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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 3.2.2009
COM(2009) 42 final

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

**Report on the implementation of the action plan to strengthen the Commission's
supervisory role under shared management of structural actions**

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1. EXECUTIVE SUMMARY

The Commission adopted an action plan on 19 February 2008 to strengthen its supervision of Member States in relation to shared management of structural actions ("the Action Plan")¹. The object of the Action Plan is to reinforce actions by the Commission to address the high level of errors in reimbursements for structural actions and weaknesses in the Member States management and control systems. Taking account in particular of the conclusions and recommendations of the European Court of Auditors in its Annual Report for 2006, the Action Plan sets out 37 actions, under 10 main headings, to be carried out by the end of 2008.

The actions cover preventive measures to achieve more effective controls by Member States, corrective measures to ensure that irregular reimbursements are detected and recovered for the EU budget, and measures to improve the quality of reporting of key data by Member States and by the Commission essential for monitoring the effectiveness of multi-annual control systems. The approach is to reduce the residual risk of error on the one hand by applying measures to improve supervisory and control systems to reduce the occurrence of error and on the other hand by taking actions which will increase the rate of recovery.

The Commission has reported to the European Parliament on progress on the Action Plan by the transmission on a quarterly basis of monitoring tables. The Commission has also separately reported on a quarterly basis to the European Parliament the financial corrections resulting from the Commission's actions. An interim progress report on the results of the first three quarters was sent to the European Parliament, the Council and the European Court of Auditors in November 2008².

This Report sets out in detail in section 2 the outputs of each action achieved up to 31 December 2008. As financial corrections and suspensions of payments to operational programmes are one of the important impact indicators as regards the supervisory role of the Commission, detailed information on corrections and payment suspensions applied in 2008 is set out in Annexes 1a and 1b. In addition, a summary of the ongoing financial correction procedures is set out in Annex 2.

28 out of the 37 actions in the Action Plan have been completed. These include all actions relating to improved reporting, guidance notes, training seminars, and streamlined internal procedures for financial corrections. One partially completed action, concerning the internal closure guidelines (Action 3.2), will be finalised in the

¹ COM(2008) 97.

² SEC(2008) 2756.

first quarter of 2009. Six remaining actions are by their nature ongoing and relate to the audits of high risk management bodies, the follow up of remedial action plans, the suspension and financial correction procedures, the follow up of individual substantive error cases from the DAS 2006 and the review of the work of the winding up bodies (2000-06). The targeted outputs have to a large extent been achieved by the end of 2008, and the remaining steps will be completed in 2009. Two further ongoing actions include the key preventive actions for the 2007-2013 programmes, namely the compliance assessment procedure and the audit strategy approval process, where action by the Commission depends on the timing of submission of documents by Member States. Updated outputs, indicators and deadlines are set out in annex 3 for all the eight ongoing actions to be continued throughout the course of 2009.

Through the effective implementation of the Action Plan, the Commission has made substantial progress toward its objective of strengthening its supervision of the management of structural actions in the Member States.

The main achievements which provide evidence of this are:

- The European Court of Auditors has recognised in its Annual Report on 2007 the positive evolution in the quality of the Annual Activity Reports of DG REGIO and DG EMPL and the usefulness of the evidence they provide (Table 2.1 and paragraph 2.12 of the Annual Report for 2007) (Action 9);
- The European Court of Auditors has also indicated in its Annual Report that the Commission has adequately supervised the procedure concerning annual summaries by issuing clear guidance and by dealing with cases of non compliance (paragraph 2.20 of the Annual Report for 2007) (Action 10);
- The Commission has demonstrated a more rigorous response to the detection of systems deficiencies by the adoption of 10 formal decisions to suspend interim payments (in 2007 only one such decision was adopted) (Action 8.1);
- The Commission has demonstrated its capacity to report accurately and in a timely way on the corrections resulting from its own control and audit activity through the transmission of quarterly reports on financial corrections (Action 7.2);
- The Commission has increased the impact of its audit work through the conclusion of procedures for financial corrections where deficiencies and irregularities have been identified. The intensity of this activity is shown by the increased volume of financial corrections relating to 2000-2006 programmes and projects applied in 2008 for ERDF, ESF and Cohesion Fund. The overall figure for financial corrections for 2008 for ERDF, ESF and Cohesion Fund resulting from the Commission's activity is EUR 1.5³ billion, compared with EUR 288 million for the whole of 2007 (see annex 1a). The current estimate of potential financial corrections likely to result from the suspension and correction

³ The figure is provisional and subject to adjustment in the Commission's Annual Accounts for the year 2008.

procedures underway at the end of 2008 is approximately EUR 2.8 billion (see annex 2) (Actions 1.2, 1.3, 8.2);

- The revised internal procedures of DG REGIO and DG EMPL provide a sound basis for speeding up the adoption of suspension and correction decisions and meeting the benchmarks referred to in the Action Plan (6 months from the final position on audit findings until the adoption of a suspension decision and 24 months between the audit and a Commission financial correction decision). Whilst there will be a period of transition for past audits, there is evidence of the impact of the new procedures in relation to the time for adoption of a number of the suspension decisions in 2008 (Action 8.2);
- The Commission made progress in its efforts to obtain improved data on withdrawals and recoveries from Member States for the 2000-2006 period reported for the year 2007. The Commission has analysed the transmitted data, has requested further clarifications where necessary and has carried out on the spot verifications in 10 Member States to verify the submitted data. The preliminary results indicate that the responsible authorities are generally fulfilling their responsibilities, although there remain some misunderstandings on the requirements which the Commission has taken steps to clarify (Actions 6.1, 6.2);
- The Commission has implemented strictly the preventive actions for the 2007-2013 programmes in order to ensure that reliable systems are in place in the Member States before interim payments are reimbursed. It has received compliance assessment reports covering 281 programmes, out of a total of 433, with those accepted covering 88 programmes, those rejected (and which will therefore have to be re-submitted) covering 90 programmes and the remainder still under examination (Actions 4.1, 4.2);
- The Commission has carried out all the planned actions designed to make first level management checks more effective for both the 2000-2006 and 2007-2013 periods, including the targeted audits of high risk management bodies, the issuance of guidance notes, the provision of a self-assessment tool for managing authorities, and the organisation of a seminar in June 2008 for managing and certifying authorities with over 500 national participants (Actions 1.1, 5.1, 5.2, 5.3);
- The Commission has carried out all the preventive actions intended to ensure a rigorous and effective process for closure of the 2000-2006 programmes including the audits of winding up bodies, the organisation of a seminar for all Member States in September 2008 with over 700 national participants, the creation of a 'Register of Questions and Answers' to be used as guidance by the Member States and the participation in bilateral workshops in different Member States (Actions 3.1, 3.2, 3.3).

In addition to the actions concerning simplification set out in the Action Plan, the Commission has taken substantial further steps to simplify rules for structural actions through its adoption of proposals to amend the relevant Council regulations, and will consider further measures in 2009 on the basis of recommendations of a joint Commission/Member State working group. These measures, which include an expansion of the use of flat rates, lump sums and unit costs to all types of

expenditure for both ERDF and ESF, should also contribute to a reduction in the level of error for 2007-2013 programmes, although necessarily they will not produce their effects before 2010/2011.

The Action Plan addresses both the causes and effects of the high rate of error found by the European Court of Auditors in structural actions expenditure. However, the impact of the Action Plan cannot yet be measured in relation to an actual reduction in the error rate at the level of interim reimbursements. As was explained in the Communication on the Action Plan (point 8.2), for the 2000-2006 period, errors already committed will continue to affect expenditure declared by the Member States and payments which will be made by the Commission up to 2010 and, for the Cohesion Fund, up to 2012, for 2000-06 programmes. The Commission's focus is therefore on increasing the effectiveness of the controls undertaken by the Member States and the audits of the Commission, in order to ensure that by the time the 2000-2006 programmes and projects are closed, the residual risk of error is low. For the 2007-2013 period, the preventive actions will ensure that the Member States' systems function effectively from the beginning of the programme implementation, or, if not, that deficiencies are detected early so that corrective measures can be applied.

DGs REGIO and DG EMPL will in their joint audit strategy for 2009-2011 plan and execute audit work to enable them to carry out a first evaluation of the impact of the Action Plan in relation to the error rate in reimbursements to the Funds at the end of 2009 for expenditure for the new programmes of the 2007-2013 period, and at the end of 2011 for the closure of programmes of the 2000-2006 period.

In conclusion, the Commission has substantially implemented the Action Plan, and will focus its efforts in 2009 on maintaining progress through the following activities:

- **Completion of the 8 remaining ongoing actions from the Action Plan set out in Annex 3;**
- **execution of the 2009-2011 joint audit strategy of DGs REGIO and EMPL for structural actions which will set out the planned audit work to continue the rigorous supervision of systems in Member States for both the 2000-2006 and 2007-2013 periods;**
- **the timely follow up of any reservations made by DGs REGIO and EMPL in their Annual Activity Reports for 2008; and**
- **continued actions to maximise the value of the annual summaries.**

The Commission will draw up and transmit to the European Parliament, the Council and the European Court of Auditors in early 2010 a report on the further actions carried out in 2009 and on the first impact of all the actions.

2. PROGRESS ON IMPLEMENTATION OF THE ACTION PLAN

Action 1 – Actions under the joint audit strategy for 2000-2006

1.1. Targeted audits on 55 high risk management bodies

Action ongoing

DG REGIO and DG EMPL have carried out 47 of the 55 planned audits and have sent out reports on 30 of the audits. The effective results on the audits already reported are that in 7 cases there is a positive conclusion on the functioning of the system, in 2 cases the opinion was adverse and the Commission has launched a procedure to suspend payments and apply financial corrections, and in the other 21 cases the Commission auditors have given a qualified opinion and are following up the audit findings with the national authorities to determine the corrective measures required. The follow-up of the audits through to possible suspensions of payments and financial corrections will continue into 2009. Four planned audits were cancelled following a re-assessment of the risk or because the programme was selected for audit by the European Court of Auditors. Four planned audits were postponed to the first half of 2009 in order to be able to verify the implementation of remedial actions by the Member State.

The DGs have performed 4 additional audits on high-risk management bodies which were not foreseen in the Action Plan but were included in their 2008 audit programmes following further risk analysis.

1.2. Follow up of 27 remedial action plans

Action ongoing

The 27 action plans cover 32% of the total committed amounts for 2000-06 programmes. DG REGIO and DG EMPL have completed the follow up on 14 of the 27 action plans, the majority of which relate to reservations from the DGs Annual Activity Reports for 2007. The effective results of the action plans completed are as follows:

- in 13 cases there is a positive conclusion on the completion of the required actions and on the functioning of the system, including in certain cases on the application of financial corrections by the Member State at the request of the Commission;
- in 1 case the remedial action plan resulted in the application of financial corrections by Commission decision.

In the remaining 13 cases follow up is ongoing. For 4 action plans where the Commission has concluded that the Member State has not satisfactorily implemented remedial actions:

- the Commission has adopted a decision to suspend payments in 3 cases;
- it has launched a procedure to suspend payments in 1 case;

- For 6 action plans where the Member State has reported that it has completed the required measures, the Commission will review Member States reports or carry out audits at the beginning of 2009 to check implementation and the adequacy of corrections applied.

In 3 cases the Commission extended the deadline for completing the remedial action plans to the beginning of 2009 and the follow up will be completed in 2009.

The DGs will conclude any consequent suspension and financial correction procedures in 2009.

1.3. Conclude 20 suspension and financial correction procedures for 2000-2006 and 34 procedures for 1994-1999

Actions ongoing

1.3 a) 2000-2006 period

The 20 open suspension and correction procedures related in total to 32 ERDF programmes and 12 ESF programmes and 60 Cohesion Fund projects. DG REGIO and DG EMPL have brought to a conclusion 13 of the procedures and 4 procedures have been partially concluded. The results in terms of programmes and projects for these 17 procedures are as follows:

- Commission decisions to apply financial corrections amounting to approximately EUR 58 million have been adopted for 44 programmes/projects;
- Member States accepted financial corrections amounting to approximately EUR 309 million for 16 programmes/projects; and
- the procedure was closed with no correction for 10 programmes/projects because the Commission was able to accept the arguments presented by the Member State.

Under the procedures not yet concluded covering 34 programmes/projects, the Commission has adopted 7 suspension decisions covering 29 programmes/projects. In these cases, if the Member State does not carry out the required action, financial corrections will be applied in 2009. For 4 Cohesion Fund projects, Commission decisions to suspend or correct will be taken following the outcome of the hearing in February 2009. For the remaining⁴ projects a suspension or correction decision is in preparation.

1.3 b) 1994-1999 period

The 34 procedures referred to in the Action Plan concern ERDF and result from closure audits. DG REGIO has brought to a conclusion 17 of these procedures with financial corrections amounting in total to EUR 239 million. In 11 cases the decision is under preparation and will be adopted by end of first quarter 2009. In 6 cases the

⁴ The sum of programmes/projects is greater than originally reported in the Action Plan as additional Cohesion Fund projects have been included.

formal hearing with the national authorities will be held in the first quarter 2009 so that the decision will be adopted by end June 2009. Delays have occurred because of the voluminous documentation that had to be analysed, the complex legal issues raised in certain cases, and difficulties in fixing the date of the hearing with the Member State, which is an essential part of the rights of the defence for the Member State which must be respected before a correction can be applied.

1.4. Follow up of DAS error cases for 2006

Action ongoing

DG REGIO and DG EMPL have taken a final position on 60 of the 74 cases. Of these 25 cases, the Member State has itself made or has agreed to make the required correction. In 20 cases the DGs have launched a financial correction procedure. In 15 cases the case was closed with no correction, as the Commission was able to accept the further evidence submitted by the Member State. For the remaining 14 cases, the Commission has been delayed in reaching a final position because of the need to carry out a follow up audit and/or obtain further information from the responsible authorities.

Action 2 – Actions under Action Plan towards an Integrated Internal Control Framework⁵

2.1. Action 9 - Constructing effective tools for sharing audit and control results

Action completed

DG REGIO and DG EMPL have established procedures to ensure good coordination through a joint audit strategy and to guarantee that all audit results are shared so that there is effective reliance on each other's work.

2.2. Action 10 – Conduct initial estimation and analysis of costs of controls for ERDF

Action completed

DG REGIO sent the provisional report on the results of the survey of the costs of controls in ERDF to DG BUDG in May 2008 to be used in the preparation of the communication on tolerable risk, and the final revised report on 31 October 2008. The Communication "Towards a common understanding of the concept of tolerable risk of error" was adopted by the Commission on 16 December 2008⁶.

2.3. Action 11N – Examine the reliability of national reporting systems for recoveries and financial corrections

Action completed

See Action 6.2 below.

⁵ The Commission has adopted a Communication on the Commission Action Plan towards an Integrated Internal Control Framework on 3 February 2009.

⁶ COM(2008) 866.

2.4. Action 14b – Provide guidelines for beneficiaries and/or intermediate levels on controls and responsibilities in the control chain

Action completed

See Action 5.2 below.

2.5. Action 15 – Promote “Contracts of Confidence”

Action completed

One new contract of confidence has been signed by the Commission with Cyprus for ERDF and Cohesion Fund in December 2008. The formalities were concluded by the end of 2008 to sign two other contracts with UK/England and Denmark for the ESF in February 2009. This will mean that there are 9 contracts of confidence signed with 7 Member States (UK, AT, DK, PT, EE, SI, CY).

2.6. Action 16 – Co-ordination of audit standards

Action completed

The Commission has finalised the guidance documents on sampling and systems assessment methodology, and presented further sections of the Structural Funds audit reference manual relating to the annual control report and opinion, reliance on the work of other auditors and fraud indicators to national audit authorities at a technical meeting in December 2008.

Following the further presentation to the Committee for the Coordination of Funds in January 2009 final versions of these documents have been distributed to the Member States.

Action 3 – Preventive actions for closure of 2000-2006 programmes and projects

3.1. Audit enquiry on 36 winding up bodies

Action ongoing

DG REGIO and DG EMPL carried out 30 of the 36 planned audits of winding-up bodies which will be responsible for issuing declarations on the legality and regularity of expenditure before the closure of 2000-2006 programmes. Four audits have been cancelled in order to avoid duplication and 2 audits have been postponed until the first quarter of 2009 as a result of other audit work carried out in these Member States. The DGs have performed 2 additional audits on winding up bodies which were not foreseen in the action plan but were subsequently included in their audit programmes following further analysis. The conclusions are that there are some deficiencies in the winding-up bodies' preparation for closure and the Commission will follow-up on its recommendations to verify that these issues are corrected so that the winding up declarations submitted at closure can be relied on. The follow-up will continue in 2009.

3.2. Internal procedures to ensure rigorous examination of closure documents

Action partially completed

The internal procedures for the closure process have been finalised in DG REGIO, and will be followed by DG EMPL to complete and align its own internal procedures. These procedures put emphasis in particular on the assessment of the reliability of the winding up declarations, and on the examination of reported irregularities and financial corrections for each programme.

3.3. Raise awareness of Member States of closure guidelines issued by the Commission in 2006

Action completed

DG REGIO and DG EMPL organised a seminar for managing and certifying authorities on the control of Structural Funds on 10 June 2008 which was attended by over 500 participants from national authorities (see Action 5.1). At this seminar speakers from the Commission, OLAF and Member States presented key issues for the preparation of closure of Structural Funds programmes.

DG REGIO and DG EMPL organised a second seminar entirely dedicated to closure issues entitled "Towards a successful closure of Structural Funds programmes 2000-2006" in Brussels on 15 September, which covered in detail all elements of the programme closure process. Over 700 representatives from all Member States participated. The topic of closure has also been discussed at 70 annual bilateral meetings with managing authorities and control bodies of Structural Funds since the beginning of 2008, and has been the subject of specific bilateral seminars in 19 Member States (HU, FR, DK, LT, IT, CY, SK, GR, BE, PL, LV, EE, DE, NL, UK, MT, CZ, IE, ES) and in a special Interreg seminar. Following up on the 15 September seminar, on 21 October a specific session of the Technical Working Group of the ESF Committee, gathering all ESF national coordinators, was dedicated to the issue of management actions to be taken before the end of the eligibility period in order to ensure a proper closure for 2000/2006 programmes. In response to the many questions raised by Member States at and following these events, the Commission has created a "Register of Questions and Answers". This document is now available to Member States on the seminar website.

Action 4 – Preventive actions for the 2007-2013 programming period

4.1. Review of compliance assessment reports and opinions

Action ongoing

The Commission scrutinises the compliance assessment reports and opinions submitted by Member States, which are due within 12 months of programme approval, in order to confirm that the control systems set up by the Member States comply with regulatory requirements. Until the Commission has approved the assessment, it will not reimburse interim payment claims.

By the end of 2008 the Commission had received compliance assessment reports from Member States covering 281 of the 433 approved programmes. Of these it has

accepted the assessments for 88 programmes and rejected those for 90 programmes (which will be re-submitted after correction). The remainder have been interrupted or are still subject to examination. The reasons for rejection and interruption are related in particular to the failure to provide adequate information on certain mandatory elements, and inconsistencies between the findings in the report of the compliance assessment body and the final opinion. Few cases have raised fundamental structural or capacity problems.

4.2. Review of national audit strategies

Action ongoing

Audit authorities are required to submit their audit strategies within nine months of programme approval for approval by the Commission. As at end of 2008, the Commission had received the audit strategies covering 366 of the 433 approved programmes. It had accepted the strategies of 206 programmes and rejected those of 89 programmes (which will be re-submitted after correction). The remainder are interrupted or still under examination. The reasons for rejection and interruption include insufficient information to establish the independence of the audit authority, missing or unclear sampling method, incomplete risk analysis, and insufficient information on audit resources. In general the issues raised are not wide-ranging weaknesses in the strategies but particular points to be completed or improved.

4.3. Actions on simplification

Action completed

a) DG REGIO and DG EMPL presented the guidance note on partial closure under Article 88 of Council Regulation (EC) No 1083/2006 to the Fund Coordination Committee (COCOF) in December 2008. Following a second presentation in January 2009 a final version has been distributed to Member States.

b) DG EMPL has taken steps to raise awareness on its guidance note on the use of flat rate for indirect costs for ESF under Article 11(3)(b) of Council Regulation (EC) No 1081/2006 which was finalised by DG EMPL in September 2007, after discussions with the Member States and agreement with the European Court of Auditors. As at 31 December 2008, 25 Member States had declared their intention to implement this ESF rule for all or part of their programmes. The use of flat rates was also discussed in late 2007 and in 2008 in 3 meetings of the technical working group of the ESF Committee, in 4 annual meetings with Member States and in specific bilateral meetings with the Czech Republic, Portugal, Lithuania and Wales.

In addition to the actions set out in the Action Plan concerning simplification, the Commission has taken further steps to simplify rules for structural actions through its adoption of proposals to amend the relevant Council regulations, with a view to expand the use of flat rates, lump sums and unit costs to all types of expenditure for both ERDF and ESF, and will consider proposing further measures in 2009 on the basis of recommendations of a joint Commission/Member State working group to be presented in the first half of 2009. Provided support from the European Parliament and the Council on such measures is achieved, the impact of further simplification on the error rate should become apparent from 2010/2011.

4.4. Review and clarification on eligibility issues

Action completed

a) The Commission presented the draft brochure making a compilation of all the Community eligibility rules related to structural actions to the COCOF in December 2008 and the final version has been made available on the Commission website.

b) and c) The Commission services have finalised the guidance notes on revenue-generating projects and State Aid rules. In September 2008 the Commission adopted a proposal to amend Article 55 of Council Regulation (EC) No 1083/2006 in order to simplify the rules concerning revenue generating operations which was adopted by the Council on 18 December 2008.

4.5. Public procurement rules – raise awareness by organising workshops

Action completed

The Commission organised special workshops on this topic, which continues to be a common source of irregularity in the use of EU funds for structural actions, in Hungary (4/4/08), in Bulgaria (26/6/08) and in Poland (2/12/2008), Cyprus (18/12/2008) and Malta (9/12/2008), whilst the target was two Member States. Following a workshop dedicated to the use of public procurement in the field of ESF activities in 2006, DG EMPL organised a follow-up discussion and exchange of national good practices in this field during the meeting of the technical working group of the ESF Committee on 6 May 2008. The Commission has also issued to audit authorities an information note on fraud indicators focusing on the area of public procurement.

Action 5 – Improvement of primary controls

5.1. Seminar for managing and certifying authorities

Action completed

DG REGIO and DG EMPL organised a seminar entitled "Control of structural actions – meeting the challenge" in Brussels on 10 June 2008. Over 500 participants from managing and certifying authorities of all Member States and regions participated, as well as representatives from the European Parliament and the European Court of Auditors. At the seminar the Commission presented good practices concerning the role of managing and certifying authorities in the 2007-2013 period based on the revised guidance notes described under action 5.2 and on the experience of the implementation of the 2000-2006 programmes. The importance of effective communication of the applicable rules to beneficiaries in order to prevent errors was emphasised. The Commission presented to COCOF in December a plan for improving training and communication on management and control issues based on feedback provided by Member States following the seminar.

5.2. Guidance on good practice for primary controls and the certification function

Action completed

The Commission issued in May and June 2008 new guidance documents for managing authorities and certifying authorities after detailed discussion with Member States. These formed the basis for presentations and discussions in the seminar of 10 June (see action 5.1).

5.3. Self-assessment tool for managing authorities on compliance

Action completed

The Commission presented a self-assessment tool to Member States at the seminar of 10 June, with the aim of making it easier for managing authorities to assess themselves directly against regulatory benchmarks on key elements of internal control. Two pilot studies have subsequently been carried out. In the light of the results, the tool has been adapted and was presented to Member States at the COCOF meeting in January 2009.

Action 6 – Improve reporting on financial corrections by Member States

6.1. Follow up on data reported by Member States to complete gaps and correct inaccuracies

Action completed

DG REGIO, as lead DG, aggregated the data on financial corrections in all Funds reported by Member States in March/April 2008 and the Commission reported the results to the European Parliament with the second quarterly report on financial corrections and also presented them in an annex to the 2007 Annual Report on the Implementation of the Structural Funds⁷ published in October 2008. DG REGIO subsequently wrote to all concerned Member States to ask them to fill gaps and clarify apparent anomalies. On the basis of the revised data received, the Commission can present the corrected figures as follows: the total amounts of corrections (withdrawals and recoveries) reported for the year 2007 is approximately EUR 900 million. The revised cumulative total for the whole of the 2000-2006 period comes to approximately EUR 2.2 billion (EUR 1.3 billion withdrawals, EUR 0.9 billion recoveries).

6.2. Verification of reported data on corrections in 10 Member States

Action completed

DG REGIO as lead DG has carried out, with assistance from external contractors, on-the-spot verifications of data for all Funds in 10 Member States. The preliminary results indicate that the responsible authorities are generally fulfilling their responsibilities, although there remain some misunderstandings on the requirements which the Commission has taken steps to clarify. Recommendations to improve procedures in the future are being made and will be closely monitored.

⁷ SEC (2008) 2649

Action 7 – Improve reporting by Commission on impact of audit activity

7.1. Modification of IT applications and procedures – SYSAUDIT in DG REGIO, full implementation of A-REP in DG EMPL

Action completed

In DG REGIO the reports obtained from SYSAUDIT have been improved in order to strengthen the follow up of audits carried out.

In DG EMPL the A-REP application has been fully implemented since April 2008, in order to provide better follow up and monitoring of all Community audit recommendations and to document such follow-up activities.

7.2. Modification of IT applications and procedures – quarterly reporting on financial corrections to DG BUDG

Action completed

DG REGIO and DG EMPL, in consultation with DG BUDG, DG AGRI and DG MARE, have put in place procedures to improve the completeness and accuracy of reporting on financial corrections resulting from the Commission activity. Quarterly reports have been provided to DG BUDG, which has prepared and transmitted global reports to the Budgetary Control Committee of the European Parliament.

Improvements to the IT application SYSAUDIT used by DG REGIO and A-REP used by DG EMPL for the follow up of financial correction procedures have been put in production in both DGs to provide enhanced facilities for monitoring of the process in line with the new procedures. Moreover DG EMPL incorporated into A-REP a specific module on audits so as to follow the audit process from the start through to financial corrections, where necessary.

Action 8 – Increase impact of Commission audit activity

8.1. Establish and implement policy of suspending payments by Commission as soon as possible following detection of serious weaknesses in national systems

Action completed

The Director Generals of DG REGIO and DG EMPL have respectively issued coordinated instructions to their services to implement a policy of launching the procedure for suspension of payments immediately following the detection of serious deficiencies in a national system. Monitoring of the timeliness of the application of suspensions is carried out using the monitoring tools referred to in Action 7.

8.2. Modify internal procedures for suspension and financial corrections to speed up application

Action completed

DG REGIO and DG EMPL have put in place new internal procedures for the application of suspensions and financial corrections by the Commission and have

updated their operational manuals. These provide for a streamlining of internal procedures to reduce unnecessary delays in the application of suspension and financial corrections. The revised internal procedures of DG REGIO and DG EMPL provide a sound basis for speeding up the adoption of suspension and correction decisions and meeting the benchmarks referred to in the Action Plan (6 months from the final position on audit findings until the adoption of a suspension decision and 24 months between the audit and a Commission financial correction decision). Whilst there will be a period of transition for past audits, there is evidence of the impact of the new procedures in relation to the time for adoption of a number of the decisions in 2008.

Action 9 – Improve assurance from AAR

Action completed

DG REGIO and DG EMPL fully implemented in the drafting of their 2007 Annual Activity Reports all the actions listed in the Action Plan, which took account of recommendations by the European Court of Auditors. The European Court of Auditors has recognised in its Annual Report on 2007 the positive evolution in the quality of the Annual Activity Reports of DG REGIO and EMPL and the usefulness of the evidence they provide (Table 2.1 and paragraph 2.12 of the Annual Report 2007).

Action 10 – Maximise value of annual summaries

Action completed for annual summaries for 2007

The Commission carried out a detailed and timely assessment of the annual summaries received, and reported on the results to the Budgetary Control Committee of the European Parliament by letters of 22 February, 25 March and 21 April 2008. The European court of Auditors has indicated in its Annual Report that the Commission has adequately supervised the procedure concerning annual summaries by issuing clear guidance and by pursuing the reasons for non compliance (paragraph 2.20 of the Annual Report 2007).

The Commission analysed the summaries in relation to the respect for the minimum regulatory requirements as well as for the added value provided and took measures to follow up any shortcomings in quality as well as non-respect of the minimum legal requirements. DG REGIO and DG EMPL took the results into account when finalising their assessments of national systems for their Annual Activity Reports. The Commission has launched an infringement procedure against the one Member State which failed to submit a compliant annual summary and the Commission is currently examining information which has since been provided by the Member State. It finalised and made available on 12 November the revised guidance to Member States for the 2008 exercise, with the aim both of streamlining the process for Member States and of reinforcing the value added elements of the annual summaries in order to maximise the contribution made to building up assurance on the Funds.

The Director General of DG REGIO sent a letter to the Member States in December 2008 reminding them of the importance of the value added elements of the annual summaries.

The Commission will continue in 2009 and subsequent years to analyse annual summaries received from Member States and to maximise their value to obtain an increased assurance on management and control systems in the Member States.

Annex 1a – Summary of financial corrections in 2008

Fund/period	Financial corrections accepted by Member State (in EUR million)	Financial corrections by Commission decision (in EUR million)	Total financial corrections for the period 1/1 – 15/12/2008 (in EUR million)	Financial corrections for the period 15/12 – 31/12/2008 (in EUR million)	Total financial corrections in 2008 (in EUR million)
ERDF 2000-06	573	25	598		598
CF 2000-06	9	35	44		44
ESF 2000-06	487	0	487	5	492
ERDF 1994-99	10	151	161	168	329
CF 1994-99	7	31	38		38
ESF 1994-99	0	26	26		26
Grand total for 2008	1.086	268	1.354	173	1.527
Total for 2007					288

This table sets out all the corrections made for ERDF, ESF and CF, and not only those resulting from Action 1.3.

The figures are provisional and subject to adjustment in the Commission's Annual Accounts for the year 2008.

Annex 1b – Details of financial correction decisions and suspension decisions adopted in 2008

	Member State	Programme period	Fund	Programme	Amount (M EURO)	Cross reference to the action in the Action Plan
<u>Financial corrections</u>	Germany	1994-1999	ERDF	Berlin	12.90	1.3b
	* Germany	1994-1999	ERDF	Thüringen	81.43	
	* United Kingdom	1994-1999	ERDF	West Midlands Obj 2	0.33	
	Portugal	1994-1999	ERDF	Alentejo	0.35	1.3b
	Portugal	1994-1999	ERDF	Iniciativa para a Modernização da Indústria Têxtil (IC IMIT)	5.58	1.3b
	Netherlands	1994-1999	ERDF	Groningen-Drenthe	4.62	1.3b
	United Kingdom	1994-1999	ERDF	Industrial South Wales	14.94	1.3b
	United Kingdom	1994-1999	ERDF	Highlands and Islands	10.42	1.3b
	Germany	1994-1999	ERDF	Saxony	158.08	1.3b
	Greece	1994-1999	ERDF	Road Axes	30.10	1.3b
	Finland	1994-1999	ERDF	Objective 6 1995-1999	0.44	1.3b
				Sub-total	319.19	

	* Spain	1994-1999	CF	–	3.11	
	* Spain	1994-1999	CF	–	23.20	
	* Greece	1994-1999	CF	–	5.15	
				Sub-total	31.46	
	United Kingdom	2000-2006	ERDF	North West + URBAN/Sub-total	24.8	1.2, 1.3a
	* Portugal	2000-2006	CF	–	1.55	
	Spain	2000-2006	CF	–	1.52	1.3a
	Spain	2000-2006	CF	–	6.38	1.3a
	Spain	2000-2006	CF	–	0.77	1.3a
	Spain	2000-2006	CF	–	1.24	1.3a
	Greece	2000-2006	CF	–	23.26	1.3a
				Sub-total	34.69	
	* France	1994-1999	ESF	Guadeloupe	9.19	
	* Ireland	1994-1999	ESF	Employment Community Initiative	12.72	
	* United Kingdom	1994-1999	ESF	Resider Obj2	0.57	

	* United Kingdom	1994-1999	ESF	Northern Uplands Obj 5	1.19	
	* Finland	1994-1999	ESF	Objective 6 1995-1999	0.09	
	*Germany	1994-1999	ESF	Land Bremen Obj 3	1,93	
				Sub-total	25,69	
				Grand total for 2008	433.90	
<u>Suspensions</u>	Italy	2000-2006	ERDF	Puglia	-	1.2, 1.3a
	Interreg	2000-2006	ERDF	France/UK	-	1.3a
	Interreg	2000-2006	ERDF	Medoc	-	1.3a
	*Interreg	2000-2006	ERDF	Italy/Albania	-	
	Spain	2000-2006	ERDF	9 intermediate bodies	-	1.3a
	* Bulgaria	2000-2006	CF	Two projects in road sector	-	
	Italy	2000-2006	ESF	Calabria Obj 1	-	1.3a
	Luxembourg	2000-2006	ESF	Obj 3	-	1.3a
	UK-Scotland	2000-2006	ESF	Obj 2 and Obj 3	-	1.2, 1.3a
	Luxembourg	2000-2006	ESF	Equal	-	1.3a

* Not under Action Plan.

Annex 2 – Summary of financial correction and suspension procedures underway at the end of 2008

Fund/period	Financial correction and suspension procedures underway		Estimated amount (in EUR million)	Source (number of procedures)			
	Number of procedures	Number of programmes/projects		Commission audit	Programme/ project closure	OLAF	ECA
ERDF 2000-06	51	71	783	39	0	10	2
CF 2000-06	52	74	167	31	20	0	1
ESF 2000-06	13	13	257	12	0	0	1
ERDF 1994-99	48	50	1.233	17	9	20	2
CF 1993-99	7	8	5	2	4	0	1
ESF 1994-99	14	14	387	0	14	0	0
Grand total for 2008	185	230	2.832	101	47	30	7

The figures are provisional and subject to adjustment in the Commission's Annual Accounts for the year 2008.

The "Estimated amounts (in EUR million)" of potential corrections are best estimates, taking into account the state-of-play of the follow up of audits, implementation of remedial action plans and final position letters issued to Member States.

Annex 3 - Remaining ongoing actions from Action Plan (to be incorporated in joint audit strategy 2009-2011)

	Original action in 2008	Remaining action in 2009	Revised indicator	Deadline
1. Actions under the Structural Actions joint audit strategy for 2000-2006				
1.1.	Carry out targeted audits on high-risk management bodies (2000-06)	Follow up the results of the 47 audits carried out and carry out 4 postponed audits	Audits carried out and follow-up completed with effective result – reasonable assurance that system is functioning effectively on application of corrective measures	31.12.2009
1.2.	Complete the follow-up of the Member States' implementation of 27 current remedial action plans to remedy serious deficiencies in those Member States' management and control systems	Complete the follow up of 13 remedial action plans	Remedial action plans (ERDF 7/ESF 6) in Member States concluded with effective result	31.12.2009
1.3a and 1.3b	Bring to conclusion the 20 suspension and financial correction procedures currently underway for 2000-2006 and the 34 financial correction procedures from closure audits for 1994-1999	Conclude the 7 remaining suspension and financial correction procedures for 2000-2006 and the 17 remaining financial correction procedures from closure audits for 1994-1999	Suspension/financial correction procedures concluded by corrections agreed by the Member State or a Commission decision within 24-month deadline	31.12.2009 (30.06.2009 for the procedures for 1994-1999)
1.4.	Follow up the individual substantive error cases for DAS 2006 together with any systemic implications	Take a final position on the 14 remaining individual error cases and conclude the 20 financial correction	Financial correction procedures concluded by corrections agreed by the Member State (or with a Commission decision) or closed without corrections (if MS's arguments accepted by the	30.12.2009

		procedures launched.	Commission).	
3. Preventive actions for closure of 2000-2006 programmes and projects				
3.1.	Complete the audit enquiry on the review of the work of the winding-up bodies (2000-06)	Complete the follow up of 30 audits of winding up bodies and carry out the 2 audits postponed	Audits carried out and follow up completed with effective result – reasonable assurance that winding up body is functioning satisfactorily in view of the preparation for closure or application of corrective measures	31.12.2009
4. Preventive actions for the 2007-2013 programming period				
4.1.	Review of compliance assessment reports and opinions	Complete review of compliance assessment reports and opinion for 152 programmes	Desk review of all remaining programmes	30.9.2009
4.2.	Review of national audit strategies	Complete review of national audit strategies for 67 programmes	Desk review of all remaining audit strategies	30.9.2009