Review

03

An overview of the assurance framework and the key factors contributing to errors in 2014-2020 cohesion spending

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2024

Contents

Executive summary

I Cohesion policy is a major spending area, accounting for more than one third of the EU budget for the 2014-2020 period. Over the years, cohesion policy expenditure has also been the biggest contributor to the overall error rate in the context of our statement of assurance. It is predominated by reimbursement-based payments, which we consider to be high-risk.

II This review is based on our previous audit work for the 2014-2020 cohesion spending period and on information published by the Commission. It provides a multiannual overview of our audit results, including an assessment of management and control issues, the identified root causes of errors and our previous assessments of the measures that are in place for the Commission to prevent and correct errors to decrease the error rate. Where possible, we also provide country-specific information. With this review, we aim to contribute to strengthening the assurance model and to provide insights for the preparation of the legislative proposal for cohesion policy in the post-2027 period.

III Overall, our analysis shows that the assurance framework for cohesion policy, while helping in reducing the overall level of error since 2007, has not been effective in bringing it below the 2 % materiality threshold set in the rules. Our audit results for this period consistently show error levels above the 2 % materiality threshold, both annually and from a multiannual perspective. We consider that the Commission underestimates the level of error, although it agrees with our overall conclusion that cohesion spending is materially affected by error. This shows that there is room for all key actors to improve the way they implement the assurance model.

IV The managing authorities, as the first line of defence in the assurance model, play a key role in the member states in ensuring the regularity of cohesion spending. However, their controls do not yet sufficiently mitigate the high inherent risk of error in cohesion spending. Around half of the additional errors we reported for the 2014-2020 period can be attributed to acts or omissions by managing authorities. The errors we reported are additional to those detected and corrected by the audit authorities in previous checks or audits.

V The member states' audit authorities represent the second line of defence, in line with the single audit principle. We noted improvements in their capacity to detect public procurement irregularities, but they still need to improve their capacity to detect other types of errors. We found errors that should have been detected by them. Between 2017 and 2022, we identified additional errors in 51 of the 87 assurance packages we audited at least once, which raised the reported error rate above the materiality threshold for a significant share of expenditure certified to the Commission. We also found shortcomings in the planning and preparation of audit work, the quality of the audit work itself and the documentation of that work. These affected more than half of the transactions we audited, which limits the reliance that the Commission can place on this work.

VI The Commission reviews the audit results reported by audit authorities through desk reviews and carries out compliance audits on a risk basis. The desk reviews have inherent limitations in that they are not designed to detect irregular expenditure not detected by the member states. Compliance audits are effective, but limited in number.

VII Ineligible expenditure and ineligible projects were the most prevalent type of error, followed by non-compliance with state aid rules and with EU and national public procurement rules. In our 2022 annual report, we recommended that the Commission, which is ultimately responsible for implementing the EU budget, take specific mitigating measures for recurring error types to reduce their occurrence and impact, and complement its actions to improve administration in member state authorities.

VIII Our audit results indicate an error level above materiality in most of the member states receiving the most cohesion funds. Nine member states responsible for 76 % of cohesion spending accounted for 91 % of the estimated level of error during 2014-2020. Our analysis also showed both we and the Commission often reassessed some member states' assurance packages as having error rates above the materiality threshold. In such cases, there is a specific need to strengthen the audit authorities' detection capabilities.

IX Furthermore, we identified three main root causes of errors: issues related to inadequate administration by member state authorities, issues related to negligence or (suspected) intent and issues related to the regulatory framework at beneficiary level. Half of the additional errors we detected fell into the category of inadequate administration and were manifested in inappropriate decision making and verifications by managing authorities and weaknesses in the audit authorities' work.

X The 2014-2020 assurance framework provides different ways for the Commission to safeguard the EU budget. However, amounts retained on interim payments are released before the Commission can analyse all legality and regularity issues. The Commission also uses financial corrections in cases where it considers that there are serious deficiencies in a programme's management and control system. However, so far, the Commission has not yet applied net financial corrections which would result in a direct loss of funding for the member state concerned. These instruments, therefore, have weaknesses in design and implementation. Against this backdrop, we consider that the Commission needs to take more action to strengthen the way the assurance framework for 2021-2027 cohesion spending is implemented.

XI Member states will have until mid-2025 to submit their final payment applications for 2014-2020 programmes. Pressure to absorb available EU funding poses an additional risk to sound and regular spending. The flexibility provided to address the COVID-19 pandemic, including in particular the temporary possibility of 100 % EU funding, helped to make up for slow absorption in the preceding years. However, this temporary removal of the requirement for national or private co-financing of programmes may disincentivise member state controls and therefore exacerbate the risk of money not being well spent. In view of the closure of 2014-2020 programmes in 2025, and the overlap with the implementation of 2021-2027 programmes, the risk of irregularities continues to be high.

XII Our audit results over the last six years, combined with results of audit authorities and the Commission, highlighted the need to strengthen the way the assurance framework for 2021-2027 cohesion spending is implemented. This process must be steered by the Commission given that it is ultimately responsible for implementing the EU budget.

Introduction

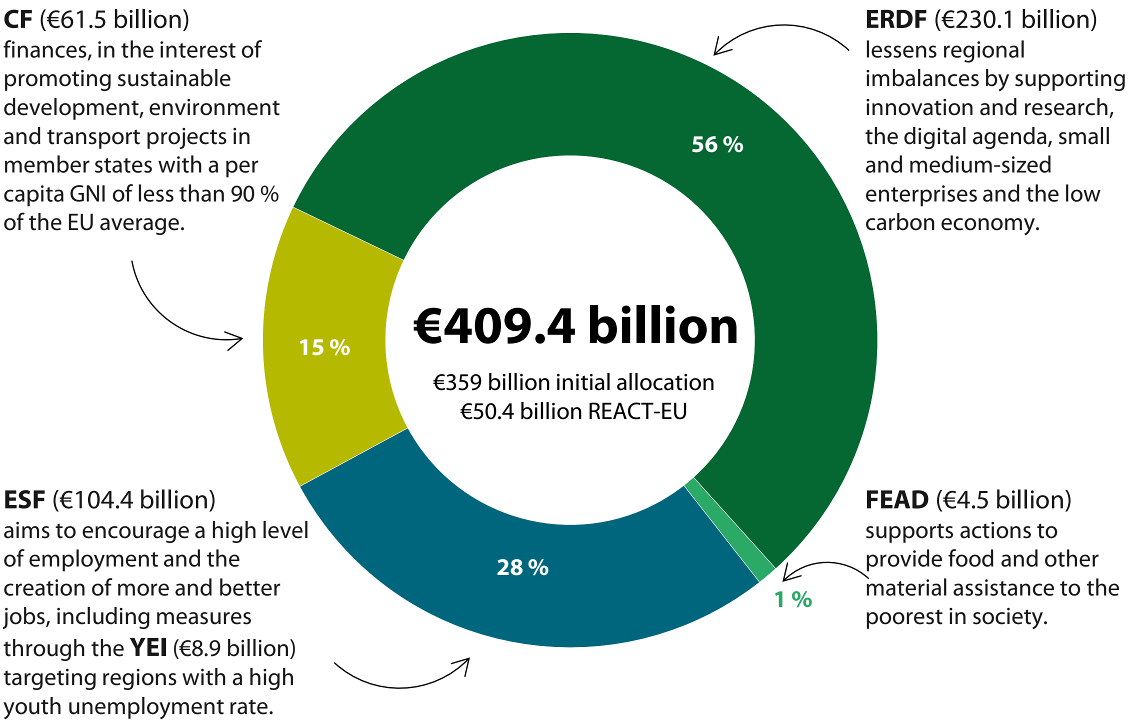
Background information on cohesion policy

Cohesion policy: aims and supporting funds

01 Cohesion policy promotes the EU's development through measures to strengthen its economic, social and territorial cohesion and to reduce disparities between regions[1].

02 Financial support is given through three main funds, i.e. the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF), and this is complemented by the Youth Employment Initiative (YEI) and the Fund for European Aid to the Most Deprived (FEAD) (see ***Figure 1***).

Figure 1 – Funds supporting cohesion policy for the 2014-2020 period



Source: ECA.

[1] Article 174 of the Treaty on the Functioning of the European Union.

Cohesion spending accounts for more than a third of the EU budget

03 Cohesion funding is provided under subheading 1b ("Economic, social and territorial cohesion") of the 2014-2020 multiannual financial framework (MFF). It amounted to €359 billion (including the Fund for European Aid to the Most Deprived)[2], representing more than one third (34 %) of the EU budget. During the 2021-2027 period, cohesion policy spending is part of MFF heading 2 "Cohesion, resilience and values". In 2021, it accounted for the largest share of the EU budget at 41.7 %.

04 Over the years, cohesion policy has also been the biggest contributor to our overall error rate[3] in the context of our statement of assurance. It is predominated by reimbursement-based payments, which we consider to be high risk and represented 66 % of the audit population in 2022[4]. For these reimbursements, beneficiaries have to submit claims for eligible costs they have incurred, together with supporting evidence. In doing so, they must often follow complex rules regarding what can be claimed (eligibility) and how costs can be properly incurred (public procurement or state aid rules).

05 Cohesion policy funding usually requires co-financing by member states, which is intended to ensure that money is well spent[5]. In response to the COVID-19 pandemic, in December 2020 the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) provided member states with €50.4 billion in extra funding on top of the 2014-2020 cohesion policy funds[6]. At the same time, in the 2020-2021 and 2021-2022 accounting years, declared expenditure could be reimbursed from the EU budget with no co-financing required from member states[7]. This was designed to ease the burden on national budgets caused by the COVID-19 pandemic and also allowed for faster

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[2] Based on cohesiondata.europa.eu

[3] Paragraph 1.14 of the 2022 annual report, paragraph 1.18 of the 2021 annual report, paragraph 1.17 of the 2020 annual report, paragraph 1.18 of the 2019 annual report, paragraph 1.29 of the 2018 annual report.

[4] Point VIII of the ECA's Statement of Assurance of the 2022 annual report.

[5] Recital 26 to the 2014-2020 CPR.

[6] Regulation (EU) 2020/2221 on REACT-EU.

[7] Article 25a of Regulation 2020/558.

absorption of the available funding[8]. The rules also provide the possibility of the 100 % EU funding for 2023-2024, the final accounting year of the period[9].

Different periods of cohesion spending overlap

06 EU spending is planned for a period of seven years through multi-annual financial frameworks, each governed by dedicated rules. Under cohesion policy, resources are assigned to member states at the start of the MFF for the entire seven years. The budget is broken down into annual expenditure as set out in the financing plans for the member states' individual operational programmes (hereinafter referred to as "programmes").

07 Member states have three years to use these annual instalments starting from the year they are budgeted. After that, unused funds are automatically lost[10]. This means that the eligibility period for 2014-2020 cohesion spending runs from 1 January 2014 until 31 December 2023. The deadline for the member states to submit their final expenditure declaration is even later (by mid-2024). This deadline was further extended by one year to mid-2025, by the Strategic Technologies for Europe Platform (STEP) Regulation, adopted in February 2024[11]. Cohesion spending therefore actually takes place in multiannual cycles of around 10 years, with MFF periods overlapping.

The assurance framework in cohesion policy

Member state authorities must provide the Commission with assurance on the regularity of cohesion spending

08 Cohesion spending takes place in a multi-level governance system. Member states or regions are responsible for the day-to-day operation of the spending programmes. For each programme, the member states must designate a managing authority, a certifying authority and an audit authority. Their responsibilities are detailed in the 2014-2020 Common Provisions Regulation (CPR) (see ***Annex I***). Each

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[8] Paragraph 30 of special report 02/2023.

[9] Article 1(1) of Regulation (EU) 2022/562 (the CARE Regulation) and Article 14(1) of Regulation (EU) 2024/795 (the STEP Regulation).

[10] Articles 86 and 136 of the 2014-2020 Common Provisions Regulation (CPR).

[11] Article 14(3) of the STEP Regulation.

year, these authorities must provide assurance to the Commission that spending has been legal and regular.

09 Overall responsibility for implementing the EU budget lies with the Commission[12]. However, the effectiveness of this assurance framework depends on the capabilities of the individuals and bodies that make up the member states' management and control systems within the assurance framework. This set-up also means the Commission is to some extent dependent on the proper functioning of member state authorities in its oversight of the legality and regularity of EU spending. However, it has to ensure that EU funds are used in accordance with applicable rules[13]. Even though we found a material level of error in EU expenditure between 2017 and 2022, with cohesion being the biggest contributor to the overall level of error, the Commission was granted discharge as the management of the overall EU budget was taken into account.

The Commission introduced a 'single audit' approach for cohesion policy expenditure in 2007

10 'Single audit' refers to an internal control framework in which each audit layer builds on work done at sub-ordinate levels, provided that this work is reliable and accurate. In practice, under shared management, it entails the Commission deriving assurance from audit work done by member state authorities. The Commission, however, retains ultimate responsibility for protecting the EU's financial interests. The approach's purpose is to reduce both the cost of audit activities for the member states and the Commission and the administrative burden on auditees by not duplicating audit work.

11 The 'single audit' concept was endorsed in 2004 by our opinion and proposal for developing an internal control framework for EU funds provided some preconditions are fulfilled (see ***Box 1***).

[12] Article 317 of the Treaty on the Functioning of the European Union.

[13] Article 63(8) of the Financial Regulation.

Box 1

Preconditions for the ‘single audit’ approach[14]

Controls should be applied to a common standard and coordinated to avoid unnecessary duplication. (…) They should be applied, documented and reported in an open and transparent way, allowing the results to be used and relied upon by all parts of the system. (…)

(…) Legislation and processes should be clear and unambiguous and avoid unnecessary complexity.

Internal control systems should have, at their basis, a chain of control procedures, with each level having specific defined objectives which take into account the work of the others. Claims of expenditure or costs over a certain threshold should be accompanied by an independent audit certificate and report, based on common standards of approach and content.

The Commission should define the minimum requirements for internal control systems. (…) The internal control systems should include mechanisms to ensure that weaknesses in the systems themselves, as well as errors and irregularities in transactions, are identified and corrected, and where necessary, recoveries made.

12 Both the Financial Regulation and the CPR refer to the ‘single audit’ concept[15]. This approach has been followed in cohesion policy since 2007, when the role and responsibilities of audit authorities were increased compared to those of the *ex-post* control authorities in the 2000-2006 period. In a previous report, we concluded that following improvements in the member states’ management and control system, our error rates for the 2007-2013 period were significantly lower than in the previous period[16]. Even with these improvements, however, a material level of error remained and the expected future improvements for the 2014-2020 period provided only a marginal reduction.

14 Opinion 02/2004.

15 Preamble 218 of the Financial Regulation, Article 148(3) of the 2014-2020 CPR, Article 80 of the 2021-2027 CPR.

16 Paragraph 80 and 81 of special report 17/2018.

The concept of accounting years and a system for settling expenditure annually were introduced for the 2014-2020 period

13 The 2014-2020 CPR introduced the concept of accounting years and, with them, a system for settling the expenditure declared for each programme annually. This concept requires member state authorities to submit, for each programme (or group of programmes), an annual assurance package covering expenditure certified to the Commission in that accounting year. An accounting year n covers expenditure declared between 1 July n-2 and 30 June n-1 (see ***Annex II***). The assurance package comprises:

- the certified accounts for the accounting year;
- a management declaration and annual summary of controls and verifications; and
- the audit authority's annual control report and audit opinion.

14 The annual control reports disclose a residual error rate which is the main legality and regularity indicator for each programme or group of programmes. To determine this rate, the audit authority has to take account of any irregularities it has identified by examining a representative sample of operations and, depending on the sampling method, extrapolating these errors to the audited population. The rate also reflects the financial corrections applied and registered in the accounts by the managing and certifying authorities in relation to the irregularities and risks identified by the audit authorities in their audits.

15 In their assurance packages, the member state authorities confirm that the accounts are complete, accurate and true, and that their management systems and internal controls for the programme (or group of programmes) concerned are effective. They also confirm that the certified expenditure is legal and regular[17]. The Commission then accepts the accounts and settles the outstanding EU contribution only if it concludes – taking into account the audit authority's opinion – that they are complete, accurate and true.

16 The 2014-2020 CPR also introduced a 10 % retention on all interim payments[18] and the possibility of applying net financial corrections[19]. The former is intended to provide a buffer against any irregular expenditure not detected by the member state's

[17] Article 127(5) of the 2014-2020 CPR and Article 63(7) of the Financial Regulation.

[18] Article 130 of the 2014-2020 CPR.

[19] Article 145(7) of the 2014-2020 CPR.

control system (and therefore reimbursed). The latter would allow the Commission to withdraw funds from a member state for failure to rectify shortcomings detected in its management and control systems.

The Commission provides assurance on the regularity of spending in its annual activity reports

17 Two Commission directorates-general (DGs) are responsible for cohesion spending: Regional and Urban Policy (DG REGIO) and Employment, Social Affairs and Inclusion (DG EMPL). They report in their annual activity reports (AARs) on the effectiveness of programmes' management and control systems (including on the functioning of the systems, weaknesses identified in member state authorities' work and requested remedial actions), the acceptability of their accounts, and the legality and regularity of the underlying transactions. Since July 2021, the Commission's audit and assessment work in relation to cohesion expenditure has been coordinated and carried out by a Joint Audit Directorate.

18 In the AARs, the Commission uses the individual residual error rates reported by audit authorities for each programme, the results of its own work (desk reviews, if necessary, complemented by fact-finding missions, risk-based compliance audits and thematic audits), and other available information such as our audit results in the context of our statement of assurance work. It uses this information to calculate and report a key performance indicator (KPI) on the regularity of spending under their respective funds (see paragraph ***38***). This KPI is aggregated and presented in the Commission's annual management and performance report (AMPR) as a regularity indicator for the financial year's cohesion spending as a whole.

Since 2017, our audit approach has taken account of changes in the regulatory framework for the 2014-2020 period

19 Our mandate, under the Treaty on the Functioning of the European Union, is to examine whether all revenue has been received and all expenditure incurred in a lawful and regular manner. As such, we are the EU's independent external auditor and not part of the internal control system for the cohesion policy funds or subject to the related 'single audit' approach. In the context of our statement of assurance work, we assess whether the Commission has implemented the EU budget in compliance with the applicable rules.

20 Since 2017, our audit population for cohesion has consisted of expenditure included in the accounts submitted in assurance packages and accepted by the Commission for the accounting year concerned. Our audits therefore mainly examine transactions for which member states have completed their control cycle for the relevant accounting year and for which they are supposed to have implemented all relevant actions to correct errors that they themselves identified[20] as part of their control procedures. This means that all errors detected by our audits are additional to those identified by the internal controls in place. However, the Commission's control cycle occurs in parallel so is not completed for all transactions by the time we select our sample (see paragraph ***69*** and ***Annex II***).

21 In addition, our audit approach entails an assessment of the different control steps taken for the assurance packages in our sample. This allows us to identify areas where management and control systems for specific programmes or the Commission's supervisory work has to be further improved, particularly, when we identify 'additional errors', meaning errors additional to those detected and corrected by the audit authorities (and, by definition, by managing authorities) in previous checks or audits.

[20] Annex 1.1, points 18 and 19 of the 2022 annual report. Exceptions are transactions linked to contributions to financial instrument and state aid advances.

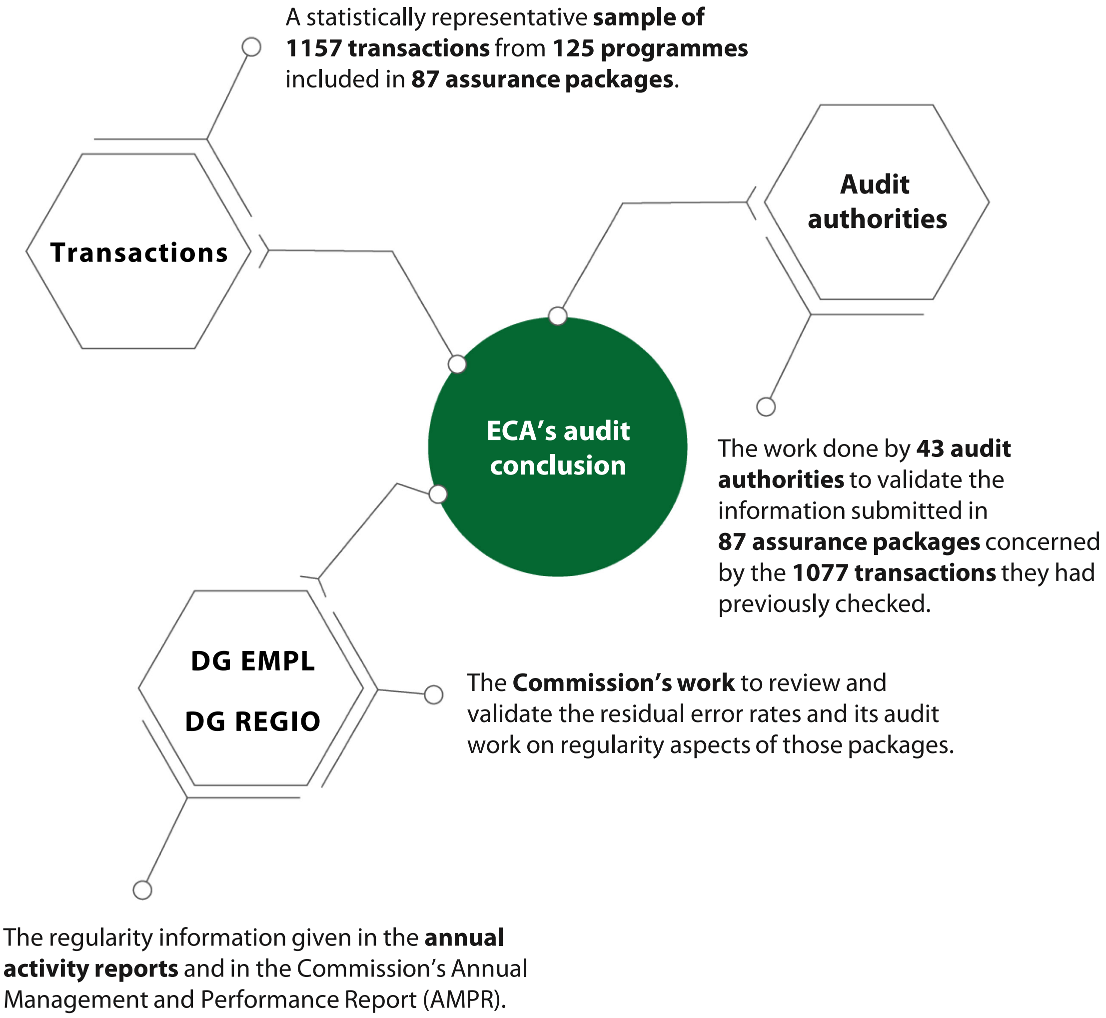
Scope and approach

22 This review provides a multiannual overview of our assessment of the legality and regularity of cohesion spending during the 2014-2020 period. We summarise our previously reported audit results and our findings relating to the management and control systems in member states, identify root causes of errors over the period and report on our previous assessment of the measures in place for the Commission to prevent, or detect and correct errors in order to decrease the error level. Where possible, we also provide country-specific information. Finally, we identify audit challenges relating to the closure of the 2014-2020 period and the legality and regularity of 2021-2027 cohesion spending.

23 This review focuses on our audit results for the 2017 to 2022 financial years (see ***Annex III***). This allows us to cover all 2014-2020 expenditure that had been incurred, declared and reimbursed and passed through the control cycle by the end of 2022. The 2017 financial year was the first in which the Commission accepted expenditure related to the accounting year running from 1 July 2015 to 30 June 2016 that member states had declared for 2014-2020 programmes (see ***Annex II***). Payments made between 2014 and 2016 (other than advances) related mostly to the 2007-2013 period.

24 Between 2017 and 2022, we examined 1 157 transactions from all 27 member states plus the UK (see ***Annex III***). We also reviewed the work done by member state audit authorities for these transactions (see also ***Figure 2***).

Figure 2 – ECA audit work during the 2014-2020 period (until 2022)



Note:
* The figures refer to transactions audited for the 2014-2020 period between 2017 and 2022.
** The statistically representative sample of 1 157 transactions consisted of 1 077 transactions for which expenditure had been verified by audit authorities, nine transactions not included in audit authorities' sample and 71 transactions related to financial instruments.

Source: ECA.

25 As a consequence of the sampling method we use, the work carried out in each member state for the whole period (i.e. the number of transactions examined) is proportionate to the amount spent. For the member states that account for more than 76 % of total cohesion spending (Poland, Italy, Spain, Portugal, Hungary, Czechia, Romania, Greece and Germany), our aggregated audit samples were sufficiently large to provide information and insights at member state level.

26 As we have not yet carried out a dedicated audit of the financial correction system, this review does not cover this aspect in detail. We plan to undertake an audit on whether the Commission and member states are effective in using financial corrections in cohesion to protect the EU's financial interests and to ensure that cohesion spending is regular.

27 Our review draws upon our annual reports, and relevant special reports and opinions (see ***Annex V***), as well as Commission reports, including the AMPR and the AARs of DG EMPL and DG REGIO. It also takes into account other Commission documents and studies. To provide a comparison with the preceding period, we used the results of our multiannual overview on the regularity of spending in shared management over the 2007-2013 period[21], which was published in 2014.

28 This is not an audit report; it is a review based on our previous audit work in this area and publicly available information. It reports on lessons learnt from the application of the assurance model for cohesion spending in 2014-2020. The aim is to contribute to further strengthening the assurance model for the closure of the outgoing period and for the recently started 2021-2027 period. In addition, it looks ahead to the preparation of the legislative proposal for cohesion policy in the post-2027 period. The outcome of our review could also feed into the ECA's reflection on the future of our approach and our reliance on the work of other auditors.

[21] Agriculture and cohesion: overview of EU spending 2007-2013.

What was our overall assessment of regularity in cohesion spending?

29 The aim of cohesion policy assurance framework is to ensure that, for each programme (or group of programmes), the expenditure declared by the member states and verified by the Commission is free of material error. The rules set a materiality threshold at 2 %[22] and this is also the level we use in our statement of assurance to form our opinion on the legality and regularity of the EU budget[23]. The following section provides an overview of what we found, and reported regarding the legality and regularity of cohesion spending and of the assurance framework over the period.

The level of error in cohesion spending in 2014-2020 was lower than in 2007-2013 but remained material

30 By combining our annual results for 2017 to 2022, we estimate the level of error for those years in 2014-2020 MFF spending to be around 4.8 %. This is 1.2 percentage points less than at a similar stage of implementation of the 2007-2013 MFF, (covering the period 2009 to 2013), when our multiannual error estimate was 6.0 % of the funds spent[24].

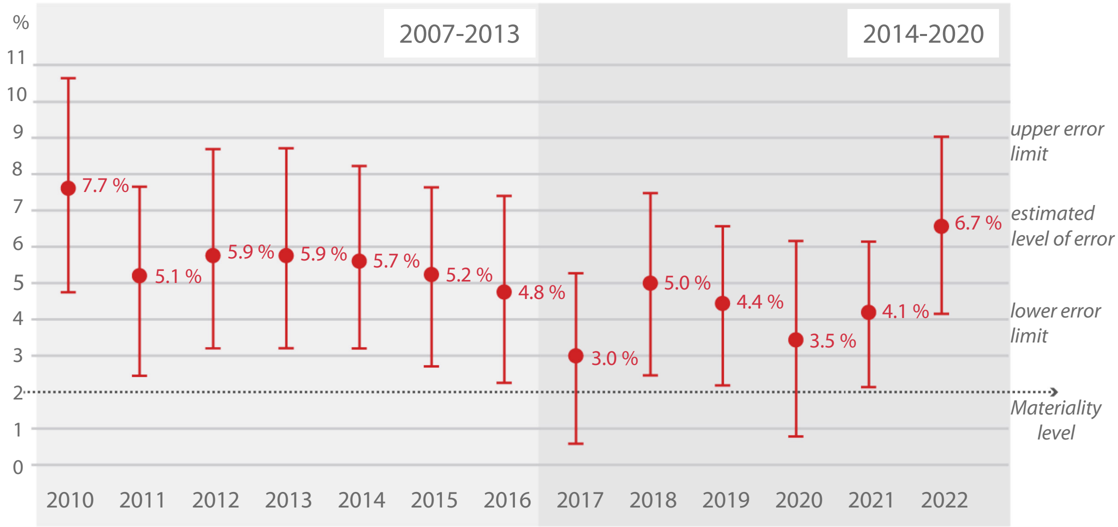
31 While our results have varied from year to year – between 2017 and 2022, our error estimates were above the 2 % threshold significantly so in most years, with a peak of 6.7 % in 2022. The same was true in the 2007-2013 period (see ***Figure 3***).

[22] Article 28(11) of Commission Delegated Regulation (EC) No 480/2014, point 5.1.5 of AMPR 2022 Volume III Annex 5, ECA methodology.

[23] Annex 1.1, point 35, of the 2022 annual report.

[24] Paragraph 23 of Agriculture and cohesion: overview of EU spending 2007-2013.

Figure 3 – ECA error estimates for cohesion spending, 2010-2022



Source: ECA.

32 Our audit findings for the statement of assurance show that reimbursement-based payments carry a higher risk of error than those based on entitlements (like most parts of the common agricultural policy)[25]. Overall, one in four transactions in our samples between 2017 and 2022 were affected by some breach of legal requirements, even though almost all of these transactions had already been examined by audit authorities. For around 60 % of them (171 errors or 15 % of the total sample), we classified them as quantifiable errors. For around a quarter of the transactions in which we detected these 'additional errors' – meaning additional to those detected and corrected by the audit authorities – they had a significant impact (meaning they affected over 80 % of the expenditure declared for the transaction).

33 The eligibility period for 2014-2020 spending ended on 31 December 2023. During the COVID-19 pandemic, member states were given considerable flexibility to re-programme funds (and include additional funding through REACT-EU)[26]. We had already remarked, in our 2020 annual report, on the increased risk of checks and verifications by managing and audit authorities being less effective during the COVID-19 period, potentially increasing the risk of errors and irregularities not being detected and corrected[27].

[25] Paragraph 1.18 of the 2022 annual report.

[26] Paragraph 6.17 of the 2022 annual report.

[27] Paragraph 2.32 of the 2020 annual report.

Most audit authorities reported error levels below the materiality threshold between 2017 and 2022

34 Audit authorities can issue an unqualified audit opinion on the legality and regularity of expenditure entered in the accounts only if the residual error rate included in the annual control report (see also paragraph ***14***) is below the 2 % materiality threshold set in the Commission delegated regulation supplementing the CPR[28].

35 Over the 2014-2020 period, most audit authorities did not report a material error in cohesion spending in their annual control reports. Between 2017 and 2022, we identified only 33 cases (for 25 out of more than 400 programmes) in which the responsible audit authority had reported a residual error rate above 2 % before any adjustment by the Commission[29]. A large proportion of these cases (in 14 of the 25 programmes) occurred in 2020 (i.e. in relation to the 2018-2019 accounting year).

36 Year after year, however, our audits show that many audit authorities do not detect a significant number of errors in the transactions they check. Some of these errors may be detected later by the Commission, resulting in adjustments, and others detected by us (if the assurance package falls within our sample). It is because of these additional errors that we conclude that cohesion spending as a whole is materially affected by error.

37 Finally, although advances to financial instruments are not incurred expenditure, the CPR[30] provides an exception that allows audit authorities to include these in their audit population if paid during the accounting year and, hence, to take them into account in the calculation of the residual error rate. These advance payments are generally low-risk and relatively high-value. Therefore, where the accounts include both incurred expenditure and advance payments, the audit authorities' residual error rates are likely to understate the level of error for expenditure actually incurred.

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[28] Article 28(11) of Commission Delegated Regulation (EC) No 480/2014.

[29] Based on DG EMPL's and DG REGIO's annexes to their AARs between 2017 and 2022.

[30] Article 41(1) of the 2014-2020 CPR.

Since 2018, the Commission's "maximum rate" has indicated material error in cohesion spending

38 The Commission calculates a key performance indicator (KPI) on the regularity of spending under each fund, which it then reports in the AAR (see paragraph ***18***). The KPI is aggregated as the weighted average of the individual residual error rates, adjusted when necessary based on the Commission's review and audit results. Since 2018, the Commission also discloses a "maximum rate" to take account of additional risks that may be present in this spending[31]. This KPI is calculated without the impact of advances to financial instruments (see paragraph ***37***).

39 After making adjustments to the rates reported by audit authorities, the Commission estimated that the maximum rate for cohesion spending was above the 2 % materiality threshold in each of the five years since 2018 and, as a result, for the period as a whole as well.

40 At the same time, the KPI calculated and reported by the Commission, was slightly below materiality in four of the five years. However, we consider that the Commission's methodology only allows the estimation of a minimum error rate, which means that a certain number of errors are likely to remain undetected and uncorrected (see paragraphs ***65***-***68***)[32].

41 Since 2019, the Commission has improved its methodology for estimating the maximum rates by taking account of the risk of errors lying outside the sample of operations in programmes audited during the year (either by the Commission or by us). The maximum rates may also include a "top-up" for unaudited programmes based on error rates reported by the same audit authority for other programmes, or a flat rate if the audit authority has not yet been audited[33].

42 In our 2021 annual report, we noted that two shortcomings remained: the Commission did not apply the top-up in the case of programmes audited in earlier accounting years, and in some cases the level of the top-ups may not be sufficient to cover all the errors that the Commission has not detected through its compliance audits. These weaknesses also affect the Commission's risk at closure, as the

[31] Footnotes 12 and 52 to DG REGIO 2018 AAR; footnote 38 to DG EMPL 2018 AAR.

[32] Paragraphs 58 to 61 of special report 26/2021.

[33] Footnote 65 to DG REGIO 2022 AAR; footnote 71 to DG EMPL 2022 AAR; paragraph 6.66 of the 2022 annual report.

Commission may not carry out the necessary corrections in all cases to bring the residual error rate below materiality[34].

The Commission's and audit authorities' error estimates focus on financial corrections

43 The rates reported in the Commission's AARs and AMPR represent irregularities leading to financial corrections based on applicable regulatory provisions (see also paragraph ***14***).

44 For member state authorities and the Commission to impose financial corrections, an error must be an irregularity within the meaning of the 2014-2020 CPR, i.e. a breach of rules "resulting from an act or omission by an economic operator"[35]. Not all errors identified by us fall into this category. In line with our mandate under the Treaty, we have to report errors related to any breach of applicable rules and we consider that a transaction is affected by error whenever one of the conditions for payment of the related expenditure has not been fully met.

45 For three reporting years during the 2017-2022 period (2018, 2020 and 2022), the Commission expressed disagreement with some of the additional errors we reported or the quantification of our findings. However, even after discounting these contested errors, our error estimates for the three years concerned remains both above the materiality threshold of 2 % and above the Commission's own reported rates. Looking at the individual assurance packages, the contested errors would have an impact on only three of the 13 affected packages in which we considered the residual error to be above 2 %.

46 Other methodological differences in how errors are quantified (for example, for non-compliance with public procurement rules[36]) do not significantly contribute to differences in reported error rates.

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[34] Paragraph 5.62 of the 2021 annual report and paragraph 6.70 of the 2022 annual report.

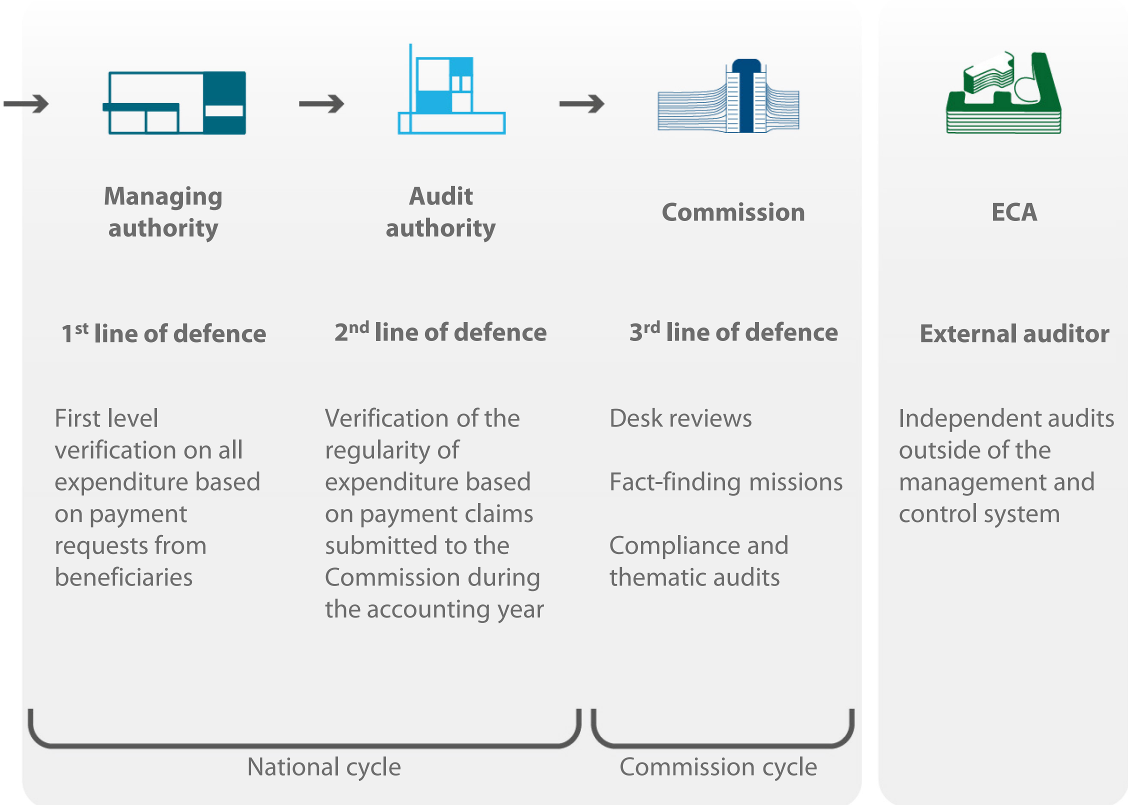
[35] Article 2(36) of the 2014-2020 CPR.

[36] Annex 1.1, paragraph 27, to the 2022 annual report.

What were our findings regarding the reliability of the work of the key actors in the control system for cohesion policy?

47 There are three lines of defence to prevent, detect and correct irregular spending in cohesion policy, as shown in ***Figure 4***. Our combined work on regularity and on the Commission's and member states' supervisory and control systems covering the 2014-2020 period included assessments of all three levels' work.

Figure 4 – System of controls for cohesion spending



Source: ECA.

First-level checks by managing authorities are not sufficiently effective in ensuring the regularity of cohesion spending

48 As a "first line of defence", managing authorities should ensure that only eligible projects are selected for funding. Subsequently, managing authorities' first-level checks play a key role in ensuring the regularity of cohesion spending. In particular, they must verify that the co-financed products and services have been delivered, and that expenditure declared by beneficiaries has actually been incurred and complies with all applicable laws, programme requirements and funding conditions. For 2014-2020 expenditure, these checks are required on each application for reimbursement submitted by beneficiaries. Any irregularities identified must then be corrected before the expenditure in question is declared to the Commission.

49 Our audit results over the last six years[37], but also the number and financial impact of errors reported by audit authorities (see ***Annex IV***) and the Commission, demonstrate that managing authorities are not yet sufficiently effective in mitigating the high inherent risk of error in cohesion. In fact, a large proportion of these errors could and should have been identified and corrected by this "first line of defence", had it been working effectively.

Audit authorities are an essential second line of defence, but not always fully effective in detecting irregular expenditure

50 Audit authorities are an essential "second line of defence" in cohesion spending. They must be independent from managing authorities and comply with the specific regulatory requirements and standards to which they are subject. Their task is to ensure that audits are carried out on the proper functioning of a programme's management and control system as well as on a representative sample of operations based on declared expenditure[38].

[37] Paragraph 6.42 of the 2022 annual report.

[38] Article 127(1) of the 2014-2020 CPR.

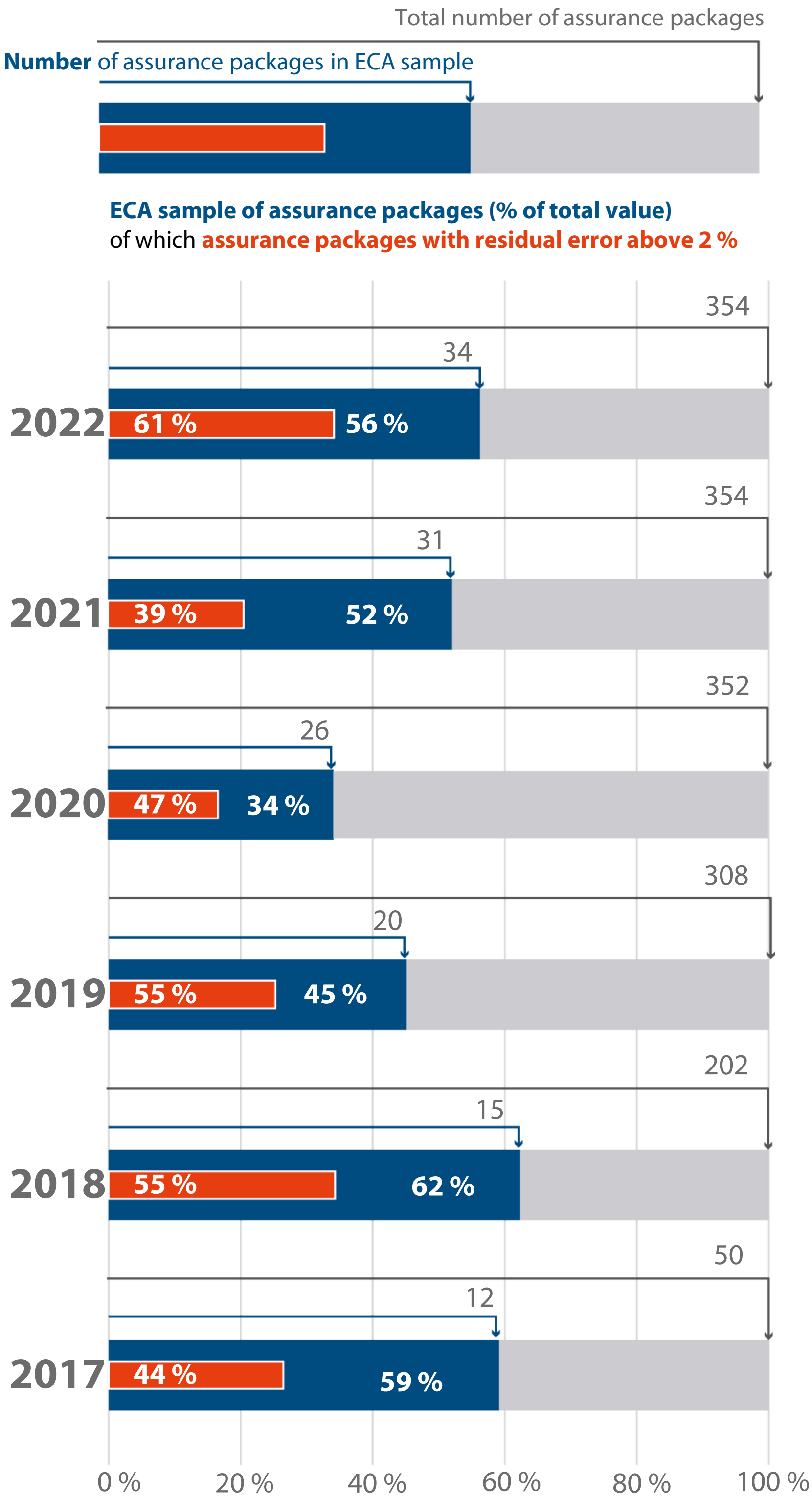
Taking into account the additional errors we detected, around half of the assurance packages we audited have a residual error rate above 2 %

51 Overall, from 2017 to 2022, we found errors in 51 of the 87 assurance packages we audited at least once, that had not been detected by the audit authorities' checks. In 43 of these cases, these additional errors had the effect of increasing the residual error rates reported by the audit authorities to above the 2 % threshold.

52 These 43 assurance packages represented a significant share of the expenditure certified to the Commission. Between 2017 and 2022, the proportion of expenditure in our samples for which these assurance packages accounted did not fall below 39 %, reaching a peak of 61 % in 2022. Taken together, these assurance packages represented around 45 % of the expenditure certified to the Commission in the assurance packages in our sample (see ***Figure 5***)[39].

[39] Paragraph 6.47 of the 2022 annual report.

Figure 5 – Assurance packages with a residual error rate above materiality (2017-2022)



Note: Our analysis also takes account of the Commission's assessment of the assurance packages in our sample.

Source: ECA.

53 Furthermore, there is a gap between the rates reported in the annual control report and the rate we recalculated to take into account the additional errors we detect. In 42 of the 138 packages in our sample (i.e. in around one third of cases), the difference between the audit authority's estimate and ours was over 2 percentage points. In more than half of those 42 cases, the difference was over 5 percentage points.

No 'safety margin' for additional errors when audit authorities report a residual error rate of 2 %

54 Based on the findings reported by audit authorities, managing and certifying authorities apply financial corrections, which entail withdrawing expenditure related to the affected projects before submitting the annual accounts to the Commission. In addition to the corrections applied for specific irregularities identified, they apply additional corrections in cases where the audit authorities report a residual error rate higher than the 2 % materiality threshold for a programme.

55 As the legislator tolerates a maximum level of error of 2 % in expenditure from the EU budget, the managing and certifying authorities only apply sufficient corrections to meet the target of 2 %. For around 17 % of assurance packages with residual error rates above 2 % following recalculation by us or the Commission, the previously reported residual error rates had been exactly 2 %. This leaves no 'safety margin' for additional errors detected by audits subsequent to the submission of accounts and means additional extrapolated financial corrections are necessary.

Weaknesses in audit authorities' work reduce the extent to which the Commission can rely on it

56 Over the years, we have found weaknesses of varying nature and seriousness in the work of 40 of the 43 audit authorities we have audited, which in turn have affected more than half of the transactions we have audited. Moreover, most of the additional errors we found could and should have been detected by audit authorities when they checked the same operations (see paragraph *20*). This reduces the extent to which the Commission can rely on the results of their work.

57 Between 2017 and 2022, we identified and reported shortcomings in the scope and quality of audit authorities' work in connection with 124 of the 171 additional errors. In particular, these shortcomings concerned:

- the planning and preparation of their audit work;
- the quality of their audit work itself; and
- the documentation of their audit work.

Audit planning and preparation

58 Sampling operations is an essential aspect of audit planning. Audit authorities are required to audit representative statistical samples of transactions and keep an appropriate audit trail to show that the samples have been drawn in an independent, objective and unbiased way. However, for seven of the 43 audit authorities we reviewed between 2017 and 2022 on one or more occasions, we found problems with the way they selected their samples and identified gaps in audit trails for sampling.

59 Audit checklists are another key element of audit planning and preparation because they reflect minimum requirements for the checks to be carried out and common procedures auditors have to follow. During our audits, we noted that audit checklists differed significantly in their level of detail from one audit authority to another, despite the Commission having shared its checklists with audit authorities early in the period to help standardise them. Even with the 2014-2020 period coming to an end, we continue to identify checklists that do not include specific questions on fraud, conflict of interest, double funding or state aid, even though audit authorities are required to check these issues.

60 Overall, we detected additional quantifiable errors in 21 % of the transactions for which we also identified weaknesses in audit planning.

Quality of audit work

61 Moreover, for around 27 % of transactions, we identified weaknesses in the quality or completeness of the audit work itself. These weaknesses often related to checks on project selection and eligibility criteria. In particular, we noted that some audit authorities did not systematically corroborate information provided by the beneficiaries against supporting documentation (see examples in ***Box 2***).

Box 2

Audit authorities' reliance on self-declarations by beneficiaries or participants to assess eligibility

Audit authorities tend to rely too much on beneficiaries' self-declarations when verifying eligibility criteria and other requirements, such as bidders' technical capacity, applicants' SME status, the conditions for not in employment, education or training (NEET) status, household composition, adherence to the de minimis ceiling for state aid, the absence of double funding or the absence of conflict of interest.

A number of additional errors are due to the fact that some audit authorities do not always verify supporting evidence or document these checks to corroborate the reliability of information declared by beneficiaries or participants.

Documentation of audit work

62 Finally, professional auditing standards[40] and the rules on auditing cohesion spending[41] require audit work to be documented properly, in a way that allows an experienced auditor with no previous connection to the task to understand the audit work done, the resulting conclusions and how these were reached. However, for around one third of transactions, the documentation stored in the audit authorities' files was not sufficient, due either to poor documentation by the auditors themselves or to insufficient review processes on the part of the audit authority.

63 After our audits for 2017 and 2018 identified shortcomings in audit authorities' documentation, the audit authorities and the Commission formed a working group to address the issue. In December 2019, the working group issued a reflection paper setting out how auditors should document their work and which supporting documents they should keep in their audit files. This is not an exhaustive manual, and its use is not mandatory. Nevertheless, it represents a first step in improving the way audit authorities perform and document their work.

64 Our audit results over the last six years demonstrate that the weaknesses we find in the work of several audit authorities limit the reliance that can be placed on that work[42]. Whereas audit authorities play a key role in the assurance framework, their

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[40] Specifically, International Standard on Auditing 230.

[41] Article 127(3) of the 2014-2020 CPR.

[42] Based on paragraph III in the executive summary of special report 26/2021.

work needs improvements to ensure that operations comply with the legal framework. However, ultimate responsibility for the EU budget lies with the Commission. The overall responsibility for budget implementation does not only cover legality and regularity of expenditure but also respecting the principles of sound financial management[43].

The Commission verifies the annual accounts, but its checks to detect additional errors face limitations

Desk reviews are not designed to detect additional ineligible expenditure

65 While performing checks for accepting the accounts (see also paragraph *15*), the Commission verifies the consistency of the regularity information reported by audit authorities to confirm the reliability of the residual error rates, mainly by performing desk reviews. To this end, the Commission analyses the information provided in each assurance package using standardised checklists but also takes into account other audit information.

66 The desk review can be complemented by fact-finding missions, sometimes including limited re-performance of audit authorities' audits of operations to help assess the reliability of their work. They help, according to the Commission, to identify risks for compliance audits. However, desk reviews are not designed to detect additional errors. This limits their added value in terms of confirming the regularity of the underlying transactions and the validity of the residual error rates reported by audit authorities[44].

The Commission's compliance audits have clear added value, but they are limited in number

67 The Commission's compliance audits are the most effective element in its work on assurance packages. Their main objective is to seek reasonable assurance that member states had detected, corrected, and reported all serious system weaknesses (and errors) before they submitted their annual accounts to the Commission. They are

[43] Article 317 of the Treaty on the Functioning of the European Union.

[44] Paragraph VII in the executive summary and paragraphs 26 and 29 to 30 of special report 26/2021.

also aimed at verifying the reliability of the audit authorities' audit opinions and reported residual error rates. These audits focus on reviewing the audit authorities' work and re-performing a sample of operations. This may entail reassessing the residual error rates and initiating additional financial corrections where relevant. However, the Commission carries out a limited number of compliance audits (average of 40 each year).

68 The Commission's compliance audits usually follow a risk-based approach. To this end, the Commission performs an annual risk assessment, following its desk reviews of all programmes, to select the highest risk audit authorities and programmes to be covered by its compliance audits. Between 2017 and 2022, the Commission carried out 162 such audits. Through this work, the Commission detects a significant number of irregularities not found by preceding desk reviews or the member state authorities' work. For 118 of these 162 audits (73 %), the Commission found that the audit authority had underestimated the residual error rate. In 67 cases (41 %), the Commission recalculated the residual error rate at over 2 %. The Commission's compliance audits result in conclusions that are similar to our own findings.

69 In our audits, we have identified two main shortcomings in the Commission's compliance audits:

- Firstly, under the assurance framework set out in the CPR, it takes almost two years from the end of the relevant accounting period before the Commission can conclude on the reliability of audit authorities' residual error rates for a given accounting year[45].
- Secondly, the Commission's residual error estimates disclosed in the AARs and AMPR are only provisional, as the Commission may draw on its desk reviews to ask audit authorities for additional verifications on shortcomings it has identified, or because the error findings of Commission audits could still change following the fact clearing procedures with the member state authorities. Consequently, the conclusions presented in the final audit reports are not final and subject to further changes once the full audit cycle is complete (see also paragraphs ***130-133***).

[45] Paragraph 6.54 of the 2017 annual report.

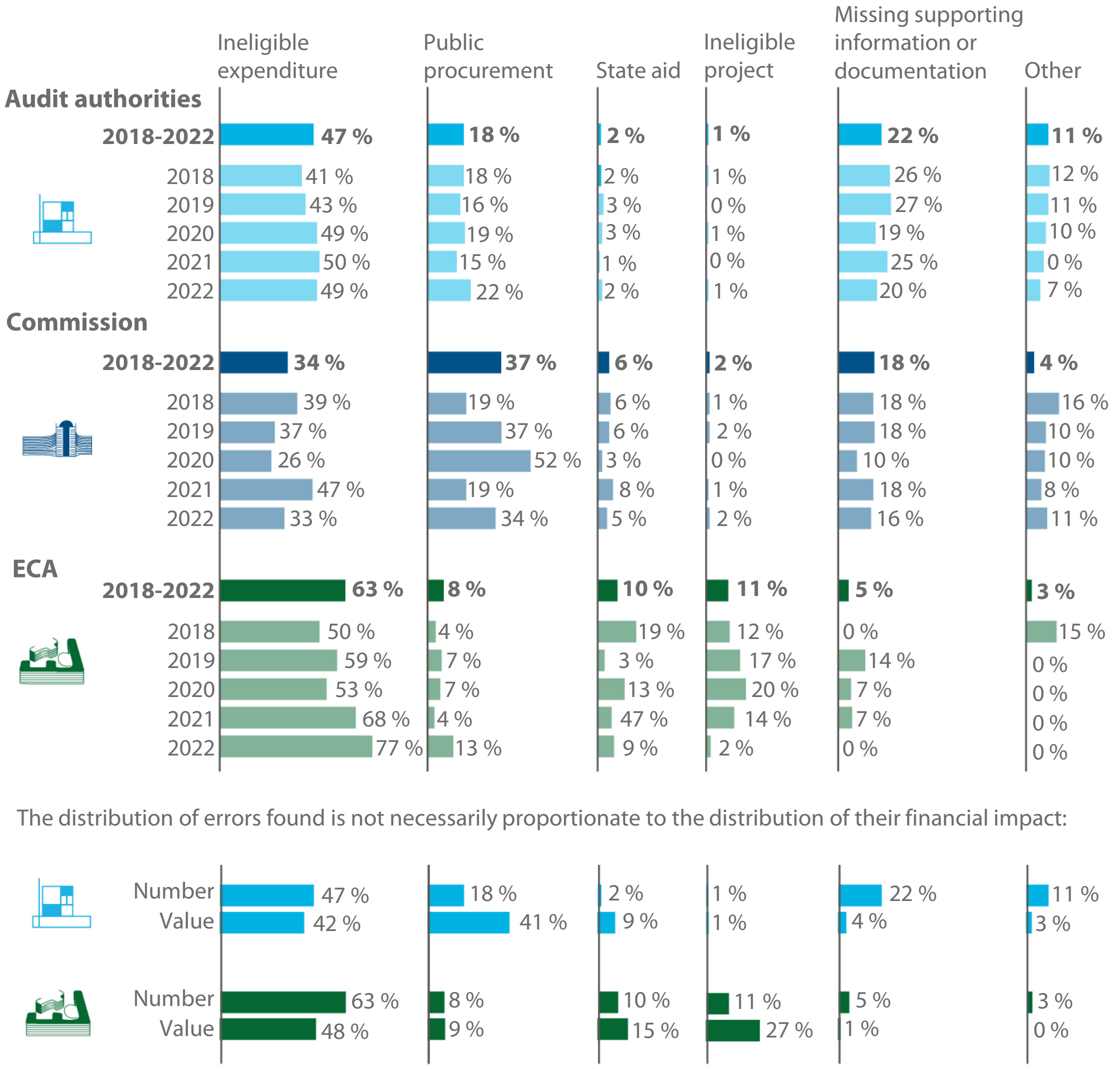
What are the types of error and where do they occur?

70 In 2018, audit authorities started reporting on errors using a common typology agreed between the Commission and the member states. This provides a better basis for analysing the errors detected by the different actors in the management and control system. We also apply a similar error typology for the errors we detect in our own work. In this section we analyse, from a multiannual perspective, how the types of additional errors we detected compare with the additional errors most frequently found by the Commission and reported by audit authorities. We also looked for geographical patterns.

Some error categories are more frequent in cohesion spending than others

71 During the 2014-2020 period, ineligible expenditure and ineligible projects were the most prevalent type of error and had the biggest impact on our estimated level of error, followed by non-compliance with state aid rules and EU and national public procurement rules. ***Figure 6*** shows in the distribution of the number of errors by error category. It also shows which categories of error had the biggest impact on the error rate, distinguishing between the irregularities found by audit authorities and the additional errors found both by the Commission and by us which had not been previously detected by the audit authorities.

Figure 6 – Share of different error types found by audit authorities, Commission and ECA, 2018-2022 (annual figures and five-year average)



(*) No data is available for the financial impact of errors detected by the Commission.

Source: ECA.

Ineligible expenditure accounts for most errors, in terms of both quantity and financial impact

72 Ineligible expenditure was the most significant type of error detected by all auditors between 2018 and 2022, both numerically and by financial impact. It covers a wide range of non-compliance with provisions of the CPR or fund-specific regulations and/or national eligibility rules. Setting eligibility rules, however, is primarily the responsibility of the member states. The category of ineligible expenditure includes irregularities such as costs not related to projects or expenditure not incurred or paid by beneficiaries, ineligible participants, over-declaration of staff costs, and inclusion of recoverable VAT in expenditure declarations. It also includes ineligible costs relating to financial instruments, and irregularities in the use of simplified cost options (SCOs).

73 The number of errors relating to ineligible expenditure found by audit authorities was relatively stable from one year to the next (consistently between 40 % and 50 %) but their financial impact fluctuated. The Commission found a lower level of ineligible expenditure, with around one third of the errors detected by compliance audits falling into this category.

74 Ineligible expenditure was also the most frequent type of additional error revealed by our audits, and the one with the greatest financial impact. Almost two third of the errors we found related to ineligible expenditure, even though our samples mostly cover expenditure previously checked by member state authorities and even though audit authorities themselves find a high number of such errors. In our 2022 annual report, we recommended that the Commission take mitigating measures for recurring errors to reduce the occurrence and impact of irregular spending.

75 A typical example of the additional errors we found relating to ineligible expenditure in the 2014-2020 period concerned measures supporting young people classified as NEETs (not in employment, education or training), in which project participants did not meet the eligibility criteria (see ***Box 3***).

Box 3

Additional error detected relating to ineligible participants in YEI projects

During the 2014-2020 period, we found additional errors in relation to the Youth Employment Initiative (YEI) in several member states. Most of these errors could have been detected through better checks on the supporting documentation required to prove fulfilment of the basic eligibility criterion (NEET status).

One YEI operation in Spain subsidised employment contracts for young university researchers who met the requirements for NEET status and were registered in the national youth guarantee system. Eight of the 30 candidates whose applications we checked, were, at the time of the application, either employed by another university or in postgraduate study at the recruiting university[46], meaning they did not qualify for NEET status and the related expenditure was ineligible.

[46] Box 5.5 of the 2019 annual report.

In France, the NEET status of participants in two YEI projects was checked solely against self-declarations, and audit authorities did not verify their reliability even on a sample basis. Our additional checks to establish the status of participants in our sample found that one quarter of them were actually in employment, making them ineligible for EU support[47].

These findings led to recommendations, in our 2021 and 2022 reports[48], on verifying eligibility conditions.

Public procurement errors are more often detected by audit authorities than in 2007-2013

76 During the 2007-2013 period, non-compliance with EU and national public procurement rules was the biggest single cause of errors in cohesion. At that time, this category accounted for nearly half of our estimated error rate[49].

77 During the 2014-2020 period, the Commission implemented several measures under its public procurement action plan to improve member states' administrative capacity and the compliance of public procurement procedures in cohesion policy. This plan, established in 2013 and updated several times since[50], included actions on preventing irregularities, but also on updating audit checklists[51].

78 This action plan has helped to increase the detection of procurement errors by member state authorities. Between 2018 and 2022, audit authorities reported that around 18 % of the quantifiable errors they found related to infringements of public procurement rules, with these errors having a financial impact of around 41 %. According to the audit authorities' reporting, Italy and Hungary accounted for the largest share of public procurement infringements over the period. In the transactions we audited during this period, the audit authorities had detected and corrected 80 procurement errors prior to our audits. We found 33 additional procurement issues, not detected by the audit authorities, 11 of which we quantified.

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[47] Box 5.2 of the 2021 annual report.

[48] Recommendation 5.3 of the 2021 annual report; recommendation 6.5 of the 2022 annual report.

[49] Paragraph 30 of Agriculture and cohesion: overview of EU spending 2007-2013.

[50] Commission's reply to paragraph 6.26 of the 2018 annual report.

[51] Action plan on public procurement.

79 In the period covered by this review (2017-2022), the share of our estimate of the level of error that was attributable to additional errors for public procurement infringements was 9 %, compared to 45 % in 2007-2013. Taking into account the high proportion of such irregularities reported by audit authorities between 2018 and 2022 (accounting for 41 % of the total financial impact, see ***Figure 6***), this shows that cohesion spending is still affected by procurement errors. However, our audits noted an improvement in audit authorities' capacity to detect this type of irregularity compared to the 2007-2013 period. We provide a more detailed analysis of the state of public procurement in a recent report[52].

Ineligible projects and state aid errors are low in number but make up a significant share of our estimated level of error

80 Ineligible projects are typically few in number, but they have a significant financial impact since they render the entire certified expenditure amount ineligible. A similar situation holds for infringements of state aid rules, because not complying with those rules often disqualifies beneficiaries from obtaining any funding.

81 For both error types, our own audit findings suggest that audit authorities are not effective enough in detecting non-compliance with the rules. Similarly, as ***Figure 6*** shows, nor does the Commission detect all such errors when auditing the work of audit authorities. Only 3 % of the errors reported by audit authorities and 8 % of those reported by the Commission relate to these categories.

82 By contrast, around one fifth of the additional errors we quantify concern ineligible projects or infringements of state aid rules. The combined financial impact accounts for 42 % of our error estimate. Additional errors relating to infringements of state aid rules peaked in 2018, due to a serious systemic weakness we and the Commission detected in Portugal, where national rules were not consistent with EU state aid rules (see ***Box 4***).

[52] Special report 28/2023.

Box 4

National rules not consistent with EU state aid rules where incentive effects are concerned

EU state aid rules are based on the premise that state aid should only be allowed where it subsidises activities which would not have taken place otherwise. This "incentive effect" is automatically assumed for schemes under the General Block Exemption Regulation if works start after the date of the application for funding.

In 2018, we identified three ERDF projects in Portugal that lacked an incentive effect. We also found that the country's national rules were not consistent with EU rules where incentive effects were concerned. Before our audit, the Commission identified several operations affected by the same error and asked the managing authority for the programme concerned to exclude those operations from the accounts. Although the member state changed its national rules to ensure consistency with the EU rules and avoid further irregularities in the future, neither the member state authorities nor the Commission took sufficient corrective action either to eliminate these errors or to offset the potential impact by means of a financial correction in the expenditure already certified for the 2016-2017 accounting year.

In 2019, we identified a similar problem. At that time, the Commission asked the Portuguese authorities to identify all affected operations for the next 2 accounting years and to make the necessary corrections to exclude the irregular expenditure from the accounts. The resulting corrections totalled more than €174 million[53].

Most member states receiving the bulk of cohesion funding have material levels of error, but they differ in the way they apply the assurance framework

83 Our multiannual analysis shows that, we continuously identify errors in audited transactions that have remained undetected at member state level. We analysed our own audit results, but also those of the audit authorities and the Commission, to obtain further insights on the regularity of cohesion spending in those member states which receive the bulk of the funding and to determine how effectively they apply the assurance framework.

[53] Paragraphs 6.30-6.32 of the 2018 annual report; paragraph 5.27 of the 2019 annual report and footnote 95 of DG REGIO's 2020 AAR.

Our results between 2017 and 2022 indicate a material level of errors in most of the member states receiving the most cohesion funds

84 Nine member states account for 76 % of cohesion policy spending: Poland, Italy, Spain, Portugal, Hungary, Czechia, Romania, Greece, Germany. These member states account for 91 % of our estimated level of error. In addition, the vast majority (90 %) of all high-impact errors (those quantified at between 80 % and 100 % of the audited transaction's value) were identified in those countries.

85 During the 2007-2013 period, each of the biggest recipient member states had a material level of error. This was also the case for the remaining 18 member states taken together[54]. For the 2014-2020 period, our audit results, based on the additional errors we found, indicate that the level of error for the biggest recipients, except Poland, was material. In the case of Poland one large programme accounted for more than one third of the country's entire cohesion spending. Its indicative level of error was below materiality, whereas the remaining Polish programmes, taken together, indicated a material level of error.

Member states vary in how effectively they detect irregular expenditure

86 As ***Figure 7*** shows, our own findings for specific member states differ from those of their respective audit authorities as regards the frequency and value of irregularities. As our findings only relate to additional errors (i.e. those not previously detected by member state authorities), this indicates that some member states are more effective than others in preventing and detecting errors.

87 For example, the irregularities reported by the audit authority of Poland, the largest recipient of cohesion spending, were low in number and value. We found a relatively high number of additional errors, though of a low value. Hence their contribution to our error rate was comparatively low. In comparison, the German audit authorities reported a high number of irregularities, also with a low value. However, we detected a low number of additional errors with a high average error rate. This explains why Germany was the third biggest contributor to our error rate. From this we can conclude that not all audit authorities are equally effective in detecting high-value irregularities.

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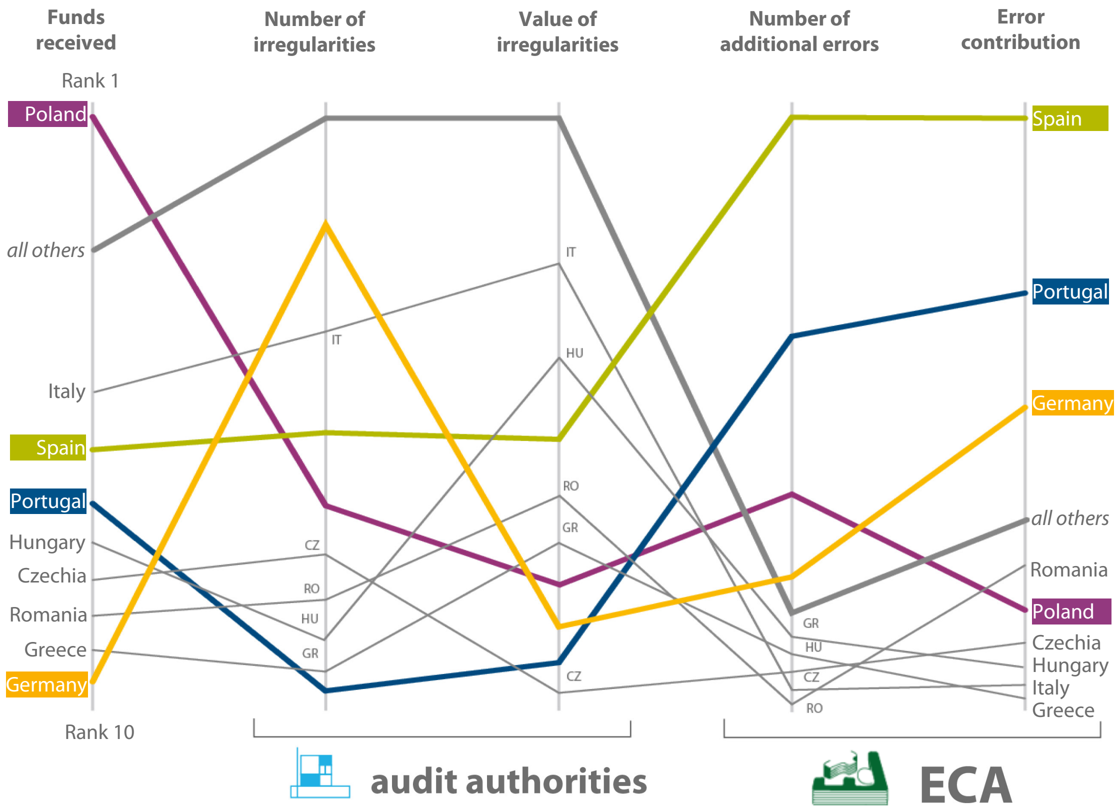
[54] Paragraph 43 of Agriculture and cohesion: overview of EU spending 2007-2013.

Figure 7 – Overview of member states in terms of irregularities found and reported by audit authorities and additional errors detected by us (2017-2022)



Note: (1) The overview covers irregularities and errors analysed in paragraphs ***71-82***. (2) Member states are listed according to their ranking for the different aspects examined (i.e. the highest ranking member state is positioned on the top). Member states' rankings under each heading are based on the share for which they account in each case. (3) Member states that are specifically mentioned in the related paragraphs are highlighted in the figure.

Source: ECA, based on our own data and audit authorities' reporting to the Commission.

88 Similar to Germany, Spain and Portugal also represented a disproportionate share of the errors we detected relative to the funds they received. For the latter countries, we found a large number of additional errors of a particular type. For example, between 2017 and 2022 we found the most state aid errors in Portugal because of the specific issue discussed in ***Box 4***. Meanwhile, over the same period we identified more ineligible projects in Spain than in other member states (see an example in ***Box 5***).

89 We also found specific weaknesses in the work of these countries' audit authorities (see paragraph ***57***). Based on this, we consider that these three member states in particular need to strengthen the detection capacity of their audit authorities, supported by the Commission.

Box 5

Retroactive registration of NEETs in the Youth Guarantee

We audited several operations financed under the YEI in Spain in 2021. Four of these operations concerned rebates of employers' social security contributions linked to interim contracts signed with NEETs.

National YEI legislation and the programme covering these operations require NEET participants to be registered with the national Youth Guarantee system. This registration gives NEETs access to a number of assistance measures (such as personalised guidance and individual action planning, including tailor-made individual support schemes), but also serves to verify their compliance with the NEET requirements.

Three of the four audited operations, concerning social security rebates, were registered retroactively in the national system, in some cases even years after the rebate was applied. The national entity responsible for managing social security rebates, which is both the intermediate body and the beneficiary of the operations, did this without any previous knowledge of the NEET participants.

This retroactive registration made it impossible to validate the eligibility of participants as not being in education or training. Because there were no such verifications, the Commission had already applied a 25 % financial correction before we performed our audit. We consider that the retroactive registration of participants renders the three audited operations ineligible for EU funding. This is because, as well as making it impossible to verify whether participants are in education or training, it makes their registration in the national system non-compliant with other conditions of the Youth Guarantee and YEI. Most importantly, it means that NEETs are deprived of all the additional benefits available under those two schemes[55].

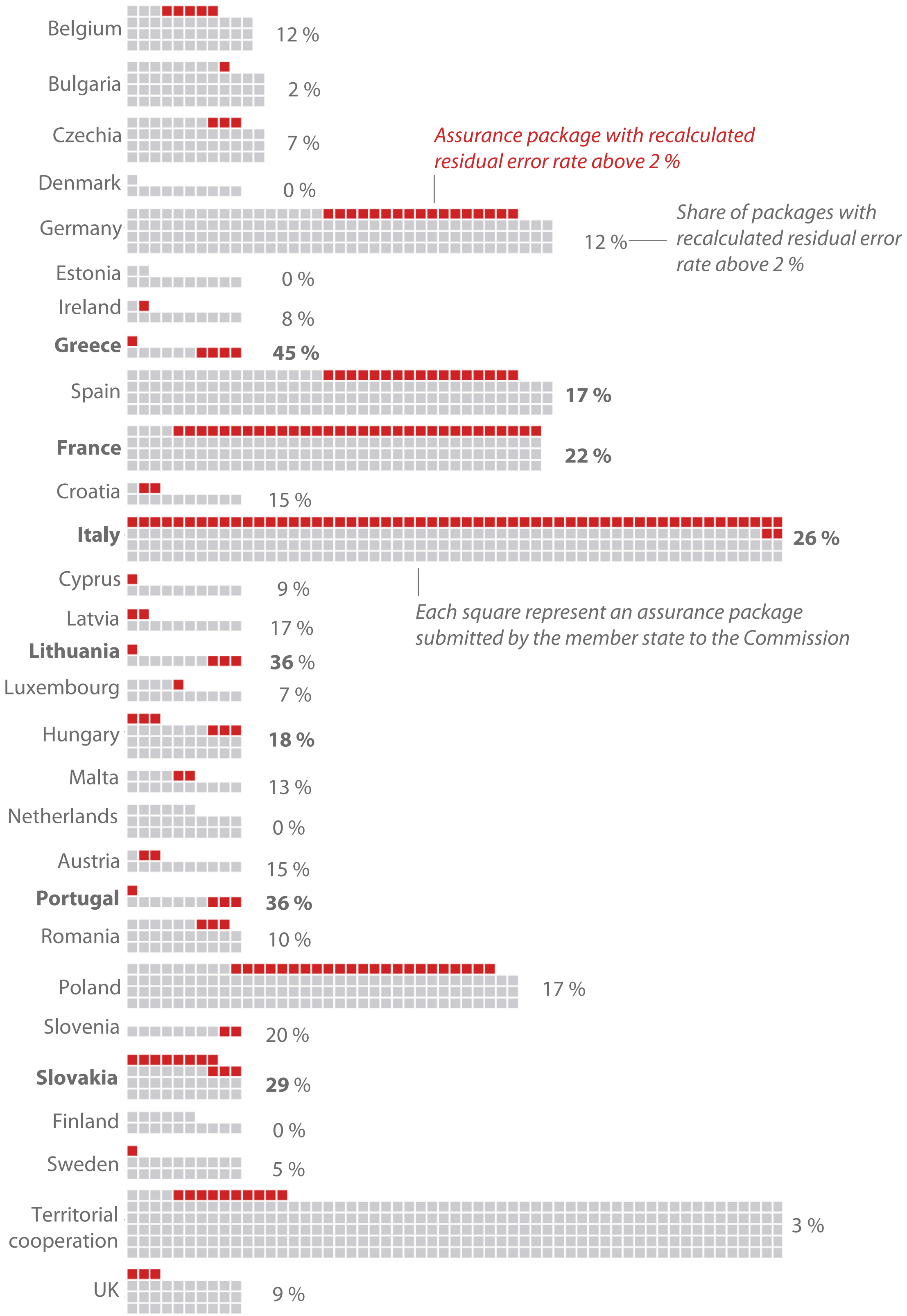
The Commission recalculates a residual error rate above the 2 % materiality threshold for some member states more often than others

90 We also analysed the Commission's assessment of the assurance packages for all member states. We collected the information on confirmed (reassessed) residual error rates published in DG EMPL's and DG REGIO's respective AARs for each assurance package each year between 2017 and 2022.

[55] Box 5.5 of the 2021 annual report.

91 Our analysis shows that the Commission recalculated residual error rates above the 2 % materiality threshold particularly often for some member states: this was the case for Greece (45 % of assurance packages), France (22 %), Italy (26 %), Lithuania (36 %), Portugal (36 %) and Slovakia (29 %) (see ***Figure 8***).

Figure 8 – Assessment of residual error rates by the Commission for each member state (2017-2022)



Source: ECA, based on AARs of DG EMPL and DG REGIO between 2017 and 2022.

92 The high proportion of packages with residual error rates above 2 % following the Commission's recalculation indicates that the Commission identifies regularity issues for a number of assurance packages. It also indicates that member states differ in how effectively they apply the assurance framework. In the case of Greece and Portugal, however, the high share of recalculated packages above 2 % is also due to the fact that all programmes are grouped into a single assurance package.

93 Five of the nine member states receiving 76 % of cohesion funding (Spain, Greece, Hungary, Portugal and Romania) had recalculated residual error rates above 2 % for more than half of their assurance packages in our sample at least once between 2017 and 2022. For the remaining four member states receiving the most, our reassessment increased the error rates to above 2 % for at least 25 % of the audited assurance packages.

What were the root causes of errors at national level?

94 The additional quantifiable errors (171) found during our audits are errors that have not been previously detected or corrected by levels of member states' control systems. We analysed our data on these errors to identify how and why they occur and who causes them in the member state. Errors occurring at each stage could have been detected and corrected by the subsequent control level in the member states.

95 Based on this analysis and taking account of the Commission's previous work[56], we have identified three root causes of errors, namely issues with:

- inadequate administration on the part of member state authorities;
- lack of diligence or (suspected) intentional violation of rules at the level of beneficiaries; and
- the interpretation of the regulatory framework.

96 ***Figure 9*** shows the level at which errors originate, who their source is and how and why they occur. Audit authorities could have prevented 170 of the additional errors we found.

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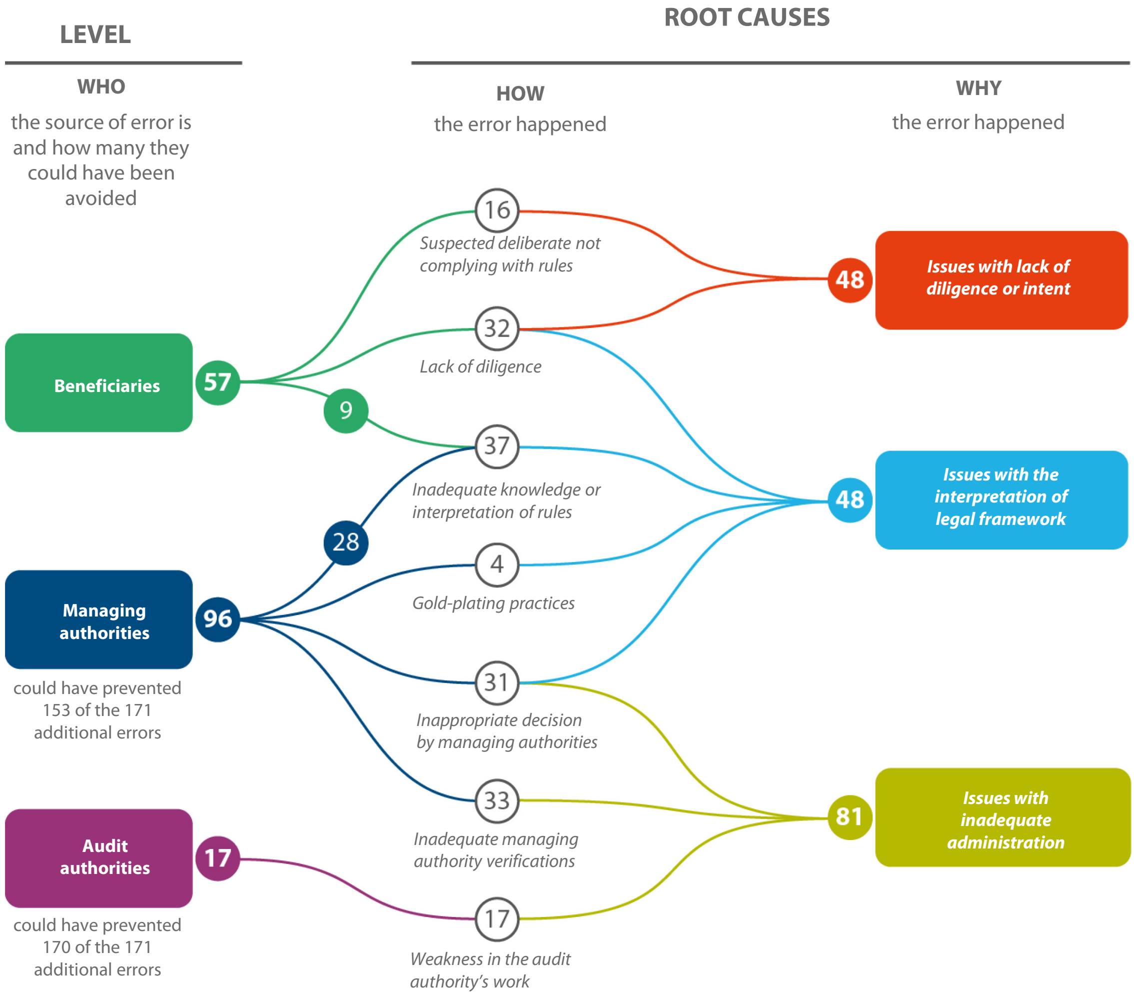
[56] Communication from the Commission to the Council and the European Parliament, "Root causes of errors and actions taken (Article 32(5) of the Financial Regulation)", COM(2017) 124 final; Study for the European Parliament, "Single audit approach – Root causes of the weaknesses in the work of the member states' managing and audit authorities", IPOL_STU(2022)732267.

Figure 9 – Overview of root causes of the additional errors detected by us and the level at which these errors occurred (2017-2022)



Note: Classification based on main error characteristic. For one of the 171 additional errors we detected we consider that responsibility lay mainly with the Commission.

Source: ECA.

Issues with administration on the part of member state authorities accounted for almost half of additional errors

97 For the purposes of this review, good administration means making sure that operations are well planned, selected, implemented and controlled, so that only expenditure that is legal and regular is declared and certified to the Commission. Weaknesses in this category can be manifest in inappropriate decision-making or inadequate verifications by managing authorities and weaknesses in audit authorities' work.

More than one third of the additional errors we detected could have been prevented by managing authorities

98 Around 37 % of the additional errors we reported for the 2014-2020 period can be attributed to action or lack of action by managing authorities or the bodies to which they delegate tasks. This root cause may often manifest itself in inappropriate decisions by these authorities when approving operations (18 %).

99 Managing authorities could have detected 19 % of the errors we found. These errors happened as a result of inadequate (or, for specific aspects, even non-existent) first-level checks during project implementation. This category includes cases such as the approval of expenditure despite project objectives not having been met, the provision of financial support that is not in line with conditions set out in project approval documents, lack of eligibility checks on participants or the reimbursement of expenditure not incurred by beneficiaries.

100 Our audits regularly identify a lack of appropriate checks by managing authorities during their verification of eligible expenditure and eligibility criteria. We consider this to be one of the most significant risk factors in cohesion spending. For the 2021-2027 period the CPR foresees the adoption of a risk-based approach to first-level checks by managing authorities. The Commission expects a positive impact by focusing on high-risk expenditure. We consider however, that this change increases the risk to the regularity of expenditure because some beneficiaries' payment claims might not be subject to any verification by managing authorities.

Audit authorities carried out inappropriate assessments in a few cases

101 Shortcomings in audit planning and preparation, and in the quality of documentation of audit work, reduce the reliability of that work (paragraphs ***56***-***62***). Sometimes these shortcomings may impact the audit authorities' assessment of errors they had previously identified.

102 Seventeen of the additional errors (10 %) we detected between 2017 and 2022 were attributable to insufficient work or inappropriate assessment by audit authorities. These cases mainly concerned non-reporting of errors and/or inadequate quantification.

Lack of diligence or beneficiaries' suspected intentional non-compliance with rules accounted for over a quarter of errors we detected

103 We also found cases of additional errors in which the rules were rather clear but the beneficiary took insufficient care to follow them. Thirty-two of the 171 additional errors (19 %) we reported and quantified between 2017 and 2022 come under this category. They include, for example, cases in which beneficiaries declared equipment which they used for non-intended purposes.

104 In the case of errors which resulted from intentional acts or omissions by beneficiaries, we generally suspect fraud. As the EU's external auditor, we do not have a mandate to investigate cases of suspected fraud against the EU's financial interests and our audit procedures are not aimed at identifying fraud. We forward suspicions arising from our work to the European Anti-fraud Office (OLAF) or to the European Public Prosecutor's Office (EPPO)[57].

105 Between 2017 and 2022, out of the 1 157 transactions we examined, we found 16 cases of deliberate non-compliance with the rules. This corresponds to 9 % of the 171 additional errors we detected.

106 The Commission's 2022 annual report on the protection of the EU's financial interests and the fight against fraud provides a fraud detection rate for each policy area, based on data reported by member state authorities[58]. This rate is arrived at by calculating irregular amounts linked to fraud as a percentage of total payments. The rate reported for cohesion spending in 2014-2020 is just below 0.5 %. This report also confirms that the member states flagged every 11th irregularity they reported in the Irregularity Management System (IMS) as suspected fraud over the same period (9 %).

107 We have reported previously that managing authorities under-report fraud and that this affects the reliability of the fraud detection rates published in the reports on the protection of the EU's financial interest. We have also noted that although there have been improvements in the way managing authorities identify fraud risks and design preventive measures, they still need to strengthen fraud detection, response and coordination[59]. The situation persisted in 2022: member state authorities did not

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[57] Paragraphs 1.44, 1.46 and 1.47 of the 2022 annual report.

[58] See Figure 6 of the report.

[59] Paragraphs 80 and 89 of special report 06/2019.

report suspected fraud cases as required and insufficiently addressed the risk of fraud. Moreover, we noted that around 35 % of audit authorities' checklists still did not explicitly address the risk of fraud[60] or document how they addressed this risk during their audits.

Differences in the interpretation of legal requirements accounted for another quarter of errors we detected

108 Beneficiaries and public authorities must comply with many sets of rules, such as the general provisions set out in the CPR, fund-specific provisions, delegated and implementing acts, horizontal EU rules (e.g. on public procurement or state aid) and national eligibility rules[61]. In addition, provisions usually change between programme cycles. Our audit experience shows that the application of a highly regulated framework to thousands of beneficiaries and public authorities across 27 member states has a down-side: differences in interpretation are inevitable, including between managing and audit authorities. At times this even results in legal uncertainty that may prevent public authorities from implementing programmes as intended[62].

109 Our analysis shows that unclear rules or problems with their interpretation were a root cause of around 24 % of all additional errors (37 cases). In some of these cases, beneficiaries declared irregular expenditure because they did not interpret the rules properly. This category of error also includes cases in which the rules laid down in national laws did not meet all the requirements of the corresponding EU legislation, as well as errors due to non-compliance with national rules that "gold-plated" (i.e. were more demanding than) EU legislation.

110 The majority of the 37 cases occurred because managing authorities themselves interpreted the rules incorrectly. An example of this situation is presented in ***Box 6***.

[60] Paragraph 6.56 and 6.58 of the 2022 annual report.

[61] Article 65(1) of the 2014-2020 CPR.

[62] See, for example, paragraph 44 of our briefing paper "Simplification in post-2020 delivery of cohesion policy".

Box 6

Additional errors we detected resulting from managing authority's incorrect interpretation of rules

In 2019, we found two projects in Italy originally financed from national resources, that had been physically completed before they were approved for EU funding and were therefore ineligible. The member state authorities had interpreted "physical completion" incorrectly as referring to the financial or administrative closure of a project. In fact, it refers to the completion of works or activities necessary for the project's output, which generally takes place before financial and administrative closure[63].

We therefore recommended that the Commission clarify what is meant by "physically completed"/"fully implemented" operations. However, it has not yet disseminated these clarifications to all member states[64] but only to those most directly concerned. The Commission also proposed modifying its "typology of errors" for the 2021-2027 period to address such errors as a separate category.

The organisational framework in member states has an impact on their ability to prevent and detect errors

111 According to the Commission's estimates, member states established around 1 400 different authorities to manage and control cohesion programmes in 2014-2020, including 116 audit authorities, around 300 certifying and managing authorities, and more than 900 intermediate bodies[65]. The Commission's *ex post* evaluation of 2007-2013 cohesion policy also suggested that the more authorities there are per programme, the greater the risk of differing interpretations of the rules at different levels[66].

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[63] Paragraphs 5.19-5.20 of the 2019 annual report.

[64] Annex 6.2 of the 2022 annual report.

[65] Paragraph 55 of our briefing paper "Simplification in post-2020 delivery of cohesion policy".

[66] Paragraph 57 of our briefing paper "Simplification in post-2020 delivery of cohesion policy".

112 Our analysis shows that there is a correlation between the number of programmes in a member state and the error levels detected by audit authorities (i.e. indicating weaknesses in the managing authorities' work). We also noted an inverse correlation with the size of the programmes: the number of errors occurring is higher for smaller programmes.

113 This indicates that member states with decentralised administrations and regionalised programme implementation (e.g. Belgium, Germany, France, Spain and Italy) may face greater challenges in implementing cohesion policy programmes effectively.

114 The 2021-2027 CPR provides for the simplification of the administrative structure of programmes by, for example, replacing certifying authorities with an accounting function and introducing "enhanced proportionate arrangements" for programmes, which entail reduced checks by member state authorities and also by the Commission. As we have highlighted previously, there is no evidence that the potential benefits of this simplification will outweigh the risk entailed by limiting the extent of controls[67].

[67] Paragraphs 113 to 115 of opinion 06/2018.

How did the Commission prevent and correct errors?

115 In this section, we examine what measures exist and how the Commission uses them to reduce the level of error in cohesion spending. We look at ways to prevent errors from being made in declarations in the first place and how they can be corrected if they are not detected by member state authorities.

Simplification of the regulatory framework for cohesion policy has so far not achieved the intended results

116 Despite various simplification initiatives, the regulatory framework for cohesion policy has become even longer over time. Between 2007-2013 and 2014-2020, the number of pages of regulations and guidance more than doubled[68].

117 For the 2021-2027 period, the Commission decided to stop issuing additional written guidance documents for managing and audit authorities and to keep existing ones only when appropriate, and also intends to reduce the number of secondary laws. We note that this carries the risk of adding to legal uncertainty for managing authorities and beneficiaries and ultimately may even increase the risk of errors[69].

Transactions using simplified cost options are less prone to errors, but not used across the board

118 Simplified cost options (SCO) are aimed at achieving numerous benefits such as reducing administrative burden, enhancing flexibility and adaptability, improving transparency and auditability and facilitating timely project implementation, as provided for in Article 67 of the CPR.

[68] Paragraph 45 of our briefing paper "Simplification in post-2020 delivery of cohesion policy".

[69] Paragraph 101 of opinion 06/2018.

119 SCOs are the most frequently used simplification measures. Managing authorities permitted their use in around 80 % of programmes surveyed by the Commission in 2017[70]. However, this does not necessarily mean they were actually used in those programmes.

120 Our audits of transactions involving SCOs have found them to be less prone to error, and they are also an important simplification measure, but they are not always implemented as they should be. Our approach to auditing SCOs takes into account their intended benefits of streamlining administrative burden and making project implementation more agile. However, where we need to verify the existence of a declared activity, we may look for evidence of costs actually incurred and paid.

121 Between 2017 and 2022, we found that every 24th transaction involving SCOs was affected by error, compared to every fifth transaction based on reimbursement of actual costs. The most frequent errors relating to SCOs concern weaknesses in their design (see example in ***Box 7***).

Box 7

Ineligible costs due to inappropriate calculation of indirect costs

In Czechia, the managing authority of a European Social Fund/European Regional Development Fund programme launched a complementary call for projects approved under the Horizon 2020 programme.

Under the Horizon 2020 rules, depreciation costs can be included in the basis for calculating indirect costs, which are reimbursable at a flat rate of 25 % of eligible direct costs.

However, the managing authority transposed the Horizon 2020 rules into national legislation incorrectly. This led to the situation that beneficiaries could declare the investment costs as direct costs and a hypothetical depreciation of the same investment in the basis for calculating indirect costs. This led to a systematic over-declaration for all projects under the same national rules[71].

[70] European Commission study, "Use of new provisions on simplification during the early implementation phase of ESIF", p. 61; see also paragraph 74 of our briefing paper "Simplification in post-2020 delivery of cohesion policy".

[71] Box 6.3 of the 2022 annual report.

122 Despite the Commission's efforts to promote the use of SCOs, there has been limited uptake in the 2014-2020 period for all funds taken together. This is true even in cases where their use might be appropriate[72], such as certain types of European Regional Development Fund/Cohesion Fund operations. This was mainly due to legal uncertainty and the additional administrative burden entailed by using them in parallel with traditional national and regional systems based on the reimbursement of actual costs[73].

Retention on interim payments potentially effective but undermined by release of outstanding annual balance prior to regularity checks

123 The Commission retains 10 % of the amounts paid to member states in a given accounting year (see paragraph ***16***). This retention is meant to safeguard the EU budget and mitigate the inherent risk of member states declaring expenditure affected by error. This amount is meant to be released when the Commission accepts the annual accounts.

124 However, the acceptance of accounts is not dependent on the level of error reported by the audit authorities. The Commission is required, under the CPR, to analyse legality and regularity issues only at a later stage, after accepting the accounts[74]. Hence, the Commission can release the 10 % initially withheld, despite the risk that subsequent legality and regularity checks may detect a material level of error (i.e. a residual error rate above 2 %) in the expenditure in the accounts.

125 The Commission can interrupt payments or suspend the payment of the outstanding balance for the accounting year (and the release of the amount retained on interim payments) if there is evidence of serious irregularities at the time the accounts were accepted. The objective of these tools is to prevent irregular expenditure in the future[75]. As previously noted, these result in a deferral of payments from the EU budget, putting additional pressure on the member states to take the

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[72] Executive Summary I and III of special report 06/2021.

[73] Paragraph 75 of our briefing paper "Simplification in post-2020 delivery of cohesion policy", based on European Commission (2017), study, "Use of new provisions on simplification during the early implementation phase of ESIF".

[74] Article 139(5) of the 2014-2020 CPR.

[75] Articles 83 and 143 of the 2014-2020 CPR.

corrective action necessary to remedy deficiencies[76] in the effective functioning of the management and control systems. Interruptions and suspensions cannot be used, where the Commission's calculation of the annual balance results in member states having to repay money rather than receiving an additional payment – as was the case for the majority of programmes between 2017 and 2022. This approach is in line with the CPR but fails to protect the EU budget until the assessment of regularity is completed[77].

126 The legal situation has changed for the 2021-2027 period. Accounts with a reported residual error rate above the materiality threshold of 2 % are not admissible and cannot be submitted to the Commission[78]. At the same time, the retention has been reduced to 5 % and will continue to be released before the Commission has completed its regularity checks[79]. This reduced rate may be sufficient for cohesion policy overall, but not for all programmes. In our experience, the Commission's conclusion on the regularity of expenditure raises the residual error rate to over 5 % in several cases, particularly if account is taken of the additional errors we find[80].

Financial corrections made so far have led to no direct loss of funding for the member states concerned

127 The Commission may request financial corrections in cases where serious deficiencies in a member state's management and control systems have led to systemic errors. It may also request such corrections for individual irregularities. These corrections can be the result of its own audits, its work to follow up our audits, OLAF investigations, or of national audits or controls when insufficient corrections were applied. Moreover, it is the Commission's role to follow up on irregularities reported by member state authorities and to make sure that problems are addressed, and errors corrected to make sure that corrections have a deterrent effect on irregularities. Such follow-up is necessary to correct errors not previously detected by member state authorities, including the additional errors detected by us.

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[76] Box 20 of review 01/2023.

[77] Paragraph 21 of special report 26/2021.

[78] Article 98(5) of the 2021-2027 CPR.

[79] Paragraph 22 of special report 26/2021.

[80] See Annex 7 of DG EMPL and DG REGIO AARs between 2017 and 2022.

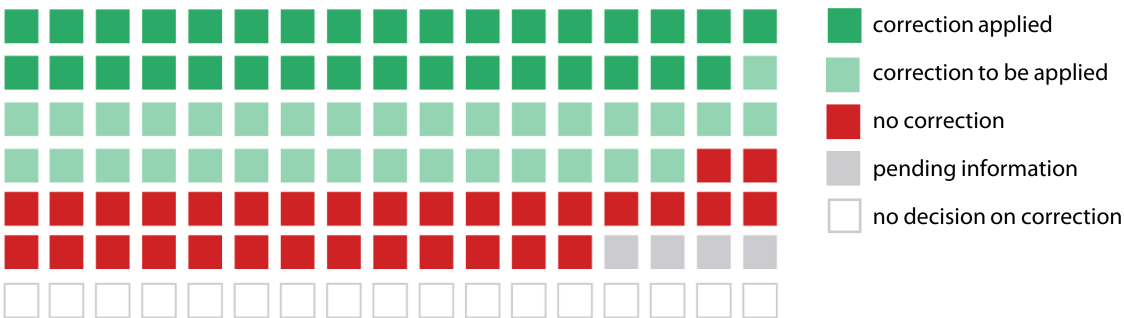
It can take up to 20 months to complete one financial correction procedure against a member state

128 We reviewed the actions taken by the Commission to follow up our individual findings between 2017 and 2021 – years for which follow-up action had already been launched by the time of our analysis. We focused mainly on quantifiable errors.

129 The Commission accepted our findings relating to 119 of the 124 additional errors we quantified between 2017 and 2021. As shown on ***Figure 10***, of these 119 errors, we found there was evidence that the Commission:

- applied or intends to apply corrections for 66 errors with financial impact (around 55 %) in line with its interpretation of errors (see paragraph ***44***);
- considered that it had no robust legal basis to apply financial corrections or did not see the need to do so, also taking into account additional information from the member states, in 32 cases (around 27 %);
- had not yet decided whether to apply financial corrections or was waiting for additional information from the member state concerned for the remaining 21 errors (including 16 cases from 2021).

Figure 10 – Status of the Commission's follow-up of our findings



Source: ECA.

130 According to the Commission's legal procedures, the follow-up of errors and applying financial corrections includes an additional clearing procedure with the member state concerned. This is in addition to all formal steps that are part of our audit process. As a result, remedial action is not taken immediately.

131 Our analysis shows that, for one third of the additional errors that we quantified between 2017 and 2021, the Commission's follow-up was still ongoing. For these cases, the average time elapsed since the end of our audit was 31 months (i.e. more than 2.5 years).

132 For cases that had been closed by the time of our analysis, the average length of time between the end of our audit and the conclusion of the Commission's follow-up was between 11 months for cases in which it decided not to apply financial corrections and 20 months for cases with corrections. Since the creation of the Joint Audit Directorate in July 2021, the average length has decreased to around seven months for cases with no corrections.

133 The situation is similar for the Commission's own audits: it can take as long as several years before the Commission can confirm that the corrections proposed have been implemented as required[81].

Controls at EU level resulted in €620 million in additional financial corrections by the end of 2022, according to the Commission's reporting

134 For the 2014-2020 period, managing and certifying authorities carry out the bulk of financial corrections and deductions. These also take account of the findings reported by their audit authorities (see paragraph ***55***). The Commission, in its AARs reports the amount that member states withdraw temporarily or definitively in the accounts[82]. The withdrawn funds can be reintroduced or reused by other eligible expenditure within the same programme[83]. After accepting the accounts, the Commission can request additional financial corrections for individual irregularities; in addition, it can apply extrapolated corrections when residual error rates are recalculated at above 2 %. It can also address systemic weaknesses affecting multiple programmes by applying corrections to all affected programmes. Such corrections are the result of the Commission's own audits or its follow-up actions relating to certified expenditure and are additional to the amounts withdrawn from the annual accounts by managing and certifying authorities as a result of their audits and verifications.

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[81] Paragraphs 81-82 of special report 26/2021.

[82] See Annex 7H to DG EMPL's 2021 AAR and Annex 7H to DG REGIO's 2021 AAR.

[83] Articles 137(2) and 143(3) of the 2014-2020 CPR.

135 According to the AARs of DG EMPL and DG REGIO, by the end of 2022, the Commission had requested member states to implement €620 million in such additional financial corrections since the beginning of the 2014-2020 period based on audits and controls by EU bodies. The vast majority (88 %) of these resulted from its own audits[84]. This amount also includes corrections of €291 million applied as a follow-up to the recalculated residual error rates of previous accounting years. The CPR allows member states to replace the amounts corrected with other regular expenditure for these financial corrections as well.

No net financial corrections so far for the 2014-2020 period

136 Finally, for the 2014-2020 period, the Commission may apply net corrections in cases where EU audits identify serious deficiencies in the management and control system after the accounts were submitted and which were not identified, reported and corrected by member states[85]. Net financial corrections are the only type of correction that results in a direct and immediate loss of funding for the member state concerned. However, under the 2014-2020 CPR, multiple legal requirements need to be met cumulatively for net financial corrections to be applicable. According to DG EMPL's 2022 AAR, the conditions for applying net financial corrections seemed to have been met in one case, for which the Commission intended to start a procedure in 2023[86]. However, as of the time of this review, no net financial correction had been imposed. The possibility of imposing net financial corrections will be preserved in the 2021-2027 period, but it remains to be seen how it will be used in practice compared to the 2014-2020 period.

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[84] See p. 148 of the annex to DG EMPL's 2022 AAR and p. 130 of the annex to DG REGIO's AAR.

[85] Article 145(7) of the 2014-2020 CPR.

[86] DG EMPL 2022 AAR, p. 62; see also paragraph 6.72 of the 2022 annual report.

What comes next?

137 The final accounting year of the 2014-2020 period runs until 30 June 2024. This means that member state authorities will request payments from the Commission and carry out their checks and audits on expenditure beyond the final eligibility date of 31 December 2023, before submitting closure documents by 15 February 2025[87]. The STEP Regulation allows programmes to opt to extend the deadline for submitting final payment claims and closure documents by one year, i.e. until 15 February 2026. We looked into some factors that may shape the period leading up to the Commission's final closure of programmes.

A late start to 2014-2020 programmes and additional funding increased absorption pressure for some member states

138 Delays in the adoption of legislation and programmes mean a late start to implementation, which has a knock-on effect on payments from the EU budget. In the 2007-2013 period, the Commission adopted 95 % of the programmes before the end of 2007, but in 2014-2020 only 56 % of programmes were adopted by 31 December 2014[88], and the last 31 programmes were not adopted until December 2015, almost 2 years after the start of the period. As a result, there is less time available to spend the EU funds made available in the 2014-2020 period.

139 As we reported previously, pressure to absorb the available EU funding increases towards the end of the eligibility period[89]. Moreover, by the end of the eligibility period, member states also need to spend the additional funding provided under REACT-EU to cohesion programmes in 2020 and 2021 (see paragraph ***05***).

140 In the last year of the eligibility period, the absorption of 2014-2020 cohesion funding caught up with the required rate. By the end of 2023, expenditure worth around 94 % of all allocations had been declared by the member states and paid by the Commission. This rate decreases to 90 % if the REACT-EU allocations are included (see ***Figure 11***).

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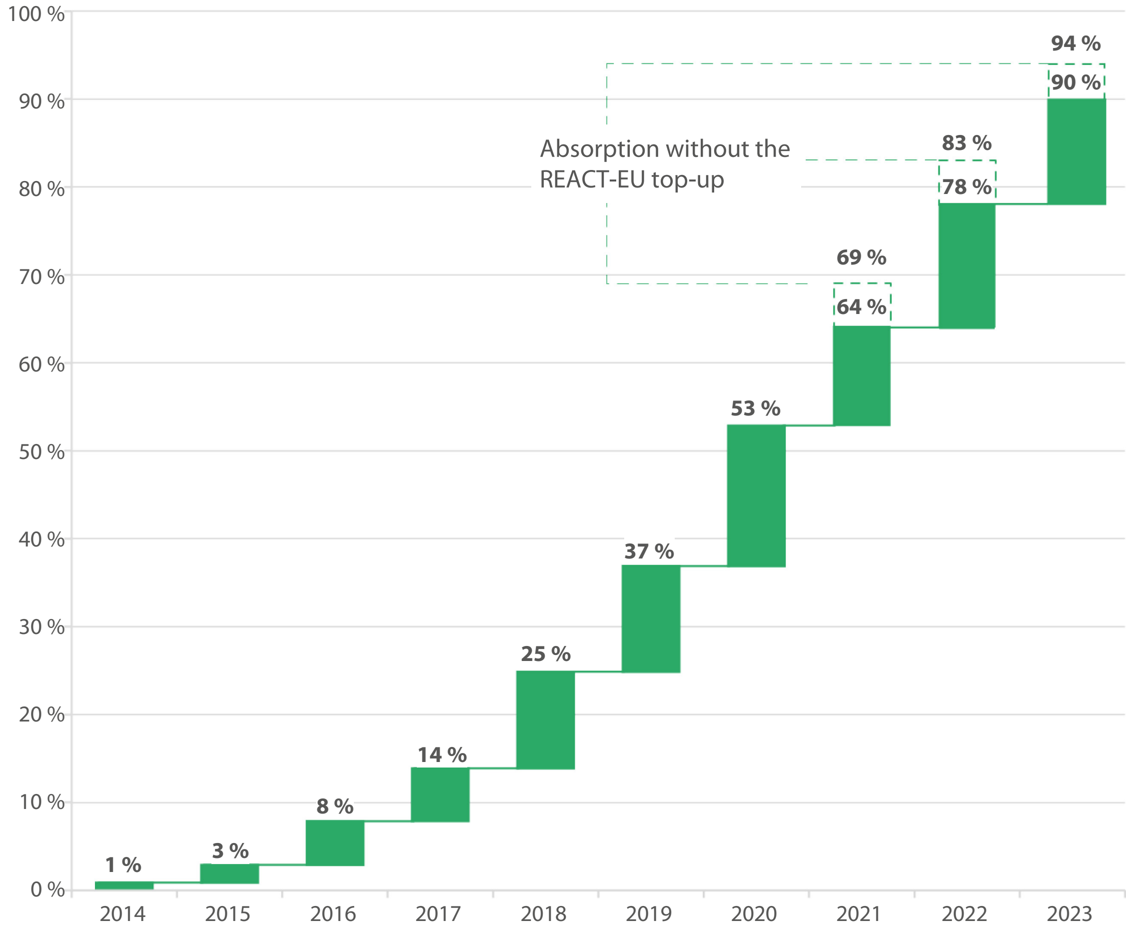
[87] Articles 138 and 141 of the 2014-2020 CPR.

[88] Box 2 of special report 17/2018.

[89] Paragraphs 20 and 34-39 of rapid case review on outstanding commitments in the EU; paragraphs 20-21 and 83 of special report 17/2018.

Figure 11 – Cohesion policy absorption rates, end of 2023



Source: ECA based on cohesiondata.europa.eu

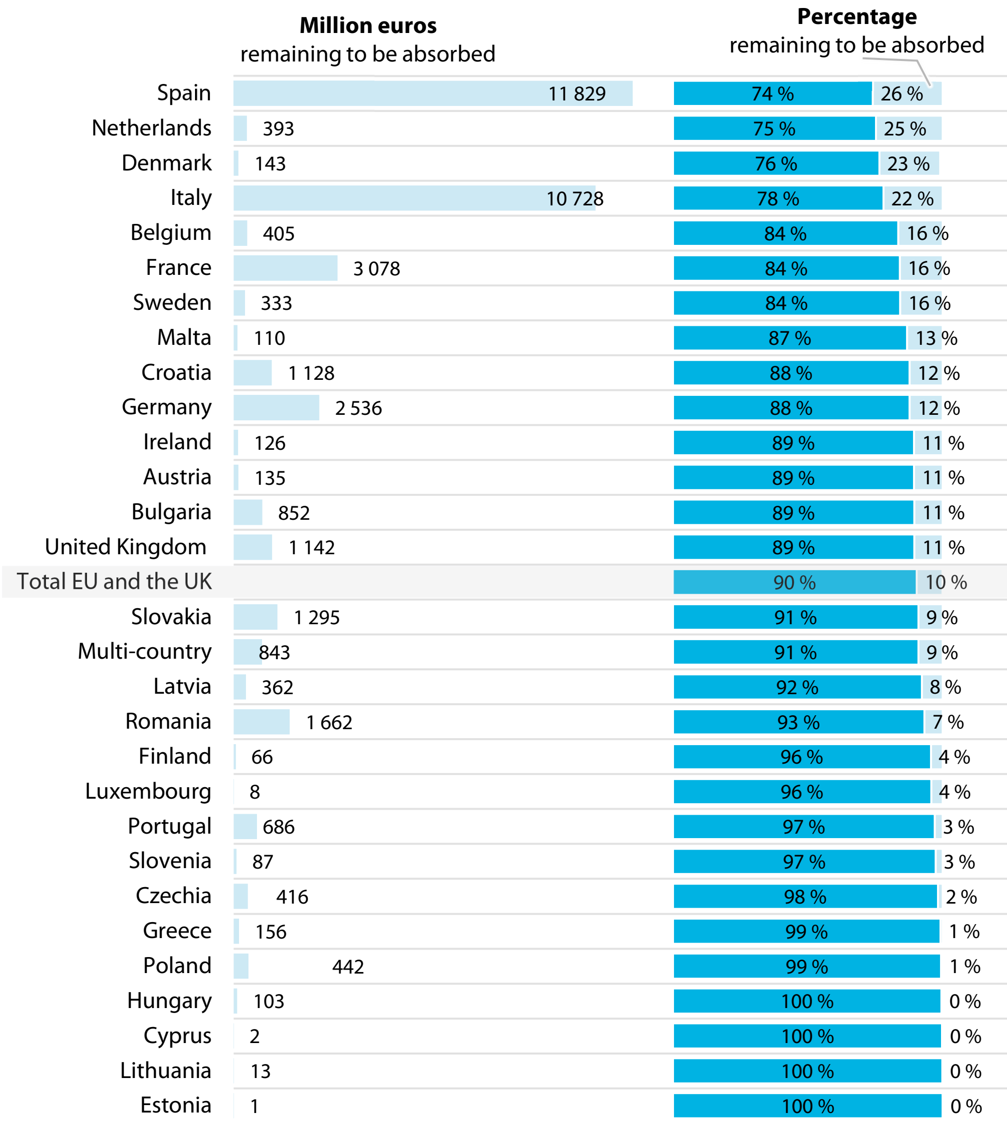
141 The flexibility provided to address the COVID-19 pandemic (the Coronavirus Response Investment Initiative and the Coronavirus Response Investment Initiative Plus) helped significantly to increase absorption during the 2020-2021 and 2021-2022 accounting years. The amended legislation widened the range of eligible costs to include COVID-19 related expenditure and allowed 100 % financing from EU funds. The latter had a significant effect on absorption. As of June 2021, 178 programmes from 17 member states and the UK (including European Territorial Cooperation programmes) had opted for the possibility of 100 % EU financing.

142 However, the removal of the requirement for national or private co-financing of programmes goes against a long-established principle: mandatory national or private co-financing guarantees member states' (or beneficiaries') commitment and ownership, and value for money in EU-supported investments[90].

[90] Paragraph 71 of review 01/2023 and recital 86 to the 2021-2027 CPR.

143 At the end of 2023, absorption rates varied significantly among member states[91]: from 74 % in Spain to 100 % in Hungary, Cyprus, Lithuania and Estonia (see ***Figure 12***).

Figure 12 – Member states' absorption levels as at the end of 2023



Note: Amounts "remaining to be absorbed" (light blue) are payments that member states may still request from the Commission. The eventual absorption of these amounts does not necessarily represent project implementation progress in the member state concerned.

Source: ECA, based on cohesiondata.europa.eu

[91] Paragraph 2.16 of the 2021 annual report; paragraphs 27 and 28 of special report 17/2018 and Cohesion Open Data platform.

144 All remaining expenditure for 2014-2020 programmes, including any amounts declared to replace expenditure withdrawn or for which financial corrections have been applied, must still go through the full control cycle before it can be reimbursed by the Commission. Following the entry into force of the STEP Regulation, the member states have the option of performing these checks by mid-2025, one year later than the end of the period's last accounting year in mid-2024. This gives member state authorities more time to carry out all required administrative checks.

145 At the same time, the eligibility period of another temporary instrument, the Recovery and Resilience Facility (RRF), overlaps with the last few years of 2014-2020 cohesion spending. This situation is putting additional pressure on the capacity of some member state administrations to ensure that spending is regular and in line with the principles of sound financial management.

There is no legal requirement for final acceptance to confirm regularity of expenditure for the period as a whole

146 The closure of programmes in the 2014-2020 period will be based on documents relating to the final accounting year and the final implementation report, which includes some specific sections on the final stage of programme implementation. The rules on the examination and acceptance of the accounts for the final accounting year are the same as for any other accounting year.

147 The Commission sees this as a simplification of the procedure[92]. However, before closure, programme authorities will still have to address the final assessment of the eligibility of the costs declared for some operations, in particular for operations involving investments supported by financial instruments, the clearing of state aid advances, the final assessment of revenue-generating operations, and the treatment of non-functioning operations[93].

[92] Commission guidelines on the closure of operational programmes (2022/C 474/01), p. 1.

[93] Paragraph 6.75 of the 2022 annual report.

148 As for all other accounting years, the Commission has to issue an annual acceptance decision on the regularity of expenditure. However, the CPR does not request such decision for the period as a whole. There is no explicit legal requirement for audit authorities to provide assurance on all spending during the period[94]. The Commission can raise issues relating to the legality and regularity of the transactions underlying expenditure in the accepted accounts even after payment of the final balance and closure of a programme. The rules set no final deadline for the completion of legality and regularity assessments for 2014-2020 programmes. As a result, it is unknown when the 2014-2020 period can be considered completed[95] and all outstanding legality and regularity issues addressed.

[94] Paragraph 121 of special report 36/2016.

[95] Paragraph 78 of special report 36/2016.

Closing remarks

149 Our overview of previously reported findings and information published by the Commission on the 2014-2020 spending period, shows that the assurance framework for cohesion policy, while helping to reduce the overall level of error since 2007, has not been effective in bringing it below the 2 % materiality level set out in the rules. It therefore indicates the need for further improvements in the way the framework is implemented by both member state authorities and the Commission.

150 Not all national or regional management and control systems are sufficiently effective in preventing or detecting irregularities in expenditure declared by beneficiaries. Also, there are weaknesses in the Commission's checks which prevent them from identifying errors not detected by member states authorities. Its compliance audits, although effective, have been limited in number. Against this backdrop, we consider that more action is necessary to strengthen the way the assurance framework for 2021-2027 cohesion spending is implemented and, in particular, steered by Commission, given that it is ultimately responsible for implementing the EU budget.

151 The regulatory changes to the design of the assurance framework for the 2014-2020 period did not deliver the expected result of decreasing the level of error below materiality threshold: our estimate of the error rate for each year between 2017 and 2022 was above 2 % for expenditure declared throughout the entire 2014-2020 period. Like us, the Commission concludes that the error rate in cohesion spending is material, even if its result is lower as it only quantifies irregularities for which it considers financial corrections applicable.

152 Managing authorities' first-level checks must cover all expenditure before it is declared to the Commission. However, our audit findings, as well as those of the audit authorities and the results of Commission's own checks, demonstrate that their controls are not yet sufficiently effective to mitigate the high inherent risk of error in cohesion spending. In fact, a significant number of the additional errors we found could and should have already been identified and corrected by this "first line of defence". We therefore consider the shortcomings in first-level checks to be one of the most significant risk factors for the regularity of cohesion spending, requiring the Commission and member states to pay more attention to the effectiveness of managing authorities' controls.

153 Audit authorities are an essential “second line of defence”. Nevertheless, and although they detect many irregularities in the expenditure declarations prepared by managing authorities, we found weaknesses in the work of a significant number of audit authorities, which limits the extent to which the Commission can rely on their controls. Errors remain undetected because of shortcomings in the planning and preparation of their audit work, and in the quality of the work itself and its documentation. Over the years, we found weaknesses in the work of 40 of the 43 audit authorities under review, which affected more than half of the transactions we audited. Given their key role in the assurance framework, we have recommended that audit authorities make various improvements to ensure that their audit results fully reflect the applicable legal framework.

154 Finally, the Commission could achieve greater impact by increasing the number of compliance audits it carries out, as these are more effective than desk reviews in detecting irregularities but currently limited in number.

155 We also analysed which types of errors were detected most frequently in this spending area, which is predominated by reimbursement-based payments. The most frequent type of additional error we detected was ineligible expenditure. Such errors, and errors relating to ineligible projects, contributed most to our estimated level of error between 2017 and 2022, followed by non-compliance with state aid rules and EU and national public procurement rules. Audit authorities have improved their capacity to detect public procurement errors since the 2007-2013 period, but ineligible projects and state aid errors are detected less.

156 Our audit results indicate a level of error above materiality in the majority of the member states receiving the most cohesion funds. Certain error types have been more common in some member states. This underscores the role of the Commission in continuing to actively address country-specific issues.

157 Our analysis of the root causes of the additional errors we detect shows that more than a third could have been prevented by better decision making or more efficient verifications by managing authorities. Over a quarter can be attributed to a lack of diligence or suspected intentional non-compliance with rules by beneficiaries, and another quarter to issues with the interpretation of the regulatory framework. The main challenge for the Commission is how to provide more explicit guidance to clarify aspects for which the legal basis is not sufficiently clear, but also to avoid “gold-plating”.

158 As regards the measures that the Commission can use to prevent or detect errors, we note that the simplification of the regulatory framework has not achieved all the intended results. During the 2014-2020 period, simplified cost options were the most frequently used simplification measure. Our audit findings confirm that transactions using simplified cost options are less prone to errors but are not being used across the board.

159 The retention of 10 % from each interim payment until the acceptance of the annual accounts could be an effective safeguard. The Commission, however, analyses legality and regularity issues only after it has released the amount retained. The retention was reduced to 5 % for the 2021-2027 period but accounts with a reported residual error rate above the materiality threshold are not admissible.

160 The Commission uses financial corrections to protect the EU's financial interest in cases where it considers that there are serious deficiencies in a programme's management and control system. Overall, the Commission reports that it has applied additional corrections of around €620 million, mainly in relation to its own audits. So far, however, the Commission has never imposed net financial corrections which would result in a direct loss of funding for the member state concerned.

161 Despite the system of annual acceptance of accounts, the implementation of the 2014-2020 cohesion policy funds still comprises several elements of a multiannual nature that will need to be taken into account during closure procedures and following the payment of the final balance, in view of legality and regularity considerations. However, as the rules give no final deadline for definitive closure, it is not possible to forecast how much time will be needed to conclude on all programmes.

162 Pressure to absorb available EU funding increases towards the end of each eligibility period. Since 2020, the absorption of cohesion funding has caught up with the required rate, after the particularly low absorption rates in the early years of the 2014-2020 period. To a large extent, this can be attributed to the flexibility provided to address the COVID-19 pandemic (see paragraph ***142***), and in particular the possibility of a 100 % EU funding. However, the removal of the requirement for national, regional or private co-financing of programmes goes against the long-standing principle of EU finances: that national or regional public (as well as private) co-financing has been seen as an essential safeguard to ensure the economical, efficient and effective use of EU funding and ownership of public investments as a factor in reducing risks to sound and regular spending. Therefore, this flexibility measure should remain a temporary exception.

This review was adopted by Chamber II, headed by Mrs Annemie Turtelboom, Member of the Court of Auditors, in Luxembourg at its meeting of 29 May 2024.

For the Court of Auditors

Tony Murphy
President

Annexes

Annex I – Overview of roles and responsibilities of member state authorities and the Commission

MANAGING AUTHORITY (OR INTERMEDIATE BODIES)

In charge of the management and implementation of the programmes.

Responsible for the selection of individual projects and beneficiaries within these programmes according to previously agreed criteria.

Carries out 'management verifications' (i.e. first-level checks) of the financed operations and declared expenditure prior to certification: verifies that the co-financed products have been delivered, that the expenditure declared by the beneficiaries has been paid and that it complies with the applicable law, the operational programme and the conditions for support of the operation.

For the assurance package it prepares:

- *Management declaration*
- *Annual summary of controls and verifications*

CERTIFYING AUTHORITY

Before submitting interim payment applications, certifies that they result from reliable accounting systems, are based on verifiable supporting documents and have been subject to verifications by the managing authority.

For the assurance package it prepares:

- *Certified accounts*

AUDIT AUTHORITY

Carries out audits on the proper functioning of the management and control system of the programmes.

Conducts audits of operations on expenditure included in the annual accounts for the programmes on the basis of the declared expenditure to the Commission during the accounting year.

For the assurance package it prepares:

- *Annual control report*
- *Audit opinion*

COMMISSION

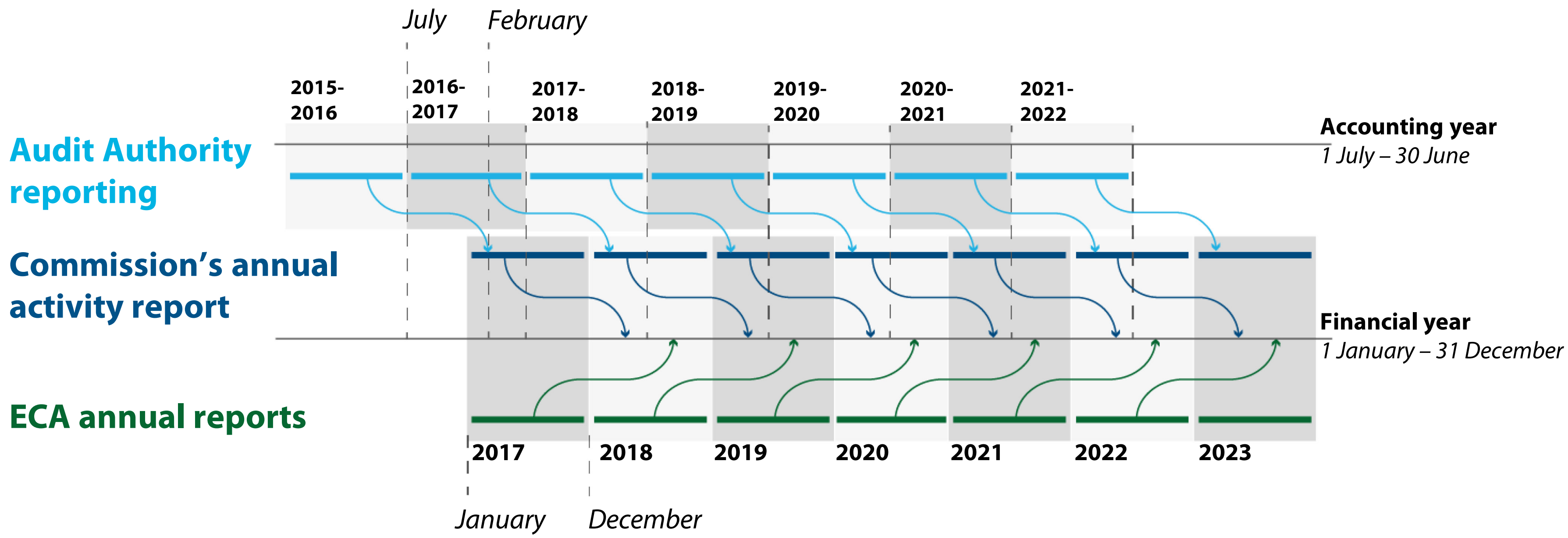
Carries out administrative checks, desk reviews and compliance audits (after accepting the accounts) to conclude on and validate the residual error rates reported by the audit authorities.

May also perform regularity audits to review an audit authority's work. If these audits reveal any irregularities or serious deficiencies, the Commission may then impose further (even net) financial corrections.

Aggregates and publishes results in the annual activity reports (AARs) and in the Commission's annual management and performance report (AMPR).

Source: ECA based on Articles 125 to 127 of the 2014-2020 CPR.

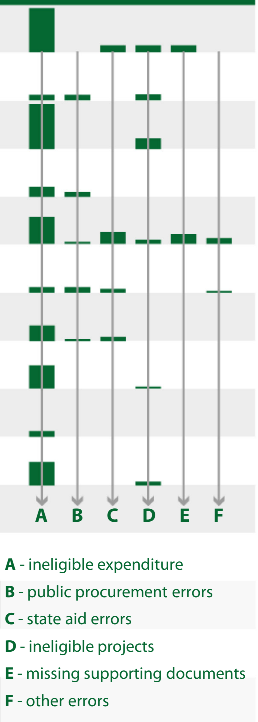
Annex II – Timeline of accounting years and reporting deadlines



Source: ECA.

Annex III – Overview of ECA sample by member states (2017-2022)

Member state	Planned EU contribution *(million euros)*	Paid EU contribution *(million euros)*	Number of assurance packages audited	Number of transactions audited	Number of transactions affected by weaknesses in audit authority work	Number of quantifiable errors found	Typology of quantifiable errors *(only for the 10 biggest recipients)*
PL	79 271	71 497	28	237	103	29 (12 %)	
IT	48 773	30 741	10	79	42	6 (8 %)	
ES	45 601	28 683	11	101	53	31 (31 %)	
RO	24 568	18 214	5	41	17	6 (15 %)	
PT	23 234	20 847	6	94	85	31 (33 %)	
CZ	22 703	19 139	8	59	30	9 (15 %)	
HU	22 624	19 974	8	82	24	11 (13 %)	
DE	20 724	15 177	8	60	41	13 (22 %)	
FR	19 383	12 867	6	35	27	3 (9 %)	
EL	18 548	16 939	6	82	30	14 (17 %)	
SK	14 405	10 352	4	28	27	4	
UK	10 988	8 025	4	32	29	2	
TC	9 407	7 395	4	15	11	3	
HR	9 161	5 735	4	30	9		
BG	8 102	6 010	4	29	1		
LT	7 111	6 355	3	23	8	1	
LV	4 690	3 580	4	29	7	2	
EE	3 715	3 390	2	25	17		
SI	3 366	2 839	3	22	2	1	
BE	2 459	1 735	1	7	5		
SE	2 117	1 442	1	8	8	1	
NL	1 586	937	1	4	2	1	
FI	1 504	1 265	1	5	5		
AT	1 274	1 073	1	5	5		
IE	1 188	1 054	1	5	5	1	
CY	882	787	1	8	1	1	
MT	834	579	1	4	4		
DK	634	401	1	4	4		
LU	187	147	1	4	4	1	
Total	**409 040**	**317 180**	**138**	**1 157**	**606**	**171**	



Source: ECA.

Annex IV – Overview of audit authorities reporting on irregularities between 2018 and 2022

Member state	Number of assurance packages submitted between 2017 and 2022	Amount of the irregularities reported *(million euros)*	Number of irregularities reported
Poland	134	41.9	789
Italy	228	197	3 389
Spain	149	78.3	1 568
Romania	29	77.1	710
Portugal	11	23.2	268
Czechia	46	20.7	719
Hungary	33	193.8	676
Germany	145	30.7	6 194
France	144	92.3	2 171
Greece	11	56.5	581
Slovakia	38	59.1	630
United Kingdom	33	52.9	599
Territorial cooperation	299	11.6	2 872
Croatia	13	16.2	191
Bulgaria	45	10.6	274
Lithuania	11	22.1	106
Latvia	12	5.6	244
Estonia	12	1.7	40
Slovenia	10	3.4	153
Belgium	41	6.5	773
Sweden	21	0.3	118
Netherlands	26	0.3	105
Finland	16	0.1	50
Austria	13	16.2	212
Ireland	12	5	69
Cyprus	11	0.5	23
Malta	16	0.1	12
Denmark	11	0.7	117
Luxembourg	15	n.a.	n.a.
Total	**1 585**	**1 024.5**	**23 653**

Source: ECA based on audit authorities reporting to the Commission.

Annex V – Relevant ECA reports

Special reports

Special report 16/2013: “Taking stock of ‘single audit’ and the Commission’s reliance on the work of national audit authorities in cohesion”

Special report 10/2015: “Efforts to address problems with public procurement in EU cohesion expenditure should be intensified”

Special report 19/2016: “Implementing the EU budget through financial instruments – Lessons learnt from the 2007-2013 programme period”

Special report 24/2016: “More efforts needed to raise awareness of and enforce compliance with state aid rules in cohesion”

Special report 36/2016: “An assessment of the arrangements for closure of 2007-2013 cohesion and rural development programmes”

Special report 04/2017: “Protecting the EU budget from irregular spending – The Commission made increasing use of preventive measures and financial corrections in cohesion during the 2007-2013 period”

Special report 17/2018: “Commission’s and Member States’ actions in the last years of the 2007-2013 programmes tackled low absorption but had insufficient focus on results”

Special report 06/2019: “Tackling fraud in EU cohesion spending – managing authorities need to strengthen detection, response and coordination”

Special report 07/2020: “Implementing cohesion policy – comparatively low costs, but insufficient information to assess simplification savings”

Special report 06/2021: “Financial instruments in cohesion policy at closure of the 2007-2013 period – verification work yielded good results overall, but some errors remained”

Special report 24/2021: “Performance-based financing in cohesion policy – worthy ambitions, but obstacles remained in the 2014-2020 period”

Special report 26/2021: “Regularity of spending in EU cohesion policy – Commission discloses annually a minimum estimated level of error that is not final”

Special report 02/2023: “Adapting cohesion policy rules to respond to COVID-19 – Funds used more flexibly, but reflection needed on cohesion policy as a crisis response tool”

Special report 06/2023: “Conflict of interest in EU cohesion and agricultural spending – Framework in place but gaps in transparency and detection measures”

Special report 28/2023: “Public procurement in the EU – less competition for contracts awarded for goods and services in the ten years up to 2021”

Briefing papers and reviews

Agriculture and cohesion: overview of EU spending 2007-2013

Briefing paper: Simplification in post-2020 delivery of cohesion policy

Briefing paper: Delivering performance in cohesion

Rapid case review: Outstanding commitments in the EU budget – A closer look

Review 01/2023: EU financing through cohesion policy and the Recovery and Resilience Facility – A comparative analysis

Opinions

Opinion 02/2004: on the ‘single audit’ model (and a proposal for a Community internal control framework)

Opinion 07/2011: on the proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006

Opinion 06/2018: concerning the proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument

Abbreviations

AAR: annual activity report

AMPR: annual management and performance report

CF: Cohesion Fund

CPR: Common Provisions Regulation

DG EMPL: Commission Directorate-General for Employment, Social Affairs and Inclusion

DG REGIO: Commission Directorate-General for Regional and Urban Policy

ERDF: European Regional Development Fund

ESF: European Social Fund

FEAD: Fund for European Aid to the Most Deprived

KPI: key performance indicator

MFF: multiannual financial framework

NEET: not in employment, education or training

OLAF: European Anti-Fraud Office

REACT-EU: Recovery Assistance for Cohesion and the Territories of Europe

RRF: Recovery and Resilience Facility

SCO: simplified cost options

SoA: statement of assurance

STEP: Strategic Technologies for Europe Platform

VAT: value added tax

YEI: Youth Employment Initiative

Glossary

Absorption: Receipt by a member state of EU funding, once the conditions for payment has been met.

Absorption rate: Absorption of a member state's allocation, expressed as a percentage.

Annual activity report: Report produced by each Commission directorate-general and EU institution or body, setting out how it has performed in relation to its objectives, and how it has used its financial and human resources.

Annual management and performance report: Report produced every year by the Commission on its management of the EU budget and the results achieved, summarising the information in the annual activity reports of its directorates-general and executive agencies.

Audit authority: Independent national entity responsible for auditing the systems and operations of an EU spending programme.

Beneficiary: Natural or legal person receiving a grant or loan from the EU budget for implementing a project or programme.

Certifying authority: Body designated by a member state to certify the accuracy and conformity of statements of expenditure and requests for payments.

Cohesion Fund: EU fund for reducing economic and social disparities in the EU by funding environment and transport infrastructure investments in member states where the gross national income per inhabitant is less than 90 % of the EU average.

Cohesion policy: The EU policy which aims to reduce economic and social disparities between regions and member states by promoting job creation, business competitiveness, economic growth, sustainable development, and cross-border and interregional cooperation.

Cohesion policy funds: In the context of this review, the four 2014-2020 EU funds supporting economic, social and territorial cohesion across the EU: the European Regional Development Fund, the European Social Fund, the Cohesion Fund, and the Fund for European Aid to the Most Deprived.

Common Provisions Regulation: Regulation setting out the rules that apply to the European Structural and Investment Funds.

Compliance audit: Commission assessment of the reliability of audit authorities’ work for a given accounting year.

Coronavirus Response Investment Initiative: Package of measures to allow flexible use of the European Structural and Investment Funds in response to the COVID-19 outbreak.

Error: Result of an incorrect calculation or an irregularity arising from non-compliance with legal and contractual requirements.

European Regional Development Fund: EU fund that strengthens economic and social cohesion in the EU by financing investments to reduce imbalances between regions.

European Social Fund: EU fund for creating educational and employment opportunities and improving the situation of people at risk of poverty. Superseded by the European Social Fund Plus.

European territorial cooperation: Framework for interregional, cross-border and transnational cooperation guiding policy exchanges and the implementation of joint action.

Financial correction: Measure to protect the budget from irregular or fraudulent expenditure by withdrawing or recovering funds to compensate for payments made in error to EU-backed projects or programmes.

Financial instrument: Financial support from the EU budget in the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments.

Financial Regulation: Main set of rules governing how the EU budget is set and used, and the associated processes such as internal control, reporting, audit and discharge.

Fraud: Any intentional act or omission relating to the use or presentation of false, incorrect or incomplete statements or documents, the non-disclosure of required information and the improper use of EU funds.

Fund for European Aid to the Most Deprived: EU fund supporting member states' actions to provide food and other material assistance to the poorest in society.

Grant: EU budget support for the costs incurred by a beneficiary for an eligible project or programme, usually not repayable.

Intermediate body: Public or private body which administers EU funds under the responsibility or on behalf of a managing authority.

Internationally accepted audit standards: Set of professional standards laying down the responsibilities of auditors, issued by various standard-setting bodies.

Irregularity: Infringement of EU (or relevant national) rules or contractual obligations.

Irregularity Management System: Application that member states use to report irregularities, including suspected fraud, to OLAF.

Key performance indicator: Quantifiable measure showing performance against key objectives.

Managing authority: National, regional or local authority (public or private) designated by a member state to manage an EU-funded programme.

Materiality threshold: Level above which errors detected in an audited population or set of financial statements are considered to affect accuracy and reliability.

Monetary unit sampling: Statistical sampling method in which the chance of a particular transaction being selected is proportional to its size.

Multiannual financial framework: The EU's spending plan setting priorities (based on policy objectives) and ceilings, generally for 7 years. It provides the structure within which annual EU budgets are set, limiting spending for each category of expenditure. This review covers the 2014-2020 period.

NEET: Person who is not in employment, education or training.

Net financial correction: Financial correction by the Commission in which the member states has to repay irregular expenditure to the EU budget, meaning that amount is deducted permanently from its EU funding allocation.

Operation: Project, contract or action that forms part of an operational programme and contributes to its objectives.

Operational programme: Framework for implementing EU-funded operations in line with the priorities and objectives laid down in a partnership agreement between the Commission and the member state concerned.

Programming period: Period within which an EU operational or spending programme is planned and implemented.

Public procurement: Purchase by a public body or other authority of goods, works or services.

Quantifiable error: In reporting the results of transaction testing, a classification used by the ECA when the amount of a transaction affected by error is measured.

Recovery and Resilience Facility: The EU's financial support mechanism to mitigate the economic and social impact of the COVID-19 pandemic and stimulate recovery, and meet the challenges of a greener and more digital future.

REACT-EU: EU programme that provides additional funding for existing cohesion policy programmes to support post-COVID-19 crisis recovery while promoting green and digital transformation.

Representative statistical sampling: Application of statistical techniques to draw a sample which reflects the characteristics of the population from which is it taken.

Residual error rate: Proportion of a population that is remains irregular after taking into account the effect of control procedures, recoveries and corrections.

Risk at closure: The Commission's estimate of the proportion of a programme's expenditure that will remain irregular at closure after all *ex post* controls and corrections.

Shared management: Method of spending the EU budget in which, in contrast to direct management, the Commission delegates to the member state while retaining ultimate responsibility.

Simplified cost option: Approach for determining a grant amount using methods such as standard unit costs, flat-rate financing or lump sums rather than the actual costs incurred by the beneficiary. Designed to reduce the administrative burden.

Sound financial management: Management of resources in accordance with the principles of economy, efficiency and effectiveness.

State aid: Direct or indirect government support for a business or an organisation, putting it at an advantage over its competitors.

Statement of assurance: Statement published in the ECA's annual report, setting out its audit opinion on the reliability of the EU accounts and the regularity of the transactions which underlie them.

Suspected fraud: Irregularity that gives rise to administrative or judicial proceedings to establish whether it was fraudulent.

Thematic audit: Commission audit specifically covering programmes and high-risk spending areas not covered or covered sufficiently by audit authorities.

Withdrawal: Financial correction in which, when an irregularity is detected the member state immediately deducts the affected expenditure from the programme concerned and substitutes the operation for another.

Youth Employment Initiative: EU programme which supports young people not in education, employment or training in regions with a youth unemployment rate above 25 %.

ECA team

This report was adopted by Chamber II Investment for cohesion, growth and inclusion, headed by ECA Member Annemie Turtelboom. The task was led by ECA Member Helga Berger, supported by Silvia Janik, Head of Private Office and Franz Ebermann, Private Office Attaché; Valeria Rota, Principal Manager; Orsolya Szarka, Head of Task; Zsuzsanna Csák, Dana Christina Mohamed and Janka Nagy-Babos, Auditors. Michael Pyper provided linguistic support. Agnese Balode provided graphic support.

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PDF	ISBN 978-92-849-2379-3	ISSN 2811-8197	doi:10.2865/07062	QJ-AN-24-003-EN-N

Cohesion policy accounted for more than one third of the EU budget for the 2014-2020 period. The assurance framework for cohesion has helped reduce the overall level of error since 2007, but it has not been effective in bringing it below the materiality threshold. Our audit results consistently indicate error levels above 2 %, both annually and from a multiannual perspective. This shows that there is room for all key actors to improve the way they implement the assurance model.
The review provides a multiannual overview of our audit results, an assessment of the assurance framework and country-specific information. We also point to the root causes of errors and the measures that are in place for the Commission to prevent and correct errors.

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