



# Report on the National Declaration 2013

*Accountability by the Netherlands as an EU member state for its use of European funds under shared management (accountability cycle 2012)*





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European funds under shared management (accountability cycle 2012)*

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# Summary

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By addressing a National Declaration<sup>1</sup> to the European Commission and the Dutch parliament, the Netherlands wishes to improve management, control and accountability for the EU funds it spends under shared management with the European Commission. The National Declaration is issued annually by the Minister of Finance on behalf of the government. The Netherlands Court of Audit expresses an opinion on the National Declaration to parliament each year.

Owing to the layered allocation of responsibilities and powers in the European Union, a National Declaration is an essential instrument to reconcile national and European public accounts. We applaud the Minister of Finance's decision to issue a National Declaration voluntarily. The minister must continue to support the instrument and encourage its use by other member states.

We have identified new opportunities to widen the declaration's scope and thus increase its added value. Remittances made to the European Union, for example, could be included in the National Declaration, as could the effectiveness and efficiency of the use of EU funds. In our opinion, accountability for and transparency of budgetary discipline and the implementation of reform programmes by member states receiving crisis support could also be included in a national declaration. In the EU Trend Report 2013 (Netherlands Court of Audit, 2013), we recommended that a member state declaration be made a compulsory requirement for the receipt of crisis support.

## *Opinion*

We are on the whole positive about the National Declaration 2013. The declaration has, on the whole, been prepared in a sound manner, provides reliable assurance on the functioning of management and control systems and on the regularity of the use of funds that the Netherlands receives from the European Union.

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<sup>1</sup> The Ministry of Finance has titled the report the National Declaration and since last year has dated it by the year of publication rather than the year of the accounting reference period. In this report, we also adopt the title National Declaration, which we take to be synonymous with the title EU member state declaration.



### National Declaration 2013

The National Declaration 2013 considers total funding received and accounted for of €1,276.4 million, disbursed from nine funds.

Responsible minister, European fund and funding period	Amount from EU (in € millions)
<i>Minister of Economic Affairs</i>	
1. European Agricultural Guarantee Fund (EAGF) (16-10-11 to 15-10-12)	865.0
2. European Agricultural Fund for Rural Development (EAFRD) (16-10-11 to 15-10-12)	97.1
3. European Regional Development Fund (ERDF) (2011)	
4. European Fisheries Fund (EFF) (2011)	158.6
	4.5
<i>Minister of Social Affairs and Employment</i>	
5. European Social Fund (ESF) (2011)	139.8
6. European Integration Fund (EIF)	
a. Annual programme 2008 (01-01-08 to 30-06-10)	1.3
b. Annual programme 2009 (01-01-09 to 30-06-11)	1.9
<i>State Secretary for Security and Justice</i>	
7. European External Borders Fund (EEBF) (01-01-09 to 30-06-11)	3.3
8. European Return Fund (RF) (01-01-09 to 30-06-11)	1.7
9. European Refugee Fund (ERF) (01-01-09 to 30-06-11)	3.2

The responsible ministers and state secretaries provide information and identify areas where improvements can be made in the management, control and regularity of expenditure from the ERDF, EFF and the migration funds (EEBF, RF, ERF and EIF).

Without prejudicing our positive opinion on the National Declaration 2013, we would draw attention to the following issues.

#### EAGF, EAFRD, ERDF and EFF

We recommend that the Minister of **Economic Affairs (EZ)** pay permanent attention to the measures taken to resolve the following shortcomings:

- Non-compliance with control standards and inadequate reduction of funding in cases of non-compliance with animal welfare, environmental and animal health conditions. These shortcomings have persisted since the start of the current agricultural programme. The minister has taken corrective measures but the desired standard has not yet been reached.



- Debtor management, control of payment applications, administrative controls to prevent irregular double payments and information security in the management of the EAFRD by the Government Service for Sustainable Rural Development (DLG). 3
- Error rates in payment applications. Despite the management measures taken, the error rates in two of the four ERDF programmes (North and South) exceeded the tolerable threshold of 2% of total eligible costs in 2011. In accordance with EU procedures, the error rates were reduced to below the 2% threshold after submission of payment applications in 2012.
- Management and control of the EFF. Management is not yet at the required level: significant corrections have to be made in declared expenditure in order to comply with European standards.

#### EEBF, RF and ERF

We recommend that the State Secretary for **Security and Justice (V&J)** pay permanent attention to the measures taken to resolve the following shortcomings:

- Recurrent shortcomings in the management and control systems in 2013 – as already committed last year. The accounts for the EEBF, RF and ERF must be submitted on time. Particular attention should be paid to the use of a planning tool, the functioning of project supervision and the approval of funding.
- The underspend from the RF and ERF, to prevent funding provided by the European Commission being decommitted.

#### ESF and EIF

We recommend that the Minister of **Social Affairs and Employment (SZW)** continue the measures taken to improve management and control of the ESF. A positive point is that, pursuant to article 73 (3) of Council Regulation (EC) no. 1083/2006, the European Commission has concluded that it can rely on the audit authority's opinion, and the Commission's audit activities in the Netherlands will accordingly be limited.

We expect the minister to resolve the recurrent shortcomings in the management and control of the EIF in 2013, particularly regarding the timely preparation of accounting documents. The previous minister responsible for their preparation (the Minister for Immigration, Integration and Asylum Policy) had failed to prepare the financial accounts for the EIF 2008 annual programme on time. Last year, they were therefore not considered in the National Declaration. The situation has since been rectified but the annual report on the 2009 annual programme had not been prepared by 30 April 2012. In particular, the



use of a planning tool, the functioning of project supervision and the approval of funding are open to improvement.

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#### *Remittances to the European Union*

We again call on the Ministers of **Finance, Foreign Affairs (BZ) and EZ** to consider the remittance of own resources to the European Union in the National Declaration. Since remittances are not included in the National Declaration, we cannot express an opinion on them. Inclusion of remittances in the National Declaration would produce a comprehensive set of EU accounts at member state level and would be consistent with the EU budget as audited by the European Court of Auditors. By including remittances in the National Declaration, the government could explicitly account for:

- the preparation of the accounts;
- the functioning of management and control systems;
- the accuracy, completeness and regularity of remittances.

The Dutch and European parliaments would then be better informed of how the Netherlands calculates and accounts for its remittances. Furthermore, this would be a significant improvement in public accountability at national level as it would consolidate the fragmented accounts kept by the Ministers of BZ, EZ and Finance and more provide assurance on remittances and the functioning of underlying systems.

#### *Response of the government and the Court of Audit's afterword*

In response to our conclusions and recommendations, the Ministers of Finance and SZW and the State Secretaries for EZ and V&J undertook to adopt 16 of the 18 open recommendations. They will not implement two of the recommendations, both relating to the scope of the declaration:

- the repeated recommendation to include own resources in the National Declaration;
- the new recommendation that the National Declaration include information on the effectiveness and efficiency of EU funds spent under shared management.

The non-compulsory nature of the National Declaration leaves us no option but to express our disappointment about the decision not to include remittances in the National Declaration. We remain convinced that inclusion of remittances in the National Declaration would have significant added value because the current public accounts provide inadequate insight into the underlying management and control systems.



We believe a single set of comprehensive accounts covering regularity on the one hand and effectiveness and efficiency on the other to be the optimal goal of public accountability. It would prevent several documents having to be consulted to gain an overall understanding of the outcome of funding. The existing evaluations can be used to combine efficiency with accountability for the regular use of EU funding. **5**





# 1 About the National Declaration

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This report presents the findings of our audit of the National Declaration 2013.<sup>2</sup> The National Declaration for the 2012 accounting cycle considers the functioning of the management and control systems and the regularity, accuracy and completeness of the financial transactions declared to the European Commission during the relevant accounting reference period. By preparing a National Declaration, the Netherlands wishes to improve management, control and accountability for EU funds spent in the Netherlands under shared management with the European Commission. The Minister of Finance issues the National Declaration annually on behalf of the government. It is addressed to the European Commission and the Dutch parliament. The Netherlands Court of Audit expresses an opinion on the National Declaration to parliament each year.

The National Declaration is an important instrument for the Minister of Finance to improve EU governance in the Netherlands. We applaud the minister for taking the initiative and continuing to issue the National Declaration. The National Declaration, and our audit of it, provides a better view of the quality of management and control systems and the regularity of European funds that are spent in the Netherlands under shared management with the European Commission.

We noted in our EU Trend Report 2013 (Netherlands Court of Audit, 2013) that only four member states had to date published a national account of their use of EU funds. Despite the limited support for national declarations in the EU, we would underline the importance of the Netherlands' continued publication of such accounts and their external audit at member state level. Public accountability and external audit are essential elements of good public administration.

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<sup>2</sup> The Ministry of Finance has titled the report the National Declaration and since last year has dated it by the year of publication rather than the year of the accounting reference period. In this report, we also adopt the title National Declaration, which we take to be synonymous with the title EU member state declaration.



## 1.1 The National Declaration 2013

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Table 1 shows the funds and amounts considered in the National Declaration 2013 and the ministers responsible for them.

**Table 1 European funds and responsible ministers, funding period and related funding considered in the National Declaration 2013**

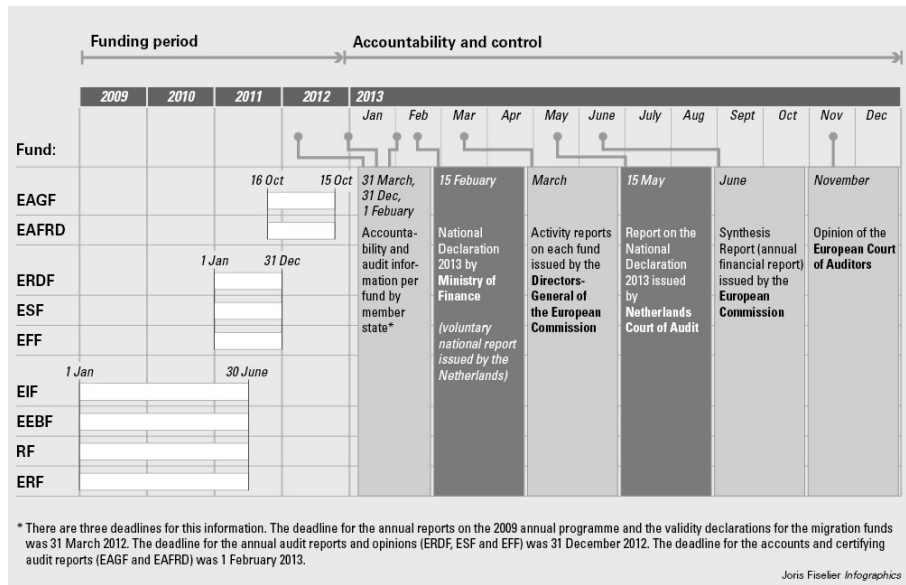
<b>Responsible minister, European fund and funding period</b>	<b>Amount from the EU (in € millions)</b>
<i>Minister of Economic Affairs</i>	
10. European Agricultural Guarantee Fund (EAGF) (16-10-11 to 15-10-12)	865.0
11. European Agricultural Fund for Rural Development (EAFRD) (16-10-11 to 15-10-12)	97.1
12. European Regional Development Fund (ERDF) (2011)	158.6
European Fisheries Fund (EFF) (2011)	4.5
<i>Minister of Social Affairs and Employment</i>	
13. European Social Fund (ESF) (2011)	139.8
14. European Integration Fund (EIF)	
a. Annual programme 2008 (01-01-08 to 30-06-10)	1.3
b. Annual programme 2009 (01-01-09 to 30-06-11)	1.9
<i>State Secretary for Security and Justice</i>	
15. European External Borders Fund (EEBF) (01-01-09 to 30-06-11)	3.3
16. European Return Fund (RF) (01-01-09 to 30-06-11)	1.7
17. European Refugee Fund (ERF) (01-01-09 to 30-06-11)	3.2
<i>European funding accounted for in the National Declaration 2013</i>	<b>1,276.4</b>

Pursuant to European regulations, the amounts disclosed in the National Declaration 2013 relate to several accounting reference periods. The EAGF and EAFRD agricultural funds, for example, are settled on an annual basis for the year ended 15 October. The European Commission requests accountability and audit information from the Netherlands in January of the following year. The Directorate-General for Agriculture and Rural Development (DG AGRI) then renders account in its activity reports for each fund. The accounting reference period differs for the other funds, but the same steps are taken. The accounting reference period for the structural funds (ERDF and ESF) and the EFF is the 2011 calendar year. In June 2012, the European Commission asked the Netherlands to submit accountability information on these funds and audit information in December 2012. The accountability reference period for the migration funds was the period from 1 January 2009 to 30 June 2011. The European Commission asked the Netherlands to submit accountability information on these funds in April 2012 and audit information in December 2012.



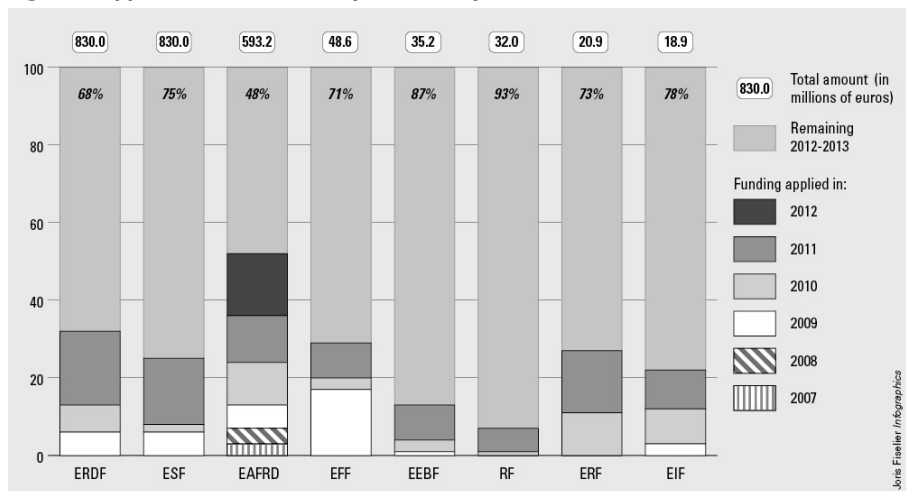
The National Declaration considers the nine funds as a whole. We submitted our opinion to parliament on the third Wednesday in May.

**Figure 1 Fund management, accountability and audit, situation in the Netherlands**



The figure below shows actual expenditure in comparison with the budgets allocated by the Commission for the current programming period (2007-2013). Under EU rules, expenditure for a particular programming period can still be declared several years after the close of the programming period (in the case of the 2007-2013 programming period, until 31 December 2015).

**Figure 2 Application of EU funds (2007-2013)**





The European Commission has reserved budgets for the 2007-2013 programming period. The expenditure budgeted for the Netherlands in 2007-2013 is:

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- for ERDF and ESF €830 million each;
- for EAFRD €593.2 million;
- for EFF €48.6 million;
- for the migration funds (EEBF, RF, ERF and EIF) €115 million.

In relation to the available budgets, actual expenditure at the end of the accounting reference periods had been limited. Limited application in the initial years was due chiefly to start-up problems with the management and control systems. It should also be noted that expenditure from most of the funds relates to previous years and is not up to date. Expenditure from seven of the eight funds in 2012, for example, had not been recognised because the accounts were not available. In the European Fisheries Fund (EFF), the Netherlands is running the risk of not applying the budgets in full on account of the decommitment arising from the N+2 rule.<sup>3</sup>

## 1.2 Importance of the National Declaration

The 27 member states are working together on the future of the EU, but the allocation of responsibilities and powers is complex. Political responsibility is borne at either EU or national level or it is shared. Public responsibility must be consistent with both this allocation and the need for democratic control and openness to European citizens. A precondition for this is accountability and related assurances by means of external audit in the member states.

In practice, those with hierarchical political responsibility do not sufficiently recognise the importance of ex-post accountability and external audit. Public accountability at member state level is not only important to the Netherlands but it is also necessary to produce substantive and meaningful accounts that the European Commission and the European Parliament can use to shape and steer policy. A national declaration is the only instrument available to reconcile national and European public accounts.

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<sup>3</sup> That part of payment commitments funded by the European Commission is decommitted if an eligible payment application has not been submitted by the end of the second year after the commitment was entered into.



### 1.3 New options for the National Declaration

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It is to the Minister of Finance's credit that he continues to support the National Declaration and encourages other member states to follow his example wherever possible. A second step, one that would strengthen the declaration's added value and relevance to public accountability, would be to make the most of the options and opportunities offered by the National Declaration. In addition to the remittances the Netherlands makes to the European Union, (see chapter 3), the National Declaration could also consider the effectiveness and efficiency of EU funding, budgetary discipline and the implementation of reform programmes by member states receiving crisis support.

#### *Effectiveness and efficiency of funding*

The Dutch government issued the National Declaration 2013 to account for the EU funding spent in the Netherlands under shared management with the European Commission. The scope of the declaration is confined to the true and fair presentation of the funding and the regularity of its use. It therefore satisfies one of the basic conditions for good public administration. It is also important to know, however, whether the funds also satisfy the criteria of *economy, efficiency and effectiveness*<sup>4</sup> (Netherlands Court of Audit, 2012). EU evaluation requirements have to date provided insufficient insight into the effectiveness and efficiency of EU funding (Netherlands Court of Audit, 2013). By providing more insight into the effectiveness and efficiency of EU funding, the National Declaration could enhance understanding of and support for funding policy or could lead to a reconsideration of funding policy.<sup>5</sup> We recommend that the government consider preparing a periodic national declaration that accounts for the effectiveness and efficiency of funding and encourage other member states to render a similar account.

#### *Accountability for budgetary discipline in the framework of the European semester*

To strengthen budgetary discipline, the minister could explain how compliance with EU requirements is monitored and what information is available to assess compliance. It should be borne in mind that the European Commission and the EU member states use *EMU figures* to determine the member states' compliance with the conditions of Economic and Monetary Union (EMU). The EMU figures are usually compiled by statistical offices such as Statistics Netherlands (CBS). The European

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<sup>4</sup> The Netherlands Court of Audit has defined criteria to assess the effectiveness of policy.

<sup>5</sup> House of Representatives answer to MP Gerard Schouw (D66) concerning the article 'European agricultural subsidies spent by church and shuffleboard clubs' (De Telegraaf, 7 February 2013).



Commission's regulations on public accountability require the member states to issue annual reports on the measures they have taken to ensure the *quality of their statistics*.<sup>6</sup>

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#### *Implementation of reform programmes*

Member states receiving crisis support<sup>7</sup> could issue annual national declarations to report on their implementation of reform programmes. In the EU Trend Report 2013 (Netherlands Court of Audit, 2013), we recommended that the Minister of Finance propose in Ecofin that EU member states receiving crisis support prepare an annual member state declaration to account not only for their use of funds received from the general EU budget but also for their use of crisis support. Accountability for the implementation of reform programmes supplemented with reliability assurances (provided by external audit) would enhance insight into the regularity and efficiency of EU financial support.

#### *Structure of this report*

In chapter 2 we present our opinion on the National Declaration 2013. In chapter 3 we present the findings of our audit of remittances to the European Union (own resources), followed by our afterword. The report closes with a summary of the main recommendations and the undertakings given by the ministers and state secretaries.

We provide background information on the National Declaration on our website at [www.rekenkamer.nl](http://www.rekenkamer.nl). As well as providing a more technical explanation of the National Declaration, its preparation and our audit approach, we take a more detailed look at our audit findings and the underlying subsidiary declarations.

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<sup>6</sup> Commission proposal (COM(2012)167): 'commitments on confidence in statistics. The member state, represented by its government, shall sign and implement a commitment on confidence in statistics, whereby specific policy commitments are made to implement the Code of Practice and to establish a national quality assurance framework, including self-assessments and improvement actions. The commitment shall be counter-signed by the Commission and regularly monitored by the Commission on the basis of annual reports sent by the member states'.

<sup>7</sup> Financial support from the European Financial Stability Facility (EFSF), European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM).



## 2 **Opinion of the Netherlands Court of Audit on the National Declaration 2013**

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We have audited the National Declaration 2013 (including the associated consolidation statements)<sup>8</sup> and expressed an opinion thereon. Pursuant to EU regulations, the management, control and accountability requirements differ from one fund to another. Subsidiary declarations are therefore prepared for each fund.

Our opinion considers three aspects of the National Declaration 2013:

- the preparation of the National Declaration and the underlying sub-declarations and associated consolidation statements;
- the assertion made on the systems and measures in place to manage and control EU funds;
- the assertion made on the legality, regularity, accuracy and completeness of financial transactions down to the level of the final beneficiaries.

### *National Declaration 2013*

The full text of the National Declaration 2013 as signed by the Minister of Finance on behalf of the government is published in Dutch only. It is summarised in the box below.

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<sup>8</sup> Consolidation statements account for actual expenditures and receipts from each EU fund.

**The National Declaration 2013 as signed by the Minister of Finance**

The Minister of Finance signed the *National Declaration 2013* on 12 March 2013.

The National Declaration is positive regarding the management and control systems in place in the Netherlands for four of the nine EU funds. The declarations on the four migration funds (EIF, EEBF, RF, ERF) and on the EFF contain reservations on account of shortcomings in the functioning of management and control systems. Regarding the EFF, management verifications and IT security are not in order. Regarding the migration funds, there are shortcomings in the use of a good planning instrument, supervision of projects and the approval of funding.

The declaration is positive regarding the regularity, accuracy and completeness of expenditures and receipts relating to the agricultural funds (EAGF and EAFRD), the ESF, the EIF, the EEBF, the RF and the ERF. The declaration on expenditures and receipts from the ERDF includes a reservation on account of irregularities, a significant number of which were corrected in a payment application for the following accounting reference period. The declaration on expenditures and receipts from the EFF contains a reservation regarding uncertainties detected.

In the annexe, the Minister of Finance considers the €20.7 million financial correction imposed by the European Commission. The minister also provides a summary of the European Commission's current investigations, with brief notes on the findings and, where known, the financial correction proposed by the European Commission.

In the accounting reference period covered by the National Declaration 2013 (see figure 1 in the Introduction), the Netherlands declared expenditure to the European Commission in respect of all the funds. The National Declaration relates to the actual financial figures as shown in the table below. The funding accounted for in the National Declaration 2013 totalled €1,276.4 million, received from nine funds during different accounting reference periods.



**Table 2 Actual financial figures in the National Declaration 2013**

<b>European Fund accounting reference period</b>	<b>Expenditure declared to the European Commission (in millions of euros)</b>		<b>Recoverable<sup>9</sup> (in millions of euros)</b>
Agricultural funds (EAGF + EAFRD) <i>16 October 2011 to 15 October 2012</i>	Total	962.1 <sup>10</sup>	71.7
	EAGF	865.0	71.2
	EAFRD	97.1	0.5
ERDF <sup>11</sup> <i>1 January 2011 to 31 December 2011</i>	Eligible costs	369.4	0
	Financed from ERDF	158.6	
EFF <i>1 January 2011 to 31 December 2011</i>	Eligible costs	22.8	0
	Financed from EFF	4.5	
ESF <i>1 January 2011 to 31 December 2011</i>	Eligible costs	338.7	0
	Financed from ESF	139.8	
Migration funds EIF, EEBF, RF and ERF <i>1 January 2009 to 30 June 2011</i>	Eligible costs EIF 2008	2.4	0.3
	Financed from EIF 2008	1.3	
	Eligible costs EIF 2009	3.2	0.1
	Financed from EIF 2009	1.9	
	Eligible costs EEBF	4.9	0.6
	Financed from EEBF	3.3	
	Eligible costs RF	3.2	0.3
	Financed from RF	1.7	
Eligible costs ERF	5.5	0.1	
	Financed from ERF	3.2	

## 2.1 Opinion on the preparation

<b>Opinion</b>
In our opinion, the National Declaration 2013, as issued by the Minister of Finance on behalf of the government, was on the whole prepared in a sound manner.

<sup>9</sup> Where payments are made in error and/or irregularities are detected at beneficiaries, funding can be recovered.

<sup>10</sup> Net expenditures and receipts accounted for in the consolidation statement.

<sup>11</sup> The consolidation statement for the ERDF aggregates the expenditures of the four ERDF programmes. Cofinancing is in place for the structural funds (ERDF, ESF and EFF) and the migration funds. Total eligible costs are financed in part from EU funds and in part from other sources (ministry, local authorities, enterprises, institutions, etc.). Pursuant to EU Directives, both the total eligible costs and the proportion financed from the fund should be disclosed in the payment application.



Without prejudicing our positive opinion on the preparation of the National Declaration, we would draw attention to compliance with the agreements laid down in the Central Government Budget Regulations 2013 regarding the deadlines for the submission of underlying sub-declarations. Working with draft versions in an audit is sometimes inevitable but the sub-declarations must be signed and included in the auditor's audit files. The financial figures in the underlying documents should also be consistent with those in the accounts. Correction sheets and related assurances then need not be prepared, as was the case with the migration funds and the EFF in the past year.

## 2.2 Opinion on the assertion on management and control systems

### Opinion

In our opinion, the assertion made in the National Declaration 2013 is sound with regard to the functioning of the management and control systems and the measures in place in the Netherlands for expenditures and receipts from the EU funds accounted for in the National Declaration 2013.

Without prejudicing our positive opinion on the assertion made in the National Declaration on the functioning of management and control systems, we would draw attention to the following points.

#### *ERDF*

Management and control of the North and South programmes financed from the European Regional Development Fund is open to improvement. The irregularities detected in the payment applications submitted for the ERDF North and South programmes in 2011 exceed the 2% materiality level applied in the audit. In accordance with the Commission's procedures, the errors detected were subsequently reduced to less than 2% on a timely basis by means of corrections in the 2012 payment applications, as explained in the National Declaration 2013.

On the whole, the management and control systems in place for the four ERDF operational programmes functioned effectively during the period audited, 2010-2011, although some improvements are still necessary. The remaining improvements to be made at the managing authorities relate chiefly to management verifications (all managing authorities except ERDF East) and ICT (all managing authorities). At the certifying authorities, the audit trail (ERDF North and South) and the main



certifying process (ERDF North and, especially, ERDF South) are open to improvement. The certifying authority received mixed scores for its work on the four operational programmes: it was given a score of 1 twice (system works well, only minimal improvement required), a score of 2 once (system works but some improvements required) and a score of 3 once (system works partially, substantial improvements required). The certifying authority indicated that it had implemented the necessary improvements in 2012.

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#### *EFF*

The management and control systems in place for the EFF operational programme did not function effectively during the period audited, 2011-2012. Management verifications and ICT did not comply with the set requirements. The managing authority was given a score of 3 (system works partially, substantial improvements required) and the certifying authority a score of 2 (system works but some improvements required).

#### *Agricultural funds*

Management and control of the agricultural funds have improved in certain areas during the past year. In particular, improvements have been made in management and control by the Government Service for Sustainable Rural Development (DLG, responsible for the European Agricultural Fund for Rural Development) and in the ministry's policy to reduce the corrections imposed by the European Commission. DLG must continue on its current course to recover undue payments, to reduce sanctions, to improve information security and to strengthen administrative checks in order to prevent double funding.

A more structural issue is the poor enforcement of cross-compliance with animal welfare, environmental and animal health conditions. The European Commission has imposed a €14.5 million financial correction in respect of cross-compliance in the period 2006-2008. Sanctions policy is an important aspect: if the probability of inspection is low and the fine limited, (now often 3%, previously 1%), farmers will be more inclined to take risks. Although the minister has taken corrective measures, the required level has not yet been reached (see also section 3.3 of the notes to this report).

#### *Migration funds*

The managing authority for the migration funds (EIF, RF, ERF and EEBF) had personnel problems during the start-up period. As a result, the responsible authority and delegated authority often did not carry out monitoring visits in respect of the annual programmes for 2007, 2008 and



2009. The visits are intended to check compliance with EU funding conditions. It was subsequently found during approval by the responsible authority and during second line checks by the audit authority that a substantial proportion of the projects had not fully complied with EU funding conditions. This led to the recovery of advance payments to rectify the errors. We concluded that internal control by the responsible authority and delegated authority (the first line checks) had failed to prevent errors. They were detected chiefly during the audit authority's external audit. This falls short of the requirements of adequate first line checks.

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Furthermore, the responsible authority did not meet the deadline for submission of all annual financial reports on the migration funds to the European Commission. The figures for the EIF 2008 annual programme were not available in 2012 for our audit of the member state declaration 2011. We considered the EIF 2008 financial report together with the figures for the 2009 annual programme on the migration funds in our 2013 audit. Additional personnel were not made available to eliminate the backlog until the second half of 2012. Although there have been improvements, the annual reports were again not submitted on time despite the minister's undertakings.

In addition to the late submission of the annual financial reports, the management and control systems did not function adequately during the period audited. Shortcomings were detected in the use of a planning tool, the functioning of project supervision and the approval of funding, as stated in the sub-declaration.

## 2.3 Opinion on the assertion on financial transactions

### Opinion

In our opinion, the assertion made in the National Declaration 2013 on financial transactions down to the level of beneficiaries is sound.

The payment applications submitted to the European Commission in respect of the ERDF contained too many irregularities. They were detected and have since been largely corrected by the implementing authorities in the payment applications for the subsequent accounting year.



The sub-declaration on the EFF contains a reservation regarding the regularity of expenditures. It was made in response to a finding. There was uncertainty about the European Commission's interpretation of the situation. The European Commission has since accepted the audit authority's reports and dispelled the uncertainty.



## 3 Remittances to the European Union

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We think the inclusion of remittances (own resources) in the National Declaration would create a comprehensive set of EU accounts at member state level. This had also been the government's original ambition when it first introduced the National Declaration in 2006.<sup>12</sup> Own resources are a source of funding that accrue to the European Union by right without requiring further decision by national authorities.

### 3.1 Dutch remittances to the European Union

The European Commission's 2011 financial report discloses that the Netherlands remitted €5,869 million to the European Commission in 2011 (European Commission, 2012). Of these remittances, 72% (€4,215 million) had been calculated on the basis of gross national income (GNI, in 2011 €608.1 billion). The Netherlands received €2,064 million in EU funding. The net Dutch remittance in 2011 was therefore €3,805 million, equal to 0.6 % of the European Union's GNI. The Netherlands is one of the top five EU member states that remit more than they receive.<sup>13</sup> The EU's total own resources are calculated by taking 1.24% of the aggregate GNIs of all member states.<sup>14</sup>

### 3.2 Political responsibility for remittances and control

Remittances of own resources to the European Commission are accounted for by the Ministry of Foreign Affairs (BZ). The remittances are based on import duties, VAT revenue and GNI. The GNI remittance is financially the most important, accounting for about 72% of the total remittance to the EU.

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<sup>12</sup> House of Representatives, 2006-2007, 30 455 and 24 202, no. 5 and no. 6.

<sup>13</sup> Expenditure and revenue by member state in 2011 (EU budget 2011, Financial Report, annex 2).

<sup>14</sup> Council Decision 2007/436.



Responsibility for remittances to the European Union does not entirely match the budgetary responsibilities of the Minister of BZ, the Minister of Finance, and the Minister of EZ. This is demonstrated by the following arrangements agreed upon by the ministers:

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1. Higher GNI-based remittances are not compensated for from the Ministry of BZ's budget. The GNI-based remittance has no influence on BZ's share of general compensation.<sup>15</sup>
2. The Ministry of Finance prepares the documents necessary for the notes to the individual articles in the Ministry of BZ's budget on the remittances.
3. The Ministries of Finance and EZ take the lead in answering questions on EU remittances in the House of Representatives.
4. The Ministries of Finance and EZ are responsible for timely remittance and any fines imposed for late remittance.
5. The Ministry of Finance prepares the estimates and notes for the remittances in the Ministry of BZ's budget.

The remittances are recognised in the Ministry of BZ's budget but the associated responsibilities and powers have been delegated to the Ministries of Finance and EZ.

The National Audit Authority (ADR) audits the Ministry of BZ. The ADR issues the audit report on the Ministry of BZ's annual report. It bases its report on the underlying work and findings of its own auditors who audit value added tax and import duties for the Minister of Finance. No review is performed to determine whether the findings can be relied upon for the audit report on the Ministry of BZ's accounts. The reason for this is that the same audit service has only one quality assurance system. This is understandable for efficiency purposes but not entirely without risk for the audit report. Although assurance is given on the accuracy and completeness of the duties and taxes raised (and thus of the remittance to the European Union), it is uncertain whether the audit intensity is in compliance with the EU's requirements. Total tax revenue, for example, has a high tolerance level, which may not be consistent with that of the individual remittance components. There are also concerns about the completeness of import duties. An important regularity question is whether there are sufficient assurances to eliminate the risk of misuse and improper use. Are all imports recorded and taxed?

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<sup>15</sup> In the general compensation system, additional outgoings are divided across several budgets. This is in contrast to specific compensation, in which additional outgoings are recognised in a ministry's own budget.



### 3.3 Conclusion

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Last year, we outlined the findings of our examination of the calculation of remittances to the European Union and explained why, in our opinion, their inclusion in the National Declaration would be a logical step.<sup>16</sup> We reported on the factors that made it difficult to arrive at a reliable calculation of actual GNI. Last year, however, the government explained that it did not wish to include remittances in the National Declaration for the following reasons:

- The remittance of own resources to the EU is in order, as verified each year by the European Court of Auditors.
- The management and control system was designed fully under the responsibility of the Commission and in accordance with its requirements. It would be inappropriate for the Netherlands to take political responsibility for it. The independence of the CBS guarantees the objective determination of the figures that underlie the calculation of remittances. By including own resources in the National Declaration the government would have to give an opinion on them based on its own checks. The government does not believe such political involvement would be desirable in view of the independent position of the CBS. Given the checks already carried out by EU institutions, such as Eurostat, the GNI Committee and the like, the added value of including remittances in the National Declaration is uncertain and the government therefore thinks it is unnecessary.
- If the Netherlands were to issue such a declaration voluntarily, it would be the only EU member state to do so. If the purpose of such a declaration were to encourage other countries to follow the Dutch example, the government is sombre about its success in view of the current experience with the National Declaration on expenditure under shared management. Before issuing a declaration on own resources, the EU should first anchor publication in legislation.

We wrote in our response that the European Court of Auditors does not actually audit the figures. Its audit does *not* consider the basic data for the statistics. The European Court of Auditors cannot audit underlying transactions of relevance to macroeconomic statistics directly. The audit trail is therefore not complete. This can be rectified by means of national checks of the quality of the data that serve as input for the statistics. Furthermore, the European Commission is drawing up regulations to improve the quality of the statistics. Specific attention is being paid to the quality of internal control and independent audit of the basic data. This

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<sup>16</sup> House of Representatives, 2011-2012, 33 249, no. 2, chapter 3.





implies that the basic data should be checked by means of internal control and independent audit.

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Accounting for own resources and providing assurance by means of independent audit at member state level would complete the chains of accountability and control at national and European level. As is the case with EU funding, inclusion of remittances in the National Declaration would improve their management, control and public accountability, the functioning of management and control systems and regularity. This would represent a significant improvement in public accountability as it would clarify the fragmented allocation of responsibilities between the Ministers of BZ, EZ and Finance and provide more assurance on the remittances accounted for and the functioning of underlying systems.

Finally, it is correct that the European Court of Auditors concludes in its opinion that the supervision and control systems are effective, but the essential internal controls in the *member states* it audits are only *partially* effective.



## 4 Recommendations

This chapter explains the potential improvements we believe can be made. We first consider the recommendations we made last year that are still relevant this year. We then make new recommendations. A list of 20 recommendations has been included in this report.

Two outstanding recommendations were adequately followed up last year. They related to assurances on EU compliance with common agricultural policy and the assurance given in the ADR's audit report on the proportion of cofinancing. Progress has been made on seven of the recommendations still outstanding from last year but they have not yet been implemented in full.

The list includes four new recommendations. We again ask for special attention to be paid to remittances to the European Union and other options to strengthen public accountability for EU funding.

### *General*

1. We recommend that the government continue to encourage the use of national declarations. To this end and as a second step, greater use could be made of the options offered by the National Declaration. We recommend that the National Declaration include information on the effectiveness and efficiency of European funds spent under shared management. Effectiveness and efficiency, as well as regularity, are essential aspects of good public administration.

### *Agricultural funds*

2. We recommend that the Minister of EZ have the provincial authorities implement an active policy to recover undue payments made from the EAFRD in cases of non-compliance. Failure to recover undue payments undermines the effectiveness of sanctions policy.
3. We recommend that the Minister of EZ bring the sanctions policy for cross-compliance into line with the requirements of the European Commission. The current inspection effort in combination with a relatively low reduction rate have insufficient preventive effect.



*European Regional Development Fund*

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4. We recommend that the Minister of EZ and the managing authorities, in consultation with the certifying authority and the audit authority, tighten up the standards to assess the necessity (proportionality and efficiency) of cost declarations. The aim is to apply a consistent and uniform method in all operational programmes.



## **5 Response of the government and the Court of Audit's afterword**

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We received a response to our draft report from the Minister Finance on 1 May 2013. He wrote on behalf of himself and the Ministers of EZ and SZW and the State Secretary for V&J. This chapter presents his letter in full (section 5.1) and our afterword (section 5.2).

The Minister of Finance's letter included an appendix with a reference to information on the evaluations of the funding received from each EU fund. He also included an appendix with a response to the recommendations we made to the ministers. We have included this information in the table at the end of this part of the report. The full response of the ministers can also be found on our website at [www.rekenkamer.nl](http://www.rekenkamer.nl).

### **5.1 Response of the government**

'I hereby present the government's response to your draft Report on the National Declaration 2013.

On behalf of the government I would like to express my appreciation of the work the Court of Audit performs each year to have its opinion ready on time for Accountability Day. Your report provides additional assurance on the financial management and regularity of EU expenditure in the Netherlands, as disclosed in the National Declaration. This assurance enhances the value of the National Declaration.

The government is pleased with the Court's opinion on the National Declaration 2013, which on the whole is positive. You observe that there are points for improvement and points for attention. Below, I consider your main conclusions and resultant recommendations to improve the National Declaration and the financial management of EU funds under shared management.



## **Opinion on the National Declaration 2013**

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### *General*

In summary, your opinion is:

- the National Declaration and the sub-declarations were on the whole prepared in a sound manner;
- the Court of Audit qualified the management and control systems in place in the Netherlands as sound, with the exception of shortcomings in the European Fisheries Fund and the migration funds;
- the Court of Audit qualified the legality and regularity of the financial transactions accounted for as sound down to the level of the final beneficiaries.

Without prejudicing your positive opinion, you also refer to a number of points and make recommendations regarding the following funds:

### **ERDF**

The irregularities you detected in the ERDF payment applications submitted in 2011 were, as you observed, reduced to less than 2% on a timely basis and in accordance with EU procedures. The National Declaration clearly states the error rates in the payment applications submitted before and after these corrections. The excessive error rate in payment applications before correction prompted the Minister of Economic Affairs (EZ) to issue a qualified opinion. You repeat a number of recommendations to resolve the situation, including improved controls of payment applications by the ERDF North and South managing authorities and improvements in the certifying authority's certifying process.

The State Secretary for EZ agrees with you that management of the ERDF requires constant attention. Further to the European Commission's temporary suspension of payments, the North and South managing authorities have taken improvement actions. Their effect, as you indicated, cannot be fully evaluated until 2013. With regard to the improvements made by the certifying authority, the State Secretary for EZ noted that your recommendations had already been adopted and for the most part implemented in 2012. The audit authority will review them during its forthcoming system audit. Good agreements have also been made with the audit authority on the timely conduct of audits so that it is known at an early stage whether the measures taken by the managing authority and the certifying authority have had the desired effect in 2013 and so that further measures can be taken in 2013 if necessary.

**EFF**

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You repeat the recommendation you made in 2011 to improve control of payment applications in order to prevent irregularities. Measures were taken in response to this recommendation in 2012. Last year, the European Commission drew up an action plan that included a series of corrective measures. Most of the measures were introduced in 2012 and have been approved by the Commission. The remainder will be implemented in 2013. The audit authority will carry out system audits in the first half of 2013 to determine whether the measures taken in 2012 are working adequately and satisfy your repeated recommendation.

**Agricultural funds**

In your opinion, checks of cross-compliance have failed to satisfy the requirements since the start of the programming period. Funding reductions in cases of non-compliance were also inadequate. You found that corrective measures had been taken and progress had been made but the required level had not yet been reached. The State Secretary for EZ welcomed your finding that there were fewer shortcomings in the Government Service for Sustainable Rural Development's management of the European Agricultural Fund for Rural Development.

In respect of cross-compliance, the State Secretary for EZ agrees with you that the local authorities had not carried out the minimum percentage of checks in all cases. He will continue to seek improvements. This is already being achieved by means of notifications from the Netherlands Food and Consumer Product Safety Authority to the local authorities and the provision of information on the checks. If necessary, the State Secretary for EZ will call the local authorities to account. With regard to the sanction system, the State Secretary for EZ believes the system complies with Regulation (EC) no. 1122/2009, whereby a reduction rate is imposed of, in general, 3%. Within this sanction system and in accordance with EU requirements, departures can be made from the 3% reduction rate based on the seriousness, scale and permanence of the shortcoming. The State Secretary for EZ notes that the European Commission made no comments following an audit in 2011 on the way in which the Netherlands had implemented the system. The sanction system is deemed to be EU compliant.

**Migration funds (EEBF, RF, ERF and EIF):**

You recommend that the State Secretary for Security and Justice (V&J) in respect of the EEBF, RF and ERF, and the Minister of Social Affairs and Employment (SZW) in respect of the EIF:



- carry out the undertaking made in 2012 to rectify problems in the management and control systems in place for the migration funds so that accounts can be submitted on a timely basis;
- take a more critical approach to the preparation of the accounts used in the National Declaration;
- take heed of the underspend in the RF and ERF.

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The State Secretary for V&J and the Minister of SZW took measures last year in response to your opinion and recommendation. The personnel situation at the delegated institution, which plays an important role in the preparation of the accounts, has been improved since the end of 2012. However, the backlog accumulated in the past has not yet been eliminated. To the regret of the minister and the state secretary, the annual report for 2010 will unfortunately not be submitted to the Commission within the formal term but the late submission will be reduced in comparison with the previous year from 19 to five months at most. The minister and state secretary have taken the repeated recommendation to heart and will resolve the problems in the management and control systems in place for the migration funds this year so that future annual reports are submitted to the Commission within the set term. The minister and state secretary note that the available term is very short in relation to the term set in the regulations. This will be a permanent risk requiring constant attention. Moreover, the Ministries of V&J and SZW will take a more critical attitude to the accounting documents.

The underspend in the RF and ERF has the State Secretary for V&J's closest attention. The improvement in personnel numbers will also reduce the risk of underspending. Measures have been taken to provide more information by means of seminars and through the website. The underspend in the closed annual programmes was 17.3 % (2007), 47.9 % (2008) and 79.1% (2009). The 2010 annual programme has not yet been audited and signed off: the provisional spend is about 72%. The State Secretary for V&J notes that the slow start with these funds and thus the underspend were due to the Commission's late approval of the programmes, the late availability of definite rules and the lack of associated guidance. This was confirmed an audit of the ERF carried out by the European Court of Auditors. The underspend was sometimes substantial but was not always avoidable during this period.

#### **Scope of the National Declaration**

To increase the added value of EU funds under shared management, you suggest that the government consider including information on the



effectiveness and efficiency of EU funded expenditure in the National Declaration.

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The government recognises the importance of good accountability for the effectiveness and efficiency of EU funding. Pursuant to EU regulations, the effectiveness and efficiency of EU funding must already be periodically evaluated and reported upon. The Ministers and State Secretaries for EZ, V&J and SZW are responsible for carrying out the evaluations. They report on them to the Commission and the House of Representatives and discuss the findings with the relevant committees. Nearly all evaluation reports are public and can be read on the internet. The ministers will post any information that is currently missing on public internet pages. The inclusion of this additional information in the National Declaration would do nothing to reduce the number of unnecessary documents or alleviate the "administrative burden" (single accountability). There is therefore no reason to change the current information and accountability structure to accommodate evaluations of EU expenditure.

As the current programming period still has a number of years to run and the conditions, rules and systems regarding effectiveness and accountability will be amended and tightened up for in the next programming period (2014-2020), the Ministers and State Secretaries for SZW, EZ, V&J and Finance are open to ideas and discussions of how to improve evaluations in the new programming period in accordance with the Commission's standards and guidance. The table below shows what information is available (see also the appendix):





Fund	Report/Evaluation	Submitted to House of Representatives
ERDF and ESF	<ul style="list-style-type: none"> <li>• national strategic reference framework</li> <li>• mid term evaluations</li> <li>• MA's and SZW Agency's annual reports</li> <li>• an ex-post evaluation (art. 49 of 1083/2006) at the end of the programming period (2007 - 2013)</li> </ul>	<ul style="list-style-type: none"> <li>• Yes, 2006</li> <li>• ESF, September 2010</li> <li>• In future, annually</li> <li>• To follow</li> </ul>
EAGF	<ul style="list-style-type: none"> <li>• CAP health check 2008</li> <li>• specific evaluations (by the Commission)</li> <li>• ex-post evaluations at the end of the period</li> </ul>	<ul style="list-style-type: none"> <li>• In future, periodically</li> <li>• To follow</li> </ul>
Rural Development Fund	<ul style="list-style-type: none"> <li>• mid-term evaluation</li> <li>• annual rural development reports</li> <li>• an ex-post evaluation at the end of the programming period (2007 - 2013)</li> </ul>	<ul style="list-style-type: none"> <li>• In future, annually</li> <li>• To follow</li> </ul>
EFF	<ul style="list-style-type: none"> <li>• mid term evaluation</li> <li>• annual EFF reports</li> <li>• an ex-post evaluation at the end of the programming period (2007 - 2013)</li> </ul>	<ul style="list-style-type: none"> <li>• In future, annually</li> <li>• To follow</li> </ul>
Migration funds	<ul style="list-style-type: none"> <li>• evaluation reports 2008 to 2010</li> <li>• evaluation reports 2011 to 2013</li> <li>• evaluations are based on articles 49 and 50 of Decision no. 573/2007/EC of the European Parliament and the Council of 23 May 2007 establishing the European Refugee Fund for the period 2008-2013</li> <li>• An annual report on each fund, and each annual tranche for the European Commission</li> </ul>	<ul style="list-style-type: none"> <li>• In future, annually</li> <li>• To follow (2015)</li> </ul>

### Responsibility and accountability for remittances to the European Union

As in previous years, you recommend that own resources be included in the National Declaration in order to have a comprehensive and complete set of accounts of EU funding. You also refer to the allocation of responsibilities among the Ministers of BZ, EZ and Finance.

The government observes that for many years the European Court of Auditors has expressed a positive opinion on the systems in place for own resources and on the supervision exercised by the Commission. In view of the Commission's responsibility for the reliability, comparability and



accuracy of own resources, the government sees no reason to reconsider its earlier decision not to include own resources in the Dutch National Declaration. This stance can be explained further as follows:

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The European Commission is responsible for the system in place for the member states' remittance of own resources in accordance with the EU Decision on the system of own resources. The Commission implements the Decision in collaboration with institutions in the member states. Where necessary, it provides guidance to the institutions to ensure that national implementation is consistent with Community regulations. About three-quarters of own resources are based on GNI. EU legislation has been introduced laying down how GNI must be calculated and how compliance must be assured at EU level. In the Netherlands, GNI is calculated by Statistics Netherlands (CBS). Its calculations are reviewed by the European Court of Auditors. Pursuant to EU regulations, the European Commission is responsible for requesting additional assurances where necessary. There is no reason for it to do so in the case of the Netherlands. The quality of the CBS's figures is highly thought of in the EU. Finally, it should be noted that the government has no power and no wish to bring political influence to bear on the CBS's statistics and their preparation; the CBS's independence must be guaranteed. There is no hierarchical relationship between the Ministry of EZ and the CBS other than the ministry's systemic responsibility. In other words, the Ministry of EZ has political responsibility for relevant legislation and for the CBS's budget and for sustaining the *conditions* necessary for the independent and public compilation of high quality and reliable statistics. As already noted, the government considers this independence to be an important pillar to ensure that the GNI figures are produced without political influence. This would not be the case if own resources were included in the National Declaration.

With regard to the shared responsibilities of the Minister of Finance and the Minister of Foreign Affairs, the government notes the following. The responsibilities of the Ministry of Finance and the Ministry of Foreign Affairs are laid down in budget article 3 (stronger European cooperation), paragraph 3.1 (Dutch remittances to the EU), in Budget Chapter V, Foreign Affairs. To provide the House of Representatives with a clear insight into the various remittances made to the EU and their relationship to each other, the Minister of Finance decided to group the net remittances to the EU coherently in a single budget article in Budget Chapter V, Foreign Affairs, as from 2012. At the same time, the minister decided to transfer import duties and VAT-based remittances to the EU to Chapter IXB, Finance, in order to balance the national budget. The



Ministry of Foreign Affairs' responsibility for the budget is limited to the timely remittance to the European Commission of the amounts recognised in Budget Chapter IXB, Finance, (as certified by the National Audit Authority) and account for them in Budget Chapter V, Foreign Affairs. The Minister of Finance therefore had and has final responsibility for levying and collecting import duties and VAT and accounting for them in Budget Chapter IXB, Finance. The National Audit Authority's audits are consistent with this situation.

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The allocation of responsibilities in the Netherlands is based on the system of EU remittances and associated tasks. In the government's opinion, the National Declaration can add nothing to this comprehensive and efficiently functioning system.

Our response to your recommendations can be found in the appendix entitled "Recommendations".'

## **5.2 Court of Audit's afterword**

The Minister of Finance's response on behalf of the government is positive. The government has undertaken to adopt 16 of our 18 open recommendations regarding the management and control of EU funds under shared management. We will follow the ministers' progress with these recommendations with interest.

However, the government is adhering to its position of not including remittances to the EU in the National Declaration. We think this is unfortunate and repeat that it is regrettable in view of the principles of good public administration, transparency and accountability.

The ambition to provide an insight into the effectiveness and efficiency of the use of EU funds has been deferred to a later programming period. The government wishes to alleviate the 'administrative burden' and refers to the principle of single accountability. We think, however, that the National Declaration should not omit information on effectiveness and efficiency. The existing evaluations can be used to combine effectiveness and efficiency with accountability for the regular use of EU funds. The presentation of a comprehensive set of accounts (of expenditure and receipts, efficiency and regularity) in a single document would enhance public accountability and provide a better overview than a series of documents. We are willing to enter into talks with the Ministry of Finance to discuss ways to arrive at good evaluations and evaluation reports.



## Recommendations to ministers

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The tables below show which of the recommendations we made last year have not yet been fully implemented and the new recommendations we made this year.

<b>NATIONAL DECLARATION BY THE MINISTER OF FINANCE (ON BEHALF OF THE GOVERNMENT)</b>			
Recommendation	Current status	Undertaking by the minister/state secretary	Court of Audit's afterword
<p><b>New in 2012: Wider scope of the National Declaration</b></p> <p>1. Continue to encourage the use of the National Declaration. To this end and as a second step, make full use of the opportunities offered by the instrument. Add information on the effectiveness and efficiency of EU funds under shared management to the National Declaration.</p>		<p>Evaluations and reports on EU funding are compulsory. The information has been or will be published. The ministers concerned submit new evaluations to the House of Representatives. There is no need to change the information and accounting structure to accommodate evaluations of EU expenditure. Furthermore, including this information in the National Declaration would not reduce the number of unnecessary documents or reduce the 'administrative burden' (single accountability). The government will not adopt this recommendation but is open to suggestions of how – based on EU requirements – the new programming period should be evaluated.</p>	<p>Inclusion of evaluations in a comprehensive EU report, the National Declaration, enhances full accountability to parliament of the regularity and of the effectiveness and efficiency of expenditure. We are willing to enter into talks with the Ministry of Finance to discuss ways to arrive at good evaluations and evaluation reports.</p>
<p><b>From 2010: Include own resources in the National Declaration</b></p> <p>2. Include EU remittances in the National Declaration. Begin with accounts for the traditional own resources and gradually widen the scope to include other resources.</p>	<p>The government has not adopted this recommendation.</p>	<p>None.</p>	<p>Reconsider this position. Inclusion of remittances in the National Declaration would be in keeping with the principles of good public administration, transparency and accountability. Furthermore, it would also improve insight into the underlying management and control systems.</p>



<b>SUB-DECLARATION BY THE MINISTER OF ECONOMIC AFFAIRS (EAGF and EAFRD)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
<p><b>From 2007: Reliability of control statistics</b></p> <p>3. Improve the reliability of inspection results. The way in which data are recorded has consequences for the information based on those data.</p>	<p>There have been improvements in the preparation of control statistics. Their effect must still be seen.</p>	<p>The State Secretary for EZ believes sufficient measures have been taken to provide assurance on the reliability of statistics. Their effect will be assessed in 2013.</p>	<p>We will consider the progress and developments in our audit.</p>
<p><b>From 2008: Availability of inspection results</b></p> <p>4. Speed up the availability of inspection results, especially in cross-compliance, so that the information can be used in the National Declaration.</p>	<p>Ensure that agreements are made on the timely availability of control statistics and inspection results (February t+1) in the next agricultural programming period so that we can consider them in our opinion.</p>	<p>The State Secretary for EZ notes that availability complies with the European Commission's requirements.</p>	<p>To form a proper opinion, the control statistics must be recognised in the right accounting reference period. This cannot be done with non-IACS statistics.</p>
<p><b>From 2010: Parcel registration</b></p> <p>5. Monitor the quality of the systems in place for area aid payments:</p> <ul style="list-style-type: none"> <li>• Keep the parcel registration system up to date and changes traceable.</li> <li>• Mark ineligible parcels as such in the parcel registration system.</li> <li>• Improve the quality of satellite checks and have the AID carry out rapid field visits if there are doubts.</li> <li>• Guarantee the quality of satellite checks by carrying out sample checks on the spot.</li> </ul>	<p>The operation of the measures and the parcel registration system was not yet such in 2012 that the system was of the required quality and up to date in all areas.</p> <p>Followed up.</p> <p>Followed up.</p> <p>Followed up.</p>	<p>The State Secretary for EZ notes that improvements have been made but an internal evaluation (ETS) in 2013 found that improvements were still needed in certain areas. They will be implemented in 2013.</p>	<p>We will consider the progress and developments in our audit.</p>
<p><b>From 2011: EU-compliance</b></p> <p>6. Include the analysis results and the resultant measures in the notes to the sub-declaration.</p> <ul style="list-style-type: none"> <li>- Set clear, concrete and detailed goals for each improvement action in order to achieve the required effect in due course.</li> <li>- Recover undue payments from beneficiaries.</li> </ul>	<p>We had found in 2012 that strengthening the coordination model had further encouraged EU compliance. We draw attention to maintaining the standard achieved.</p> <p>See point 10.</p>	<p>The State Secretary for EZ will pay attention to the EU-compliance of implementation.</p>	<p>It is advisable and necessary that the state secretary continues to pay attention to EU compliance.</p>
<p><b>From 2011: Management of the Government Service For Sustainable Rural Development</b></p> <p>7. Improve management with regard to:</p> <ul style="list-style-type: none"> <li>• the true and reliable</li> </ul>	<p>Followed up.</p>		



<b>SUB-DECLARATION BY THE MINISTER OF ECONOMIC AFFAIRS (EAGF and EAFRD)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
<p>presentation of tables III and III bis;</p> <ul style="list-style-type: none"> <li>compliance with the sanction provisions;</li> <li>compliance with the requirement to enclose bank statements as proof of payment;</li> <li>include procedures to prevent irregular double funding in administrative checks.</li> </ul>	<p>Followed up.</p> <p>Public authorities should also be able to submit bank statements in evidence.</p> <p>Despite the measures taken, the Commission's requirements are not satisfied in full.</p>	<p>The State Secretary for EZ will not adopt this recommendation. She will provide proof of payment in another way. By means of administrative checks and on-the-spot inspections, sufficient measures have been taken to prevent double funding.</p>	<p>We suggest that the state secretary inform the Commission that adequate measures have been taken and that it is not necessary to submit bank statements as proof of payment. We will consider the progress and developments in our audit.</p>
<p><b>From 2011: Checks of cross-compliance</b></p> <p>8. Check the baseline conditions in all on-the-spot checks. Have local authorities carry out checks of cross-compliance.</p>	<p>The EU minimum requirement of 1% checks of cross-compliance was satisfied. The local authorities, however, did not carry out all compulsory checks.</p>	<p>The State Secretary for EZ notes that she is paying constant attention to the checks by notifying and informing the local authorities. If necessary she will call the authorities to account.</p>	<p>We will consider the progress and developments in our audit.</p>
<p><b>Repeated in 2011: Information security 2008</b></p> <p>9. Shortcomings were found in information security at the two paying agencies. Carry out the plan to improve information security at the two paying agencies on a timely basis.</p>	<p>Remaining points for improvement and shortcomings detected by the ARD will be resolved as quickly as possible.</p>	<p>The State Secretary for EZ notes that insight into existing information security measures is up to date. She therefore complies with ISO 27001. She will resolve remaining points for improvement as quickly as possible.</p>	<p>We will consider the progress and developments in our audit.</p>
<p><b>New in 2012: EAFRD receivables</b></p> <p>10. Ensure that the provinces conduct an active recovery policy in cases of non-EU compliance in the EAFRD.</p>		<p>The State Secretary for EZ has adopted the recommendation.</p>	<p>We will consider the progress and developments in our audit.</p>
<p><b>New in 2012: Sanctions policy</b></p> <p>11. Enforce the sanctions policy in accordance with the European Commission's requirements.</p>		<p>The State Secretary for EZ notes that the sanctions policy complies with the requirements of Regulation (EC) no. 1122/2009. Furthermore, the sanctions policy departs from the 3% reduction in accordance with European requirements depending on the seriousness, size and permanence of non-compliance. The Commission did not make any comments following an audit in 2011.</p>	<p>The audit that the state secretary refers to has not yet been completed. It has therefore not been shown that sanctions policy complies with the Commission's requirements (Regulation (EC) no. 73/2009). In cases of non-compliance a reduction of up to 5% of the funding should be applied. In the case of deliberate non-compliance, the maximum reduction is 20%. We will consider the findings of this follow-up audit in our audit.</p>



<b>SUB-DECLARATION BY THE MINISTER OF ECONOMIC AFFAIRS (ERDF)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
<p><b>From 2008: Complexity of the ERDF</b></p> <p>12. We commented on the complicated structures and recommended that the minister pay critical attention to the quality of implementation, monitor progress and take corrective measures where necessary.</p>	<p>The risks are still present. The irregularities and remaining improvements in management and control, especially of the ERDF North and South, still require attention. A plus point is that the operating programmes in the forthcoming 2014-2020 programming period are being standardised.</p>	<p>The State Secretary for EZ also thinks management of the ERDF requires constant attention. Standardisation agreements have been made for the next programming period to ensure the use of the funds is regular and efficient. The agreements are laid down in a contract with the implementing body for the period 2014-2020 and are being elaborated upon. By this the minister will harmonise the complicated implementation structure without changing regional responsibilities. The minister will also make improvements proposed by the North and South managing authorities.</p>	<p>We will consider the progress and developments in our audit.</p>
<p><b>From 2009: Certifying authority</b></p> <p>13. In view of the reservation in the declaration, we drew attention to the shortcomings detected at the certifying authority. They related to:</p> <ul style="list-style-type: none"> <li>the adequate recording and documentation of control activities;</li> <li>tightening up and improving the checklists;</li> <li>overseeing response and decision terms.</li> </ul>	<p>The minister's adoption of our recommendation has led to improvements in the certifying authority's activities, especially concerning the ERDF East and West. The audit trail still requires attention at ERDF North and South. There are still shortcomings in the certifying process for ERDF South. The certifying authority has said it has already implemented the necessary measures.</p>	<p>The State Secretary for EZ notes that the certifying authority has implemented the necessary improvements. She will ensure that it performs its work appropriately.</p>	<p>We will consider the progress and developments in our audit.</p>
<p><b>From 2011: Irregularities in payment applications</b></p> <p>14. Improve control of payment applications by having the ERDF North and South managing authorities and the certifying authority prevent irregularities in the payment applications.</p>	<p>The recommendation is still relevant. ERDF North and South payment applications initially contained high gross error rates. Improvements in management verifications and certification work have reduced the number of errors in payment applications. Following a temporary payment</p>	<p>Owing to the Commission's temporary suspension of payments, the North and South managing authorities have made improvements. The Commission will review them in 2013. The certifying authority has adopted the audit</p>	<p>We will consider the progress and developments in our audit.</p>



<b>SUB-DECLARATION BY THE MINISTER OF ECONOMIC AFFAIRS (ERDF)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
	suspension by the Commission, the ERDF North and South managing authorities have improved the management verifications. The results will be seen in 2013.	authority's recommendations and implemented most of them in 2012. Good agreements have been made with the audit authority on the timely conduct of audits. It will be known at an early stage whether the improvements made at the managing authority and the certifying authority in 2013 will have the desired result or whether further measures will be required in 2013.	
<p><b>New in 2012: Tighten up cost proportionality and efficiency standards</b></p> <p>15. In consultation with the managing, audit and certifying authorities, formulate concrete standards on how to assess the proportionality and efficiency of cost declarations. Introduce consistent and uniform methods.</p>		The State Secretary for EZ has adopted the recommendation. It will be implemented in consultation with the parties concerned.	We will consider the progress and developments in our audit.

<b>SUB-DECLARATION BY THE MINISTER OF ECONOMIC AFFAIRS (EFF)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
<p><b>From 2011: Irregularities in payment applications</b></p> <p>16. Improve control of payment applications by having the managing authority and the certifying authority prevent irregularities in the payment applications.</p>	Management and control are inadequate. The risk of irregularities is therefore high.	The recommendation has been adopted and measures have been taken. The European Commission drew up improvement measures in 2012. Most were introduced during the year, which the European Commission found adequate. The National Audit Authority will carry out system audits in the first half of 2013. They must determine whether the measures taken	We will consider the progress and developments in our audit.





<b>SUB-DECLARATION BY THE MINISTER OF ECONOMIC AFFAIRS (EFF)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
		function adequately.	

<b>SUB-DECLARATION BY THE MINISTER OF SOCIAL AFFAIRS AND EMPLOYMENT (ESF)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
None	Management and control are satisfactory. There are only a few points for attention.	None	

<b>SUB-DECLARATION BY THE MINISTER OF SOCIAL AFFAIRS AND EMPLOYMENT (EIF)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
<b>From 2011: Management of EIF</b> 17. Improve management of the EIF; in particular, resolve the organisational and personnel problems so that accounting and control requirements can be satisfied on time.	The 2008 annual programme has been accounted for. So has the 2009 programme but the deadline for submission of the annual report to the Commission was missed.	The State Secretary for V&J and the Minister of SZW have adopted the recommendation.	We will consider the progress and developments in our audit.

<b>SUB-DECLARATION BY THE STATE SECRETARY FOR SECURITY AND JUSTICE (EUROPEAN REFUGEE FUND, EEBF and RF)</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
<b>From 2011: Management of ERF, EEBF and RF</b> 18. See previous point.	The deadlines for submission of annual reports to the Commission were missed.	The State Secretary for V&J and the Minister of SZW have adopted the recommendation.	We will consider the progress and developments in our audit.

<b>OTHER POINTS</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
<b>From 2010: Work of the audit authority</b> 19. The National Audit Authority (in its capacity as the audit authority for the ERDF, ESF and EFF): <ul style="list-style-type: none"> <li>Ensure there is sufficient capacity and provide intervention points if there are problems in the implementation of audits so that necessary work can be carried out.</li> <li>Standardise the audit activities for comparable</li> </ul>	Further progress was made in 2012. Standardisation of the audit work for comparable audit objectives remains a recommendation for all funds. We have no further recommendations regarding the ESF. Regarding the ERDF, we draw attention to several points for improvement (see notes to report), especially the planning and timely completion of audits, internal quality assurance	The National Audit Authority has adopted the recommendations. It is constantly improving its planning and timely conduct of project audits. Agreements have again been made with the Ministry of EZ, the managing authorities and the beneficiaries.	We will consider the progress and developments in our audit.



<b>OTHER POINTS</b>			
<b>Recommendation</b>	<b>Current status</b>	<b>Undertaking by the minister/state secretary</b>	<b>Court of Audit's afterword</b>
<p>audit objects.</p> <ul style="list-style-type: none"> <li>Prevent scope limitations during the implementation of the audits.</li> <li>Annually assess all relevant essential requirements regarding the management and control systems.</li> <li>Ensure that all audit findings are conscientiously monitored.</li> </ul>	<p>(reviews) and further optimisation of records and reports of audit findings. We made a few recommendations regarding system audits of the EFF (recording ICT audit interviews) and project audits (standardisation of reviews, records of findings and activities) (see notes to report).</p>	<p>Regarding the EFF, the AA notes that there have been extensive talks with the MA and CA. This is specifically recorded in the system audit reports.</p>	
<p><b>From 2011: Audit of total eligible costs</b></p> <p>20. In the audit of the financial data on the ERDF, ESF and EFF, check the proportion of costs cofinanced by the EU as well as the total eligible costs declared. The associated consolidation statement would increase in value if the exhaustion of the budget available for the programming period (2007-2013) were disclosed.</p>	<p>The AA now provides assurance in its audit report on this part of the fund. Followed up.</p>	<p>None</p>	



## **Appendix I National Declaration 2013**

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The Netherlands Court of Audit received the *National Declaration 2013* from the Minister of Finance on 12 March. The full text of the National Declaration 2013 as signed by the Minister of Finance on behalf of the government is published in Dutch only. It can be found on our website at [www.rekenkamer.nl](http://www.rekenkamer.nl).



## Appendix II Abbreviations

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ADR	National Audit Authority
BZ	Ministry of Foreign Affairs
CA	Certifying authority
CBS	Statistics Netherlands
DLG	Government Service for Sustainable Rural Development
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EMU	Economic and Monetary Union
EEBF	European External Borders Fund
EFF	European Fisheries Fund
EIF	European Integration Fund
ERDF	European Regional Development Fund
EC	European Communities
ERF	European Refugee Fund
ESA	European system of accounts
ESS	European statistical system
ESF	European Social Fund
EU	European Union
EZ	Ministry of Economic Affairs
GNI	Gross national income
ICT	Information and communication technology
MA	Managing authority
PEF	European Funds Programme Secretariat
RF	European Return Fund
SZW	Ministry of Social Affairs and Employment
V&J	Ministry of Security and Justice
VAT	Value added tax



## Appendix III Terms and definitions

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### **Assurance**

The provision of an audit opinion on the reliability of information by an auditor.

### **Audit**

A systematic, independent and documented process to investigate and evaluate the activities and results of an organisation.

### **Audit authority**

A body designated by the member state for every operational programme that is responsible for verifying the proper functioning of the management and control system. The audit authority is functionally independent of the managing authority and the certifying authority.

### **Beneficiary**

The ultimate recipient of funding.

### **Certification**

An official declaration that something is free from error or complies with a standard.

### **Certifying authority**

A body designated by the member state to certify expenditure declarations and payment applications before they are submitted to the European Commission.

### **Compliance**

The state of being in agreement with EU and other regulations.

### **Compliance assessment**

Assessment of whether EU and other requirements are satisfied.

### **Consolidation statement**

A statement of consolidated expenditure/payments.

### **Cross-compliance**

Specific requirements in the fields of public health, animal health, plant health, the environment and animal welfare that a farmer must satisfy to be eligible for full support.



**Eligibility**

Expenditure that qualifies under the European Commission's criteria for support from European funds.

**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.

**Managing authority**

A body designated by the member state to manage an operational programme.

**Material errors**

Errors that exceed a certain, acceptable percentage.

**Materiality**

The extent to which inaccuracies are acceptable.

**National Audit Authority**

Audit service that periodically audits operational management and policy implementation at a ministry as well as conducting statutory audits of the ministry's annual report.

**Operational Programme**

A document submitted by a member state and approved by the European Commission setting out a development strategy based on a coherent body of priorities requiring financial support from a fund.

**Paying agency**

A body that makes payments on behalf of the European Commission.

**Phases in the internal control process**

1. Design: description and structure of the process;
2. Existence: whether there is actually a process that is consistent with the design;
3. Operation: whether the process functions throughout the entire period in accordance with the design and does what it is intended to do.



**Receivable**

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A legally enforceable right to a sum of money from a third party, usually the recovery of an undue payment.

**Reliability**

The extent to which information is true.

**Reservation**

An exception in a declaration.

**Review**

An assessment of the adequacy of an audit.

**Tolerable threshold**

A quantifiable financial level above which an error or uncertainty is considered important (material).

**Uncertainty**

Case where it cannot be determined whether certain expenditures or receipts are regular or disclosed correctly.



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