities and objectives for the DG's communication. REGIO's technical assistance allocation to communication activities reached EUR 24.7 million for 2019. The following campaigns and activities were implemented in 2019:

- **The Road Trip Project**: targeting youth on social media;
- **EU Delivers in the Regions**: targeting a larger public where awareness of the cohesion policy is lowest, to showcase concrete results through 'proximity' communication;
- **Partnerships with media**: grants to produce independent content on cohesion policy;
- **EU in My Region**: a flagship communication campaign to emphasise with EU (co)funded programmes and projects the presence of the EU throughout regions;
- **Citizens' engagement activities**: organised by Europe Direct Information Centres and Internet Volunteers Youth.

These were accompanied by showcasing achievements of cohesion policy through corporate communication. REGIO took actively part in the rural campaign and was a major contributor to the #**InvestEU**, **EUandME** and **EUprotects** campaigns.

In October, REGIO organised, in cooperation with the Committee of the Regions, the 17th edition of **European Week of Regions and Cities**. It rallied more than 9,000 participants (+30% vs. 2018). It also featured the **awards ceremony of the 12th edition of the RegioStars**, which continued to recognise the achievements of the most innovative EU-funded projects. In 2019, 199 applications were received for six award categories (including the Public Choice Award).

The Commission also continued to develop and promote the **ESIF open data platform**, **which** has become the default source of information on ESIF implementation. In 2019, richer visualisation functionalities were added to improve user-friendliness. The Commission continues to promote the platform as a reference site through conferences, technical meetings, web, social media, e-mail newsletters and the Panorama magazine.

The annual **fora of the four EU macro-regional strategies** (up to 900 participants), fostered cooperation on common challenges such as growth & jobs, energy union, digital single market, etc. The **Border Focal Point** organised a major conference on cross-border missing rail links and cross-border public transport. 250 participants attended.

The **Smart Regions Conference** assessed what has already been achieved through national/regional innovation strategies, exchange experience and reflect on an effective transformation through smart specialisation in 2021-2027.

The 8th **cohesion policy evaluation conference**: "Investing in our shared future" was held in Bucharest bringing together over 500 participants from academia, managing authorities and different institutions. This is the most important event on cohesion policy evaluation organised at European level every three years.

For further information on communication activities, please refer to Annex 2.