Algemene Rekenkamer

EU Trend Report 2012

Developments in the financial management of the European Union

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Contents

About this report

Introduction

This is the tenth edition of the EU Trend Report. By means of this annual publication, the Netherlands Court of Audit provides an insight into financial management in the European Union (EU) as a whole, the EU member states and the Netherlands.

With the EU Trend Report we aim to help the Dutch Parliament in having a well-informed debate with the Minister of Finance regarding the Netherlands' stance in the discharge procedure for the European Commission's implementation of the EU budget. We also aim to help the Dutch Parliament in further improving the regularity and effectiveness of the use of EU funds.

In this edition of the EU Trend Report we have supplemented the annual summary of developments in EU financial management with an overview of trends in the past ten years. We asked whether there had been real improvements in financial management and what improvements could still be made.

Background

Many initiatives have been taken in recent years to improve the financial management of the EU. Most were taken by the European Commission, with the backing of the European Parliament and the European Court of Auditors. Nevertheless, reasonable assurance still cannot be given that EU funds are being spent correctly (regularly) or even usefully (effectively).

In the past ten years, most progress in EU financial management has been made in the European Commission's internal procedures and in the regularity of the Commission's direct policy, i.e. policy the Commission implements and checks itself without the involvement of the member states. Most EU policies, however, are implemented by the European Commission together with the member states. These indirect policies account for about 80% of the EU budget. Accountability for and regularity of the use of these funds 'under shared management' remain problematic. The European Court of Auditors, for example, found that the regularity of the use of EU funds for agriculture and rural development was again weaker in 2010 than in 2008. These funds represent the largest item in the EU budget. Error rates in the cohesion funds also remain far too high.

Although four member states, one being the Netherlands, now voluntarily publish member state declarations on the use of EU funds in their home countries, most member states are not willing or able to render such an account.

There is growing criticism from the member states that implementation of the EU budget still does not comply with applicable regularity standards. More comments are being made on the annual discharge of the European Commission and on the European Court of Auditors' inability (for the 17th year in succession) to express a positive statement of assurance. In the past three years the Dutch Minister of Finance has voted against a discharge resolution once and, together with the finance ministers of several other member states, has abstained from voting twice. In view of the nature of the problems, on the two latter occasions the critical member states called for measures to improve accountability for the use of EU funds in the member states.

The Dutch Minister of Finance's stance in the Economic and Financial Affairs Council (Ecofin) is agreed in consultation with the House of Representatives. The EU Trend Report is designed to inform members of the House of the issues of relevance to the Dutch stance: current policy developments in EU financial management, the quality of financial management systems, and the regularity and effectiveness of EU expenditure and the insight available into it. These issues are considered in this report.

Structure of this report

The structure of the *EU Trend Report 2012* differs from that of previous editions. This year, we have attempted to present developments in EU financial management as concisely as possible. The report consists of two parts. In part I we provide a brief summary of our findings and present our conclusions and recommendations, the minister's response and our afterword. Part II is made up of four short chapters. In the first three, we consider developments in the financial management of EU funds in the EU as a whole (chapter 1), the EU member states (chapter 2) and the Netherlands (chapter 3). In each of these chapters we look at current policy developments, the quality of financial management systems, and the regularity and effectiveness of EU expenditure and the insight available into it. In the fourth and final chapter of part II, we present an overview of trends in the past ten years. We have also published the overview, together with the key figures on EU financial management in the period 2001-2010, in the form of an interactive internet presentation at www.eu-accountability.eu.

Sources

Chapters 1 and 2 of part II are based largely on information from public sources. Where possible, we use information that has been audited externally, such as reports issued by the European Court of Auditors and by supreme audit institutions, and documents published by the European Commission. In chapter 3 of part II , the chapter on the Netherlands, we made use of our audit powers. The information in this report relates to several years. In general, information on the regularity of expenditure and the operation of financial management systems relates to the year 2010. The description of policy developments is also based on information from 2011. Chapter 4, the summary of trends in the past ten years, is based on information we collected for the previous nine EU Trend Reports and on additional public information.

Terminology

This report uses both the Dutch term 'regularity' and the indivisible European term 'legality and regularity'. In practice, the Dutch and the European terms are synonymous. To avoid confusion, we use the same terms as our sources. In certain places, we also use the European term 'irregularity'. This term refers specifically to infringements of Community law that are prejudicial to the Community's general budget.

Part I

Main findings, conclusions, recommendations and responses

1 Main findings

1.1 Developments in the EU

1.1.1 Policy developments

There were several significant policy developments in the EU as a whole in the past year.

Firstly, the *negotiation of a new Financial Regulation* for the EU was continued. Ecofin issued a joint response to the European Commission's original proposal in June 2011. The European Parliament responded to the Commission's proposal in September 2011. The Council and Parliament each put forward its own comprise for further negotiation. Both suggested that each member state should be obliged to prepare an annual summary of (a) its accounts and (b) the results of controls and audits. The annual accounts should be accompanied by a statement of management responsibilities issued by the highest official level stating that the information in the annual accounts is complete and accurate, that expenditure has been used for its intended purpose and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. The statement should be accompanied by an opinion of an independent audit body that considers the regularity of the underlying transactions. A large number of member states have objected to this proposal.

The European Parliament included a further proposal in its compromise text: an obligation to prepare a national declaration on the regularity of the underlying transactions, signed at the appropriate political level.
The European Commission has declared that the four member state declarations that are currently published voluntarily have little added value vis-à-vis other accountability documents as they are too disparate in content, form and publication date. The European Commission proposed earlier to introduce a statement of management responsibilities as described above, and not a national declaration. It is uncertain when the Council and Parliament will complete their negotiations.

Secondly, *negotiation of a Multiannual Financial Framework* commenced in autumn 2011. Although the Council of Ministers is already negotiating the reform of the cohesion and agricultural funds, real progress is not expected in this area until the second half of 2012. The main discussion points among the member states are the level of the budget and how it is funded. The current European debt crisis is also a significant factor in the negotiation of the Multiannual Financial Framework. On the one hand, arrangements are being made to apply funds to maximise economic growth and support countries in temporary difficulties. On the other, measures are being taken to restrict payments from certain funds to countries that do not exercise budgetary discipline.

Finally, measures are being taken to *support euro countries that have problems financing their national debts*. This support is being provided chiefly off-budget. Nevertheless, all member states are guaranteeing the loans that the European Commission is taking out through the EU budget for the temporary European Financial Stability Mechanism (a fund of up to € 60 billion for all member states) and for balance of payments

assistance (a fund of up to € 50 billion for non-euro countries).[1] The European Commission is facilitating the support by borrowing on the capital market.
The European Financial Stability Mechanism – like the intergovernmental European Financial Stability Facility – will be replaced in July 2012 with the permanent European Stability Mechanism, provided the requisite Treaty is ratified by all euro countries on time.

1.1.2 Financial management systems

The European Commission issued the 2010 activity reports of its Directorates-General (DGs) and the Synthesis Report last year. The Commission's Internal Audit Service reported for the first time that the control systems the DGs used to adopt their activity reports were reliable. This report was an internal, unpublished document.
An undertaking was given to the European Parliament, following repeated requests, that it would receive a summary of this internal audit opinion.

1.1.3 Insight into regularity

European Commission's activity reports

The Directorates-General make reservations on the reliability of the information provided in their activity reports. The more reservations there are, the less insight there is into the regularity of financial transactions. The activity reports for 2010 contain fewer reservations than those for 2009. The amounts on which reservations are made, however, are higher than in 2009; given the uncertainty regarding the size of three reservations, it is not entirely clear how much higher they are. The reservations relate to shortcomings in both management and control systems and in the regularity of transactions. Most of the problems are due to complex regulations on the eligibility of expenditure and the incorrect application of public procurement rules. The problems occur chiefly in funds under shared management.

Irregularities reported by member states

Both the total number of irregularities in EU expenditure reported by the member states and their financial volume were higher in 2010 than in 2009. Nearly half the undue payments made in 2010 have been recovered, an improvement on 2009.

European Court of Auditors' regularity opinion

The European Court of Auditors was again unable to express a positive statement of assurance on the implementation of the EU budget for 2010. The European Commission's accounts give a true and fair view of the financial situation but there are on the whole too many irregularities in expenditure. The European Court of Auditors estimates the most likely error rate to be 3.7% of all EU expenditure of € 122.2 billion. This rate is higher than in 2009. The European Court of Auditors found most errors in the Cohesion, energy and transport budget heading (a new combined heading). With an average estimated error rate of 7.7%, this heading presents a more sombre picture than the Cohesion heading had done in the previous year. The European Court of Auditors noted that the correct legal basis had not been created to disburse an additional € 401 million from agricultural and rural funds to pre-finance crisis measures for countries suffering problems.

1 Situation at year-end 2011.

1.1.4 Insight into effectiveness

For the first time, the European Court of Auditors assessed the information that three activity reports provided on policy effectiveness. It found that the reports provided reasonable insight into performance (output) but contained little information on impact (outcome).

1.2 Developments in the EU member states

The European Commission also provides information in its activity reports on the regularity of EU expenditure in individual member states. There was no demonstrable improvement in this information in the past year. As in 2010, four member states voluntarily published national declarations in 2011. Apart from the Netherlands, these countries were Denmark, Sweden and the United Kingdom. The same countries have voiced concerns during the discharge procedure in recent years about the poor accountability for the use of EU funds at national level. The reform of the Financial Regulation could lead to improvements in the national accounts but progress in this area is far from certain. As noted above, a large number of member states have objected to Ecofin's compromise text for the proposed Financial Regulation, which provides for a compulsory statement of management responsibilities (see section 1.1, Policy developments).

1.3 Developments in the Netherlands

1.3.1 Financial management systems

The Dutch 2010 member state declaration covers virtually all EU funds the Netherlands administers under shared management with the European Commission. It does not consider remittances to the EU. The Minister of Finance has declared that he will not consider remittances in the declaration next year either. We intend to consider remittances, however, in our report on the member state declaration.

With the exception of the incomplete compliance with local public procurement rules, the lack of checks of compliance with these rules and the incomplete view provided by the government of the errors in declarations for the European Regional Development Fund (ERDF), we expressed a positive opinion on the 2010 member state declaration. We provide a brief summary of our report on the Dutch 2010 member state declaration in chapter 3 of part II of this EU Trend Report.

Management and control systems for agricultural funds

The European Court of Auditors concluded in its 2010 annual report that the supervision and control of agricultural grants from the European Agricultural Guarantee Fund (EAFG) in the Netherlands were on the whole effective. Weaknesses were identified, however, in keeping the Land Parcel Identification System (LPIS) up to date. The European Court of Auditors noted that the weaknesses had had only a limited impact in the Netherlands and the Dutch authorities had taken adequate remedial action as of claim year 2010. It also noted that it did not consider the Ministry of Agriculture's internal audit department to be independent from the authorities implementing the common agricultural policy.

Transparency of the final beneficiaries of EU funds
Except for a number of minor shortcomings, the Netherlands complies with the European publication requirements regarding final beneficiaries of EU funds. The information that is published, however, usually relates to large intermediary recipients such as producers' associations, the UWV Employee Insurance Agency and Nuffic, the Netherlands Organisation for International Cooperation in Higher Education, that disburse the funds to a wide variety of projects and beneficiaries. Publication of more information on the actual projects carried out using European funds would be advisable and in keeping with the European Parliament's wishes.

The website 'Europa om de hoek'[2] is designed to provide information on individual projects. A digital map of the Netherlands shows the structural funds projects but the site is still far from complete and is not up to date. None of the projects implemented by the 15 beneficiaries that received the most funding from the European Social Fund (ESF) in 2010, for example, are shown on the website. Older (and completed) projects by the same organisations are shown. Half the projects carried out by the 15 largest ERDF recipients in 2010 are not shown.

1.3.2 Insight into regularity

In our report on the Dutch EU member state declaration for 2010 we expressed an opinion on the government's accountability for the Netherlands' receipt and expenditure of EU funds in 2010 and on the controls in place for financial transactions. Most of the errors we found related to expenditure from the European Agricultural Fund for Rural Development (EAFRD). The total irregularities found amounted to less than the tolerable error of 2%.

1.3.3 Insight into effectiveness

For this EU Trend Report, we investigated the insight available into the effectiveness of EU rural development policy in the Netherlands. We found that the criticism previously made by ourselves, the European Commission and the European Court of Auditors was still relevant. Reasonable insight is available into the outputs delivered but not into the results and impacts achieved.

The available information indicates that only poor progress had been made achieving the majority of the rural programme's intended outputs by the middle of the 2007-2013 programming period. In particular, there is little demand for funding to improve the quality of life in rural areas and to diversify the rural economy. It is also difficult to measure results and attribute them to the rural programme. As a result of this and the general formulation of the intended impacts, it cannot be said what impact most of the measures have had. Leader, a cooperative approach for local action groups to implement development plans for their own areas, is making only a very limited contribution to the achievement of the main objectives of rural policy: to improve the competitiveness of agriculture and forestry, to improve the environment and countryside, to improve the quality of life in rural areas and to promote the diversity of the rural economy.

1.4 Developments in the period 2001-2010

Most progress in EU financial management in the past ten years has been made in the European Commission's internal procedures.

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The site is a joint initiative of the European Commission's Representation in the Netherlands, the Ministry of Economic Affairs, Agriculture and Innovation (EL&I), the Agency of the Ministry of Social Affairs and Employment and the organisations that implement ESF and ERDF programmes.

Accountability for the European Commission's policy

The European Commission has introduced the DGs' activity reports and the Synthesis Report to account for expenditure and the achievement of policy goals. Since 2001, there has been a steady decline in the number of reservations made in the activity reports regarding the reliability of the information. Another positive trend is that all reservations have been quantified since 2006. The activity reports, however, still present only partial information on the regularity of expenditure in the member states and virtually no information on policy effectiveness in the member states. As a result, there is only very limited insight into the regularity and effectiveness of the use of EU funds in the member states. About 80% of the total EU budget is spent in the member states under shared management and just under 10% in the form of direct allocations by the Commission.

Controls of financial transactions in the member states

Partly at the insistence of the European Parliament, the European Commission has made several attempts in recent years to reform the EU's internal control framework so that it can provide reasonable assurances on transactions down to individual beneficiaries in the member states. At the heart of its proposals is the single audit model, in which each audit level builds on the previous level in order to minimise the audit burden and improve audit quality. The Council of Ministers, however, has never reached agreement on the model. By way of compromise, the member states submit compulsory annual summaries of audits and declarations to the European Commission. These summaries, however, are not made public.

Regularity of the EU budget

The European Court of Auditors has not issued a single positive statement of assurance on the EU budget in the period 2001-2010. In 2001-2005, it expressed only a qualitative opinion on the regularity of the various budget items. In 2006, it presented a 'most likely rate of error' (MLE) for the first time. At the time, the MLE (for the entire EU budget) was slightly higher than 7%. It fell in the subsequent three years to reach 3.3% in 2009. In 2010 the MLE rose slightly to 3.7%. The regularity of the use of European agricultural and rural funds, still the largest item in the EU budget, was lower in both 2009 and 2010 than in 2008. The error rates in cohesion funds also remain far too high.

Effectiveness of EU policy

The number of policy evaluations commissioned by the European Commission and the number of special reports on the effectiveness of EU funds issued by the European Court of Auditors have increased sharply in the past ten years. Nevertheless, a coherent picture still cannot be drawn of the results and impact of EU funds in individual member states and/or policy areas.

Audits by supreme audit institutions

The supreme audit institutions of the EU member states are carrying out more audits – both compliance and performance audits – of EU-related issues. They are also increasingly working together and carrying out more joint audits. There is still no useful overview of the audit findings, however.

2 Conclusions and recommendations

2.1 Conclusions

Improvement of the regularity of EU funds stalling
Many initiatives have been taken since 2001 to improve the financial management of the EU. The regularity of the use of EU funds has improved significantly. In recent years, however, the improvement has come to a standstill. This is particularly true of the agricultural funds (still the largest item in the EU budget) and the cohesion funds (far in excess of the applicable regularity standard). The European Court of Auditors has still not issued a positive regularity opinion on the EU budget (statement of assurance: DAS).

Improved EU financial management not possible without further cooperation of the member states
The European Commission has made many changes in its internal management, control and accounting procedures in recent years. Most of the problems (reservations in declarations of assurance, poor functioning of management and control systems, regularity errors) occur in the funds *under shared management* (about 80% of the EU budget). It is not unreasonable to think stricter (public) accounting obligations on the member states would improve the situation. A large number of member states, however, are not willing or able to accept such obligations. Only four member states, one being the Netherlands, voluntarily publish a member state declaration.
We consider this to be undesirable. Owing to the poor insight available into the financial management and regularity of the use of EU funds in the member states, adequate remedial measures cannot be taken and the European Court of Auditors is thus unable to express a positive opinion on the regularity of the EU budget.
In accordance with the EU Treaty, we believe the European Commission and the member states are jointly responsible for the sound and comprehensive management, control, accountability and supervision of funds under shared management. Two features of sound public administration are essential: transparency and public accountability.

Transparency of final beneficiaries of EU funds is increasing, insight into projects still poor
The Netherlands has improved its compliance with the EU requirement to post the names of final beneficiaries of EU funds and the amounts concerned on a website. This public information, however, says little about the actual *projects* carried out using EU funds. The European Commission's Transparency Initiative therefore seems to be missing its goal.

Insight into effectiveness of EU funds still weak
Although the European Commission, the European Court of Auditors and the Dutch government have given higher priority to the effectiveness of EU policy, there has been no demonstrable improvement in the actual insight into the impact of EU funds in the past ten years. There is reasonable insight into *performance* (output) in the member states, but little is known about the impact (outcome). This general conclusion is equally applicable to the Netherlands as a member state.

2.2 Recommendations

We recommend that the debate on the Netherlands' stance in the discharge procedure for the European Commission's implementation of the 2010 EU budget should recognise that: (1) the improvement in the regularity of the use of EU funds is stalling, and (2) little further improvement is expected without further cooperation by the member states.

We also make the following recommendations to improve financial management in the EU.

EU-wide
- We recommend that the Minister of Finance and the State Secretary for Foreign Affairs, together with like-minded countries, continue to insist at European level on compulsory annual statements, signed at the appropriate political level, on the management and use of EU funds in each member state.
- We urge all ministers to insist during the negotiation of the new Multiannual Financial Framework on improvements in accountability for the effectiveness of EU funds.
- We recommend that the Minister of Finance call on the European Commission to deepen its Transparency Initiative so that real insight is provided into the *projects* carried out using EU funds.

The Netherlands
- We recommend that the Ministers of EL&I, Education, Culture and Science (OCW), Social Affairs and Employment (SZW), the Interior and Kingdom Relations (BZK) and Immigration and Asylum Policy publish not only information on the beneficiaries of EU funds but also as much up-to-date information as possible on the projects themselves.
- We recommend that the Minister of EL&oi improve the match between funding and actual rural development needs, and formulate the rural development objectives in specific and measurable terms. Furthermore, the minister should clarify the link in all measures between performance (output) and impact (outcome).

3 Response of the government and the Netherlands Court of Audit's afterword

3.1 Response of the government

The Minister of Finance responded to the draft of the EU *Trend Report 2012* on behalf of himself, the State Secretary for Foreign Affairs and the other members of the government on 26 January 2012. The minister wrote that the government was pleased with the new, more compact format of the EU Trend Report and its analysis of developments in the past ten years. The government's response further focused on our main conclusions and recommendations. We present the substantive points of the letter[3] and provide an afterword below.

Response to the conclusion 'Improvement of the regularity of EU funds stalling'
The Minister of Finance wrote that the government was disappointed that the European Court of Auditors' maximum error rate (2%) had not come closer in 2010. The government will adhere to its aim of improving the regularity of the use of EU budget funds at both EU and member state level and will continue to take measures to achieve this aim.

Response to the conclusion 'Improved EU financial management not possible without further cooperation of the member states'
The minister wrote that the government recognised the importance of the member states being responsible for improving the financial management of EU funds. The government would maintain its ambition of having the member states publish better and transparent accountability reports during the current negotiation of the EU Financial Regulation.

Response to the conclusion 'Transparency of final beneficiaries of EU funds is increasing, insight into projects still poor'
The minister wrote that the government was an advocate of transparency on the use of public funds both nationally and at EU level. In response to our recommendation that as much up-to-date information as possible should be published on individual projects as well as on final beneficiaries, the minister observed that the Netherlands complied with EU regulations on the publication of information. The government recognised the importance of providing information at *project level* but the minister thought proportionality was also important when considering the level of detail required. The additional administrative burden and implementation costs for the beneficiaries must be taken into account.

Response to the conclusion 'Insight into effectiveness of EU funds still weak'
The minister wrote that the government would continue to raise the effectiveness of EU funds during the various negotiations of the sectoral regulations for the new programming period of the Multiannual Financial Framework. He noted that the Commission's proposals entailed improvements to the current regulations with regard to results and effectiveness.

In response to our recommendation to improve the match between funding and actual rural development needs, the minister wrote that the matter was receiving the

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The full text of the government's response (in Dutch) is available at www.rekenkamer.nl.

government's full attention in the agreement and implementation of the new rural development programme (POP3). In view of the experience with POP2, the minister observed, a direct causal link between POP investments and results (outcome) could not be made in the Netherlands. The POP2 rural development funds available from the EU represented just a small proportion of total rural development investments in the Netherlands. To improve the match with the requirements and objectives of other investments in this area, the use of rural development funds – including POP2 funds – is coupled to the priorities set by the provinces, central government, the Investment Fund for Rural Development and the Living Countryside Agenda. This integrated approach and the objectives are set out in the National Countryside Strategy.
The allocation of budgets to the respective parts of POP2 took account of cost effectiveness (funding versus implementation costs) as well as needs.

The minister emphasised that the government recognised the importance of using funds effectively. A good monitoring and evaluation system and measurable indicators were required. In accordance with European requirements (the Common Monitoring and Evaluation Framework), impact indicators, starting values and target values had been defined for the POP2 programme at outcome level. With a view to the new POP programme, the Netherlands was investigating the possibility of improving the European Monitoring and Evaluation Framework and would share its findings with the EU.

3.2 Court of Audit's afterword

We value the government's ambition to improve the regularity of the use of EU funds at both EU and member state level. We therefore welcome its intention to call during the current negotiation of the EU Financial Regulation for the member states to publish better and transparent accountability reports. We would note in this respect that it is important, especially in times of financial crisis, that the member states bear their political responsibility for the correct use of EU funds.

We understand the government's stance that publishing information on the beneficiaries of EU funds at project level must take account of the additional administrative burden and implementation costs. We would like to exchange thoughts on how such information can be published efficiently. In the United States, for example, the federal government publishes information on investment programmes on a website.

We welcome the government's intention to continue to raise the results and effectiveness of EU funds during the negotiation of the Multiannual Financial Framework. We would note that it is important to include these aspects in the accountability and evaluation process so that policy consequences can be attached to them. We also look forward with interest to the agreement and implementation of the new POP3 rural development programme. We would encourage the government to adopt a clear assessment framework to determine the actual needs and priorities of rural policy.

Main conclusions, recommendations and undertakings

Conclusion	Recommendation	Undertaking
Improvement in the regularity of EU funds is stalling		The government will adhere to its aim of improving the regularity of the use of EU funds and will continue to take measures at EU level to achieve this aim.
Improvements in EU financial management cannot be made without further cooperation by the member states	Minister of Finance and State Secretary for Foreign Affairs: insist at European level on compulsory annual statements, signed at the appropriate political level, on the management and use of EU funds in each member state.	The government recognises the importance of the member states being responsible for improvements in the financial management of EU funds. The government will maintain its ambition of having the member states publish better and transparent accountability reports during the current negotiation of the EU Financial Regulation.
Transparency of final beneficiaries of EU funds is increasing, insight into projects still poor	Minister of Finance: insist that the European Commission deepen its Transparency Initiative so that real insight is provided into the *projects* carried out with EU funds.	The government is in general an advocate of transparency on the use of public funds. The government recognises the importance of providing information at *project level* but proportionality is also important when considering the level of detail required for this goal and the additional administrative burden and implementation costs for the beneficiaries.
	Ministers of EL&I, OCW, SZW, BZK and Immigration and Asylum Policy: publish not only information on the beneficiaries of EU funds but also as much up-to-date information as possible on the projects themselves.	
Insight into effectiveness of EU funds still weak	Government: insist during the negotiation of the new Multiannual Financial Framework on improvements in accountability for the effectiveness of EU funds.	The government will continue to raise the issue during the various negotiations of the new sectoral regulations for the new programming period of the Multiannual Financial Framework. The recommendation is receiving the government's full attention in the agreement and implementation of the new rural development programme (POP3).
	Minister of EL&I: improve the match between funding and actual rural development needs, and formulate the rural development objectives in specific and measurable terms. Furthermore, the minister should clarify the link in all measures between performance (output) and impact (outcome).	

Part II

Audit findings

1 Developments in EU financial management

1.1 Introduction

This chapter summarises recent developments in:
- the financial management of the EU;
- the regularity of the use of EU funds and the insight available into their use;
- the effectiveness of EU policy and the insight into policy effectiveness.

We first provide a summary of the member states' contributions to the EU budget and the EU expenditure in the member states (section 1.2). We then look at a number of relevant policy developments in EU financial management (section 1.3) before considering three areas in which we, as a supreme audit institution of an EU member state, believe transparent information is necessary: the quality of the European Commission's financial management (section 1.4), the insight into and the regularity of expenditure by EU budget heading (section 1.5), and the effectiveness of EU policy (section 1.6). We close by presenting our conclusions (section 1.7).

1.2 EU-wide: key figures

1.2.1 Member state contributions to the EU budget

The EU's total expenditure in 2010 was € 122.2 billion.[4] To finance expenditure, contributions are calculated separately for each member state and remitted to Brussels each year. These contributions to the EU budget make up the greater part of the EU's *own resources*.

The EU's own resources are made up of three types of contribution (or remittance) from the member states:
- traditional own resources: 75% of the sugar levies and customs duties collected by the member states;
- VAT-based own resources: a set percentage (with a ceiling) of the individual member states' VAT revenue or level of consumption, applied on a uniform basis across the EU;
- remittances based on the member states' gross national income (GNI).

Figure 1 shows the EU's revenue in 2010 and 2009.

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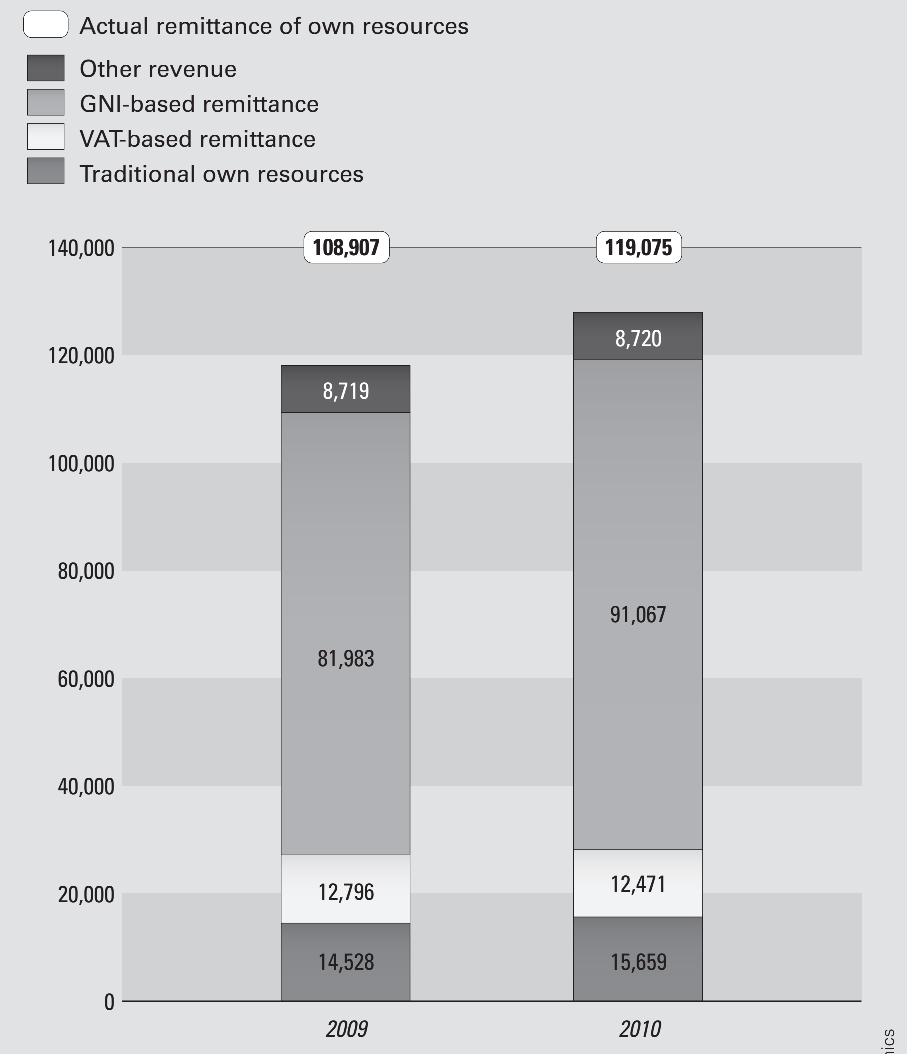
This is about 1% of the aggregate gross national income (GNI) of the member states. According to Eurostat, the national budgets of the individual member states were slightly higher than 50% of their GNI in 2010.

Figure 1 **EU revenue in 2009 and 2010**
In millions of euros



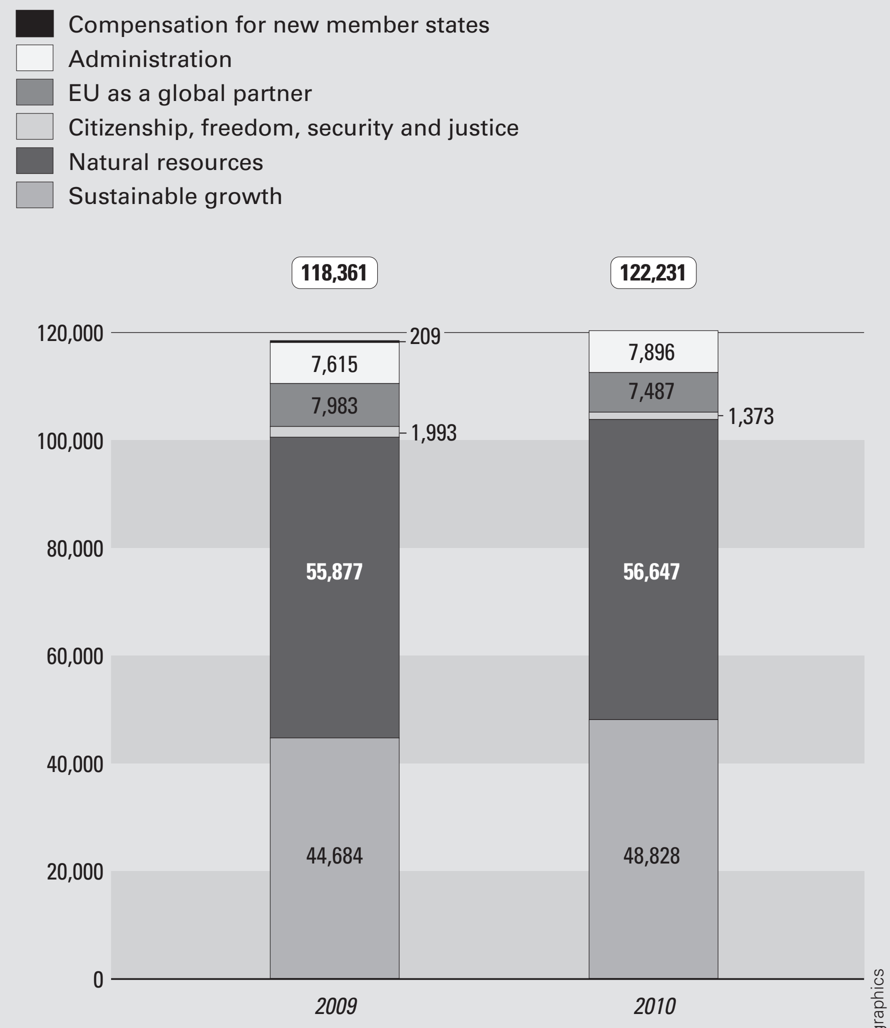
The remittances shown do not sum to the total above each bar. This is because some member states (including the Netherlands, Sweden and the United Kingdom) receive rebates that are compensated for by the other member states. As the settlement can differ slightly from one year to another, we have not included the amounts in the figure.

Source: European Commission, 2011a

1.2.2 EU expenditure in 2010

Figure 2 shows actual EU expenditure in 2009 and 2010 by budget heading used by the European Commission.

Figure 2 **Expenditure by budget heading**
In millions of euros



Compensation payments were intended to ensure that the new EU member states would be net recipients in the first years of their membership.

Source: European Commission, 2011a

'Administration' includes expenditure by the Commission and other EU institutions, such as the European Parliament and the European Court of Auditors.

1.2.3 EU budget balance

The EU may not run a budget surplus or deficit. All expenditure must be covered by revenue and appropriations that are not applied must be returned to the member states, either by setting off the amounts concerned against future contributions or by refunding them on a pro rata basis. According to the European Commission, the EU budget ran a surplus of € 5.6 billion in 2010.

1.3 Developments in financial management policy

1.3.1 Proposal for a new Financial Regulation

In May 2011 the Economic and Financial Affairs Council (Ecofin) reached a compromise on the European Commission's proposal for a new Financial Regulation (European Commission, 2010a) and the presidency was given a mandate to enter into talks with the European Parliament. The European Parliament[5] approved a large number of amendments to the Commission's proposal in October 2011 (European Parliament, 2011a). The two draft texts for a new Financial Regulation differ significantly in many areas from the Commission's original proposal (sometimes significantly).

Negotiation of the new Financial Regulation centres on a number of issues. We discussed these issues in detail in the EU *Trend Report 2011* (Netherlands Court of Audit, 2011a). Below, we summarise the latest developments in national accountability.

National accountability
The European Commission had proposed that the member states accredit one or more public sector bodies with sole responsibility for the proper management and control of accounts and transactions for every EU fund from which they receive money. In the Commission's proposal, these bodies would in future submit an annual summary of the results of audits and controls (also part of the current annual summary). Moreover, a management declaration of assurance on the accounts, the functioning of internal control systems and the regularity of underlying transactions would be submitted. An independent audit body would express an opinion on the declaration. These aspects of the proposal are new.

In the Ecofin compromise of May 2011, the responsibilities and obligations of the member states and the Commission would be subject to sector-specific rules (i.e. rules on each sector funded by the EU, such as agriculture and cohesion). The Ecofin text states that the member states should provide the European Commission, at the 'appropriate level', with: aggregated accounts; a statement of management responsibilities confirming that the information is properly presented, complete and accurate, that the expenditure has been used for its intended purpose and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions; and a summary of final audit reports. All this information should be accompanied by an opinion of an independent audit body. A large number of member states commented that they had strong doubts about the compromise because they thought the adopted text was expecting too much of them.

The European Parliament's text proposal of October 2011 is in the main comparable with Ecofin's. A passage was added at the last moment, however, stating that the member states should also prepare a national declaration on their expenditure, signed at the appropriate political level, that considers at least the functioning of the control systems and the regularity of underlying transactions. An independent auditor should express an opinion on the declaration.

Position on the member state declaration
In our opinion, the Council of Ministers' opposition to greater member state accountability is a matter of concern. It will perpetuate weaknesses in the insight available into the financial management and regularity of EU funds in the member states. Equally, it will not be possible to take appropriate remedial measures to improve financial management and enable the European Court of Auditors to express a positive statement of assurance on the implementation of the EU budget. Having regard to the EU Treaty, we believe the European Commission and the member states are jointly accountable for the sound and comprehensive management, control,

5
The negotiations took place in a joint committee of members of the Budget Committee and the Budget Control Committee.

accountability and supervision of funds under shared management. Two features of sound public administration are essential: transparency and public accountability.[6] Relevant information must be accessible and the government and associated bodies should render public account for the regularity of the collection, management and use of public funds. In our opinion, a public member state declaration signed at the appropriate political level is the best way to achieve this. The single audit model would enable efficient use to be made of this audited information to prepare accounts and an overall statement of assurance at European level.

Further procedure

The new Financial Regulation cannot come into force until both the Council of Ministers and the European Parliament agree to the proposal. The European Commission has not achieved its ambition of having the new Financial Regulation take effect on 1 January 2012. It is now hoped that the negotiations will be completed in the first half of 2012 under Danish Presidency.

1.3.2 Multiannual Financial Framework

European Commission's proposal

The European Commission completed its consultations on a possible reform of the EU budget in 2008. The Commission presented a proposal for a new Multiannual Financial Framework on 29 June 2011, to take effect on 1 January 2014 until 2020 (European Commission, 2011b) (see table 1).

Table 1. Multiannual Financial Framework for the EU, 2014-2020 rounded in billions, 2011 price levels

Main policy field	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
Smart and inclusive growth	64.7	66.7	68.1	69.9	71.6	73.8	76.2	490.9
Sustainable growth: natural resources	57.4	56.5	55.7	54.9	53.8	52.8	51.8	382.9
Security and citizenship	2.5	2.5	2.6	2.6	2.7	2.7	2.8	18.5
Global Europe	9.4	9.6	9.8	10.0	10.2	10.4	10.6	90.0
Administration	8.5	8.7	8.8	8.9	9.1	9.2	9.4	62.6
Total	142.6	144.0	145.1	146.4	147.3	148.9	150.7	1025.0
Total as % of GNI	**1.08**	**1.07**	**1.06**	**1.06**	**1.05**	**1.04**	**1.03**	**1.05**

Source: European Commission (2011b), *A Budget for Europe 2020.*

The figures above do not include expenditure from the European development fund and for a number of smaller funds that are outside the Multiannual Financial Framework. These funds together amount to more than € 58 billion until 2020, equal to 1.11% of GNI. This falls within the current maximum of 1.24% of GNI.

Further procedure

The Commission's proposal has been sent to the European Parliament, the Council of Ministers and all EU member states. Each country will argue its own corner in the negotiation of a joint Council position. The new Multiannual Financial Framework will eventually, after approval of the European Parliament, be confirmed in a regulation of the Council (article 312 TFEU[7]).

6
These are two of the eight features of good public administration recognised by the United Nations.

7
TFEU: Treaty on the Functioning of the European Union.

In the Netherlands, the House of Representatives announced a parliamentary reservation immediately the Commission published its proposal on 29 June 2011. This is an indication of the importance the House attaches to the issue. The government cannot take a final position in Brussels before a debate has been held in the House of Representatives. In September 2011, the State Secretary for Foreign Affairs agreed to forward a progress letter to the House four times a year so that parliamentary committee meetings can be held with members of the government.

1.3.3 Member state declarations and annual summaries

Four countries voluntarily published member state declarations in 2011: Denmark, the Netherlands, the United Kingdom and Sweden. The similarities and differences between these member state declarations are considered in chapter 2. The member states had submitted their annual summaries for 2010 by 15 February 2011.[8]

The European Commission issued an external evaluation of the annual summaries in spring 2011 (Moore Stephens, 2011). The evaluation considered the added value of the annual summaries of funds from the European Regional Development Fund (ERDF) and the cohesion funds in the period 2007-2009. It concluded that the annual summaries have little added value in their current form and provide information that is already available elsewhere. Although the member states are increasingly complying with more of the obligations, they are not fulfilling all the voluntary aspects of the annual summaries (such as issuing declarations of assurance), which, according to the evaluators, would have more added value. The report states that the shortcomings in the current annual summaries are due to, for example, the weak legal basis not making additional declarations of assurance obligatory and their being published too late to include the findings presented in the DGs' annual activity reports. The administrative burden on the member states is accordingly disproportionate to the marginal benefit of slightly better insight into expenditure.

The evaluation report also considers the annual declarations published voluntarily by four member states in recent years. Since the national declarations differ with regard to content, form and publication date, it concludes that they have primarily added value in the domestic sphere. The European Commission concluded earlier in a working document[9] that the national declarations have little added value to them vis-à-vis other accountability documents because of their disparities in content and publication date.
Parliamentary scrutiny of the national declarations at the national level is regarded as positive by the evaluators. The report's authors conclude nevertheless that a different kind of declaration is needed if the member states are to bear proper responsibility for the financial management systems in place for EU funds in their home countries. Declarations on the effectiveness of the systems should be issued by the managing authority and be accompanied by an opinion of the responsible audit authority. This approach is consistent with the European Commission's proposal for the new Financial Regulation.

Our audit of the Dutch member state declaration found that there were significant differences between the management and control requirements for the various EU funds. Consolidation in a member state declaration reveals the various risks and harmonisation can thus strengthen management. The introduction of a management

8
Annual summaries of audits and controls (and the findings) that the EU member states carry out each year of funds under shared management with the Commission. The member states have been required to submit such summaries to the European Commission since 2008.

9
Adding value to Declarations: increasing assurance on execution in shared management, Working document of the European Commission, SEC (2011) 250 final, 23 February 2011.

statement on all funds with an independent opinion on their reliability, as is the case for the agricultural funds, would be a step forward.

Although we recognise that the differences among the current national voluntary declarations limit their added value, we nevertheless support the publication of member state declarations. The absence of a definitive opinion by the European Commission and the European Court of Auditors at member state level shows that member state declarations fill a gap in the supervision of EU funds under shared management. If they are made compulsory, statutory requirements can be set on the content, form and publication date. The requirements could be agreed in consultation with the member states. This would increase the declarations' added value and ensure parliamentary scrutiny at national level.

1.3.4 Consequences of the crisis

Country support

The EU has taken several initiatives in the past 18 months to support countries in the eurozone that are having difficulties financing their national debt. Although the support is largely off-budget, all member states are additionally guaranteeing, through the EU budget, the loans that the European Commission is extending for the temporary European Financial Stability Mechanism (EFSM). This mechanism, set up in response to the problems in Greece, consists of € 60 billion and is open to all member states. The European Commission has been able to provide the support by raising loans on the capital market. If a country does not fulfil its obligations to the ESFM, the consequences are borne in principle from the EU budget. If this is not entirely possible, the remainder is allocated to the member states. The same mechanism has been introduced for the balance of payment assistance to support non-euro countries. Like the intergovernmental European Financial Stability Facility (EFSF), the EFSM is likely to be replaced in July 2012 with the permanent European Stability Mechanism (ESM) provided the necessary treaty is ratified by all euro countries on time.

The ESM will be managed by the euro country finance ministers, with the EU Commissioner for Economic and Financial Affairs and the president of the European Central Bank (ECB) acting as observers. Decisions on the allocation, size and conditions of the financial support must be passed unanimously. All other decisions require a qualified majority. Non-euro countries can participate in the ESM support programmes on an ad hoc basis. To do so, they must make an additional financial contribution subject to a bilateral agreement.

On 15 August 2011, we sent a letter to the House of Representatives drawing attention to effective public control of the ESM by supreme audit institutions (Netherlands Court of Audit, 2011c). On the initiative of the German SAI, this has been followed up at EU Level by a resolution in the Contact Committee of the Heads of the Supreme Audit Institutions of the European Union and the European Court of Auditors (Contact Committee, 2011a). The Minister of Finance replied to our letter to the House of Representatives on 25 October 2011 (Finance, 2011a). He agreed with the plan to establish an external audit board consisting of representatives of the supreme audit institutions that would have the power to control the use of programme funds.

The minister undertook to call in the Council of Ministers for an ESM treaty amendment in order to create the legal basis necessary for such an audit board.

European funds

A number of temporary budgetary measures have been taken to address the problems certain EU member states are facing with budgetary discipline, debt refinancing and economic growth. Sector-specific schemes have also been introduced (or proposed) to ensure that countries affected by the crisis will be able to implement European programmes. We discuss the main measures and schemes below.

The pre-financing of several funds was increased in 2010 for countries in difficult circumstances. Additional advances were made of € 371 million from the European Social Fund, € 404 million from the Cohesion Fund and € 0.8 million from the European Fisheries Fund. An additional € 401 million was pre-financed from agriculture and rural policy.[10]

The European Commission recently also proposed a temporary facility to top up the payments made to a number of countries – currently Hungary, Romania, Latvia, Portugal, Greece and Ireland – by 10 percentage points of the amount co-financed from the Cohesion Fund (European Commission, 2011c). According to the European Commission, these top-up payments will not exert additional pressure on the overall budget because the total financial allocation from the Cohesion Fund to the countries concerned will not change over the period as a whole. Another recent proposal by the European Commission would create a temporary facility for the countries named above to receive additional funds from the European Investment Bank (European Commission, 2011d). According to the Commission, this facility, too, will have no budgetary consequences because the total financial allocation to the countries concerned will not change.

The European Globalisation Adjustment Fund (EGF) is also being applied to mitigate the crisis.[11] The EGF is used to help people find new work or learn new skills if they have lost their jobs as a result of changing global trade patterns or – since 1 May 2009 – of the global financial and economic crisis. Although the maximum budget of € 500 million per annum is currently far from exhausted, the number of requests on account of the crisis has risen sharply since mid-2009.

Finally, the new sectoral regulations for the period 2014-2020 will be adapted to the new situation. A possibility will be created, for example, to reduce the structural funding received by countries with an excessive budget deficit. Simultaneously, these funds will be targeted more at helping countries and regions improve their relative competitiveness.

1.3.5 Antifraud strategy

The European Commission (2011e) published its new strategy to tighten up antifraud policy on 24 June 2011. Concrete proposals to combat fraud more effectively include the incorporation of fraud prevention in the internal control system of each DG, with the DGs reporting on antifraud measures in their annual activity reports, and the more intensive use of the black list of fraudulent applications for European funds. The European Commission will not report on the results of its new strategy before 2013.

10
This pre-financing was provided without an appropriate legal basis. The European Court of Auditors' annual report for 2010 accordingly referred to it as an irregularity.

11
Under the interinstitutional agreement between the European Parliament, the Council of Ministers and the European Commission on budgetary discipline and good financial management of 17 May 2006, the EGF may provide up to € 500 million per annum by means of a flexibility mechanism in addition to the maximum available under the chapters of the financial framework (OJ C 139 of 14 June 2006, page 1). The rules applying to the amounts provided from the EGF are laid down in Regulation (EC) no. 1927/2006 of the European Parliament and of the Council of 20 December 2006 on establishing the European Globalisation Adjustment Fund.

1.4 EU financial management systems

The European Commission's Directorates-General and services report on their controls and the results in their annual activity reports. The Commission uses the activity reports to compile its Synthesis Report.

1.4.1 Controls by the European Commission in the member states

The 2010 activity reports of the five policy DGs responsible for funds under joint management (DGs Agriculture, Regional Policy, Employment, Maritime Affairs and Fisheries, and Home Affairs) include detailed information on the results of controls in member states. The member states, moreover, are referred to by name. Substantively, the information has remained at the same level as in the 2009 activity reports. With the exception of DGs TAXUD and Justice, the policy DGs consider only the nature of the controls in their activity reports. They sometimes also name the member states in which controls were carried out. The insight provided into the results of these DGs' controls is therefore limited.

1.4.2 Accountability

In this section we consider the insight into the regularity and policy effectiveness provided by the two main accountability documents issued by the European Commission: the annual activity reports of the DGs and services and the Synthesis Report of the Commission as a whole.

Activity reports

Each activity report includes a declaration of assurance signed by the Director-General. It states that the report gives a true and fair view and that there is reasonable assurance on the correct implementation of the budget. The Director-General also discloses how many and what kind of reservations were made regarding the reliability of the information.

Twelve Directors-General made a total of 17 reservations in 2010.[12] Of these reservations, 15 had also been made in 2009 and two were new.[13] In our opinion the reservations were in general better quantified than in previous years and the notes to them were more detailed. The reservations related to shortcomings both in management and control systems and in regularity. Most of the problems were due to complex regulations on eligible expenditure and the application of public procurement rules. As in the previous year, DGs Agriculture, Regional Policy, Maritime Affairs and Fisheries, Employment and Home Affairs[14] provided a summary of the extent to which the member states' 2010 annual summaries complied with the requirements.

Synthesis Report

The Synthesis Report is the closing document in the European Commission's accountability cycle. It includes a separate chapter on the reliability, legality and regularity of financial transactions and on the reservations made or repeated by the DGs.

As in previous Synthesis Reports, the European Commission states in the 2010 Synthesis Report that, by approving the report, it assumes political responsibility for the management exercised by the Directors-General and heads of services. It assumes

12
The European Commission had 43 DGs and services in 2010.

13
A total of 21 reservations had been made in 2009.

14
DG Home Affairs is responsible for the migration funds.

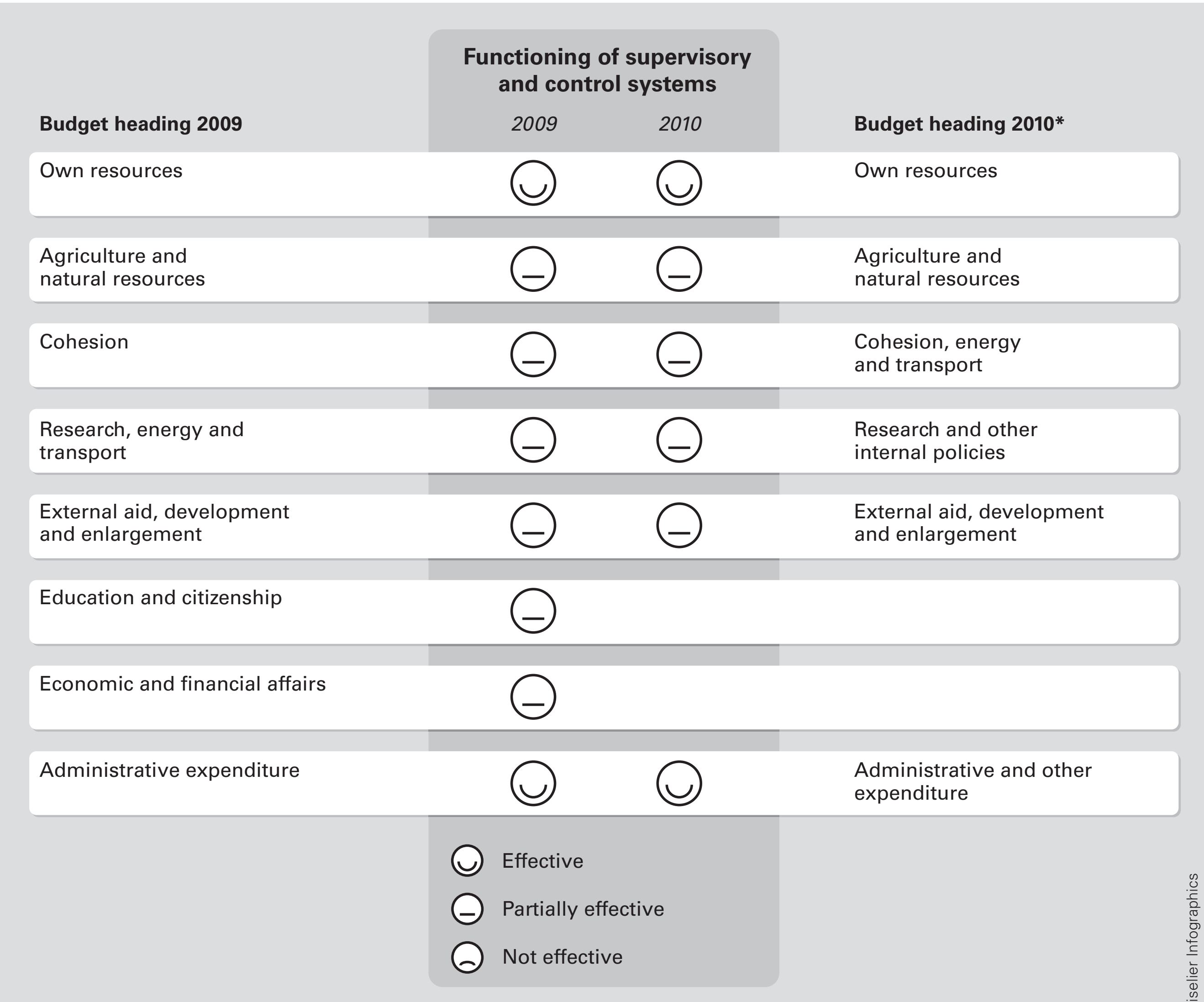
this responsibility on the basis of the declarations of assurance and reservations in the DGs and services' annual activity reports (European Commission, 2011f). Nevertheless, the Synthesis Report has again not been signed by the members of the European Commission and the responsibility is accordingly implicit.

A new aspect in the 2010 Synthesis Report is a statement by the European Commission's Internal Audit Service that the various control systems that the Directors-General use to adopt their activity reports are reliable. This statement can be seen as an in control statement of the European Commission. At present, however, it is an unpublished internal document prepared for the Synthesis Report. The European Parliament, after repeated requests, has been promised a summary of the internal audit opinion.

1.4.3 European Court of Auditors' opinion

The European Court of Auditors stated in its annual report for 2010 that the supervisory and control systems were on the whole 'partially effective' (European Court of Auditors, 2011). By budget heading, the picture was as follows.

Figure 3 **European Court of Auditors' opinion in 2009 and 2010 on the functioning of supervisory and control systems**
By EU budget heading for 2009 and 2010



Source: European Court of Auditors, annual reports 2009 and 2010
* The European Court of Auditors used a different budget layout in its 2010 annual report than in its report for previous year.

1.5 Regularity of the use of EU funds

1.5.1 Regularity information issued by the European Commission

Our assessment of the regularity information is based on the annual activity reports issued by 12 policy DGs, DG Budget, the European Commission's Secretariat General and the annual report of the European Anti-Fraud Office (OLAF).

Reservations made by the Directorates-General

Nine of the 12 policy DGs we investigated included reservations on the reliability of the regularity information in their 2010 activity reports.
There were three fewer reservations in 2010 than in 2009. The financial volume of the reservations was higher than in 2009; in view of the uncertainty regarding the size of three reservations, however, it is not entirely clear how much higher the reservations were.

Figure 4 **Reservations made by the European Commission in 2010**

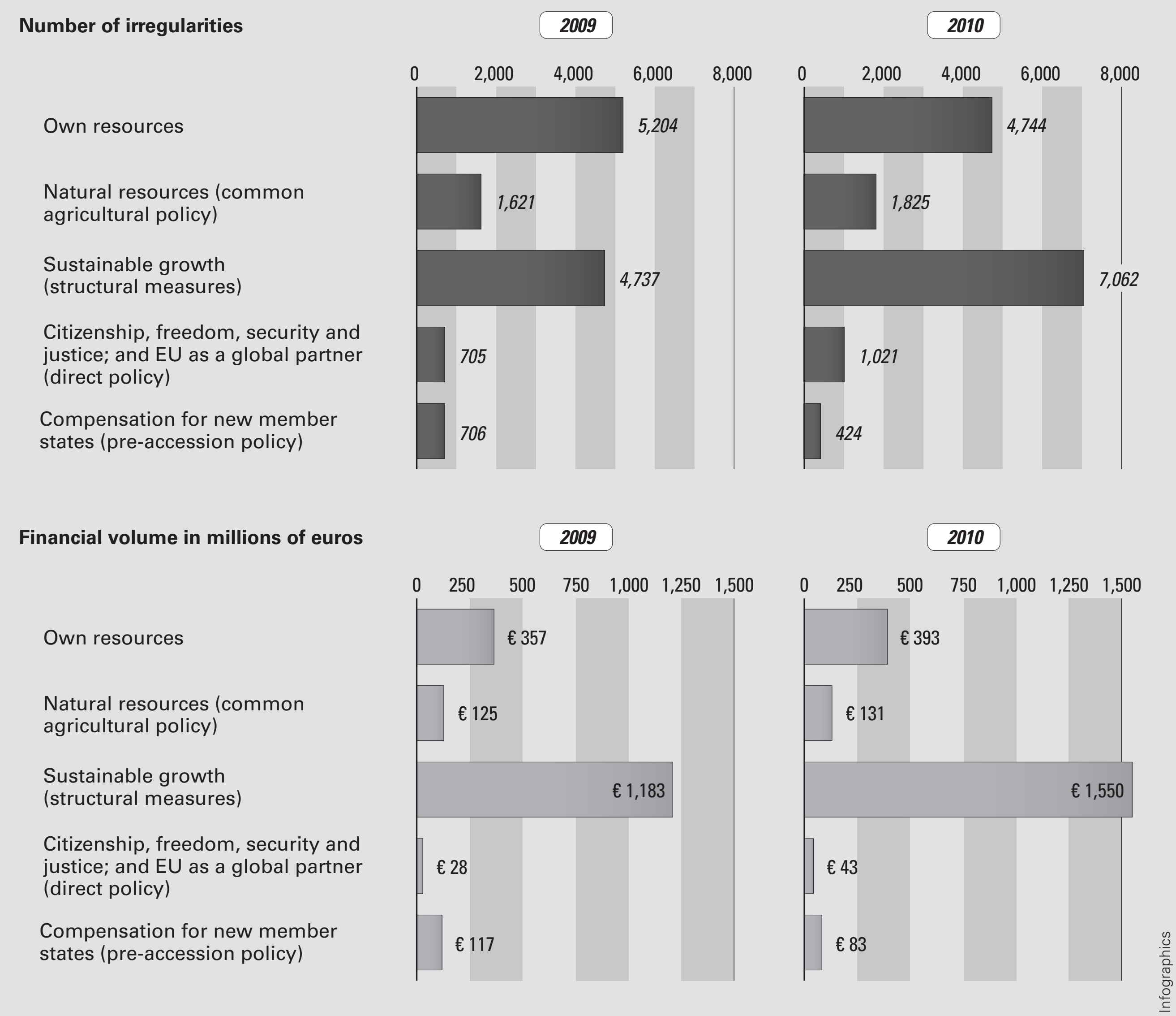
Budget heading	DG	Number of reservations	Financial risk
Sustainable growth	Regional Policy	2	€ 200 - € 430 million and € 32 - € 65 million
	Employment	2	€ 0.4 million and € 71.6 million
	Transport	1	€ 1.2 million
	Energy	1	€ 1.7 million
	Research and Innovation	1	< € 16.3 million
Natural resources	Agriculture	1	€ 45 - € 90 million
	Maritime Affairs and Fisheries	1	€ 15.9 million
Citizenship, freedom, security, justice	Home Affairs	2	Neither reservation is quantified owing to their reputational character.
	Education and Culture	1	€ 3.3 million
Total number of reservations made by the policy DGs investigated		12	
Other reservations		5	
Total number of reservations		17	

According to the European Commission, the risks identified related to shortcomings in the management and control systems in a number of member states and shortcomings in the capacity to prevent, detect and correct errors. The European Commission notes in the Synthesis Report that the greater number of transactions in 2010 increased the inherent risk of structural errors. Most of the problems were due to complex regulations on eligible expenditure and public procurement rules. With regard to structural policy as a whole, the 2010 programming year showed a significant improvement in the error rate and the size of undue payments. DG Regional Policy's reservations for 2010 related to more operational programmes in more member states than in previous years. DG Employment's reservations related to fewer operational programmes than in 2009 but to more member states.

Irregularities and financial corrections
Member states must report fraud and all other activities that might prejudice the EU's financial interests as 'irregularities' to the European Commission. Furthermore, every irregularity must lead to the repayment of amounts due or wrongly received.[15]

Since 2008 direct expenditure by the European Commission has been subject to the same regime as expenditure under shared management and information on the actual or suspected size of irregularities and fraud must therefore be published.

Figure 5 **Irregularities and financial volume reported in 2009 and 2010 by budget heading**
In absolute numbers and millions of euros



Figures taken from the European Commission's reports on the protection of the Communities' financial interests and related annexes for 2009 and 2010.

Both the number of irregularities and the estimated financial volume (for revenue and expenditure) were higher in 2010 than in 2009 (up 16.2% and 21.6% respectively). The estimated financial impact of the irregularities increased to 1.27% of the total funds allocated in 2010, in comparison with 1.13% in 2009 (European Commission, 2011g; 2011h).

15
Article 325 of the Treaty on the Functioning of the European Union (TFEU); Council Regulation (EC) no. 2988/95 of 18 December 1995.

The European Commission's annual report on the protection of the EU's financial interests and fraud prevention provides information on the recovery of undue payments to the member states and outstanding amounts in six of the seven budget headings.[16] According to OLAF, 46% of the total irregular amount in traditional own resources has been recovered. The average recovery rate for irregular amounts in expenditures increased to 49.5% in 2010. The recovery rate was the highest in structural expenditure: 67% (53% in 2009), equal to € 611 million.

Fraud
OLAF reports on its operational investigation of deliberate irregularities, or cases of suspected fraud, each year.

Table 2. Number of new fraud cases and decisions taken, 2009-2010

	2009	2010
New OLAF cases	969	983
Decisions taken	740	691
Source: OLAF, annual reports 2010 and 2011		

Slightly more fraud cases were reported to OLAF in 2010 than in 2009. Decisions were taken in 2010 on the follow-up to 691 cases: 225 require 'further investigation'. Of these 225 cases, 98 were followed up in 2010. OLAF places emphasis on more complex and time-consuming fraud cases (OLAF, 2011, p. 31).

1.5.2 European Court of Auditors' opinion on legality and regularity

General opinion
The European Court of Auditors' general opinion on the legality and regularity of the European Commission's annual accounts is that they present fairly, in all material respects, the financial position of the Union but overall payments were affected by too many irregularities. The most likely error rate for the budget as a whole is estimated at 3.7%, a higher rate than in 2009. In consequence, the European Court of Auditors is again unable to issue a positive statement of assurance on (*Déclaration d'Assurance*; DAS) on the implementation of the EU budget.

Opinion by budget heading
In contrast to previous years, the European Court of Auditors' opinion on transactions does not categorise errors rates into 'less than 2%', 'between 2 and 5%', and 'higher than 5%' but provides exact percentages, as shown in the table below. The European Court of Auditors estimates the error rate to be highest in the Cohesion, energy and transport heading (a new combined heading). With an average estimated error rate of 7.7%, this heading presents a more sombre picture than the Cohesion heading in the previous year.

16
OLAF still uses the former budget layout. The relationship between the new and the former budget headings is explain in section 2.2 of the *EU Trend Report 2009*.

Figure 6 **European Court of Auditors' opinion on the regularity of transactions**
By EU budget heading

Budget heading 2009	Errors in checks of transactions 2009	Errors in checks of transactions 2010	Budget heading 2010*
Own resources	< 2%	0.0	Own resources
Agriculture and natural resources	2 – 5%	2.3	Agriculture and natural resources
Cohesion	> 5%	7.7	Cohesion, energy and transport
Research, energy and transport	2 - 5%	1.4	Research and other internal policies
External aid, development and enlargement	2 – 5%	1.7	External aid, development and enlargement
Education and citizenship	2 – 5 %		
Economic and financial affairs	< 2%		
Administrative expenditure	< 2%	0.4	Administrative and other expenditure

Source: European Court of Auditors, annual reports 2009 and 2010
* The European Court of Auditors used a different budget layout in its 2010 annual report than in its report for the previous year.

Joris Fiselier Infographics

1.5.3 Summary of insight into regularity

On the basis of the information published by the European Commission and the European Court of Auditors we concluded that there had been no demonstrable improvement in the regularity of the use of EU funds in the past year. The European Commission made fewer reservations than in 2009 but their financial volume was higher. In view of the uncertainty regarding three irregularities, the precise size of the increase is not clear. Furthermore, both the number and the financial volume of the irregularities reported by the member states in 2010 were higher than in 2009.
The number of fraud cases reported to OLAF was also slightly higher than in 2009.
The European Court of Auditors was unable to issue a positive statement of assurance. The most likely error rate for the budget as a whole was 3.7%; this is a higher rate than in 2009. The estimated error rate in the Cohesion, energy and transport heading remained far too high at 7.7%.

1.6 Insight into the effectiveness of EU funds

This section briefly considers the insight into the effectiveness of EU funds provided by the annual reports issued by the European Commission and the European Court of Auditors.

1.6.1 European Commission's activity reports

Most of the 2010 annual activity reports issued by the European Commission's policy DGs that we investigated included schematic and therefore transparent presentations of the general and specific policy objectives, related output and impact indicators and the results of the activities. Only two DGs (Maritime Affairs and Fisheries, and Home Affairs) did not. This is an improvement on the previous year, when the activity reports of four policy DGs did not include schematic presentations. The DGs present the results and the indicators used to measure them in a more uniform manner and for the most part in more detail. There has therefore been a modest improvement in the transparency of the information provided by the European Commission on the outputs of the EU funds.

1.6.2 European Court of Auditors' annual report

For the first time, the European Court of Auditors assessed the performance information provided in the annual activity reports of three of the European Commission's DGs last year. It found that there was reasonable insight into outputs but little information on outcomes.

1.7 Conclusions

Little progress was made in the past year regarding the regularity of EU funds and the insight available into regularity. The same four member states issued voluntary member state declarations as in the previous year; a large number of member states do not agree to further obligations to account for the use of EU funds under shared management. Furthermore, little progress has been made in the functioning of supervisory and control systems. For the 17th year in succession, the European Court of Auditors was unable to issue a positive statement of assurance on the implementation of the EU budget.

We also conclude that little progress was made regarding the effectiveness of EU funds and the insight available into effectiveness. The European Court of Auditors noted in its 2010 annual report that there was reasonable insight into the outputs of EU policy but little information on outcomes.

The progress made with the financial management of the EU seen in recent years therefore seems to have come to a halt.

2 EU member states

2.1 Introduction

This chapter presents a country comparison of the regularity and effectiveness of the use of EU funds in the 27 EU member states and the insight available into regularity and effectiveness. We first discuss the remittances, receipts and net positions of the member states (section 2.2). We then look at the regularity of the use of EU funds in the member states and the insight into regularity provided by the member state declarations and by publications of the European Commission and the European Court of Auditors (section 2.3). We consider the effectiveness of this use and the insight available into effectiveness in section 2.4. We close the chapter with a summary of the contributions made by the member states' supreme audit institutions to the regularity and effectiveness of and insight into the use of EU funds (section 2.5).

2.2 Net position of the member states

In this section we consider the remittances, receipts and net positions of the EU member states in 2010. The difference between the amount a member state pays to the EU and the amount it receives from the EU budget is known as its net position. Depending on precisely what is included in a member state's remittances and receipts, its net position may vary significantly.

The Dutch government uses the 'accounting method' to calculate a member state's net position. In this method the net position is all a member state's receipts less all its remittances. Traditional own resources (custom duties) are attributed in full to the member state that contributes them and all attributable EU receipts are taken into account, including amounts received for administration, which are used to finance the EU institutions located in the member state.

In the annual financial report on the EU budget (European Commission, 2011a), the European Commission calculates an operating budgetary balance for each member state. This budgetary balance is not the same as the member state's net position but is similar. It is also the product of deducting a member state's remittances to the EU (its 'national contribution') from its receipts. However, there are two important differences from the net position calculated by means of the accounting method:
The European Commission does not include traditional own resources or expenditure on administration. According to the Commission, these are not national contributions or receipts.
To calculate the budgetary balance for each member state, the Commission does not use the actual amount remitted but a recalculated or adjusted amount (see box below) so that the member states' respective operating budgetary balances sum up to zero.

Operating budgetary balance

To calculate a member state's operating budgetary balance, the European Commission first calculates how much money the member state has received from the EU (excluding amounts for administration). It then calculates the national contribution made by the member state, excluding traditional own resources. The Commission then works out the member state's percentage share in all the member states' contributions. This percentage is used to recalculate the member state's contribution. The member state's contribution is expressed in EU allocations by multiplying the contribution share by total EU allocations (excluding administration). The recalculated contributions of all member states are thus equal to the total amount received by all the member states. The member states' respective budgetary balances therefore sum up to zero.[17]

The operating budgetary balance calculated by the European Commission is therefore not an actual figure but an accounting figure. The member states' budgetary balances calculated by the Commission and the net positions calculated by means of the accounting method are therefore not directly comparable.

The European Court of Auditors publishes information only on the EU's revenue (remittances by the member states) and payments (receipts of the member states) by member state and does not calculate the net contribution by member state. Its 2010 annual report disclosed expenditure on administration in each member state for the first time. The European Court of Auditors applies a different model from the European Commission to allocate payments to a particular member state. The European Court of Auditors uses only the information available in the European Commission's Accrual Based Accounting System (ABAC) whereas the European Commission goes a step further by checking that the funds are actually spent in the member state in question.

In previous editions of the *EU Trend Report* we calculated the net position using data from the European Court of Auditors. This year we have decided to compare the two different calculations of the net position. As well as the accounting method, we present a calculation similar to the European Commission's method, in which the remittances exclude traditional own resources and receipts exclude administration. Unlike the European Commission, however, we do not recalculate the contributions and work with the actual contributions made by the member states. We do not consider the member states' operating budgetary balances as they are not directly comparable with the net positions (see above).

Detailed tables on the remittances, receipts and net position of each member state according to both the accounting method and the alternative method are provided in appendix 1. To illustrate the differences between the methods, we briefly consider below the member states that were the largest net recipients and net contributors according to the two methods in 2010.

17
In annex 3 (p. 74) of the financial report on the EU budget 2010, the European Commission explains how it calculates the budgetary balance with the aid of a numerical example.

Figure 7 **Largest net recipients according to the accounting method and the alternative method in 2010**
In millions of euros and as a percentage of GNI

	Accounting method		Alternative method		
	Net position *as % GNI*	Net position *in millions of euros*	Net position *in millions of euros*	Net position *as % GNI*	
1 Lithuania	+ 4.9%	+ 1,332.8	+ 1,360.1	+ 5.0%	**1 Lithuania**
2 Estonia	+ 4.9%	+ 665.5	+ 673.6	+ 5.0%	**2 Estonia**
3 Luxembourg	+ 4.5%	+ 1,293.1	+ 675.4	+ 3.7%	**3 Latvia**

Sources: the figures used for the two calculations are derived from the European Commission (2011a). GNI figures are from Eurostat.

If we express the net position as calculated by the accounting method as a percentage of GNI, Lithuania is the largest net recipient of EU funds, followed by Estonia and Luxembourg. Using the alternative method, Lithuania is still the largest net recipient, followed by Estonia and Latvia. Luxembourg is not in the top three on account of the relatively high funding it receives for the administration of European institutions located within its borders (€ 1.3 billion in 2010). These funds are included in the accounting method but not in the alternative method.

Figure 8 **Largest net contributors according to the accounting method and the alternative method in 2010**
In millions of euros and as a percentage of GNI

	Accounting method		Alternative method		
	Net position *as % GNI*	Net position *in millions of euros*	Net position *in millions of euros*	Net position *as % GNI*	
1 The Netherlands	–0.6%	–3,467.5	–1,443.0	–0.4%	**1 Belgium**
2 Germany	–0.5%	–11,947.4	–9,076.2	–0.4%	**2 Germany**
3 UK	–0.5%	–7,913.7	–1,191.4	–0.3%	**3 Sweden**

Sources: the figures used for the two calculations are derived from the European Commission (2011a). GNI figures are from Eurostat.

If we express the net position as calculated by the accounting method as a percentage of GNI, the Netherlands is the largest net contributor, followed by Germany and the United Kingdom. Using the alternative method, Belgium is the largest net contributor, followed by Germany and Sweden. The Netherlands and the United Kingdom do not appear in the top three on account of the remittance of traditional own resources; customs duties collected on the external borders are excluded in the alternative method. For both countries, these duties represented substantial amounts in 2010: € 1.7 billion for the Netherlands and € 2.5 billion for the United Kingdom.

Belgium is a net recipient using the accounting method but the largest contributor using the alternative method. Like Luxembourg, Belgium receives funding to administer the European institutions located within its borders (€ 4.3 billion in 2010). These funds are included in the accounting method but not in the alternative method.

2.3 Regularity of EU expenditure

Five types of report currently provide an insight into the regularity of the use of EU funds in the member states. Three paint an overall picture of the EU but also contain information on the situation in a number of member states. These documents are the activity reports of the European Commission's DGs, OLAF's annual report and the European Court of Auditors' annual report. Two reports are specifically intended to provide an insight into the situation in the member states. They are the annual summaries and voluntary member state declarations. This section considers the insight provided by these documents for 2010.

2.3.1 Activity reports 2010

We examined the annual activity reports of the 12 policy DGs that are of the greatest relevance to the funds spent in the member states[18] in order to determine what insight they provide into the regularity of expenditure in the member states. The activity reports of the five policy DGs responsible for funds under shared management[19] name the member states in which material shortcomings or financial risks were detected in management and control systems. DG REGIO's activity report included the reservations with the largest financial volume in 2010. It states that shortcomings in ERDF management and control systems were detected chiefly in Bulgaria, Germany, Italy and Latvia. The activity reports of the other seven DGs investigated provided no information on the situation in individual member states. In broad lines, this is the same as in the previous year.

2.3.2 Information on the member states in OLAF's annual report

Irregularities

The European Anti-Fraud Office (OLAF) issues an annual report on the results of measures taken to protect the financial interests of the EU and to combat fraud (European Commission, 2011g). It is based in part on reports of irregularities made by the member states. The member state reports do not provide a full and reliable view because not all member states report irregularities in the same way.

The irregularities reported represented a total financial risk of € 2.1 billion. Of this amount, 51% was reported by four member states: the Czech Republic, Italy, Spain and the United Kingdom. Irregularities were detected in agricultural and structural funds and in traditional own resources. In the structural funds, the Czech Republic, Italy, Greece and the United Kingdom headed the list with the highest amounts, followed by Spain. In agricultural funds, Italy reported the highest amount in irregularities in 2010, € 40 million, followed by Hungary, Spain and France. Together, these member states reported 71% of the total estimated financial volume of irregularities in agricultural funding.

Potential fraud cases

OLAF received 983 new reports of potential fraud in 2010. The geographical incidence of the reports shows that a significant proportion was made by a small number of member states. In 2010, about 61% of potential fraud cases were reported by six member states: Bulgaria, Romania, Germany, Italy, Poland and Spain. In 2009, the same member states had reported about 55% of the potential fraud cases. This does not necessarily mean that more fraud is committed in these member states than in others. Improved cooperation with OLAF can also lead to an increase in the number of reports made (OLAF, 2011, pp. 10-11).

18
DGs Agriculture; Regional Policy; Employment; Maritime Affairs and Fisheries; Home Affairs; Justice; Education and Culture; Environment; Mobility and Transport; Energy; Research and Innovation; and Taxation and Customs Union.

19
DGs Agriculture; Regional Policy; Employment; Home Affairs; and Maritime Affairs and Fisheries.

Recovery of undue payments

The member states must do all they can to recover undue payments. If a member state reports an undue payment on time and takes appropriate action to recover the amount concerned, the Commission will not impose a fine. The Commission publishes the status of undue agricultural and structural payments still recoverable from the member states each year. As in previous years (2005-2009), Italy had the highest balance of payments still recoverable in 2010: € 580.4 million, € 38.3 million more than in 2009.

2.3.3 Regularity information issued by the European Court of Auditors

The European Court of Auditors audits the collection and use of EU funds and assesses whether the European institutions' financial management is sound. It is not the European Court of Auditors' task to express an opinion on the regularity of the use of EU funds in the member states. The information it provides does not lend itself to general representative statements on the member states since it is based on an EU-wide sample rather than on a representative sample in each member state.

2.3.4 Annual summaries 2010

2010 was the fourth year in which the EU member states were required pursuant to the Financial Regulation[20] to submit annual summaries of their controls of the financial management of agricultural, structural and migration funds administered under shared management with the Commission. The summaries must contain information on the previous financial year and be submitted to the European Commission by 15 February.

The annual summaries themselves are not made public but the relevant DGs' activity reports disclose whether they meet the requirements and provide very general information on their contents. They therefore make little contribution to the public insight available into the situation in individual member states.

Nine of the ten member states required to submit annual summaries of controls of agricultural funds did so on time in 2010.[21] DG AGRI's activity report states that the annual summaries were of higher quality than in the previous year. Of the 27 annual summaries submitted on controls of structural funds, 26 satisfied the minimum requirements.

Supplementary guidelines have been prepared for all funds. The member states are now required to include additional information on, for example, shortcomings in management and control systems and the measures taken to address them. The annual summaries issued by the Netherlands refer to the Dutch member state declaration for such general analyses and declarations of assurance.

2.3.5 Member state declarations

A member state declaration is an annual accounting document in which an EU member state accounts for the management and use of the funds received from Brussels. Some member states also account for the funds they remit to the EU.
A member state declaration is a public document that differs from other accounting documents submitted to the European Commission in that political consequences can be attached to it. In our opinion, member state declarations enhance overall public accountability for the use of EU funds.

20
Article 53b (3) of Regulation (EC) no. 1995/2006.

21
Summaries of agricultural funding must be prepared if more than one paying agency submits an annual declaration to the European Commission. This is the case in ten member states.

As in 2010, only four EU member states issued such an annual accounting document in the past year. The other EU member states have not yet prepared a national statement. The table below shows the similarities and differences between the four member state declarations. The main findings presented in the latest declarations to be published in English are summarised in the remainder of this section.

Table 3. Characteristics of the member state declarations for 2009 / 2010

	Author	Publication date	Political responsibility	Scope	Independent SAI opinion
Denmark	Supreme audit institution	November 2011	No	• quality of management and control systems • regularity of EU-related receipts and expenditures (underlying transactions)	N.A.
The Netherlands	Ministry of Finance on behalf of the government	May 2011	Yes	• quality of management and control systems • regularity of EU-related receipts under shared management (underlying transactions)	Yes
United Kingdom	HM Treasury on behalf of the government	January 2011	No	• regularity of EU-related receipts and expenditures (underlying transactions)	Yes
Sweden	Ministry of Finance on behalf of the government	April 2011	Yes	• quality of management and control systems	Yes

The Dutch member state declaration

For the fifth year in succession the Dutch Ministry of Finance voluntarily issued a national statement (Ministry of Finance, 2011b), on which the Netherlands Court of Audit issued an independent report with an opinion (Netherlands Court of Audit, 2011b). On the whole, the opinion on the declaration for 2010 was positive. To arrive at its opinion, the Netherlands Court of Audit carried out a joint audit with the European Court of Auditors regarding the management and payment of funds received to implement agricultural and rural development policy. The findings are also presented in the European Court of Auditors' annual report for 2010. We return to the findings of both the European Court of Auditors and the Netherlands Court of Audit in chapter 3.

The Danish member state declaration

Rigsrevisionen, the Danish supreme audit institution, issued its sixth annual declaration on the use of EU funds in Denmark in November 2011.

In its opinion Rigsrevisionen concluded that the accounts for 2010 were prepared in accordance with the Danish government's accounting rules and that the underlying transactions were legal and regular. Emphasis of matter was made concerning the performance of remote-sensing and financial corrections in the period 2002-2011. Noteworthy is that the European Commission insisted on the repayment of € 101 million in agricultural subsidies in 2009 owing to irregularities in area aid funds Denmark had received in prior years. The Danish authorities do not agree with the correction made by the European Commission and have taken the case to the European

Court of Justice. Rigsrevisionen agrees with the Danish authorities' action in this dispute with the Commission. Settlement of this case is expected in 2012.

In recent years Rigsrevisionen has been discussing with the Ministry of Finance the possibility of publishing a consolidated financial statement on EU funds in Denmark, bringing together all financial information on the government's accounts with the EU and thereby increasing the transparency of the financial transactions relating to EU funds. For 2012 consolidated EU accounts for the agricultural field are planned; full consolidated EU accounts are scheduled for 2013.

The UK member state declaration

HM Treasury, the UK economics and finance ministry, published its third Consolidated Statement of the Use of EU Funds in the UK, for the financial year ended 31 March 2009, in January 2011. The UK National Audit Office (NAO) expressed an independent opinion on the true and fair view given by the consolidated statement and on the regularity of the financial transactions. The *true and fair opinion on the consolidated statement* was qualified. The qualifications related to the inconsistent application of accounting policies by managing authorities in the United Kingdom, the financial information provided on foreign currency transactions and the timely availability of information. In its opinion on the *regularity of financial transactions*, the NAO found that, except for £ 398 million in financial corrections on account of non-compliance with EU regulations, the transactions were regular.

The Swedish member state declaration

The Swedish government published its third member state declaration on Sweden's use of EU funds under shared management with the European Commission on 7 April 2011. Since the Swedish member state declaration is part of the government's annual report, the Swedish supreme audit office (Riksrevisionen) expresses an opinion on it. Riksrevisionen stated on 12 May 2011 that the national accounts underlying the member state declaration gave a true and fair view.

The Swedish Parliament decided 3 March 2011 on a new Budget Act. In an amendment to the act it is stated that the Government´s Consolidated Annual Statement shall include a Declaration on EU-funds with a statement that the accounts give a true and fair view, and that the rules and systems aimed at creating satisfactory internal governance and control of EU funds are in order. Up until then the issuing of the Declaration on EU-funds had not been regulated.

2.3.6 Summary of the regularity information presented by the EU member states

We concluded from the available public information that there is still little insight into the regularity of the member states' use of EU funds. Only four countries publish member state declarations, not all the policy DGs' activity reports provide information on individual member states, and the annual summaries are not published. OLAF's report provides more information on the situation in individual member states but since the member states do not provide data in a uniform fashion, the view presented in the report is not consistent. The European Court of Auditors does not provide an insight into the regularity of the use of EU funds in the individual member states but that is not its task.

2.4 Effectiveness of EU policy in the member states

We studied the information on EU policy effectiveness in the member states presented in the annual activity reports of 12 of the European Commission's policy DGs.[22] We found that the DGs' activity reports for 2010 provided virtually no insight into the effectiveness of policies and programmes in the member states. We consider the evaluation work carried out by the European Commission and the European Court of Auditors in chapter 4.

2.5 Work of the supreme audit institutions

The European Court of Auditors does not express an opinion in its annual report on the regularity and effectiveness of EU policy in individual member states. The member states' supreme audit institutions can do so, however, in so far as their audit mandates permit.

2.5.1 Mandates and activities

A growing number of supreme audit institutions (SAIs) have been sharing their experiences with each other and with the European Court of Auditors and carrying out more joint audits in EU policy areas in recent years. The SAIs' powers to audit EU policy differ from one member state to another. Some SAIs' tasks and powers are laid down in law. Others derive their EU tasks and powers from their national mandates and consider EU funds to be the same as national funds. Virtually all the member state SAIs can audit EU funds down to the level of the final beneficiary. The only exceptions are the Belgian and Danish SAIs, although Rigsrevisionen in Denmark can request certain information on beneficiaries from the ministries concerned so that its audits, too, can extend down to this level.

With the exception of the *Cours des Comptes* in Luxembourg, all SAIs in the EU carry out separate audits of EU-related issues: according to the SAIs themselves, more than 200 in 2011. Although the scope of the audits may differ substantially, on average the SAIs publish three or four EU reports per annum. In addition, the European Court of Auditors publishes some 15 special reports each year on issues ranging from the effectiveness of school milk and school fruit programmes to the operation of the single farm payment scheme. At present, there is no comprehensive and readily accessible database of the SAIs' findings.

The figure below shows the mandates and audit activities of the EU member states' SAIs regarding EU funds and EU policy.

22
DGs Agriculture; Regional Policy; Employment; Maritime Affairs and Fisheries; Home Affairs; Justice; Education and Culture; Environment; Mobility and Transport; Energy; Research and Innovation and Taxation and Customs Union.

Figure 9 **EU audit mandates and activities**

Supreme audit institution	Government tier: Central government	Regional government	Local government	Public entities	Enterprises	Natural persons	Separate EU audits	EU reports per annum
Austria	✓	✓	✓	✓	✓	✓	✓	3 - 4
Belgium	✓	✓	✓	✓	✗	✗	✓	1 - 2
Bulgaria	✓	✓	✓	✓	✓	€	✓	15
Cyprus	✓	○	✓	✓	✓	✓	✓	2
Czech Republic	✓	✓	✓	✓	✓	✓	✓	3 - 4
Denmark	✓	✓	✓	✓	✓	✗	✓	9 - 10
Estonia	✓	○	✓	✓	✓	✓	✓	2 - 3
Finland	✓	✓	✓	✓	✓	✓	✓	2 - 3
France	✓	✓	✓	✓	✓	✓	✓	4 - 5
Germany	✓	✗	✗	✓	✓	✓	✓	1 - 2
Greece	✓	✓	✓	✓	✓	€	✓	5
Hungary	✓	✓	✓	✓	✓	✓	✓	3 - 4
Ireland	✓	○	✗	✓	✓	✓	✓	1
Italy	✓	✓	✓	✓	✓	✓	✓	3 - 4
Latvia	✓	○	✓	✓	✓	✓	✓	2
Lithuania	✓	○	✓	✓	✓	€	✓	12 - 14
Luxembourg	✓	○	€	✓	✓	✓	✗	0
Malta	✓	○	✓	✓	✓	✓	✓	2 - 3
Netherlands	✓	€	€	✓	✓	€	✓	3 - 4
Poland	✓	✓	✓	✓	✓	✓	✓	10 - 15
Portugal	✓	✓	✓	✓	✓	✓	✓	5 - 6
Romania	✓	✓	✓	✓	✓	✓	✓	1
Slovakia	✓	✓	✓	✓	✓	✓	✓	7
Slovenia	✓	○	✓	✓	✓	✓	✓	4 - 5
Spain	✓	✓	✓	✓	✓	✓	✓	1 - 2
Sweden	✓	✗	✗	✓	✓	€	✓	0 - 1
United Kingdom	✓	✗	✗	✓	✓	✓	✓	3 - 4
EU institution								
Eur. Court of Auditors	✓	✓	✓	✓	✓	✓	✓	10 - 20

✓ = mandate ✗ = no mandate € = for EU funds only ○ = not applicable

2.5.2 International comparative audit of costs of controls

In 2006 the European Commission presented initial proposals for a system of different levels of tolerable risk of error. The Commission's ambition is to curb the assumed high cost of controls by tolerating a higher error rate where appropriate. Partly in response to the Commission's proposals, the Contact Committee of the Heads of the Supreme Audit Institutions of the European Union mandated its Working Group on Structural Funds to investigate the costs and benefits of controls of programmes implemented in the framework of the European Regional Development Fund (ERDF) and the European Social Fund (ESF) in the 2007-2013 programming period. In total, 15 SAIs and the European Court of Auditors were represented in the working group.[23]

Each participating SAI investigated the national accounts kept in its home country of the costs and benefits of controls in 2007, 2008 and 2009. The two methods used to calculate costs of controls were compared with each other. The first method was the European Commission's cost centre model. This model calculates the costs *per control authority* based on the authority's expenditures and the number of controllers expressed in FTEs. The second model was the standard cost model. This model calculates the cost *per control activity* based on the number of hours spent on control activities and staff costs per hour, including overheads.

The Contact Committee adopted the working group's final report on 14 October 2011 (Contact Committee, 2011b). The main findings were:
- The lack of accurate data in the member states does not allow for precise calculation of the cost of controls; estimates are used instead.
- Structural funds programmes and projects are organised in a variety of ways in the member states. This can influence levels of costs of controls.
- The standard cost model generally leads to lower estimates of costs of controls than the European Commission's cost centre model.
- In relation to three-sevenths of the budgets for the programmes audited (both EU funds and national co-financing), Austria had the highest percentage costs of control at 4.02% of the programme budget and Bulgaria the lowest at 0.36%. Corrected for wage differences between the member states, Austria still had the highest percentage at 2.79% and Portugal the lowest at 0.41%.
- The average percentage of total cost of controls of all audited operational programmes was 0.97% of the programme budget.
- In each member state costs of controls started out relatively low in 2007 and then increased year after year. A further increase in control activities and thus their costs can reasonably be expected in 2010 and subsequent years. The vast majority of all costs of controls made so far in the member states can be attributed to the managing authorities.
- A relatively high proportion of the controls was outsourced to private parties. This generally entails higher costs.

Calculation of the actual costs and benefits of controls therefore appears to be difficult. Furthermore, the audit found strong indications that actual costs of controls were lower than suggested by the European Commission. In our opinion, this is sufficient reason to exercise caution regarding the proposed introduction of different levels of tolerable risk of error in the EU's new Financial Regulation.

2.6 Conclusions

There has been no demonstrable improvement in the insight available into the regularity and effectiveness of the use of EU funds in the member states in the past year. As in the previous year, only four countries published a member state declaration to account for the management and use of funds received from the EU. Not all the European Commission's policy DGs' activity reports provide information on individual member states and the member states' annual summaries of the controls carried out

23
The SAIs of Austria, Bulgaria, the Czech Republic, Germany, Hungary, Italy, Latvia, the Netherlands, Poland, Portugal, Slovenia and Slovakia. The SAIs of Finland, Malta and Spain and the European Court of Auditors are observers.

are not published. Virtually all the EU member states' supreme audit institutions carry out audits of EU funds, either jointly or individually. However, a means has still not been found to make the findings accessible in a systematic and insightful manner.

3 The Netherlands

3.1 Introduction

This chapter considers the management of EU funds in the Netherlands. We present the findings of the audits we carried out of two specific issues: the transparency of final beneficiaries of EU funds under shared management and the effectiveness of EU rural development policy.

We first provide an overview of the remittances, receipts and net position of the Netherlands (section 3.2). We then consider the systems in place for the management and control of agricultural, structural and migration funds (section 3.3), paying particular attention to the beneficiaries of EU funds in the Netherlands and the extent to which they are transparent (section 3.4). We then turn to the regularity of the use of EU funds in the Netherlands (section 3.5) and present the results of our audit of the effectiveness of EU rural policy in the Netherlands (section 3.6). We close with our conclusions on the management of EU funds in the Netherlands (section 3.7).

3.2 Remittances, receipts and net position of the Netherlands

3.2.1 Remittances

Final figures from the European Commission show that the Netherlands contributed € 5.6 billion to the EU in 2010. This figure is net of the Dutch remittance reduction and after adjustment for prior year budget surpluses, prepayments and accrued income (European Commission, 2011a). Table 4 summarises the actual amounts the Netherlands remitted to the EU in 2010 based on figures from the European Commission.

Table 4. Dutch remittances to the EU, 2010 (in millions of euros)	
Traditional own resources	1,749.2
VAT-based remittance	202.3
GNI-based remittance	4,217.1
British budget rebate	54.9
Correction for the Netherlands and Sweden	-612.1
Correction for Denmark, Ireland and United Kingdom for opt-outs in the former third pillar of the EU	2.1
Total EU remittance by the Netherlands	**5,613.6**
Source: European Commission (2011a), *EU budget 2010, Financial Report.*	

3.2.2 Receipts

Table 5 summarises data released by the European Commission on the EU funds received by organisations in the Netherlands in 2010. The funds were managed either solely by the European Commission or jointly by the Commission and the Netherlands (under shared management).

Table 5. EU funding received by organisations in the Netherlands (in millions of euros)	
Budget heading	**2010**
Sustainable growth Competitiveness	558.9
Cohesion	232.6
Natural resources	1,119.9
Citizenship, freedom, security and justice	147.4
EU as a global partner	-
Administration	87.4
Total receipts	**2,146.1**
Source: European Commission (2011a), *EU budget 2010, Financial Report.*	

3.2.3 Net position

As described in section 2.2 above, a member state's net position can differ significantly depending on the calculation method used. In the case of the Netherlands, the alternative method excludes the relatively high remittance of traditional own resources the national contribution. The table below shows the various net positions. The table for all member states is presented in appendix 1.

Figure 10 **Net position of the Netherlands according to the accounting method and the alternative method**
In millions of euros and as a % of GNI

	Accounting method		Alternative method	
	Net position *in millions of euros*	Net position *% GNI*	Net position *in millions of euros*	Net position *% GNI*
The Netherlands	–3,467.5	–0.6%	–1,805.6	–0.3%

Sources: the figures used in the two calculations are taken from the European Commission (2011a). GNI figures are from Eurostat.

3.3 EU financial management systems in the Netherlands

Like the previous year's declaration, the Dutch member state declaration for 2010 considers the following funds under shared management: the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Fisheries Fund (EFF) and two of the four migration funds: the European External Borders Fund and the European Integration Fund. It therefore covers virtually all the EU funds the Netherlands manages with the European Commission.

The Netherlands Court of Audit has repeatedly called on the Minister of Finance to include remittances to the EU in the Dutch member state declaration in order to present a complete picture. The minister, however, is not willing to do so. His main argument is that the greater part of the Dutch contribution is based on a percentage of GNI as calculated by Statistics Netherlands (CBS) and he does not wish to compromise the independence of the CBS. Dutch remittances to the EU will therefore not be included in the Dutch member state declaration next year either.

We would note that the minister's argument does not apply to the remittance of traditional own resources. We therefore intend to consider remittances in our report on the member state declaration.

In our report on the Dutch EU member state declaration for 2010 (Netherlands Court of Audit, 2011b), we conclude that, with the exception of non-compliance with local procurement rules, lack of checks of such compliance by EAFRD beneficiaries and the government's failure to disclose all errors in ERDF payment applications, the assertion made on the functioning of the management and control systems is sound. Shortcomings detected in the functioning of the ERDF and ESF systems were reported in the member state declaration.

Agricultural funds
The paying agencies for EU agricultural schemes implemented in the Netherlands are the National Service for Implementation of Regulations (DR) and the Government Service for Sustainable Rural Development (DLG).[24] We concluded in our report on the member state declaration that neither the DLG nor the audit department had systematically checked EAFRD beneficiaries' compliance with local procurement rules. In theory, the controls are sufficient but in practice no checks are made of the beneficiaries' compliance with the rules.

The European Court of Auditors concluded in its 2010 annual report that Dutch supervision and control of funding from the European Agricultural Guarantee Fund (EAGF) was on the whole effective. Weaknesses were identified in keeping the Land Parcel Identification System (LPIS) up to date, although they had had only a limited impact in the Netherlands and the Dutch authorities had taken adequate remedial action as of claim year 2010. Furthermore, the European Court of Auditors did not consider the Ministry of Agriculture's internal audit department to be independent of the authorities implementing the common agricultural policy.

Structural funds
In brief, with the exception of a few shortcomings, we concluded that the assertion made in the member state declaration on the systems in place for structural funds was sound. We noted that the audit authority for the ERDF North programme had to limit its audit scope because the managing authority suspended cooperation for several months and the audit department itself suffered from internal capacity problems. We provide more details on our findings in our report on the 2010 member state declaration (Netherlands Court of Audit, 2011b).

3.4 Final beneficiaries of EU funds in the Netherlands

The Commissioner for Administrative Affairs, Audit and Anti-Fraud launched the EU Transparency Initiative in 2005. Its objective was to increase the public's access to information on EU projects and their final beneficiaries (European Commission, 2006; 2007). During the subsequent deliberation of the 2006 Financial Regulation it was decided that the member states would publish annual information on the final beneficiaries of EU funds under shared management.[25] DG Budget has published details of all payments made to the Netherlands in the previous calendar year since 2006.

Below, we look at the final beneficiaries of EU funding in the Netherlands and the accessibility and completeness of the information available on them. We first consider the European Commission's payments to the country in 2010 (section 3.4.1) and the identity of the final beneficiaries of funds under shared management in the

24
Both agencies implement the EU schemes jointly with the Minister of EL&I.

25
Council Regulation no. 1995/2006 of 13 December 2006 amending Regulation 1605/2002.

Netherlands, based on public information (section 3.4.2). We then consider whether the available information is complete and look at the Transparency Initiative's progress in 2005-2010 (section 3.4.3). We close with a conclusion (section 3.4.4).

3.4.1 European Commission's 2010 payment summary

The European Commission sent a summary of the payments it had made to the Netherlands in 2010 to the Dutch Minister of Finance, with a copy to the European Court of Auditors and the Netherlands Court of Audit, in June 2011 (European Commission, 2011i). Total payments to the Netherlands exceeded € 2 billion, approximately € 36 million higher than in 2009 (Netherlands Court of Audit, 2011a, p. 79).

The payment summary shows that under the Sustainable Growth heading the Netherlands received € 44 million more for energy projects to support economic recovery in 2010 than in 2009. It also received approximately € 30 million more for rural development, included under Natural Resources. Under the heading Citizenship, Freedom, Security and Justice, local agencies received approximately € 82 million more than in 2009. The Netherlands received approximately € 150 million less in 2010 for common agricultural policy, included under Natural Resources. Amounts received from the ERDF and ESF (part of Sustainable Growth) were € 21 million lower than in 2009.

Table 6. Payments to entities in the Netherlands in 2010

Heading	Section	Type of recipient	Payment (in euros)
1 Sustainable Growth	Research: Seventh Framework Programme (including Sixth Framework Programme)	Public/private	**329,503,588**
	Globalisation fund	Public	**12,695,856**
	Energy projects to support economic recovery	Private	**45,000,000**
	Trans-European Networks	Public/private	**27,879,450**
	Galileo	Private	**14,606**
	Marco Polo	Private	**4,065,977**
	Lifelong Learning and Erasmus Mundus	Public/private	**53,011,798**
	Enterprise and innovation	Public/private	**1,799,811**
	ICT policy support	Public/private	**983,667**
	Intelligent energy	Public/private	**7,706,562**
	Social policy	Public/private	**7,422,049**
	Customs and Fiscalis 2013	Public/private	**673,567**
	Decentralised agencies	Private	**8,504**
	Regional competition and employment (ESF, ERDF)	Public	**214,556,279**
	Convergence (ESF)	Public	**6,220,170**
	Territorial cooperation (ERDF, Urban)	Public	**8,577,680**
	Technical assistance	Public/private	**2,250,576**
	Cohesion Fund	Public/private	**518,038**
	Other measures and programmes	Public/private	**22,770,790**
Subtotal Sustainable Growth			*745,658,968*

Heading	Section	Type of recipient	Payment (in euros)
2 Natural Resources	Common agricultural policy	Public/private	**1,051,001,275**
	Fisheries (markets)	Public/private	**557,117**
	Fisheries (EFF)	Public/private	**1,407**
	Fisheries (governance and international treaty obligations)	Public/private	**2,733,165**
	Animal and plant health	Public/private	**6,967,526**
	Rural development	Public/private	**75,029,803**
	LIFE+	Public/private	**8,636,327**
	Other	Public/private	**970,982**
Subtotal Natural Resources			*1,145,897,602*
3 Citizenship, Freedom, Security and Justice	Migration flows	Public/private	**9,694,283**
	Security and freedom	Public/private	**6,331,692**
	Fundamental rights and justice	Public/private	**1,942,063**
	Decentralised agencies	Public	**109,887,370**
	Health and consumer affairs	Public/private	**5,320,674**
	Culture	Public/private	**2,799,097**
	Youth	Public/private	**5,383,166**
	Media	Private	**3,515,751**
	Citizens	Public/private	**186,485**
	Financial instrument for civil protection	Public	**812,166**
	Communication	Public/private	**1,495,226**
	Other	Private	**1,211,034**
Subtotal Citizenship, Freedom, Security and Justice			*148,579,007*
4 EU as a Global Partner	Pre-accession: financial instrument for assistance	Public/private	**513,810**
	Industrial countries cooperation		**33,000**
	Democracy and human rights	Private	**12,696**
	Nuclear security and cooperation	Public/private	**126**
	European neighbourhood policy	Public/private	**1,364,651**
	Development cooperation	Public/private	**8,408,257**
	Humanitarian aid	Public/private	**50,350**
	Macro-financial assistance	Private	**107,842**
	Common foreign and security policy	Public	**932,553**
	Other	Public/private	**1,418,341**
Subtotal EU as a Global Partner			*12,841,626*
5 Administration			**26,357,692**
TOTAL			**2,079,334,895**
Source: European Commission, 2011i			

3.4.2 Final beneficiaries of EU funds in the Netherlands

The Netherlands is required to publish information on the final beneficiaries of funds under shared management. The obligation is laid down in the European Transparency Initiative (European Commission, 2006), and more specifically in European regulations, rules and guidelines (Regulation (EC), no. 259/2008; European Commission, 2008; 2010b). Member states must publish at least the following information on a national website before a set date each year: the names of the projects, the names of the recipients, the amounts received from and/or granted by the EU in that year and any co-financing.[26]

26
With a view to personal privacy, the names of individuals are not published. Member states may opt to publish information on the final beneficiaries of structural funds on a national or regional website.

On the basis of the published information, in the remainder of this section we briefly consider who the final beneficiaries are in the Netherlands. Where possible, we have identified the 15 largest recipients.[27]

Agricultural funding beneficiaries
The Netherlands received approximately € 1,020 million in EU agricultural funding in 2010.[28] The 15 largest beneficiaries of agricultural funding were together good for nearly 12% (€ 121 million) of the total funding for the common agricultural policy.[29] In 2010 the top 15 included eight producers' organisations that together received € 74 million. They all made use of the operational fund for producers' organisations. Operational funds are set up by producers to cushion the unforeseen cost of, for example, withdrawing products from the market. The beneficiaries are thus the members of the organisations.

ERDF beneficiaries
In 2010 € 126.2 million in ERDF funding was granted to 88 organisations. The top 15 beneficiaries together received 53% (€ 67 million) of the total. The top 15 include six municipalities and two provinces. The municipality of Emmen was the largest ERDF beneficiary, receiving more than € 16.5 million in 2010. Emmen received this funding for two infrastructure projects to boost the economy of the northern Netherlands.

ESF beneficiaries
In 2010 more than € 275 million was received in ESF funding. The 15 largest recipients together received 34% (€ 94 million) of the total.
Most recipients were intermediaries such as municipalities and sectoral education funds that allocated the funds to the beneficiaries. As in 2009, the largest beneficiary was the UWV Employee Insurance Agency, which received more than € 19 million from the ESF.

Education funding beneficiaries
Between 60 and 80% of the Lifelong Learning projects are implemented under shared management. The National Agency for Lifelong Learning (the National Agency) is responsible for the programme in the Netherlands. It is an alliance between Nuffic, Cinop and the European Platform.[30] Nuffic acts as the National Agency's secretariat and as such is formally the largest recipient of funding for the Lifelong Learning programme. The National Agency allocates the funding to sectoral programmes such as the Erasmus programme for higher education and the Grundtvig programme for adult education. The largest beneficiary was the University of Maastricht, which received € 842,440 in 2010.

Migration funding beneficiaries
In 2010, 26 projects in the Netherlands received money from one of the four migration funds. Six projects were funded from the European Refugee Fund, 13 from the European Integration Fund and seven from the European Return Fund. The recipients were civil society organisations and public bodies. Some of the money was spent on projects carried out by representation of the International Organization for Migration (IOM) in the Netherlands. More than € 4.2 million was available from the European External Borders Fund in 2010 but no formal allocation has been made so far. The highest amount from the European Refugee Fund, nearly € 1.8 million, was granted to the Central Agency for the Reception of Asylum Seekers (COA).

27
All data presented on final beneficiaries and receipts relate to the year 2010. For the agricultural funds, we have information on actual payments. For the 2010 agricultural year, which ended on 15 October 2010, the information is stated net of prior year repayments. For the other funds, the information relates to amounts allocated in 2010.

28
The Ministry of EL&I's database contains information on the 2010 financial year. The payment summary from DG Budget provides information on the 2010 calendar year.

29
This information is derived from the EU agricultural and fisheries grants guidelines for the Ministry of EL&I's database. Negative amounts may also relate to prior years. These are amounts *received* by beneficiaries, with prior year recoveries being netted against total receipts in 2010.

30
Nuffic; Netherlands Universities' Foundation for International Cooperation; currently: Netherlands Organisation for International Cooperation in Higher Education. Cinop is an independent, international research and consultancy agency specialising in lifelong learning, vocational education and training (VET) and adult education.

3.4.3 Transparency of the information

Transparency of agricultural funding
The information on the beneficiaries of agricultural funding is publicly accessible, easy to find via the Ministry of EL&I's website and satisfies the requirements. Further to a judgment of the European Court of Justice,[31] the Netherlands has not published information on natural persons that received EU agricultural funding.[32] Such publication would be a breach of privacy. Information has been published on the enterprises, such as private and public companies, that received agricultural funding.

Transparency of the ERDF
The managing authorities for the ERDF programme satisfy the European requirements. However, they have not entirely fulfilled the Commission's wish to make a clear distinction between EU funding and national co-financing or published both the allocations and payments. Furthermore, the information in the four ERDF payment summaries was not presented uniformly.

The website www.europaomdehoek.nl[33] provides information on structural projects implemented in the Netherlands. In addition to substantive project information, it discloses the proportion funded from the ERDF and the proportion funded from other public and private sources. Half the 20 projects implemented by the 15 largest ERDF recipients are not listed.

Transparency of the ESF
The SZW Agency publishes only the amounts of EU funds and the fixed ratio of EU funding to national co-financing per activity.[34] Information on the beneficiaries of ESF funding, like that on ERDF beneficiaries, should also be published on the www.europaomdehoek.nl website. None of the projects implemented by the top 15 ESF recipients in 2010, however, were listed on the website at the end of 2011. Older (completed) projects implemented by the same organisations were listed.

Transparency of education funds
The National Agency is responsible for the publication of information on the beneficiaries of Lifelong Learning funding. The allocations for the sub-programmes in 2010 were published in nine different lists. In accordance with the requirements, the lists were posted on the National Agency's central website. Although all the programmes are listed, which in itself is an improvement on 2009, not all nine lists satisfy the Commission's requirements because they do not include addresses. Three lists provide only the names of projects; six provide no information whatsoever on projects.

Transparency of migration funds
The Ministry of BZK, which houses the migration funds' programme secretariat, does not entirely satisfy the guidance on transparency and public accountability. Its website presents a summary for each fund, listing the projects that received money from the migration funds. However, the summaries are not completely up to date and do not always correspond with similar lists published elsewhere on the website.

31
European Court of Justice judgement in cases C-92/09 and C-93/09, 9 November 2010.

32
Government Gazette 2011, no. 5835, 31 March 2011; Decree on the publication of grants for common agricultural and fisheries policy 2010.

33
The site is a joint initiative of the European Commission's Representation in the Netherlands, the Ministry of Economic Affairs, Agriculture and Innovation (EL&I), the SZW Agency and the bodies implementing programmes funded from the ESF and ERDF.

34
For most activities, the ratio is 40%-60%.

We considered the beneficiaries of EU funds in the Netherlands, and the information available on them, in two previous EU Trend Reports. Our findings are summarised in the figure below.

Figure 11 **Trends in beneficiaries in the Netherlands in the period 2008-2010**

Fund under shared management	Publication obligation on member states	Type of beneficiary	Trend in compliance, 2008-2010
Agricultural funds	As from 2009	Relatively high number of producers' organisations (about half recur in the top 15 every year). To protect the privacy of beneficiaries, only information on enterprises is published at present.	Compliant. Amounts are payments. EL&I's central database has been improved over the years: for the 2010 financial year, payments are stated net of prior year recoveries.
Structural funds (ESF and ERDF)	As from 2008	Recipients are often intermediaries that make combined applications on behalf of several organisations. Half the top 15 ERDF recipients are municipalities. The top 15 ESF recipients are chiefly education funds (UWV is by far the largest recipient).	Compliant, but improvements are still possible. Amounts are (provisional) allocations. There is no central database. The various databases for the structural funds have been improved over the years but the ERDF summaries are still not uniform. The 'Europa om de hoek', website launched in 2009 presents an interactive map of the Netherlands displaying the use of ESF and ERDF funds. Not all the projects implemented in 2010 are displayed.
Education funds (Lifelong Learning)	As from 2008	Universities and colleges receive most EU funding from the Erasmus sectoral programme.	Largely compliant. Amounts are (provisional) allocations. In 2010 the National Agency's central website provided information on beneficiaries of the four sectoral programmes. This is an improvement on 2008 and 2009. Not all publication lists comply fully with the substantive requirements.
Migration funds	As from 2008	Civil society organisations and public bodies. Some of the funding is received by international organisations with a presence in the Netherlands.	Largely compliant. Amounts are (provisional) allocations. Lists are not completely up to date and do not always correspond with similar summaries elsewhere on the website.

3.4.4 Conclusion on the Transparency Initiative

The European Parliament held a public hearing in 2010 to consider the member states' compliance with the guidance on the transparency of final beneficiaries and its contribution to the public debate on the use of EU funds. Two uncertainties emerged: what precisely is meant by 'beneficiary' and what amount has to be published. With regard to the Netherlands, it was concluded that a great deal of information on final beneficiaries was aggregated, which reduced insight into who actually benefited from EU funding (European Parliament, 2010). We recognise this situation from our own audit. According to a majority of the European Parliament, the European Commission should provide more guidance on the standardisation of public information. Parliament also called for the publication of additional information on the final beneficiaries of EU funds, including summaries of projects and their locations.

At the end of 2010, an international comparative study of the quality of websites presenting information on final beneficiaries found that the majority of the member states complied with the minimum legislative and regulatory requirements for structural funds but, on account of differences in presentation, the information was not uniform or comparable at EU level (Technopolis, 2010).[35]

35 The presentation forms are: 78% in PDF format, 33% in Excel format, 28% as summaries posted manually on the internet, and 17% in the form of an interactive map

Our audit of final beneficiaries in the Netherlands found that the completeness and accessibility of the information had improved between 2008 and 2010. The Netherlands now complies with the minimum transparency and public accountability requirements for nearly all the funds. There is still room for improvement regarding the harmonisation and presentation of information on the beneficiaries of nearly all funds. Furthermore, in the interests of transparency we would like to see more up-to-date information on the projects actually implemented using EU funds.

3.5 Member state declaration: regularity of the use of EU funds in the Netherlands

Below, we briefly consider the regularity of the use of agricultural and structural funds in the Netherlands.

Agricultural funds
In our report on the Dutch EU member state declaration for 2010 (Netherlands Court of Audit, 2011b) we noted that the total irregularities (based on the maximum errors we calculated of € 5.8 million) did not exceed the EU's tolerable threshold. The tolerable threshold is 2% of the total agricultural expenditure declared by the Netherlands: € 21.8 million.

However, if the tolerable threshold is exceeded in a particular fund it has been agreed that it will be reported separately in the member state declaration. We found that this was the case in the EAFRD last year. The total extrapolated error in the EAFRD was € 4.4 million. This is equal to 7% of the amount claimed from the EAFRD.
A substantial part of this amount (€ 3.7 million) was due to non-compliance with local procurement rules. Furthermore, we noted that earlier shortcomings found in the Land Parcel Identification System had led to undue payments of € 14.5 million (EAGF and EAFRD together). Pursuant to the European Regulation, the minister should have recovered these payments. However, he decided not to do so and, with parliament's approval, funded them from his own national budget.

Structural funds
The government stated in the 2009 member state declaration that the maximum error rate detected in declared ERDF expenditure was 1.67% and that there was uncertainty regarding the eligibility of more than € 1 million. This amount was corrected in a subsequent payment application submitted to the Commission at the end of 2010. As the programmes are multiannual, this procedure is permitted in the European system. In our report on the EU member state declaration, we noted that the errors corrected in 2010 totalled € 1.5 million, not just over € 1 million.

The government declared that the error rate in the ESF was 1.77% and that excessive claims of € 14.1 million had been declared to the European Commission for 2009. This amount, too, was corrected in a subsequent payment claim submitted to the Commission in 2010. In our report on the member state declaration, we noted that the error rate in the amount claimed in 2010 was actually higher: 11.67%. The declared error rate of 1.77% was the error rate remaining after the correction in 2010.

3.6 Effectiveness of EU funds in the Netherlands: rural development

To gain an understanding of the effectiveness of EU funds in the Netherlands, we investigated the public insight available into the results and outputs of the rural development programme up to the end of 2010. This section describes the findings of our earlier audit of the POP rural development programme (section 3.6.1) and provides a summary of the substance and scope of the current POP2 programme in the 2007-2013 programming period (section 3.6.2). We then consider the mid-term results in the period 2007-2010 and ask whether the programme objectives have been achieved (section 3.6.3).

3.6.1 Earlier audit of the rural development programme

The Netherlands Court of Audit, the European Court of Auditors and the European Commission have previously audited the rural development programme. Below, we discuss some of the audit findings.

Netherlands Court of Audit

We audited the results of rural projects co-financed with the EU in 2003 and concluded that it was difficult to express an opinion on the results of rural projects and that little was known about their impact (Netherlands Court of Audit, 2003).

European Court of Auditors

The European Court of Auditors has issued five special reports on rural development in the past ten years. Three of them consider policy effectiveness.[36] Special report 7/2006 looks at the impact of investments in rural areas. It concluded that the investment objectives were too broad. In hindsight, it was uncertain how the investments had contributed to the objectives and it was not always possible to identify the impact. On the latter point, the European Court of Auditors had come to the same conclusion in special report 9/2004. It concluded in special report 5/2010 that the potential added value of the Leader programme to encourage cooperation from the bottom up was limited and had had little impact on the development of partnerships.

European Commission

The European Commission issued seven evaluations of rural development between 2007 and 2010 (European Commission, 2007b; 2008b; 2009a; 2009b; 2009c; 2009d; 2010c). It noted in several of the reports that it was difficult to draw hard conclusions on effectiveness owing to lack of data or because programme implementation was still at an early stage. Furthermore, in certain cases it was difficult to isolate the effects from other factors that might influence the impact.

3.6.2 The rural developments programme in the Netherlands

Together with Germany, France and the United States, the Netherlands is a major exporter of farm products. Dutch farmers want to strengthen their position, diversify their income and protect nature and the environment. The necessary investments are co-financed from EU sources such as the EAFRD, which was introduced in 2007. The rural development programme is currently financed from this fund.

36
Special reports: 9/2004, 7/2006 and 5/2010.

Four main objectives (axes) have been set for the period 2007-2013:
1. improve the competitiveness of agriculture and forestry;
2. improve the environment and the countryside;
3. improve the quality of life in rural areas and encourage the diversification of the rural economy;
4. introduce the Leader approach.

The Leader approach is a bottom-up approach to encourage initiatives and strengthen rural capacity to achieve the first three objectives.

3.6.3 The rural development budget for the Netherlands

EAFRD funding of the rural development programme has been allocated as follows for the 2007-2013 programming period.

Table 7. Dutch POP2 receipts, 2007-2013 in millions of euros

Year	2007	2008	2009	2010	2011	2012	2013	Total EAFRD	Dutch co-financing
Contribution	70.5	72.6	71.4	72.2	70.6	69.7	68.6	495.6	495.6
Additional Health Check contribution	0	0	2.3	14.9	19.8	26.4	34.2	97.6	32.5
Total	**70.5**	**72.6**	**73.7**	**87.1**	**90.4**	**96.1**	**102.8**	**593.2**	**528.1**

Source: Rural development programme 2007-2013 for the Netherlands (POP2), version 8.0 18 July 2011

Total EAFRD funding amounts to € 593.2 million. Co-financing by the Dutch government totals € 528.1 million. The total funding available for the rural development programme is thus € 1,121.3 million over a seven-year period.

The Netherlands has not given any of the three substantive objectives higher priority than the others. It has allocated the budget equally. 30% of the budget is available for each of the three substantive objectives and 10% for the Leader approach (Regiebureau POP, 2008).

The ex-ante evaluation carried out in 2006 concluded that the allocation of 30% of the budget to improve the quality of life in rural areas and encourage the diversification of the rural economy was not justified as only a handful of rural areas in the Netherlands were affected by the problems addressed by the objective, such as lack of services (Ecorys, 2006).

3.6.4 Mid-term results in the Netherlands

EU legislation requires the Netherlands to carry out a mid-term review of the rural development programme and submit the review report to the European Commission (Regulation (EC) no. 1698/2005). In addition to the annual progress reports, the Netherlands submitted a mid-term review of POP2 in December 2010, comparing the outputs, results and financial utilisation against the targets (Ecorys, 2010).

Progress of the measures taken

The 2010 annual report presenting the latest progress figures shows a mixed picture of the measures taken for the first objective, improving competitiveness. The number of participants in education in 2010 was higher than the target, as was the growth in the number of organic farms. The number of training days and the use of advisory services, however, were below target. Farm modernisation, the number of cooperative initiatives, the infrastructure in place for the development of agriculture and forestry and the growth in the number of hectares subject to food quality systems were making reasonable progress, although a significant effort is still needed to achieve the targets (Regiebureau POP, 2011).

According to the 2010 annual report, the four measures taken for the second objective, improving the environment and the countryside, are making reasonable progress, chiefly because they are building on earlier schemes. The measures are accordingly largely on or ahead of schedule half way through the programming period (Regiebureau POP, 2011).

Seven other measures considered in the 2010 annual report relate to the third objective, improving the quality of life in rural areas and encouraging the diversification of the rural economy. The progress made in tourism is above target. Two other measures are on schedule and three are behind schedule. There seems to be little interest in acquiring skills and dynamism to prepare and implement local development strategies. Very little progress has been made with this measure (Regiebureau POP 2011). The Ministry of EL&I believes the limited progress is due chiefly to start-up problems. We think progress in objective three is indeed being frustrated by start-up problems but the real cause is the overly generous budget. As described above (section 3.6.3), the former Ministry of LNV decided to provide the same budget for objective three as for the other two substantive objectives. The ex-ante evaluation, however, had concluded that the allocation was not justified in view of the quality of life in rural areas in the Netherlands (Ecorys, 2006).

Achievement of the targets

The aim of objective 1 is to increase the competitiveness of Dutch farmers. The various measures must lead to an increase in the gross value of the farms supported and an increase in farm production subject to a recognised quality mark (Ecorys, 2010). Mid-term results can be seen for some of the measures but neither the mid-term review nor the 2010 annual report considers the others because the required results are difficult or impossible to evaluate at mid-term.

The mid-term review shows that a particular impact, such as economic growth, employment and higher labour productivity, cannot be attributed to the outputs. The inability to link outputs and impacts had already been noted in the ex-ante evaluation, which had stated that the targets were not formulated as expected impacts (Ecorys, 2006).

The achievement of objective 2 (improving the environment and the countryside) is also difficult to measure. The indicators used include biodiversity and water quality. As it is difficult to isolate such indicators from other factors, POP2's contribution to the objective is not clear.

The mid-term targets for objective 3 (improving the quality of life in rural areas) were 1,400 additional overnight stays and 140,000 additional day visitors. These numbers are based on a qualitative study carried out for the mid-term review. Although we have no insight into the qualitative study, we would note that it is difficult to establish a causal link between additional overnight stays and day visitors on the one hand and the POP2 measures on the other. Progress on most of the other intended results has been very limited or cannot be measured (Ecorys, 2010). The measures have therefore had only a minor impact.

The Ministry of EL&I recognised, when asked, that it was difficult to establish a causal link between the output and the impact of a measure but noted that the country had to work with EU impact indicators that are not entirely compatible with the situation in the Netherlands.

3.6.5 Progress of the Leader approach

The Leader approach is a bottom-up approach to encourage and strengthen rural capacity to achieve the first three rural development objectives. At the halfway point in the programming period, just five new local alliances had been set up, not the 35 intended. According to the Ministry of EL&I this was due to difficulties setting up local action groups. The programming document sets an overall target of 900 projects for the three substantive objectives. Of this total, 339 are being implemented. The majority (322) are being carried out in axis 3. In axes 1 and 2, 13 and four projects are being implemented respectively. This seems to be very few at the mid-term point.

Leader must result in better governance and the mobilisation of the development potential already present in rural areas. Leader's overall intended result is to reach 35 groups, create 800 jobs and increase the added value by three (multiplier effect). The programming document, mid-term reviews and 2010 annual report do not explain how the multiplier effect works in practice and what added value should be multiplied by three. Its significance is therefore uncertain.

The measures in the Leader programme have on the whole made only limited progress and the results are behind target. At present, Leader is making only a minor contribution to the three substantive objectives. This was to be expected because the ex-ante evaluation had already concluded that the Leader programme and the other three objectives were not complementary (Ecorys, 2006). Furthermore, Leader is described in the programming document as an 'administratively top heavy programme' (Ministry of EL&I, 2011).

3.6.6 POP2 summary

POP2's mid-term results present a mixed picture of the progress made by the measures taken. Some measures are on schedule, others are far behind. Some measures have actually exceeded their targets. It is very difficult to establish a link between the POP2 measures and their impact. In view of these findings, the conclusion we had drawn in 2003 is still applicable: it is difficult to express an opinion on the results of rural projects and little is known about their impact.

3.7 Conclusions

The Dutch EU member state declaration covers the regularity of the use of virtually all the EU funds the Netherlands manages jointly with the European Commission. The Minister of Finance, however, will not include remittances to the EU in the member state declaration next year either. In our report on the Dutch EU member state declaration for 2010 we concluded that the assertion on the functioning of management and control systems in place in the Netherlands was on the whole sound. The error rate in the use of agricultural and structural funds remained below 2% in 2010. The information on beneficiaries improved between 2008 and 2010. The Netherlands currently complies with the minimum transparency and public accountability requirements for nearly all funds.

Our audit of EU rural development funding and the insight available into the results found that it was still difficult to establish a link between outputs and effects and it was therefore not possible to express an opinion on effectiveness.

4 Trends in 2001-2010

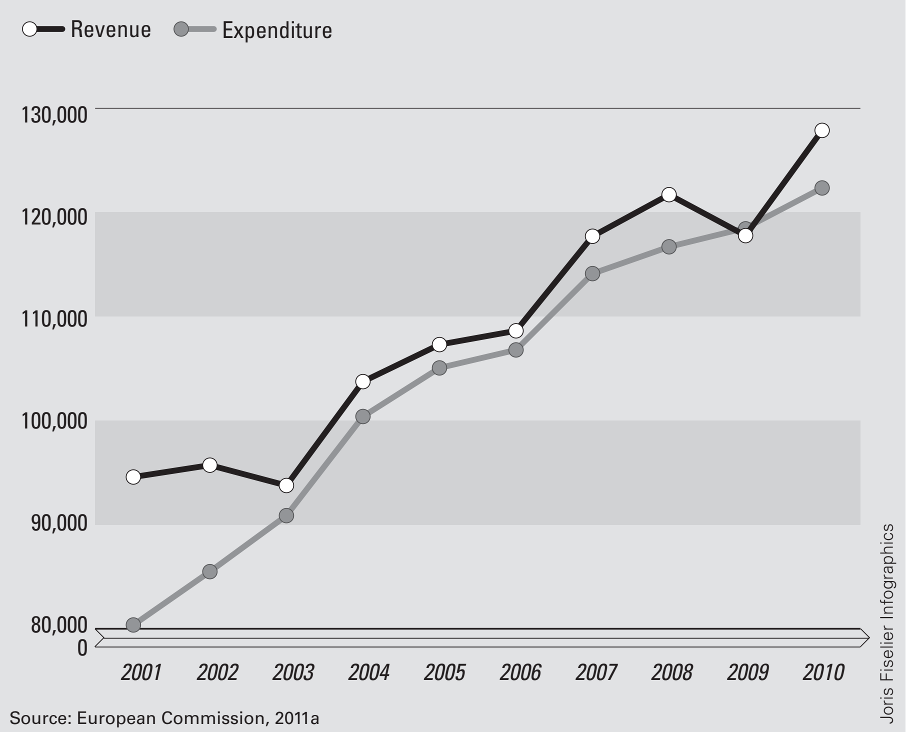
4.1 Introduction

In this chapter we outline trends in EU financial management in the past ten years. We first discuss the development of the EU budget (section 4.2). We then summarise the main policy developments in EU financial management and the consequences for the member states' accountability for EU funds (section 4.3) and consider the regularity of the use of EU funds and the European Court of Auditors' opinion on their regularity in its annual report (section 4.4). We then briefly consider the information available on the effectiveness of EU funds (section 4.5) and the supreme audit institutions' activities regarding EU expenditure (section 4.6). We close with a conclusion on the progress made in the management of EU funds in the past ten years (section 4.7).

4.2 Key figures on the EU budget

Figure 12 shows the development of total EU receipts and expenditures in the period 2001-2010.

Figure 12 **Total EU revenue and expenditure in the period 2001-2010**
In millions of euros



Source: European Commission, 2011a

4.2.1 EU receipts

Figure 13 shows the development of EU receipts by category in the period 2001-2010.

Figure 13 **EU revenue by category in the period 2001-2010**
In millions of euros

	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
VAT-based remittance	31,320.3	22,388.2	21,260.1	13,912.2	16,018.0	17,206.2	19,440.8	19,007.7	12,796.2	12,470.5
GNI-based remittance	34,878.8	45,947.6	51,235.2	68,982.0	70,860.6	70,132.1	73.914.7	74,477.3	81,982.5	91,066.8
Traditional own resources	14,589.2	9,214.0	10,857.2	12,307.1	14,063.1	15,028.3	16,573.0	17,282.9	14,528.2	15,659.3
Other revenue		2,361.4	2,159.3	2,765.7	3,016.9	3,569.0	5,467.0	8,760.7	6,922.5	6,466.8
Prior year surplus	11,612.7	15,002.5	7,413.5	5,469.8	2,736.7	2,410.1	1,847.6	1,528.8	1,796.2	2,253.6
EAGF surplus	1,958.5	372.5	263.3	223.2	0.0	0.0	0.0	0.0	0.0	0.0
EDF surplus					526.0	92.7	260.9	125.8	0.0	0.0
British budget rebate	-70.3	148.2	280.1	-148.0	-130.7	-15.3	58.9	400.0	-321.1	-114.8
Adjustments for Own Resources Decision 2007									-88.7	
Corrections for the Netherlands and Sweden									4.1	-3.2
Opt-out corrections for Denmark, Italy and the United Kingdom			-0.1	0.0	0.0	0.0	0.1	1.2	5.7	-3.7
Total	**94,289.3**	**95,434.4**	**93,468.6**	**103,511.9**	**107,090.6**	**108,423.0**	**117,563.0**	**121,584.4**	**117,625.6**	**127,795.3**

Source: European Commission, 2011a

It can be seen from the figure above that a growing proportion of the member states' contributions to the EU is based on a percentage of GNI.

4.2.2 EU expenditures

Figure 14 shows that the greater part of the EU budget is spent on the common agricultural policy and structural measures, with agricultural funds still accounting for nearly half of the EU budget.

Figure 14 **EU expenditure by heading in the period 2001-2010**
In millions of euros

Budget heading (2001-2006)	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	**Budget heading (since 2007)**
Agriculture	41,533.9	43,520.6	44,379.2	43,579.4	48,465.8	49,798.8	43,713.0	45,611.4	44,683.5	48,828.0	Sustainable growth
Structural actions	22,455.8	23,499.0	28,527.6	34,198.3	32,763.2	32,399.3	54,648.4	54,648.4	55,877.3	56,647.3	Natural resources
Internal policies	5,303.1	6,566.7	5,671.8	7,255.2	7,972.1	9,013.7	1,049.8	1,310.6	1,993.0	1,373.0	Citizenship, freedom, security and justice
External aid	4,230.6	4,423.7	4,285.8	4,605.8	5,013.1	5,186.2	7,291.8	7,310.7	7,982.9	7,486.5	EU as a global partner
Administration	4,855.1	5,211.6	5,305.2	5,856.4	6,191.4	6,699.7	6,805.6	7,292.5	7,615.3	7,895.8	Administration
Reserves	207.2	170.5	147.9	181.9	140.1	127.6	444.6	206.6	209.1		Compensation
Pre-accession aid	1,401.7	1,752.4	2,239.8	3,052.9	2,984.6	2,276.7					
Compensation				1,409.5	1,305.0	1,073.5					
Total	**79,987.3**	**85,144.5**	**90,557.5**	**100,139.4**	**104,835.2**	**106,575.5**	**113,953.3**	**116,544.5**	**118,361.0**	**122,230.7**	

Source: European Commission, 2011a

4.3 Developments in EU financial management policy

A key factor in the EU's ambition to improve its financial management is the development of declarations of assurance. These were first issued by the European Commission's Directorates-General. In the member states, the debate is still far from settled.

4.3.1 DGs' declarations of assurance

In the Reforming the Commission white paper of April 2000, the European Commission called for an improvement in financial management, efficiency and accountability in the EU. A first step to achieve this ambition was the establishment of the independent Internal Audit Service (IAS). Directors-General (DGs) are now responsible for the entire management process, including internal control, and the IAS audits the efficiency and effectiveness of the internal control systems.

With effect from 2001, each DG has prepared an annual activity report that includes its annual accounts and a declaration of assurance. The report may contain reservations if shortcomings or material problems have been detected. The size of the reservations must be quantified and measures must be proposed to address the shortcomings. The annual activity reports are submitted to the Council of Ministers, the European Parliament and the European Court of Auditors. The European Commission uses the reports to prepare its Synthesis Report, in which it accounts for the implementation of its policy programme. Activity reports were prepared by all the Commission's DGs for the first time in May 2002. In its Synthesis Report for 2001 (European Commission, 2002) the Commission stated that the first round had produced 135 reservations by 31 DGs and heads of services.

There have been improvements in the DGs' declarations of assurance – and the associated reservations – and in the Commission's Synthesis Report since 2002. There has been a steady decline in the number of reservations since 2001. All reservations have been quantified since 2006. However, the activity reports still contain only partial information on the regularity of expenditure in the member states and virtually no information on policy effectiveness in the member states. The Synthesis Report is not signed by one or more EU Commissioners with political responsibility. The Commission's accountability is therefore still incomplete. Since 2005 the Commission has specifically stated that it is responsible for management.

4.3.2 EU member state accountability

Single audit model

In April 2002 the European Parliament asked the European Court of Auditors to issue an opinion on the feasibility of introducing the single audit model for the European budget, in which each audit level builds on the previous level in order to reduce the audit burden for the auditee and enhance the quality of the audit (European Commission, 2002). The European Court of Auditors published its opinion in April 2004.[37] It considered those aspects of internal control systems that provide assurances on the legality and regularity of receipts and expenditures but not those aspects relating to controls of effectiveness and efficiency. The European Court of Auditors reasoned that the European Commission was responsible for defining minimum requirements for controls of the use of EU funds and that the European Commission had to seek improvements in the internal control systems in partnership with the member states.

Roadmap to an integrated internal control framework

In April 2005, during the discharge procedure for the 2003 budget, the European Parliament voiced its concerns that the European Court of Auditors, as in previous years, was unable to provide reasonable assurance on the legality and regularity of the EU's expenditure. The Parliament thought the problem could not be addressed solely by means of centrally imposed controls. It proposed that the member states' finance ministers should issue formal public disclosure statements providing an insight into the quality of internal control systems in the member states, and an annual assurance statement to account for expenditure charged to the EU budget.[38]

In June 2005 the European Commission released a Communication on a 'roadmap' to an integrated internal control framework (European Commission, 2005). The roadmap's final destination is a positive statement of assurance (Déclaration d'Assurance, DAS) by the European Court of Auditors. The EU's internal control framework must be adapted so that reasonable assurance can be obtained on transactions down to the level of individual beneficiaries. Further to the European Parliament's proposals, the Commission proposed that the responsible authorities in each member state (recognised paying agency, paying authority, managing authority) prepare comparable disclosure statements and declarations of assurance accompanied by an opinion of an independent auditor. The supreme audit institutions or other independent audit bodies could then audit the annual statements and report on them to their national parliaments.

37
Opinion No. 2/2004 of the European Court of Auditors on the 'single audit' model (and a proposal for a Community Internal Control Framework).

38
Resolution A6-0070/2005 (final version) of the European Parliament, 12 April 2005.

The Commission is thus building on the Parliament's proposals but is casting the supreme audit institutions and the single audit model in a more prominent role by introducing compulsory statements at lower audit levels that are comparable with the national statements. The Council of Ministers could not reach agreement on the Commission's proposals and has not adopted the proposals for member state declarations. The Council said more use should be made of existing statements at operational level.

Financial perspectives 2007-2013 and annual summaries
The interinstitutional agreement on the financial perspectives 2007-2013 also considered the role of the member states in improving financial management. Article 44 of the agreement states that the European Parliament, the Council of Ministers and the European Commission agree on the importance of improving internal control provided it does not entail an administrative burden. For the European Court of Auditors to issue a positive statement of assurance, priority must be given to the robust management of funds under shared management. To this end, the relevant audit authorities in the member states should prepare a summary of the management and control systems' compliance with EU rules. The member states must also prepare annual summaries of available audits and declarations at the appropriate national level.

Voluntary member state declarations
Following the Council's failure to reach agreement on compulsory member state declarations and the compromise on annual summaries at operational level, the Netherlands and Denmark decided to issue member state declarations voluntarily. The United Kingdom and Sweden followed their example. The majority of the member states are still unconvinced, however, as evidenced by the negotiation of the new Financial Regulation.

4.4 Regularity of the use of EU funds

This section summarises the improvements in the regularity of the use of EU funds in the past ten years. We look at the reservations made by the European Commission's DGs regarding the reliability of the annual accounts (section 4.4.1), the irregularities reported by the member states (section 4.4.2) and the regularity opinions of the European Court of Auditors (section 4.4.3).

4.4.1 Reservations

There has been an increase in the number of the European Commission's DGs and agencies since 2001. The trend is shown in the figure below.

Figure 15 **Total number of Directorates-General and agencies of the European Commission in the period 2001-2010**

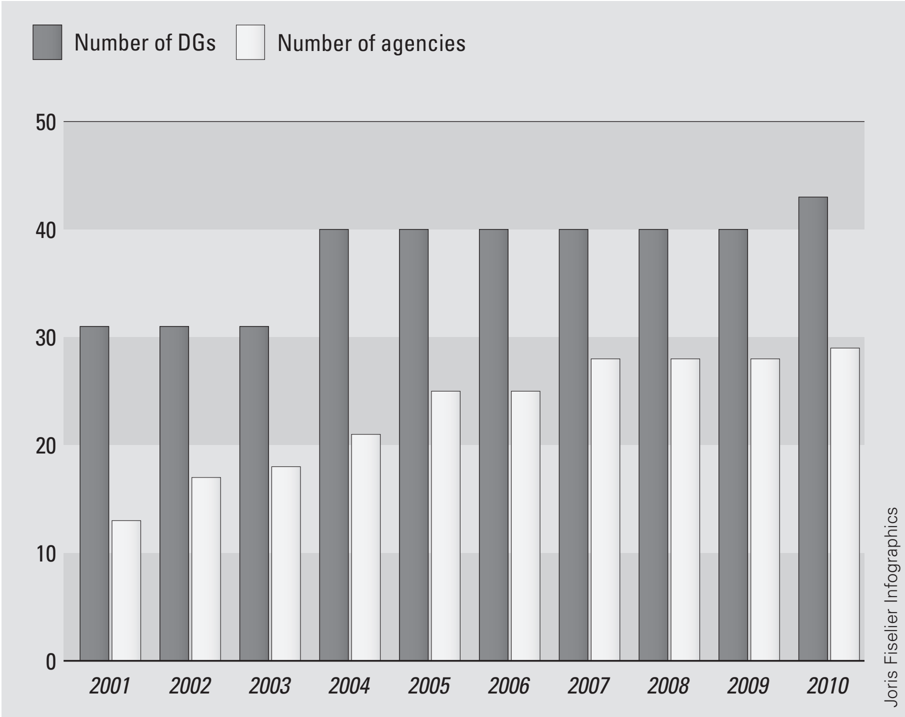
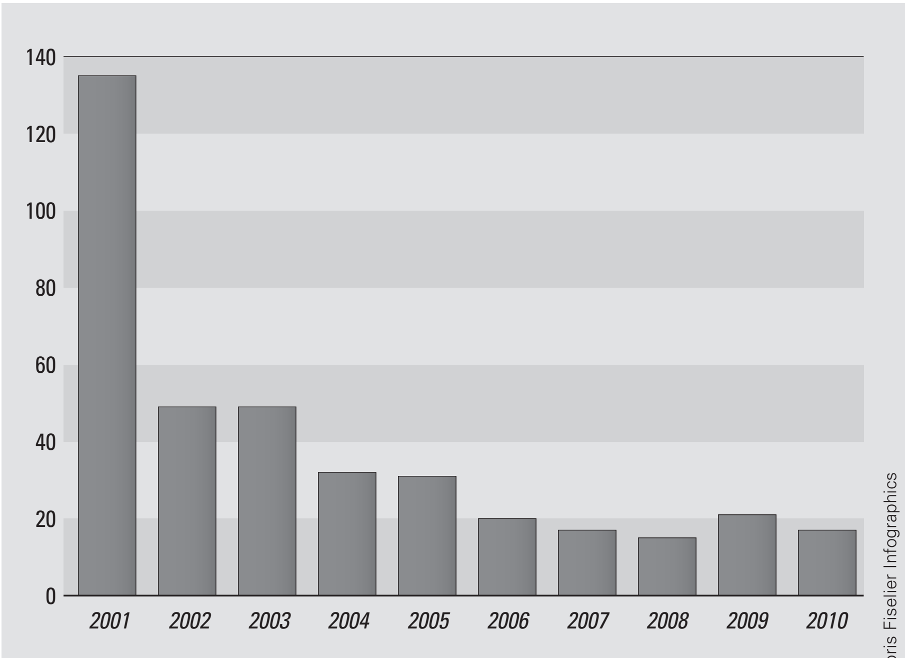


Figure 16 shows the number of reservations made by the DGs and services during the same period.

Figure 16 **Number of reservations made by the DGs and services in the period 2001-2010**



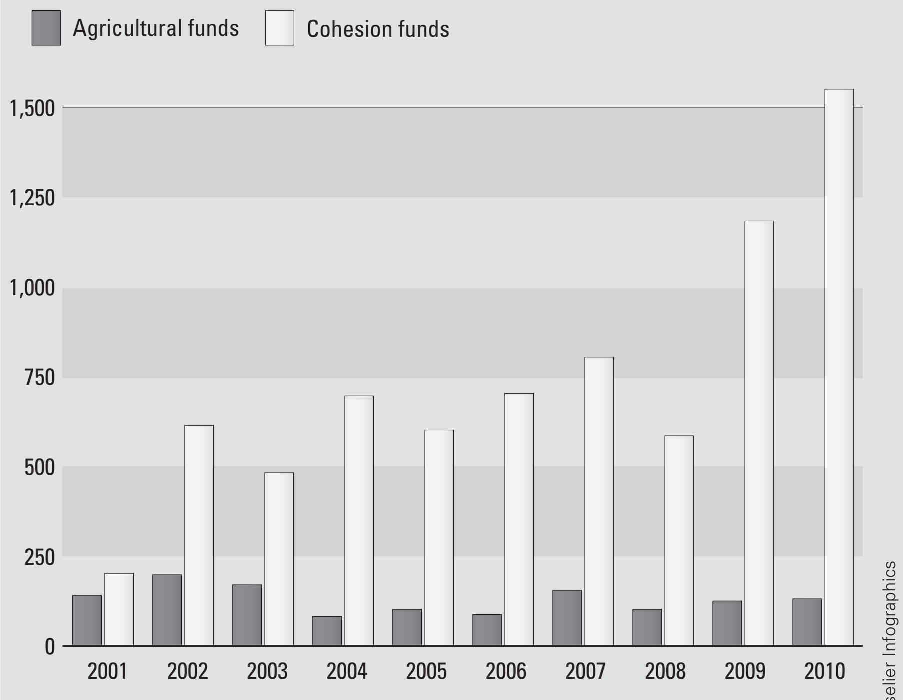
Source: European Commission, Synthesis Reports 2001-2010

Despite the increased number of DGs and heads of service that can make reservations in the declarations of assurance in their activity reports, the total number of reservations made each year has declined steadily since 2001 and has stabilised in recent years at around 20 a year.

4.4.2 Irregularities

Complete information on the irregularities the member states reported to the European Commission in the period 2001-2009 is available only with regard to agricultural and cohesion policy. The financial volume of the irregularities is shown in figure 17.

Figure 17 **Financial volume of irregularities reported in 2001-2010**
By category by year, in millions of euros



Figures are taken from the European Commission's reports on the protection of the Communities' financial interests and related annexes.

When considering the trend in this information, it should be borne in mind that the number of member states increased and the threshold for reporting irregularities was raised during the period.[39] Nevertheless, the figure shows that insight into irregularities has increased over the years. It also shows that the problems are significantly greater in cohesion policy than in agricultural policy.

4.4.3 European Court of Auditors' opinion in its annual report

The European Court of Auditors expresses an opinion each year on the regularity of the EU budget as a whole. It has never expressed a positive opinion throughout the entire 2001-2010 period. The European Court of Auditors also expresses an opinion on each budget heading. In the annual reports for 2001-2005, it expressed only qualitative opinions. In the annual report for 2006 it provided some quantitative information in addition to the qualitative opinion for the first time. The European Court of Auditors' opinions on the main funds under shared management and the Commission's internal policies (with the exception of R&D funds) during this period were as follows.

39
Ten countries joined the Union in 2004 and two in 2007. The threshold to report irregularities in structural and cohesion funds was raised from € 4,000 to € 10,000 with effect from 2006. The threshold for irregularities in agricultural funds was raised a year later.

Figure 18 **European Court of Auditors' opinion on the regularity of each budget heading in the period 2001-2006**

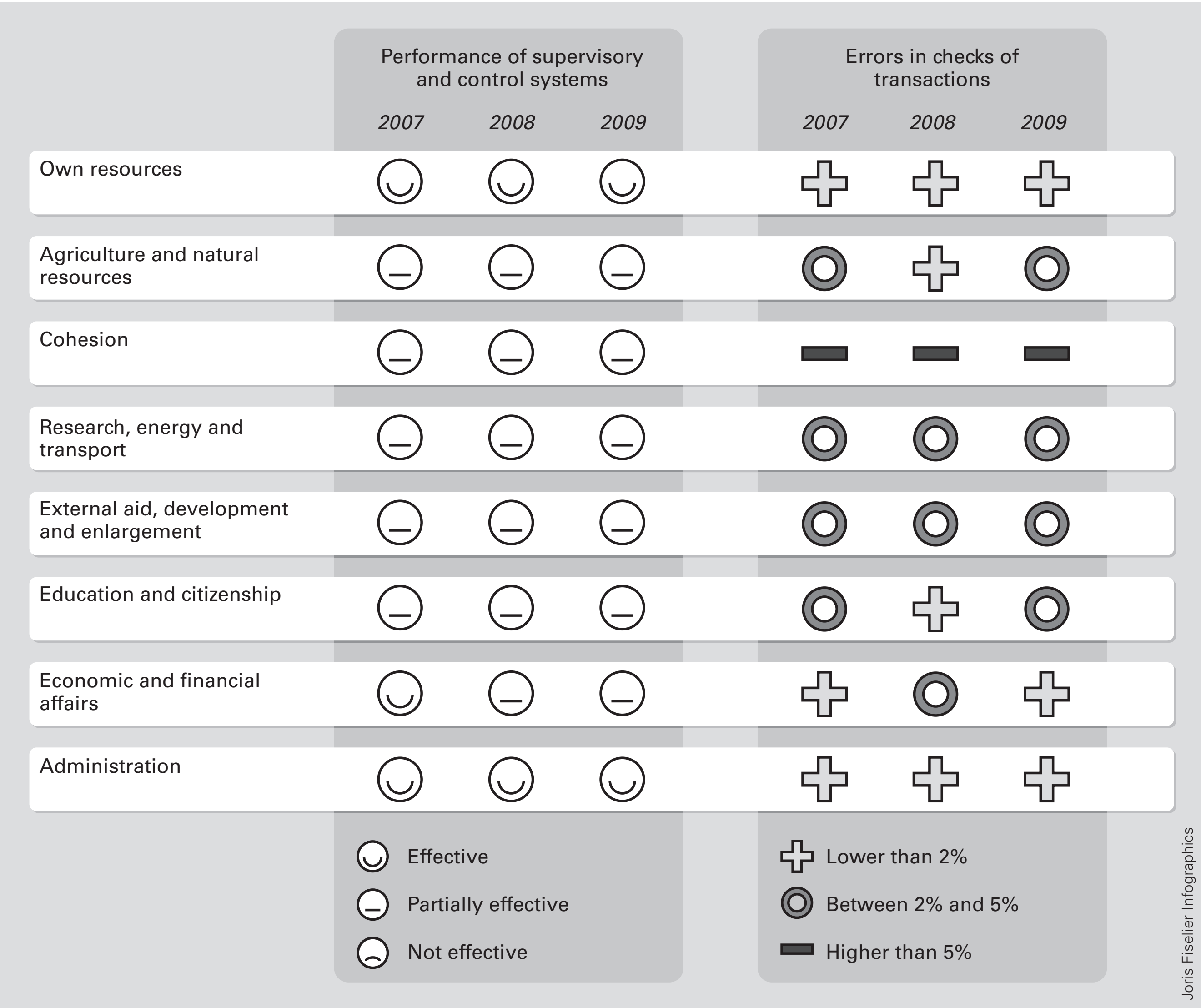
	2001	*2002*	*2003*	*2004*	*2005*	*2006*
Agricultural funds	High error rate, no improvement on previous years.	High error risk outside integrated administration and control system (IACS).	Considerable number of errors. Problems chiefly outside IACS.	Material errors. IACS in principle effective to limit errors.	Material errors. Less risk of error in IACS expenditure.	Error rate just above 2% threshold.
Structural funds	Despite improved rules, the same errors as in previous years.	Commission control system better, the same type and the same number of errors in the member states.	Still weaknesses in member states, therefore the same type and the same number of errors as in previous years.	Many errors in regularity of expenditure.	Programming periods not free of material errors.	Error rate between 2% and 5%.
Internal policies	Concerns about the regularity of the Fifth Framework Programme.	Significant errors in the European Commission's own checks.	Significant errors in transactions with beneficiaries.	Inadequate assurance on regularity of transactions.	Significant error rates in payments to beneficiaries.	Error rate between 2% and 5%.

Source: EU Trend Reports, 2003-2008

The European Court of Auditors provided more quantitative information in its annual reports for 2007-2009, when it also adopted a new budget layout.

Figure 19 summarises the opinions expressed by the European Court of Auditors in 2007-2009.

Figure 19 **European Court of Auditors' opinion on the performance of supervisory and control systems and the regularity of transactions, by EU budget heading, 2007–2009**



The European Court of Auditors again adopted a new budget layout for its opinion in 2010. The general view, however, did not change. The regularity of funds under shared management remains problematic. The estimated error rate in agricultural funds was again higher than 2%, and that in cohesion funds remains far too high at more than 5%.

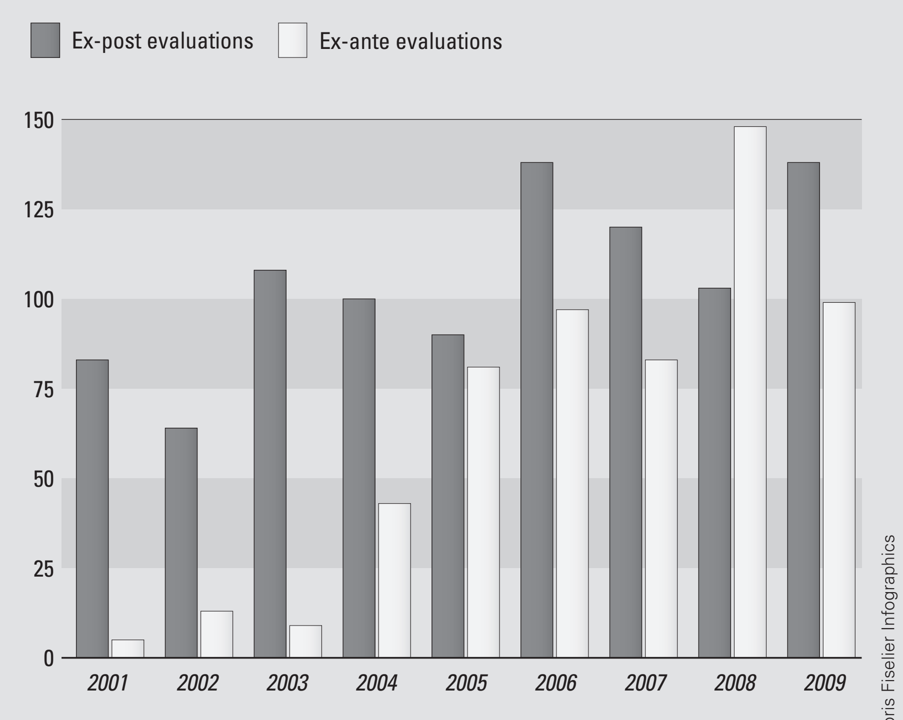
4.5 Effectiveness of EU policy

Our analyses of the DGs' annual activity reports over the past ten years found no demonstrable improvement in the insight provided into the effectiveness of EU policy and European funding programmes. Policy effectiveness, however, is assessed in the EU. The European Commission carries out regular evaluations and the European Court of Auditors issues several special reports on efficiency audits every year. Below, we consider both types of reports published in the past ten years.

4.5.1 Evaluations by the European Commission

To improve its decision-making, the European Commission evaluates the results and impact of its policies before, during and after implementation. Its ex-ante evaluations consider the expected efficiency and effectiveness of policy. The Commission's mid-term and ex-post evaluations consider policy relevance, effectiveness and cost effectiveness. The figure below shows the number of ex-ante and ex-post evaluations in the period 2001-2009. Mid-term evaluations are included in the ex-post evaluations.

Figure 20 **Number of evaluations by the European Commission, 2001-2009**



Source: European Commission, annual evaluation reports 2001-2009

The total number of evaluations has nearly tripled since 2001. There has been a particularly sharp increase in the number of ex-ante evaluations, chiefly on account of a change in course by the Commission. In 2002 the Commission introduced a new procedure to assess impacts in advance, considering both the economic and the social impacts and the environmental consequences (European Commission, 2004).

In addition to these evaluations, the Commission launched a 'health check' pilot in 2010 (European Commission, 2010d). These comprehensive checks determine whether existing legislation and regulations are still appropriate in a particular policy field. They consider administrative burdens, overlaps with other laws and regulations, gaps in the policy, inconsistencies and outdated regulations. The pilot is focusing on four areas: the environment, transport, employment and social policy, and industrial policy.

4.5.2 Special reports issued by the European Court of Auditors

The European Court of Auditors carries out financial and performance audits as well as compliance audits. The performance and compliance audit findings are published in special reports issued throughout the year.

In the period 2001-2010, the European Court of Auditors published 107 special reports on policy-related subjects, seven on administrative expenditure and financial instruments[40] and two on the operation of the Commission's decentralised organisational structure,[41] producing a total of 116 special reports in the past ten years. To prepare these reports, the European Court of Auditors carried out 17 audits in the

40 Special reports 3/2003, 1/2005, 5/2005, 9/2006, 2/2007, 5/2009, 9/2009.

41 Special reports 5/2008, 13/2009.

Netherlands during this period, including five audits of policy effectiveness and four of the effectiveness of management and control systems.

The table below shows the 107 policy-related special reports by year of publication. The two columns on the right show how many considered the effectiveness of policy and how many the effectiveness of management and control systems.

Table 8. Number of policy-related special reports and number of effectiveness-related reports

Special reports	Policy-related	Of which: Effectiveness of policy	Of which: Effectiveness of management and control systems
2001	14	2 (of which 1 partially*)	
2002	7	1	
2003	14	3 (of which 1 partially)	
2004	10	2	2
2005	4		1
2006	10	3 (of which 2 partially)	3
2007	8	1	4
2008	11	3 (of which 2 partially)	
2009	15	7 (of which 5 partially)	1
2010	14	6 (of which 3 partially)	3
Total	107	28 (of which 14 partially)	14

* In the special reports that consider efficiency partially, one but not all of the audit questions consider efficiency.

Between 2001 and 2008, the number of reports on policy effectiveness fluctuated between one and three per annum. In 2009 and 2010 it increased to seven and six. Since 2004, the European Court of Auditors has also audited the effectiveness of management and control systems. The number of reports has fluctuated from one to four per annum.

4.5.3 Insight into the effectiveness of the use of EU funds

There has been a marked increase in the consideration paid by both the European Commission and the European Court of Auditors to the effectiveness of EU funds in the past ten years. Insight into the results, however, has not improved. This can be explained in part by the lack of ready access to a well-organised database of results at aggregate level.

4.6 Developments in SAI EU activities

In this section we briefly consider the EU member states' supreme audit institutions' audits of EU funds in the past ten tears.

4.6.1 The Contact Committee

The most important international consultative body of supreme audit institutions in the EU is the Contact Committee of the Heads of the Supreme Audit Institutions of the European Union (the 27 national audit institutions of the member states and the European Court of Auditors). The Contact Committee has paid a great deal of attention to the financial management of EU funds in the past ten years.

In 2003 the Committee urged its members to increase their cooperation on audits of EU funds. In 2004 a working group was set up to help the SAIs prepare more overall EU reports. In the same year, the Contact Committee decided to modernise the cooperation between the SAIs and the organisation of its own meetings. It made in-depth discussion of current developments in EU financial management a permanent item on its agenda. To this end, it set up a number of new working groups.

4.6.2 Activities of the Contact Committee's working groups

Several working groups set up by the Contact Committee have helped strengthen the management of EU funds in the past ten years. Three working groups have made particularly important contributions:

- The Working Group on Structural Funds has conducted an exploratory survey and four comparative audits of certain aspects of the management and control of structural funds in the member states. The number of SAIs participating in these comparative audits has increased from ten to 15.
- The Working Group on Common Auditing Standards has conducted a mapping exercise of how EU SAIs apply common auditing standards (the ISSAIs) in order to promote future joint audits. Virtually all EU SAIs have participated in this initiative.
- The Working Group on National SAI Reports on EU Financial Management has established a platform for SAIs to exchange information on audits of the management of EU funds. The number of SAIs that publish overall reports in this area has more than trebled from four in the period 2004-2005 to 13 in the period 2010-2011.

Other working groups have also been active, such as the working groups on cross-border VAT fraud and on public procurement and new networks are auditing the Europe 2020 strategy, the EU member states' budgetary policies and, in response to the euro crisis, EU economic governance.

4.6.3 SAI audit activities

Over the past ten years, the SAIs have paid increasingly more attention to auditing EU-related topics. In 2004, 27 SAIs together carried out some 70 EU audits. More than three times as many EU audits are expected to have been carried out in 2011, with over 200 EU audits being completed. Although there are marked differences in the audits' extent and scope and not all will be published, it is clear that the SAIs are carrying out far more audits of EU-related topics than they did ten years ago. Since there is no readily accessible (e.g. in English) database of the results of these audits, however, it is difficult to gain an overall impression of the regularity and effectiveness of EU funds in the respective member states. Furthermore, the SAIs' use of national audit questions, audit approaches and presentation methods often makes it difficult to compare the findings.

4.7 Improvements in the financial management of EU funds in 2001-2010

There have been many improvements in the management of EU funds in the past ten years. In particular, the European Commission has professionalised its internal procedures. Improved accountability for EU funds under shared management, however, remains a politically sensitive issue. In the negotiation of the financial perspectives for 2007-2013, the Council of Ministers showed little enthusiasm for the system of EU member state declarations. Four member states currently publish such declarations voluntarily. There has been no increase in their number in recent years.

The European Court of Auditors has still not issued a positive statement of assurance on the regularity of the implementation of the EU budget and, year after year, has detected the highest error rate in the implementation of funds under shared management. The EU member states' SAIs are attempting – both separately and jointly – to provide more insight into the regularity and effectiveness of EU funds in the member states. The lack of a database of the results of their activities, however, makes it difficult to gain an overall impression. Despite the European Commission and SAIs' increased concern for the effectiveness of EU funds, a great deal still has to be done before there is a good insight into the results.

Appendix 1 Key figures

Table 1. Member state remittances of own resources to the EU in 2010 (actual figures, in millions of euros)

Member state	Traditional own resources	VAT-based remittances	GNI-based remittances	Correction for the United Kingdom	Correction for the Netherlands and Sweden	Correction for Denmark, Ireland, and the United Kingdom for opt-outs	Total 2010
Austria	166.6	287.1	2.130.6	22.7	18.9	1.0	2.626.9
Belgium	1.489.6	439.2	2.661.1	168.4	23.6	1.3	4.783.2
Bulgaria	42.2	46	247.1	14.7	2.2	0.1	352.6
Cyprus	26.4	24.9	124.2	7.7	1.1	0.1	184.5
Czech Republic	189.4	180.9	1.050.9	66.8	9.2	0.5	1.497.7
Denmark	306.8	256.9	1.709.8	95.2	15.9	-4.1	2.380.5
Estonia	17.2	19.7	98.9	5.6	0.9	0.1	142.4
Finland	127.0	226.7	1.256.0	80.6	11.8	0.7	1.702.2
France	1.407.3	2.380.6	14.754.7	897.6	133.4	7.3	19.580.8
Germany	3.064.5	1.586.9	18.694.5	249.6	167.8	9.3	23.772.6
Greece	215.4	293.6	1.616.1	168.5	15.6	0.9	2.310.1
Hungary	92.6	119.4	701.9	34.6	6.2	0.3	955.0
Ireland	185.6	193.8	952.9	56.1	8.6	-2.7	1.394.3
Italy	1.668.0	1.558.9	11.381.0	615.7	103.1	5.7	15.332.4
Latvia	16.8	13.7	133.8	9.5	1.2	0.1	175.0
Lithuania	39.1	31.6	186.3	10.2	1.8	0.1	269.1
Luxembourg	12.7	39.3	196.5	10.7	1.9	0.1	261.2
Malta	9.8	8.1	40.4	2.6	0.4	0.0	61.2
Netherlands	1.749.2	202.3	4.217.1	54.9	-612.1	2.1	5.613.6
Poland	317.8	518.3	2.629.7	167.0	22.9	1.2	3.656.8
Portugal	134.2	276.3	1.348.8	77.2	10.8	0.6	1.847.9
Romania	100.9	124.1	859.2	50.6	8.0	0.4	1.143.1
Slovakia	107.3	53.4	449.8	32.3	4.4	0.2	647.3
Slovenia	66.6	50.1	250.8	16.6	2.3	0.1	386.6
Spain	1.158.1	760.4	7.607.4	496.2	69.4	0.9	10.095.4
Sweden	434.3	149.5	2 770.2	36.2	-148.5	1.3	3.243.1
United Kingdom	2.513.5	2.629.0	12.997.8	-3.562.7	116.1	-34.4	14.659.4
Total	**15.659.3**	**12.470.5**	**91.066.8**	**-114.8**	**-3.2**	**-3.7**	**119.074.9**

Source: European Commission, 2011a

Table 2. Member state receipts in 2010, by budget heading (actual figures, in millions of euros)							
Member state	**Sustainable growth**		**Preservation and management of natural resources**	**Citizenship, freedom, security and justice**	**EU as a global player**	**Administration**	**Total 2010**
	Competitiveness for growth and employment	*Cohesion for growth and employment*					
Austria	240.9	162.2	1,351.2	46.5	0.0	20.8	1,821.6
Belgium	810.6	201.5	695.7	142.8	0.0	4,294.5	6,145.1
Bulgaria	71.7	397.1	574.0	21.3	143.6	14.6	1,222.5
Cyprus	24.3	66.9	72.8	5.8	0.0	8.2	178.0
Czech Republic	88.2	2,232.3	1,062.2	13.7	0.6	18.7	3,415.6
Denmark	244.5	66.8	1,148.9	13.0	0.0	52.5	1,525.7
Estonia	40.9	565.8	179.7	8.4	4.1	9.1	807.9
Finland	209.3	153.4	908.2	15.3	0.0	23.4	1,309.6
France	1,314.8	1,474.4	9,854.9	124.0	0.0	337.0	13,105.1
Germany	1,604.3	3,003.5	6,939.8	84.3	0.0	193.4	11,825.2
Greece	201.4	2,547.2	2,916.5	41.9	0.0	41.7	5,748.7
Hungary	86.0	2,086.2	1,420.1	22.1	2.7	33.0	3,650.0
Ireland	182.0	98.3	1,713.7	27.0	0.0	44.4	2,065.6
Italy	768.2	2,567.5	5,731.5	160.5	0.0	269.8	9,497.5
Latvia	30.7	509.0	284.4	8.4	1.2	10.0	843.6
Lithuania	123.4	902.8	544.1	17.9	1.8	11.8	1,601.9
Luxembourg	101.5	36.2	57.9	12.7	0.0	1,346.0	1,554.3
Malta	6.2	66.0	22.1	10.5	0.0	7.7	112.4
Netherlands	558.9	232.6	1,119.9	147.4	0.0	87.4	2,146.1
Poland	184.9	7,781.0	3,690.3	106.4	27.8	31.7	11,822.0
Portugal	177.6	2,883.9	1,268.6	28.3	0.0	30.3	4,378.8
Romania	54.6	512.2	1,435.7	14.6	277.8	22.5	2,317.4
Slovakia	111.8	1,096.1	676.5	8.7	0.3	11.5	1,905.0
Slovenia	46.3	475.8	207.4	12.8	4.0	9.4	755.7
Spain	885.2	5,125.2	7,038.3	53.1	0.0	88.6	13,190.5
Sweden	280.9	197.5	1,061.5	77.4	0.0	28.8	1,646.2
United Kingdom	931.1	1,669.8	3,940.9	64.6	0.0	139.3	6,745.6
Total	**9,380.2**	**37,111.4**	**55,906.7**	**1,289.3**	**463.9**	**7,185.9**	**111,337.5**
Source: European Commission, 2011a							

Table 3. Net positions of the EU member states in 2010 calculated using the accounting method and the alternative method (in millions of euros)

	Net position (accounting)		Net position (alternative)		GNI (Eurostat)	Receipts incl. adm.	Remittances incl. TEM	Administration	Traditional own resources
	in euros	*as % GNI*	*in euros*	*as % GNI*		(A)	(B)	(C)	(D)
	A-B		(A-C)-(B-D)						
Austria	-805.2	-0.3%	-659.4	-0.2%	284,682.2	1821.6	2,626.9	20.8	166.6
Belgium	1,361.9	0.4%	-1,443.0	-0.4%	360,621.0	6,145.1	4,783.2	4,294.5	1,489.6
Bulgaria	869.9	2.5%	897.7	2.6%	35,108.9	1,222.5	352.6	14.6	42.4
Cyprus	-6.5	0.0%	11.8	0.1%	16,857.7	178.0	184.5	8.2	26.4
Czech Republic	1,917.9	1.4%	2,088.6	1.5%	139,259.7	3,415.6	1,497.7	18.7	189.4
Denmark	-854.8	-0.4%	-600.5	-0.3%	238,384.2	1,525.7	2,380.5	52.5	306.8
Estonia	665.5	4.9%	673.6	5.0%	13,592.0	807.9	142.4	9.1	17.2
Finland	-392.6	-0.2%	-289.0	-0.2%	183,389.0	1,309.6	1,702.2	23.4	127.0
France	-6,475.8	-0.3%	-5,405.5	-0.3%	1,968,118.7	13,105.1	19,580.8	337.0	1,407.3
Germany	-11,947.4	-0.5%	-9,076.2	-0.4%	2,522,750.0	11,825.2	23,772.6	193.4	3,064.5
Greece	3,438.6	1.6%	3,612.3	1.6%	221,120.1	5,748.7	2,310.1	41.7	215.4
Hungary	2,695.0	2.9%	2,754.6	3.0%	92,370.1	3,650.0	955.0	33.0	92.6
Ireland	671.3	0.5%	812.5	0.6%	129,300.9	2,065.6	1,394.3	44.4	185.6
Italy	-5,834.9	-0.4%	-4,436.7	-0.3%	1,548,782.2	9,497.5	15,332.4	269.8	1,668.0
Latvia	668.6	3.6%	675.4	3.7%	18,350.2	843.6	175.0	10.0	16.8
Lithuania	1,332.8	4.9%	1,360.1	5.0%	27,002.2	1601.9	269.1	11.8	39.1
Luxembourg	1,293.1	4.5%	-40.2	-0.1%	28,633.7	1,554.3	261.2	1,346.0	12.7
Malta	51.1	0.9%	53.3	0.9%	5,657.2	112.4	61.2	7.7	9.8
Netherlands	-3,467.5	-0.6%	-1,805.6	-0.3%	583,424.0	2,146.1	5,613.6	87.4	1,749.2
Poland	8,165.2	2.4%	8,451.3	2.5%	342,533.1	11,822.0	3,656.8	31.7	317.8
Portugal	2,530.9	1.5%	2,634.8	1.6%	167,038.4	4,378.8	1,847.9	30.3	134.2
Romania	1,174.3	1.0%	1,252.7	1.0%	120,439.5	2,317.4	1,143.1	22.5	100.9
Slovakia	1,257.7	1.9%	1,353.5	2.1%	64,988.1	1,905.0	647.3	11.5	107.3
Slovenia	369.1	1.1%	426.4	1.2%	34,893.7	755.7	386.6	9.4	66.6
Spain	3,095.1	0.3%	4,164.5	0.4%	1,035,947.0	13,190.5	10,095.4	88.6	1,158.1
Sweden	-1,597.0	-0.5%	-1,191.4	-0.3%	353,112.6	1,646.2	3,243.1	28.8	434.3
United Kingdom	-7,913.7	-0.5%	-5,539.5	-0.3%	1,720,640.2	6,745.6	14,659.4	139.3	2,513.5

Appendix 2 Abbreviations and definitions

Abbreviations	
ABAC	Accrual Based Accounting System
CBS	Statistics Netherlands
DAS	Déclaration d'Assurance (statement of assurance, European Court of Auditors)
DG	Directorate-General
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EBF	European External Borders Fund
EFF	European Fisheries Fund
EIF	European Integration Fund
EL&I	(Ministry of) Economic Affairs, Agriculture and Innovation
ERDF	European Regional Development Fund
ESF	European Social Fund
ETF	European Return Fund
EU	European Union
GNI	Gross National Income
LNV	(Ministry of) Agriculture, Nature and Food Quality
Nuffic	Netherlands Universities' Foundation for International Cooperation; currently: the Netherlands Organisation for International Cooperation in Higher Education
OCW	(Ministry of) Education, Culture and Science
OLAF	Office européen de lutte antifraude (European Anti-Fraud Office)
RF	European Refugee Fund
SZW	(Ministry of) Social Affairs and Employment
V&J	(Ministry of) Security and Justice
VAT	Value Added Tax (sales tax)

Definitions	
Activity report	A report that all the European Commission's Directors-General must prepare each year on the implementation of their management plans. Each DG issues a declaration on its report.
Annual summary	A summary submitted by the member states to the European Commission each year of available audits and declarations in the field of EU funds under shared management.
Audit authority	An audit authority is an institution that is functionally independent of the managing authority and the paying authority. A member state designates an audit authority for each structural funds programme to verify the correct performance of the management and control system. Such an authority has been proposed for the 2007-2013 programming period.
Directorate-General	The largest independent unit in the Commission's administrative organisation. The Directorates-General are organised into directorates, which are in turn organised into administrative units. The Secretary-General is the head of the Commission's administrative organisation. In addition to the Secretariat-General and the Directorates-General, the Commission has a number of services, such as the Legal Service and the Internal Audit Service.
Discharge	The annual procedure whereby, pursuant to article 319 of the TFEU, the European Parliament, on the recommendation of the Council of Ministers, approves the European Commission's implementation of the budget in the previous year.
Financial correction	Reversal, cancellation or adjustment of an aid payment previously granted.

Fraud	Fraud is defined in Community legislation as: with regard to expenditure: any intentional act or intentional omission involving the use or presentation of false, incorrect or incomplete statements or documents which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities or in violation of a specific obligation, with the same effect, or the misapplication of such funds for purposes other than those for which they were originally granted; with regard to revenue: the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the illegal diminution of the resources of the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities, or non-disclosure of information in violation of a specific obligation, with the same effect, or the misapplication of a legally obtained benefit, with the same effect.
In control statement	Annual statement issued by a paying agency to retain its authorisation
Irregularity	Any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure.
Legality and regularity	European expression equivalent to the Dutch term 'regularity'. There is no material difference between the two terms.
Managing authority	A government body responsible for the implementation of a structural funds programme, including the collection of financial and statistical information and reporting on the programme's implementation (30 June report), internal control of the effectiveness and transparency of programme expenditure, the organisation of the midterm evaluation and revision of implementation on its own initiative or at the request of the Supervisory Committee.
Materiality threshold	A quantitative limit on the financial volume of shortcomings at the European Commission's services. If a shortcoming exceeds 2% of the budget funds allocated to the service, it must be disclosed in the Director-General's annual activity report. In certain cases, the DGs apply different quantitative limits.
Member state declaration	Annual declaration issued by the Minister of Finance on the management and control system in place for EU funds and the receipt and remittance of EU funds
Net position	The difference between the amount a member state remits to the EU budget and the amount the same member state receives from the EU budget. Different methods are used to calculate the net position.
Own resources	The EC's revenue. The European Community has had own resources since 1970 (before which there was a system of financial contributions from the member states). The term 'own resources' indicates that they are not regulated contributions from the EU member states but accrue to the Union as of right. The own resource are: • customs duties levied in the member states on imports from third countries; • a percentage of the VAT revenue; this remittance is reduced if VAT revenue is more than 50% of GNP; • the so-called 'fourth source' in the form of an annual percentage of the member states' GNI.
Paying authority	A government body that attends to the preparation of payment applications and their submission to the Commission, certifies the midterm expenditure declarations and the winding-up declaration, receives payments from the Commission and makes subsequent payment to the final beneficiary in a structural funds programme.
Shared management	Shared management of a programme by the European Commission and the member state

Single audit model	A model in which t underlying principle is that a single audit should be adequate to meet the requirements of all stakeholders. The intention is to prevent the duplication of audit work.
Statement of Assurance	A statement issued by the European Court of Auditors pursuant to article 287 of the TFEU, to the European Parliament and the Council confirming the reliability of the EU's accounts and the legality and regularity of the underlying transactions. Also known as Déclaration d'Assurance or DAS.
Structural funds	A financial instrument to reduce economic differences between the regions in the EU. The current structural funds are the European Social Fund (ESF), the European Regional Development Fund (ERDF), the European Agricultural Guidance and Guarantee Fund – Guidance Section (EAGGFL-A) and the Financial Instrument for Fisheries Guidance (FIFG).
System audit	An audit of the functioning of a management and control system rather than of individual transactions.
Synthesis Report	An annual report issued by the European Commission pursuant to article 60 of the Financial Regulation that considers the activity reports of the Directors-General. The Synthesis Report is submitted to the European Parliament and the Council of Ministers.

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