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ANNEXES

to the

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

2021 Annual Management and Performance Report for the EU Budget

European Commission

ISSN 2599-7092

Annual Management and Performance Report for the EU Budget

Volume III
Technical annexes

#EUBUDGET

FINANCIAL YEAR
2021

INTEGRATED FINANCIAL AND
ACCOUNTABILITY REPORTING 2021

Budget

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Annex 4 – Programme performance overview

Annex 4 – Programme performance overview

This annex contains a concise overview of the implementation and performance of each spending programme in the 2021-2027 multiannual financial framework and of those programmes in the 2014-2020 multiannual financial framework for which relevant payments continued to be implemented in 2021. It draws on the information contained in the programme statements attached to the 2023 draft budget.

Important: this annex is exclusively available online

In line with the European Commission's digital strategy, and with the objective of improving the accessibility of performance information and the user experience, this annex has been published exclusively on the Europa website.

Please visit the following website to access the information on the implementation and performance of the spending programmes of the EU budget in an interactive and user-friendly format:

[Programme Performance Overview home page]

The 2021-2027 spending programmes included in this annex are the following:

Heading 1: Single Market, Innovation and Digital

Heading 2: Cohesion and Values

Heading 3: Natural Resources & Environment

Heading 4: Migration & Border Management

Heading 5: Security & Defence

Heading 6: Neighbourhood & the World

Special instruments and outside the MFF

Annex 5 – Control strategies and results

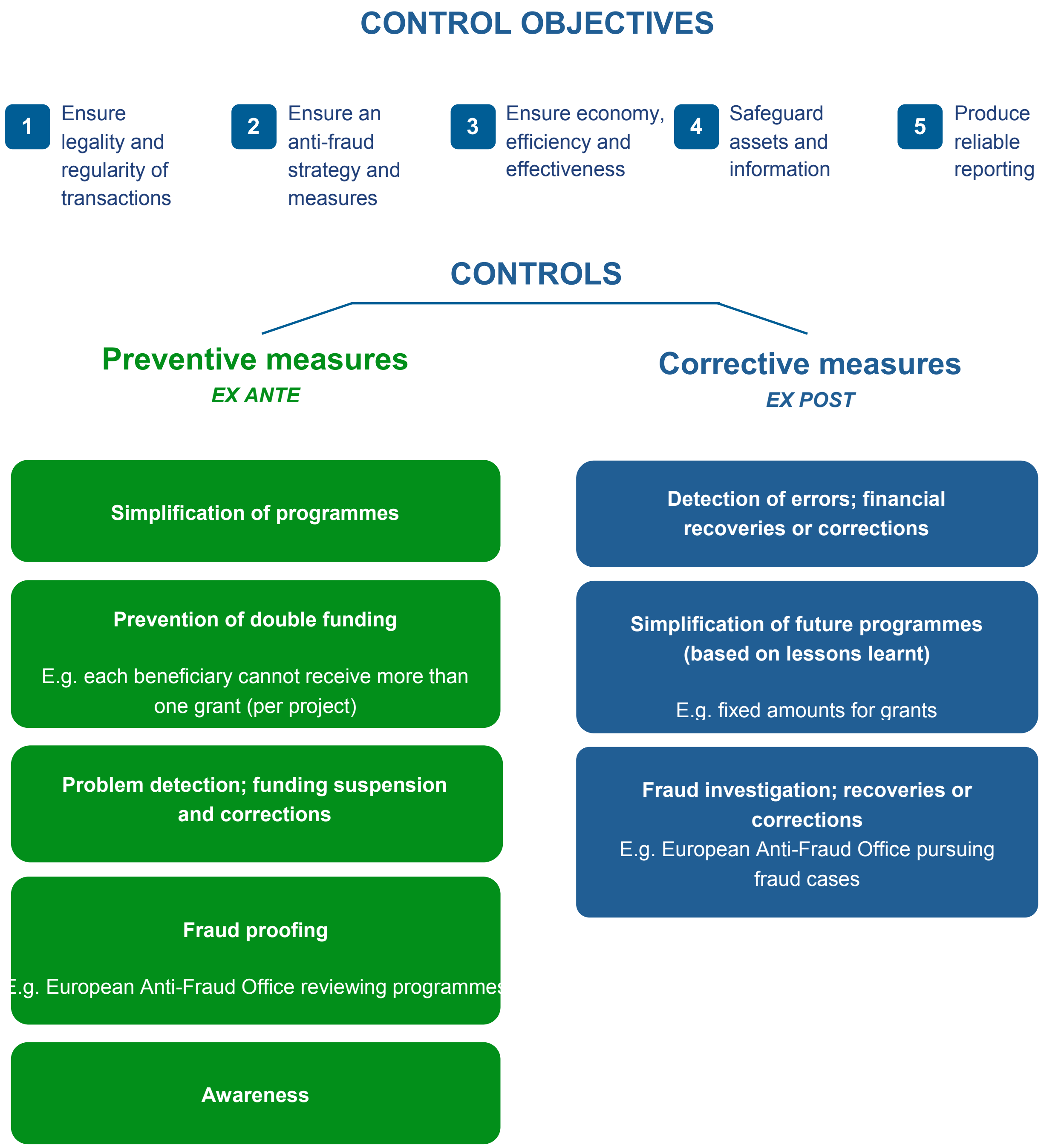
Annex 5 – Control strategies and results

This annex describes the preventive and corrective measures taken by the Commission, and by the Member States for expenditure under shared management, to protect the EU budget from illegal or irregular expenditure. It also presents their effects, and more specifically:

- the preventive and corrective measures to protect the EU budget and related concepts;
- the risk at payment/closure reported in the 2021 annual activity reports, which measure the effectiveness of the controls;
- the reservations qualifying the assurance provided by the authorising officers by delegation;
- the quantification of the preventive and corrective measures implemented in 2021.

5.1. Preventive and corrective measures to protect the EU budget and related concepts

The Commission has put in place multiannual control strategies to ensure the sound financial management of EU funds (see **chart** below). These control strategies aim in the first place to prevent errors before payments are made. In case errors could not be avoided, corrective measures are taken after the payments and until the closure of the programmes. The control results are therefore reported at two points in the programme cycle through the estimated **risk at payment** and **risk at closure**.



Main features of the Commission's control strategies
Source: European Commission.

Preventive and corrective measures

Preventive measures take place before the Commission makes the payment. They mostly result from controls (called *ex ante* controls) carried out by the Member States and entrusted entities before submitting expenditure to the Commission, and by the Commission before accepting and reimbursing expenditure, clearing pre-financing (i.e. transferring its ownership to the beneficiary) and making interim/final payments. As required by Article 74(5) of the financial regulation, all financial operations are subject to controls before payment, under all management modes.

Examples of such preventive measures are the recovery of unused pre-financing, the (partial) rejection of costs claimed and the financial corrections and deductions made by Member States before submitting their annual accounts to the Commission. Indeed, even though these corrections may have been applied by the Member States after they have made payments to beneficiaries, they intervene before the Commission's payments and do not affect those.

The intensity, in terms of frequency and/or depth, of these controls depends on the risks and costs involved. Consequently, for low-risk transactions, *ex ante* controls usually take the form of desk reviews rather than on-site controls at the premises of the beneficiary. Indeed, for such transactions, on-site controls would entail a prohibitive cost compared to the expected benefit.

In shared management, the possibility of interruptions/suspensions of payments to Member States in the event of serious deficiencies detected by national or EU audits in the management and control systems has a preventive character. In addition, the Commission provides training and guidance to Member State authorities on the eligibility aspects of grants and procurement.

Corrective measures take place after the Commission has made the payment or accepted the expenditure. In line with Article 74(6) of the financial regulation, they result from controls (called *ex post* controls) that are typically performed on-site, on a sample basis, and are either representative or based on a risk assessment. In shared management, the Commission also performs system audits of Member States' controls and/or the work of the audit bodies after a risk analysis. These audits may lead to financial corrections and recoveries of irregular expenditure ([1]).

The quantification of the preventive and corrective measures actually applied by the Member States and the Commission during the 2021 reporting year itself is presented in Section 5.4 of this annex.

The sources and root causes of errors detected by the Commission or by the Member States are also taken into account when preparing future (simplified) legislation and when (re)designing controls to further reduce the level of error in the next generation of funding programmes.

Risk at payment

The risk at payment quantifies any errors that remain after preventive controls have been applied and payments have been made ([2]), but before corrective measures have been applied. These errors are typically detected by Commission departments through audits or checks that take place after the payment. Measurement at this stage allows the errors to be corrected and additional preventive measures (e.g. additional guidance for Member States, entrusted entities or beneficiaries) to be taken, if necessary. It also allows the effectiveness of the (*ex ante*) controls to be gauged, and these controls to be adapted if necessary.

Each department estimates its 'detected error rates' per programme or other payment segment. Some departments may use different terminology in their annual activity reports to reflect the specificity of their control environment ([3]). Nevertheless, the departments use a consistent methodology to assess the risk of error in their financial operations based on the institutional framework in place. This is typically done through audits of sampled financial transactions taking place after the payments, taking

([1]) NB: Such corrections are not sanctions and do not include penalties and fines.
([2]) Or equivalent, such as after the expenditure is accepted (i.e. registered in the Commission's accounting system) or after the pre-financing is cleared.
([3]) For example, 'adjusted error rates' is used by DG Agriculture and Rural Development and 'residual total error rates' is used by DG Employment, Social Affairs and Inclusion, DG Maritime Affairs and Fisheries and DG Regional and Urban Policy.

into account and assessing the results of audits carried out by programme authorities in the first instance under shared management. These reveal any errors that may have remained after the *ex ante* controls and make it possible to estimate those parts of expenditure or revenue likely to be in breach of applicable regulatory and contractual provisions before any correction has taken place. This corresponds to the risk at payment for an individual programme or segment, as a percentage.

For low-risk expenditure, where there are indications that the error rate might be close to zero (e.g. administrative expenditure or operating subsidies for agencies), it is nevertheless recommended that an error rate of 0.5% be used as a conservative estimate.

All types of error, either formal or material, are duly considered and may lead to further enhancement of the control systems in place. Furthermore, in terms of consequences for the EU budget, the Commission calculates the actual financial impact of the errors. This is not necessarily equal to the total value of the EU funding involved: for example, it may only be equal to the amount of overpayment where a grant beneficiary has declared an amount above the reimbursement ceiling, to a pro rata amount of the EU funding where the EU only co-funds a grant or even to zero in the case of merely formal errors that have no financial impact. A special situation in the latter case is where formal errors occur in procurement procedures that do not necessarily preclude the possibility that the best offer was selected, that the output has been delivered in accordance with the contract and that the payments have been regular ([4]).

The risk-at-payment value is obtained by multiplying the relevant expenditure per programme or segment by the corresponding error rate.

The results per programme or segment are aggregated to provide – at the level of the department, the policy area and the Commission – the overall risk at payment as a value, which is the sum of all the amounts of risk at payment, and as a percentage, which is the overall weighted average of the risk at payment.

Estimated future corrections

Once an error is detected, it will subsequently be corrected – either via recovery or by being offset against future payments. However, as both detection and remedy may not be immediate, corrections will often not be made in the same financial year as the payment. Nevertheless, the multiannual control systems and corrective mechanisms ensure that any necessary corrections are made within the relevant programme’s life cycle.

Because the majority of the programmes and control strategies are multiannual, the risk at payment determined in the first instance may provide an incomplete picture, as errors can still be corrected over the course of a number of years after the payments have taken place, until the closure of the programme. In addition, corrections resulting from *ex post* controls rarely take place within the same financial year as the payment.

Therefore, as a second stage, departments estimate the percentage of future corrections they could still apply until the closure of the programme. These are conservative and forward-looking estimates of the corrections that they will implement as a result of (*ex post*) controls in subsequent years.

([4]) See the Commission decision laying down guidelines for determining financial corrections to be made to expenditure financed by the Union for non-compliance with the applicable rules on public procurement (C(2019) 3452).

The estimates of future corrections described here must not be confused with the actual preventive and corrective measures applied during 2021 (presented on page xxx). Firstly, the scope of the actuals is broader as they include both preventive and corrective measures to protect the EU budget, not just *ex post* corrections. Secondly, the timing is different as the actuals relate to expenditure from previous years (during which errors may have been higher) as opposed to the estimated future corrections, which are calculated to relate only to 2021 expenditure.

To some extent, this estimate is based on the 7-year historical average of recoveries and financial corrections. However, where the departments are of the opinion that this is not the best available estimate of their *ex post* corrective capacity for their current activities, they adjust or replace their historical average. Any *ex ante* elements (e.g. recovery of unused pre-financing), one-off events, (partially) cancelled or waived recovery orders or other factors from past years that are no longer relevant for current programmes (e.g. higher *ex post* corrections of previously higher errors in earlier generations of grant programmes or current programmes with only *ex ante* control systems) may be taken out in order to arrive at the best and most conservative estimate of future corrections to be applied for the expenditure of the current programmes.

In 2021, most departments adjusted or replaced their historical average of corrections in order to arrive at their best conservative estimate of the future corrections to be applied to their relevant expenditure for the reporting year.

For programmes with no set closure point (e.g. the European Agricultural Guarantee Fund) and for some multiannual programmes for which corrections are still possible after the end of the programmes (e.g. the European Structural and Investment Funds, including the European Agricultural Fund for Rural Development), all the corrections that remain possible are considered for this estimate.

These future corrections can never be fully equal to the risk at payment. This is because some of the errors may be of a formal nature, and, although it is important to address them, do not always result in undue payments and therefore do not always give rise to financial corrections or recovery orders.

Risk at closure

This risk is estimated at programme closure ([5]), meaning when all *ex post* controls are completed, all corrections are applied and no further action may legally be taken.

The risk at closure is obtained by deducting the estimated future corrections from the risk at payment, as a value and as a percentage. These amounts and percentages represent the most up-to-date estimation of the outcome to be expected by the closure of each programme. The estimation is forward-looking, anticipating the point when all future corrections have been made. The risk at closure is more representative of the multiannual corrective capacity of the Commission and of the real risk to the expenditure.

Similarly to the risk at payment, the results per programme or segment are aggregated to provide – at the level of the department, the policy area and the Commission – the overall risk at closure as a value, which is the sum of all the amounts of risk at closure, and as a percentage, which is the overall weighted average of the risk at closure.

(5) In the case of the common agricultural policy, the term 'estimated final amount at risk' is used instead, to better reflect the fact that there is no set closure point for European Agricultural Guarantee Fund measures.

A bottom-up approach that fits the Commission's management context

The concepts above have been developed to fit the Commission's management context. Indeed, to be able to provide bottom-up management assurance, and to identify and address issues in specific areas, the Commission calculates the error rates per programme or other relevant segment, thus at a very detailed level. Moreover, the Commission's methodology takes into account the multiannual nature of the spending programmes for the risk at closure, especially the fact that errors not identified at the point of payment for the specific accounting year under assessment can still be detected and corrected in the subsequent year(s).

The Commission's approach differs from the European Court of Auditors' audit approach as it comes from a management perspective, and provides more detailed information. Even if these approaches can lead to differences between the error rates reported by the Court of Auditors and those reported by the Commission, the concepts used largely converge with those used by the Court of Auditors.

- The risk at payment is closer ([6]) to the Court of Auditors' 'estimated level of error'. For several years the Court of Auditors has recognised that the Commission's figures are, in most cases, broadly in line with the Courts' estimates and/or range.
- As a basis for calculating the amount(s) at risk, 'relevant expenditure' corresponds to the payments made, minus new pre-financing paid (still owned by the Commission), plus pre-financing paid in previous years and cleared (ownership transferred to the beneficiaries) during the financial year. This is fully in line with the Court of Auditors' approach ([7]).
- The 'materiality threshold' set, in most cases, at 2% of the relevant expenditure ([8]) is also in line with the Court of Auditors' methodology ([9]).

5.2. Risk at payment/closure reported in the 2021 annual activity reports

The risk at payment and risk at closure are determined against the **relevant expenditure** of the year, to be in line with the Court of Auditors. They comprise the share of the EU budget managed by the Commission, along with **other expenditure** for the sake of completeness.

Relevant expenditure

The amount of the Commission's 'relevant expenditure' is determined to be in line with the Court of Auditors' scope of transactions reviewed ([10]). In this approach, pre-financing and retentions are only taken into account when the final recipient of EU funds has provided evidence of their use and the Commission (or another body managing EU funds) has accepted the final use of the funds (by clearing the pre-financing or releasing the amount retained), because this is where errors of legality or

([6]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2020 financial year*, paragraph 1.34.
([7]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2020 financial year*, Annex 1.1 (on methodology), paragraph 11.
([8]) The only exceptions are: (a) 1% for revenue, which is stricter than the Court, in view of the very large amounts; and (b) the range of 2-5% for the Horizon 2020 programme (see details in Section 2.1.2, Annex II, Volume II of this report).
([9]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2020 financial year*, Annex 1.1 (on methodology), paragraph 20.
([10]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2020 financial year*, Annex 1.1 (on methodology), paragraph 11.

regularity may occur (see overall calculation in Table A). Therefore, the risks at payment and at closure are determined against this amount.

Furthermore, to show a complete picture of the funds for which the Commission is responsible ([11]), the expenditure made under the **European Development Fund** and those related to the **four EU trust funds have been added** (see overall calculation in Table A).

- **European Development Fund.** Until 2020, this budget was separate from the EU budget, and it is currently co-managed by five departments. In Tables B and C, the corresponding European Development Fund expenditure is included in the policy areas and the departments concerned (DG International Partnerships, plus the Joint Research Centre, DG Education, Youth, Sport and Culture, DG European Civil Protection and Humanitarian Aid Operations (ECHO) and the Education, Audiovisual and Culture Executive Agency).
- **EU trust funds.** These are the EU Trust Fund for the Central African Republic, the EU Regional Trust Fund in Response to the Syrian Crisis, the EU Emergency Trust Fund for Africa and the EU Trust Fund for Colombia (see also Volume III, Annex 11). In Table B, this expenditure is included in the external relations policy area. In Table C, it is included in DG Neighbourhood and Enlargement Negotiations, DG International Partnerships and DG European Civil Protection and Humanitarian Aid Operations (ECHO). These three departments ensure the transparent and complete coverage of the relevant trust fund(s) in their annual activity reports, based on the reports from the trust fund managers. They make a distinction between their accountability for the contributions from the EU budget and/or the European Development Fund paid into the trust funds, on the one hand, and for the transactions made from the trust funds, i.e. with the funds collected from the EU budget, the European Development Fund and other donors, as a trust fund manager, on the other hand.

2021 (provisional) annual accounts	Payments made *(a)*	New pre-financing *(b)*	Retentions made *(c)*	Cleared pre-financing *(d)*	Retentions released *(e)*	Relevant expenditure *(f) = (a) – (b) + (c) + (d) – (e)*
EU budget	177 169.65	36 995.00	7 005.13	24 476.00	2 887.30	168 768.46
Contributions from the EU budget to the EU trust funds	*– 536.22*	*0.00*	*0.00*	*0.00*	*0.00*	*– 536.22*
European Development Fund	3 401.95	2 053.02	0.00	1 757.68	0.00	3 106.61
Contributions from the European Development Fund to the EU trust funds	*– 633.90*	*0.00*	*0.00*	*0.00*	*0.00*	*– 633.90*
EU trust funds	1 092.27	948.64	0.00	1 011.53	0.00	1 155.16

([11]) In line with Volume II Annex 2, this does not include the payments made under the Resilience and Recovery Facility that are dealt with separately in Volume II Annex 3.

2021 (provisional) annual accounts	Payments made *(a)*	New pre-financing *(b)*	Retentions made *(c)*	Cleared pre-financing *(d)*	Retentions released *(e)*	Relevant expenditure *(f) = (a) – (b) + (c) + (d) – (e)*
Commission total	**180 493.76**	**39 996.66**	**7 .005.13**	**27 245.18**	**2 887.30**	**171 860.12**

Table A: Amount of relevant expenditure for the whole Commission (in million EUR)
Source: Commission annual activity reports.

Specifications of columns (a) to (f)

(a) Payments made in 2021, including pre-financing, as registered in the Commission's accounting system.
(b) Pre-financing paid by the Commission in 2021 (in line with note 2.5.1 'Pre-financing' to the Commission's (provisional) annual accounts).
(c) In cohesion, a 10% retention is made for all interim payments to the Member States. This is released once the Member States' accounts have been accepted by the Commission.
(d) Pre-financing that has been cleared during the financial year. This means that the Commission has accepted the final use of the funds by clearing the advance.
(e) Amount of the retention released in 2021 (see (b)) and, also in cohesion, the deductions of expenditure made by the Member States.
(f) Relevant expenditure = (a) – (b) + (c) + (d) – (e).

Overview of the Commission's risk at payment and at closure

Table B presents an overview of the Commission's risk at payment/closure, by policy area. Compared to the previous annual management and performance reports, this year seven policy areas have been created in order to stay as close as possible to the seven headings of the new 2021-2027 multiannual financial framework. The splitting of the budget into these headings does not fully correspond to the budget as allocated to the 51 managing Commission departments, and thus as accounted for in their management reporting. For the purposes of this report (a summary of the annual activity reports), each department is allocated in its entirety to (only) one of the seven policy areas ([12]), except for DG Defence Industry and Space.

Specifications of the columns in Table B

(a) to (f) Same as in Table A.

(g) **Estimated risk at payment** (as a value and as a percentage).

The two cohesion-related departments present a range of values, as follows:

- the lower value corresponds to the departments' risk at payment for the 2021 relevant expenditure based on their confirmed residual total error rate for the 2019/2020 accounting year;

([12]) As a result, the content of these headings differs slightly from the headings presented in Annexes 1 and 4.

- the upper value corresponds to a worst-case scenario (i.e. maximum risk), taking into account possible additional risks in parts of expenditure not reviewed under EU audits that indicate the possibility for higher error rates for some programmes.

European Commission Directorates-General		Lower value	Upper value
DG Employment, Social Affairs and Inclusion	Entire DG	1.7%	2.5%
	European Social Fund and Youth Employment Initiative	1.7%	2.5%
DG Regional and Urban policy	Entire DG	1.9%	2.5%
	European Regional Development Fund and Cohesion Fund	1.9%	2.5%
Total	**Entire DGs**	**1.8%**	**2.4%**
	Cohesion policy funds	**1.8%**	**2.5%**

Beyond the cohesion departments, a few other departments also use a range of 'minimum-maximum' rates/amounts for their estimated risk at payment, but with rather minor variances between the two values.

(h) **Estimated future corrections** (as a value and a percentage).

(i) **Estimated risk at closure** (as a value and a percentage).

Policy area	Total relevant expenditure (f)	Estimated risk at payment *(g) = average error rate applied to (f)*		Estimated future corrections *(h) = adjusted rate of average recoveries and corrections applied to (f)*		Estimated risk at closure *(i) = (g) – (h)*	
		Lowest value	Highest value	Lowest value	Highest value	Lowest value	Highest value
Single market, innovation and digital	**17 327.3**	218.6	220.2	52.6	52.6	166.0	167.6
		1.3%	*1.3%*	*0.3%*	*0.3%*	*1.0%*	*1.0%*
Cohesion, resilience and values	**75 779.3**	1 317.6	1 775.4	437.7	883.0	879.8	892.4
		1.7%	*2.3%*	*0.6%*	*1.2%*	*1.2%*	*1.2%*
Natural resources and environment	**56 545.2**	1 027.1	1 027.2	841.0	841.0	186.1	186.2
		1.8%	*1.8%*	*1.5%*	*1.5%*	*0.3%*	*0.3%*
Migration and border management	**2 510.8**	48.0	48.0	15.9	15.9	32.2	32.2
		1.9%	*1.9%*	*0.6%*	*0.6%*	*1.3%*	*1.3%*
Security and defence	**13.8**	0.1	0.1	0.0	0.0	0.1	0.1
		0.5%	*0.5%*	*0.0%*	*0.0%*	*0.5%*	*0.5%*
Neighbourhood and the world	**12 683.4**	142.6	142.6	32.7	32.7	109.9	109.9
		1.1%	1.1%	0.3%	0.3%	0.9%	0.9%

Policy area	Total relevant expenditure (f)	Estimated risk at payment (g) = average error rate applied to (f)		Estimated future corrections (h) = adjusted rate of average recoveries and corrections applied to (f)		Estimated risk at closure (i) = (g) – (h)	
		Lowest value	Highest value	Lowest value	Highest value	Lowest value	Highest value
European public administration	**7 000.3**	30.1	35.4	0.0	0.0	30.1	35.4
		0.4%	*0.5%*	*0.0%*	*0.0%*	*0.4%*	*0.5%*
Total 2021	**171 860.1**	**2 784.2**	**3 248.9**	**1 379.9**	**1 825.1**	**1 404.3**	**1 423.7**
		1.6%	***1.9%***	***0.8%***	***1.1%***	***0.8%***	***0.8%***
Total 2020	***147 391.9***		***1.9%***		***1.0%***		***0.9%***

Table B: Risk at payment/closure by policy area for the whole Commission, 2021 (in million EUR)
Source: Commission annual activity reports.
NB: Due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

5.3. Reservations reported in the 2021 annual activity reports

Within the context of their overall assurance-building process, authorising officers by delegation perform a detailed analysis for each segment of expenditure of their portfolio. At the end of each financial year, they determine the **residual error rate** for each programme. This residual error rate is based on the (gross) detected error rate, but takes into account any corrections made up to the end of 2021 ([13]). It is a snapshot of the level of error still affecting the 2021 expenditure at the moment of reporting. Where this residual error rate is above the materiality threshold of 2%, the authorising officers duly qualify their declarations of assurance with a reservation. This is in line with the European Court of Auditors’ approach ([14]).

Reservations are an important element of the Commission’s governance system. The qualification of a declaration of assurance in an annual activity report with a reservation ensures transparency concerning any challenges or weaknesses encountered and their potential financial impact. Reservations preserve the principal of sound financial management by being a tool to address remaining weaknesses and prevent them in future, by developing action plans to mitigate risks and strengthen control systems.

A reservation may or may not have a quantifiable financial impact ([15]). Furthermore, some weaknesses trigger multiple reservations. For example, multiple reservations may arise from programme segments implemented by more than one department, or because the weakness resulting in a ‘new’ reservation for the current programming period is a continuation of one from a previous programming period. However, this reporting method provides more precision and transparency.

([13]) The residual error rate is an ‘intermediate’ type of error rate between estimated risk at payment and estimated risk at closure, up to the time of reporting in the management cycle.
([14]) European Court of Auditors, *Annual report on the implementation of the EU budget for the 2020 financial year*,, Chapter 1, Annex 1.1 (on methodology), paragraph 20.
([15]) Reservations are non-quantified when the financial impact is zero, when it is not possible to assess the financial impact accurately or when the effect is only reputational.

2021 reservations

For the 2021 reporting year, all 51 authorising officers by delegation declared in their annual activity reports ([16]) that they had reasonable assurance. The majority, 41 authorising officers by delegation, issued unqualified declarations of assurance, while 10 issued qualified declarations with a total of 16 reservations. These reservations affect both revenue and expenditure, and relate to a programme or a specific area in their portfolio affected by a weakness (see chart below). In all cases, the authorising officers by delegation concerned adopted action plans to address the underlying weaknesses and mitigate the resulting risks. The situation regarding reservations can be summarised as follows.

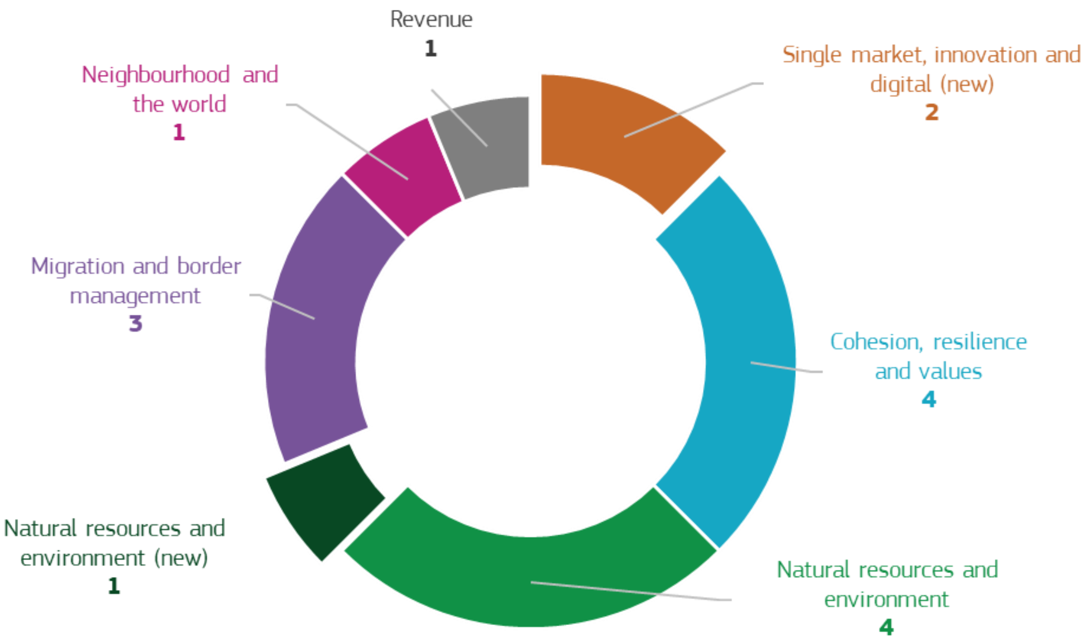
- A total of **13 reservations are recurrent** from previous year(s), of which 12 relate to the spending programmes and one relates to the revenue side of the EU budget. These reservations are maintained mainly because, under the current programmes' frameworks, the root causes of the material level of error can be partially mitigated but not fully eradicated. Seven reservations are entirely or partially non-quantified.
- **Three reservations are new** and are due to a material level of error or serious weaknesses found in the control systems of implementing partners (Member States). However, the financial impact of all three new reservations is limited, amounting to barely EUR 16 million.
- **Six reservations** were lifted compared to 2020. In four cases, the underlying issues concerning the programme have been resolved, while in two cases the weakness is no longer considered substantial (application of the *de minimis* rule).

De minimis rule for reservations

Further to the decision by the Corporate Management Board on 30 April 2019, a *de minimis* rule for reservations has been introduced ([17]).

Reservations relating to cases with a residual error rate above the 2% materiality threshold are deemed not to be substantial for segments that represent less than 5% of the department's total payments and have a financial impact of less than EUR 5 million. Therefore, quantified reservations that do not exceed both thresholds are not needed ([18]). This applies especially but not exclusively to the legacy programmes.

([16]) Annual activity reports.
([17]) Announced in the 2018 annual management and performance report (p. 173).
([18]) Without prejudice to maintaining a reservation for reputational reasons, if applicable.

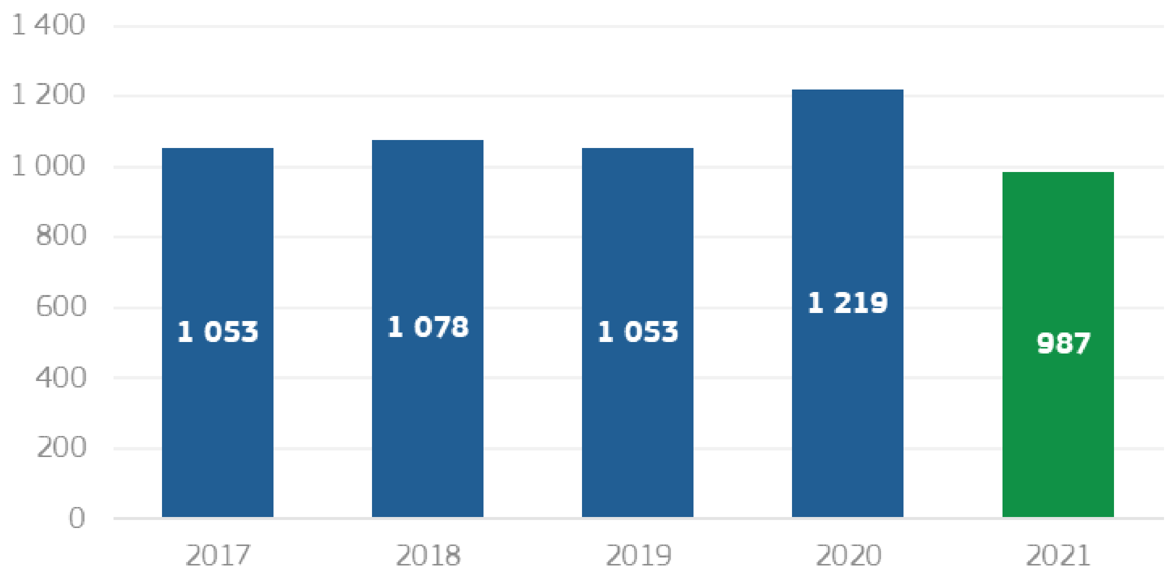


Number of reservations by policy area (2021)
Source: European Commission annual activity reports.

Financial impact of reservations

In cases where the residual error rate is above the materiality threshold, the financial impact resulting from a reservation is obtained by multiplying the relevant programme or segment's expenditure by the residual error rate. The total financial impact from all reservations was EUR 987 million for 2021, i.e. 19% lower than 2020 when the figure was EUR 1 219 million. This decrease is mainly attributed to the lower level of the error rate in expenditure for agriculture.

The composition and evolution of the financial impact over the years is presented in the chart and the table below.



Financial impact of quantified reservations for the years 2017 until 2021 (in million EUR)

Source: European Commission annual activity reports.

Policy area	Total payments in 2021	Financial impact of the reservations	
		in 2021	in 2020
Single market, innovation and digital	19 191	15	2
Cohesion, resilience and values	80 603	423	341
Natural resources and environment	56 577	539	849
Migration and border management	2 881	10	6
Security and defence	203	0	0
Neighbourhood and the world	14 034	0	21
European public administration	7 004	0	0
Total	**180 494**	**987**	**1 219**
2014-2020 programmes		987	1 219
2007-2013 programmes		0	0
Policy area	**Total own resources in 2021**	**Financial impact of the reservations**	**Financial impact of the reservations**
Own resources	165 817	—	—

Table C: Financial impact of quantified reservations 2021 by heading (in million EUR)
Source: European Commission annual activity reports.

The tables below present the detailed situation concerning the reservations for 2021.

- Table D presents the 16 reservations for 2021 affecting revenue and expenditure. For expenditure, they are divided according to the 2014-2020 and 2007-2013 programme periods.
- Table E presents all the reservations from 2020 that were lifted because the underlying issues were solved.
- Table F presents all the cases where the *de minimis* rule applied: reservations from 2020 that were lifted or new reservations not issued in 2021 based on this rule.

Full list of reservations

	Policy areas	Description of reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
2014-2020 programmes	**Single market, innovation and digital**	Connecting Europe Facility – energy sector grants	European Climate, Infrastructure and Environment Executive Agency	*Reservation issued in 2021* Quantified	**12.61**
		Connecting Europe Facility Telecom sector – digital service infrastructure	European Health and Digital Executive Agency	*Reservation issued in 2021* Quantified	**2.38**
	Cohesion, resilience and values	European Regional Development Fund / Cohesion Fund / European Neighbourhood Instrument (38 programmes in 11 Member States and the United Kingdom, 5 European territorial cooperation programmes and 3 European Neighbourhood Instrument cross-border cooperation programmes)	DG Regional and Urban Policy	Quantified	**342.92**
		European Social Fund, Youth Employment Initiative and Fund for European Aid to the Most Deprived (21 European Social Fund / Youth Employment Initiative programmes and 1 Fund for European Aid to the Most Deprived programme in 10 Member States and the United Kingdom)	DG Employment, Social Affairs and Inclusion	Quantified	**79.65**
	Natural resources and environment	European Agricultural Guarantee Fund market measures (8 reservations for 4 aid schemes in 6 Member States)	DG Agriculture and Rural Development	Quantified	**36.38**
		European Agricultural Guarantee Fund direct payments (14 paying agencies in 7 Member States)	DG Agriculture and Rural Development	Quantified	**170.44**

	Policy areas	Description of reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
		European Agricultural Fund for Rural Development expenditure for rural development measures (26 paying agencies in 17 Member States)	DG Agriculture and Rural Development	Quantified	**331.06**
		European Maritime and Fisheries Fund (control system weakness in 1 Member State)	DG Maritime Affairs and Fisheries	*Reservation issued in 2021* Quantified	**0.99**
		EU emissions trading system registry – security weakness	DG Climate Action	Non-quantified	**—**
	Migration and border management	Non-research grant programmes – EU action and emergency assistance	DG Migration and Home Affairs	Quantified	**9.83**
		Management and control systems for the Asylum, Migration and Integration Fund (in 3 Member States) and the Internal Security Fund (in 5 Member States and Iceland)	DG Migration and Home Affairs	Non-quantified Quantified (1 Member state)	**—** **0.43**
		Decentralised agencies – European Border and Coast Guard Agency	DG Migration and Home Affairs	Non-quantified	**—**
	Neighbourhood and the world	Projects in Libya and Syria for which assurance building is limited (e.g. no direct on-site access to projects)	DG Neighbourhood and Enlargement Negotiations	Non-quantified	**—**
Total for 2014-2020 programmes		**13 reservations**	**9 departments**		**986.69**
2013-2017 Programmes	**Cohesion, resilience and values**	European Regional Development Fund / Cohesion Fund / Instrument for Pre-accession Assistance (7 programmes in 3 Member States, plus 1 Instrument for Pre-Accession Assistance / cross-border cooperation programme)	DG Regional and Urban Policy	Non-quantified	**—**
		European Social Fund (2 programmes in 2 Member States)	DG Employment, Social Affairs and Inclusion	Non-quantified	**—**
Total for 2007-2013 programmes		**2 reservations**	**2 departments**		**-**

	Policy areas	Description of reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
Revenue	**European public administration**	Inaccuracy of the traditional own resources amounts transferred to the EU budget	DG Budget	Non-quantified	—
Total for 2021		**16 reservations**	**10 departments**		**986.69**

Table D: 2021 list of reservations (in million EUR)
Source: Commission annual activity reports.

Policy area	Description of reservation	Department	Financial impact 2020	Financial impact 2021	Assessment result
Cohesion, resilience and values	Non-research grant programmes	DG Justice and Consumers	1.9	1.2	**Lifted (mitigated)**
Natural resources and environment	2014-2020 European Maritime and Fisheries Fund (1 Member State)	DG Maritime Affairs and Fisheries	Non-quantified	Non-quantified	**Lifted (mitigated)**
Migration and border management	2007-2013 General programme ‘solidarity and management of migration flows’	DG Migration and Home Affairs	Non-quantified	Non-quantified	**Lifted (mitigated)**
Neighbourhood and the world	Direct management grants	DG Neighbourhood and Enlargement Negotiations	20.8	2.9	**Lifted (mitigated)**
Total for 2021	**4 reservations**	**4 departments**	**22.7**	**4.1**	

Table E: 2020 reservation lifted during 2021 because the underlying issues had been resolved (in million EUR)
Source: Commission annual activity reports.

Policy area	Description of reservation	Department	Impact on legality and regularity	Financial impact (million EUR)
Single market, innovation and digital	Programme for the competitiveness of enterprises and small and medium-sized enterprises	European Innovation Council and SMEs Executive Agency	*Lifted from 2020* Quantified	**0.4**
	Connecting Europe Facility Telecom sector – digital service infrastructure	European Climate, Infrastructure and Environment Executive Agency	Quantified	**0.13**
	Seventh framework programme	DG Communications Networks, Content and Technology	Quantified	**0.17**
	Pilot project and preparatory actions	DG Communications Networks, Content and Technology	Quantified	**0.38**
	Seventh framework programme	DG Energy	Quantified	**1.33**
	Seventh framework programme	European Health and Digital Executive Agency	Quantified	**0.06**
	Single European Sky ATM research deployment manager	DG Mobility and Transport	Quantified	**0.00**
	Seventh framework programme	European Research Executive Agency	Quantified	**0.17**
	Research Fund for Coal and Steel	European Research Executive Agency	Quantified	**1.15**
	Seventh framework programme	DG Research and Innovation	Quantified	**0.66**
	Research Fund for Coal and Steel	DG Research and Innovation	Quantified	**0.13**
Cohesion, resilience and values	Technical support funds	DG Structural Reform Support	*Lifted from 2020* Quantified	**0.14**
	Lifelong learning programme 2007-2013	European Education and Culture Executive Agency	Quantified	**0.00**
	Tempus 2007-2013	European Education and Culture Executive Agency	Quantified	**0.01**
	Youth in action 2007-2013	European Education and Culture Executive Agency	Quantified	**0.00**
Migration and border management	Seventh framework programme	DG Migration and Home Affairs	Quantified	**0.00**
Total for 2021	**16**	**11 departments**		**4.73**

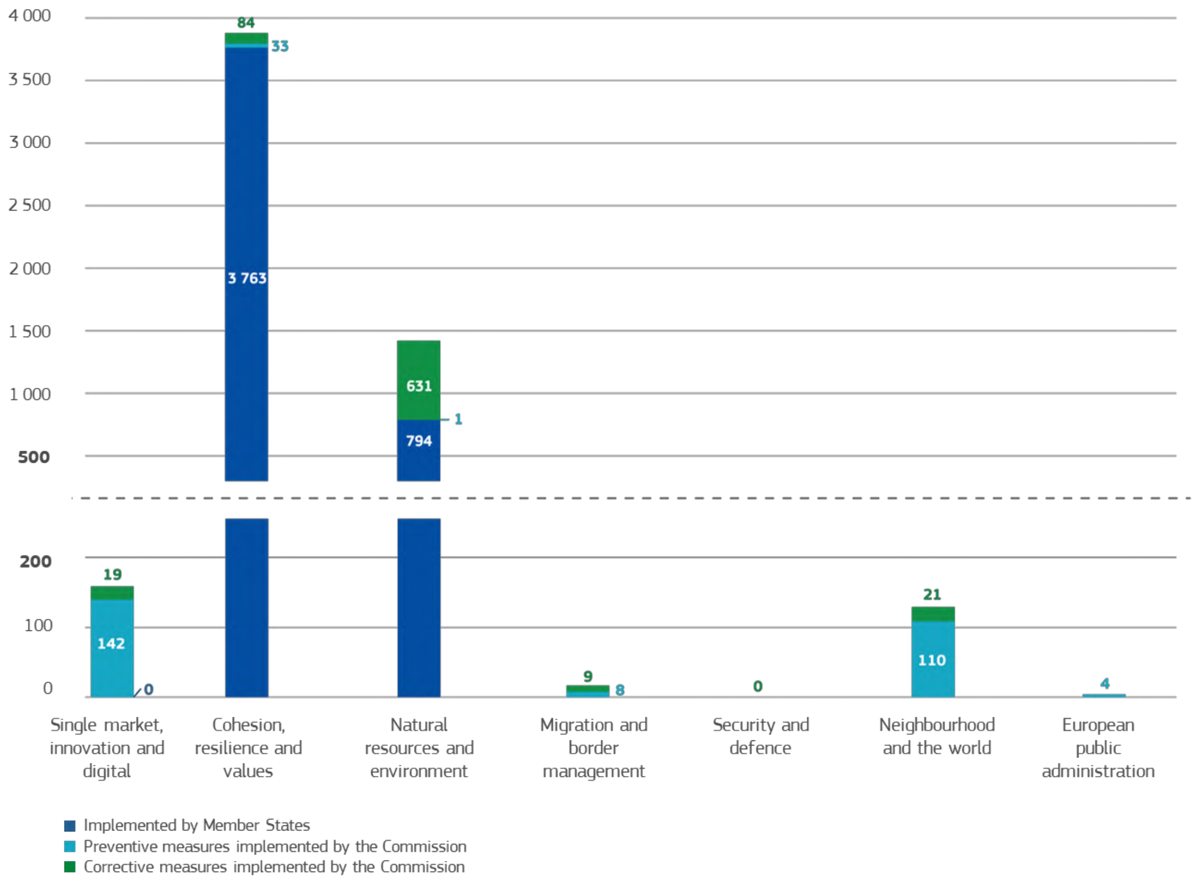
Table F: Application of the *de minimis* rule: reservations not issued or lifted during 2021
Source: Commission annual activity reports.

5.4. Preventive and corrective measures applied in 2021

This subsection outlines the preventive and corrective measures actually applied in 2021, which mainly relate to expenditure from previous years. This covers the results of both the Commission's supervisory tasks and the Member States' controls.

Indeed, under shared management, the Member States are primarily responsible for identifying any amounts unduly paid and recovering them from beneficiaries. Controls carried out by Member States represent the first layer of control in the activities to protect the EU budget. In most cases, these controls lead to corrections implemented by the Member States before they submit their payment claims or annual accounts to the Commission and, as such, are a key element of the preventive mechanisms. The Commission can apply preventive measures and/or financial corrections due to irregularities or serious deficiencies identified by Member State authorities, its own verifications and audits, investigations by the European Anti-Fraud Office and audits by the European Court of Auditors.

The chart below provides an overview by heading, and the table on the next page provides a complete picture. These amounts correspond to all of the preventive and corrective measures implemented [19] in 2021 by the Commission and the Member States to protect the EU budget, irrespective of the year in which the initial expenditure was made.



Types of preventive and corrective measures implemented in 2021 by multiannual financial framework heading (in million EUR)
Source: European Commission

(19) A financial correction is implemented when: (1) it is recorded in the Commission's accounts; (2) it is deducted from the amounts declared by the Member State in an interim or final payment claim; (3) the commitment appropriations corresponding to the financial correction amount have been cancelled.

Multiannual financial framework heading	Relevant expenditure	*Implemented by Member States (*)*	Implemented by Commission			Total Commission and Member States	*% of relevant expenditure (***)*
			Preventive measures	Corrections	Total		
	(a)	*(b)*	*(c)*	*(d)*	*(e) = (c) + (d)*	*(g) = (b) + (e)*	*(h) = (g) / (a)*
1. Single market, innovation and digital	17 327	*0*	142	19	162	**162**	*0.9%*
2. Cohesion, resilience and values	75 779	3 763	33	84	118	**3 881**	*5.1%*
3. Natural resources and environment (**)	56 545	794	1	631	632	**1 425**	*2.5%*
4. Migration and border management	2 511	0	8	9	17	**17**	*0.7%*
5. Security and defence	14	0	0	0	0	**0**	*0.0%*
6. Neighbourhood and the world	12 683	0	110	21	131	**131**	*1.0%*
7. European public administration	7 000	0	4	0	4	**4**	*0.1%*
Total	**171 860**	**4 557**	**298**	**765**	**1 063**	**5 620**	***3.3%***

Overview of the preventive and corrective measures implemented by the Commission and by the Member States in 2021 (million EUR)

(*) Details for each Member State are provided in the annual activity reports of DG Employment, Social Affairs and Inclusion, DG Agriculture and Rural Development, DG Maritime Affairs and Fisheries and DG Regional and urban policy.
All corrections (withdrawals, recoveries and deductions) implemented by the Member States in the accounting year, regardless of the body that detected the error (Member States, Commission, Court of Auditors).

(**) Under this heading, the corrections implemented by the Commission for the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development amount to EUR 629 million, including EUR 438 million in net financial corrections imposed by the Commission on Member States and EUR 191 million imposed by Member States on final beneficiaries after payment and reimbursed directly to the EU budget.

(***) These percentages are not fully comparable with the estimated future corrections as they include both preventive and corrective measures, whereas estimated future corrections include only the corrective measures to be taken after the payment has been made.

NB: Due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

Source: European Commission and the annual activity reports of the directorates-general.

The preventive and corrective measures **implemented by the Commission in 2021** amounted to **EUR 1 063 million**, **EUR 298 million** of which represented preventive measures, while the corrective measures implemented added up to **EUR 765 million**.

In addition, the preventive and corrective measures **implemented by the Member States** amounted to **EUR 4 557 million** in 2021.

The total amount of **EUR 5 620 million**, which represents 3.3% of the relevant expenditure for 2021, mainly relates to past payments, and includes both preventive and corrective measures. This amount is not comparable to the estimated future corrections (in the range of 0,8% to 1.1%), which only include corrective measures.

Natural resources and environment

Under this heading, the preventive and corrective measures implemented by the Member States in 2021 amounted to **EUR 794 million.** This includes **EUR 772 million** for **agriculture and rural development**, corresponding to exhaustive *ex ante* administrative and on-site controls performed by the Member States before the payment to beneficiaries (EUR 528 million) and to controls performed by the Member States after the payment for 2014-2020 rural development programmes (EUR 244 million).

The corrective measures implemented by the Commission amounted to **EUR 632 million**, including **EUR 629 million for agriculture and rural development**. The latter consists of EUR 438 million in net financial corrections imposed by the Commission on Member States and EUR 191 million in corrections imposed on final beneficiaries by the Member States after payment and reimbursed to the EU budget. Net corrections leading to a reimbursement to the EU budget are characteristic of the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. In 2021, these net financial corrections related notably to specific deficiencies in the Integrated Administration and Control System, deficiencies in the reasonableness of cost for a cost-based system and deficiencies in the administrative controls to establish eligibility of the aid and in the performance of on-the-spot controls of sufficient quality.

Cohesion, resilience and values

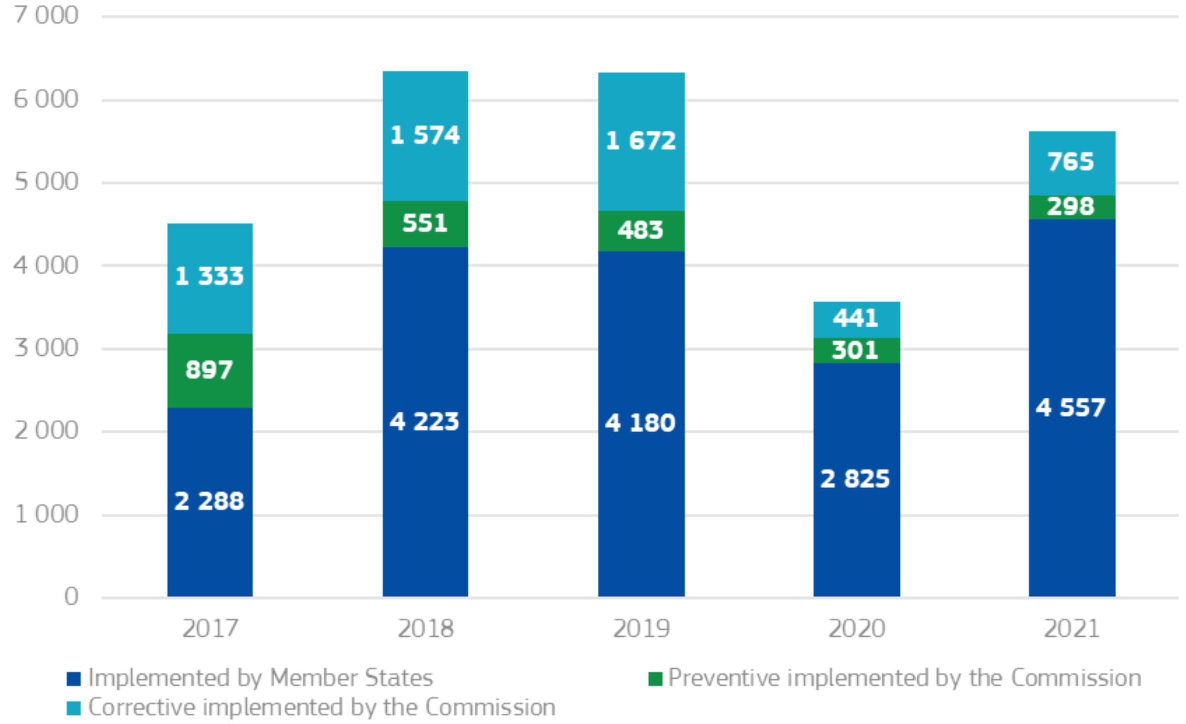
Under this heading, preventive and corrective measures implemented by the Member States in 2021 amount to **EUR 3 763 million**, corresponding entirely to **cohesion policy funds**. This amount is deducted by the Member States either from the interim payment applications or directly from the annual programme accounts. It entails all corrections implemented by the Member States regardless of the body that detected the error (Member State, Commission or Court of Auditors). About 25% of this amount corresponds to corrections resulting from the work of the audit authorities; around 60% corresponds to prudent, temporary withdrawals by programme authorities to allow for further verifications on the legality and regularity of the concerned expenditure; and 15% is the result of the work of the managing authorities, the Commission and the Court of Auditors. For 2021, the amounts that the Commission decided to ask for correction from the Member States as a result of its controls amounted to EUR 193 million. Member States may reuse the whole of the correction amounts implemented by them to co-finance other eligible projects.

The set-up of the **assurance model for the 2014-2020 programming period** reduces the risk of a material level of error appearing in the accounts submitted on a yearly basis by the Member States. This is corroborated by the significant decrease, over the years and in comparison with the 2007-2013 programming period, of the risk at payment determined at the Commission level, thus after the deductions and withdrawals made by the Member States. The legal framework provides for the increased accountability of the programme managing authorities, which have to perform sound management verifications in time for the submission of programme accounts each year. During the accounting year, the Commission retains 10% of each interim payment until the national control cycle is finalised. Member States have the opportunity to correct the declared expenditure during the accounting year or at the moment of the submission of the programme accounts by withdrawing the irregular expenditure and replacing it with new, regular expenditure.

It is in the Member States' best interests to ensure the timely identification of deficiencies in the functioning of the management and control system and the reporting of reliable error rates, since the Commission will make net financial corrections if Member States have not appropriately addressed serious deficiencies before submitting their annual accounts to the Commission. The co-legislators, however, have set restrictive conditions for the application of such net financial corrections, which in practice limits their application. The regulation for the 2021-2027 programming period should simplify the implementation of net financial corrections for irregular expenditure not detected and reported by the Member States.

Multiannual overview

Multiannual figures provide more useful information on the significance of the protective mechanisms implemented because they take into account the multiannual character of most EU spending and neutralise the impact of one-off events.



Preventive and corrective measures implemented, years from 2017 to 2021 (in million EUR)
Source: 2017-2021 annual activity reports and annual management and performance reports.

For 2017-2021, the preventive and corrective measures amounted to EUR 26 billion, an annual average of EUR 5.3 billion.

During the 2017-2021 period, large numbers of financial corrections were implemented by the Member States for cohesion, resilience and values and for natural resources and environment. This is consistent with the high level of expenditure during these years, particularly for cohesion, where the implementation of the programmes and the corresponding payments reached full cruising speed. The lower amounts in 2017 and 2020 correspond to lower expenditure declared in the corresponding accounting years.

There was a significant decrease in the number of financial corrections implemented by the Commission in 2020 and 2021. There are two main reasons for this. First, the closure between 2017 and 2019 of the majority of the programmes under the cohesion heading for the 2007-2013 programming period. For that period, most corrections took place at the closure of the programmes and were already applied by the Commission. For the 2014-2020 programming period, whereas no net financial corrections have yet been applied by the Commission itself, Member States directly implement financial corrections resulting from Commission controls according to their corrective responsibilities under shared management. This is also the case for rural development, where Member States are, to an increasing extent, directly implementing corrections that result from controls performed after payment. Second, the corrections implemented by the Commission in 2020 and 2021 for agriculture are affected by one-off reimbursements following judgments by the Court of Justice of the EU.

Net financial corrections implemented by the Commission in 2021

The following table presents the types of net financial corrections applied by the Commission as corrective measures in shared management in 2021.

Multiannual financial framework heading / fund	Net financial corrections		
	Recovery Order (a)	Decommitment (b)	Total net financial corrections (c)=(a)+(b)
2. Cohesion, resilience and values	57	19	76
European Regional Development Fund and Cohesion Fund	56	17	72
European Social Fund / Youth Employment Initiative and Fund for European Aid to the Most Deprived	1	3	4
3. Natural resources and environment (*)	438	1	439
European Agricultural Guarantee Fund	358	0	358
European Agricultural Fund for Rural Development	80	0	80
European Maritime and Fisheries Fund / European Fisheries Fund / Financial Instrument for Fisheries Guidance	0	1	1
4. Migration and border management	8	0	8
Solidarity mechanisms within and outside the EU (special instruments)	1	0	1
Total	**503**	**20**	**523**

2021 net financial corrections implemented by the Commission (corrective measures in shared management) (in million EUR)
NB: Due to the rounding of figures to the nearest million EUR, some financial data in the table above may appear not to add up.

(*) For the purposes of calculating its corrective capacity in the annual activity report, DG Agriculture and Rural Development only takes into account the amounts that relate to conformity clearance decisions adopted by the Commission and published in the *Official Journal of the European Union*, and deducts the corrections in respect of cross-compliance infringements.

Annex 6 – Assurance provided by the Internal Audit Service

Annex 6 – Assurance provided by the Internal Audit Service

The work of the Internal Audit Service, its principal findings and recommendations and the information from the Audit Progress Committee contribute to the overall assurance-building process at Commission level. The Audit Progress Committee supports the Commission by ensuring the independence of the internal auditor and that audit recommendations are properly taken into account and appropriately followed up.

For the 2021 reporting year, the Internal Audit Service produced an annual internal audit report, in line with Article 118(4) of the financial regulation, which: (1) summarised the performance audits completed in 2021; (2) presented the overall opinion on financial management for the year 2021; (3) recalled the contribution of the Internal Audit Service to the annual activity reporting of the Commission's directorates-general and the executive agencies; and (4) reported on progress in implementing its audit recommendations.

Financial management: internal auditor's overall opinion

As required by its mission charter, the Commission's Internal Audit Service issued an overall opinion, which is based on the audit work it had carried out in the area of financial management in the Commission concerning the previous 3 years (2019-2021) and takes into account information from other sources, namely the reports from the European Court of Auditors.

Based on this audit information, the internal auditor considered that, in 2021, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives. However, the overall opinion is qualified with regard to the reservations the authorising officers by delegation made in their declarations of assurance and issued in their respective annual activity reports. In arriving at the overall opinion, the internal auditor also considered the combined impact of all amounts estimated to be at risk at payment as calculated by the authorising officers by delegation, as these go beyond the amounts put under reservation. The overall amounts at risk at payment are the best estimation by the authorising officers by delegation of the amount of the expenditure authorised that was not in conformity with the applicable contractual and regulatory provisions at the time of the payment in 2021. In their annual activity reports, the directorates-general/services estimate amounts at risk at payment to total between approximately EUR 2 785 million and EUR 3 249 million approximately. This corresponds to between 1.6% and 1.9% of total relevant expenditure ([20]) from the Commission budget, EDF and EUTFs in 2021 and therefore below the materiality of 2% as defined in the instructions for the preparation of the 2021 AARs.

These amounts at risk at payment in 2021 do not yet include any financial corrections and recoveries related to deficiencies and errors the Directorates-General/services will detect and correct in the future

([20]) Expenditure means the total amount of payments made in 2021 minus the total amount of new pre-financing paid in 2021 plus the total amount of old pre-financing cleared in 2021 as reported by the Commission services in their 2021 AARs.

due to the multi-annual corrective mechanisms built into the Commission's internal control systems ([21]).

Given these elements, the internal auditor considers that the EU budget is therefore adequately protected in total and over time.

Without further qualifying the opinion, the internal auditor raised the following three ‘emphases of matter’, highlighting issues that require particular attention.

1. Implementation of the EU budget in the context of the current crisis related to the COVID-19 pandemic

The health, social, economic and financial situation created by the COVID-19 pandemic entails potentially high, cross-cutting risks for the institution as regards the implementation of the EU budget and the delivery of its policy priorities.

This includes the operations which are part of the 2014-2020 multiannual financial framework, for which adequate controls (ex post in particular) still need to be performed, and operations under the 2021-2027 multiannual financial framework and the recovery package under Next Generation EU, on assurance, compliance and performance aspects.

To ensure the budget is duly protected over time in the face of the existing unprecedented challenges, the Internal Audit Service stresses that the Commission’s Directorates-General and services should continue to (i) duly assess the risks caused by the COVID-19 pandemic related to financial management in terms of assurance, performance, compliance with the legal framework, and the potential impact on the effectiveness of the Commission’s ability to implement corrective actions due to possible logistical constraints to undertake controls on the spot and the very challenging economic situation faced at EU and national levels (including the possible bankruptcies of final beneficiaries, which could make it difficult to recover undue amounts); and (ii) define and implement adequate mitigating measures, such as adjusting or redefining their control strategies.

Furthermore, the Commission’s Directorates-General should continue to design and implement appropriate financial management, audit and control strategies for operations to support the recovery under NextGenerationEU, in particular as concerns the Recovery and Resilience Facility. Due to the implementation of a new performance-based approach, certain elements of the design of the control strategy covering legality and regularity are still to be further elaborated in 2022, namely the procedures for suspension of payments and reduction of support in cases where milestones and targets for a particular payment request have not been met partially or fully. In addition, the control design has to be completed as concerns the residual responsibility of the Commission in relation to other elements of compliance (i.e. protection of the financial interests of the Union in the case of fraud, corruption, and conflicts of interest or a serious breach of an obligation resulting from the Loan or Financing Agreement).

([21]) In view of the importance of the multi-annual corrective mechanism leading to the amounts at risk at closure, the IAS is carrying out in 2022 a limited review on the reporting of the Commission’s preventive and corrective measures (corrective capacity) in six DGs covering the four policy areas with the highest amounts for these measures.

2. Supervision strategies regarding third parties implementing policies and programmes.

Although the Commission remains fully responsible for ensuring the legality and regularity of expenditure and sound financial management (and also for the achievement of policy objectives), it has increasingly relied on third parties to implement its programmes. This is mostly done by delegating the implementation of the EU's operational budget or certain tasks to countries outside the EU, international organisations or international financial institutions, national authorities and national 3 agencies in Member States, joint undertakings, non-EU bodies and EU decentralised agencies. Moreover, in certain policy areas, alternative funding mechanisms such as financial instruments are increasingly used and entail specific challenges and risks for the Commission, as also highlighted by the European Court of Auditors.

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

Although actions have been taken in recent years both at the level of the central services and at that of the relevant Directorates-General to mitigate the risks identified as a result of audit work, further improvements are still needed in some areas and in particular as regards pillar assessment in indirect management. This is relevant not only in relation with the closure of activities delegated under the 2014-2020 multiannual financial framework, but more so in view of the increase in the use of equity, guarantee and risk-sharing instruments in the 2021-2027 multiannual financial framework.

3. Reporting on the corrective capacity of the multiannual control systems

The Commission has put in place, together with the Member States (when applicable), multiannual control systems to ensure the sound financial management of EU funds. These systems encompass preventive measures (i.e. controls aiming at preventing errors before payments are made) as well as corrective measures (i.e. controls carried out after the payments and until the closure of the programmes, when applicable). These measures constitute the Commission's overall corrective capacity (including measures implemented by the Member States).

Considering the multiannual nature of the Commission's control system, the control results are reported at two moments of the programmes' cycle through the estimated 'risk at payment' ([22]) (i.e. after preventive measures) and 'risk at closure' (i.e. after preventive and corrective measures). The 'risk at closure' ([23]) is calculated by subtracting the 'estimated future corrections' ([24]) from the estimated 'risk at payment'.

([22]) The 'risk at payment' quantifies any errors that remain after preventive measures and payments have been made but before corrective measures have been applied.

([23]) The 'risk at closure' is the risk estimated when controls are completed and legally no further action can be taken.

([24]) The 'estimated future corrections' (or 'estimated corrective measures') is the amount of expenditure in breach of applicable regulatory and contractual provisions, that the DG conservatively estimates it will identify and correct through controls that will be implemented after the payment is authorised (i.e. not only including those already implemented at the time of reporting (i.e. AAR) but also those that will be implemented during the next years until the end of the programme).

Overall, the Internal Audit Service notes some improvements made in the Directorates-General's 2021 annual activity reports and the (draft) *Annual Management and Performance Report for the EU Budget* regarding the information on preventive and corrective measures applied by the Commission and Member States ([25]). However, considering the increasing importance of corrections implemented by Member States as an integral part of the control architecture in shared management, the information provided about the corrective capacity still needs to be further improved (in terms of its clarity and the split of the relevant data) to adequately substantiate the Commission's overall corrective capacity (including corrections requested by the Commission and accepted by Member States), the 'estimated future corrections' and the resulting 'risk at closure'. In particular, (a) additional data is needed on the split between preventive and corrective measures implemented by the Member States and (b) the relationship between the 'estimated future corrections' and the 'corrections implemented' has to be clearly explained and supported by relevant data, firstly at Directorates-General level in the annual activity reports and secondly at Commission level in the *Annual Management and Performance Report for the EU Budget* ([26]).

These key improvements are particularly important in the area of Cohesion as most of the corrections are implemented by Member States. The Internal Audit Service notes the commitment of the Cohesion DGs to improve the data in this regard ([27]). The Internal Audit Service will monitor the developments regarding the impact of the COVID-19 crisis, the reliance on third parties for the execution of programmes, and the corrective capacity of the multiannual systems, on the closure of the 2014-2020 and the implementation of the 2021- 2027 multiannual financial frameworks (together with the recovery package under NextGenerationEU), the political priorities and the Commission's financial management. This will be done as part of the Internal Audit Service's updates of the periodic (strategic) risk assessments and resulting audit plans.

Performance: results of audits by the Internal Audit Service

With a view to contributing to the Commission's performance-based culture and greater focus on value for money, the Internal Audit Service carried out performance audits and audits that included important performance elements (comprehensive audits) in 2021 as part of its 2021-2023 strategic audit plan.

The Internal Audit Service made recommendations to help improve the overall performance of several key processes in the following areas.

Preparedness for the implementation of the 2021-2027 Multi-annual Financial Framework. The 2021-2027 Multi-annual Financial Framework and the recovery package under Next Generation EU should be implemented in accordance with the Financial Regulation and be complementary as regards the funding opportunities and results to be achieved. A number of audits in 2021 focused on the risks related to the design of the overall package, the Commission's enhanced role in some areas and its new areas of responsibility. The results of these audits indicate that significant improvements

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([25]) E.g. new table (in the Annual Management and Performance Report for the EU Budget – Annex 5.4) with the total measures applied in 2021 by Commission (preventive and corrective) and by Member States; and new information (in the individual AARs of DG REGIO and DG EMPL- Annexes 7H) on financial corrections accepted by the Member States as a result of the DGs (and ECA) audit activity.

([26]) Based on the draft Annual Management and Performance Report for the EU Budget, while the 'estimated future corrections' are calculated at a range between 0.8% and 1.1% of the relevant expenditure for 2021, no comparable data exist for the 'corrections implemented' as the latter (which represents 3.3% of the relevant expenditure for 2021), includes both preventive and corrective measures while the former includes only corrective measures.

([27]) E.g. extract from annual activity report of REGIO (Annex 7H): 'In particular, financial corrections requested by REGIO in 2021 through its audit activity and accepted by Member States comprise…This represents REGIO's corrective capacity due to the Commission's and the audit work of the Court of Auditors. REGIO is currently collecting the required data to be able, in future annual activity reports, to report this information on a multiannual basis per Member State since the beginning of the programming period'. A similar statement is included in the annual activity report of DG EMPL.

are necessary in this domain going forward, with a number of very important recommendations issued in 2021 addressed to the Directorates-General audited.

One audit assessed the preparation of the 2021-2027 programming period in the Directorates-General for Employment, Social affairs and Inclusion, Maritime Affairs and Fisheries, and Regional and Urban Policy. Although the Directorates-General had designed and implemented adequate processes to support the start of the 2021-2027 programming period, two weaknesses were noted on the support to Member States and the timing of the preparation and operational start of the programming period.

A second audit concerned the preparation for the 2021-2027 programming period of the Directorate-General for Migration and Home Affairs funds. The Internal Audit Service noted that the preparation for the 2021-2027 programming period is a process which was still ongoing at the date of the audit report. Although the Directorate-General for Migration and Home Affairs had designed and implemented adequate processes to support the start of the 2021-2027 programming period, there remained a number of weaknesses, notably on delays in work programmes of the thematic facility and progress monitoring in the programming of the 2021-2027 period and reporting to senior management.

For both audits, given the continuing nature of the preparations and the fact that the audits represented a snapshot at a particular point in time, the weaknesses identified may, if left unaddressed, have an impact on subsequent phases of the programming period.

A third audit assessed the European Anti-Fraud Office’s preparedness to implement the Regulation on the establishment of the European Public Prosecutor’s Office ([28]). The Internal Audit Service identified weaknesses in the planning and monitoring of the preparatory process, in the investigation and data protection guidelines and in information technology related aspects and issued three very important recommendations.

A fourth audit assessed the Directorate-General for Competition’s preparedness of the Competition programme. Although the Directorate-General had put in place a framework for the implementation of the Competition programme under the 2021-2027 Multi-annual Financial Framework, the audit identified a remaining weakness in defining and structuring some of the key elements of the Competition programme, which may in turn affect its effective implementation.

Finally, the audit on the preparedness for the new European Statistical Programme under the 2021-2027 programming period in Eurostat did not identify any significant performance issues.

Supervision strategies for the implementation of programmes by third parties. Authorising officers have to set up adequate and effective strategies and activities for supervising and monitoring the delegated entities' effective implementation of the programmes and protection of the EU budget, and for promptly addressing any identified potential difficulties.

In previous years, the Internal Audit Service performed several audits of the supervision arrangements in place in Directorates-General and services for the implementation of programmes (and/or policies) by third parties. It frequently identified weaknesses in the effectiveness of the supervision strategies. In its overall opinion on financial management, and as in previous years, the Internal Audit Service once again formulated an emphasis of matter in relation to the supervision strategies for third parties implementing policies. Based on the 2021 audit results, the Internal Audit Service conclusion is that in some policy areas the situation is improving.

In its 2021-2023 strategic audit plan, the Internal Audit Service aimed for an integrated risk-based approach, to perform, where appropriate, audits encompassing both Commission partner Directorates-General and decentralised agencies or other autonomous EU bodies.

([28]) Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor’s Office (‘the EPPO’)

In 2021, the first two multi-entity audits were finalised, focusing, at the level of the Commission Directorates-General, on the supervision arrangements in place between respectively the Directorate-General for Energy and Fusion for Energy (F4E), (the European joint undertaking managing Europe's contribution to ITER ([29])) and between the Directorate-General for Migration and Home Affairs and the European Border and Coast Guard Agency (Frontex). The results were satisfactory with no high residual risks or major weaknesses identified in the Commission Directorates-General audited.

Another audit was performed in the Directorates-General for Climate Action and Environment on their relations with the European Environment Agency and the European Chemicals Agency. The Directorates-General have both put in place adequate processes to support their relations with the decentralised agencies concerned. However, their effectiveness and efficiency was found to be impaired by a weakness was noted that relates to the oversight role of both the Directorates-General for Climate Action and Environment on the European Environment Agency's resources. Another weakness in the Directorate-General for Environment related to the supervision and coordination mechanisms with the European Environment Agency.

Internal control systems in selected Directorates-General: legality and regularity, compliance. An additional priority of the 2021 audit plan (based on the 2021-2023 strategic audit plan) was to provide reassurance to the College and the Directorates-General and services on the efficient and effective functioning of the internal control systems as regards financial management.

In the area of shared management, the Internal Audit Service finalised three audits. In the audit on interruptions, suspensions and financial corrections for the 2014-2020 European Structural and Investment Fund, the Internal Audit Service acknowledged that the Directorates-General for Employment, Social Affairs and Inclusion, for Maritime Affairs and Fisheries and for Regional and Urban Policy are operating under the constraints of a very challenging legal framework in the form of the Common Provisions Regulation. In particular, the conditions for the application of net financial corrections are stricter than the Commission's original proposals. Consequently, the audit findings need to be seen in this context. The Internal Audit Service concluded that there were a number of weaknesses that have an impact on the effective implementation of the Directorates-General's processes for interruptions, suspensions and financial corrections.

The land parcel identification system is a key control mechanism based on aerial or satellite photographs, which records all agricultural parcels in the Member States. The Internal Audit Service found that although adequate controls to support the management of the Member States' systems were in place, their effectiveness is affected by weaknesses. The monitoring and follow-up of the land parcel identification system quality assessment exercise needs to be improved.

The audit in the Directorate-General for Agriculture and Rural Development on support, monitoring and checks of the work of certification bodies did not result in any significant performance issues.

The Internal Audit Service also finalised various audits in direct management. In the audit on the implementation of audit results in Horizon 2020, the Internal Audit Service found that the audited Directorates-General and Executive Agencies have an adequate and effective internal control system for the implementation of audit results of the Common Audit Service. Nevertheless, weaknesses remain as regards the monitoring and reporting on the implementation of the ex post audit results ([30]).

The Internal Audit Service also examined the Commission's 'single electronic data interchange area' (SEDIA) initiative, a recent Commission initiative unique in its kind. The objective of SEDIA is to fully automate and integrate the process for handling information on procurement and grants. Since its

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([29]) International Thermonuclear Experimental Reactor
([30]) 'Audit results' refers to the Common Audit Service and European Court of Auditors audit results (including audit results extensions), as well as European Anti-Fraud Office's investigation results (under the form of financial recommendations).

launch in 2017, the initiative suffered from a lack of availability of adequate information technology tools. Although the Research Executive Agency delivers the services for which it is responsible under the SEDIA initiative in an effective manner, there are weaknesses affecting their efficiency and specific elements related to the compliance with personal data protection rules.

The Directorate-General for Structural Reform Support delivers a growing number of technical support projects to EU Member States, mainly through the Structural Reform Support Programme for the 2014-2020 programming period and the Technical Support Instrument for the 2021–2027 programming period. The Internal Audit Service found that while processes and controls were overall adequately designed, weaknesses exist as regards their effective implementation.

The establishment of statutory rights and calculation of individual entitlements are core services provided by the Office for the Administration and Payment of Individual Entitlements to current and former staff of the European Commission and other EU institutions and bodies. Despite an adequately designed control framework to ensure the correct establishment of rights and calculation of entitlements for staff, a very important weakness remains regarding the effectiveness and efficiency of its control strategy.

In several audits the Internal Audit Service did not identify any significant issues: (1) Horizon 2020 grant management in the European Research Council Executive Agency; (2) the Instrument for Pre Accession II grants in direct management in the Directorate-General for Neighbourhood and Enlargement Negotiations; and (3) the closure processes of previous programmes (implemented under different budget implementation modes) in the Directorate-General for Neighbourhood and Enlargement Negotiations.

EU law implementation. A key responsibility of Directorates-General is to support, monitor and enforce the implementation and application of the European Union (EU) law (‘acquis’).

Two audits assessed how the Directorates-General concerned: (1) proactively support and monitor Member States in the correct implementation and application of EU legislation before its entering into force and assess the transposition of EU directives; (2) monitor the ongoing application of EU law, including the handling of stakeholder complaints and management of own-initiative cases; and (3) manage the enforcement of potential breaches and weaknesses via dialogues with Member States and infringement procedures.

The Internal Audit Service acknowledged the particular resource challenges faced by the Directorate-General for Energy due to an increasing portfolio of responsibilities, particularly on the European Green Deal and new policy and legislative initiatives. The Internal Audit Service concluded that despite overall adequately designed internal controls for the support, monitoring and enforcement of EU energy law application, a weakness remains on the effectiveness and efficiency of the management supervision of the compliance assessment process.

At the level of the Directorate-General for Mobility and Transport, the internal control system in place ensures an effective support, monitoring and enforcement of the EU transport law application.

In addition, a third audit targeted the stakeholders’ complaints process in the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs. No significant performance issues were identified.

Information technology security. The Internal Audit Service completed two audits concerning information technology security: a central-level audit on the management and monitoring of compliance with the Commission’s information technology security framework and a local-level, multi-Directorate-General audit on information technology security in the human resources family.

The first audit revealed the magnitude of the task at hand for and the challenges faced by the Directorate-General for Informatics to get all other Directorates-General to report on their compliance with the very high number of information security controls, particularly when they are faced with many other priorities. Although the Directorate-General for Informatics had put in place the necessary corporate tools to support the effective implementation of information technology security requirements across the Commission, significant weaknesses remained in two areas: (1) in information technology security compliance management and reporting practices; and (2) in the compliance management process.

Due to the sensitive nature of the information processed by the services of the human resources family, it is essential to have highly secured information technology systems and adequate security controls. The audit yielded mixed results and showed that information technology security is at varying levels of maturity between services. For the Directorate-General for Human Resources and Security, a number of significant weaknesses led the Internal Audit Service to conclude that the information technology governance, management and control processes need to be further improved to effectively mitigate the risks identified. In the Office for Administration and Payment of Individual Entitlements and the European Personnel Selection Office, despite certain weaknesses, the situation was more positive overall. As regards the role played by the Directorate-General for Informatics as service provider to the human resource family, the audit found a number of significant weaknesses on how it interacts with those Directorates-General/services.

Performance-related issues in other processes. Two audits assessed performance aspects of other processes (external stakeholder management and crisis communication) with satisfactory results. The Internal Audit Service did not identify any significant weaknesses.

Contribution of the Internal Audit Service to the annual activity reporting of the authorising officers by delegation

The Internal Audit Service issued limited conclusions on the state of internal control to every directorate-general and service in February 2022. These limited conclusions contributed to the 2021 annual activity reports of the directorates-general and services concerned. They draw on the audit work carried out in the last 3 years and cover all open recommendations issued by the Internal Audit Service. The Internal Audit Service's conclusions on the state of internal control in the directorates-general are limited to the management and control systems that were audited in the past 3 years (2019-2021).

Follow-up of previous Internal Audit Service recommendations

The Internal Audit Service's follow-up work on its previous recommendations confirmed that, overall, these are being implemented satisfactorily by the Commission's directorates-general, services and executive agencies and the control systems in the audited departments are improving.

- Over the 2017-2021 period, 74% (i.e. 652 out of a total of 881) of the accepted recommendations made by the Internal Audit Service to the Commission departments were assessed by the auditees as implemented, while 26% (229 recommendations) were still in progress (stemming notably from recently completed audits for which the action plans are ongoing) at the cut-off date of 31 January 2022. Out of these 229 recommendations in progress, none is classified as critical and 72 are rated as very important. 65 of these are overdue and only seven (very important) are long overdue (i.e. still open more than 6 months after the original implementation date), representing 0.8% of the total number of accepted recommendations of the past 5 years.
- Once management reports that the recommendations have been completed, the Internal Audit Service conducts follow-up audits to assess the effectiveness of their implementation. The Internal Audit Service concluded that 94% of the recommendations followed up in 2017-2021 had been adequately and effectively implemented by the auditees.

Annex 7 – Summary of the work and conclusions of the Audit Progress Committee

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The Audit Progress Committee held four rounds of meetings ([31]) between June 2021 and May 2022. Due to the outbreak of the COVID-19 pandemic in 2020, videoconferencing was introduced in March 2020 for all preparatory group and committee meetings. This approach was continued until February 2022 to ensure the continuity of work in these challenging circumstances.

The Audit Progress Committee focused its work on the key objectives set out in its 2021 and 2022 work programmes. During this reporting period, the committee also considered a number of other issues.

In addition to its programmed activities, the committee continued to monitor the COVID-19 situation in connection with its areas of responsibility. It did so, for example, when considering the draft audit plan of the Internal Audit Service for 2022 and the indicative audit plan for 2023, together with the list of critical risks identified by management for 2022, in order to obtain further reassurance about the effective mitigation of risks related to COVID-19 response and recovery measures, as well as the adequate coverage of relevant high risks by internal audit work.

During the reporting period, the Audit Progress Committee also followed up on the European Court of Auditors' previous request to be more systematically involved in the work of the committee. The committee's preparatory group invited the Director of the Presidency of the European Court of Auditors to attend its meetings in June 2021 and February 2022, to discuss the Court of Auditors' multiannual strategy and annual work programmes for 2021 and 2022. In its conclusions, the committee underlined the importance of continuing these exchanges in order to maintain a complete and clear overview of planned external and internal audits as well as key developments in the Court of Auditors' approach to assurance and performance work at the Commission.

The majority of the committee's work between June 2021 and May 2022 related to the four main objectives of its annual work programme: (1) considering the audit planning of the internal auditor; (2) analysing the results of internal and external audit work to identify potentially significant risks, including in a thematic manner; (3) monitoring the follow-up to significant residual risks identified by audit work; and (4) ensuring the independence of the internal auditor and monitoring the quality of internal audit work.

The Audit Progress Committee is satisfied with the independence and quality of the internal audit work. This year, **the Audit Progress Committee welcomed the overall result of the external quality assessment** ([32]) **of the Internal Audit Service for the 2017-2021 period**. It showed that the Commission's internal audit function is in conformity with the international standards of internal auditing and the code of ethics of the Institute of Internal Auditors, and, from a maturity perspective, is overall an advanced/leading function. The committee noted that this is an important factor for assurance about the quality of the work of the Internal Audit Service, especially in view of its comprehensive reorganisation and the challenging conditions under which it performs its tasks.

([31]) The 103rd, 104th, 105th and 106th rounds of the Audit Progress Committee.

([32]) The standards of the Institute of Internal Auditors require an external quality assessment of the internal audit function to be performed once every 5 years. The external quality assessment for the 2017-2021 period was performed by EY.

The committee was also satisfied that the internal auditor's planning adequately covers the audit universe and continues to cover the key risk areas. When considering the Internal Audit Service's audit plan for 2022 and indicative plan for 2023, the committee welcomed the fact that they take due account of the high risks that were identified in key areas for the Commission, such as performance, legality and regularity, data protection and COVID-19 response and recovery measures.

It also took note of the important reassurance provided by the Internal Auditor that the audit plan will provide sufficient coverage for delivering the overall opinion on the Commission's financial management as well as the limited conclusions on internal control, notwithstanding the resourcing and other challenges which the Internal Audit Services faces in an ever-more complex audit environment. The committee also welcomed the convergence between the critical risks identified by management and the high risks identified by the Internal Audit Service, which continues to illustrate the robustness of the institution's approach.

The committee took note of the draft annual internal audit report for 2021 and the draft overall opinion, which was positive and only qualified with regard to the reservations set out by the directors-general in their annual activity reports. It welcomed the reassurance provided by the internal auditor that the risks identified through the audit work were properly reported by the Commission services and, where appropriate, the subject of reservations. The committee took note of the three emphases of matter raised by the internal auditor, which do not qualify the overall opinion, but require the attention of the College and the authorising officers by delegation. These concerned: (i) the implementation of the EU budget in the context of the crisis related to the COVID-19 pandemic (third consecutive year), (ii) supervision strategies regarding third parties implementing policies and programmes (seventh consecutive year), and (iii) the clarity of reporting and split of relevant data regarding the corrective capacity of the multiannual control systems. The committee underlined the importance of the elements raised by the internal auditor under these three emphases of matter, two of which have been raised several times before, and called on the Commission's directorates-general and services to continue to pay due attention to these matters in view of ensuring the sound financial management of EU funds and the effective protection of the EU budget over time.

During the reporting period, the committee examined audit reports on an individual or thematic basis according to the seriousness or significance of the findings. It examined nine final audit reports from the Internal Audit Service in the presence of the auditees. The committee held **a planned thematic discussion on information technology security**, which was especially relevant and timely in the context of the war in Ukraine and the expected increase in the number and seriousness of cyberattacks.

During the previous reporting period, the Internal Audit Service had raised a total of three critical ([33]) audit findings in audits concerning data protection (one finding) and the pillar assessment process in services operating in the field of external action (two findings). Throughout this reporting period, the committee received regular feedback from the Internal Audit Service and other central services on the implementation of the corresponding recommendations, which overall progressed according to plan.

During the reporting period, the committee monitored the effective implementation of internal audit recommendations by reviewing and discussing the quarterly reports on long-overdue recommendations. All very important recommendations issued by the Internal Audit Service in 2021 were accepted, and management established satisfactory action plans to address the risks identified by the Internal Audit Service. Overall, **the situation on the implementation of the recommendations was very satisfactory**.

([33]) Critical recommendations from the Internal Audit Service relate to the highest level of risk for the institution, and are relatively rare. When they occur, they are discussed by the Audit Progress Committee in the presence of the audited service(s) and the Internal Audit Service.

The rate of the internal auditor's recommendations issued between 2017 and 2021 that were found to have been effectively implemented in an Internal Audit Service follow-up audit, was 94%. Overall, the number of very important audit recommendations that are more than 6 months overdue has fallen considerably over recent years, as shown in the chart below.

Number of critical and very important Internal Audit Service recommendations overdue by more than 6 months.

During the reporting period, the Audit Progress Committee also continued to scrutinise the state of play of the implementation of the Court of Auditors' recommendations, which remained stable and satisfactory, along with the Commission's follow-up to the Court's 14th consecutive unqualified opinion on the reliability of the consolidated EU accounts.

Despite the continuing challenge of the COVID-19 pandemic, the work done during the 2021 reporting year demonstrates that **the committee remains an effective actor in the Commission's governance structures**. It continues to play an important role in enhancing governance, organisational performance and accountability across the entire organisation.

Annex 8 – Compliance with payment time limits

Annex 8 – Compliance with payment time limits

The **statutory time limits** for payments are laid down in the main body of the financial regulation ([34]). There are also some time limits applied in exceptional cases, which are detailed in sector-specific regulations.

Article 116 of the financial regulation provides that payments to creditors must be made within deadlines of 30, 60 or 90 days, depending on how demanding and complex it is to test the deliverables against the contractual obligations. Most of the payments have to be executed within 30 days; this represented a global average of 85% in volume in 2018, 2019, 2020 and 2021. For contracts and grant agreements for which payment depends on the approval of a report or a certificate, the time limit for the purposes of the payment periods is no longer automatically suspended until the report or certificate in question has been approved.

The period of 2 months remains valid for payments under Article 93 of the regulation on the general provisions of the European Regional Development Fund, the European Social Fund and the Cohesion Fund ([35]).

Compliance with payment time limits has been reported by the services in their annual activity reports since 2007. In accordance with the applicable rules, the payment times reported in this annex have been calculated based on the data available in the ABAC corporate accounting system, as follows.

- For payments relating to contracts and grant agreements signed before 2013, the time limits specified in the 2007 financial regulation are applied:
  - where the payment is contingent upon the approval of a report, the time from approval of the report until payment;
  - where no report is required, the time from reception of the payment request until payment.
- For payments relating to contracts and grant agreements signed from 2013 onwards, the 2018 financial regulation is applied:
  - both where no report is required and where the payment is contingent upon the approval of a report, the time from reception of the payment request until payment.

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

([34]) Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union (OJ L 193, 30.7.2018, p. 1).

([35]) Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

All time limits combined	2018	2019	2020	2021
Global average net payment time	18.4 days	16.3 days	15.8 days	**16.6 days**
Global average gross payment time	21.5 days	19.1 days	19.9 days	**21.1 days**

The data show that the global average net payment time of the Commission services, i.e. excluding the period of suspensions, has been below 30 days for 4 years for all time limits combined. Services are encouraged to continue their efforts in this regard and to implement follow-up measures whenever payment-time problems are identified. Taking into account the period of suspensions, the global average gross payment time is also provided in the table above.

The table below illustrates the evolution of **late payments**, i.e. payments made after the expiry of the statutory time limit in recent years for all payments combined. All the data used have been extracted from the corporate accounting system.

All time limits combined	2018	2019	2020	2021
Late payments in number	7.6%	5.0%	3.2%	**2.4%**
Late payments in value	3.3%	2.2%	0.9%	**1.8%**
Average number of overdue days ([36])	**45.5 days**	**42.4 days**	**29.9 days**	**22.7 days**

The number of late payments and the amounts associated with them have decreased significantly since 2018. This result is believed to be linked to the more stringent requirements associated with the financial regulation, and regular monitoring. Another reason relates to the sufficient availability of payment appropriations.

Concerning the **interest paid for late payments** ([37]) (see figures in the table below), **the total amount paid by the Commission in 2021 decreased compared to 2020**.

	2018	2019	2020	2021
Interest paid for late payments	EUR 385 468	EUR 380 653	EUR 341 495	**EUR 235 456**

The **causes of late payments** include the complexities of evaluating the supporting documents that are a prerequisite for all payments. This is particularly onerous when the supporting documents are reports of a technical nature that sometimes have to be assessed by external experts. Other causes are associated with difficulties in coordinating the financial and operational checks of payment

([36]) I.e. above the statutory time limit.
([37]) I.e. no longer conditional upon the presentation of a request for payment (with the exception of amounts below EUR 200).

requests, issues with the management of payment suspensions and a temporary lack of payment appropriations.

- The 2009 communication establishing Commission internal payment targets ([38]) provided a clear incentive for services to reduce their payment times. There is scope for reducing payment times further. When setting up action plans in this area, services should focus on further reducing late payments from their current levels of 2.4% of payments in terms of number and 1.8% in terms of value. **The aim should be to meet the statutory payment time for every payment.**

The table below gives a detailed overview of the suspensions of payments.

	2018	2019	2020	2021
Total number of suspensions	24 643	24 765	22 095	**20 552**

Suspensions are a tool that allows the authorising officer responsible to temporarily withhold the execution of a payment because the amount is not due, because of the absence of appropriate supporting documentation or because there are doubts about the eligibility of the expenditure concerned. They allow the authorising officer to avoid irregular or erroneous payments and are fundamental in ensuring sound financial management and protecting the EU's financial interests.

([38]) Communication from Mrs Grybauskaitė in agreement with the President to the Commission – Streamlining financial rules and accelerating budget implementation to help economic recovery (SEC(2009) 477).

Annex 9 – Summary of waivers of recoveries

Annex 9 – Summary of waivers of recoveries

In accordance with **Article 101(5) of the financial regulation**, the Commission reports each year to the budgetary authority on the waivers it has granted in an annex to the summary of the annual activity reports.

The table below shows the total value and the number of waivers above and below EUR 60 000 in the 2021 financial year.

The individual annual activity reports provide more details on the individual waivers above EUR 60 000.

EU budget area	Department	Total value of waivers	Number (left) and value (right, EUR) of waivers above EUR 60 000		Number (left) and value (right, EUR) of waivers below EUR 60 000	
European Commission	Legal Service	16 512			3	16 512
	DG Communication	187 602	1	133 980	1	53 622
	DG Budget	107			2	107
	DG Human Resources and Security	11 900			1	11 900
	DG Informatics	5 000			1	5 000
	DG Economic and Financial Affairs	17 475			2	17 475
	DG Employment, Social Affairs and Inclusion	6 104			1	6 104
	DG Energy	1 338 699	4	1 316 947	1	21 752
	DG Environment	3 937 896	2	3 892 412	2	45 484
	DG Research and Innovation	281 653	1	183 710	5	97 943
	DG Communications Networks, Content and Technology	5 613 205	22	5 197 845	46	415 360
	DG Maritime Affairs and Fisheries	20			1	20
	DG Structural Reform Support	251 441	1	168 178	3	83 263
	DG Education, Youth, Sport and Culture	8 437			2	8 437
	DG Migration and Home Affairs	9 456			1	9 456
	DG Neighbourhood and Enlargement Negotiations	200 060	1	71 090	14	128 970
	DG International Partnerships	4 404 950	21	3 821 017	30	583 933
	DG European Civil Protection and Humanitarian Aid Operations (ECHO)	63			1	63

EU budget area	Department	Total value of waivers	Number (left) and value (right, EUR) of waivers above EUR 60 000		Number (left) and value (right, EUR) of waivers below EUR 60 000	
	Service for Foreign Policy Instruments	291 401	2	291 352	1	49
	Office for the Administration and Payment of Individual Entitlements	0			1	0
	European Education and Culture Executive Agency	763 873	4	341 198	31	422 675
	European Climate, Infrastructure and Environment Executive Agency	866 423	3	790 192	3	76 230
	European Research Council Executive Agency	134 283			9	134 283
	Consumers, Health, Agriculture and Food Executive Agency ([39])	119 852	1	119 852		
European Commission		**18 466 414**	**63**	**16 327 774**	**162**	**2 138 640**

EU budget area	Department	Total value of waivers	Number (left) and value (right, EUR) of waivers above EUR 60 000		Number (left) and value (right, EUR) of waivers below EUR 60 000	
European Development Fund		6 635 891	5	6 363 062	15	272 829
European Development Fund		**6 635 891**	**5**	**6 363 062**	**15**	**272 829**

EU budget area	Department	Total value of waivers	Number (left) and value (right, EUR) of waivers above EUR 60 000		Number (left) and value (right, EUR) of waivers below EUR 60 000	
Guarantee funds		6 342 124	32	5 472 648	33	869 476
Guarantee funds		**6 342 124**	**32**	**5 472 648**	**33**	**869 476**
Total general		**31 444 429**	**100**	**28 163 484**	**210**	**3 280 945**

([39]) This executive agency closed during 2021.

Annex 10 – Report on negotiated procedures

Annex 10 – Report on negotiated procedures

1.1. Legal basis

Article 74(10) of the financial regulation ([40]) requires authorising officers by delegation to record contracts concluded under negotiated procedures. Furthermore, the Commission is required to annex a report on negotiated procedures to the summary of the annual activity reports referred to in Article 74(9) of the financial regulation.

1.2. Methodology

A distinction has been made between the 49 departments that normally do not provide external aid and those three departments (development, neighbourhood and foreign policy instruments) that conclude procurement contracts in the area of external relations (different legal basis: Chapter 3 of Title VII of the financial regulation) or award contracts on their own account, but outside the territory of the European Union.

These three departments have special characteristics as regards data collection (decentralised services etc.), the total number of contracts concluded and the thresholds to be applied for the recording of negotiated procedures (EUR 20 000), along with the possibility to have recourse to negotiated procedures within the framework of the Rapid-Reaction Mechanism (extreme urgency). For these reasons, a separate approach has been used for procurement contracts awarded by these three departments.

1.3. Overall results of negotiated procedures recorded

The 49 departments, excluding external relations

On the basis of the data received, the following statistics were registered: 73 negotiated procedures with a total value of EUR 898 million were processed out of a total of 603 procurement procedures (negotiated, restricted or open) for contracts over EUR 60 000, with a total value of EUR 4.39 billion.

For the Commission, the average proportion of negotiated procedures in relation to all procedures amounts to **12.1%** in number (14.4% in 2020), which represents **20.5%** of all procedures in value (58.6% in 2020). The assessment of negotiated procedures compared with the previous year shows a decrease in the order of **2.3 percentage points** in terms of the relative number and a decrease of **38.2%** percentage points in terms of the relative value.

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

An authorising department shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is ‘distinctly higher than the average recorded for the institution’, i.e. if it exceeds the average proportion by 50% or if the increase from one year to the next is over 10% in proportion. Thus, the reference threshold for 2021 is **18.2%** (21.6% in 2020).

Thirteen departments exceeded the reference threshold and nine increased their number of negotiated procedures by more than 10% when compared to 2020, with seven also exceeding the reference threshold. It should be noted that, among these 13 departments, five concluded one to two negotiated procedures, and the low total number of procedures conducted (less than or equal to four) makes their average high; consequently, their respective results are to be considered non-significant. One department, although it did not exceed the reference threshold, increased its number of negotiated procedures by more than 10% when compared to the previous year.

It should be noted that 25 departments have not used any negotiated procedures, including five that awarded no contracts over EUR 60 000 in 2021.

The three external relations departments

On the basis of the data received, the following statistics were registered: 92 negotiated procedures for a total contract value of EUR 156 million were processed out of a total of 268 procedures for contracts over EUR 20 000, with a total value of about EUR 486 million.

For the three external relations departments, the average proportion of negotiated procedures in relation to all procedures amounts to **34.3%** in number (26.8% in 2020), which represents **32.1%** of all procedures in value (13.4% in 2020). If compared with the previous year, these departments have registered an increase of **7.5 percentage points** in terms of the number of negotiated procedures in relation to all procedures and an increase of **18.7 percentage points** in terms of the relative value.

An authorising service shall report to the institution if the proportion of negotiated procedures awarded in relation to the number of the contracts is ‘distinctly higher than the average recorded for the institution’, i.e. if it exceeds the average proportion by 50% or if the increase from one year to the next is over 10%. Thus, the reference threshold for 2021 is fixed at **51.5%** (40.2% in 2020); one of the three departments exceeds it.

One of the three departments presented an increase of over 10% in the proportion of negotiated procedures compared to the previous year.

1.4. Overall results of negotiated procedures recorded

The number of negotiated procedures in 2021 decreased significantly compared to 2020 (from 96 to 73), which also corresponds to the decrease in the number of procurement procedures (from 668 to 603). Overall, this is a positive result.

The following categories of justifications for the use of a negotiated procedure were presented by the departments exceeding the thresholds.

- **Crisis management.** One of the main reasons for using negotiated procedures in 2021 was the purchase of medical countermeasures and vaccines to fight the COVID-19 pandemic.
- **Similar services/works as provided for in the initial tender specifications.** One service in charge of large interinstitutional procurement procedures realises during the implementation of the contract that the needs initially provided for do not match the consumption trend during the execution of the contract. Therefore, the lead service must start a negotiated procedure on behalf of all institutions to increase the ceiling of the framework contract in question. One relevant example of such a justification was the implementation of the digital workplace

initiative – for which DG Informatics has to cater as the facilitator and service provider vis-à-vis other directorates-general and other EU institutions – the provisions of which could not be discontinued.

- **Objective situations in the sector of economic activity,** where the number of operators may be very limited or in a monopoly situation (due to them having specific technical expertise or for specific technical reasons, exclusivity rights, highly specialised markets where competition is limited to very few economic operators or is even completely absent, limited choice of financial software for trading systems and of ratings agencies, etc.). Monopoly situations related to the technical compatibility requirements of previous purchases of scientific equipment, for example maintenance and upgrades that the Commission cannot give to any other organisation aside from the original equipment contractor, which holds the necessary intellectual property rights. Situations of technical captivity may also arise, especially in the information technology domain (absence of competition for technical reasons and/or because of the protection of exclusive rights related to the purchase of proprietary licenses or the maintenance and continuity of existing applications such as upgrades). Another example is the case of a software vendor – the owner of the proprietary software – who is the sole economic operator possessing the expertise to provide related high-level services that are intrinsically linked to the necessary software.
- **Unsuccessful open or restricted procedures,** leading to a negotiated procedure.
- **Additional services** not included in the initial contract that become necessary due to extreme urgency brought about by unforeseen circumstances.

Regular available measures are proposed or implemented by the budget department and other departments concerned to redress the use of negotiated procedures when other alternatives may be available, including the following.

- **Improved programming** of procurement procedures.
- **Improvement of the system of evaluation of needs.** The Commission's central services will continue their active communication and consultation policy with the other Commission departments, institutions, agencies and other bodies along the following axes:
  - permanent exchange of information via regular meetings with user services and agencies in appropriate forums;
  - ad hoc detailed surveys prior to the initiation of (interinstitutional) procurement procedures for the evaluation of needs;
  - better estimates of the needs of interinstitutional framework contracts and better monitoring with semester consumption reports from user services or agencies.
- **Training and improved interservice communication.** The budget department's Central Financial Service provides regular practical training sessions on procurement and community of practice sessions.
- **Presentation of alternative approaches**, such as open-source solutions.
- Regular updating of **standard corporate model documents and guidance documents** on procurement.
- Building of an end-to-end corporate e-procurement solution.

Annex 11 – EU trust funds

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The Commission, with several partners, established four EU trust funds between 2014 and 2016.

The EU trust funds' annual reports set out, in accordance with **Article 252 of the financial regulation**, the activities they supported, their implementation and performance and their accounts. These reports are annexed to the annual activity reports of the Commission's DG Neighbourhood and Enlargement Negotiations and DG International Partnerships. The table below summarises the four trust funds and lists the corresponding directorate-general.

Established in:	Trust funds	Annual report annexed to the annual activity report of:
2014	**Bêkou Trust Fund** – EU Trust Fund for the Central African Republic	DG International Partnerships
2014	**Syrian Crisis Trust Fund** – EU Regional Trust Fund in Response to the Syrian Crisis	DG Neighbourhood and Enlargement Negotiations
2015	**Africa Trust Fund** – European Union Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa. This trust fund involves three regions: Horn of Africa, Sahel and Lake Chad, and North of Africa (management cross-sub-delegated to DG Neighbourhood and Enlargement Negotiations)	DG International Partnerships
2016	**Colombia Trust Fund** – European Union Trust Fund for Colombia	DG International Partnerships

The constitutive act of an EU trust fund, signed by the European Commission and donors, details the main features of the trust fund, including its specific objectives, the rules for the composition and the internal rules of its board, along with the duration of the trust fund, which is always limited in time.

The EU trust funds were all set up for an initial 60 months (5 years), apart from the Colombia Trust Fund, which was set up for 4 years. Before their end date, they were all subject to an extension of at least 1 year, adopted after consultation with the European Parliament and the Council of the European Union. This 1-year extension allowed the trust funds to adapt their activities to address the COVID-19 challenge on the ground in the countries within their scope. This also gave them the necessary time to adapt their ongoing actions to the new challenges and to finalise their contracting activities by the end of 2021. The implementation of the existing projects will still continue until 2025, however.

The Bêkou Trust Fund

By the end of 2021, the total amount of contributions from the European Development Fund, the EU budget and external donors (France, Germany, Italy, the Netherlands and Switzerland) had reached over EUR 310 million. By 31 December 2021, the Bêkou Trust Fund had funded actions totalling EUR 307 million in commitments and had concluded contracts with a total value of EUR 305 million.

The priority sectors that the trust fund supports include basic services, notably in health; agriculture development; the restoration of national and local administrations; economic recovery; and reconciliation within Central African society.

The Syrian Crisis Trust Fund

The contributions from the EU budget amounted to more than EUR 2.1 billion by the end of 2021, while the contributions received from Member States and other donors amounted to EUR 262 million, including EUR 24.7 million from Turkey. By 31 December 2021, the EU budget, 22 Member States and Turkey had contributed to the trust fund, with the total contributions made available reaching more than EUR 2.3 billion.

Projects focus mainly on education, livelihoods and health, for which more than EUR 2.3 billion has been contracted to the trust fund's implementing partners on the ground. The region that benefits is the Middle East – mainly Iraq, Jordan, Lebanon and Turkey.

These projects support refugees and host communities in their need for basic education and child protection, training and higher education, better access to healthcare, and improved water and wastewater infrastructure, along with projects promoting resilience, economic opportunities and social inclusion.

The Africa Trust Fund

In total, the 27 EU Member States, along with Norway, Switzerland and the United Kingdom, had, by the end of 2021, contributed EUR 623 million to this EU trust fund. The contributions through EU instruments and European Development Funds amounted to EUR 4.4 billion.

As of 31 December 2021, a total of EUR 5.081 billion had been made available for commitments, of which EUR 5.061 billion or nearly 100% had been committed. The split is EUR 2.1 billion (42%) for the Sahel and Lake Chad window, EUR 1.8 billion (35%) for the Horn of Africa and EUR 880 million (17%) for the North of Africa region. Contracts have been signed with implementing partners for a total amount of more than EUR 5 billion ([41]).

The trust fund aims to help foster stability and contribute to better migration management. In line with the EU's development-led approach to forced displacement, it also helps address the root causes of instability, forced displacement and irregular migration by promoting economic and equal opportunities, peace and development.

The Colombia Trust Fund

In 2021, the EUTF donors contributed EUR 3.42 million to the Fund, bringing the total contributions for EUTF for Colombia to EUR 130.91 million. Of the total amount, about EUR 37 million (28%) came from 20 EU Member states, the UK and Chile and EUR 94 million (72%) from the EU budget. At the end of 2021, nearly 100% of the total appropriations had been committed and contracted.

The trust fund helps to support the implementation of the peace agreement in the early recovery and stabilisation phases of the post-conflict environment. The overall objectives are to help Colombia

([41]) Monthly report on the Multiannual Implementation of the EU Trust Funds as of 31.12.2021.

secure a stable and lasting peace, to rebuild its social and economic fabric and to give new hope to its people.

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