Algemene Rekenkamer

EU Trend Report 2013

Developments in the financial management of the European Union

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About this report

Introduction

This is the eleventh 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, in the EU member states and in the Netherlands.

The EU Trend Report helps inform the States General's debate with the Minister of Finance regarding the Netherlands' stance in the discharge procedure for the European Commission's implementation of the EU budget. It also helps the States General further improve the regularity and effectiveness of the use of EU funds.

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 member states.

Most EU policies are implemented by the European Commission in collaboration with the member states. These policies account for about 80% of the EU budget. Accountability for and regularity of the use of these funds 'under shared management' remain problematic. Four member states, one being the Netherlands, voluntarily publish member state declarations on the use of EU funds in their home countries but most member states are either unwilling or unable to render such an account. In the most recent revision of the EU's Financial Regulation, a large majority of the member states ignored the European Parliament's exhortations and opposed the introduction of a compulsory member state declaration. Yet there are some dissenting voices. A small number of member states have consistently criticised the fact that implementation of the EU budget still does not satisfy applicable regularity standards. And more comments are being made on the annual discharge of the European Commission and the European Court of Auditors' inability to issue a Declaration of Assurance on the accounts.

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 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 *EU Trend Report 2013* consists of two parts. In part I, we present our main findings, conclusions and recommendations, the minister's response and our afterword. Part II consists of three chapters. We consider developments in the financial management of

EU funds in the EU as a whole (chapter 1), in the EU member states (chapter 2) and in the Netherlands (chapter 3). In each of these chapters we consider current developments, the quality of financial management systems and the regularity and effectiveness of EU expenditure and the insight available into them.

Website

As well as publishing the EU *Trend Report 2013*, we have updated the interactive website www.EU verantwoording.nl. It presents an overview of developments in the past ten years and key figures on EU financial management in 2002-2011.

Sources

The first two chapters of part II are based largely on published information. 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 in the member states, and documents published by the European Commission. In chapter 3 of part II, the chapter on the Netherlands, we also make use of our own audit powers to obtain information. This report presents information on a series of years. In general, information on the regularity of expenditure and the operation of financial management systems relates to the year 2011. The description of policy developments is based on information from 2012.

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 response of the government

1 Main findings

1.1 Developments in the EU

1.1.1 Policy developments

New Financial Regulation
Following lengthy negotiation by the European Commission, the Council of Ministers and the European Parliament, the new Financial Regulation for the EU was adopted on 25 October 2012.[1] The new Regulation makes several improvements to the way in which institutions in the member states account for their use of EU funds. The final outcome, however, did not meet the initial expectations held by the European Commission and the European Parliament. They would have preferred the introduction of compulsory public accounts by the member states of the funds they spend under shared management[2] to implement EU programmes. The compromise reached means that designated institutions in the member states will in future report to the European Commission by means of:

a. financial statements, accompanied by a management declaration confirming that, in the opinion of those in charge of the funds, the information is properly presented, complete and accurate, the expenditure was used for its intended purpose and that the control systems put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions;
b. a summary of final audit reports and of controls carried out ('annual summaries').

The financial statements and annual summaries must be accompanied by an opinion expressed by an independent audit body.

In our opinion, this compromise has significant flaws. Firstly, the annual summaries do not present a comprehensive view of the use of EU funds in the member states. The new management declaration introduced by the Regulation, moreover, has only limited credibility. It says something about the design but nothing about the actual *functioning* of a member state's management of EU funds. Finally, the information the member states submit to the European Commission is not made public.

The new Financial Regulation will not lead to compulsory publication in the years ahead of accounts of the use of EU funds in the member states. The member states therefore still do not have to render political or administrative account for their use of EU funds. This is all the more incongruous because the European Commission can hold the member states accountable for errors that are made.

Measures to address the economic and financial crisis
The EU is doing a great deal to assist EU countries that are in financial difficulties, for instance by means of support programmes. As a result, EU member states are exposed to financial risks. To mitigate these risks and to gain an insight into the results achieved, good arrangements must be made on public external audit and transparent accountability.[3] Emergency financial support is provided to EU member states from the EU budget, from emergency funds guaranteed by the member states and by the

1
See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:298:0001:\0096:EN:PDF.

2
EU programmes implemented jointly by the European Commission and institutions in the member states are said to be implemented 'under shared management'.

3
The EU governance web dossier we published at http://www.rekenkamer.nl/EU-governance on 22 March 2012 considers this matter in detail.

European Central Bank (ECB) and the European Investment Bank (EIB). The support programmes are considered below.

Several temporary measures are being funded from the EU *budget*: prefinancing facilities have been widened (i.e. committed funds will be disbursed more quickly), EU cofinancing of programmes under shared management has been increased and money will be mobilised from the European Globalisation Adjustment Fund. Approximately € 1.5 billion from the EU budget was earmarked for these measures for the period to the end of 2010.

EU financial support for the member states is also provided from the following *emergency funds*:

1. funds that take the form of loans granted by the European Commission to countries requiring emergency support. The loans are guaranteed by all EU member states through the EU budget;
2. financial support based on intergovernmental agreements between euro countries. The loans are guaranteed by the eurozone countries concerned;
3. loans granted by one member states to another member state requiring emergency support. The loans are based on bilateral agreements.

The first category of funds is provided from the temporary European Financial Stability Mechanism (EFSM) for EU member states and from the Balance of Payment Assistance facility (BoP) for non-euro countries. If a member state defaults on its EFSM or BoP commitments, the consequences are initially met from the EU budget. If this is not entirely possible, the shortfall is borne by the other member states. At the end of December 2012, approximately € 57 billion in emergency support had been granted from the EFSM and BoP together.

The second category of support is provided from the temporary European Financial Stability Facility (EFSF) and, since autumn 2012, from the permanent European Stability Mechanism (ESM).[4] Only euro countries take part in this mechanism, in accordance with a set participation ratio. They guarantee any losses if a recipient country is no longer able to repay the support. The EFSF has a maximum effective lending capacity of € 440 billion, based on a guarantee commitment by the participating euro countries of € 726 billion. By the end of December 2012 this mechanism had provided more than € 138 billion to the participating countries, with nearly € 108 billion being allocated to Greece, and the ESM had provided more than € 39 billion to recapitalise the Spanish financial sector. At the instigation of the euro countries' supreme audit institutions, an independent board of auditors has been established for the ESM to carry out independent audits of the regularity and effectiveness of the ESM programmes.

The third category of loans is based on bilateral agreements. Such bilateral loans were used in the first financial support programme for Greece. By the end of December 2012, the euro countries had granted approximately € 53 billion in bilateral loans.

Support is also provided by the ECB and the EIB. Since the outbreak of the crisis, the ECB has used a variety of monetary instruments to steer national interest rates and improve liquidity positions. In early December 2012, the ECB had applied about € 277 billion for such instruments. On 6 September 2012 the ECB announced that it was

4
The EFSF can continue to grant loans until June 2013 to ensure that the ESM utilises its lending capacity in full.

willing to continue buying up government bonds from weak countries, provided the countries concerned first requested official emergency support from the ESM and implemented strict economy measures and reforms. The European Council of 28 and 29 June 2012 decided to increase the EIB's lending capacity by € 60 billion in order to address the crisis.[5]

We think robust audit and accountability arrangements should be in place for all support programmes established for the member states. Such arrangements are already in place for the emergency assistance guaranteed by the EU budget and for the loans granted from the EU budget. Measures have been taken to have the regularity and effectiveness of the assistance audited independently by an external audit institution, and the European Court of Auditors can audit the funds flows and publish its findings. Audit and accountability for the emergency loans granted subject to intergovernmental agreements between euro countries are only partially arranged. The ESM will have its own board of auditors but no arrangements have been made for the public external audit of the EFSF and the Greek Loan Facility, together amounting to approximately € 240 billion.[6] There are limited opportunities for the independent and public audit of the regularity and effectiveness of the crisis expenditure incurred by the ECB and the EIB. The European Court of Auditors' audit mandate does not fully cover the expenditures incurred by these organisations.

Budgetary surveillance of national governments

The European financial crisis revealed weaknesses in the budgetary rules and in many cases in the accounts of certain EU member states. Questions can also be asked about the quality of the statistical information that some member states use to calculate, for example, their EMU balances. This in turn raises questions about the member states' remittances to the EU, as they are based largely on their gross national incomes (GNI), which are in turn calculated from their statistical information. The EU has taken measures in recent years to strengthen budgetary discipline, such as the recent measures known together as the *six pack*. The six pack[7] sets requirements on the quality of the member states' accounting practices and budgetary systems, the extent to which budgets are based on realistic macroeconomic and budgetary forecasts and the transparency of public finances.

Eurostat - the EU's statistical office - must receive reliable statistical information from the member states so that the European Commission can determine whether all members of the Economic and Monetary Union (EMU) have complied with the requirement to keep the budget deficit below 3% of gross domestic product.

Multiannual Financial Framework 2014-2020

The European Commission (2011a) submitted its proposals for the new Multiannual Financial Framework 2014-2020 on 29 June 2011. The Multiannual Financial Framework will set the financial parameters for the period 2014-2020. The intention had been to complete negotiations in December 2012 but the member states have not yet reached agreement. The main sticking points among the member states are the size of the budget and how it will be funded.

The new Multiannual Financial Framework provides for a Common Strategic Framework for funds under shared management. It will be worked out in greater detail at national level in partnership contracts between the European Commission and the

5
In concrete terms, the European Council decided on a new pact for growth and jobs to give a financial boost to achieve the economic priorities set in the EU 2020 strategy. The € 60 billion increase in the EIB's lending capacity is part of the pact. The European Council's conclusions can be read at http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/nl/ec/131400.pdf.

6
This amount is the sum of the maximum amount that can be spent from the EFSF (around € 188 billion) and the support granted from the Greek Loan Facility (around € 53 billion).

7
The six pack consists of five regulations and one directive. See Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the member states.

member states. The contracts can serve as an incentive to strengthen audit and accountability for the use of EU funds. The financial crisis in the EU is an important factor in the negotiation of the Multiannual Financial Framework. Several parts of the Multiannual Financial Framework allow funds to be used to stimulate economic growth and provide additional support to countries in temporary difficulties. Mechanisms have also been introduced to reduce payments from certain funds to countries that do not comply with the EU budgetary discipline requirements (conditionality). These measures are relevant chiefly to non-euro countries as the six pack has already introduced sanctions for euro countries.

The current proposal for the new Multiannual Financial Framework uses different terms and descriptions for the EU programmes than the current financial framework. The absence of a conversion table reduces insight into the continuity of the use of funds.

1.1.2 Financial management systems

The European Commission again published the activity reports of its Directorates-General (DGs) last year and a Synthesis Report for 2011. Our review of the activity reports found amongst other things that the DGs responsible for funds under shared management provided information on the results of controls. Furthermore, as in the previous year, they quantified the reservations they made in their declarations of assurance in more detail than in the past. Reservations are intended to highlight shortcomings or problems. In its annual report for 2011, the European Court of Auditors concluded that the supervisory and control systems in place for EU funds were in general ‘partially effective’.

The European Commission’s Internal Audit Service declared for the second time in 2011 that the control systems the DGs relied upon to adopt their activity reports were reliable. The declaration is an internal document that was again not published.

1.1.3 Insight into regularity

Reservations made by the European Commission

The European Commission’s DGs provide an insight in their annual activity reports into the regularity of the use of EU funds by means of the reservations they make in their declarations of assurance. The more reservations that are made, the less insight there is into the regularity of financial transactions. More reservations were made in 2011 than in 2010, up from 17 to 27. The financial value of the reservations was also higher, rising from € 0.6 billion in 2010 to € 2 billion in 2011. The value could even rise to as much as € 3.6 billion if the estimated reservation concerning traditional own resources is taken into account. This means that the European Commission cannot say with certainty whether up to € 3.6 billion - out of a total of € 129.4 billion - was spent regularly.

Irregularities reported by the member states

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. Both the number of irregularities reported and their estimated financial value were lower in

2011 than in 2010, 19% and 14% lower respectively, with the financial value in 2011 being approximately € 1.9 billion (OLAF, 2012).

European Court of Auditors' opinion on regularity
In its opinion on the legality and regularity of the European Commission's annual accounts, the European Court of Auditors concluded (2012a) that the accounts gave a true and fair view of the EU's financial position but there were still too many irregularities in expenditure. The most likely error rate for the 2011 budget as a whole is 3.9%,[8] an increase of 0.2% on the previous year. Relative to total expenditure for the year 2011 of € 129.4 billion, this means that material errors amounted to approximately € 5 billion. For the first time in several years, the error rate in expenditure on European cohesion policy (particularly from the structural funds) was lower, although at 5.1% it was still far too high. The error rate in expenditure on European agricultural policy rose sharply from 2.3% to 4%. The increase was due largely - but not entirely - to problems in the European Rural Development Fund. The error rate in expenditure on European research policy (including the Seventh Framework Programme) also exceeded 2% for the year.

1.1.4 Insight into effectiveness at EU level

We determined what insight is currently provided at EU level into the effectiveness of the use of EU funds. The European Commission has stopped issuing reports on its annual evaluations. A summary of the evaluations made in 2010-2011 can be found through a search function on the website of the European Commission's secretariat-general.[9] The European Commission, however, does not give an assessment of the significance of the findings.

In 2012, the European Commission replaced the report on its annual evaluations with a new evaluation report on the Union's finances based on the results achieved. The new report is intended to inform the European Parliament and the Council of Ministers concisely and succinctly of the progress made by the Commission's various programmes so that the institutions can decide whether the Commission's expenditure is effective or not.

The European Commission did not give its first evaluation report (2012a) the weight that it could have done. The scope of the report is limited: it covers only two policy fields (research, and education and culture). In the opinion of the European Court of Auditors (2012b) the report does not satisfactorily meet the European Parliament's wishes: the various sources providing information on the achievement of goals (such as individual evaluations, annual activity reports, and special reports issued by the European Court of Auditors) are not brought together in a coherent way. Furthermore, only limited comparisons can be made of the mid-term evaluations used.

1.2 Developments in the EU member states

Regularity of EU expenditure in individual member states
The activity reports issued by the European Commission's DGs also provide information on the regularity of EU expenditure in individual member states. The reports issued by the policy DGs responsible for funds under shared management[10] name and discuss the member states in which material shortcomings or financial risks were detected in management and control systems. DG Regional Policy's activity report, for example,

8
The European Court of Auditors applies a tolerable threshold of 2%.

9
The evaluations can be read at http://ec.europa.eu/dgs/secretariat_general/evaluation/evaluations_reports_2010_en.htm#emp.

10
DGs Agriculture, Regional Policy, Employment, Home Affairs, and Maritime Affairs and Fisheries.

which contains the reservations with the highest financial value for 2011, states that shortcomings in the management and control systems in place for ERDF programmes[11] were found chiefly in Germany, Hungary, Italy and Spain.

Four member state declarations issued

Only four of the 27 EU member states voluntarily issued a national statement on the use of EU funds in their countries in respect of 2011, the same number as in respect of 2010. Apart from the Netherlands, they were Denmark, Sweden and the United Kingdom. The findings reported by the four countries are reasonably comparable and despite differences in presentation, the problems detected are often the same: implementation of the agricultural funds subject to the Integrated Administration and Control System (IACS) is progressing well, implementation of the structural operations and rural development programmes is not as favourable.

Fourteen annual summaries published

The 2010 annual summaries of 14 member states were published on the website of the European Parliament's Budgetary Control Committee in 2012.[12] Most of the summaries (12 of the 14), however, were written in the national language only. Moreover, the documents were not accompanied by an analysis by either the European Commission or the European Parliament. Our own analysis of the 14 published annual summaries found that nine of the 14 countries had observed the reporting guidelines set by the European Commission. The audit authority expressed an unqualified opinion on 54 of the 120 programmes considered in the annual summaries and a qualified opinion on 55 of them. In the other cases, it issued an adverse opinion or a disclaimer of opinion and in one case no opinion was given. The error rate in by far the majority of the programmes was below 2%. Five countries had one or more programmes with error rates of 5% or higher. No conclusions can be drawn, of course, on the 13 countries that did not published their annual summaries.

Joint audits by supreme audit institutions

Several working groups established by supreme audit institutions carried out joint audits in the past year.[13] The joint audit of most relevance to this EU Trend Report is the one carried out by the Structural Funds Working Group, consisting of 14 of the EU member states' supreme audit institutions. It examined the European Commission's proposals to simplify the structural funds rules. The joint report will be submitted to the heads of the supreme audit institutions of the European Union in 2013. The main conclusion for the Netherlands is considered in the next section.

1.3 Developments in the Netherlands

1.3.1 Functioning of financial management systems and regularity of expenditure

In our report on the Dutch EU member state declaration (Netherlands Court of Audit, 2012a), we are generally positive about the declaration's function as an instrument of public accountability and the way in which the Minister of Finance prepared the declaration.

On account of shortcomings in the management of the ERDF North and South programmes, the error rate in expenditure declared for 2010 was higher than 2%. After correction in the payment request at the end of 2011, the error rate was reduced to

11
ERDF: European Regional Development Fund. This structural fund finances programmes to develop disadvantaged regions in the EU.

12
See www.europarl.europa.eu/committees/en/cont/publications.html?id=CONT00003#menuzone.

13
See the website of the Contact Committee of the Heads of the Supreme Audit Institutions of the European Union: http://circa.europa.eu/irc/eca/sai/info/data/cc_website/cc/working_groups/working_groups_en.htm.

1.96%. We also found several persistent shortcomings in the paying agency's management of the agricultural funds. These shortcomings create unnecessary financial risks: the European Commission can impose corrections and penalties in respect of them. The overall error rate in agricultural funds, however, was less than 2%.

Finally, we noted in our report on the Dutch EU member state declaration that little attention had been paid to accountability for remittances to the EU. In our opinion, the remittance based on import duties could already be included in the member state declaration. Regarding the remittance based on gross national income (GNI), we recommended that the government investigate how more assurance could be obtained on the basic data underlying the GNI statistics. The government, however, saw no reason to carry out such an investigation. We shall raise this matter again with the ministers.

1.3.2 Insight into the effectiveness of European fisheries policy in the Netherlands

For the purposes of this EU Trend Report, we analysed the insight provided into the effectiveness and beneficiaries of European fisheries policy in the Netherlands. The Netherlands receives support from the European Fisheries Fund for the operational programme, Perspectives for a Sustainable Fisheries Sector. The programme's goal is to establish a more sustainable fisheries sector in the Netherlands by assuring the sustainable economic viability of the sector on the one hand and by allowing fish stocks to reach a biologically sustainable level on the other. Several measures have been taken to achieve these goals.

We found that the indicators for the programme in the period 2007-2013 did not fully explain the measures' actual effect. It therefore cannot be said whether the programme goals have been achieved. Two indicators have been formulated to track the progress of the programme as a whole: improved stocks of plaice and sole, and economic viability. The second indicator was abolished in 2011. A baseline measurement had not been made to determine the starting point for the two indicators. The progress of the underlying measures is also difficult to follow because progress milestones have not been set for all measures. Where they have been set, they can track part of a measure.

With regard to the beneficiaries of the support from the European Fisheries Fund between 2008 and 2011, we found that the five beneficiaries that received most support were involved in the measure introduced in 2008 to adapt the fishing fleet.

We also found two potential financial risks representing several million euros. The first relates to the advances paid by the Ministry of Economic Affairs, Agriculture and Innovation (EL&I) to project implementers. If the advances are declared to the European Commission late, the entire amount must be borne by the ministry. The second risk relates to the expected higher cost of technical assistance. The Ministry of EL&I has not taken this into account in the budget.

1.3.3 Simplification of structural funds in the Netherlands

As noted above, in 2012 and 2013 the Structural Funds Working Group of EU supreme audit institutions will audit the member states' implementation of the European Commission's proposals to simplify structural funds rules for the period 2007-2013.

The proposals are designed to reduce the administrative burden and/or implementation costs. The main proposals include the use of a flat rate of 20% of direct costs to calculate eligible indirect project costs, the use of a flat rate to calculate costs by means of a standard scale of unit costs and the option of making pre-agreed lump sum payments of up to € 50,000.

In the Netherlands, the audit considered the ESF programme[14] and two of the four ERDF programmes. The main conclusion from the audit was that the Netherlands still made relatively little use of the options to simplify the rules. The Netherlands has opted chiefly to use a flat rate in which costs are calculated by means of a standard scale of unit costs. One of the ERDF programmes also uses lump sum payments.

The limited use of the simplification measures is due in part to restrictions introduced by the European Commission. The authorities and project implementers consider the option to declare indirect costs on a flat rate basis (up to 20% of direct costs) to be too limited: 20% is too low. Another reason for the limited use is that the managing authorities and project implementers have 'cold feet'. Questions of interpretation (what qualifies as a direct cost and what does not) must still be resolved. There is a fear that the European Commission will reject the calculations if it concludes they are incorrect or inadequately substantiated.

14
ESF: European Social Fund. This structural fund provides support to help the unemployed find work.

2 Conclusions and recommendations

2.1 Conclusions

Only limited improvement in transparency and accountability for the use of European funds and emergency funds

There has been little improvement in the EU member states' accountability for their use of EU funds. One ray of hope is that more EU member states than in the past did not object to the publication of their annual summaries for 2010. However, further agreement on improved member state accountability for the use of EU funds, for example in the form of the compulsory publication of member state declarations, was prevented by opposition from the Economic and Financial Affairs Council during the negotiation of the new Financial Regulation. Apart from the four member states that voluntarily publish member state declarations, for example, there is still no transparency about the regularity of the member states' use of the money provided by EU taxpayers.

This limited ambition to strengthen transparency and public accountability in the EU member states is a matter of concern. More than ever before, the financial crisis calls for sound management and reliable accounting information. It is therefore difficult to understand why the negotiation of the Financial Regulation had such a poor outcome. In our opinion, the situation should be rectified in, for example, the Interinstitutional Agreement to be concluded on the new Multiannual Financial Framework in 2013.

Opportunities for independent public audit and accountability for the European emergency funds were also far from perfect in 2012. We are pleased though that an opportunity was created to audit the new permanent European emergency fund, the ESM, with the appointment of a board of auditors. The Board of Auditors must be able to examine both the regularity and effectiveness of support operations. Its work should begin immediately. This can happen only if the board of auditors has sufficient resources (people, budget), which had not been arranged on its establishment. In practice, it must still be seen whether the board of auditors will have unrestricted access to all relevant data and communications. Without it, the board will be unable to work effectively. It is curious that this aspect of public external audit was not made immediately applicable to other emergency funds established under earlier intergovernmental agreements, such as the temporary emergency fund, the EFSF. More than € 138 billion has already been disbursed from the EFSF but public external audit is not possible and independent reports cannot be submitted to parliaments. In our opinion, this, too, needs rectifying.

No improvement in regularity of and insight into effectiveness of EU funds

There has been no improvement in the regularity of the use of EU funds. The European Court of Auditors was unable to give a positive general opinion on the regularity of the use of EU funds in 2011. The overall error rate was 3.9%, on a total of approximately € 5 billion. The most serious problems occurred in the policy fields of cohesion, agriculture and research, with error rates of 5.1%, 4% and 3% respectively. In this respect, there has been a sharp increase in the number and financial value of the reservations made by the European Commission's Directorates-General. The number and financial value of irregularities reported by the member states, by contrast, was lower.

The European Commission's recent introduction of a new annual report on the effectiveness of EU policy has not yet improved insight into effectiveness. We think the scope of the report is limited because it covers just two policy fields, which both relate to direct payments only. According to the European Court of Auditors, moreover, the report does not adequately meet the European Parliament's wishes and only limited comparisons can be made of the mid-term evaluations. To determine the effectiveness of EU policy in the Netherlands, this year we looked at EU fisheries policy. We found that it could not be determined from the indicators formulated by the Netherlands whether the programme goals would be achieved. The indicators therefore do not increase insight into the effectiveness of EU policy in the Netherlands. Furthermore, implementation of EU fisheries policy in the Netherlands entails a number of limited financial risks.

Little simplification of implementation of structural funds
Our audit of the member states' implementation of the European Commission's proposals to simplify the structural funds rules (for the period 2007-2013) found that the Netherlands had made relatively little use of the simplification measures. This is due in part to the restrictions set by the European Commission and in part to 'cold feet' among the managing authorities and project implementers.

2.2 Recommendations

EU-wide

- We recommend that the Minister of Finance and the Minister of Foreign Affairs continue to work with like-minded countries in the Economics and Financial Affairs Council (Ecofin) and the General Affairs Council (GAC) to promote greater transparency and improved public accountability for both funds from the EU budget and funds from the European emergency funds. In concrete terms:
  - We recommend that the Minister of Finance and the Minister of Foreign Affairs seek ways to include a compulsory public statement - signed at the appropriate political level - on the use of European funds in the member states in the Interinstitutional Agreement on budgetary discipline and sound financial management to be agreed in 2013 by the European Parliament, the Council and the Commission as part of a new Multiannual Financial Framework.
  - We recommend that the Minister of Finance in consultation with like-minded countries insist that the ESM board of auditors: (1) has sufficient human and financial resources to carry out its tasks, and (2) is given a mandate to audit the funds provided under the Greek Loan Facility and the EFSF. To this end, the ESM board of auditors should have sufficient, high quality support and unrestricted access to all relevant information from the European Commission.
  - We recommend that the Minister of Finance propose in Ecofin that EU member states that receive support from the emergency funds prepare an annual member state declaration on the use of funds not only from the regular EU budget but also from the European emergency funds.
- We recommend that the Minister of Foreign Affairs in consultation with the GAC and the European Commission support the preparation of a complete and transparent overview (in the form of a conversion table) of the relationship

between the budget items in the new Multiannual Financial Framework 2014-2020 and the budget items in the Multiannual Financial Framework 2006-2013.
- We urge the Minister of Finance to call on Ecofin to encourage all EU member states to publish their annual summaries in the years ahead (as from 2014 including the new management declaration) along with an analysis by the European Commission.

The Netherlands
- We urge the Minister of Economic Affairs (EZ) to formulate the Netherlands' goals, measures and indicators for the European fisheries policy in specific and measurable terms so that it can be determined during and after implementation whether the goals have been or will be achieved. This can be done by formulating indicators for all measures, carrying out baseline measurements for all indicators and reserving sufficient additional national funds at the beginning of the programme for the event that the budgeted funds prove inadequate.
- We recommend that the Minister of EZ eliminate the financial risks of implementing European fisheries policy in the Netherlands (arising, for example, from the slow implementation of the programme) as soon as possible.
- We recommend that the Minister of EZ and the Minister of Social Affairs and Employment (SZW) - each for the structural fund programmes for which it is responsible:
  - actively promote the use of existing opportunities to simplify the rules. In particular, the use of flat rates and a standard scale of unit costs could be rolled out on a larger scale relatively simply;
  - ensure that the simplification is as straightforward as possible and is not accompanied by side effects that increase the administrative burden or implementation costs, and discuss the matter in Brussels with other member states and the European Commission.

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

3.1 Response of the government

The Minister of Finance responded to the draft version of the *EU Trend Report 2013*, on behalf of himself, the Minister of Foreign Affairs, the Minister of Social Affairs and Employment, the State Secretary for Economic Affairs and the other members of the government, on 25 January 2012. The minister responded to each of the recommendations in his letter. We present all the substantive points of the letter as fully as possible below.[15] We have provided an afterword on some of the government's points.

Response to the recommendation 'seek ways to include a compulsory public statement on the use of European funds in the member states in the Interinstitutional Agreement in 2013'.
The Minister of Finance wrote that the government would continue to seek greater transparency and improved public accountability for EU budget funds and would adopt this recommendation. The government noted, though, that success was highly uncertain as there was little support for a compulsory member state declaration among other member states, as became clear during the recently completed (November 2012) negotiation of the Financial Regulation for the EU budget. The government will also seek to have the publication of annual summaries included in the Interinstitutional Agreement in order to increase transparency and improve accountability for EU funds.

Response to the recommendation 'in consultation with like-minded countries insist that the ESM board of auditors: (1) has sufficient human and financial resources to carry out its tasks, and (2) is given a mandate to audit the funds provided under the first Greek support programme and the EFSF'.
The government agrees with our recommendation to insist that the ESM board of auditors has sufficient human and financial resources. It has already taken successful action in this area, in part by appointing a Dutch person with an impressive record as an independent member of the board of auditors. In response to our recommendation that the ESM board of auditors should have a mandate to audit the first Greek Loan Facility, the government notes that the ESM has no power to audit bilateral loans granted by one state to another. The government will adopt our recommendation, however, to determine whether EFSF funds can be audited by the ESM board of auditors now that the EFSF and ESN are functioning virtually as a single organisation.

Response to the recommendation 'propose in Ecofin that EU member states that receive support from the emergency funds prepare an annual member state declaration'.
The minister wrote that for procedural and substantive reasons the government would not adopt our recommendation to propose in Ecofin that EU member states that receive support from the emergency funds prepare an annual member state declaration. Firstly, Ecofin, as a Council of the European Union, does not have the power to take decisions on additional conditions to receive support from the ESM. Secondly, the ESM already has a robust accountability system. It includes mutual assessment reports by the lending countries based on strict criteria, whereas the national declarations do not. Regarding publication, the minister also notes that the documentation is already satisfactory: both the progress reports issued by the Troika (European Commission, ECB and IMF) and the Memorandums of Understanding are published after adoption.

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The government's full response can be read on our website at www.rekenkamer.nl.

Response to the recommendation 'in consultation with the GAC and the European Commission support the preparation of a complete and transparent overview (in the form of a conversion table) of the relationship between the budget items in the new Multiannual Financial Framework 2014-2020 and the budget items in the Multiannual Financial Framework 2006-2013'.
The government recognises the importance of having sufficient insight into the continuity of expenditure. It will therefore ask the European Commission to clarify, by means of a conversion table, how the various expenditure programmes in the Multiannual Financial Framework 2014-2020 relate to the expenditure programmes in the current Multiannual Financial Framework 2007-2013.

Response to the recommendation 'call on Ecofin to encourage all EU member states to publish their annual summaries (as from 2014 including the new management declaration) along with an analysis by the European Commission'.
The minister said the governments agreed with this recommendation and it would continue its efforts to have the member states publish their annual summaries.

Response to the recommendation 'formulate the Netherlands' goals, measures and indicators for the European fisheries policy in specific and measurable terms so that it can be determined during and after implementation whether the goals have been or will be achieved. This can be done by formulating indicators for all measures, carrying out baseline measurements for all indicators and reserving sufficient additional national funds at the beginning of the programme for the event that the budgeted funds prove inadequate'.
The minister wrote that the government would adopt the recommendation. The mid-term evaluation of the European Fisheries Fund also included recommendations on the goals, measures and indicators of the European Fisheries Fund. These recommendations were concerned chiefly with the new programming period. The minister observed that the impact indicators are set at European level. In anticipation of the new 2014-2020 programming period, the European Commission established a working group in 2012 to develop uniform impact indicators. The Netherlands is participating in the working group.

Response to the recommendation 'eliminate the financial risks of implementing European fisheries policy in the Netherlands (arising, for example, from the slow implementation of the programme)'.
The minister wrote that the government agreed with this recommendation and would continue its efforts in this area. In 2012, the Ministry of Economic Affairs directed the financial progress of projects supported from the current European Fisheries Fund. Meetings were organised, for example, to inform beneficiaries of their obligation to prepare full and timely accounts. The government accounts for the financial management of all programme funds under shared management, including the European Fisheries Fund, in its national statement.

Response to the recommendation 'actively promote the use of existing opportunities to simplify the rules, in particular, the use of flat rates and a standard scale of unit costs. Ensure that the simplification is relatively straightforward and is not accompanied by side effects that increase the administrative burden or implementation costs, and discuss the matter in Brussels with other member states and the European Commission'.
The minister wrote that the government agreed with our recommendation. Civil service working groups in the Netherlands have been working on current and future opportunities to make better use of the simplification rules and comparing the pros

and cons of each instrument for both the current programming period and the new period. The ability to apply them in the current period is limited because the European Commission introduced them in the course of the programming period. Finally, the minister wrote that the Netherlands had frequently discussed further simplification measures with the European Commission and other member states at European level.

3.2 Court of Audit' s response

We appreciate the Minister of Finance's undertaking to insist that the ESM board of auditors has sufficient human and financial resources and we will follow developments with keen interest. We are also pleased that our recommendation to determine whether EFSF funds can be audited by the ESM's board of auditors will be adopted. In our opinion, this is a logical step, especially as the EFSF and ESM are functioning virtually as a single organisation. It would increase the public's confidence about the use of support from the emergency funds. Similarly, and in view of the importance of transparency and public accountability for the use of the European taxpayers' money, we think a solution must be found for the first Greek Loan facility, worth approximately € 53 billion. We understand that the ESM's board of auditors does not have the power to do this. However, since the loans were granted bilaterally and only by euro countries, the Euro group could discuss ways to find a solution to this evident audit gap.

We think countries that receive support from the emergency funds should prepare a member state declaration, particularly as this could pave the way to resolve the audit gap noted above. A member state declaration that covers both the EU funds and the emergency funds would be an important instrument for the recipient countries to put their own accounting practices in order. This is a necessary condition to determine the regularity and effectiveness of the support operations.

In our opinion, such a member state declaration would relate not only to support from the ESM - which only Spain has received so far, and which has a good accounting structure - but also to other funds flows, such as the EFSF (which has been used for Greece, Ireland and Portugal), the EFSM (which has been used for Ireland and Portugal) and the Balance of Payment Assistance facility (which has been used for Hungary, Latvia and Romania). We would note that the EFSM and the BoP facility are guaranteed by the EU 27 and Ecofin therefore does have the power to take decisions on additional conditions on granting support to these countries.

The cabinet has responded positively to our other recommendations. We will follow the developments closely and will report about it when relevant.

Main conclusions, recommendations and undertakings

Conclusions	Recommendations	Government undertakings
There has been little improvement in the EU member states' accountability for the use of EU funds. More member states published their annual summaries for 2012 but negotiation of the new Financial Regulation did not reach agreement on compulsory publication of member state declarations. In our opinion, such an agreement should be reached, for example in the Interinstitutional Agreement for the new Multiannual Financial Framework in 2013. Opportunities for independent, public audit of and accountability for the European emergency funds were far from perfect in 2012. A board of auditors has been appointed for the ESM. In our opinion external audit should also have been arranged immediately for other emergency funds, such as the EFSF.	Promote greater transparency and improved public accountability for European funds, including the emergency funds. In concrete terms: • Ministers of Finance and Buza: seek ways to include a compulsory public statement on the member states' use of European funds in the Interinstitutional Agreement in 2013. • Minister of Finance: in consultation with like-minded countries insist that the ESM board of auditors: (1) has sufficient human and financial resources to carry out its tasks, and (2) is given a mandate to audit the funds provided under the first Greek support programme. • Minister of Finance: propose in Ecofin that EU member states that receive support from the emergency funds prepare an annual member state declaration.	The government would continue to seek greater transparency and improved public accountability for EU budget funds. • The government will adopt the recommendation and seek to have the publication of annual summaries included in the Interinstitutional Agreement in order to increase transparency and improve accountability for EU funds. • The government agrees with the recommendation to ensure that the ESM's board of auditors has sufficient human and financial resources. The government adopts the recommendation to seek ways to have EFSF funds audited by the ESM's board of auditors. • The government will not adopt the third recommendation.
No improvement in the regularity of or insight into the effectiveness of European funds. Regarding the European Fisheries Fund it cannot be determined from the indicators formulated by the Netherlands whether the programme objectives will be achieved. There is therefore no insight into the effectiveness of EU policy in the Netherlands.	Minister of Buza: in consultation with the GAC and the European Commission support the preparation of a complete and transparent overview (in the form of a conversion table) of the relationship between the budget items in the new Multiannual Financial Framework 2014-2020 and the budget items in the Multiannual Financial Framework 2006-2013.	The government will ask the European Commission to clarify, by means of a conversion table, the relationship between the expenditure programmes in the Multiannual Financial Framework 2014-2020 and the expenditure programmes in the current framework.
	Minister of Finance: call on Ecofin to encourage all EU member states to publish their annual summaries (as from 2014 including the new management declaration) along with an analysis by the European Commission.	The government agrees with this recommendation and will continue its efforts to have the member states publish their annual summaries.

Conclusions	Recommendations	Government undertakings
	Minister of EZ: formulate the goals, measures and indicators for the European fisheries policy in the Netherlands in specific and measurable terms so that it can be determined during and after implementation whether the goals have been or will be achieved. This can be done by formulating indicators for all measures, carrying our baseline measurements for all indicators and reserving sufficient additional national funds at the beginning of the programme should the budgeted funds prove inadequate.	The government will adopt this recommendation.
	Minister of EZ: eliminate the financial risks of implementing European fisheries policy in the Netherlands (arising, for example, from the slow implementation of the programme).	The government agrees with this recommendation and will continue its efforts in this area.
Little use is still made in the Netherlands of the simplification measures.	Ministers of EZ and SZW: actively promote the use of existing opportunities to simplify the rules, in particular, the use of flat rates and a standard scale of unit costs. Ensure that the simplification is relatively straightforward and is not accompanied by side effects that increase the administrative burden or implementation costs, and discuss the matter in Brussels with other member states and the European Commission.	The government agrees with this recommendation. Current and future opportunities to make better use of the simplification rules are being worked on for both the current programming period and the new period.

Part II

Audit findings

1 Developments in EU financial management

This chapter presents an overview of the member states' contributions to the EU budget and the EU's expenditure in the member states (section 1.1). It then considers the main developments in EU financial policy (section 1.2) and three areas in which we, as a supreme audit institution of an EU member state, believe information must be transparent: the quality of the European Commission's financial management (section 1.3), insight into expenditure from the EU budget and its regularity (section 1.4), and insight into the effectiveness of EU policy (section 1.5).

1.1 EU key figures

1.1.1 Member states' contributions to the budget

In 2011 the EU's receipts totalled € 130 billion.[16] 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 2011.

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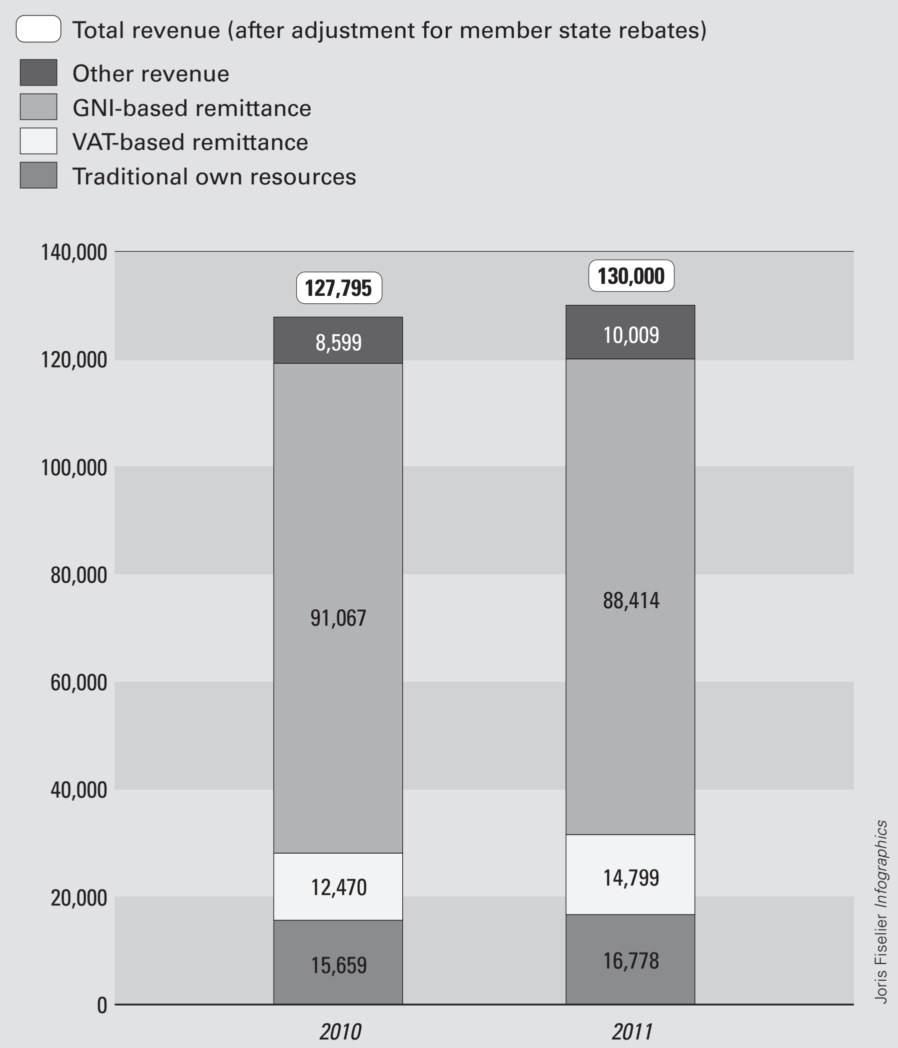
This is approximately 1% of the combined gross national income (GNI) of the member states. According to Eurostat, the national budgets of the individual EU member states was slightly higher than 50% of their GNI in 2011.

Figure 1 **EU revenue in 2010 and 2011**
In millions of euros

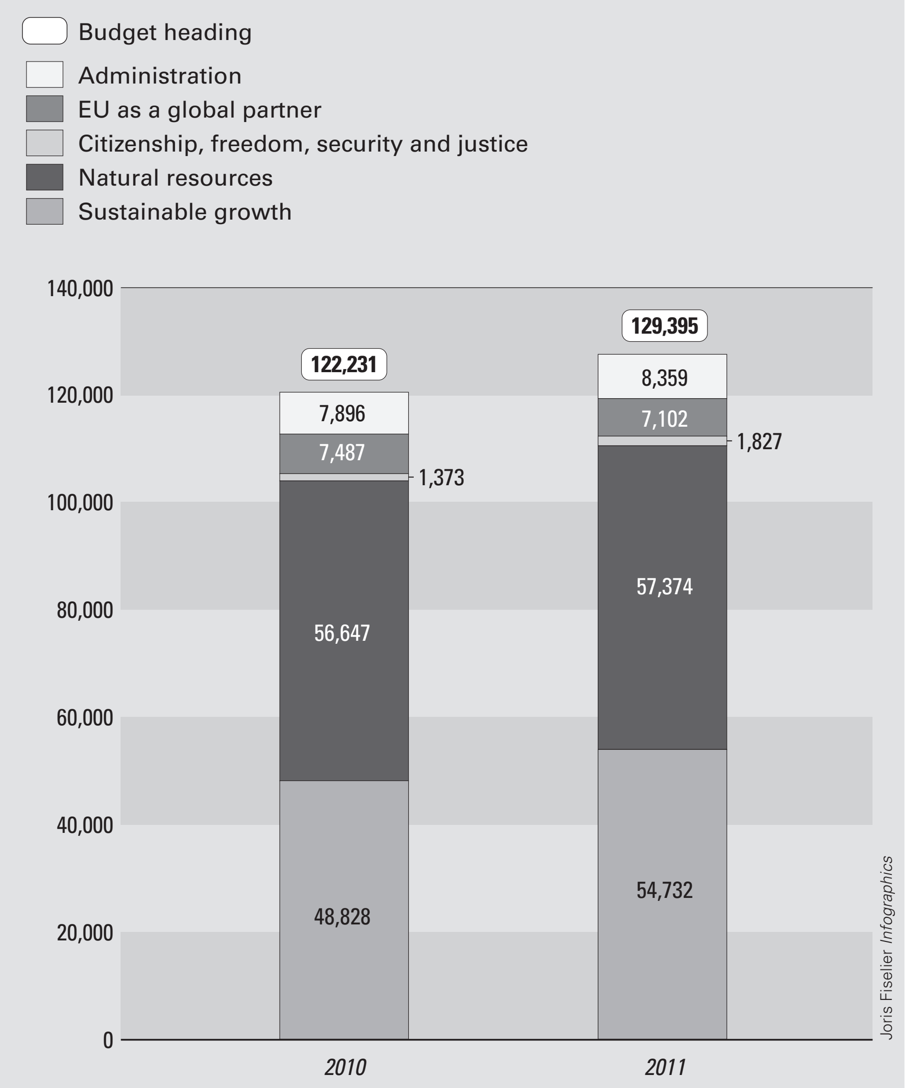


Source: European Commission (2012b)

1.1.2 EU expenditure in 2011

Total EU expenditure in 2011 amounted to € 129.4 billion. Figure 2 shows actual EU expenditure in 2010 and 2011 by budget heading used by the European Commission. 'Administration' includes expenditure by the Commission and other EU institutions, such as the European Parliament and the European Court of Auditors.

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



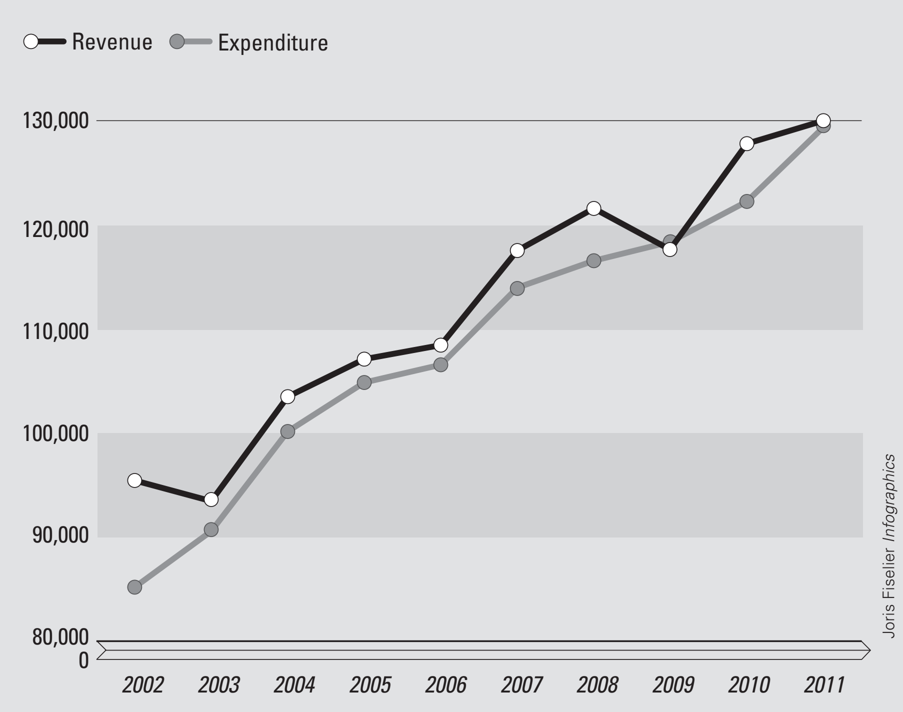
Source: European Commission (2012b)

1.1.3 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 them off against future contributions or by refunding them on a pro rata basis. The EU budget ran a surplus of € 0.6 billion in 2011.

Figure 3 shows the development of total EU revenue and expenditure over the past ten years.

Figure 3 **EU revenue and expenditure, 2002-2011**
In millions of euros



Source: European Commission (2012b)

1.2 Developments in financial management policy

1.2.1 Financial Regulation

The EU *Trend Report* 2012 (Netherlands Court of Audit, 2012b) described the state of the negotiation of the European Commission's proposals for a new Financial Regulation for the EU at the end of 2011. Following lengthy 'trilogue negotiations' between the European Commission, the Council of Ministers and the European Parliament, the Council presented a compromise text in July 2012. The Council and the European Parliament finally adopted the revised Financial Regulation on 25 October 2012.

In the final version of the Regulation, national accountability is based on the original Ecofin compromise of May 2011. By 15 February of the year following implementation of an EU programme, the European Commission must receive from 'the appropriate level' of the member states:

- aggregated accounts;
- a management declaration stating that the information presented in the accounts is correct, complete and accurate, that the funds have been applied for the intended purposes and the control procedures in place provided the necessary assurances on the regularity of underlying transactions;
- a summary of the results of completed audits and controls ('annual summaries').

The accounts and summaries must be accompanied by an opinion of an independent audit institution. The independent auditor must consider the true and fair view given by the accounts, the legality and regularity of the underlying transactions in so far as they are included in the annual summary and the functioning of the control systems. If it does not agree with the qualifications included in the management declaration, the independent auditor must state so in its opinion. In principle, this accountability information is not made public. The member states may decide, however, to publish it at the 'appropriate level'. They may also voluntarily publish member state declarations. Finally, sector-specific rules (i.e. rules in policy fields that can receive EU funding, such as agricultural and structural policy) are still largely the responsibility and obligation of the member states and the European Commission. This limits the harmonisation sought by the Financial Regulation.

We would note that the compromise is not perfect:

- The annual summaries do not give a comprehensive view of each member state's expenditure from the funds.
- The new management declaration says something about the design but nothing about the actual operation of internal control systems.
- No political or administrative responsibility is borne at member state level.
- Member state declarations are not compulsory.

1.2.2 Member state declarations and annual summaries

Four EU member states voluntarily published member state declarations in 2012: Denmark, the Netherlands, the United Kingdom and Sweden. Other EU member states are still not prepared to issue such declarations to account for the use of EU funds in their countries. The similarities and differences among the four published member state declarations are considered in chapter 2.

Unlike the member state declaration, the annual summary is a document that all EU member states have been obliged to submit every year since 2008. It presents a summary of the previous year's audits (and their findings) of funds under shared management with the Commission that are spent in the member state. All member states submitted their 2011 annual summaries by 15 February 2012. It is not yet known how many of them will be published.

During the discharge procedure for the 2010 EU budget, the European Parliament asked the EU member states whether it could post their annual summaries on its website. Of the 27 EU member states, 14 said yes. In comparison with previous years, when only three countries voluntarily published their annual summaries, this is a step forward. We analyse the 14 published annual summaries in chapter 2 of this report.

1.2.3 Consequences of the economic and financial crisis

A great deal is being done within the EU to support countries in financial difficulties, for example by means of financial support programmes. This support, however, exposes the member states to financial risks. To limit the risks and understand the impact of the support programmes, public external audit and transparent accountability must be properly arranged. With this in mind, we compiled an EU governance web dossier at the beginning of 2012. It has been online since 22 March.[17] It organises the information available on the financial crisis into four categories: strengthening economic priorities, strengthening budgetary discipline, strengthening supervision of the financial sector, and financial stability instruments. Below, we consider the various forms of emergency support that have been provided to a number of countries in the past year.

17
See www.rekenkamer.nl/EUgovernance. This web dossier is unique in that the data it presents has not been published in conjunction with each other by either the government or the European Commission. Neither publishes totals of the support individual member states receive from the emergency funds, for example. This information is presented in the web dossier in order to increase transparency.

Support from the European budget
Temporary measures have been funded from the EU budget to assist countries in severe financial need. A series of sectoral regulations have also been introduced to ensure that countries affected by the crisis can continue to implement EU Programmes. They are discussed below.

- *Prefinancing* facilities were widened in a number of funds in 2010 (European Court of Auditors, 2011b). In 2010, prefinancing from the European Social Fund (ESF) increased by € 371 million, from the Cohesion Fund by € 404 million and from the European Fisheries Fund by € 0.8 million. Additional prefinancing for agricultural and rural policy amounted to € 401 million. No figures are available for 2011. The European Court of Auditors states in its annual report for 2011 that its audit of representative samples of prefinancing and of invoices and cost declarations again found errors (European Court of Auditors, 2012a). On the whole, these errors had no financial impact of material importance but did not have a high frequency. Despite efforts to improve the situation, the European Court of Auditors concluded that various Directorates-General were still including estimates in their accounts, even if they had an adequate basis to calculate the prefinancing.

- The European Parliament and the Council adopted a regulation on 13 December 2011 enabling countries that receive support from the emergency funds (EFSM, ESM) temporarily to receive an additional 10% percentage points *cofinancing* from the structural funds and Cohesion Fund.[18] According to the European Commission, this will not place additional pressure on the overall budget since the total financial appropriations from the structural funds to the member states concerned will not change over the period as a whole. It is not yet known how much use was made of this facility in 2012.

  On 22 May 2012, the European Parliament and the Council adopted a regulation enabling countries receiving emergency support to use funds for operational programmes to establish instruments that provide loans or guarantees or other financial facilities to support projects and concrete operations.[19] The expertise of the European Investment Bank (EIB) may be drawn on to establish such instruments. According to the Commission, this measure, too, will not have consequences for the overall budget because the total financial appropriations for the member states concerned will not change. Again it is not yet known what use was made of this facility in 2012.

- Between 1 May 2009 and 30 December 2011 the *European Globalisation Adjustment Fund (EGF)*, established in 2007 and continued into 2012, could also be applied to cushion the consequences of the financial crisis. With a favourable cofinancing rate from the EU of 65% instead of the customary 50%, member states could use the EGF to help people find work or learn new skills if they lost their jobs. The EGF's maximum budget was € 500 million per annum. In the period between 2007 and July 2012, 20 countries made a total of 101 requests for support from the EGF. The funds granted were applied to train 91,288 employees, costing € 440.5 million in total (European Commission, 2012c). Of the 101 requests made between 2009 and 2011, 65 were related directly to the financial crisis. Some 56,403 employers were trained during this period at a cost of € 272.2 million. The European Commission asked the European Parliament and the Council to approve an

18
Regulation (EU) No. 1311/2011 of the European Parliament and of the Council of 13 December 2011 amending Council Regulation (EC) No. 1083/2006 as regards certain provisions relating to financial management for certain member states experiencing or threatened with serious difficulties with respect to their financial stability.

19
Regulation (EU) No. 423/2012 of the European Parliament and of the Council of 22 May 2012 amending Council Regulation (EC) No. 1083/2006 as regards certain provisions relating to risk-sharing instruments for member states experiencing or threatened with serious difficulties with respect to their financial stability.

extension of the programme until after 2011. The Council did not approve. The European Commission also proposed, in October 2011, that the EGF be continued during the term of the new Multiannual Financial Framework (for the period 2014-2020), and its scope be widened to include employees who have lost their jobs due to unexpected crises (European Commission, 2011b).

Support from European emergency funds

The emergency funds established to help member states who have difficulty financing their debt on account of the economic and financial crisis can be divided into roughly three categories:

1 funds that take the form of loans granted by the European Commission to countries needing emergency support. These loans are guaranteed jointly by all EU member states through the EU budget;
2 financial support provided off the EU budget subject to intergovernmental agreements between euro countries. These loans are guaranteed only by the eurozone countries concerned;
3 loans granted by individual member states to member states requiring emergency support. These loans are based on bilateral agreements.

1 The first category consists of European emergency funds such as the temporary European Financial Stability Mechanism (EFSM). This fund totals € 60 billion and is open to all EU member states. The European Commission provides the support by borrowing on the capital market. If a country does not fulfil its obligations to the EFSM, the consequences are borne in the first instance within the EU budget. If they cannot be borne in full, the shortfall is allocated to the other member states. Ireland and Portugal have received support from the EFSM. At the end of December 2012 nearly € 44 billion had been lent to these two countries through this mechanism. The same procedure is used by the Balance of Payment Assistance facility (BoP), which provides support to non-euro countries. This facility has been used by Latvia, Hungary and Romania. At the end of December 2012, the mechanism had lent more than € 13 billion.

2 The second category of emergency funds is based on intergovernmental agreements between euro countries. Support is provided from the temporary European Financial Stability Facility (EFSF) and - since autumn 2012 - the permanent European Stability Mechanism (ESM).[20] A key difference from the facilities in category 1 is that only euro countries can participate, at a fixed allocation ratio. The euro countries together guarantee any losses if a country is no longer able to repay support received from the fund. The EFSF is a separate organisation incorporated under the law of Luxembourg that is responsible for the actual lending operations. The EFSF has a maximum effective lending capacity of € 440 billion, based on guarantees by the participating euro countries of € 726 billion. Greece, Ireland and Portugal have received support from the EFSF. At the end of December 2012, € 188 billion had been promised and € 138,4 billion had actually been lent to these countries from the EFSF, with € 108 billion being lent to Greece.

The permanent ESM emergency fund came into effect on 27 September 2012. The inaugural meeting of the ESM was held on 8-9 October 2012. The ESM is an intergovernmental organisation under international law. It has an effective lending capacity of € 500 billion. Together with the EFSF, the effective lending capacity is

20
Following the official entry into force of the ESM, new loans can be granted from the EFSF until June 2013 to ensure that the ESM achieves its full lending capacity. Loans already outstanding have a term varying from one year to 30 years. The EFSF will remain in existence until the final loan has been settled.

€ 700 billion. Loans from the ESM are guaranteed by the participating euro countries for an amount of € 700 billion, of which € 80 billion has been contributed. The eurozone finance ministers granted a € 39.5 billion loan from the ESM to Spain on 3 December 2012. The loan will be applied to recapitalise the Spanish financial sector. The maximum undertaking from the ESM to Spain is € 100 billion.

The ESM treaty initially made no provision for the public external audit of the ESM funds. We raised this matter with the House of Representatives by letter of 15 August 2011 (Netherlands Court of Audit, 2011). The second version of the ESM did consider audit and we sent a second letter on the matter to the House on 27 February 2012 (Netherlands Court of Audit, 2012c). The treaty provides for the appointment of a Board of Auditors but in our opinion there are omissions in important areas. The treaty text does not clarify, for example, the scope of the audit mandate or the board of auditors' reporting options.

The supreme audit institutions of the euro countries and the European Court of Auditors met in March 2012 to agree a joint proposal for the public external audit of the ESM. The proposal was largely adopted by the finance ministers of the euro countries in the by-laws of the ESM treaty.[21] The ESM's board of auditors held its first meeting on 31 October 2012. It was made up of officials nominated by the supreme audit institutions of Germany and Luxembourg, and the European Court of Auditors. The Board of Auditors' two external members came from Slovakia and the Netherlands.

3 The third category of loans are granted subject to bilateral agreements between individual countries. The main facility is the support programme for Greece, in which the euro countries have together granted bilateral loans to Greece of € 80 billion.[22] The programme is coordinated by the European Commission. The total principal of the loans was later reduced to approximately € 53 billion; this amount had been lent in full by the end of September 2012. The other € 27 billion will be granted to Greece through the EFSF.

Support provided by the ECB and EIB

The European Central Bank (ECB) has applied a variety of monetary instruments since the outbreak of the financial crisis to manage interest rates and improve liquidity in the EU member states. Pursuant to the EC Treaty (article 105 (2)) and the Treaty on the Functioning of the European Union (article 127 (2)), the ECB introduced two programmes to purchase covered bonds (CBPP1 and CBPP2)[23] with a financial ceiling of € 100 billion. These programmes were withdrawn at the end of October. The ECB also introduced a programme to address the poor operation of securities markets for the purchase and sale of public and private negotiable debt paper (SMP).[24] The SMP was terminated in September 2012 and replaced with the Outright Monetary Transactions programme (OMT).

In total the ECB applied € 53.3 billion for the CBPP1 programme, € 16.4 billion for CBPP2, and € 208.5 billion for the SMP. Together, the three programmes exceeded € 277 billion. The CBPP funds were used to support Greece, Portugal and Ireland. The SMP funds were used for the same countries plus Italy and Spain.

21
See www.esm.europa.eu/pdf/ESM%20By-Laws.pdf.

22
Since Slovakia did not participate and Ireland and Portugal, which received their own support programme, withdrew, the first support programme for Greece amounted to approximately € 77.3 billion.

23
CBPP: Covered Bond Purchase Programme.

24
SMP: Securities Market Program.

On 6 September 2012 the ECB announced it was prepared to continue purchasing government bonds from financially weak countries, subject to strict conditions The countries concerned must first request official emergency support from the ESM (to ensure oversight by the Troika of the European Commission, ECB and IMF) and they must introduce strict economy measures and reforms.

Finally, member states can also receive support from the European Investment Bank (EIB). The EIB is the bank of the EU. Its shareholders are the 27 EU member states. Its board is made up of the finance ministers of the member states. The EIB grants long-term loans for a wide range of projects both inside and outside the EU. During the European Council of 28-29 June 2012, the heads of state and government agreed a new Pact for Growth and Jobs to address the crisis.[25] The pact includes a financial stimulus to achieve the EU's economic priorities as formulated in the Europe 2020 programme. The EIB's paid-up capital will be increased by € 10 billion, to be contributed by the participating member states. The Netherlands will make an additional contribution of more than € 440 million. The EIB's lending capacity will thus be increased by € 60 billion for the EU as a whole.

Audit of emergency support by supreme audit institutions

Table 1 summarises the funds that have been applied to address the financial crisis and the options available for the *public external audit* of each facility[26] by supreme audit institutions and the European Court of Auditors.

Table 1 Addressing the financial crisis: financing and SAI audit opportunities (status in December 2012)

		Financial volume of funds applied/financing		Public external audit	
		Committed (€ billion)	Applied (€ billion)	Design	Operation
Regular EU budget	Prefinancing, higher cofinancing, use of EGF	-	approx. 1.5	yes	yes
Emergency funds EU 27 guaranteed by EU budget	BoP facility	16	13.4	yes	no report yet
	EFSM	48.5	43.8	yes	no report yet
Emergency fund euro 17 guaranteed by euro countries	Greek Loan Facility	52.9	52.9	no	no
	EFSF	188.3	138.4	no	no
	ESM	100	39.5	yes	no report yet
Other mechanisms	ECB	-	278	limited	limited
	EIB	-	approx 80*	Limited*	limited

* In 2008-2011 the EIB provided approximately € 80 billion in addition to its annual budget of € 48 billion. The additional expenditure was related to the crisis. The ECA can audit EIB-operations when public funds from the EU or the European Development Fund are included.

Sources: websites of the European Commission (DG Economic and Financial Affairs), EFSF, ESM, ECB, EIB; European Court of Auditors (2012a).

25
The conclusions of the European Council can be read at www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/nl/ec/131400.pdf.

26
We understand *public external audit* to mean: independent audit of the regularity and effective use of funds by a national or European audit institution or by a specially appointed board of auditors (as in the case of the ESM). This differs from ordinary 'external audit', in which an external auditor investigates only the accounts and financial report, the regularity of transactions and/or financial management and related reports.

The EU's regular budget, including funds applied to address the crisis, is subject to public external audit. The Commission's budget is audited by the European Court of Auditors every year. In principle, there are also sufficient opportunities to subject the use of the emergency funds guaranteed by the EU budget to public external audit. The Regulation establishing the Balance of Payment facility and the EFSM[27] gives the European Court of Auditors the right to carry out any financial controls or audits that it considers necessary in the beneficiary member state in relation to the management of that assistance. The European Court of Auditors has stated that it intends to carry out such audits as from autumn 2012.

There are fewer opportunities for public external audit and accountability for the emergency funds based on intergovernmental agreements between euro countries. The ESM has a board of auditors to independently audit the regularity and effectiveness of the support provided, but nothing has been arranged for the EFSF. The same is true of the funds provided by the Greek Loan Facility for the first support programme for Greece. This means that no public external audit or accountability arrangements are in place for up to about € 240 billion.

The public external audit arrangements for the crisis measures taken by the ECB and the EIB are also limited. The European Court of Auditors' mandate to audit these EU institutions does not permit full audit of the regularity and effectiveness of all support operations.

1.2.4 Budgetary surveillance by national governments

The crisis has shown that several EU member states have not arranged their own budgetary frameworks and/or accounting practices adequately and that there are questions about the quality of the statistical information these countries use to calculate, for example, their EMU balance (i.e. the government deficit, which is one of the factors that determines the compulsory remittance to the EU).

The EU has taken measure in recent years to strengthen budgetary discipline in the EU, as recently exemplified by the six European legislative measures together known as the six pack for economic governance in the EU. The European Council has adopted a directive to work out one of the proposals in the six pack - the setting of minimum requirements on the member states' budgetary and accounting systems.[28] The directive includes requirements on the quality and scope of the member states' accounting and budgetary frameworks, the extent to which budgets are based on realistic macroeconomic and budgetary forecasts, the frameworks for the medium term and the transparency of public finances. Another regulation lays down that the European Commission will determine which international public sector accounting standards are suitable for the member states by 31 December 2012. It will then be clear what minimum requirements the European Commission will set. In the preamble to the directive, the European Commission refers to two aspects that it finds essential for the production of high-quality, reliable and comparable statistics:

- complete and reliable public accounting practices for all sub-sectors of general government;
- independent audits of government accounts conducted by public institutions such as courts of audit or private auditing bodies.

27
See Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism. Article 8 provides for audit by the European Court of Auditors and OLAF, the EU anti-fraud office.

28
Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the member states.

1.2.5 Multiannual Financial Framework 2014-2020

The Multiannual Financial Framework consists of the European budgets for 2014-2020 (European Commission, 2011a). The European Commission has framed its proposals for the new financial framework so as to achieve the Europe 2020[29] goals and overcome the economic and financial crisis. The European Commission also wishes to simplify accounting obligations, attach additional conditions to the provision of funds for EU programmes[30] and use expenditure in so far as possible as a lever for private investments. The European Commission also wants the new financial framework to simplify control of sound financial management, budgetary discipline and the like.

Budget classification

Table 2 shows the main classifications of the appropriations originally budgeted[31] for the Multiannual Financial Framework 2014-2020 and those of the current framework.

Table 2 Appropriations budgeted in the Multiannual Financial Framework 2014-2020 and in the Multiannual Financial Famework 2007-2013

Appropriations in millions of euros	Total 2007-2013		Total 2014-2020
Sustainable growth	437,778	Smart inclusive growth	490,908
- *of which, competitiveness*	89,363	- *of which social, economic and territorial coherence*	376,020
- *of which, cohesion*	348,415		
Agriculture and nature management	413,061	Sustainable growth: natural resources	382,927
- *of which, direct support and market measures*	330,085	- *of which, market-related expenditure and direct payments*	281,825
Citizenship, freedom, security and justice	12,216	Security and citizenship	18,535
- *of which, freedom, security and justice*	7,549		
- *of which, citizenship*	4,667		
The EU as a global partner	55,935	Europe in the world	70,000
Administration	55,925	Administration	62,629
		- *of which, administrative expenditure of the institutions*	50,464
Compensation	862		
Total appropriations for commitment	975,777	Total appropriations for commitment	1,024,999
As a percentage of GNI	1.12	As a percentage of GNI	1.05
Total appropriations for payment	925,576	Total appropriations for payment	972,198
As a percentage of GNI	1.06	As a percentage of GNI	1.00

The Multiannual Financial Framework 2014-2020 uses different descriptions for the budget headings representing the greatest financial value - sustainable growth and agriculture - than the Multiannual Financial Framework 2007-2013. This makes it difficult to follow the continuity of expenditure. A conversion table that clarified the changes would make the situation more transparent. Nationally, however, the Ministry of Finance does not have such a conversion table, nor could the European Commission provide one on request.

On the whole, the European Commission's proposal boils down to an increase in expenditure for the programming period of more than 5%. A majority of the member

29
See http://ec.europa.eu/europe2020/index_en.htm.

30
The conditions relate to (a) the economic policy conducted by a member state, (b) increased effectiveness of the funds and (c) achievement of results. See also 'Conditionality' below.

31
Owing to the lack of a final outcome from the negotiation of the Multiannual Financial Framework 2014-2020 at the end of 2012, the amounts presented here are those proposed by the European Commission in 2011.

states agree with the budgeted appropriations and none of the member states is calling for a higher budget than the Commission proposes. A minority of the member states, including the Netherlands, however, think the budget should be cut.

The funds provided for European cohesion policy (the European Regional Development Fund, European Social Fund and the Cohesion Fund) will continue to be applied chiefly for the least developed member states and regions. The main objective of cohesion policy is to reduce economic and social inequalities among the regions of Europe. The new Multiannual Financial Framework allocates the funds differently. A ceiling will be placed on the amount received of 2.5% of GNI. Regions that received support for the convergence goals in the period 2007-2013 (support for regions with a GDP < 75% of the EU average), but whose GDP during the 2007-2009 reference period was higher than 75% of average EU GDP will receive two-thirds of the current amount as a safety net. Richer member states (GNI higher than 90% of the EU average) will continue to receive funding from the ERDF and ESF but for a limited number of priorities (energy saving and renewable energy, competitiveness of SMEs and innovation). Poorer member states can receive assistance for a broader palette of priorities. The situation, however, is still being negotiated.

Conditionality

In the new Multiannual Financial Framework, the European Commission is attempting to organise programmes and instruments so as to achieve the central objectives of the Europe 2020 programme. To do so it has set conditionalities on member states wishing to qualify for programme funds and related instruments. The conditionalities relate to (a) the economic policy conducted by a member state (macroeconomic conditionality), (b) the fulfilment of ex-ante preconditions to increase the effectiveness of funding (ex-ante or institutional conditionality), and (c) progress in achieving objectives (performance conditionality). Macroeconomic conditionality is a controversial item in the negotiations. It currently applies to the Cohesion Fund only.

Conditionality is elaborated upon in the proposal for a new structural funds regulation currently being debated by the Council of Ministers and the European Parliament.[32] If member states do not fulfil their obligations in, for example, the excessive deficit procedure, the Commission can decide to suspend payments or take financial measures. The obligations are set out in the Memorandum of Understanding agreed for the provision of support from the funds. The regulation also lays down other consequences that will affect a member state if it does not satisfy the conditions: commitments already made from the funds will be withdrawn.

Common Strategic Framework

The current separate strategic guidelines for cohesion policy, rural development policy, fisheries policy and maritime policy will be replaced with a Common Strategic Framework in order to clarify the investment priorities for the next financial period and to improve the combination of funds in order to increase the impact of EU investments.

National and regional authorities will use this framework in their partnership contracts with the European Commission. These contracts will include clear goals and indicators to measure programme results every year - both ex-ante (before funding is provided) and during implementation. Member states and beneficiaries must be able to

32
See the structural funds regulation 2011/0276 (COD). The funds subject to the regulation are the ERDF, ESF, the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Fund for Maritime Affairs and Fisheries (EFMAF).

demonstrate that the funds they receive from the EU are spent to achieve the central objectives of the EU.

1.3 EU financial management systems

1.3.1 Audit and accountability by the European Commission

In their annual activity reports, the Directorates-General and services of the European Commission report on their activities and account for the results they achieve. On the basis of the activity reports, the European Commission prepares its own Synthesis Report. In this section we look at the DGs and services' activity reports and the Synthesis Report for 2011.[33] We consider the insight provided into the audits carried out and the regularity and effectiveness of the policy conducted.

Activity reports

The five policy DGS responsible for funds under shared management (Agriculture, Regional Policy, Employment, Maritime Affairs and Fisheries, Home Affairs) provide detailed information in their 2011 activity reports on the results of their controls in the member states. They also name the member states in question. This information has remained substantively at the same level as in the 2010 activity reports.

The other policy DGs, with the exception of DG Taxation and Customs Union and DG Justice, provide information in their activity reports on only the nature of their controls; some refer to the member states in which they carried out controls. Only limited insight is provided into the results of the controls.

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 that resources have been used for their intended purpose. The Director-General also declares how many and what kind of reservations were made on the reliability of the information provided. Fourteen Directors-General and two directors of an executive agency together made a total of 27 reservations in the 2011 activity reports, ten more than in the previous year. Fourteen of the reservations related to the 17 points that were already being worked on at the end of 2011, and 13 were new. Three reservations from 2010 were lifted.

As in the previous year, the reservations and the explanatory notes were quantified in detail. They related to shortcomings in both the management and control systems and in regularity. The financial value of the reservations was considerably higher, up from € 0.6 billion in the 2010 activity reports to potentially € 3.6 billion in the 2011 reports.[34] The European Commission cannot provide assurance on the regularity of up to € 3.6 billion.

We examined the activity reports of 12 policy DGs in detail.[35] As in the previous year, the reservations and explanatory notes are quantified. The reservations relate to shortcomings in both the management and control systems and in regularity. According to the Commission, the increase in the number of reservations and the financial risk is related to the closure of a large part of the multiannual budget cycle for the structural funds. Increased implementation intensity, according to the Commission, creates higher payment volumes and an increased risk of errors in comparison with previous years.

33
See http://ec.europa.eu/atwork/synthesis/aar/index_en.htm.

34
The sum of € 3.6 billion, according to the Synthesis Report (European Commission, 2012d), is the total of all quantified reservations (maximum of € 2.0 billion) plus an estimate of the risk (€ 1.6 billion) arising from a reservation about traditional own resources. For the Directorates-General that provided a margin, the Commission took the highest amount into account.

35
The policy DGs were: 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.

Six of the 27 reservations relate to the seventh Framework Programme (FP7). FP7 is managed by five Directorates-General and an executive agency. As in 2010, most of the problems, according to the Commission, were related to the complexity of the rules on eligible expenditure (eligibility rules for beneficiaries) and to the incorrect application of public contracting rules (a frequent cause of errors in cohesion policy).

As in the previous year, DGs Agriculture, Regional Policy, Maritime Affairs and Fisheries, Employment, and Home Affairs[36] provided an overview in their 2011 activity reports of the extent to which the member states' 2011 annual summaries complied with the applicable conditions. But as in previous years, they did not provide a substantive opinion on the member states' annual summaries.

Synthesis Report

The Synthesis Report (European Commission, 2012d) is the closing document in the European Commission's accountability cycle. As in the Synthesis Reports for previous years, the European Commission declares in the report for 2011 that, by approving the report, it assumes political responsibility for the management exercised by the Directors-General and heads of services. It assumes this responsibility on the basis of the declarations of assurance and reservations in the DGs and services' annual activity reports. Nevertheless, the Synthesis Report has again not been signed by the members of the European Commission and the responsibility is accordingly implicit.

As in the previous year, the 2011 Synthesis Report refers to a statement by the European Commission's Internal Audit Service on the reliability of the various control systems that the Directors-General use to adopt their activity reports. At present, however, the statement is an unpublished internal document prepared for the Synthesis Report. The European Commission notes in the Synthesis Report that in the Emphasis of Matter attached to the overall opinion the IAS highlights a number of issues that need to be addressed by Commission services. They include policy areas in which the risk of error is still too high and the particular problems associated with shared management in the cohesion policy area, harmonisation of the calculation of the residual error rate across the Commission, better coordination and greater harmonisation of control strategies at policy family level (in particular in research policy), and deficiencies in first-level checks over claims by the services responsible for implementing aid schemes.

1.3.2 Opinion of the European Court of Auditors

The European Court of Auditors concludes in its annual report for 2011 that supervisory and control systems were in general 'partially effective' (European Court of Auditors, 2012a), producing the following view by budget heading.

36
DG Home Affairs is responsible for the European migration funds.

Figure 4 **Opinion of the European Court of Auditors in 2010 and 2011 on the functioning of supervisory and control systems**
By heading of the EU budgets for 2010 and 2011

☺ Effective 😐 Partially effective

Budget heading	**Functioning of supervisory and control systems** *2010*	*2011*
Revenue (own resources)	☺	☺
Agriculture and natural resources	😐	😐
• agriculture, market & direct support	–	😐
• rural development	–	😐
Cohesion, energy and transport	😐	😐
• regional policy, energy and transport	😐	😐
• employment and social affairs	😐	😐
Research and other internal policies	😐	😐
External relations, aid and enlargement	😐	😐
Administrative and other expenditure	☺	☺

Joris Fiselier *Infographics*

Source: European Court of Auditors, annual reports 2011 and 2012

Since the European Court of Auditors changed the budget headings in its 2010 annual report, a trend of more than two years cannot be given.

1.4 Regularity of the use of EU funds

1.4.1 Regularity information provided by the European Commission

Our assessment of the regularity information provided by the European Commission is based on the annual activity reports of 12 policy DGs,[37] DG Budget, the Secretariat-General of the European Commission and the annual report of the European anti-fraud office, OLAF.

Reservations by Directorate-General

Eight of the 12 policy DGs we examined made reservations in their 2011 activity reports, five more than in the 2010 activity reports. The financial value of the reservations was also higher than in 2010; in view of the uncertainty about the size of two reservations, however, it is not entirely clear how much higher.

37
Policy 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.

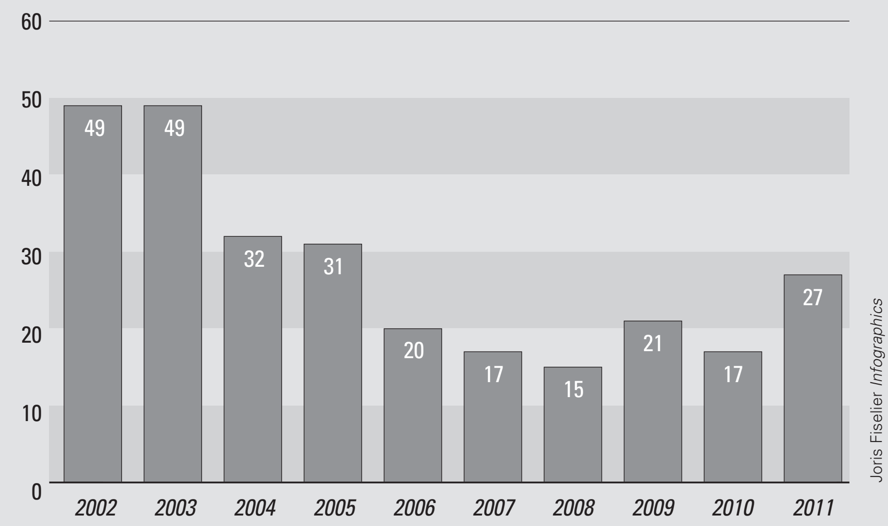
Figure 5 **Reservations made by the European Commission in 2011**

Budget heading	DG	Number of reservations	Financial risk
Sustainable growth	Regional Policy	2 (1 reputational)	€ 632 - € 1,427 million
	Employment	2	€ 58.7 million
	Mobility and Transport	2	€ 0.9 million
	Energy	2	€ 6.4 million
	Research and Innovation	2	€ 121.4 million
Natural resources	Agriculture	3 (2 reputational)	€ 18.2 - € 36.4 million and € 278 million
	Maritime Affairs and Fisheries	2	€ 19.8 million
Citizenship, freedom, security, justice	Home Affairs	2 (1 reputational)	€ 3.1 million
Total reservations made by policy DGs examined		17	
Other reservations		10	
Total reservations		27	

According to the European Commission, the risks identified related to shortcomings in management and control systems in a number of member states and shortcomings in their capacity to prevent, detect and correct errors. The European Commission notes in the Synthesis Report that the increased financial risk is due in part to a number of structural factors. Most of the problems are due to complex regulations on eligible expenditure and public contracting. For structural policy as a whole, the 2011 programming year showed a considerable increase in the error rate and the number of incorrect payments. DG Regional Policy's reservations in respect of 2011 related to more operational programmes in more member states, with higher estimated amounts at risk than in previous years. The reservations made by DG Employment related to fewer ongoing programmes than in 2010 and to fewer member states and a smaller estimated amount at risk.

Figure 6 summarises the number of reservations in the past ten years.

Figure 6 **Number of reservations made by DGs and services, 2002-2011**



Source: European Commission, Synthesis Reports, 2002-2011

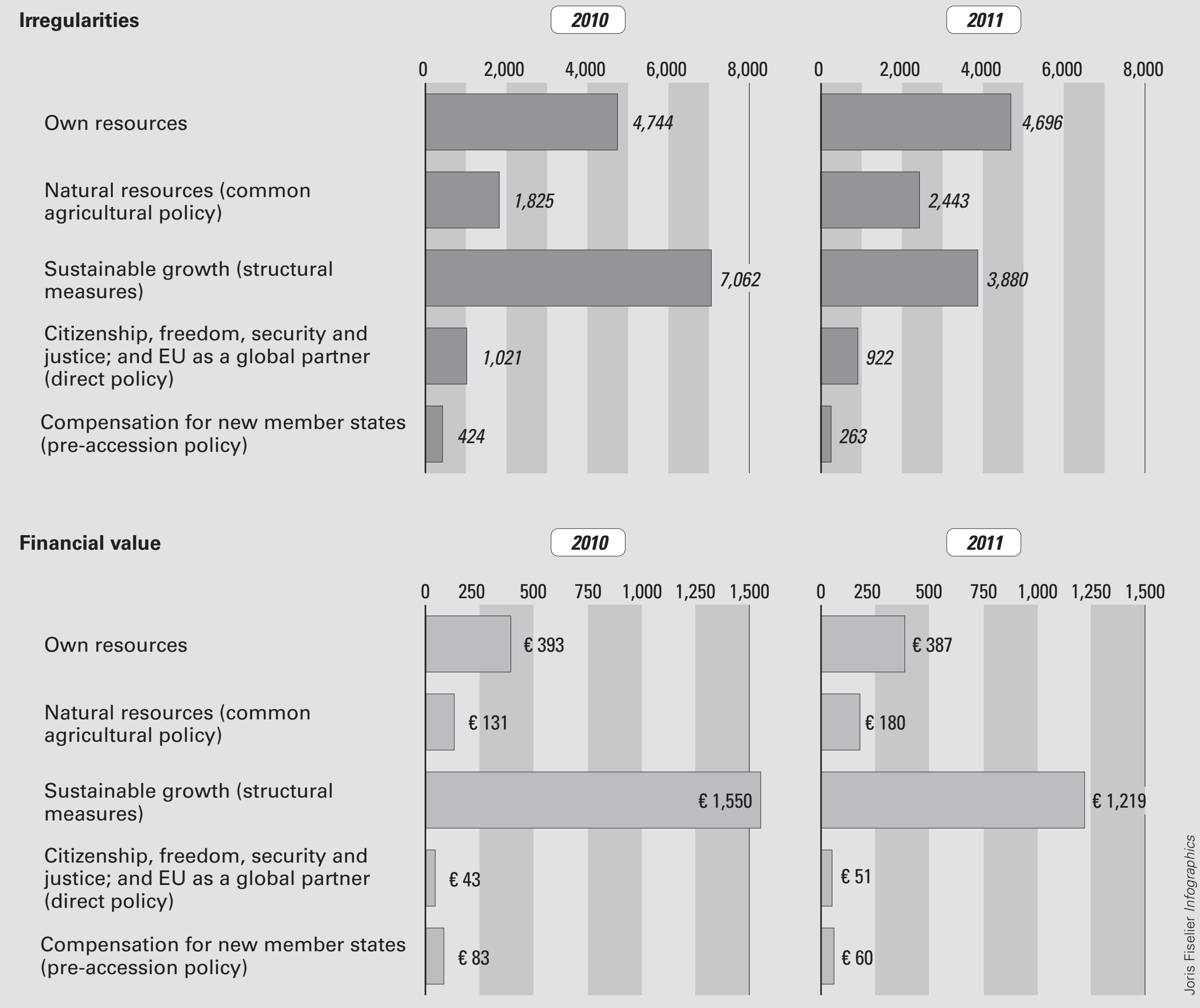
Irregularities and financial corrections

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.[38]

Both the number of irregularities reported (figure 7) and the estimated financial importance to revenue and expenditure (figure 8) were lower in 2011 than in 2010, down 19% and 14% respectively.

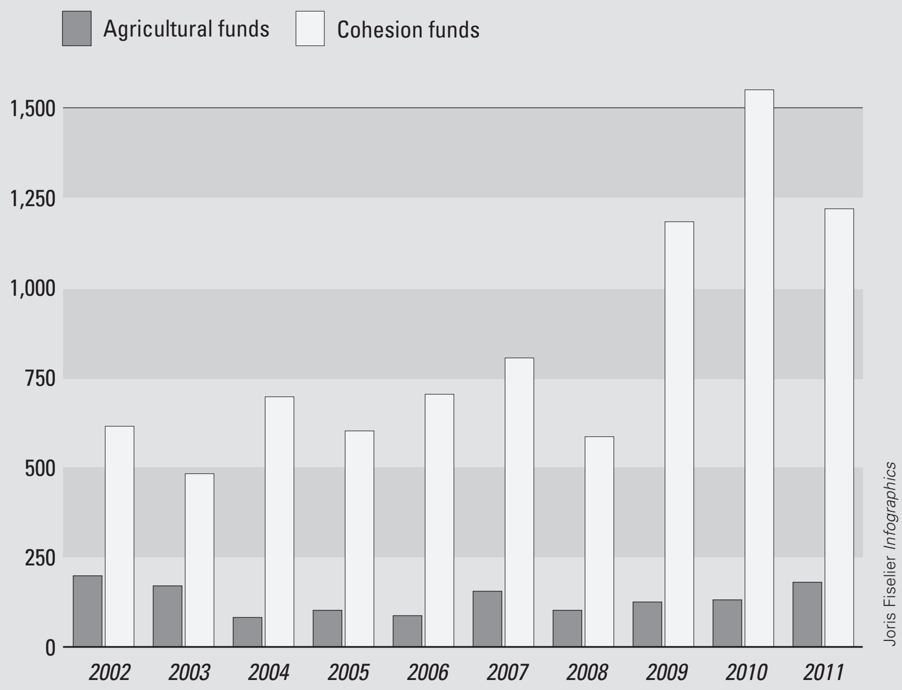
38
Article 325 of the Treaty on the Functioning of the European Union (TFEU); Council Regulation (EC) no. 2988/95 of 18 December 1995.

Figure 7 **Irregularities reported and financial value in 2010 and 2011 by budget heading**
In absolute numbers and in millions of euros



Source: European Commission, 2012e

Figure 8 **Financial value of irregularities reported in 2002-2011**
By category, by year, in millions of euros



Source: European Commission, 2012e

We have complete information on the irregularities the member states reported to the European Commission in 2002-2011 only in respect of agricultural and cohesion policy. Any consideration of the trends in this information should take into account that the number of member states increased during this period and the threshold for reporting irregularities was increased.[39] Figure 8 clearly shows how great the problems in cohesion policy are in comparison with those in agricultural policy.

Fraud
The European anti-fraud office, OLAF, reports each year on its operational investigation of suspected fraud. Fraud is an irregularity committed intentionally. The number of fraud cases reported to OLAF was 8% higher in 2011 than in the previous year, up from 983 to 1,046. Decisions were taken on the follow-up to 921 cases in 2011: 178 require 'further investigation'. Of these 178 cases, 108 were followed up in 2011. In comparison with previous years, OLAF opened fewer cases in 2011 and concentrated its efforts on closing a large number of open cases (OLAF, 2012, p. 18).

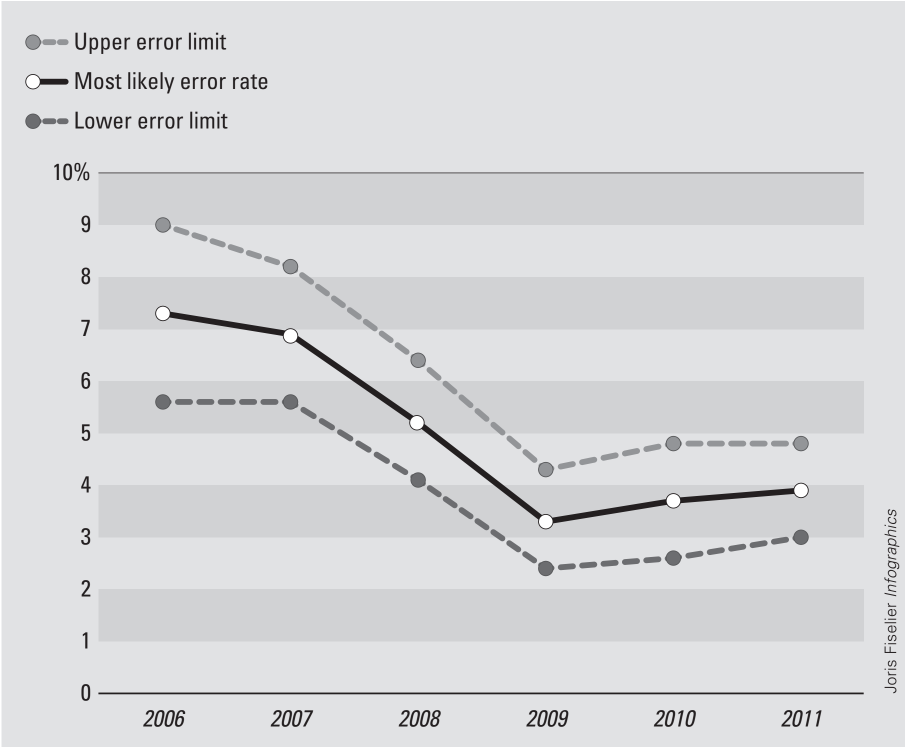
1.4.2 Opinion of the European Court of Auditors on legality and regularity

Overall opinion
The European Court of Auditors' overall opinion on the legality and regularity of the European Commission's annual accounts is that they give a true and fair view of the financial position of the EU but on the whole there are still too many irregularities in expenditure (European Court of Auditors, 2012a). The most likely error rate for the 2011 budget as a whole is estimated at 3.9%, an increase of 0.2% on the previous year. The European Court of Auditors was therefore again unable to issue a positive statement of assurance (Déclaration d'Assurance, in brief DAS) on the execution of the EU budget for 2011. This means that approximately € 5 billion of the total 2011

39
Ten member states acceded in 2004 and a further two in 2007. The threshold to report irregularities in structural and cohesion funds was increased in 2006 from € 4,000 to € 10,000. This increased threshold took effect for agricultural funds a year later.

expenditure of € 129.4 billion contained errors. Figure 9 illustrates the development of the overall error rate in the EU budget between 2006 and 2011.

Figure 9 **Overall error rate detected by the European Court of Auditors, 2006-2011**



Opinion by budget heading
Figure 10 summarises the error rates found by the European Court of Auditors in each heading of the EU budget.[40]

40
We provide information on the EU Budget and accountability for it over the past ten financial years at www.EUverantwoording.nl. The site also summarises EU revenue and expenditure of the member states, explains the accountability process for the EU budget (and the reasons why it is not in order) and an interactive map with links to the websites of other SAIs in the EU.

Figure 10 **Error rate in tests of transactions**
By EU budget heading

Budget heading	Error rate in tests of transactions 2010	Error rate in tests of transactions 2011
Revenue (own resources)	0.0	0.8
Agriculture and natural resources	2.3	4.0
• agriculture, market & direct support	-	2.9*
• rural development	-	7.7*
Cohesion, energy and transport	7.7	5.1
• regional policy, energy and transport	-	6.0*
• employment and social affairs	-	2.2*
Research and other internal policies	1.4	3.0
External relations, aid and enlargement	1.7	1.1
Administrative and other expenditure	0.4	0.1

* These percentages don't add up to the total percentage of the budget heading, because the constituents differ in their significance. The total percentages represent a weighted average.

Source: European Court of Auditors, annual reports 2010 and 2011 Joris Fiselier *Infographics*

For the first time in several years the error rate in cohesion policy declined, although at 5.1% it was still far too high. Within cohesion policy, the error rate was far higher in regional policy (ERDF) than in social policy (ESF), 6% versus 2%. There was a sharp increase in the error rate in agricultural policy, up from 2.3% to 4%. This was largely - but not solely - due to problems in rural development policy. The error rate in research policy for the year was also far higher than 2%.

1.5 Insight into the effectiveness of EU funds

This section considers the insight provided by the European Commission's annual accounting documents and the European Court of Auditors' annual report into the effectiveness of EU funds.

1.5.1 Annual information provided by the European Commission

Most of the European Commission's policy DGs we examined included explanatory graphics in their 2011 activity reports to illustrate their general and specific policy goals, related output and impact indicators and the results of activities. Three DGs (Maritime Affairs and Fisheries, Home Affairs, and Justice) did not; they confined themselves to qualitative descriptions of the various policy fields. In 2010, only two policy DGs had not included graphics in their activity reports.

The results achieved and the indicators used to measure them were on the whole presented in a more uniform manner and in more detail in 2010 and 2011 than in previous years. Although the graphics were less consistent than in the previous year, the information provided by the European Commission on the use of EU funds was about as transparent.

1.5.2 Evaluation reports issued by the European Commission

Evaluation reports to the end of 2009

The European Commission evaluates the results and impact of its policies before, during and after implementation. Ex ante evaluations consider the expected efficiency and effectiveness of policy. During and after implementation, the Commission evaluates the relevance, effectiveness and cost effectiveness of policy. Annual evaluation reports were published from 2000 until 2009; they included a short summary of the evaluations carried out by each DG during the year. A summary for the entire period was also presented in the 2009 report.[41] The European Commission has not issued summaries of evaluations since 2010 but its Secretariat-General has posted the evaluations carried out in 2011 and 2012 on a website.[42] However, the European Commission does not give an opinion on the significance of the findings. This means that the system the European Commission uses to provide information on evaluations has changed. Information from before 2010 cannot be compared with information from after 2010.

Evaluation report for 2012

The European Commission issued its first 'new' evaluation report on 17 February 2012. It must be submitted to the European Parliament and the Council and it must be an evaluation of the Union's finances from the perspective of the results achieved (European Commission, 2012a).

The Commission confines its first evaluation report to the education and culture, and research programmes. The information is derived from a number of mid-term evaluations of the individual programmes and, according to the Commission, provides an overview of the main findings. The evaluations referred to were also used to prepare the proposals for the new Multiannual Financial Framework 2014-2020.

In respect of the education and culture policy field (€ 14 billion for the programming period), the Commission writes that the financial instruments put in place 'show a good record in terms of producing tangible results' (European Commission 2012a, p. 17). Those tangible results include youth passes and improved access to European cultural works. On the other hand, the Commission also concludes that the programmes objectives need to be better defined and focused and management has to be improved. The Commission also recognises that the level of ambition of the objectives is in certain instances disproportionate to the funds allocated, particularly in the Lifelong Learning Programme. The report refers to coherence between the objectives and the link between specific and general objectives as weaknesses in the programmes but the Commission is very positive about the achievement of the programmes' general objectives.

In respect of the research policy field (€ 50 billion for the programming period), the Commission concludes that the programmes have either already achieved the expected

41 European Commission; Secretariat-General; Evaluation: Studies and Reviews (http://ec.europa.eu/dgs/secretariat_general/evaluation/documents_en.htm).

42 http://ec.europa.eu/dgs/secretariat_general/evaluation/evaluations_reports_2010_en.htm#emp.

results or will achieve them in the future. The programmes are a powerful mechanism for catalysing research and development and are 'clearly making a significant contribution to European science' (European Commission, 2012a, p. 18). They will lead to a high degree of interdisciplinary collaboration between participants from industry, research and higher education. The Commission criticises the complexity of the programme and the cumbersome level of administrative procedures. It also considers the lack of progress on many known problems to be disappointing.

Opinion on the evaluation report

In June 2012, the European Court of Auditors, at the request of the European Parliament, issued an opinion on the evaluation report (European Court of Auditors, 2012b). It based its opinion on the Parliament's intentions for the evaluation: 'the evaluation report shall be drawn up so that the relation between the key performance indicators, the legal/political basis, the amount of expenditure and the results achieved is clear and transparent' (European Parliament, 2011).

The European Court of Auditors concluded that the Commission's evaluation report was vague, short on substance and, consequently, generated limited added value. The various sources of evidence on achievements, such as individual evaluations, annual activity reports and special reports of the European Court of Auditors, were not brought together in a coherent way. In the European Court of Auditors' opinion, the report took inadequate account of the European Parliament's intentions. The European Court of Auditors further concluded that the Commission should systematically build in performance indicators and milestones and start to report on the economic consequences and effectiveness of expenditure.

We think the scope of the evaluation report is limited. It considers only two policy areas. The 'major' budget areas of agriculture and cohesion are not evaluated. It can be noted in this respect that the European Commission itself states in its Synthesis Report of May 2012 that the annual evaluation report should be 'more inclusive', covering the full range of activities financed from the budget (European Commission, 2012d, p. 18).

We would also note that the evaluation report contains little if any information from mid-term evaluations of the individual programmes. It considers chiefly actual events in the programmes instead of the impact of measures, expenditure in general and the relation between costs and benefits. Information on costs and benefits could have been obtained from the mid-term evaluations, which consider the relation between performance indicators, their policy basis, expenditure and achievements.

A disadvantage of the mid-term evaluations used is that they are prepared by different audit firms, with different reporting methods and approaches. It is therefore difficult to compare the answers to the evaluation questions. For the report to be a success, all individual evaluation reports should include standard sections based on a uniform model.

Finally, we would note that the Commission's evaluation report does not take a critical look at the programmes and the information it contains is sometimes incomplete. It presents results selectively and does not explain what response will be taken to negative aspects.

2 EU member states

This chapter provides a country comparison of the regularity and effectiveness of the use of EU funds in the 27 EU member states and of the insight available into their regularity. We first consider the member states' remittances and receipts (section 2.1) and then the regularity of (and insight into) the use of EU funds in the member states based on the member state declarations, annual summaries, publications by the European Commission and publications by the European Court of Auditors (section 2.2). We then look at the effectiveness (and insight into effectiveness) of the use of funds (section 2.3). Finally, we provide an overview of the contributions made by supreme audit institutions to increasing insight into the regularity and effectiveness of the use of EU funds (section 2.4).

2.1 Member states' remittances and receipts

Table 3 shows the remittances and receipts of the EU member states in 2011. The EU member states' total remittances amounted to € 120 billion, and their total receipts from the EU to € 117 billion. A breakdown of the remittances and receipts by member state is provided in appendix 1.

Table 3. Remittances and receipts of the member states in 2011 (actual figures, amounts in millions of euros)

Member state	Remittance	Receipt
Austria	2,689	1,876
Belgium	4,927	6,797
Bulgaria	395	1,107
Cyprus	185	184
Czech Republic	1,683	3,029
Denmark	2,448	1,473
Estonia	159	505
Finland	1,955	1,293
France	19,617	13,162
Germany	23,127	12,133
Greece	1,903	6,537
Hungary	937	5,331
Ireland	1,339	1,639
Italy	16,078	9,586
Latvia	182	911
Lithuania	302	1,653
Luxembourg	293	1,549
Malta	66	135
Netherlands	5,869	2,064
Poland	3,580	14,441
Portugal	1,734	4,715
Romania	1,226	2,659
Slovakia	694	1,785
Slovenia	401	847
Spain	11,046	13,599
Sweden	3,334	1,757
United Kingdom	13,825	6,570
Total	**119,995**	**117,337**

Source: European Commission (2012b). EU budget 2011, Financial Report, Brussels, European Commission

2.2 Regularity of the use of EU funds in the member states

Five types of report currently provide an insight into the regularity of the use of EU funds in the member states:

1. the activity reports of the DGs of the European Commission;
2. the annual report of the anti-fraud office OLAF;
3. the annual report of the European Court of Auditors;
4. the annual summaries of the member states;
5. the voluntary member state declarations.

The first three paint an overall picture of the EU but also contain information on the situation in a number of member states. The annual summaries and the voluntary member state declarations are specifically intended to provide an insight into the situation in the member states. This section considers the results presented in these documents for 2011.

2.2.1 2011 activity reports

We examined the annual activity reports of 12 policy DGs[43] that are of the greatest relevance to the funds spent in the member states. Our aim was to determine what insight they provided into the regularity of expenditure in the member states. The activity reports of the five policy DGs with responsibility for funds under shared management[44] name and discuss the member states in which there are material shortcomings or financial risks in management and control systems. DG Regional Policy's activity report, which contained the reservations with the largest financial value in 2011, for example, states that shortcomings in the management and control systems in place for the ERDF occurred chiefly in Germany, Hungary, Italy and Spain. The activity reports of the seven other DGs investigated provide no information on the situation in individual member states.

2.2.2 Reports issued by the European Commission and OLAF

Irregularities and recoveries

The European Commission issues an annual report on the results of measures taken to protect the financial interests of the EU and combat fraud (European Commission, 2012e). It is based in part on reports of irregularities made by the member states. These reports do not provide a complete and reliable picture because the member states do not report irregularities in a uniform manner. The total value of the irregularities reported in 2011 came to € 1.9 billion. Of this amount, 53% related to four member states: France, Italy, Poland and the Czech Republic. Irregularities were detected in agricultural funding (including fisheries funds), structural funding and traditional own resources. In structural funding, the four member states named above topped the list of the highest amounts, followed by Spain. In agricultural funding, France reported the highest amount of irregularities in 2011: € 72 million, followed by Italy, Hungary and Spain. Together, these member states reported 71% of the total estimated financial volume of irregularities in agricultural funding.

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. As in previous years (2005-2010),

43
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.

44
DGs Agriculture, Regional Policy, Employment, Home Affairs, and Maritime Affairs and Fisheries. 'Shared management' means that the EU programmes financed from these funds are managed jointly by the European Commission and institutions in the member states.

Italy had the highest balance of payments still recoverable, € 515.1 million. However, this is € 65.3 million lower than in 2010.

Potential fraud cases reported to OLAF

OLAF received 1,046 new reports of potential fraud cases in 2011. In its operational report for 2011, OLAF did not provide a geographical breakdown of the reports it received. It had done so in previous years. We therefore do not know which member states reported the most cases of potential fraud. Two-thirds of the reports related to EU expenditure (foreign aid, structural funding, direct expenditure and agricultural funding). More information (291 of the 1,046 reports, or 28% of the reports received by OLAF) related to structural funding than to other funding (OLAF, 2012).

2.2.3 Annual report of the European Court of Auditors

The European Court of Auditors audits the collection and use of EU funds and assesses the soundness of the European institutions' financial management. 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 a particular member state since it is based on an EU-wide sample rather than on a representative sample in each member state.

2.2.4 Annual summaries issued by the member states

The Financial Regulation[45] requires all EU member states 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. All member states submitted annual summaries for 2011 in 2012. Fourteen member states, moreover, posted their annual summaries for 2010 on the European Parliament's website in 2012.[46] We examined how these 14 member states prepared their annual summaries and what control findings they contain.

Annual summaries 2010

The annual summaries published for 2010 consider the programmes financed from the European Regional Development Fund (ERDF), the Cohesion Fund, the European Social Fund (ESF) and the European Fisheries Fund (EFF).[47] With the exception of Estonia and Malta, the member states prepared their annual summaries in the national language. The European Commission prepared a guidance note in 2008 for the preparation of annual summaries (European Commission, 2008). The guidance note is not obligatory but annual summaries prepared in accordance with it will contain more and better structured information on the audit findings than the 'annual summary covering the financial year', which is a compulsory part of each annual summary. Table 4 shows whether the 14 annual summaries were prepared in accordance with the guidance note, whether the compulsory annual summary was present and whether it also provided information on the 2007-2013 programming period.

45
Article 53 (3) of Regulation (EC) no. 1995/2006.

46
See www.europarl.europa.eu/committees/en/cont/publications.html?id=CONT00003#menuzone.

47
Lithuania also provided information on one EAFRD programme in its annual summary. Since the other member states provided information on structural funds only, the EAFRD is not considered in this analysis.

Table 4 Information content of published annual summaries 2010

Member state	Annual summary in accordance with guidance note		Annual summary covering the financial year 2010			
			Present		Period 2007-2013 completed	
	Yes	No	Yes	No	Yes	No
Belgium	x		x		x	
Bulgaria	x		x		x	
Czech Republic		x	x		x	
Denmark		x	x		x	
Estonia	x		x			x
Lithuania	x		x		x	
Luxembourg		x	x		x	
Malta	x		x		x	
Netherlands	x		x			x
Romania	x		x		x	
Slovakia		x	x			x
Slovenia		x	x			x
Sweden	x		x			x
United Kingdom	x		x		x	

Nine member states prepared their annual summaries in accordance with the guidance note and presented 'annual summaries covering the financial year 2010' as an appendix. Three of these nine member states did not provide information on the 2007-2013 programming period in their annual summaries for 2010. The Netherlands refers to the Dutch member state declaration and the report issued by the Netherlands Court of Audit for further information. The other five member states submitted only the 'annual summary covering the financial year 2010' as their annual summaries. The 2010 annual activity reports of DGs Regional Policy, Employment, and Maritime Affairs and Fisheries include a table showing that they prepared their annual summaries in accordance with the guidance note.

For the period 2007-2013, we determined what opinion (or audit advice) had been given on 12 of the 14 published annual summaries[48] for each fund and each operational programme, whether measures had been taken to address systemic problems and the margin of the error rate for each programme.

Table 5 Audit advice/opinion on each programme in annual summaries 2010

Audit advice/ opinion	Number of programmes	Structural programme			
		ERDF + ERDF/ Cohesion Fund	ESF	EFF	Interreg + ETC/ERDF[49]
Unqualified	54	28	10	5	11
Qualified	55	32	15	5	3
Disclaimer	6	1	-	1	4
Adverse	4	2	-	-	2
No comment	1	-	-	1	-
Total	**120**	**63**	**25**	**12**	**20**

48
Slovenia and Slovakia provide no information on 2007-2013 in their annual summaries.

49
ETC/ERDF = European Territorial Cooperation programme funded from the ERDF.

Table 5 shows that an unqualified opinion was given on 54 of the 120 programmes implemented in 2010. Qualified opinions were given on 55 programmes and a disclaimer of opinion on six programmes. Adverse opinions were given on four programmes.

Three member states said they did not need to take measures to address systemic problems in the programmes. The other nine member states had taken measures for at least one of the programmes.

The annual summaries also disclose the error rates detected in the EU programmes implemented in the member states.[50] The picture that emerges is that:

- the error rate per programme in the member states was predominantly less than or equal to 2%;
- five countries reported error rates (per programme) of between 2% and 5%;
- five countries reported error rates (per programme) higher than 5% (the highest error rate was 50.97% in an ERDF programme);
- error rates were higher than 2% chiefly in ERDF programmes.

The information presented here is incomplete because 13 of the 27 EU member states did not give permission to have their annual summaries published on the European Parliament's website.

Annual summaries 2011

With the odd exception, the annual summaries for 2011 have not yet been published. The relevant DGs' annual activity reports state only whether the annual summaries meet the minimum requirements and provide some general information on their contents. According to the European Commission, nine of the ten member states required to submit annual summaries of audits of the use of agricultural funds did so on time (the exception was Romania).[51] All annual summaries contained information on both the declarations of assurance issued by the directors of the paying agencies and the declarations of the certifying agencies. Furthermore, all the annual summaries that were submitted contained qualitative analyses - although their consistency and completeness could still be improved - and information on both the audits carried out and the amounts recovered. According to the Commission, the reports had greater added value at national level than in 2010.

According to the European Commission all 27 annual summaries submitted in respect of the structural funds satisfied the minimum requirements. More member states, according to the Commission, voluntarily prepared overarching analyses of the audits carried out (18 in 2011, versus 16 in 2010) and issued a declaration of assurance (15, versus 11).

2.2.5 Member state declarations

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

50
We cannot present a full picture here because some member states do not report error rates for a number of programmes. Instead, they refer to reports on annual controls already submitted to the European Commission or report error rates per project rather than per programme.

51
A summary must be prepared for agricultural funds if more than one paying agency submits an annual declaration to the European Commission. This is the case in ten member states.

As in previous years, only four EU member states issued member state declarations in 2012: Denmark, the Netherlands, the United Kingdom and Sweden. Below, we discuss the most recent developments in these member state declarations and briefly consider their findings. Table 6 first shows the similarities and differences among the current four member state declarations.

Table 6. Characteristics of the member state declarations for 2010 and 2011

	Issued by	**Publication date**	**Political accountability**	**Scope**	**External SAI opinion**
Denmark	Supreme audit institution	November 2012	No	• quality of management and control systems • regularity of EU-related expenditure and receipts (underlying transactions)	N.a.
Netherlands	Ministry of Finance on behalf of the government	February 2012	Yes	• quality of management and control systems • regularity of EU-related receipts under shared management (underlying transactions)	Yes, May 2012
United Kingdom	HM Treasury on behalf of the government	July 2012	No	• interim reports of the transparency of EU expenditure on programmes under shared management in the United Kingdom	Not yet
Sweden	Minister of Finance on behalf of the government	April 2012	Yes	• quality of management and control systems	Yes

Developments in member state declarations

For the sixth year in succession, the Minister of Finance *in the Netherlands* voluntarily issued a national statement on the use of EU funds under shared management (Ministry of Finance, 2012). We again issued a report on the Dutch EU member state declaration and an independent opinion on it (Netherlands Court of Audit, 2012). On the whole, the opinion on the 2011 declaration was positive, although there were still areas for improvement. The member state declaration gives a good view of the management and use of EU funds in the Netherlands. We return to our findings in chapter 3.

In *Denmark*, the supreme audit institution is responsible for issuing the document to account for the use of EU funds (Rigsrevisionen, 2011). In recent years, the Danish SAI has discussed the possibility of preparing a consolidated statement of EU funds in Denmark with the Danish Ministry of Finance. A consolidated statement would cover all financial information on EU funds in the national accounts and would therefore strengthen the transparency of the financial transactions in EU fields. A consolidated statement of agricultural funds is foreseen for 2012; an overarching consolidated statement is planned for 2013.

The existing agreements on accounting for EU funds in the *United Kingdom* have been reconsidered since January 2011. The Treasury wishes to improve the financial management of EU funds in the United Kingdom and the transparency of the financial relationship between the EU and the UK government. The intention is to report on the net contribution made by the UK government to the EU. The Treasury is working with the managing authorities and the National Audit Office to strengthen the quality of data collection and the consistency of the managing authorities' accounting practices. The requirements set for reports on EU transactions and remittances will also be tightened up. Until this new accounting framework comes into effect the Treasury will independently issue interim reports on the use of EU funds in the United Kingdom (HM Treasury, 2012).

In *Sweden* the government issued its fourth member state declaration on EU funds spent in the country under shared management with the European Commission in 2012 (Swedish Government, 2012). Since the Swedish member state declaration is part of the government's annual report and the Swedish supreme audit office (Riksrevisionen) has a duty to audit the annual reports of all executive public authorities that account to the government, Riksrevisionen also expresses an indirect opinion on the EU member state declaration. For the 2011 financial year it issued an unqualified audit report on all managing authorities of EU funds and stated that the annual reports of all managing authorities of EU funds gave a true and fair view on all material points of their financial position as at 31 December 2011 and had been prepared in accordance with relevant reporting requirements. The Swedish government accordingly declared on 12 April 2012 that the EU accounts for 2011 gave a true and fair view and that the internal control system at central government level was adequate.

Comparison of the member state declarations on broad lines

With regard to the *scope of the audits*, the four member state declarations are very similar. All four concentrate on the EU funds spent under shared management by the European Commission and the member state. All the declarations consider agricultural and structural funds in detail. The Swedish and Dutch declarations also look at the migration funds; the UK and Danish declarations do not but they do consider some EU funds managed centrally by the European Commission, such as technology grants and environmental grants from the LIFE programme.

Three of the four declarations pay some attention to remittances to the EU. The current interim report issued by the UK Treasury considers remittances in some detail. The Danish SAI has considered remittances to be a structural part of its declaration from the outset. In the Netherlands, the Court of Audit has repeatedly requested that EU remittances be included in the member state declaration, but the Ministry of Finance has not yet responded. The Swedish member state declaration does not consider remittances to the EU but they are considered elsewhere in the government's annual report.

If we look at the *outcomes of the member state declarations*, the similarities are again the most striking. All four declarations state that expenditure of agricultural funds is in good order, particularly the funds subject to the Integrated Administration and Control System (IACS). There were often problems, though, auditing cross-compliance with national conditions[52] (Netherlands and Denmark in 2010). Furthermore, financial corrections had been imposed on all four countries on account of problems in specific product schemes. In the structural funds, the 2% error margin for ERDF programmes was exceeded in Sweden, the Netherlands and the United Kingdom in 2012.

52
National compliance: member states can set their own conditions in addition to those set in EU directives and regulations that farmers must comply with to be eligible for agricultural support.

The Swedish audit authority also reported that the error margin had been exceeded in the ESF and the Dutch authority in the EFF. The Swedish and Dutch member state declarations revealed problems setting up accounts for certain migration funds (lack of timely financial statements and the declaration of non-eligible costs).

On the whole, it is striking how similar the audit findings are in the member state declarations. Despite the differences in the declarations' layout, the problems detected are often the same.

2.3 Effectiveness of EU policy in the member states

2.3.1 Information from the European Commission

We analysed the information that the annual activity reports of 12 of the European Commission's policy DGs provided on the effectiveness of EU policy in the member states.[53] We found that the DGs' activity reports for 2011 provided some information on the results achieved in the member states but virtually no information on the impact of policy or grant schemes in the member states. The reports into the effectiveness of EU policy in the member states therefore still provide only minimal insight.

2.3.2 Information from the European Court of Auditors

The European Court of Auditors devotes a chapter in its annual report to the efficiency of EU policy. It looks chiefly at the Commission's self-evaluations of policy efficiency based on the DGs' annual activity reports. The European Court of Auditors concludes that further improvements were necessary in the European Commission's self-evaluations.

The European Court of Auditors also carries out its own efficiency audits. It publishes the findings in special reports, which can be issued throughout the year. Since the publication of our previous EU Trend Report, in February 2012, the European Court of Auditors has published 16 special reports. Ten of them related to the efficiency of EU policy. Four of these special reports consider the efficiency of policy funded by the EU in the member states. They are considered in this report. The reports assess policy efficiency against the criteria of sound financial management: economy, efficiency and effectiveness. The European Court of Auditors examined what lessons learnt from the special reports it issued in 2011 could be applied in new programmes and projects in the 2014-2020 programming period. It concluded that there was often not enough evidence of the need for funding or of the added value of European policy.

2.4 Activities 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 supreme audit institutions of the EU member states, however, can do so if they have the requisite audit powers.

2.4.1 SAI activities

With the exception of the Luxembourg SAI, all supreme audit institutions in the EU audit EU-related subjects. In 2012 between 250 and 300 such audits were carried out (depending on what is understood by an EU audit activity). This is a substantial increase on 2011, when just over 200 audits were published. It should be noted that the scope

53
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.

of the audits varied widely: from straightforward project audits to audits of national EU-related accounts, from the compilation of overarching EU reports to launching and maintaining EU-related websites. Furthermore, supreme audit institutions that carried out many audit activities, such as those of Romania and Lithuania, were sometimes acting as internal auditors on behalf of the European Commission (for example, as the audit authority for structural funds or cohesion funds or as the certifying authority for agricultural expenditure).

In their capacity as national external auditors, the SAIs carried out between 175 and 200 audits in 2012. About two-thirds considered the financial management of EU funds and the remaining third examined the results and impact of policy.

Figure II (see next page) shows the audit activities of the EU member states' SAIs in 2012.

In addition to the audit activities carried out by EU SAIs, the Contact Committee of the Heads of the Supreme Audit Institutions of the European Union has examined the consequences of the financial and economic crisis and the role that SAIs should play. Both the conclusion of the ESM agreement and the current discussion of ways to enhance the reliability of statistical and other budgetary information have actively drawn on the SAIs' expertise. This has led to new products such as websites and to joint activities to support SAIs with problems. The Contact Committee meeting of October 2012 decided that a working group of SAIs would audit how SAIs could improve their involvement in the development of European policy that affects them.

Figure 11 **EU audit activities of national SAIs in 2012**

	Overarching EU report	Separate EU section in annual report	Number and type of EU audits [3]
Austria	Periodic publication(08/2012)	✓	2P, 1 Overarching
Belgium	✗	✗	1F+P, 1F+C+P, 2O
Bulgaria	✗	✓	11P
Cyprus	Annual publication (11/2012)	✓	30F, 7F+C, 9F+O, 4F+C+O
Czech Republic	Annual publication (06/2012)	✓	9C+P
Denmark	Annual publication (11/2012)	✗	3F, 2P, 3 Overarching, 1 Other
Estonia	✗	✗	2P
Finland	✗	✓	3F, 2P, 1 Other
France	✗	✗	4C+P, 1P
Germany	✗	✗	22 [1]
Greece	✗	✓	5F
Hungary	✗	✗	1F, 1C, 2P
Ireland	✗	✓	1O
Italy	Annual publication (07/2012)	✗	1F, 3C+O, 5O, 4O+P
Latvia	✗	✗	2C, 1P
Lithuania	✗	✓	11 Other
Luxembourg	✗	✗	-
Malta	✗	✓	1C, 1P
Netherlands	Annual publication (02/2012)	✗	1F, 3C+P, 1 Overarching, 4 Other
Poland	✗	✗	20F+C+P
Portugal	✗	✓	4C+P, 8 Other
Romania	✗	✓	15F, 24F+C, 6F+ Overarching, 19 Other
Slovakia	Annual publication (05/2012)	✓	4F+C+O, 2C+O, 2P
Slovenia	One-off repot (07/2010) [2]	✓	2P
Spain	✗	✓	1C+O+P
Sweden	✗	✗	1F, 2P
United Kingdom	✗	✗	2F, 1P

✓ Applicable ✗ Not applicable

[1] All these audits have an EU angle, although not all are directly EU-related.
[2] A statement of EU funds flows is included in the annual regularity report each year.
[3] F = financial audit; C = compliance audit; O = operational audit; P = performance audit; Overarching = overarching EU report; Other = other type of audit.

2.4.2 Country comparison of the simplification of structural funds regulations

Several working groups of SAIs carried out joint audit activities in the past year.[54] The Structural Funds Working Group established in 2000 carried out a parallel audit in 2012 and 2013 of the simplification of the structural funds rules. It studied whether 14 member states had implemented the European Commission's proposals to simplify the rules and, if so, what the result had been. The Commission proposed a simplification of the rules in order to alleviate the administrative burden and reduce the risk or error.

54
See the Contact Committee's website: http://circa.europa.eu/irc/eca/sai/info/data/cc_website/cc/working_groups/working_groups_en.htm.

The audit considered the nine measures the EU introduced to simplify implementation of structural operations in the ESF and ERDF programmes in the period 2007-2013. All participating SAIs carried out the audit in 2012 on the basis of a pre-agreed audit plan and structured questionnaires. Supplementary information was obtained by means of interviews and, for the sake of illustration, by examining the practical impact of simplification on a small selection of projects.

The working group will prepare a joint report in early 2013. The findings of the parallel audit will be presented to the Contact Committee in October 2013. The findings of the Dutch audit are presented in section 3.4 of this EU Trend Report.

3 The Netherlands

This chapter concentrates on the management of EU funds in the Netherlands. We begin by presenting an overview of the remittances and receipts of the Netherlands (section 3.1). We then consider the systems in place in the Netherlands to manage EU funds and the regularity of their use in the Netherlands (section 3.2). We then present the findings of two audits we carried out of specific themes: the effectiveness of policy conducted in the Netherlands with support from the European Fisheries Fund (section 3.3) and the simplification of rules on the implementation of structural operations in the Netherlands (section 3.4).

3.1 Dutch remittances and receipts

3.1.1 Remittances

According to final figures from the European Commission, the Netherlands remitted € 5.9 billion to the EU in 2011 (European Commission, 2012b). The Dutch remittances to the EU in 2011 are shown in table 7.

Table 7 Dutch remittances to the EU in 2011 (in millions of euros)

Budget heading	**2011**
Traditional own resources	1,936
VAT-based remittance	290
GNI-based remittance	4,215
British budget rebate	51
Correction for the Netherlands and Sweden	-625
Correction for Denmark, Ireland and the United Kingdom for opt-outs in the former third pillar of the EU	2
Total EU remittance by the Netherlands	**5,869**
Source: European Commission, 2012b	

3.1.2 Receipts

General information

In 2011 the Netherlands received € 2.1 billion from the EU. Table 8 summarises figures from the European Commission of the amounts received by organisations in the Netherlands in the form of EU grants. They include both funds that are managed entirely by the European Commission and funds managed by both the Commission and the Netherlands (under shared management).

Table 8. EU funding received by organisations in the Netherlands (in millions of euros)	
Budget heading	**2011**
Sustainable growth	886
- *Competitiveness*	579
- *Cohesion*	307
Natural resources	940
Citizenship, freedom, security and justice	149
EU as a global partner	0
Administration	89
Total receipts	**2,064**
Source: European Commission, 2012b	

Specific information

The European Commission sends a summary of the payments made to the Netherlands to the Ministry of Finance and the Netherlands Court of Audit every year. The payment summary for 2011 (European Commission, 2012f) provides a breakdown of the more than € 2 billion received by the Netherlands.

Table 9. Payments to organisations in the Netherlands in 2011

Heading	Section	Type of recipient	Payment (in euros)
1 Sustainable growth	Research: Seventh Framework Programme (including Sixth Framework Programme)	Public/private	366,832,734
	Globalisation fund	Public	8,441,757
	Energy projects to support economic recovery	Private	9,792,444
	Trans-European Networks	Public/private	51,282,847
	Galileo	Private	98,966
	Lifelong Learning and Erasmus Mundus	Public/private	37,292,848
	Enterprise and innovation	Public/private	9,377,725
	ICT policy support	Public/private	1,054,037
	Intelligent energy	Public/private	3,483,999
	Social policy	Public/private	6,587,606
	Customs and Fiscalis 2013	Public/private	406,842
	Decentralised agencies	Private	68,872
	Regional competition and employment (ESF, ERDF)	Public	292,944,434
	Convergence (ESF)	Public	1,072,053
	Territorial cooperation (ERDF, Urban)	Public	10,822,282
	Technical assistance	Public/private	1,094,846
	Cohesion Fund	Public/private	437,768
	Other measures and programmes	Public/private	45,150,251
Subtotal Sustainable growth			*846.242.311*
2 Natural resources	Common agricultural policy	Public/private	972,483,440
	Fisheries (markets)	Public/private	569,401
	Fisheries (EFF)	Public/private	1,555,272
	Fisheries (governance and international treaty obligations)	Public/private	3,612,693
	Animal and plant health	Public/private	8,477,972
	Rural development	Public/private	59,171,738
	Environment/LIFE+	Public/private	5,516,243
	Other	Public/private	1,757,327
Subtotal Natural resources			*1.053.144.086*

Heading	Section	Type of recipient	Payment (in euros)
3 Citizenship, freedom, security and justice	Migration flows	Public/private	13,015,633
	Security and freedom	Public/private	4,908,610
	Fundamental rights and justice	Public/private	3,231,716
	Decentralised agencies	Public	114,854,382
	Health and consumer affairs	Public/private	4,380,844
	Culture	Public/private	3,365,473
	Youth	Public/private	4,000,134
	Media	Private	3,112,039
	Citizens	Public/private	190,856
	Financial instrument for civil protection	Public	1,347,966
	Communication	Public/private	1,126,814
	Other	Private	474,337
Subtotal Citizenship, freedom, security and justice			*154.008.804*
4 EU as a global partner	Pre-accession: financial instrument for assistance	Public/private	3,192,553
	Industrial countries cooperation	Public	216,833
	Democracy and human rights	Private	655
	Nuclear security and cooperation	Public/private	2,431
	European neighbourhood policy	Public/private	17,475
	Development cooperation	Public/private	3,299,158
	Humanitarian aid	Public/private	7,350
	Macro-financial assistance	Private	84,623
	Common foreign and security policy	Public	6,800
	Other	Public/private	677,008
Subtotal EU as a global partner			*7.504.886*
5 Administration		Public/private	37,253,408
TOTAL			**2,098,153,495**

There are a number of differences in comparison with 2010 (Netherlands Court of Audit, 2012b). The payments received by the Netherlands for ‘Energy projects to support economic recovery’ were € 35 million lower in 2011 than in 2010. Payments received for ‘Regional competition and employment (ESF, ERDF)’ and ‘Research: Seventh Framework Programme’ were € 78 million and € 37 million higher respectively. Payments received for ‘Common agricultural policy’ and ‘Rural development’ were approximately € 78 million and € 16 million lower respectively.

3.2 EU funds in the Netherlands: management and control systems and regularity

The Dutch member state declaration for 2011 covers 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 the four migration funds. The declaration therefore covers virtually all the EU funds the Netherlands manages together with the European Commission.

We are on the whole positive about the member state declaration as a public accountability instrument and its preparation by the Minister of Finance. We have repeatedly called, however, for the Dutch member state declaration to consider the Netherlands’ remittances to the EU, too, so that it gives the fullest possible view.

To date, the Minister of Finance has been unwilling to include remittances in the declaration. Our report on the member state declaration does consider remittances.

3.2.1 Agricultural funds

The management and control systems in place to ensure the regular payment and use of agricultural funds in the Netherlands have a number of recurrent problems. These problems expose the Netherlands to a financial risk as the European Commission can impose corrections and fines. The shortcomings relate to the payment management exercised by the paying agencies (the Government Service for Sustainable Rural Development and the National Service for Implementation of Regulations). The paying agencies make mistakes, for example, in the registration of agricultural parcels and inadequately check farmers' cross-compliance with animal welfare, environmental and animal health requirements. In the period 2003-2008 a correction of nearly € 52 million was imposed on the Netherlands in respect of these and other shortcomings. The Commission has proposed new corrections of € 35.4 million for the period 2008-2009. It also imposed an additional correction of € 14.6 million in respect of 2005-2007.

The Dutch member state declaration for 2011 makes no specific comments on the regularity of expenditure and payments received from the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD. In response to our recommendations, the former Minister of Economic Affairs, Innovation and Agriculture (EL&I) undertook to make improvements in the management and control of agricultural payments and the accounts kept for their use.

3.2.2 Structural funds

In our report on the Dutch member state declaration for 2011 we were positive about the functioning of management and control systems and the financial transactions for the structural funds 2010. There were a number of shortcomings in the management of the ERDF (North and South programmes), which produced an error rate of 2.16% (just above the materiality threshold of 2%). They related chiefly to public procurement errors and corrections of non-eligible invoices and wage costs that had been detected by the audit authority. The managing authorities corrected some of the errors in the payment request submitted to the European Commission at the end of 2011. This reduced the error rate to 1.96%. This is permitted owing to the multiannual character of the structural funds. In response to our recommendations, the Minister of EL&I undertook to improve the managing authorities' controls of payment requests. We made no comments on the management and control systems in place for the ESF or on the regularity of the ESF funds flows.

3.2.3 Remittances

In our opinion, the member state declaration could already include the remittances made to the EU based on import duties. Sufficient assurances can already be provided on their reliability. The statistics underpinning GNI-based remittances to the EU, however, are not yet stable enough for inclusion in the member state declaration. We therefore recommend that the Minister of Foreign Affairs, the Minister of EL&I and the Minister of Finance examine how more assurance can be obtained on the basic data that serve as input for the statistics. In response to our report, the government said it would not include remittances in the member state declaration nor did it see cause for such an examination, chiefly because the basic data underlying the statistics are already subject to a variety of controls and the remittances, in the European Court of Auditors' opinion, are in order. We would observe that in 2011 the European Court of Auditors noted that its audit did not include an opinion on the quality of the VAT and GNI-based data that the Commission received from the member states (European Court of Auditors, 2011b).

3.3 Effectiveness of European fisheries policy in the Netherlands

To gain an impression of the effectiveness of EU funds in the Netherlands, we analysed the insight available into the results and impact of the European fisheries policy conducted to the end of 2011.

The EU has financed fisheries development in the member states as part of the common fisheries policy since 2000. The policy is cofinanced from the European budget and from the budgets of the EU member states and regions. Since 2007, it has been financed from the European Fisheries Fund (EFF).

In this section we outline the findings of an earlier audit in this area and consider the content and scope of the common fisheries policy in the Netherlands during the 2007-2013 programming period. We then look at the results so far - including the achievement of goals - for 2007-2011. We close with an overview of the top five Dutch beneficiaries of the common fisheries policy between 2007 and 2011.

3.3.1 Earlier audits of common fisheries policy

Netherlands Court of Audit
In 2008 we audited the causes of the faltering ambitions for ecological and economic sustainability in Europe (Netherlands Court of Audit, 2008). We concluded that the European policy on fishing quotas had not achieved the intended goal of balanced fish stocks. We also found that the burden on enforcing fisheries rules meant controls were inadequate. We recommended at the time that the innovation necessary in the fisheries sector should be closely monitored.[55]

European Court of Auditors
The European Court of Auditors has issued two special reports in the past five years on the effectiveness of the common fisheries policy. In special report 12/2011 it criticised the definition of fishing capacity in the European fisheries policy as it was based on the weight and capacity of the fleet (European Court of Auditors, 2011a). In special report 7/2007, it concluded that improved *fishing technology*, rather than the size and capacity of the fleet, led to overfishing (European Court of Auditors, 2007).

European Commission
Between 2007 and 2012 the European Commission issued 35 evaluations of the fisheries sector. The mid-term evaluation report on the EFF (Ernst & Young, 2011) backed up the European Court of Auditors' conclusion that the indicators used by the European Commission were not entirely appropriate. They are not relevant to all member states and measurements and indicator reports could not be compared among the member states.

55
We report separately on the situation in 2012 in our report, 'Sustainable fisheries: impact assessment', which will be published in February 2013.

3.3.2 Common fisheries policy in the Netherlands

The common fisheries policy is implemented in the Netherlands by means of an operational programme cofinanced from the EFF. Support from the EFF is applied to improve the competitiveness of the fishing industry and make it more economically, environmentally and socially sustainable. The EFF provided a budget of € 4.3 billion for the EU as a whole for the 2007-2013 programming period. Of this, just under € 49 million is intended for the Netherlands.

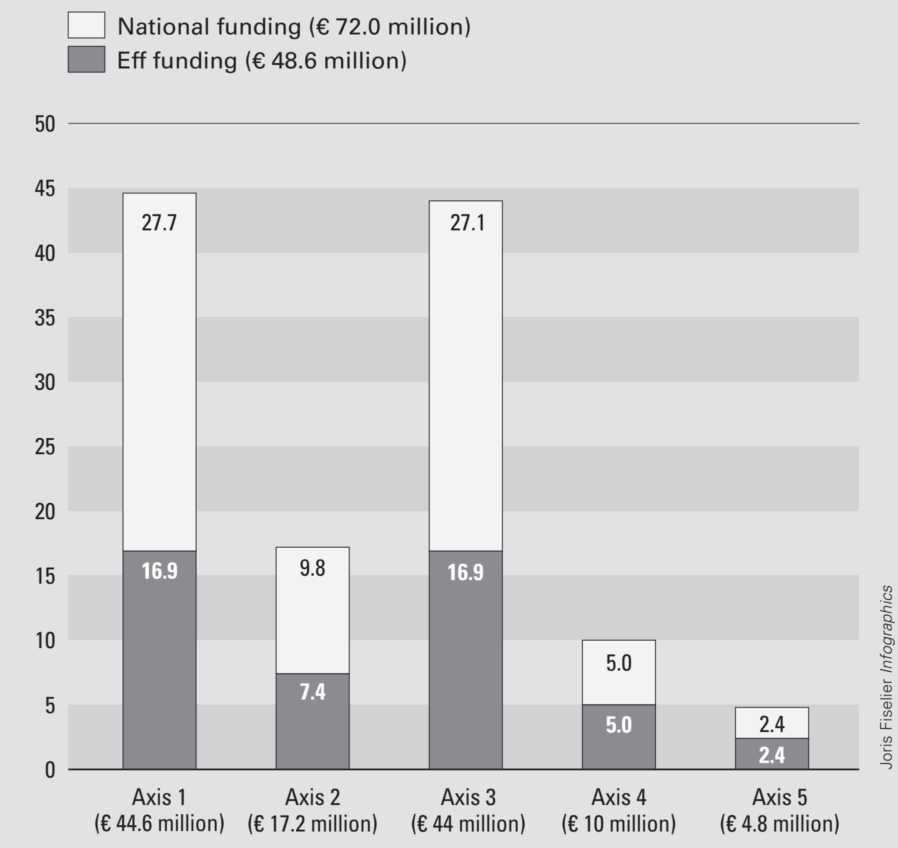
The EFF programming period (2007-2013) has four main objectives, or 'axes':

- adaptation of the fleet (axis 1);
- aquaculture, processing and marketing, inland fishing (axis 2);
- measures of common interest[56] (axis 3);
- sustainable development of fisheries areas (axis 4).

There is also a fifth axis that is concerned with the administrative cost of implementing the programme.

European EFF funding of the Dutch programme for the 2007-2013 programming period amounted to € 48.6 million and accounted for 40% of the total available budget. The Dutch government[57] contributed € 72 million. The total from the public sector for the programming period was therefore € 120.6 million, as shown in figure 12.

Figure 12 **Composition of the OP budget, 2007-2013**
By axis in millions of euros



Source: operational programme 2007-2013, 17 December 2007

56
Measures of common interest are measures that benefit groups of beneficiaries or that are in the public interest and help achieve the objectives of the common fisheries policy. Examples include collective actions in the fishing industry (participation of fishers in knowledge circles), protection of marine plants and wildlife (recovery of eel stocks).

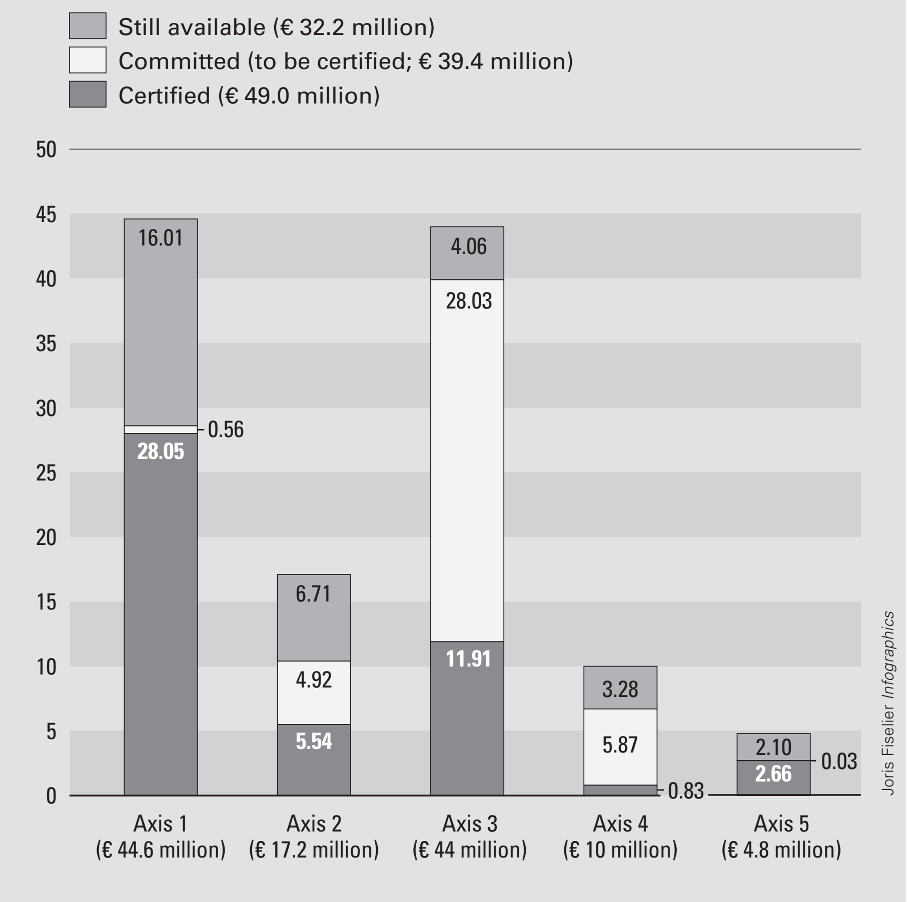
57
In axis 4, the Dutch contribution is made by the provincial authorities, in the other axes by the central government.

The financial support provided by the Dutch government was applied chiefly to achieve objectives in axes 1 and 3; 38% of expenditure on these two axes was from the national budget.

3.3.3 Progress of the programme: financial

European legislation requires the Netherlands to evaluate the EFF in advance, mid-term and on completion (Regulation (EC) no. 1198/2006). In May 2011, the Netherlands submitted a mid-term evaluation that compared the output, results and financial exhaustion against the targets (Erac, 2011). The Ministry of EL&I (currently EZ) also publishes annual reports outlining the progress made with the programme (Ministry of EL&I, 2012a).

Figure 13 **Committed and certified government funding 2007-2011**
By axis in millions of euros



Source: operational programme 2007-2013, 17 December 2007; EFF annual report 2011, 27 June 2012

In total, € 88.4 million of programme funding was committed (promised) for projects in 2007-2011. Of the total, € 29.3 million has been provided from the EFF and € 59.1 million from national funding. Slightly more than half (55.4%) of the amount committed has also been certified, i.e. paid out to beneficiaries and declared to the European Commission. Of the total funding available for the operational programmes, 26.7% can still be spent in 2012-2013.

A report by the EFF Implementation Steering Group of the former Ministry of EL&I found that the 2010 annual tranche of approximately € 2 million (for all axes together) will probably not be applied. On account of the financial crisis, the ministry has decided to grant liquidity advances[58] - funded from the national budget -to the beneficiaries. The Ministry is running a risk in doing so.

Additional figures from the Ministry of EL&I dating from mid-2012 (National Service for Implementation of Regulations, 2012) show that approximately € 104.3 million (86.5% of the operational programme) had been committed by 30 June 2012, of which € 34.2 million (70%) had been borne by the EFF. In mid-2012, approximately 50% of the committed funding had actually been paid out. There is therefore a risk of decommitment[59] in the years ahead.

The Ministry of EZ thinks the available funding will ultimately be inadequate to cover the costs incurred for axis 5. The shortfall will be funded from the national budget. We believe national funding should already be reserved to cover such a potential overrun so that the ministry does not face unpleasant surprises at the end of the programme.

3.3.4 Progress of the programme: effectiveness

The Netherlands has opted to monitor the progress of the programme by means of two indicators: (1) plaice and sole stocks and (2) the economic viability of the fisheries industry. Two indicators have also been formulated for each of the five axes. These indicators are not necessarily linked to individual measures.

Figure 14 (see next page) shows the measures and related indicators. Measures for which there is no indicator are marked by a minus sign, as are indicators that are not on schedule according to the mid-term evaluation.

58
Advances were made in order to encourage beneficiaries to begin or continue projects so that the EFF commitments could be used.

59
EU funds that are allocated to a member state but not spent on a timely basis are ‘decmmitted’, i.e. they are cancelled and returned to the European budget.

Figure 14 **Measures and indicators of the effectiveness of the EFF in the Netherlands**

☺ Yes 😐 Partly ☹ No

		Indicator yes/no		Target 2010	Achieved yes/no	Actual 2007-2011
	Entire programme*	😐	Improved plaice stock	☺	>230,000 tonnes	435,000 tonnes
			Improved sole stock	☺	>35,000 tonnes	36,550 tonnes
			Economic viability	😐	€483 million	Not disclosed
Axis 1	**Adaptation of the fleet**					
1.1	Termination of fishing activities	☺	15% reduction in capacity of flatfish fleet (in GT and KW)	☹	-15% = 61.316 BT 203.827 KW	-13,8% = 62.165 BT 204.048 KW
1.3	Adaptation of fishing fleet	☺	Reduction of by-catch			
1.5	Compensation	☹				
Axis 2	**Aquaculture, processing and marketing and inland fishing**					
2.1	Investments in aquaculture	☺	Increased turnover from fish farming	☹	+0% = € 39 million**	-23% = € 30 million
			Production of shellfish seed from alternative production methods	☺	8 Mkg	10.05 Mkg
2.2	Inland fishing	☹				
2.3	Processing and marketing	☹				
Axis 3	**Measures of common interest**					
3.1	Collective actions in the fishing industry	☺	Participation of fishers in knowledge circles	☺	20%	37%
3.2	Protection of marine plants and wildlife	☹				
3.4	Quality and new markets	☺	Increasing the proportion of certified fish and fish products	☺	30%	80%
3.5	Innovation	☹				
Axis 4	**Sustainable development of fisheries areas**					
4.1	Fisheries areas***	☺	Improved employment (retention/new) in FTE	😐	In 2015: (175)/(67.5)	(156)/(48.5)

* The economic viability indicator was scrapped in 2011
** The target was adjusted in 2011 from 100% growth by 2015 (€78 million) to retention of 2006 value (€39 million)
*** Indicator was set numerically in 2011

Joris Fiselier *Infographics*

An opinion cannot be given on the progress of several measures as indicators have not been formulated for them. The Netherlands has not introduced indicators for five measures, and in the other cases the programme's progress is monitored chiefly by means of variables that are easy to measure. As a result, there is little insight into the achievement of the objectives that are not defined in concrete terms, such as promotion of sustainability and quality of production (axis 2), stimulation of partnerships between science and fishing (axis 3) and marketing environmentally friendly products (axis 4).

Even where indicators have been formulated, it is sometimes difficult to check progress. A baseline measurement, for example, was not made for the general indicators on plaice and sole stocks and the economic viability indicator for the fisheries industry was scrapped because developments in the fisheries economy had far too great an influence on it. In many cases the indicator relates to only part of the measure, such as collective actions in the fisheries industry (3.1) and quality and new markets (3.4). The reduction of by-catch relates to plaice.

Our analysis of the indicators' measurement of the progress of the effectiveness of the programme reveals the following:

- The one-off adaptation round at the beginning of the programme (measure 1.1) did not produce the desired reduction in flatfish capacity (13.8% reduction instead of 15%). As noted above, an audit by the European Court of Auditors found that basing the desired fishing capacity on the weight and engine size of the fleet was not logical because these variables were not directly related to the fishing capacity. This measure therefore did not have the desired result, namely a better balance between maintaining aquaculture and fishing capacity.
- In the operational programme, the target for increased turnover from fish farming (measure 2.1) was 100% growth relative to 2006. The target was lowered in 2011, however, to retaining the level of turnover in 2006. The Ministry of EL&I said that it was no longer realistic to pursue growth in view of the poor situation of fish farming. Progress towards the new target is also disappointing, although there had been an advance between 2010 and 2011.
- The Netherlands decided to give the coastal provinces an important role in the use of funding for axis 4 (sustainable development of fisheries areas) in the form of Local Fisheries Groups (LFGs). The mid-term evaluation and annual reports show that the objective of using local knowledge to identify and set up suitable projects cannot be achieved because the allocation rules are too strict. The mid-term evaluations concluded that the LFGs were concerned chiefly with evaluating instead of initiating new projects.

3.3.5 Beneficiaries of the European Fisheries Fund

In the previous EU Trend Report we named the recipients in 2010 of support from the agricultural funds, the ERDF, the ESF, the education funds and the migration funds. This year, we consider the beneficiaries of EFF support in the period 2007-2011.[60] Pursuant to article 31 of the Fisheries Regulation of 2007[61] the Netherlands must publish a 'list of beneficiaries, the names of the operations and the amount of public funding allocated to the operations' every year. The list has been published each year by the Ministry of van EL&I (currently EZ).

Beneficiaries in 2007-2011

In the period 2007-2011, approximately € 36.3 million in public funding (= EFF contribution and national public contribution) was made available for beneficiaries of the EFF. The information from the Ministry of EL&I includes only approved grants; it does not include advances provided from national public funds. The grants are not broken down by source (EFF contribution or national contribution) in any year.

In 2008 approximately € 27.5 million was applied for a single measure, 'Adaptation of the fleet'. The funding was allocated to 23 beneficiaries. In 2009, € 0.3 million was approved for two measures and allocated to just two beneficiaries, a technical agency and a product marketing board.

In 2010 and 2011 together, funding was approved for various measures in each axis. The 'Investing in aquaculture' and 'Innovation in the fishing sector' measures were financially the most important items in these years.

60
Sources for this section: Ministry of EL&I (2011, 2012b), Ministry of LNV (2010).

61
Commission Regulation of 26 March 2007 laying down detailed rules for the implementation of Council Regulation (EC) no. 1198/2006 on the European Fisheries Fund, Regulation 498/2007, Brussels.

The five largest beneficiaries (in financial terms) in the period 2008-2011 are shown in the tables below. A separate top 5 is given for the 'Adaptation of the fleet' measure (1.1) as it was carried out in 2008 and involved by far the largest amounts.

Table 10 Top 5 beneficiaries, 'Adaptation of the fisheries'

	Beneficiary	Measure (scheme)	Year	Amount (€)
1	Rederij L. de Boer & Zonen B.V.	Adaptation of the fleet	2008	€ 2,749,158.77
2	Fa. L de Nooijer and Zonen	Adaptation of the fleet	2008	€ 2,637,427.60
3	Rederij J&F Kraak and Zonen	Adaptation of the fleet	2008	€ 1,555,213.00
4	Rederij Delta B.V.	Adaptation of the fleet	2008	€ 1,467,601.32
5	Visserijbedrijf J. Meulmeester C.V.	Adaptation of the fleet	2008	€ 1,447,548.23
Total 1-5				**€ 9.856.948.92**
As % of total				**27.1%**

Table 11 Top 5 beneficiaries, other measures

	Beneficiary	Measure (scheme)	Year	Amount (€)
1	BRU 40 B.V.	Investing in aquaculture	2010	€ 773,292.00
		Investing in mussel seed capture installations		€ 100,000.00
2	Stichting Nederland Visbureau	EFF decision 'You can never get enough fish'	2011	€ 700,000.00
3	Roem van Yerseke B.V.	Processing and marketing 'Investing in a new high-tech pasteurisation method'	2011	€ 500,000.00
4	Mosselzaadbedrijf Prins & Dingemanse B.V.	Innovation in the fishing sector 'Sustainable inland shellfish cultivation'	2011	€ 500,000.00
5	Fa. A. Ellen and zonen	Innovation the fishing sector	2010	€ 499,683.02
Total 1 - 5				**€ 3,072.975.02**
As % of total				**8.5%**

Unlike the beneficiaries of other EU funds, the beneficiaries of the EFF are very diverse: ranging from ship owners and fishing companies to product marketing boards and individual fishers. Only one beneficiary (Productschap Vis, the Fish Product Board) ranked among the top 5 beneficiaries in more than one year (2009 and 2011).

Beneficiaries in other EU member states

Unlike the websites of DG Regional Policy and DG AGRI, DG MARE's website does not refer visitors to the member states' websites to find out who the beneficiaries are. Furthermore, DG MARE and DG AGRI do not include working documents arising from the regulations on their websites; DG Regional Policy does.

We determined how three member states that, like the Netherlands, border the North Sea, published information on the beneficiaries of EU support under the common fisheries policy in 2010-2011. Our findings are presented in table 12. For the sake of comparison, the table also includes information on the Netherlands.

Table 12 Information on beneficiaries of EFF support in the Netherlands, Germany, Belgium and the UK[62]				
	Netherlands	Germany	Belgium	UK
Name of beneficiary	☺	☺	☺	☺
Name of municipality	☺		☺	
Measure or activity	☺	☺	☺	☺
Year of allocation	☺			☺
Year of final payment	☺			☺
National public contribution, paid		☺	☺	
EFF contribution, paid		☺	☺	
Total government contribution paid	☺	☺	☺	☺*
* According to final declaration				

The table shows that the Netherlands complied with the obligation to publish a list of beneficiaries, stating the names of operations and the amount of public funding. Unlike Belgium, however, the Netherlands does not break down the payment into an EFF contribution and a national public contribution. The draft regulation for the new European Fund for Maritime Affairs and Fisheries (EFMAF) in the Multiannual Financial Framework 2014-2020 proposes that member states should be obliged to operate a website disclosing a list of operations with the amount of the EFMAF contribution.

3.4 Simplification of structural funds regulations in the Netherlands

In their discharge resolutions and annual reports respectively, the European Parliament and the European Court of Auditors have repeatedly stressed the importance of simpler regulations. The more complex the rules are, the greater the risk of error and failure to achieve policy goals, they argue. In response, the European Commission introduced several simplification measures with the ultimate aim of reducing errors.

We analysed what result these measures had had in structural operations.[63] We asked the following questions:

- What simplification mechanisms have been introduced for EU structural funds?
- To what extent have nine of the main measures been taken in the Netherlands?
- If they have been taken, how well do the measures work in the Netherlands? If they have not been taken, why not?
- What does the Netherlands think about the simplification proposed for the period 2014-2020?

The audit related to shared-management structural funding spent in the Netherlands under the responsibility of the Minister of EL&I (ERDF) and the Minister of SZW (ESF).[64] In the period 2007-2013, ERDF funding amounted to € 830 million (plus € 1,342 million national cofinancing) and ESF funding amounted to € 830 million (plus € 1,130 million national cofinancing). The ERDF programme is implemented in the Netherlands by four decentralised managing authorities (provincial authorities and a number of municipal authorities). The ESF programme is implemented in the Netherlands at central government level by the SZW Agency.

62
For information on Germany, see www.agrar-fischerei-zahlungen.de/Fischerei_empfaenger, for information on Belgium, see http://lv.vlaanderen.be/nlapps/docs/default.asp?id=842 and for information on the UK see http://marinemanagement.org.uk/fisheries/funding/documents/eff-eti-convergence.pdf

63
This audit related to the implementation in the Netherlands of the activities of the EU Structural Funds Working Group of supreme audit institutions in the EU. For more information on the international project, see section 2.5.2 of this report.

64
For the purposes of this audit, information was requested from and interviews were held with the Ministries of EL&I and SZW and the managing, certifying and audit authorities concerned. For the ERDF, we investigated two programmes: West Netherlands and East Netherlands. Information was also gained from a non-representative sample of 18 projects.

3.4.1 EU policy on the simplification of structural funds

The EU task force on simplification was established in November 2008. Its objective is to identify measures to improve the effectiveness of cohesion policy in the current and forthcoming programming period. The task force also considered what measures could still be taken under the current regulation and what measures must be deferred to the 2014-2020 programming period.[65] The task force proposed a series of simplifications to the European Commission in 2009. This led to amendments in the most relevant regulations on the implementation of structural policy.[66]

The main amendments are:

- the option of using flat rates, lump sums and standard scales of unit costs as well as actual costs to settle project payments;
- the option of declaring non-financial project contributions as eligible expenditure (financial engineering);
- prefinancing of projects;
- cofinancing of recovered structural fund support;
- raising the threshold to classify a project as a 'large project' and increasing flexibility for large projects;
- raising the threshold above which income-generating projects must comply with additional requirements.

Flat rates are based on a fixed percentage of the direct costs (up to a maximum of 20%) that can be used to calculate the eligible indirect cost of a project. A lump sum payment is a pre-agreed fixed eligible amount of € 50,000. A standard scale of unit costs (SUC) uses standard costs per unit. An example that is often used in the Netherlands is full absorption costing.

In future, only income-generating projects with total costs of more than € 1 million (previously € 200,000) must submit a calculation and forecast of their potential income. Furthermore, 'small' projects, of up to € 1 million, do not need to report their potential income in the five years following their completion. Associated audits are also no longer necessary. For 'large projects' that must comply with stricter requirements, the application threshold has been raised from € 25 million to € 50 million. Projects of less than € 50 million (previously € 25 million) no longer need to comply with the stricter requirements. A facility has also been created to finance large projects from various structural programmes.

3.4.2 Main findings for the Netherlands

The Netherlands makes only limited use of the simplification measures

The first simplification measures were introduced in the course of 2009 (several years after the start of the 2007-2013 programming period) and the last were not introduced until the end of 2011. All nine measures are in principle applicable to the ERDF programmes. Three of the nine are applicable to the ESF programme. One of them is compulsory for project beneficiaries,[67] namely the standard scale of unit costs, which has been adopted by the managing authority for the ESF programme in the Netherlands, the SZW Agency. Table 13 shows how many simplification measures are used in practice.

65
For the purpose of this audit, a simplification measure is one that leads to a reduction in the administrative burden and/or implementation costs.

66
These amendments were made in Regulations (EC) no. 1080/2006, 1081/2006 and 1083/2006.

67
The project beneficiary is not the project implementer in all cases. For the sake of consistency, we use the term 'project beneficiary' in this chapter..

Table 13 Simplification measures applied since the start of the 2007-2013 programming period									
Simplification	**ESF**			**ERDF West**			**ERDF East**		
	Proportion of total projects	Proportion of total funds	Proportion of total applicable projects	Proportion of total projects	Proportion of total funds	Proportion of total applicable projects	Proportion of total projects	Proportion of total funds	Proportion of total applicable projects
Flat rate of 20% of direct costs	-	-	-	-		-	-		-
Standard scale of unit costs (SUC)	14%	82%	93%	34%	30%	100%	39%	41%	58%
Lump sum	-	-	-	-	-	-	1%	0.1%	2%
In-kind contributions	-	-	-	-	-	-	-	-	-
Prefinancing	-	-	-	2%	2%	22%	-	-	-
Flexibility, large projects	-	-	-	-	-	-	-	-	-
Support recovered	-	-	-	-	-	-	-	-	-
Application threshold, income-generating projects	-	-	-	2%	0.2%	100%	11%	3%	100%
Application threshold, large projects	-	-	-	1%	4%	100%	-	-	-

It can be seen from table 13 that five of the nine measures were being used in the Netherlands at the end of 2011 and four were not. It can also be seen that in practice the ESF and ERDF managing authorities tended to use only one of the simplification measures, the SUC. The SUC was most popular in terms of both the number of projects and the financial volume of the programmes covered. The compulsory SUC was applied in two ways for ESF projects, as a fixed mark-up on direct wage costs and as a standard rate in day release vocational education projects. The managing authorities for the ERDF programmes have not made full absorption costing compulsory for the SUC but encourage project beneficiaries to use it. Furthermore, the ERDF West programme applies two forms of an SUC: standard government costs and standard costs of the Chamber of Commerce.

Considerably less use is made of the other measures. Lump sums are used only in the ERDF, and then for just 1% of the projects (0.1% of the available funding). Relatively little use is made of the prefinancing measure for the ERDF West programme.

Two of the nine simplification measures are not optional in the ERDF but apply automatically where applicable: income-generating projects with eligible costs of more than € 1 million, and large projects of more than € 50 million. The latter is applicable only to ERDF West, in which there is one large project. The other measure is used slightly more often.

The flat rate for indirect costs (maximum mark-up of 20% of direct costs) is not used. The Ministry of SZW and the SZW Agency proposed a flat rate to the European Commission for use in ESF projects. The European Commission was not persuaded by their calculations and did not agree to its use. The Ministry of EL&I decided not to apply the flat rate on account of the supposed complexity of calculating and substantiating a mark-up that covered the costs.

Simplification measures do not always simplify implementation
The ESF programme implementers are more appreciative than the ERDF programme implementers of the simplification brought about by the SUC. This is because in practice the use of the full absorption costing is more complicated for the ERDF programmes than expected. It proved complex and time consuming to develop a standard scale of unit costs since the costs are business-specific and need to be updated every year. Moreover, full absorption costing has to be approved by the managing authority, which tests whether it satisfies the national conditions.

For the ESF programme, too, it proved difficult to calculate a standard rate in advance, partly because of the diverse nature of the programme activities and costs. Furthermore, the models used to calculate standard rates (unlike those used to calculate flat rates) do not require the prior approval of the European Commission. There is therefore still some uncertainty about eligibility.

Nevertheless, most programme implementers think the SUC, once adopted and applied consistently, alleviates the administrative burden and thus simplifies the project beneficiaries' activities. Some project beneficiaries are critical about the simplification achieved in practice.[68] Some do not consider it to be a simplification that full absorption costing for ERDF projects must be estimated in advance on the basis of a preliminary calculation and subsequently recalculated on the basis of actual costs. Some ESF project implementers said there were additional burdens because not all beneficiaries (in the case in question, schools) willingly cooperated in the provision of information. Furthermore, some beneficiaries thought the standard rate was too low.

The programme implementers are in principle positive about the simplification brought about by lump sum financing, despite the limited use made of this measure. All concerned commented, however, that the standard lump sum of € 50,000 was so low that it did not cover their costs. Furthermore, the project implementers run a financial risk: if the actual output is less than the estimated output, the implementer receives nothing.

The prefinancing measure is seen as a favourable 'financial crisis measure' rather than as a simplification.

Implementers believe more SUCs and flat rates are the way forward
The ESF and ERDF programme implementers look upon the failure to adopt flat rates to determine indirect project costs in the current programming period as a missed opportunity. New simplification proposals made by the European Commission for the forthcoming 2014-2020 programming period can improve the situation. One of the

68
We held interviews with only a few project beneficiaries. This finding is therefore not representative.

proposals is that a series of flat rates could be used alongside each other for both direct and indirect costs. This would increase flexibility. The implementers noted, though, that the proposed mark-ups for indirect costs were on the low side and should be equal to at least 20% of the direct costs. They also thought there was a risk of complicated and restrictive additional rules if the European Commission prescribed definitions and standard calculations in the form of delegated acts, especially if it did so during the programming period.

The proposed increase of the lump sum to € 100,000 was also well received. According to the respondents, though, it should be known in advance what quality requirements would be made on the results.

Appendix 1 Key figures

Table A1. Remittance of EU own resources by member state in 2011 (actual figure, in millions of euros)[69]

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 United Kingdom for opt outs	Total 2011
Austria	189	306	2,149	24	19	1	2,689
Belgium	1,581	517	2,626	177	24	1	4,927
Bulgaria	49	51	274	18	2	0	395
Cyprus	25	27	123	9	1	0	185
Czech Republic	221	208	1,170	75	9	0	1,683
Denmark	328	291	1,705	112	16	-3	2,448
Estonia	22	23	107	6	1	0	159
Finland	152	267	1,436	87	13	1	1,955
France	1,566	2,917	14,029	966	133	6	19,617
Germany	3,456	1,671	17,602	218	171	8	23,127
Greece	141	279	1,375	93	14	1	1,903
Hungary	101	117	666	47	6	0	937
Ireland	200	194	887	53	8	-2	1,339
Italy	1,742	1,812	11,698	718	103	5	16,078
Latvia	23	16	134	9	1	0	182
Lithuania	45	28	214	14	2	0	302
Luxembourg	14	47	215	15	2	0	293
Malta	10	9	44	3	0	0	66
Netherlands	1,936	290	4,215	51	-625	2	5,869
Poland	353	527	2,494	183	24	1	3,580
Portugal	135	299	1,207	82	11	1	1,734
Romania	110	139	902	67	8	0	1,226
Slovakia	117	60	475	37	4	0	694
Slovenia	74	55	252	18	2	0	401
Spain	1,170	1,964	7,352	488	69	3	11,046
Sweden	467	173	2,798	33	-138	1	3,334
United Kingdom	2,552	2,513	12,267	-3,596	116	-27	13,825
Total	**16,778**	**14,799**	**88,414**	**5**	**-1**	**0**	**119,995**

Source: European Commission (2012b), EU budget 2011, Financial Report, Brussels, European Commission

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Total remittances received by the EU in 2011 amounted to € 130 billion, see section 1.2, figure 1.

Table A2. Receipts in 2011 by member state, by budget heading (actual figures in millions of euros)[70]

Member state	Sustainable growth		Natural resources	Citizenship, freedom, security and justice	EU as a global partner	Administration	Total 2011
	Competitiveness for growth and jobs	Cohesion for growth and jobs					
Austria	283	219	1,312	43	0	19	1,876
Belgium	1,042	287	713	152	0	4,603	6,797
Bulgaria	68	539	444	12	31	13	1,107
Cyprus	19	85	66	8	0	6	184
Czech Republic	75	1,775	1,133	29	0	17	3,029
Denmark	190	132	1,088	13	0	51	1,473
Estonia	19	268	201	7	1	9	505
Finland	154	304	795	16	0	25	1,293
France	1,313	1,773	9,542	193	0	343	13,162
Germany	1,577	3,447	6,837	88	0	184	12,133
Greece	220	3,332	2,895	53	0	38	6,537
Hungary	111	3,637	1,500	44	17	22	5,331
Ireland	171	155	1,257	14	0	43	1,639
Italy	827	2,341	5,993	175	0	250	9,586
Latvia	28	561	303	10	0	10	911
Lithuania	93	977	536	35	1	11	1,653
Luxembourg	134	22	53	13	0	1,327	1,549
Malta	19	85	15	8	0	8	135
Netherlands	579	307	940	149	0	89	2,064
Poland	234	9,633	4,293	243	10	28	14,441
Portugal	185	3,108	1,333	61	0	28	4,715
Romania	68	700	1,694	50	128	19	2,659
Slovakia	41	1,056	648	29	0	11	1,785
Slovenia	65	525	227	21	0	9	847
Spain	903	5,428	7,092	90	0	85	13,599
Sweden	296	358	996	78	0	29	1,757
Total	**9,899**	**42,265**	**55,869**	**1,712**	**189**	**7,403**	**117,337**
United Kingdom	1,187	1,212	3,961	81	0	129	6,570
Source: European Commission (2012b), EU budget 2011, Financial Report, Brussels, European Commission							

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Total expenditure by the EU in 2011 amounted to € 129.4 billion, see section 1.2, figure 2.

Appendix 2 Abbreviations and definitions

Abbreviations

BZK	Ministry of the Interior and Kingdom Relations
Buza	Ministry of Foreign Affairs
CBS	Statistics Netherlands
DAS	Déclaration d'Assurance (statement of assurance, European Court of Auditors)
DG	Directorate-General of the European Commission
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
ECB	European Central Bank
Ecofin	Economics and Financial Affairs Council
EFF	European Fisheries Fund
EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EGF	European Globalisation Adjustment Fund
EL&I	Ministry of Economic Affairs, Agriculture and Innovation
ESF	European Social Fund
ESM	European Stability Mechanism
EU	European Union
GNI	Gross national income
IAS	Internal Audit Service of the European Commission
ISSAI	International Standards of Supreme Audit Institutions
OCW	Ministry of Education, Culture and Science
OLAF	Office européen de lutte antifraude (European anti-fraud office)
POP	Rural Development Programme
RF	European Return Fund
SZW	Ministry of Social Affairs and Employment
TFEU	Treaty on the Functioning of the European Union
V&J	Ministry of Security and Justice
VAT	Value added 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 276 of the EC Treaty, 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.
Financial Perspective	The Financial Perspectives form the framework for Community expenditure over a period of several years. They are the outcome of an interinstitutional agreement between the European Parliament, the Council and the Commission, and set the maximum amount and composition of projected European expenditure. They are also known as the multiyear budget.
Error	An error is a departure from one of the regularity or presentation criteria detected during a check of commitments, expenditure, receipts, income, expenses, capital expenditure, capital revenues or other balance sheet item.
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; • agricultural duties on products from third countries and producer contributions for certain agricultural products; • 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 248 of the EC Treaty, 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.
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.

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Audit team

J.I.A. Mak (Project Manager)
P.J.A.J. van Roozendaal (Project Manager)
P. Antenbrink
P. Broers
J.M.M. van den Bos
A.H.J. Hilhorst
R.M.G. Hub
F.J. Melker
P.A. Neelissen
A.A.A. van Schijndel
L. Simonse

The Netherlands Court of Audit

Algemene Rekenkamer
Lange Voorhout 8
P.O. Box 20015
2500 EA The Hague
phone +31 70 342 43 00
www.courtofaudit.nl

Translation

Alan Hyde

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