Algemene Rekenkamer

EU Trend Report 2014

Developments in the financial management of the European Union

EU Trend Report 2014

The text of the *EU Trend Report 2014* was adopted on 28 January 2014.
The report was submitted to the House of Representatives on 11 February 2014.

Contents

Executive summary

Purpose and structure

This is the twelfth annual EU Trend Report to be published by the Netherlands Court of Audit. It provides an insight into the financial management of EU funds in the European Union (EU) as a whole, in the EU member states and in the Netherlands. Financial management is an important factor in the Minister of Finance's decision to grant discharge to the European Commission for its implementation of the EU budget. The Netherlands decides on the discharge every spring following a debate in the House of Representatives. This is one of the reasons that the EU Trend Report is published in early February each year. It helps inform the House's debate with the Minister.

The report is also intended to inform a broader public of how EU funds are spent in the member states and to what effect. Our position is that EU citizens have a right to expect EU funds to be spent in their own countries and elsewhere so as to achieve the intended outcomes (i.e. effectively), at the lowest possible cost (i.e. efficiently) and in accordance with the regulations (i.e. regularly). We also believe that EU citizens have a right to expect complete transparency on the effectiveness, efficiency and regularity of expenditure.

This EU Trend Report is organised differently from previous editions. It considers the regularity and efficiency of EU funding flows at three levels (EU, member states, the Netherlands) in a single chapter instead of considering regularity and efficiently separately at each level as in the past. To avoid duplications that this approach might entail, each chapter begins with the situation in the EU and the findings of the European Court of Auditors (which is competent at this level). We then look at the member states and the findings of supreme audit institutions where available. What we have retained from the previous EU Trend Reports is a separate section on our own audit of EU funding flows in the Netherlands. This year we look at the European Regional Development Fund (ERDF). To show the relationship between the various sections of this report and those of previous reports, annexe 1 presents a table comparing the organisation of previous EU Trend Reports with the current edition.

Conclusions and recommendations for part I, EU: developments in financial management

The first part of the report considers financial management and the regularity and efficiency of the use of EU funds in the EU as a whole and in the individual member states. We discuss these issues on the basis of accountability documents and audit reports issued each year by the European Commission, the European Court of Auditors and the EU member states. We also consider three current issues relating to the financial and economic crisis in the EU: the audit of the EU emergency mechanisms for member states in economic difficulties and accountability for them, stronger EU surveillance of public finances in the EU member states and the further development of banking supervision in the EU. The main conclusions from the first part of the study are as follows:

EU-wide

- The European Commission's accounts disclose no improvement in the regularity of expenditure in the past year.
- The European Court of Auditors was again unable to express an unqualified opinion on the use of EU funds. The estimated error rate was actually higher than in previous years.
- On the revenue side, a recent study by the European Commission found that the EU incurred significant losses in the receipt of customs duties.

A positive development is that the European Commission is taking measures to improve its financial management ahead of the new 2014-2020 programming period.

Member states

- There was no improvement in the accounts rendered by EU member states for their use of the funds they receive from Brussels in the past year. In 2013, only three member states, one being the Netherlands, voluntarily issued a national declaration (formerly known as a member state declaration) on their use of EU funds.
- There may be an insight into the outputs the member states delivered using EU funds but little is known about the outcomes (impact).

We reiterate the recommendations we made last year to the Minister of Finance and the Minister of Foreign Affairs:

- seek ways to have the member states issue a compulsory public declaration on their use of European funds (comparable to the Dutch annual national declaration) now that it has proved impossible to make such a declaration compulsory in the new Financial Regulation.
- include remittances in the national declaration, as we recommended in our latest report on the national declaration.
- encourage all EU member states to publish their annual summaries of national controls (as from 2014 including the new management declaration) along with an analysis by the European Commission.

Addressing the financial and economic crisis

Our main conclusions regarding the control and accountability arrangements in place for the emergency mechanisms for member states in economic difficulties, such as the European Financial Stability Facility (EFSF) and its successor, the European Stability Mechanism (ESM), the reinforced surveillance of public finances in the member states and the further development of banking supervision in the EU are as follows:

- control and accountability are not yet properly organised for the funds provided from the emergency mechanisms; attention should be paid to the capacity and mandate of the ESM's Board of Auditors and the solution chosen for surveillance of the EFSF is inadequate.
- on the path towards banking union, the European Central Bank (ECB) will receive more powers than it currently has. The European Court of Auditors, however, has not received any powers specifically to audit the quality of the ECB's supervision. There is therefore an audit gap.

We recommend that the Minister of Finance:

- in consultation with like-minded countries ensure that the ESM's Board of Auditors has the human and financial resources and information it needs to carry out its tasks, and that its recommendations are followed up.
- consider – and discuss in the euro group – whether the solution chosen for the EFSF's audit committee can be enriched, subject to applicable legislation, with members from outside the EFSF's own ranks.

Conclusions and recommendations for part II, the Netherlands: ERDF projects

The second part of this report considers projects implemented in the Netherlands that are funded by the EU. This year, we looked at projects financed from the European Regional Development Fund (ERDF). Is it known what ERDF projects achieve in the Netherlands? Are the outcomes monitored and evaluated? Previous audits by both the European Court of Auditors and the Netherlands Court of Audit found that there was reasonable insight throughout the EU into the outputs of EU projects but often little was known about the outcomes. Our audit concentrated on a small sample of ERDF projects that were carried out to enhance the innovative strength of four regions in the Netherlands. The audit led to the following conclusions:

- although most of the projects we audited delivered what they promised, it was often difficult to determine their efficiency and effectiveness;
- the targets set for the ERDF programme were often so easy that they were possibly not very well thought out;
- the selection of projects for ERDF funding usually considered efficiency and effectiveness criteria but not always as thoroughly;
- the performance indicators were often vague and said little about the precise effect of an ERDF project.
- receipt of ERDF funding was not dependent on the achievement of targets; recipients had only a duty of best efforts.
- project applications that satisfied the conditions were funded on the basis of 'first come, first served'. In consequence, the most efficient and effective projects may miss the boat.

A positive development is that the managing authorities are already making changes in the implementation procedures that may lead to improvements in the forthcoming ERDF programming period.

In the light of these conclusions, we recommend that the Minister of Economic Affairs (EZ), who is responsible for the ERDF in the Netherlands:

- consider obliging the ERDF managing authority and ERDF beneficiaries to publish, preferably on the internet, what they have achieved with the funds received;
- ensure that targets at project and programme level are more objective and better justified;
- set targets and indicators to manage by outcomes rather than outputs;
- when selecting projects, encourage competition between applications; ensure, for example, that applications are transparent;
- introduce implementation agreements in all ERDF regions in order to increase control over the beneficiaries' best efforts.

Some of these recommendations are consistent with the initiatives already being taken by the managing authorities to harmonise the assessment and selection of projects.

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

The government responded to our recommendations on 27 January 2014. Its response is summarised below. Where appropriate, we have written a brief afterword on parts of the response. The government's full response to this EU Trend Report is presented in annexe 2 and on our website at www.rekenkamer.nl.

Response to the recommendations in part I

The government considers our recommendation that it continue to seek ways to have member states publish compulsory national declarations to be an endorsement of its policy. Unfortunately there was too little support in the EU, according to the government, to arrange compulsory publication in the Financial Regulation. Nevertheless, the government will continue to work on improving the quality of voluntary national declarations. The government also undertakes to seek the publication of annual summaries. The government believes the management declarations of assurance and associated independent audit opinions required from all member states by the new Financial Regulation should be made public.

The government will not follow up our recommendation that the Dutch national declaration also include remittances to the EU. It notes that for many years the European Court of Auditors has expressed an unqualified opinion on the own resources in the EU budget, as the remittances from the member states are known. It also emphasises that the European Commission has a legal duty and responsibility to check the reliability and accuracy of data on remittances and that the control system in place for remittances functions adequately. The government also thinks that expressing an opinion on GNI-based[1] remittances could undermine the independence of Statistics Netherlands (CBS), which generates the figures each year. Its independence is an important pillar to ensure that the figures are produced without political influence.

Afterword: We repeat our call to include remittances in the national declaration. There are indications, as highlighted in this report,[2] that remittances are not entirely in order. If remittances were included in the national declaration, full accounts would then be available at member state level that could be reconciled with the EU budget as audited by the European Court of Auditors. We will return to this subject in our report on the national declaration in May 2014.

The government agrees with our recommendation to ensure that the ESM's Board of Auditors has sufficient human and financial resources. The government will continue to highlight the importance of the Board of Auditors' work and will support it wherever appropriate, in part by providing sufficient human resources and support for its members. The government has seen no indications of budgetary restrictions and notes that there has been a significant increase in the ESM's 2014 budget for the Board of Auditors.

1 GNI = gross national income.

2 See section 1.1.2 and further.

Afterword: Since there will probably be no decline in the ESM's importance in the years ahead, we think the ESM's Board of Auditors should be enlarged and mandated to act as a fully-fledged independent audit body.

Our recommendation that the EFSF's audit committee be enriched with external members has the government's attention. In the government's opinion, the committee can be advised by external specialists. The government thinks this will provide assurances on the external audit of the EFSF and it will await developments.

Afterword: We would stress the great financial importance of the EFSF. It has lent more than €176 billion to Ireland, Portugal and Greece. The Netherlands has guaranteed 6.1% of the loans. Measures should be taken to mitigate the associated risks. In our opinion, independent external audit is essential.

Response to the recommendations for part II
The government agrees that the outcomes of projects financed from the ERDF should be published and refers to the annual reports and the annual Europa Kijkdagen ('European Open Days').

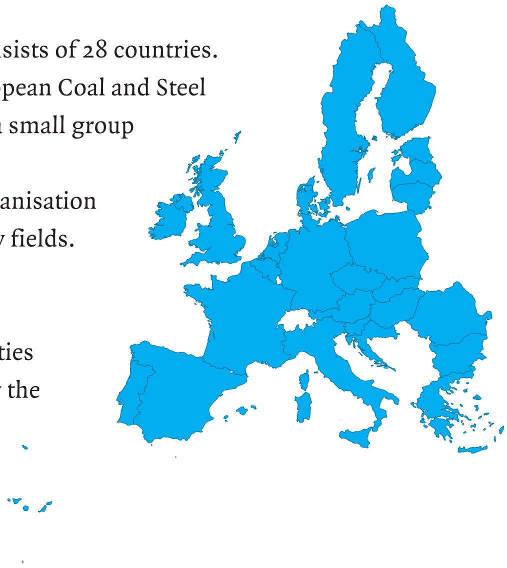
Afterword: The desired transparency can best be offered by posting information online. The Europa om de hoek website (www.europaomdehoek.nl) is an inspirational example.

The government agrees with our recommendation that targets should be set more on the basis of the intended outcomes and justified more objectively. The finishing touches are currently being put to four regional ERDF programmes for the forthcoming programming period; the government has made the description and substantiation of intended outcomes and indicators important assessment criteria. The value for money selection criterion will be given more weight in the assessment of project applications in the new programming periods. Furthermore, both the ERDF funding and the national cofinancing component will be taken into consideration. The first come, first served principle will remain important in practice but the managing authorities will give greater weight to effectiveness and efficiency criteria when selecting projects. Moreover, greater use will be made of tenders and calls. An independent expert committee will be set up to advise on the assessment criteria.

Finally, the government agrees with our recommendation that a national implementation agreement should be introduced similar to the one used in the ERDF West region. The government will encourage the managing authorities to introduce such agreements.

Afterword: We are pleased that improvements will be made. We will follow the undertakings with interest to see whether they are also put into practice.

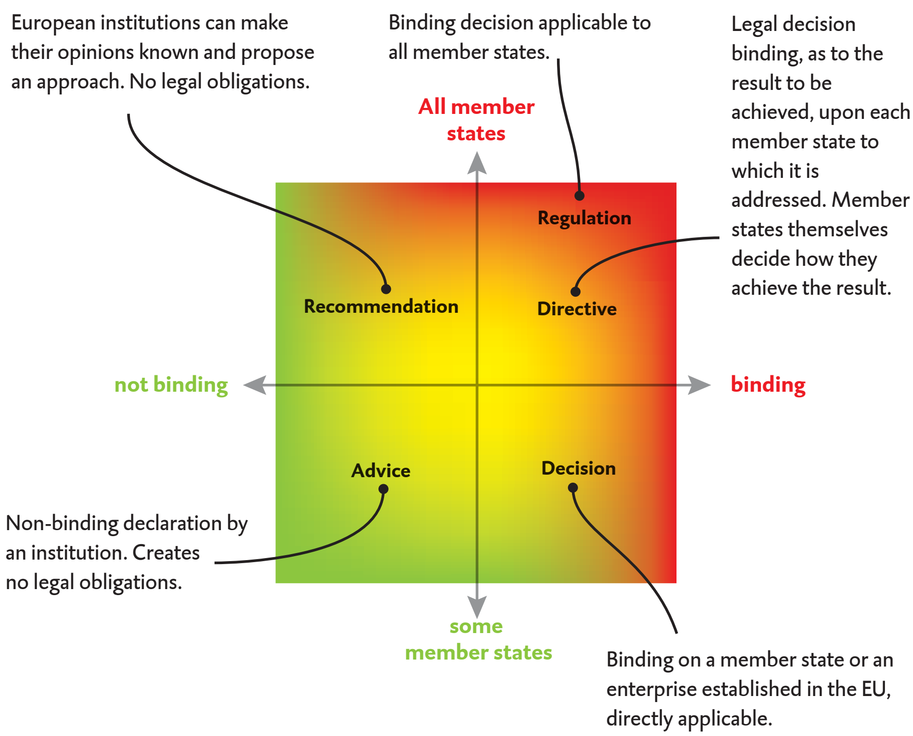
The European Union: a project of 28 countries



The European Union (EU) currently consists of 28 countries. It was originally established as the European Coal and Steel Community as an economic project by a small group of countries shortly after World War II. Over the years it has evolved into an organisation that is engaged in a wide range of policy fields.

Democratic decision-making
Everything the EU does is based on treaties that have been democratically agreed by the member states. Decisions are usually taken by means of the co-decision procedure, in which the directly elected members of the European Parliament together with the Council of Ministers (in which the governments of the 28 member state are represented) together approve proposed legislation.

Legislation
The EU can take several types of decision. Some are binding, others are not. Some apply to all EU countries, others to only a few.

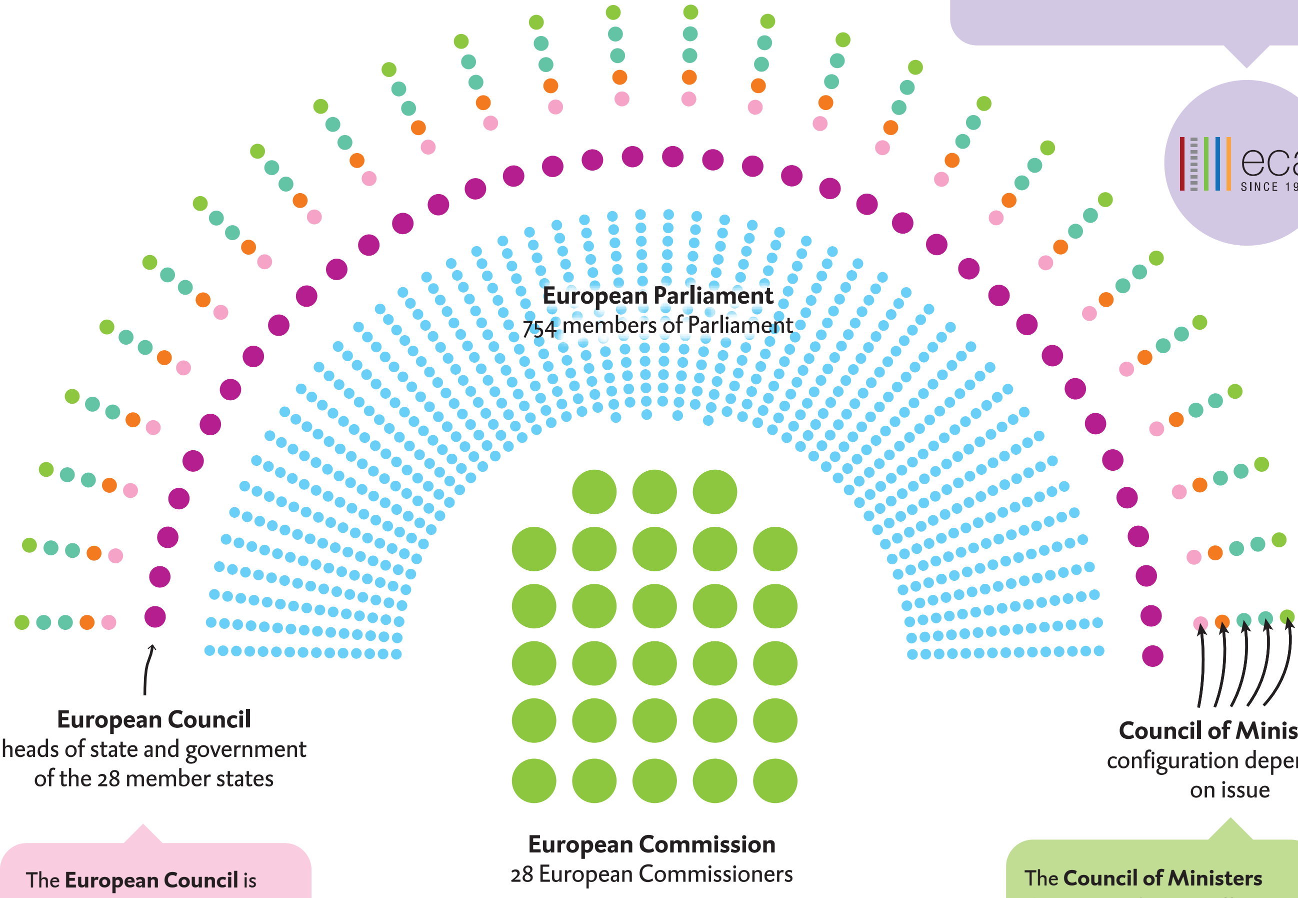


EU institutions

This report looks at the following EU institutions:

The **European Parliament** represents the citizens of the EU. Its 754 members are elected every five yeas (the next elections will be held in May 2014). It shares legislative power in the EU with the Council. It can adopt, amend or reject EU laws (e.g. Directives and Regulations). Together with the Council, the Parliament approves the EU budget.

The **European Court of Auditors**' main task is to audit the implementation of the EU budget. It expresses an opinion on the legality and regularity of the EU's revenues (the remittances received from the member states) and the EU's expenditures (consisting chiefly of grants awarded to the member states). It also audits the financial management conducted by the European Commission and the other EU institutions.



The **European Council** is made up of the heads of state and government of the 28 member states. It takes initiatives necessary for the development of the Union and sets the general political policy lines and priorities. The European Council has no legislative task.

The **European Commission** is made up of 28 Commissioners, one from each member state. The Commission proposes new laws and checks the member states' compliance with them. Similar to the ministries of national governments, the European Commission's Directorates-General (DGs) and services that are responsible for the policy fields.

One of the services is **OLAF**, (the *Office européen de lutte antifraud*, the European Anti-fraud Office). On behalf of the Commission, it prepares annual reports on irregularities and suspected fraud in the member states.

The **Council of Ministers** ('the Council') has a different configuration depending on the issue under debate. It consists of the relevant ministers of all 28 member states.

Part I

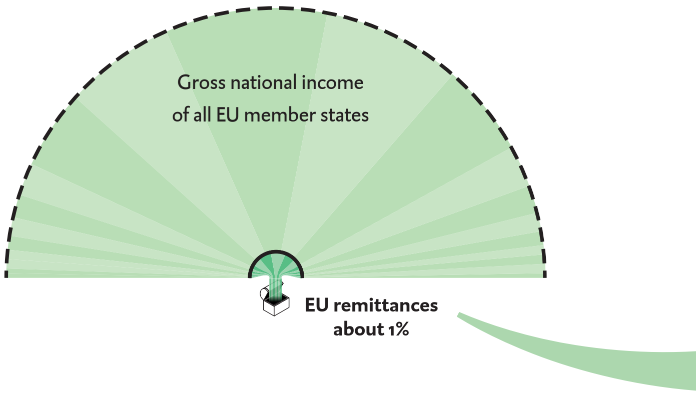
EU: trends in financial management

EU revenue and expenditure

Common financing and common expenditure

The EU is financed by means of annual remittances made by the member states. The remittances are entered together in the EU budget. The budget may not run a 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 remittances or by refunding them on a pro rata basis.

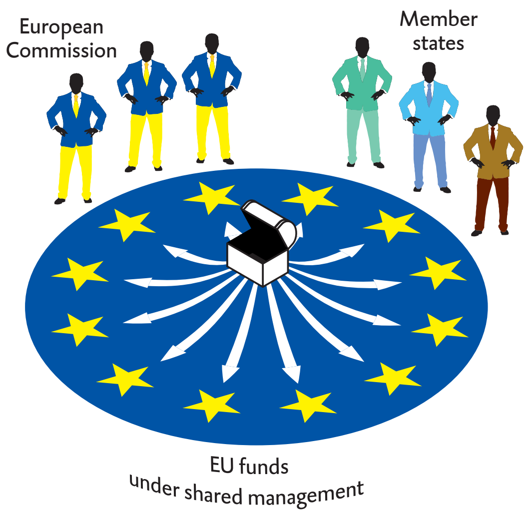
The EU budget for 2012 totalled €139.5 billion. To put this in perspective, the budget was equal to about 1% of the joint gross national income of the member



Three types of remittance

To fund the EU's expenditure, the member states remit a contribution calculated for each country. These remittances to the EU budget are known as the EU's own resources. They consist of

- **traditional own resources:** 75% of 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).



Shared management

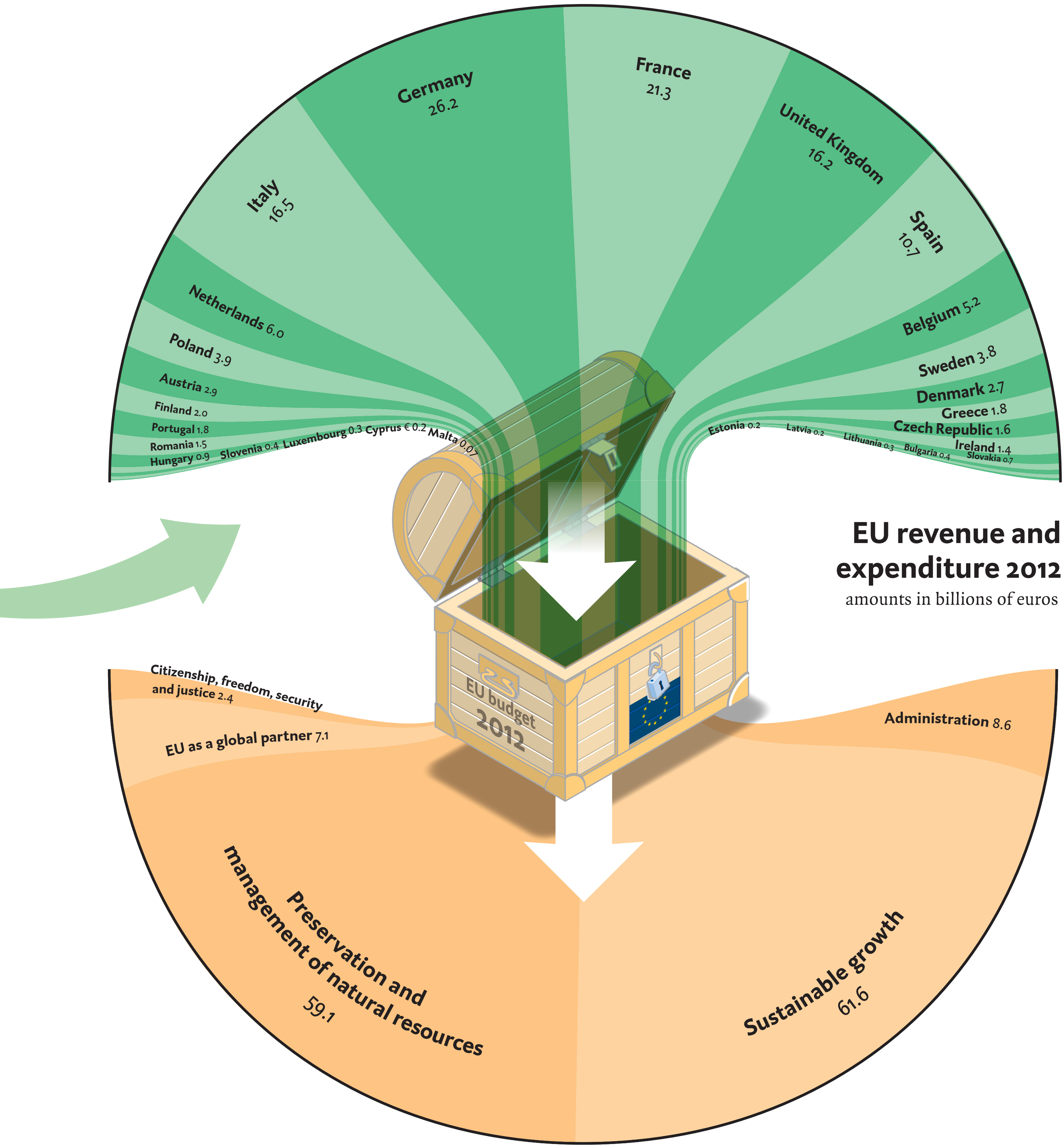
Of the funds recognised in the EU budget every year, 80% are managed jointly by the European Commission and the member states. These funds are known as 'funds under shared management'. They include the structural funds to strengthen the economic, social and territorial cohesion of the EU.

This report concentrates on the use of funds under shared management. The member states have a direct responsibility for the correct (regular, efficient and effective) use of these funds.

EU revenue and expenditure 2012

amounts in billions of euros

Revenue € 139.5 billion*



Expenditure € 138.7 billion

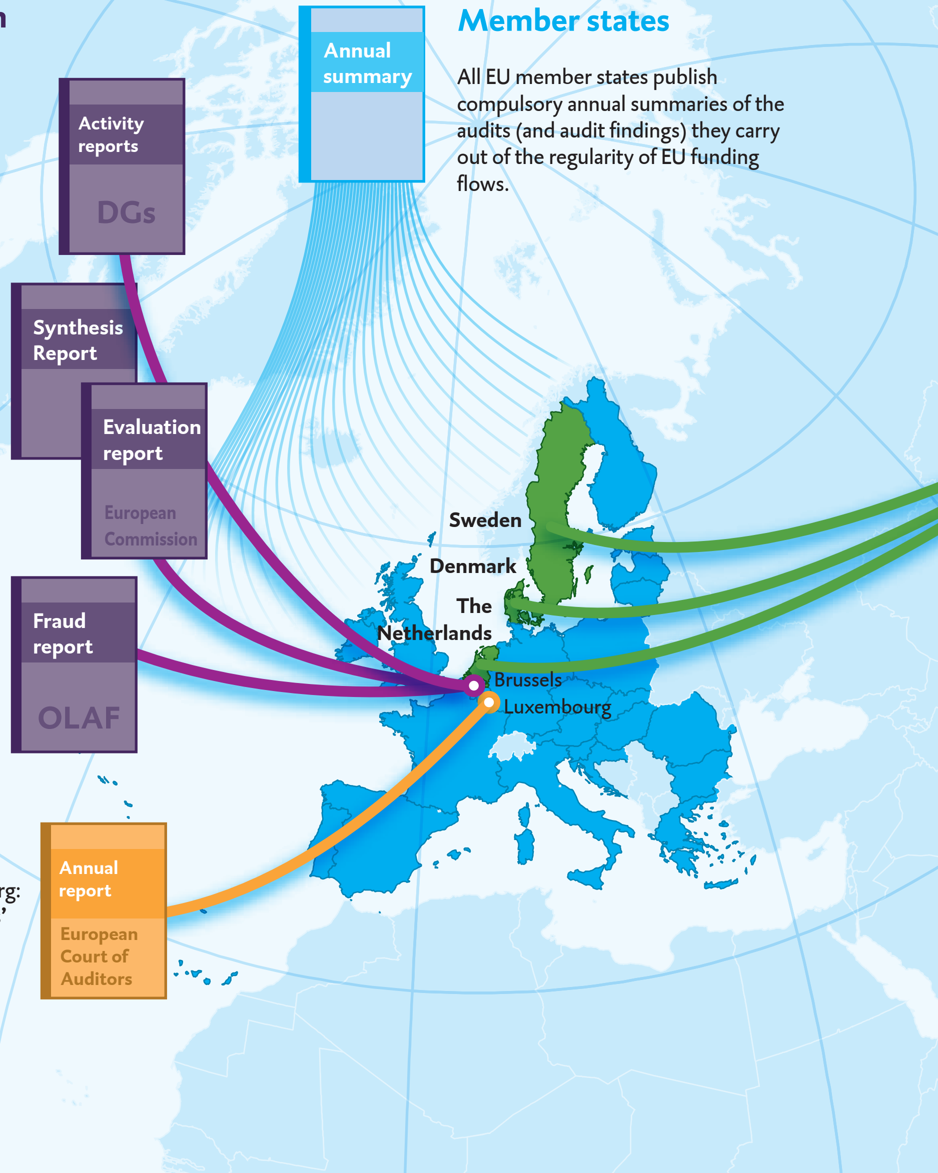
* As explained on the facing page, surplus funds at the end of the financial year must be returned to the member states, either by setting them off against future remittances or by refunding them on a pro rata basis. The latter alternative is usually chosen. This leads to the formation of temporary reserves in the EU budget. The figure above shows only remittances from the member states, taking no account of reserves. This explains the difference between the aggregate member state remittances (€129.17 billion) and total revenue for 2012 (€139.5 billion). The figure also shows that expenditure for 2012 was lower than revenue for the year; this again led to the formation of a reserve in the following financial year.

1 Financial management and regularity

This first chapter considers the management and expenditure of the member states' remittances to the EU. EU funds must be spent in accordance with the regulations. If not, for example if they are surreptitiously given a different use than intended in the EU budget, there is said to be an irregularity. Sound financial management presumes that EU transactions and EU balances comply with all measures that enable EU funds to be spent regularly and that the accounts rendered for that expenditure are timely, accurate and complete. The European Commission publishes a series of documents every year to account for its financial management and the regularity of expenditure. All the Commission's Directorates-General (DGs), for example, publish activity reports and the Commission itself compiles an overarching Synthesis Report. OLAF, the Commission's anti-fraud office, also publishes an annual report.

Accountability and control in the EU

The EU publishes a variety of accountability and control reports every year. Who publishes what and what do the reports cover?



European Commission

Accountability documents and control reports are published every year in Brussels:

- The European Commission's policy DGs compile **activity reports**.
- The European Commission issues an overarching **Synthesis Report** on the activity reports and an **evaluation report** on the policy conducted.
- OLAF, the anti-fraud office, publishes a **report on irregularities and fraud** in the member states.

Member states

All EU member states publish compulsory annual summaries of the audits (and audit findings) they carry out of the regularity of EU funding flows.

European Court of Auditors

An important audit report is published every year in Luxembourg: the **European Court of Auditors' annual report** evaluates the regularity of the EU's revenue and expenditure.

The European Court of Auditors also publishes an annual audit report on the functioning of the management and control systems used by the Commission and the member states for EU funds. The report includes an opinion on EU expenditure.

The individual member states also prepare annual documents on their use of EU funds. All member states are obliged to submit, for example, an annual summary to the Commission, summarising their audits of the regularity of EU expenditure. Some member states also publish voluntary national declarations to account for their use of EU funds.

The scope and content of all these documents are considered in this chapter. We begin at EU level with the documents issued by the Commission (section 1.1) and the audit report issued by the European Court of Auditors (section 1.2). We then discuss the national accounting documents issued by the member states (section 1.3). We close with a brief look at developments for the 2014-2020 programming period (section 1.4).

1.1 Accounting documents issued by the European Commission

1.1.1 The European Commission's activity reports and the Synthesis Report

The European Commission's DGs and services[3] issue annual activity reports, in which they report on their work during the year and account for the results they have achieved.

A declaration of assurance signed by the Director-General is issued on each activity report. The declaration states that the information in the activity report gives a true and fair view and that there is reasonable assurance that the resources assigned to the DG were used for their intended purpose.

The Director-General can make reservations in the activity report regarding the reliability of the information. Reservations are intended to point out shortcomings or problems that might prevent the Director-General issuing a full declaration of assurance. A reservation is made, for example, if expenditure is irregular.
The Director-General should state how many reservations are made, how much money is involved, how the shortcomings or problems have arisen (i.e. the underlying internal and external risks) and the corrective measures that will be taken.

Three member states set a good example

Only three member states, one being the Netherlands, voluntarily published a national declaration in 2013 in addition to the annual summaries in which they account for their use of EU funds.

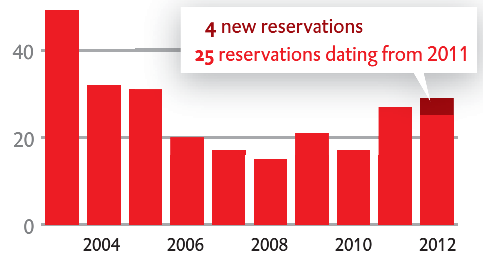
Compulsory national declarations in all member states would improve the quality of the member states' accountability for EU expenditure.

3 For the sake of legibility, we refer in the remainder of this report only to DGs; references to DGs also include the services.

Further increase in number of reservations in 2012

The DGs made slightly more reservations in respect of 2012 than they had in respect of 2011. In 2011 there had been a sharp increase relative to 2010. In total, 29 reservations were made in respect of 2012. 25 of them were 'old' reservations dating from 2011 that were still being worked on at the end of 2012.

Slight increase in DGs' reservations



Source: Synthesis Report European Commission 2002-2012

The research DGs (DGs Research and Innovation; Energy; Mobility and Transport; Enterprise and Industry; Communications Networks, Content and Technology; and the Research Executive Agency), which conduct internal policies, accounted for 13 of the reservations (i.e. nearly half).

The more reservations that are made, the greater the uncertainty about the regularity of the DGs' expenditure. The DGs have estimated the financial value of their 2012 reservations at between €2.6 and €3.5 billion. This is approximately 1.9% to 2.5% of all payments made in 2012. It means that the European Commission cannot give assurance on the regularity of up to €3.5 billion of expenditure. The maximum uncertainty in 2011 had also been €3.5 billion. In 2010 the figure had been far smaller: €0.6 billion.

According to the Commission, the increase in the number and financial value of the reservations is due to the phase in the implementation cycle. Implementation intensity is highest in the last two years of the budget and the associated increase in the volume of payments, according to the Commission, increases the risk of errors in comparison with earlier years (the EU's current multiannual budget runs from 2007 to 2013).

The 12 activity reports we studied in detail[4] contained detailed and quantified explanations of the reservations, as they had in the previous two years. Many of the reservations related to both shortcomings in financial transactions and shortcomings in management and control systems. They were often due to the complexity of the rules on the eligibility of expenditure and on public procurement.

Reports on controls in member states of mixed quality

The five policy DGs responsible for funds under shared management by the Commission and the member states (DG Agriculture, DG Regional Policy, DG Employment, DG Maritime Affairs and Fisheries and DG Home Affairs) provide detailed information in their 2012 activity reports on the results of controls in the

4 We studied the activity reports of the 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.

member states. The quality and quantity of the information is substantively of the same order as in the 2011 activity reports.

Most of the other policy DGs state in their activity reports only the nature of the controls. Some also name the member states in which controls were carried out but their reports provide little information on outcomes.

More reputational reservations

Directors-General make 'reputational reservations' in their declarations of assurance if a shortcoming, such as a weakness in the design or functioning of internal controls or financial management, could harm the reputation of the European Commission. Five of the 12 DGs we studied made reservations in connection with potential harm to the Commission's reputation. In the previous year, four DGs had made reputational reservations.

Reputational reservations in 2012 and related financial risk

Budget heading	DG	Number of reservations	Financial risk (€ millions)
Sustainable growth	Regional Policy Employment Mobility and Transport Energy Research and Innovation	2 (1 reputational 2 (1 reputational) 2 3 (1 reputational) 2	202.7 68.9 1.23 4.1 111.3
Natural resources	Agriculture Maritime Affairs and Fisheries	3 (1 reputational) 2	407.3-202.7 26.3
Citizenship, freedom, security and justice	Home Affairs	1 (reputational)	
Total reservations in policy DGs studied		17	
Other reservations		12	
Total reservations		29	

Reputational reservations in 2012

The reputational reservations made in the 2012 activity reports related to:

- DG Regional Policy: shortcomings in management and control systems in place for nine EU programmes financed from structural funds[5] in three member states. The reservation was not quantified because no payments were made in 2012.
- DG Employment: serious shortcomings in the management and control systems in place for 12 EU programmes financed from the European Social Fund in four member states. This reservation, too, was not quantified because no payments had been made in 2012.
- DG Energy: breach of public procurement rules in the European Energy Programme for Recovery (EEPR).
- DG Agriculture: deficiencies in the supervision and control of organic products.
- DG Home Affairs: delays in implementing the SIS II project to migrate to the new version of the Schengen Information System.[6]

5 The structural funds are the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund.

6 The second generation Schengen Information System (SIS II) is a large-scale alert system for persons and goods. It will be used by border control, customs, visa and police authorities to ensure security in the Schengen area.

Synthesis Report: final accounting document not signed by the Commission
The European Commission compiles the Synthesis Report on the basis of the annual activity reports. It is the closing document in the European Commission's annual planning, programming, and reporting cycle.

By adopting the Synthesis Report on the basis of the declarations of assurances given by its Directors-General and Heads of Services in their annual activity reports, the Commission takes overall political responsibility for the implementation of the EU budget. As in previous years, however, the Synthesis Report is not signed by the members of the European Commission. According to the European Parliament, political responsibility is therefore implicit. We had also raised this point in our previous EU Trend Reports. To date, the Commission has not responded to the criticism.

As in the previous year, the Commission declared in the 2012 Synthesis Report that its Internal Audit Service (IAS) had submitted an overall opinion on the control systems on which the Directors-General relied for their activity reports. In the IAS's opinion, which was not published, the control systems give 'reasonable assurance' on the achievement of financial objectives. In 2011 its opinion on the systems had been 'positive'; its opinion this year therefore seems to be less favourable.

Points raised by the IAS and referred to in the Synthesis Report include: the importance of reliable error rates, more efficient and effective control strategies in the risk assessment process and better quantitative and qualitative indicators to monitor control activities.

1.1.2 OLAF's report on irregularities and fraud

Member states sometimes make mistakes when they receive and spend EU funds. These mistakes are known as irregularities. Member states also sometimes break the rules intentionally. These cases are fraudulent.

Difference between irregularity and fraud

An *irregularity* is an act or omission whereby a member of the EU common market (for example a paying authority or a beneficiary) prejudices the financial interests of the EU, either by reducing or losing revenue accruing to the EU or by declaring an unjustified item of expenditure.
Fraud is an intentional act or omission involving the use or presentation of false, incorrect or incomplete statements or documents or non-disclosure of information in violation of a specific obligation or the misapplication of EU funds for purposes other than those for which they were originally granted.

The member states are required to report all irregularities exceeding €10,000 to the Commission and to take measures to recover undue payments. OLAF,[7] the anti-fraud office, compiles annual summaries for the Commission of the number of irregularities reported. The summaries do not provide a full and reliable picture, however, because the member states have not adopted uniform reporting procedures.

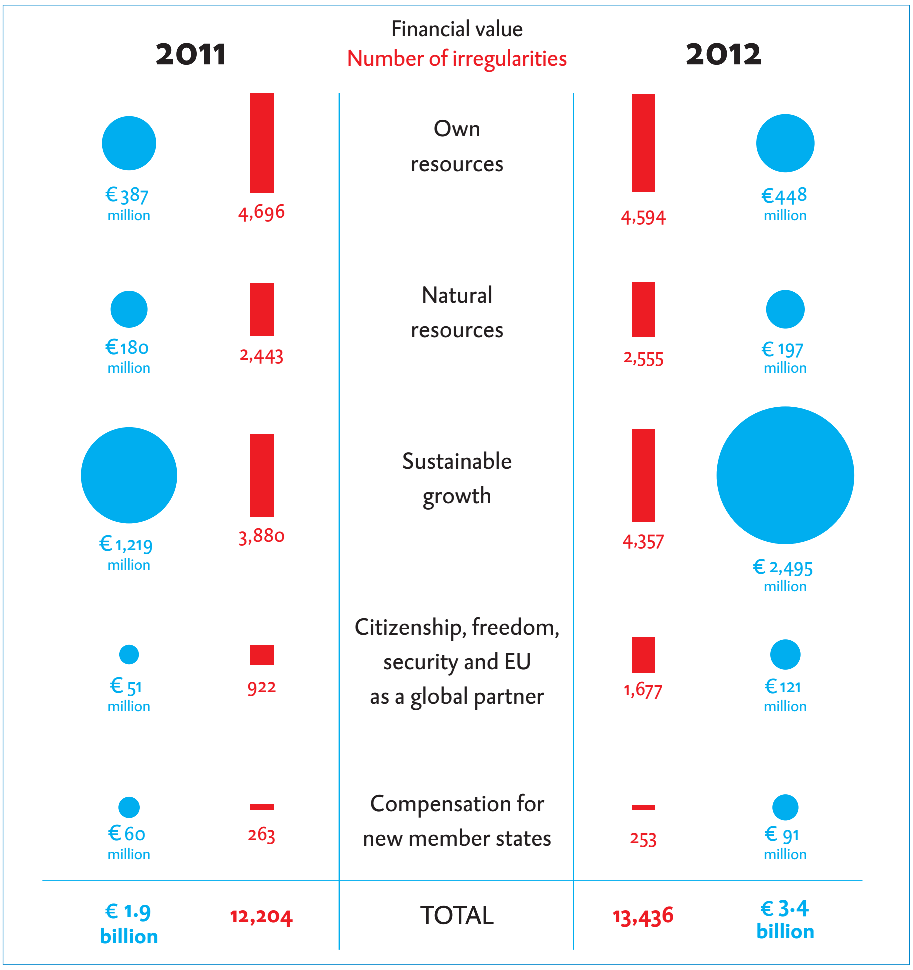
7 OLAF stands for Office européen de lutte antifraud.

Increase in irregularities
Across the EU as a whole, both the number of irregularities reported and their estimated financial value were higher in 2012 than in 2011. With regard to the funds received from Brussels, they were 10% higher and with regard to expenditure (i.e. payments made to farmers, project implementers, etc.) they increased by no less than 77%.

The 13,436 irregularities reported by the member states had a total financial value of €3.4 billion (€1.9 billion in 2011). Of this amount, €2.9 billion related to expenditure. The irregularities reported represented 2.3% of the payments made in the member states. In terms of the financial value of the irregularities, 68% (€2.28 billion) were reported by four member states: the Czech Republic, Spain, Poland and Italy. The irregularities related to agricultural funding (including the fisheries funds), structural funds payments and the member states' remittance of the customs duties they collected (also known as the traditional own resources),

The member states must take all measures necessary 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.[8]

Irregularities by budget heading

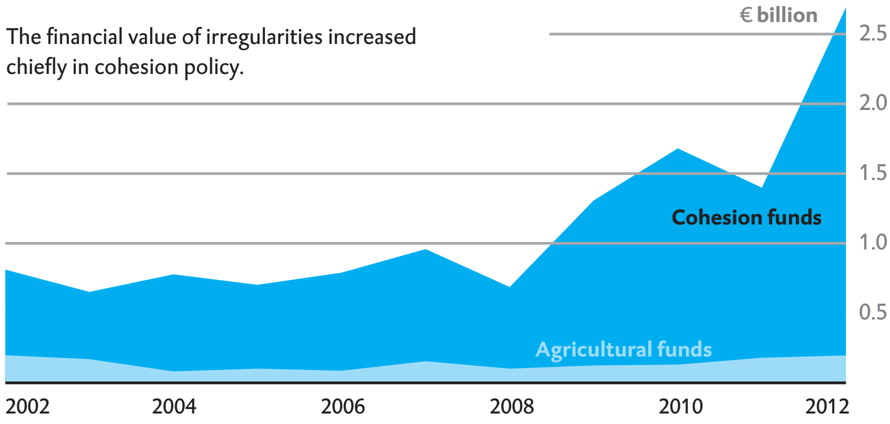


8 The total amount still recoverable at the end of 2012 was €1,216.8 million (€1,206.9 million at year-end 2011). Italy has had the highest amount in new cases since 2007 (€208.2 million).

Most irregularities in cohesion policy

Full information on the irregularities reported by the member states to the Commission in 2002-2012 is available only for agricultural and cohesion policy.

Financial volume of irregularities reported in agricultural and cohesion funds



The increase relates largely to funding flows to the member states to implement cohesion policy. The policy's objective is to strengthen the economies of the least developed member states. Projects are financed to help the development of these member states (for example, through the construction of roads and railways) and so help the EU 'stick together'.

It should be recognised that the trend in this information (particularly the growing number of irregularities in cohesion policy) might be influenced by the increase in the number of member states and the reporting threshold.[9] The figure above shows how big the problems are in cohesion policy in comparison with agricultural policy.

Increase in number of fraud cases

The number of fraud cases reported to OLAF in 2012 increased by 21% on the previous year from 1,046 to 1,264.

Number of new fraud cases and decisions taken in 2011-2012

	2011	2012
New OLAF files	1,064	1,264
Decisions taken	921	718

Source: OLAF annual activity reports 2011 and 2012

In 2012, 718 reported fraud cases required further investigation. Of the 718 cases, 100 were followed up in 2012, with OLAF making recommendations on the financial, judicial, disciplinary and/or administrative measures that the EU or national authorities should take. The number of cases followed up has remained stable since 2009.

9 Ten countries joined the Union in 2004 and another two in 2007. The threshold for reporting irregularities in transactions funded from the structural funds, including the Cohesion Fund, was raised from €4,000 to €10,000 with effect from 2006. The threshold for irregularities in the agricultural funds was raised in the following year.

By policy field, most of the fraud cases opened in 2012 related to the structural funds. The number jumped sharply from 55 in 2011 to 134 in 2012. There was also an increase in the number of cases involving agricultural funds: up from 28 in 2011 to 59 in 2012.

1.2 European Court of Auditors' annual audit report

The European Court of Auditors' core task is to audit the implementation of the EU budget. It expresses an opinion on the legality and regularity of EU revenue (the funds remitted by the member states) and EU expenditure (chiefly the funds allocated to the member states). It also checks the financial management exercised by the Commission and the other EU institutions. It presents its findings each year in a report on the previous financial year. The findings are an important factor in the European Parliament's decision to grant the Commission discharge[10] or not. The European Court of Auditors does not express an opinion on the regularity of expenditure in individual member states. In the member states, it audits only the functioning of management and control systems in place for EU funds.

Again no unqualified opinion on the use of EU funds

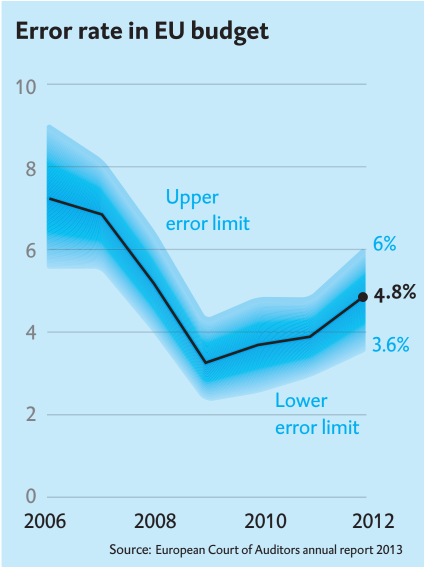
Although the European Parliament has granted discharge to the Commission for its implementation of the budget every year since 1998,[11] the European Court of Auditors has never expressed an unqualified opinion on the regularity of the Commission's expenditure. Each year, its audit has found too many errors. An error occurs, for example, if the costs declared by a project implementer are ineligible but are nevertheless paid.

In respect of 2012, too, the European Court of Auditors was unable to issue an unqualified statement of assurance (Déclaration d'Assurance, DAS) on the reliability of the Commission's accounts and the legality and regularity of the underlying transactions. For the sixth year in succession it expressed a positive opinion on the reliability of the accounts. The EU's accounts gave a true and fair view of the financial situation as at 31 December 2012 and the results of the Union's operations for the year then ended.

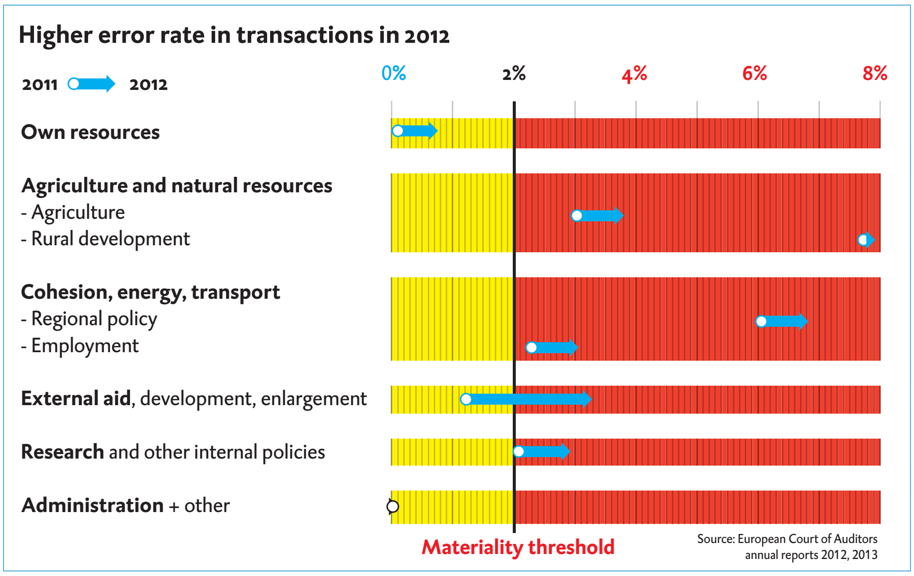
10 The discharge procedure entails the approval of the Commission's expenditure of the funds in the EU budget. If discharged, the Commission is officially relieved of responsibility for budget implementation and can no longer be held accountable for it. See also section 2.1.2.

11 The European Parliament last refused to grant discharge in 1998. This led to the collective resignation of the European Commission headed by Jacques Santer.

Higher error rate in Commission expenditure
The European Court of Auditors disclosed in its 2012 report that the most likely error rate[12] for the Commission's budget as a whole was 4.8%, an increase of 0.9 percentage point on the previous year.

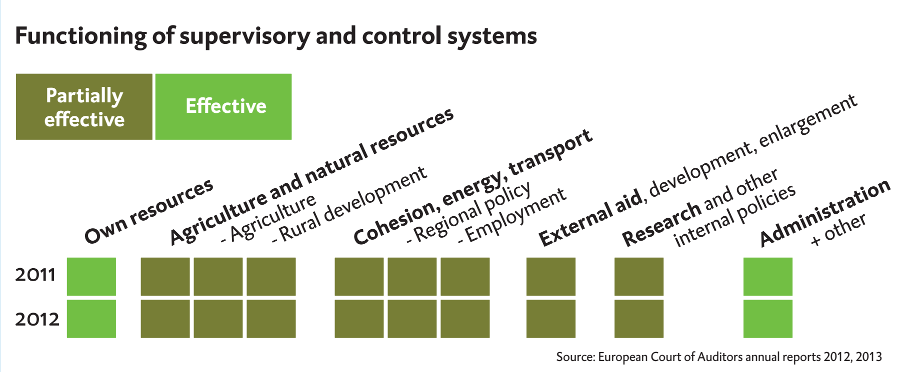


As the transactions audited amounted to nearly €141 billion, this material error rate is the equivalent of nearly €6.8 billion.[13]



12 The most likely error rate is the weighted average of the error rates detected in the sample.
13 An error is 'material' if the financial significance of the quantifiable errors detected is equal to or greater than 2% of total expenditure.

The 2% materiality threshold was exceeded in all policy fields and the supervisory and control systems, as in the previous year, were qualified as partially effective.



The error rates detected in the budget headings of Research and External Relations were higher than in the previous year on account of a new sampling approach used by the European Court of Auditors (see box).

New audit method leads to higher error rate

The European Court of Auditors adopted a new sampling approach last year. A different sampling population was chosen for the Research and External Relations budget headings. In the past, the Court of Auditors had audited advance payments in these policy fields, i.e. payments made before the beneficiaries had undertaken activities or incurred expenses. Last year the audit examined interim payments, final payments and clearing of advances. This change harmonised the audit base for all budget headings and is more consistent with the principles of transaction-based accounting. One of the consequences of this new approach is that the error rates detected in these two budget headings were higher than in the previous year.

This, however, does not fully explain why the overall most likely error rate increased to 4.8%. On the basis of the previous sampling approach, the most likely error rate would have been 4.5% (in comparison with 3.9% in the previous year).

European Court of Auditor's opinion on the regularity of transactions by EU budget heading

Budget heading	Error rate in sampled transactions	
	2011	2012
Own resources	0.8%	0%
Agriculture and natural resources	4%	-
• Agriculture, market support & direct aid	2.9%	3.8%
• Rural development	7.7%	7.9%
Cohesion, energy and transport	5.1%	-
• Regional policy, energy and transport	6.0%	6.8%
• Employment and social affairs	2.2%	3.2%
External aid, development and enlargement	1.1%	3.3%
Research and other internal policies	3.0%	3.9%
Administration and other expenditure	0.1%	0%

Source: European Court of Auditors, annual reports 2012, 2013

1.3 Accountability by member states

1.3.1 Member states' annual summaries

Since 2008, every member state has had to submit an annual summary to the European Commission before 15 February. It presents a summary of the audits (and the audit findings) carried out by the supreme audit institution in the previous financial year of the use of funds granted by the EU.

The annual summaries are issued at national level by the 'designated body'. In the Netherlands the Ministry of Economic Affairs is the designated body for the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD), the European Rural Development Fund (ERDF) and the European Fisheries Fund (EFF). The Ministry of Social Affairs and Employment (SZW) is the designated body for the European Social Fund and the Ministry of Security and Justice (V&J) for the European migration funds.

Publication not compulsory

In 2012, 14 of the 27 member states published their annual summaries for 2010 on the European Parliament's website. As most of the documents (12 out of 14) were written in the national language, however, in practical terms they were not widely available. Moreover, they had not been analysed by either the European Commission or the European Parliament.[14] Their publication, however, was a first step towards greater transparency on the member states' use of EU funds. Transparency is an important element to improve financial management. Unfortunately we cannot avoid the conclusion that this first step has not been followed up. More recent annual summaries (i.e. for 2011 and 2012) cannot be found on the European Parliament's website. This is regrettable because publication of all the member states' annual summaries, even if they are of little substantive use, provides some insight into the errors and shortcomings found by the member states in the implementation of EU programmes.

The entry into force of the new EU Financial Regulation did not improve access to the annual summaries (no compulsory publication). Last year, we had recommended that the Minister of Finance work within the Council of Ministers to encourage the member states to publish their annual summaries. We had also recommended that the annual summaries be routinely analysed by the European Commission. The Minister of Finance undertook to have the publication of annual summaries included in the Interinstitutional Agreement. However, his efforts have not yet had the desired result.

Information value open to improvement

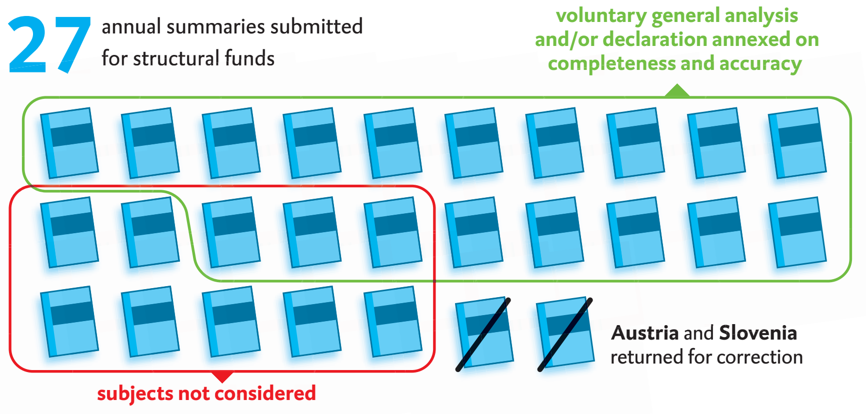
There is no prescribed format for the annual summaries, although the European Commission issued a guidance note in 2008 on the structure of the annual summary (European Commission, 2008).

Ten member states' annual summaries of audits of agricultural funds largely complied with the guidance note; 26 member states' annual summaries of audits of the structural funds were based on the model proposed in the guidance note. Five of the annual summaries of audits of the migration funds departed from the model.
EU member states that had more than one paying agency for agricultural funds in 2012

14 Last year, we considered how the annual summaries of these 14 member states had been compiled and the audit findings they presented; see EU Trend Report 2013, section 2.2.4.

were required to submit annual summaries. All ten member states that satisfied this criterion submitted an annual summary. Seven member states did not make reservations and were accordingly not required to analyse problems. The other three member states (France, Spain and Romania) annexed an analysis (often a brief description) of the problems detected. The European Commission was of the opinion that these member states had complied with the requirements but the quality of their analyses was open to improvement. Of the 27 annual summaries submitted for the structural funds, the Commission concluded that 25 complied with the minimum requirements.

Minimum requirements for the annual summaries satisfied in most cases



Of the member states, 18 voluntarily annexed a general analysis and 11 a declaration on the completeness and accuracy of the information in the annual summaries. Subjects were missing from the annual summaries of ten member states. The European Commission returned the annual summaries of two member states (Austria and Slovenia) for correction and additional information. All 27 member states submitted annual summaries for the migration funds but ten did so after the deadline of 15 February 2012. According the Commission, all 27 summaries satisfied the minimum requirements, but five member states did not provide a general analysis.

Dutch analysis: mainly unqualified opinions, delays in migration funds

By far the majority of the audit opinions in the Dutch annual summaries are unqualified. A reservation was made only in respect of the European Fisheries Fund (EFF). The error rate detected for most of the funds was less than 2%.

Audit opinion and error rate per programme in the Dutch annual summaries for 2012 (excluding migration funds)

Fund	EAGF	EAFRD	ERDF	ESF	EFF
Number of programmes					
Audit opinion	Unqualified	Unqualified	Unqualified	Unqualified	Reservation
Error rate	5.25%-2.10%	0.37%-1.54%	Ranging from 0.06%-1.95%	1.68%	1.99%

Evaluation of the programmes financed from the four EU migration funds has been delayed by the late publication of the funds' financial statements. In 2012, the Dutch audit authority for the migration funds expressed an unqualified opinion on the programmes financed from the European Refugee Fund (ERF) in 2008 and 2009, the European Return Fund (RF) in 2009 and the European Integration Fund (EIF) in 2008. The annual summary on the migration funds does not disclose an error rate.

1.3.2 Member states' national declarations

A national declaration (formerly known as a member state declaration) is ideally a document in which a member state's government accounts for the management and use of EU funds in the country in the previous year. It is a public document that can have political consequences: for example, if funds are spent irregularly in a member state, the Minister of Finance can be held accountable by the national parliament. The national declaration therefore differs from other accounting documents that the member states submit to the European Commission. The political and management accountability arising from the national declaration is an improvement on the general, public accountability for the use of EU funds. To date, however, the member states have not been obliged to issue annual national declarations. This situation will not change under the new Financial Regulation for 2014-2020.

Still few national declarations issued

Only three of the 28 member states voluntarily issued a national declaration for 2012: Denmark, Sweden and the Netherlands. The scope of the three declarations is comparable; they express an opinion on the management and control of EU funds (are receipts from the EU managed correctly in the member state and paid to beneficiaries in accordance with the rules?) and on the regularity (were the EU funds correctly allocated to the member state and spent in the programmes in accordance with the rules?). Despite differences in the presentation of the three national declarations, the problems they identify are largely the same: agricultural programmes subject to the Integrated Administration and Control System (IACS) are implemented well, structural programmes not so well.

National declarations of Denmark, the Netherlands and Sweden

	Author	Publication moment (year)	Political accountability	• Scope	SAI opinion
Denmark	Supreme Audit Institution	November 2013 (eighth edition)	No	• quality of the management and control systems • regularity of EU-related expenditure and revenue	N.A.
Netherlands	Ministry of Finance on behalf of the government	May 2013 (seventh edition)	Yes	• quality of the management and control systems • regularity of EU-related revenue under shared management	On the whole, positive, remittances and effectiveness not included
United Kingdom	Reconsidering publication of a national declaration				
Sweden	Ministry of Finance on behalf of the government	April 2013 (fifth edition)	Yes	• quality of the management and control systems • regularity of EU-related expenditure and revenue	Managing authorities' annual reports give true and fair view

Dutch national declaration: wider scope

The Netherlands decided to introduce a voluntary national declaration in 2006. The Dutch declaration is prepared by the Minister of Finance on the basis of underlying declarations issued by relevant line ministries. The Netherlands opted for a step-by-step introduction. Since 2011 all nine funds that the Netherlands manages jointly with the European Commission have been included in the national declaration.

Scope of the Dutch national declaration, 2006-2012

× not included ✓ included

		2006	2007	2008	2009	2010	2011	2012
ERF	European Refugee Fund	×	×	×	×	×	✓	✓
RF	European Return Fund	×	×	×	×	×	✓	✓
EBF	External Borders Fund	×	×	×	×	✓	✓	✓
EIF	European Integration Fund	×	×	×	×	✓	✓	✓
EFF	European Fisheries Fund	×	×	✓	✓	✓	✓	✓
ESF	European Social Fund	×	×	✓	✓	✓	✓	✓
ERDF	European Regional Development Fund	×	×	✓	✓	✓	✓	✓
EAGF	European Agricultural Guarantee Fund	✓	✓	✓	✓	✓	✓	✓
EAFRD	European Agricultural Fund for Regional Development	✓	✓	✓	✓	✓	✓	✓

Our opinion on the Dutch national declaration 2012: positive but...

For the seventh year in succession, the Dutch Minister of Finance issued a national declaration on the nine EU funds under shared management. We again issued a report with an independent opinion on the national declaration in 2013. On the whole, the opinion was positive but there are still points for improvement.

The national declaration gives a good view of the management and use of EU funds in the Netherlands. However, we recommended that national remittances to the EU also be included, as is customary in Denmark. To date, the Dutch Minister of Finance has been unwilling to include remittances. A recent report by the European Commission found that the EU did not receive a substantial amount (about €500 million) of customs duties each year (European Commission, 2013). The report concluded that the Netherlands performed poorly in this area. Furthermore, added value would be enhanced if the declaration considered the effectiveness and efficiency of EU funds. The Minister has so far declined to adopt this recommendation, too.

Developments in other countries

The Swedish government issued its fifth national declaration on the use of EU funds under shared management in 2013. Since the Swedish declaration is part of the central government's annual report and the Swedish SAI audits the annual reports of all executive government bodies, it also expresses an opinion on the regularity of the use of EU funds in Sweden.

In Denmark the national declaration to account for the EU Funds remitted and received by the country is issued by Rigsrevisionen, the supreme audit institution. In recent years Rigsrevisionen and the Ministry of Finance have discussed options to prepare a statement that would integrate all information on EU funds into the national accounts. Such a consolidated statement would enhance the transparency of financial transactions with EU funds. A statement on the agricultural funds in respect of 2012 is foreseen and an overarching statement is planned for 2013.

The United Kingdom issued a national declaration until 2012. It is uncertain whether it will issue another and, if so, when and with what scope. The UK Treasury had not taken a decision at the time of writing.

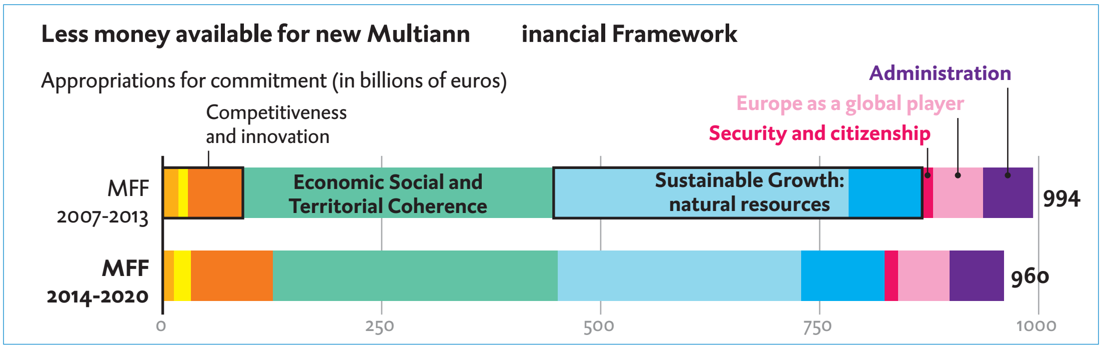
The other 24 member states have shown no inclination to render voluntary political account for their management and use of EU funds.

1.4 A look forward: new Multiannual Financial Framework and new Financial Regulation

1.4.1 New Multiannual Financial Framework

The EU's 2007-2013 programming period has been succeeded by a new period: 2014-2020. In our previous EU Trend Report, we considered the negotiation of the long-term budget for the new programming period, the Multiannual Financial Framework. At the time, the Council of Ministers and the European Parliament had not completed the negotiations; they did so at the end of last year.

The budget for the new EU programming period (2014-2020) is €960 billion. This is equal to 1% of the aggregate gross national product of all EU member states. The multiannual budget for the 2007-2013 programming period had been €994 billion. Less money will therefore be available in the new programming period than in the previous one.



Less money available for new Multiann inancial Framework

We noted last year that the budget headings used for the 2007-2013 programming period and those used for 2014-2020 were difficult to compare. This diminishes the insight into the continuity of policy expenditure. We therefore recommended that the Minister of Foreign Affairs – in consultation with the Commission and others – have a table prepared to clarify the relationship between the budget headings in the two programming periods. In a letter to the House of Representatives of 22 February 2013, the Minister presented a table reconciling the headings in the current Multiannual Financial Framework with those for the 2007-2013 programming period (Ministry of Foreign Affairs, 2013).

1.4.2 New Financial Regulation

Following negotiations between the European Commission, the Council of Ministers and the European Parliament, the Financial Regulation for the new Multiannual Financial Framework was adopted on 25 October 2012. It includes improvements in accountability for the use of EU funds by the member states.

Article 59 of the new Financial Framework states that the member states must submit to the Commission before 15 February each year:

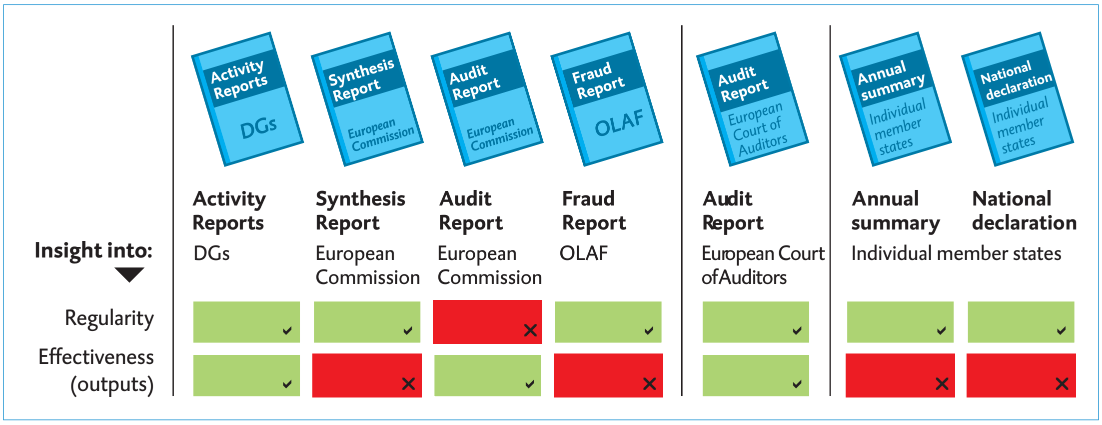
a. accounts of the expenditure declared to the Commission, accompanied by a management declaration confirming the regularity of the information presented;
b. an annual summary of the final audit reports and controls carried out, including an analysis of the nature and extent of errors and weaknesses detected in the management and control systems as well as corrective action taken or planned, accompanied by the opinion of an independent audit institution.

The new Regulation does not meet the expectations raised when the European Commission and the European Parliament seemed to be seeking compulsory published accounts at political level of the member states' use of EU funds. In our previous EU Trend Report, we urged the Minister of Finance and the Minister of Foreign Affairs to investigate opportunities to have the Interinstitutional Agreement between the European Parliament, the Council and the European Commission on budgetary discipline and financial management oblige all member states to publish an annual declaration of their use of EU funds, signed at the appropriate political level. Unfortunately, we must conclude that they did not succeed.

2 Effectiveness and efficiency

The previous chapter asked whether the member states spent EU funds in accordance with the rules (regularly). This chapter asks two questions that are just as important to EU citizens: whether the use of those funds had the required outcome and whether the outcome could have been achieved more efficiently (at the lowest possible cost). The first question concerns effectiveness and the second efficiency.[15]

This chapter looks at the various reports on the effectiveness and efficiency of expenditure issued by the European Commission, the European Court of Auditors and the member states' supreme audit institutions. It considers whether they provide an insight into what EU funds actually achieve. Do they clarify whether and, if so, how investments in the member states bring the EU's goals closer.



We begin at EU level with a discussion of the reports issued by the European Commission (section 2.1) and by the European Court of Auditors (section 2.2). We then look at the accounts rendered by the member states (section 2.3).

2.1 Reports issued by the European Commission

2.1.1 The European Commission's activity reports

Little information on effectiveness of EU policy

All Directors-General of the European Commission must prepare an annual report on the activities they performed in their policy fields. We examined the activity reports of the Directors-General responsible for implementing policy (policy DGs).[16]

15 For the sake of convenience we refer in this chapter to 'efficiency reports', even if the reports contain opinions on the effectiveness of expenditure.

16 There are also DGs that do not have a specific policy field, such as DG Translation, DG Enlargement, DG Communication and DG Informatics.

In each EU Trend Report, we compare the activity reports of 12 policy DGs[17] to determine what information they present on the effectiveness of EU policy in the member states. We found that the 2012 activity reports (like those for the previous year) provided some information on the outputs in the member states but none on the outcomes of the policies and funding programmes in the member states. The insight they provide into the effectiveness of EU policy in the member states is therefore still minimal.

Mixed transparency of activity reports

The 2012 activity reports of most of the Commission's policy DGs we studied presented:

a) the general and specific goals of the policies conducted in the previous year;
b) the indicators used to determine whether the intended outputs were being delivered and whether the policy had had the intended results (the output and impact indicators);
c) the results themselves.

Nine of the 12 DGs provided the information in straightforward tables that were easy to understand and interpret. Three DGs (Maritime Affairs and Fisheries, Home Affairs and Justice) did not provide such tables in their 2012 activity reports. They confined themselves to qualitative descriptions of the policy fields in which they were active. There is therefore less transparency regarding the policy results and how they were achieved. Transparency had also been mixed in previous years. There has therefore been no improvement in this area, but also no deterioration.

As in previous years, the information presented in the activity reports of nearly all DGs is very detailed. The content and structure of the annual activity reports have steadily improved since they were introduced in 2001 in response to standing instructions issued by the Commission. The improvements can be seen in all parts of the reports (policy achievements, management and control systems and building blocks towards the declaration of assurance).

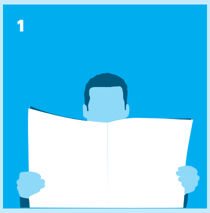
Since 2011, the Commission has added several elements to the multiannual budget to strengthen the relationship between expenditure and outputs. The Commission also wants the DGs' declarations of assurance to provide more information on the economy, effectiveness and efficiency of financial and non-financial activities. It has ordered the Secretary-General and DG Budget to include these three Es in the standing instructions for the 2013 activity reports and the 2014 management plans. We will study the consequences of these changes in subsequent editions of the EU Trend Report.

17 Our annual analysis considers the activity reports of policy DGs Agriculture; Regional Policy; Employment; Maritime Affairs and Fisheries; Home Affairs; Justice; Education and Culture; Environment; Mobility and Transport; Research and Innovation; and Taxation and Customs Union.

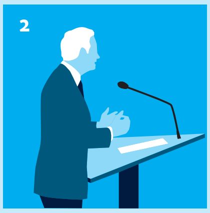
2.1.2 The European Commission's evaluation report

The European Commission issues an evaluation report to provide the European Parliament and the Council of Ministers with the information they need for the discharge procedure. In the discharge procedure, the European Parliament approves the Commission's implementation of the budget.

Discharge procedure in brief



The European Parliament examines the accounts with the aid of the European Court of Auditors' annual report.



The Council of Ministers (consisting of representatives of the 28 member states' governments) gives a positive or negative recommendation for Parliament to grant discharge (i.e. approve the accounts).

If Parliament wishes, it can ask the Commission for further information on expenditure.

If discharged, the Commission is officially released of its responsibility for the implementation of the budget and can no longer be held accountable for it. If Parliament does not grant discharge, the Commission must issue a statement to the next session of Parliament.

In the past, the discharge procedure focused on the legality and regularity of the Commission's use of budgetary funds. The focus was shifted in 2012 to include the efficiency and effectiveness of policy as well as the legality and regularity of expenditure. A paragraph has been added to article 318 of the Treaty on the Functioning of the European Union (TFEU) requiring a policy-related assessment of budget implementation. The Commission must now issue an annual evaluation report to the European Parliament and the Council outlining the policy achievements. To date, three reports have been issued.

First evaluation report (for 2010): little criticism, little information

We considered the Commission's first evaluation report (for 2010) in our previous EU Trend Report (Netherlands Court of Audit, 2013a). We found that the report had limited scope and contained little if any information on the achievement of the concrete goals of individual EU programmes. The European Court of Auditors' advisory opinion on the report asked questions about its timing. The Commission issued its evaluation report in the month of November in the year after the reporting year. The European Court of Auditors found that too late as it could not include its comments on the evaluation report in its own annual report, which is also published in November.

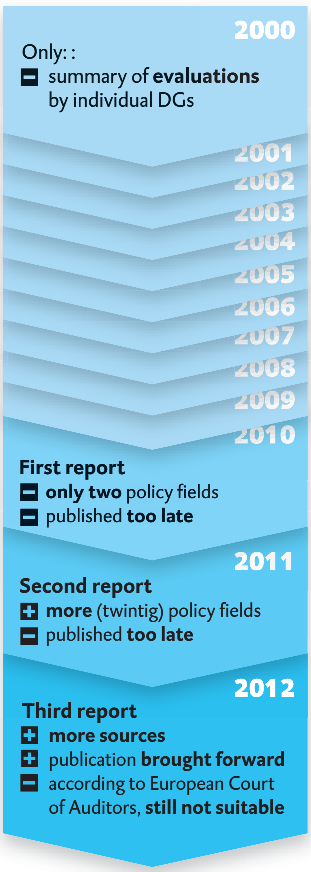
Second evaluation report (for 2011): wider scope but still too late for the European Court of Auditors
The European Commission submitted its second evaluation report (for 2011) in November 2012. In comparison with the 2010 evaluation report, the Commission opted for a wider scope. Instead of two policy fields it covered 20, divided across all policy areas of the EU budget. The Commission provided summaries of the ex ante evaluations, mid-term evaluations and ex post evaluations carried out in all policy areas.

Ahead of the discharge procedure for the 2011 financial year in spring 2013, the European Court of Auditors prepared a short memorandum on the Commission's evaluation report. It noted that the report's scope was wider in comparison with that for 2010. It observed, though that the report was incomplete because the Commission did not consider the final impacts and outcomes. In the decision to grant discharge (17 April 2013), the European Parliament referred to the poor timing of the evaluation report, as the European Court of Auditors had done, and asked the Commission to issue the report earlier in the year.

Third evaluation report (for 2012): earlier publication but still unsuitable for discharge procedure
The Commission's third evaluation report (for 2012) was published earlier, in June 2013. The European Court of Auditors therefore had time to consider it in its annual report, which was published in November 2013.

Evaluation report timeline

By financial year



The European Court of Auditors noted that the third report was better than the second. The Commission had, for example, used more sources. The report was based on the findings presented in the European Court of Auditors' special reports and on the recommendations made by the Commission's Internal Audit Service as well as on individual evaluation reports. Furthermore, the European Court of Auditors welcomed the improvements the Commission had made in the report and the action plan annexed to it for the further development of the evaluation report. However, it thought certain elements were missing from the action plan, such as information on what the actions would mean in practice, the Commission's targets and who was responsible.

Despite the improvements, the European Court of Auditors thought the third evaluation report could still not be used in the discharge procedure. The scope was still not adequate, relevant or reliable enough.

We agree with the European Court of Auditors. We would further note that the evaluation report's wider scope and the other improvements made since the first evaluation report should be consolidated.

We also welcome the fact that the third evaluation report included summaries of evaluations made in 2012. In our opinion, their inclusion enhances the evaluations report's transparency.

The Commission's evaluation report is increasingly improving insight into the concrete impact of EU expenditure and is clearly still evolving.

2.2 European Court of Auditors' efficiency reports

The European Court of Auditors examines the information provided by the Commission on EU expenditure each year. It audits not only the regularity but also the efficiency and effectiveness of expenditure in order to express an opinion on the Commission's implementation of the EU budget. The European Court of Auditors presents its opinion in its annual report.

The European Court of Auditors does not express an opinion on the expenditure of EU funds in each member state; that is not its task. The information it uses does not lend itself to general opinions on individual member states as it is based on an EU-wide sample and not on a representative sample in each member state.
The European Court of Auditors' annual report therefore does not include an opinion on the effectiveness of the EU programmes implemented in the member states.

The European Court of Auditors publishes an annual report and about 25 special reports every year considering the effectiveness of specific subjects. The special reports' subject matter varies from the effectiveness of EU development aid in sub-Saharan Africa to the recovery of undue payments of agricultural funds.

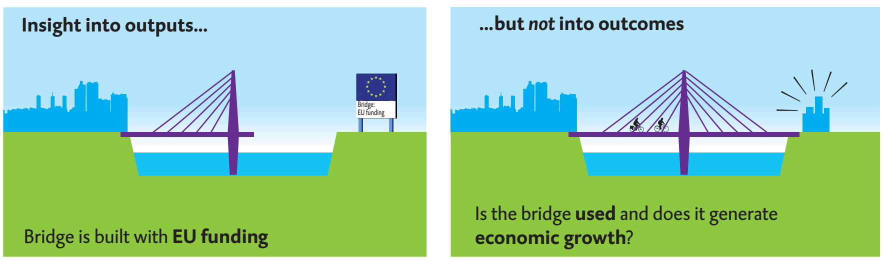
2.3 Efficiency reports issued by supreme audit institutions

The member states' supreme audit institutions can audit the effectiveness and efficiency of EU policy in their own countries if they are mandated to do so.

Wide scope of SAI audits
With the exception of the Luxembourg SAI, all supreme audit institutions in the EU carry out EU-related audits. The number of reports has increased markedly in recent years. The audit scope varies widely. About two-thirds of the SAI audits are carried out to express an opinion on the management of EU funds (regularity); the others consider policy impacts and outcomes.

In the Netherlands, chiefly insight into outputs, less into outcomes
In previous EU Trend Reports we had considered the competent authorities' insight into the effectiveness of EU policy at both EU and member state level, with a particular emphasis on the Netherlands.

We repeatedly found that the Dutch programming authorities (and with them the responsible ministers) had an insight into policy performance and outputs but little into the ultimate outcomes achieved with EU funding and by EU policy.



Still no efficiency information in Dutch national declaration

The national declaration published by the Dutch government every year accounts for the use of EU funds in the Netherlands but does not contain any information on effectiveness and efficiency. In our report on the 2013 national declaration (Netherlands Court of Audit, 2013b), we recommended that such information be included. The government has not yet adopted this recommendation.

3 Addressing the economic and financial crisis

The global economy has been in a deep recession since the end of 2008 and the EU has not been spared the consequences. Unemployment in the member states has increased to as much as 25% in Greece and Spain. Many countries are having difficulty complying with the EU budgetary rules, especially the rule that their budget deficits may not exceed 3% of gross domestic product. As in the United States, a large number of banks in Europe are in serious problems.

The EU has taken measure on many fronts to reverse the downturn. This chapter considers three approaches to address the financial and economic crisis: audit of and accountability for the EU emergency mechanisms for member states in difficulties (section 3.1), the reinforced European surveillance of public finances in the member states (section 3.2) and banking supervision (section 3.3). We outline the latest developments in each of these areas and the situation in 2013. Where relevant, we also look at how the Dutch government has followed up the recommendations we made last year.

3.1 Emergency mechanisms

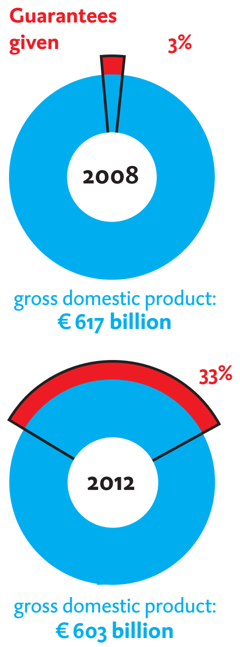
Risks to member states through exposure to emergency mechanisms
Last year's EU Trend Report considered the various measures taken in recent years to assist member states affected by the financial and economic crisis (Netherlands Court of Audit, 2013a). The main sources of financial assistance are the EU emergency mechanisms.[18] They provide three forms of assistance:

1. loans granted by the European Commission to countries requiring emergency assistance, guaranteed jointly by all 28 member states through the EU budget: the European Financial Stability Mechanism (EFSM) and the Balance of Payments programme (BoP);
2. financial assistance provided pursuant to intergovernmental agreements between euro area countries, guaranteed by the 17 euro area members only: the European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM);[19]
3. loans granted by individual member states to member states requiring emergency assistance, based on bilateral agreements, such as the Greek Loan Facility.

We showed in last year's EU Trend Report that the member states' participation in the emergency mechanisms exposed them to risks. We argued that good arrangements for independent public audit and transparent accountability were necessary to limit the risks.[20]

18 Some emergency assistance is also provided from the EU budget. The European Central Bank (ECB) and the European Investment Bank (EIB) also provide assistance.
19 Latvia will become the 18th member of the ESM in 2014 following its accession to the euro area.
20 For more information on the emergency mechanisms, see our web dossier on EU governance at www.rekenkamer.nl/EU-governance.

Financial risks to the Netherlands



In another report, Financial Risks to the Netherlands of International Guarantees (Netherlands Court of Audit, 2013c), we observed that the crisis-related risks to the Netherlands had increased significantly in recent years. Since the beginning of the credit crisis in 2008, the exposure to guarantees given to international financial institutions[21] and state holdings had increased by more than ten-fold: from €18.5 billion in 2008 (3% of gross domestic product) to approximately €201 billion in 2012 (33% of gross domestic product).

This sharp increase is an outcome of the international institutions' ever-higher lending capacity and their assumption of ever-higher risks. The risks are ultimately borne by the guarantors, one being the Netherlands. We therefore think it is important that the Dutch House of Representatives has an insight into the risks borne by the participating countries, the institutions' risk management, their capacity to absorb losses and the size of the risks to the Netherlands. We would reiterate the importance of good arrangements for independent public audit and accountability at the institutions.

Situation in 2013: independent public audit still adequate

We have to conclude that adequate audit and accountability arrangements are still not in place for the assistance programmes guaranteed by the 17 euro area countries. Only partial arrangements are in place, for example, to audit and account for the emergency mechanisms based on agreements between euro countries. A Board of Auditors has been appointed to the ESM, but no arrangements have been made for the independent audit of the regularity and effectiveness of its predecessor (the EFSF) or the Greek Loan Facility. We found last year that these two mechanisms involved approximately €240 billion.

There are only limited opportunities to audit the regularity and effectiveness of the crisis-related assistance provided by the European Central Bank (ECB) and the European Investment Bank (EIB). The European Court of Auditors' mandate does not extend to these institutions.

What has the government done with our recommendations?

In our 2013 EU Trend Report, we recommended that the Minister of Finance consult like-minded countries to ensure that the ESM's Board of Auditors had: 1) sufficient human and financial resources to carry out its work, and 2) a mandate to have independent public audits carried out of the assistance provided from the Greek Loan Facility and the EFSF. We also recommended that the Minister of Finance find out whether the recipients of emergency assistance could be obliged to issue annual national declarations on their use of funds received from both the regular EU budget and the EU emergency mechanisms.

The Minister replied that he accepted our first recommendation. On the publication of this present EU Trend Report, however, there had been no change in the ESM's Board of Auditors' human and financial capacity. We think the Minister of Finance should give his full support to the ESM's Board of Auditors and work within the Board of

21 The audit considered the European Financial Stabilisation Fund (EFSF), the European Stability Mechanism (ESM), the European Financial Stability Mechanism (EFSM), European Financial Stability Mechanism (EFSM), the Balance of Payments programme (BoP), the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the euro system (of the ECB and national central banks) and the International Monetary Fund (IMF).

Governors to ensure that the Board of Auditors' recommendations are followed up. He should also ensure that, in accordance with article 24(4) of the ESM's by-laws, the Board of Auditors has access to all the information it needs to carry out its work.

In response to our second recommendation, the Minister noted that the ESM had no say in the bilateral loans granted by one state to another. However, he undertook to explore whether the ESM's Board of Auditors could audit EFSF assistance. This proved impossible because the EFSF was a private company incorporated under Luxembourg law and audit was reserved to the members of its Board of Directors (Budget 2014 Finance IX, p. 51).

The Minister recently announced that an audit committee would be appointed for the EFSF under Luxembourg law in the near future in order to strengthen supervision of the loans granted to Ireland, Greece and Portugal. In our opinion, this will not guarantee the required independent public audit. If the EFSF's audit committee consists of members of the EFSF's Board of Directors, they will be auditing the regularity and effectiveness of their own decisions.

The ESM's Board of Auditors' first annual report identifies points for improvement

The ESM's Board of Auditors issued its first annual report in mid-2013 for the period 8 October – 31 December 2012. It identified several points for improvement. The Board of Governors, for example, appointed the external auditor without observing the contracting procedure. The Board of Auditors, moreover, had no access to the external auditor's documents. Furthermore, it noted that the internal audit of the ESM was carried out by one person (from the EFSF) and an internal audit procedure had not been adopted.

The Minister did not adopt our recommendation to oblige the recipients of assistance from the emergency mechanisms to issue national declarations because the Council of Economics and Finance Ministers (Ecofin)[22] does not have the power to set additional conditions on the receipt of assistance from the ESM. Furthermore, the Minister thought the ESM had a robust accounting structure.

A more detailed description of developments in the EU emergency mechanisms and the member states' risk exposure will be provided in a report the Court of Audit will publish in the course of 2014.

3.2 Supervision of public finances in the member states

More EU surveillance of national budgetary processes and macroeconomic developments
EU supervision of national budgets has increased in recent years.[23] We referred to this in our 2013 EU Trend Report and raised it in a letter to the Dutch Senate of 28 November 2013 (Netherlands Court of Audit, 2013d).

Formally, there has been little change in the budgetary supervision rules since the Stability and Growth Pact came into force in 1997. The following changes affect the national budgetary procedure:

22 Ecofin is made up of the ministers of finance and economic affairs of the 28 EU member states.
23 New legislation has been adopted in the six-pack (effective 2011), the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG, 2012) and the two-pack (2013). More information is available in our web dossier on EU governance at www.rekenkamer.nl/eu.governance.

1. Ecofin has been granted new powers to impose sanctions, on a recommendation by the Commission, on a euro country in the excessive deficit procedure (public debt > 60% and budget deficit > 3%) that is not taking adequate measures to address the problem. Since the Stability and Growth Pact came into force in 1997 EU member states must share their budget plans for the coming years with the EU in the spring. With the budgets of many member states coming under inordinate pressure from the crisis, the EU's new powers are affecting the timing of budgetary procedures. Member states normally debate the next year's budget in the autumn but those having to make deep cuts are now doing so earlier in the year.
2. The medium-term objective to reduce the budget deficit has been tightened up[24] and must be transposed into national legislation. The Netherlands has enacted it in the Public Finances (Sustainability) Act. Every member state has to achieve the objective set for it within the agreed time frame. The medium-term objective, or the adjustment path towards it, is binding and directly applicable.
3. The national budget must be adopted by both chambers of parliament before the end of the year. EU legislation provides for an exception (the reversionary budget procedures).[25]

Strengthened EU supervision of the member states' budgetary procedure

EU macroeconomic supervision has been extended in recent years. It is anchored in the new macroeconomic imbalance procedure, which came into force in 2011. The European Commission monitors imbalances in the member states' economies by means of a list of economic indicators (e.g. of debt, investments, house prices and unemployment).

To take necessary corrective action where member states are experiencing budgetary difficulties and/or macroeconomic imbalances, the Council of Ministers can draw on a variety of sanctions, including interest-bearing deposits, non-interest-bearing deposits and fines. With regard to budgetary discipline and/or macroeconomic imbalances, the sanctions can currently be imposed on the euro countries only. A key condition for the correct application of the sanctions is the availability of reliable figures on national budgets and the macroeconomic situation in the member states. EMU figures are used: the EMU Balance (total public revenues less public expenditures) and the EMU debt (public debt) as indicators of the sustainability of public finances.

24 The lower limit of the medium-term objective for the structural deficit has been set at 0.5% of gross domestic product. The Stability and Growth Pact had permitted a structural deficit of 1%.

25 Regulation 473/2011, article 4(3) explains the procedure as follows: 'Where, for objective reasons beyond the control of the government, the budget is not adopted by 31 December, reversionary budget procedures should be put in place to ensure that the government remains able to discharge its essential duties. Such arrangements could include the implementation of the government's draft budget, of the preceding year's approved budget, or of specific parliament-approved measures'. The Regulation does not define the 'objective reasons beyond the control of the government'.

Quality of statistical information not automatically guaranteed
The EU introduced a number of legal instruments in 2011 to guarantee the quality of the EMU figures. They were necessary because the figures produced by some member states in the initial years of the financial crisis proved unreliable. The rules were also tightened up and extended. One of the new instruments was the excessive deficit procedure.

Eurostat, the EU statistical office, monitors the member states' use of a harmonised methodology to calculate the EMU balance by means of the European Statistical System (ESS) and the European System of Accounts (ESA). Some definitions in the ESA, however, are open to interpretation. The scope of the definition of 'government' for example is uncertain. The international comparability and reliability of the statistical information therefore cannot be automatically guaranteed. Recently, on 10 December 2013, the European Court of Auditors issued an audit report on the effectiveness of the Commission's verification of the member states' GNI data. The audit found that improvements were necessary in the controls of the data on which the member states' remittances to the budget were based (European Court of Auditors, 2013).

What has the government done with our recommendations?
Correct statistical data are essential to gain a reliable picture of the sustainability of public finances in the member states. In our Report on the National Declaration 2012 (Netherlands Court of Audit, 2012) we recommended that the Ministers of Foreign Affairs, Economic Affairs and Finance investigate how more assurance could be gained on the basic data that serve as input for the statistics. The government replied that it saw no cause to do so because the member states' basic statistical data were already subject to controls.

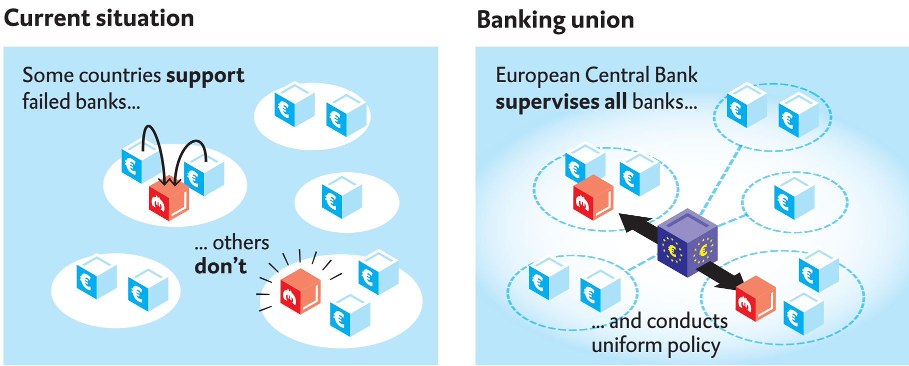
We think improvements are possible and necessary in this area. We would note that the European Court of Auditors stated in 2011 that its audit expressed no opinion on the quality of the VAT and GNI data the Commission received from the member states.

3.3 Banking supervision

New financial supervision framework and roadmap towards a banking union
The financial crisis revealed shortcomings in the supervision of national financial institutions such as banks, insurers, asset managers and pension funds. There were weaknesses in risk management at many financial institutions. The supervisory structures, organised along national lines, proved no longer equal to the integrated and intertwined European financial markets. In May 2009, the Commission therefore proposed a new institutional supervisory framework. The new European System of Financial Supervisors came into force in January 2011. It consists of the following elements:

- the European Systemic Risk Board, which supervises the robustness of the financial system as a whole (macroprudential oversight);
- three European sectoral supervisors (European Supervisory Authorities), which oversee banks, insurers, pension funds and securities institutions (microprudential oversight).

The Commission also proposed a roadmap towards a banking union in September 2012 (European Commission, 2012). The member states participating in the banking union will be subject to common supervision and regulation, including a deposit guarantee system for failed banks.



Ecofin reached agreement on the first part of the proposed banking union – a Regulation granting the ECB new powers under the Single Supervisory Mechanism to supervise the largest banks in the euro area – on 13 December 2012. The European Parliament approved the ECB's new powers in September 2013. It is thought that the ECB will exercise its new powers as from autumn 2014.

A second step towards a banking union was taken last year with the introduction of the Single Resolution Mechanism for banks in difficulties. The Commission submitted a proposal for the mechanism on 10 July 2013.[26] Under the proposal, the ECB will signal when a bank in the euro area or established in a member state participating in the banking union is in such severe financial difficulties it needs to be resolved. A new Single Resolution Board, consisting of representatives of the ECB, the Commission and the relevant national authorities, will prepare the bank's resolution. Under the supervision of the Single Resolution Board, national resolution authorities will be in charge of the execution of the resolution plan. A Single Bank Resolution Fund, funded by contributions from the banking sector, will be will be set up to ensure the availability of medium-term funding while the bank is restructured. The member states recently started to negotiate the proposal.

With its new powers, the ECB will assume the national supervisors' responsibility for supervising large banks. In theory, the quality of banking supervision will be overseen by supreme audit institutions at national level and the European Court of Auditors at EU level. In practice, however, many supreme audit institutions are unable to check the quality of banking supervision because they have no access to supervision files and the European Court of Auditors has not been granted powers to check the quality of the ECB's supervision. There is therefore an audit gap. With the ECB having prime responsibility for banking supervision throughout the EU, the audit gap will only widen.

26 Proposal for a Regulation of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No. 1093/2010 of the European Parliament and of the Council. For a brief summary see http://europa.eu/rapid/press-release_IP-13-674_en.htm.

4 Conclusions and recommendations for Part I

4.1 Conclusions

No improvement in regularity at EU level

The European Commission's accounts of its expenditures reveal that there has been no improvement in regularity in the past year. More reservations were made in the Commission's activity reports. The increase was modest but the financial value remained high in absolute terms. The European Court of Auditors was again unable to express a positive opinion on expenditures; the estimated error rate was actually higher than in previous years. On the revenue side, a recent study found that the EU did not receive substantial amounts of customs duties owing to it.

No improvement in accountability for regularity in the member states

The member states' accountability for their use of EU funds did not improve last year. Only three member states, one being the Netherlands, voluntarily issued national declarations in 2013.[27] Apart from the United Kingdom,[28] no other member state has provided transparency on the regularity of its expenditure of EU taxpayers' money or accepted political responsibility for its use.

Compulsory publication of a national declaration by all member states would improve the quality of accounts of EU expenditures at member state level. National declarations have considerable added value over annual summaries because a) national declarations present an overarching opinion on the regularity of funding flows the country receives (not on individual funds), making it a more useful and accessible document, b) the opinion is not expressed by civil servants but by the government so that there are consequences at political level, and c) national declarations are public documents that are available to all EU citizens.

Some improvements are foreseen in the future: the instruments introduced by the new Financial Regulation, such as an obligation to attach an independent auditor's opinion to the annual summaries, are a step in the right direction. However, they do not resolve the weaknesses of the annual summaries referred to above.

We must wait and see whether annual summaries will in future be published, as we recommended last year with the concurrence of the Minister of Finance. If the publication of 14 of the 27 annual summaries in 2012 proves to have been an isolated incident, it would be a step backwards en route to greater insight into regularity.

Still no insight into EU policy outcomes

Earlier audits by both the European Court of Auditors (at EU level) and the Netherlands Court of Audit (for the Netherlands) found that information was available on the outputs achieved with EU funds in the member states but little was known about the outcomes. There was no significant improvement in this situation in the past year. Although the Commission's evaluation report is providing more information on the

27 Denmark, Sweden and the Netherlands.

28 The United Kingdom had issued a national declaration until last year but is currently reconsidering publication of such a document.

concrete results of EU expenditure and is now published earlier in the year, it is still not sufficiently adequate, relevant or reliable. The Commission has taken this criticism to heart but the report has not yet attained its desired role in the discharge procedure. Regarding accountability at national level, we would reiterate the added value provided by national declarations on the effectiveness of EU expenditure.

Still no adequate audit of or accountability for emergency mechanisms
Measures have been taken to address the economic crisis but good audit and accountability arrangements are not yet in place. The Minister of Finance has said that an audit committee will be appointed to the European Financial Stability Facility (EFSF) in the near future but in our opinion there is no assurance that audit will be independent and public. There has been no meaningful change in the capacity of the Board of Auditors of the European Stability Mechanism (ESM). We would again stress that good arrangements for independent public audit and transparent accountability are indispensable to manage the risks at the institutions.

Correct statistical data are essential to provide a reliable picture of the sustainability of the member states' public finances. Improvements in the international comparability and reliability of the statistical data are possible and necessary.

The current audit gap in banking supervision is in danger of widening. The ECB has been granted new powers but the European Court of Auditors can audit only the ECB's operational management.

4.2 Recommendations

We repeat the recommendations we made last year that the Minister of Finance and the Minister of Foreign Affairs determine whether a compulsory public declaration can be introduced on the use of EU funds in the member states. The declaration should be signed at the appropriate political level similar to the Dutch national declaration.

Such a public declaration is not compulsory under the new Financial Regulation, although member states are free to prepare one. The European Commission and the European Parliament are studying avenues to introduce such a declaration and the form it could take. The Dutch government should seize this opportunity for the general introduction of national declarations. We recommend, as we had in our report on the national declaration (Netherlands Court of Audit, 2012b), that remittances to the EU be included in the declaration.

We urge the Minister of Finance, as we did last year, to persuade Ecofin to have the member states publish their annual summaries (including the new management declaration as from 2014) and have the Commission publish an analysis of the summaries.

Regarding the measures taken to address the economic crisis, we recommend that the Minister of Finance consult like-minded countries to ensure that the ESM's Board of Auditors has sufficient human and financial resources and information to carry out its work. We would also ask the Minister to work in the Board of Governors to ensure that the Board of Auditors' recommendations are followed up.

We further recommend that the Minister of Finance consider – and discuss in the euro group – whether the solution chosen for the EFSF's audit committee can be enriched, subject to applicable legislation, with members from outside the EFSF to provide more assurance on the independence of its work than at present.

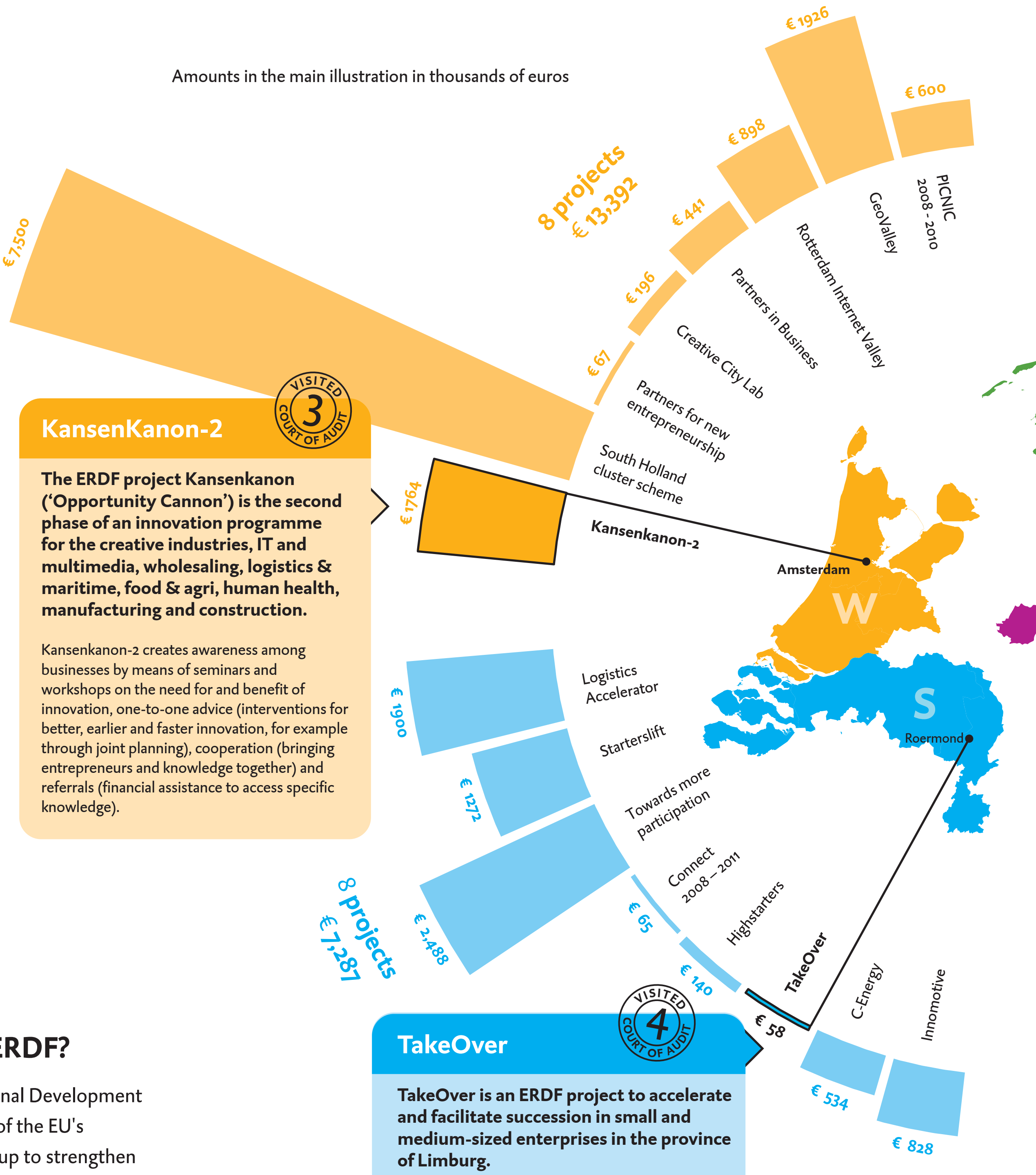
Part II

The Netherlands: ERDF projects

Thirty ERDF projects audited in the Netherlands

The 30 ERDF projects we audited related to innovation, entrepreneurship and the knowledge-based economy (priority 1). We made audit visits to five of the projects.

Amounts in the main illustration in thousands of euros



KansenKanon-2

The ERDF project Kansenkanon ('Opportunity Cannon') is the second phase of an innovation programme for the creative industries, IT and multimedia, wholesaling, logistics & maritime, food & agri, human health, manufacturing and construction.

Kansenkanon-2 creates awareness among businesses by means of seminars and workshops on the need for and benefit of innovation, one-to-one advice (interventions for better, earlier and faster innovation, for example through joint planning), cooperation (bringing entrepreneurs and knowledge together) and referrals (financial assistance to access specific knowledge).

TakeOver

TakeOver is an ERDF project to accelerate and facilitate succession in small and medium-sized enterprises in the province of Limburg.

Instead of 'hard' aspects such as calculating the acquisition cost, tax and personnel consequences of business succession, TakeOver looks at the 'soft' aspects such as the emotional side of letting a business go. One of the project's goals was to increase the innovative strength of enterprises.

What is the ERDF?

The European Regional Development Fund (ERDF) is one of the EU's structural funds set up to strengthen coherence and economic convergence in the EU. In concrete terms, it increases economic competitiveness and employment in the member states and strengthens cohesion within and among European regions.

Bio Energy North II

VISITED 1 COURT OF AUDIT

This project was implemented by an alliance to increase the use of biomass in energy production.

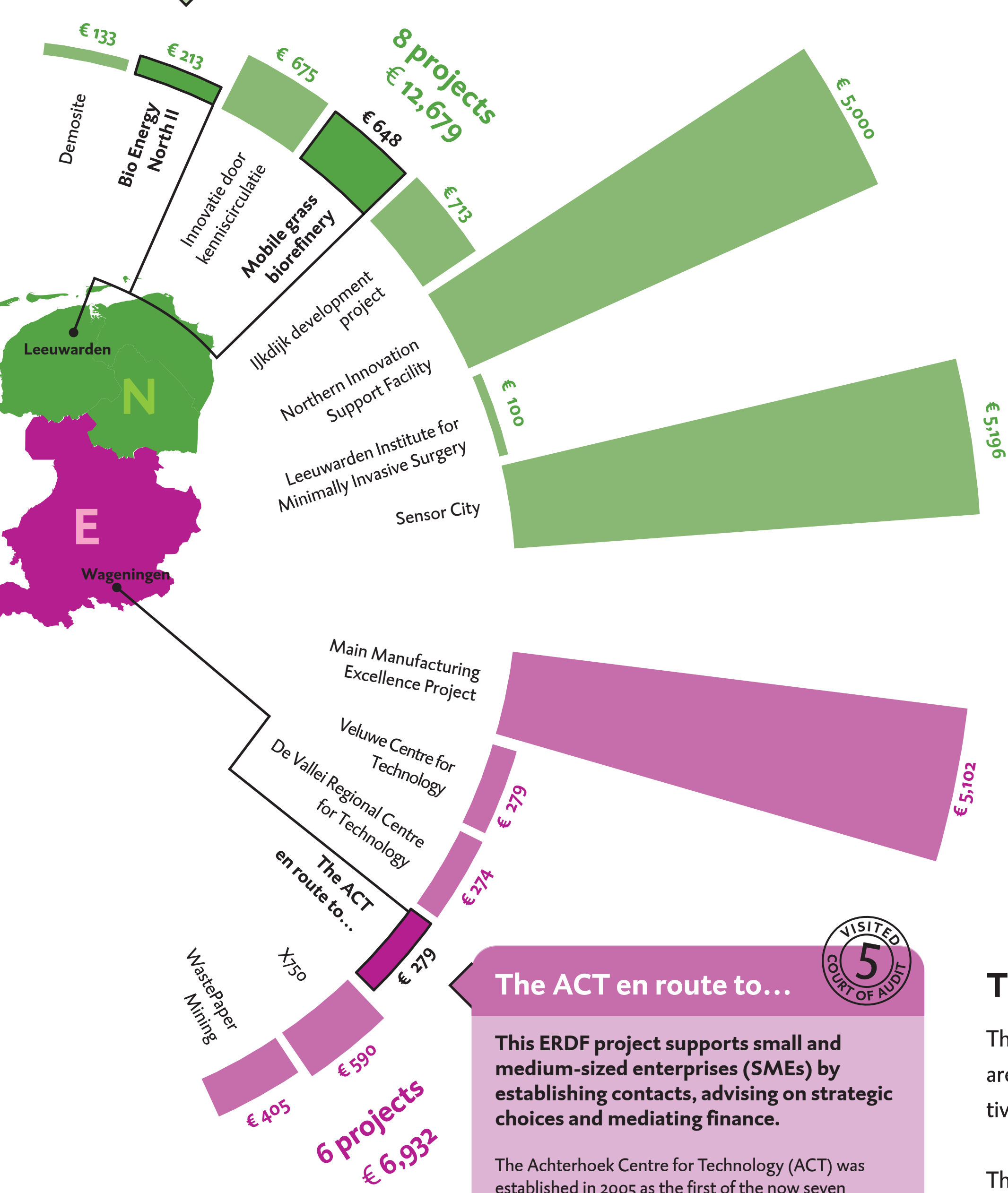
The initiators want to increase public support for renewable bio-energy and to position the North Netherlands as a region for innovative energy projects.

Mobile grass biorefinery

VISITED 2 COURT OF AUDIT

This is an industrial research project to develop a mobile production process for the profitable production of high quality products from fresh grass.

The project, carried out in 2009-2011, was the first phase of a near-continuous study of the smart use and refinery of grass into new components. The first project phase (also funded from the ERDF) gathered knowledge and set up a mobile pilot facility. The project has now entered its second phase.



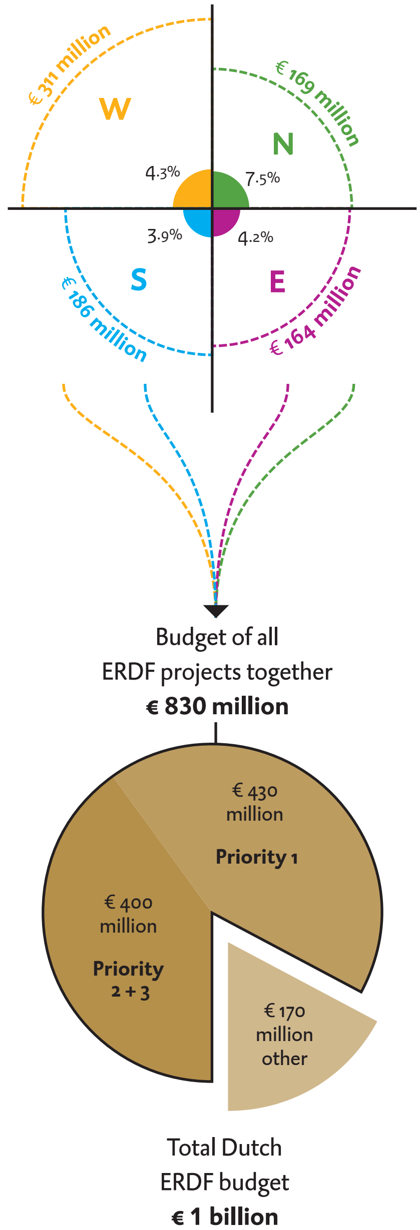
The ACT en route to…

VISITED 5 COURT OF AUDIT

This ERDF project supports small and medium-sized enterprises (SMEs) by establishing contacts, advising on strategic choices and mediating finance.

The Achterhoek Centre for Technology (ACT) was established in 2005 as the first of the now seven regional centres for manufacturers in the Gelderland region. All seven regional centres received support from the ERDF in the 2007-2013 programming period. They were evaluated on behalf of the province of Gelderland in 2012. It was found that businesses that were assisted by the regional centres invested more in innovation and also innovated more than comparable businesses.

Share of the audited projects in the ERDF regional budgets



Three priorities

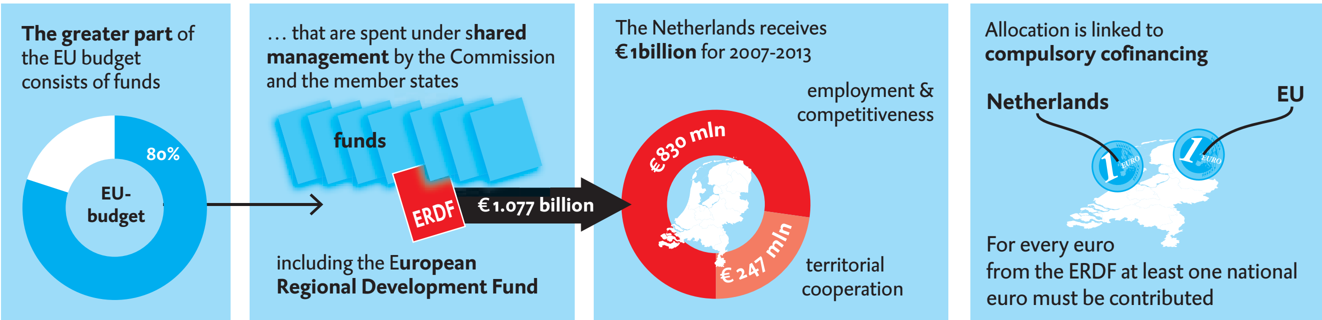
The ERDF programmes in the Netherlands are designed to increase regional competitiveness and employment.

The four regional ERDF programmes (North, East, South and West) have formulated three priorities:

1) innovation, entrepreneurship and the knowledge-based economy
2) attractive regions
3) attractive cities

5 Effectiveness of ERDF projects in the Netherlands

About 80% of the funds in the EU budget are spent under shared management by the Commission and the member states. One of the eight funds under shared management, the European Regional Development Fund (ERDF), is the subject of this part of the report. The ERDF is an EU structural fund. The objective of the structural funds is to strengthen coherence and economic convergence within the EU. In concrete terms, it increases economic competitiveness and employment in the member states and strengthens cohesion within and among the European regions. The Netherlands received about €1 billion from the ERDF in the 2007-2013 programming period.



In this chapter we consider the main characteristics of the ERDF and the ERDF programmes in the Netherlands (section 5.1) and how we audited the programmes (section 5.2). We then look at the two key questions in our ERDF audit: to what extent do the projects selected in the Netherlands contribute to the achievement of the ERDF's policy objectives (section 5.3) and to what extent are the projects to be seen as cost effective (section 5.4)? Finally, we take a look at the improvements expected in the new ERDF programming period (section 5.5) and present our conclusions and recommendations (section 5.6).

5.1 About the ERDF

ERDF: structural fund to reduce regional economic imbalances
As one of the structural funds, the ERDF's objective is to reduce the main economic imbalances between the European regions. To this end, it finances projects to:
1) promote employment and competitiveness in European regions;
2) increase territorial cooperation within the EU
3) accelerate convergence between the least developed member states and regions and the other member states.

Of these three ERDF themes, the first two are more relevant to the more developed member states such as the Netherlands.

The 2007-2013 programming period is ending and the 2014-2020 programming period has just commenced.

The other structural funds: ESF and the Cohesion Fund
Apart from the ERDF, the two other structural funds are:

- the European Social Fund (ESF), which funds vocational training and initiatives to increase employment;
- the Cohesion Fund, which supports the poorest regions in the EU.

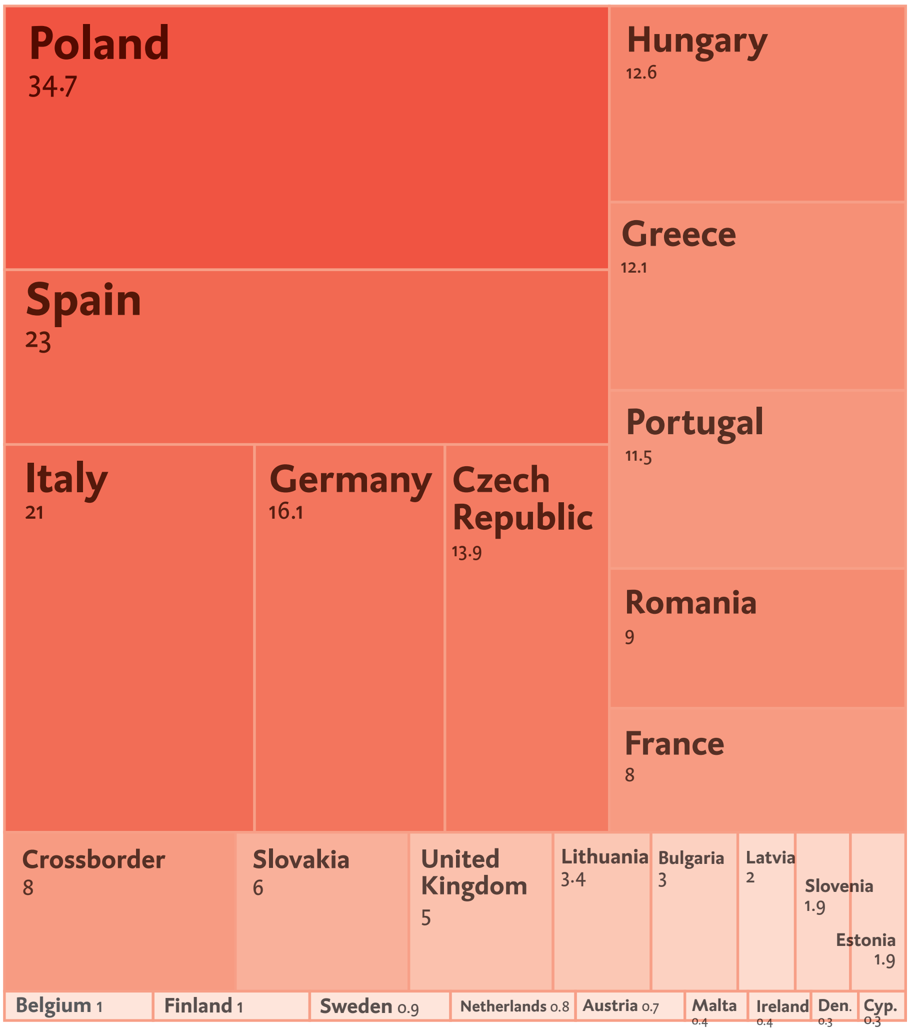
On account of its per capita income, the Netherlands is not eligible for funding from the Cohesion Fund. Only the ERDF and ESF are relevant to it. Of the two, the ERDF is the largest for the Netherlands.

The total ERDF budget for the 2007-2013 programming period was more than €200 billion. Of the €1,077 million the Netherlands received, €830 million was earmarked for projects to increase employment and competitiveness. The Netherlands received a further €247 million from the ERDF for territorial cooperation projects.

Allocation of ERDF funding for employment and competitiveness

2007-2013 programming period, in billions of euros

€ 200 billion

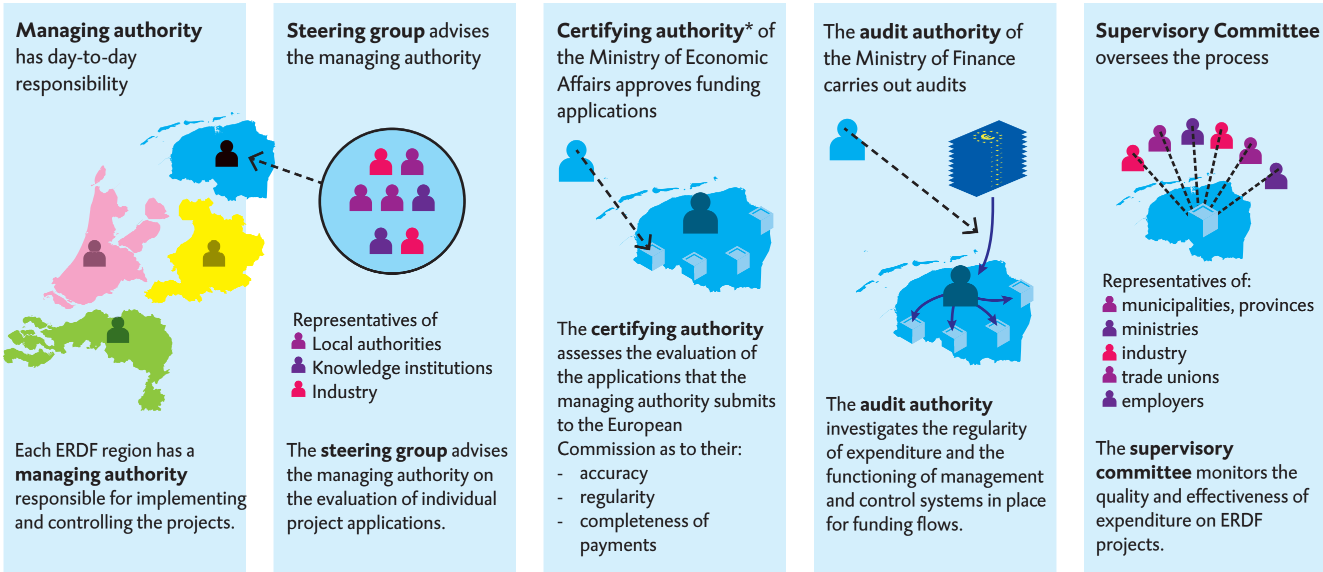


The Netherlands receives a relatively small proportion of ERDF funding. The main recipients are Poland, Spain and Italy.

ERDF funds allocated to a member state must be matched by cofinancing: the member state must provide at least one euro for every euro received from the ERDF. The national funding may be public or private.

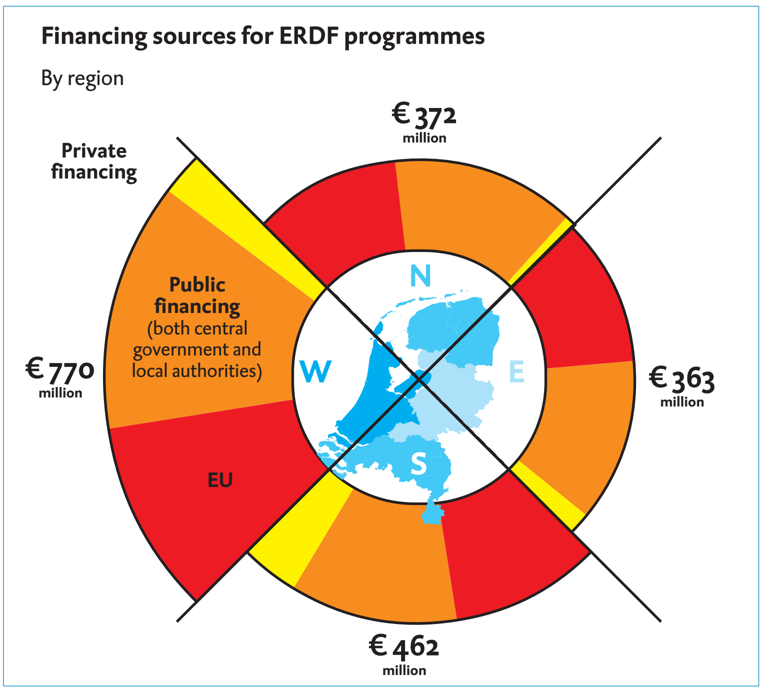
Regional implementation of the Dutch ERDF programme
In the Netherlands, expenditure from part of the structural funds, including that from the ERDF, is coordinated by the Ministry of Economic Affairs (EZ).

Responsibility for the implementation of ERDF programmes: who does what?



* Since 1 January 2014, the Netherlands Enterprise Agency

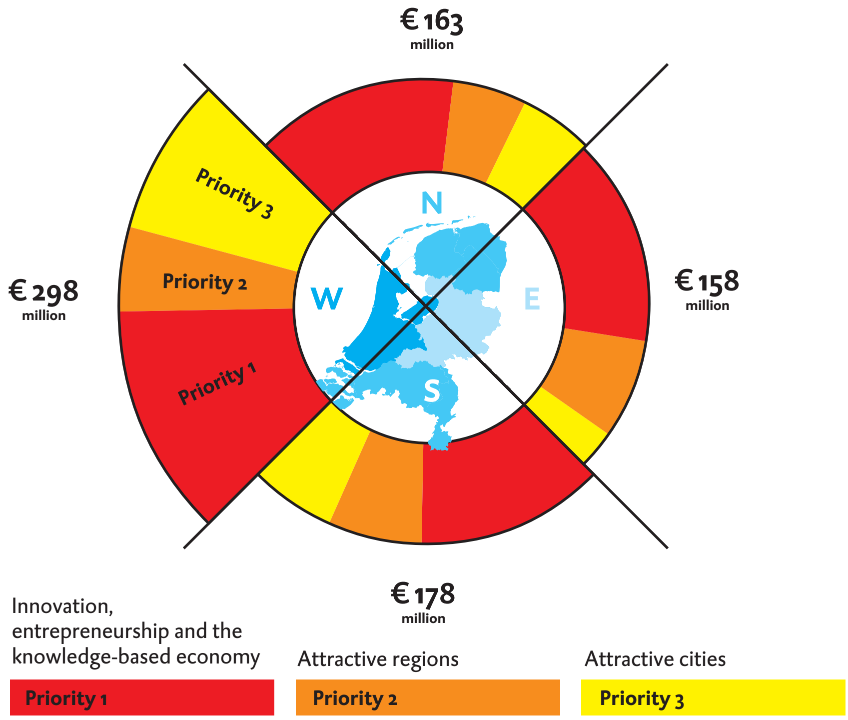
Four regional ERDF programmes are being implemented in the Netherlands: North, East, South and West. The objective of each programme is to strengthen the regional economy. They all receive their own funding from Brussels.



Priority for innovation, entrepreneurship and the knowledge-based economy
As noted above, the ERDF programmes in the Netherlands are directed predominantly at increasing regional employment and competitiveness. The four regional ERDF programmes (North, East, South and West) have set three priorities:

1. innovation, entrepreneurship and the knowledge-based economy
2. attractive regions
3. attractive cities

Allocation of ERDF funding to the three ERDF priorities
By region



All four regions have opted to concentrate their finances and operations on priority 1. Our audit therefore considered this priority.

5.2 Audit structure

Which ERDF priority 1 projects did we audit?
In each region we first identified the ERDF projects concerned with innovation, entrepreneurship and the knowledge-based economy in the 2007-2013 programming period that had been completed (as at 31 December 2012). We then selected five projects per region (20 in total) that were readily comparable as to their target groups and activities. We then added a further ten projects that were still in progress and that the regions recommended as good examples. We asked, Can it be concluded that the Dutch ERDF projects to increase innovation, entrepreneurship and the knowledge-based economy have helped achieve the EU policy goals and how are the projects evaluated as to their cost effectiveness?

Our assessment of the projects selected

We studied files on the ERDF projects we had selected to determine whether the outcomes and impacts had helped achieve the goals the regions had set at programme level (and which were derived from the 'higher' goals set by the EU). We also determined whether the managing authorities considered the achievement of outcomes and impacts when selecting, monitoring and closing ERDF projects. We did not confine ourselves to confirming that the intended performance had been delivered, for example whether 20 SMEs had been assisted as planned, but also asked whether it was known what the SMEs had then done with the assistance: had the assistance demonstrably led or contributed to more innovation in the region? We made audit visits to five projects.

Was our audit representative of the entire ERDF programme?

Our sample of 30 ERDF priority 1 projects was too small to be representative of the ERDF programme as a whole. Furthermore, our findings were based only on those projects that began at the beginning of the 2007-2013 programming period and had been largely completed by the end of 2012. Our findings provide an impression, however, of how effectiveness criteria were used to evaluate ERDF projects.

5.3 Contribution of ERDF projects to the achievement of goals

The primary goal of the ERDF is to redress regional imbalances in the EU.[29]
This goal is elaborated upon in EU Regulations, in the Dutch National Strategic Reference Framework 2007-2013 (NSR) at national level and in the Dutch operational programmes for 2007-2013 at regional (programme) level. The TFEU defines the ERDF's primary goal in broad terms ('through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industries'). The interpretation at national and regional level allows for many eligible activities. The goal at regional level is to strengthen competitiveness, in part by encouraging innovation and entrepreneurship.

To say something about the effectiveness of the ERDF projects to encourage innovation, entrepreneurship and the knowledge-based economy, we must first look at the targets and key indicators set in advance in each region.

Priority 1 targets and indicators by ERDF region

Indicators	Targets by region			
	North	East	South	West
Number of research & development projects	20	15	350	121
Public research and development investments (in millions of euros)	20	10	20	-
Private research and development investments (in millions of euros)	20	10	100	48
Induced private research and development investments (in millions of euros)	-	25	-	31
Number of start-ups and small enterprises <5 years assisted	60	150	250	268
Number of SMEs assisted	1,000	2,000	1,200	535
Number of new alliances between enterprises and knowledge/research and development institutions	6	100	275	88
Gross number of jobs created (FTEs)	1,500	900	510	3,690

29 Treaty on the Functioning of the European Union, article 176.

We asked whether the targets were realistic and whether the indicators were well chosen and said something about the actual outcomes.

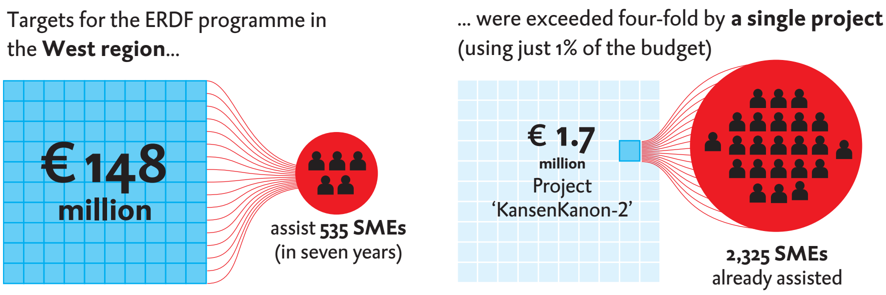
Uncertainty about target-setting
The indicators and targets used to determine whether the projects contribute to the policy goal are set by the managing authorities at regional level and agreed with the European Commission. Only in the West region were they set on the basis of the performance delivered in previous programming periods.

Project implementers explain in their applications how they expect the project to contribute to the regional targets. In most of the projects we audited, it was not known what these expectations were based on.

In 2009, two years after the start of the ERDF programming period, a 'calculation tool' was developed at the request of the Minister of Economic Affairs to assess the reliability of the targets set by the beneficiaries. ERDF South used the tool to discuss the estimated targets with beneficiaries. Before the tool was introduced, the South region had simply accepted the beneficiaries' targets. The East region has been using the tool since 2010. Beneficiaries in the region no longer need to account for the targets calculated by the tool. The managing authority uses the tool to calculate the outcomes (the 'induced' private investments and the gross number of jobs created).

Targets comfortably exceeded
One of our audit findings was that some of the targets for the indicators set by the ERDF managing authorities at programme level had been very comfortably exceeded.

Are targets well thought out?



In practice, considerably more SMEs were assisted than budgeted. In some cases, a single project exceeded the target for the entire programme many times over, yet received only a fraction of the available ERDF budget. Berenschot's midterm evaluation of the ERDF programme in 2010/2011 (Berenschot, 2011) also highlighted this phenomenon.

Kansenkanon-2 project (West region): targets exceeded			
The Kansenkanon-2 project carried out by Syntens in the West region comfortably exceeded the targets			
Indicator	**Budgeted**	**Actual**	**West Region**
Number of research & development projects	150	1 (see comment)	121
Private research and development investments	1,500,000	3,800,000	48,000,000
Induced private research follow-up investments	4,500,000	11,000,000	31,000,000
Number of start-ups assisted	45	57	268
Number of SMEs assisted	2,000	2,325	535
Number of new alliances between enterprises and knowledge/research and development institutions	45	1	88
Gross number of jobs created (FTEs)	120	95	3,690

This raises the question of whether the project and programme targets were realistic and whether they should have been higher. Actual performance under these conditions is not a good indication of the effectiveness of ERDF funding.

Indicators revised during implementation

If all is well, each completed ERDF project should provide information on its performance on the pre-agreed indicators. The degree of success can vary: performance on the indicators can sometimes be higher than the target and sometimes lower. The information is impaired, however, because some of the indicators for the ERDF priority 1 programme were revised during implementation (see box). This reduces insight into the outcomes.

ERDF programme indicators revised during implementation

Two ERDF priority 1 indicators were revised while the programme was being implemented. The indicators concerned were Number of research and development projects and Number of alliances between enterprises and knowledge institutions. The Ministry of Economic Affairs redefined the indicators following consultation with the ERDF managing authorities in March 2009. In consequence, the indicators are scored differently: under the new definition, a score of 1 is given if there is a project or alliance; if there is no project or alliance the score is 0. There are no other options. The absolute number of projects or alliances does not matter. There is therefore less insight into what a project has actually achieved. As the new definition was introduced when a large part of the programme had already been completed, the disparity will have to be rectified in the final reports.

Indicators formulated in general terms

We noted that the indicators used by the managing authorities said little about the impact of the projects at regional level or about the programme as a whole. To gain an insight into the effectiveness of ERDF projects, information on the performance indicators is important but not decisive. What is really at issue is whether the creation of, for example, 100 alliances between enterprises and knowledge institutions or the provision of assistance to 2,000 SMEs has brought the underlying policy goal closer: is the region more innovative and competitive?

The significance of achieving the targets depends largely on how the indicators are defined. The score on an indicator such as ‘Number of SMEs assisted that develop new products’, which the Commission will use in the next ERDF programming period, says more about the achievement of the policy goal than a broader indicator such as ‘Number of SMEs assisted’. Indicators of a project’s cost effectiveness should define the proposed changes or desired outcomes as precisely as possible. Projects can help achieve regional targets and score well on the indicators (and usually do) but might not deliver the intended outcomes.

5.4 Checks of effectiveness during project selection

The effectiveness of a project should be clearly identified during the selection phase. In this light, we examined whether the managing authorities had checked the projects' expected cost effectiveness when assessing the project applications. We also asked whether project applications competed against each other and whether funding from the ERDF was necessary for a project to succeed.

Value for money criterion not applied consistently
On paper, effectiveness and efficiency are important assessment criteria for ERDF projects. The framework the managing authorities used to assess the projects we audited recognised the importance of value for money.

The term value for money is used in all ERDF regions. The precise definition, however, differs from one region to another but in all cases it is an expression of the relationship between costs and effects.

Our assessment of the ERDF projects' value for money considered:
- the projects' contribution to the regional target per indicator;
- the amount of ERDF funding relative to the regional ERDF budget available for the indicator;
- the amount of ERDF funding requested per job retained/created.

The assessment therefore considered only ERDF funding, not contributions from other public or private parties. As noted above, the targets and indicators were formulated in general terms and were not clearly defined.

The importance accorded to efficiency on paper is not always seen in practice. In the ERDF South projects we audited, for example, we found that efficiency and effectiveness were rarely checked during the application process. Until 2010, the allocation of ERDF funds was not based on assessments. We concluded from the ERDF East managing authority's files that uniform methods and definitions were not used to assess value for money. In the ERDF North region, value for money was defined differently in each of the projects audited. There was no consistency in the use of either the criterion or the assessment method. Consistent qualitative and quantitative assessments of value for money were made only in the ERDF West region, and the assessment results were used in the advice from the steering group that approved the ERDF funding.

None of the managing authorities' value for money assessments systematically considered the various cost components that made up comparable projects.
None of the managing authorities used clear internal norms or standards to assess the budgeted/actual costs.

No consideration of value for money during implementation and final settlement, no result requirement for beneficiaries
Value for money was not taken into account to monitor or close the ERDF projects. The relationship between total eligible costs and project outcomes (and/or project impacts) was not actively analysed. The achievement of targets was taken into account (usually on the basis of a statement prepared by the beneficiary, without systematic

analysis by the managing authority). This, however, had no effect on the amount of the funding, which remained unchanged regardless of overperformance or underperformance on the indicators.[30]

The managing authorities explained that the Regulation on project funding required only a 'duty of best efforts' from the beneficiaries after an application had been approved. Achieving the projected results (i.e. the score on the indicators) did not influence the funding. The managing authorities themselves, we were told, were also unable 'to pull the plug' on a project. This is the case in all regions, only the recipient can stop the project. The ERDF West region, however, used implementation agreements that gave the managing authority more leeway.

West region: implementation agreement

In the ERDF West region, the managing authority and the beneficiary sign an 'implementation agreement'. The agreement lays down the obligations of the managing authority and the beneficiary. It includes the project targets and desired impacts, as set out in the application. The agreement gives the managing authority the right to suspend funding if:

- the project' progress differs from the planned timing;
- the beneficiary does not fulfil its obligations on time or adequately;
- funding or advance payments are underspent;
- the content of the project's progress reports or final report gives the managing authority cause to do so.

Implementation agreements were introduced for legal reasons. The beneficiary specifically commits itself to the conditions and can be held in default if it does not fulfil them.

In summary, the value for money criterion is far from straightforward and was not always taken into account in the selection of the ERDF projects we audited. Project selection was based chiefly on the targets set by the applicants, which were often linked to indicators that said little about a project's actual impact. In the cases we audited, value for money played no role whatsoever during project monitoring and final settlement. Funding did not depend on delivering the required results.

Need for ERDF funding justified in different ways

The assessment frameworks used for the four regional ERDF programmes require the project application to justify the need for funding. 'The applicant must justify why the project could not be implemented without public funding or how public funding would significantly facilitate implementation.'

30 The ultimate amount of the funding might be lowered if total eligible costs prove to be lower than budgeted.

Most of the ERDF project applications we audited justified why public funding was necessary for the project's success. There were significant differences, however, in the clarity and robustness of the justifications.

Need for public funding clearly justified for a demonstration site for wastewater treatment technology

An ERDF project to set up a demonstration site at the wastewater treatment facility in Leeuwarden was carried out in the ERDF North region in 2008-2010. The project tested new water treatment concepts and technologies and created a platform for innovative businesses to accelerate the market introduction of their innovations.
The project application clearly justified the need for ERDF funding and explained that there was a gap in the chain from idea to export product (i.e. the link between laboratory research and market introduction). Market parties were unable to provide a solution or take up the initiative. It was argued that the demonstration site would not be viable without public funding.

In general, the applicant and/or managing authority states that public funding is necessary because the project will not be carried out by private parties, will not be viable without funding or had a high risk of failure. Often there is no explanation of why ERDF funding is necessary.

No competition among projects

We found that none of the projects we audited competed against each other. In other words, the managing authorities did not compare project proposals against each other to determine which would have the greatest impact at the lowest cost. Projects were selected on the basis of 'first come, first served'. This means that funds allocated to project A are no longer available for a later application, even if project B is potentially more efficient or effective. There is a risk that more effective and efficient projects may miss out on European funding in favour of 'lesser' projects.

The ERDF South region recently experimented with a tendering procedure[31] to introduce an element of competition into the procedure. The ERDF managing authorities want to increase comparisons of content and quality in the new programming period.

In summary, we found from the files we audited that the assessment of ERDF funding applications considered the applicants' explanation of why public funding was necessary for a project's success but the consideration differed significantly. We also found that project proposals did not compete against each other. The managing authorities expect greater use to be made of tendering in the 2014-2020 ERDF programming period.

31 In a tendering procedure, project implementers applying for ERDF funding submit proposals and the managing authority determines which one will be funded on the basis of cost and quality.

5.5 A look forward: new ERDF programming period

New European Commission approach to steer by outcomes

The European Commission wants to steer more by outcomes in the new 2014-2020 programming period. The structural funds must be targeted at achieving the Europe 2020 goals.

The ten-year plan: Europe 2020

With its internal market of 28 countries, the EU is one of the world's super trading powers.
To consolidate this position and overcome the economic crisis, a ten-year plan was launched in 2010 under the name Europe 2020. The plan has five main goals for employment, education, research and innovation, social inclusion and poverty reduction, and climate and energy.
The plan also has seven core initiatives. The EU and national governments will together take action to enhance innovation, the digital economy, employment, industry policy, poverty and the efficient use of natural resources.

Funding from the structural funds will depend in part on the member states' achievement of their Europe 2020 goals and targets. To this end, the Commission and the member states will conclude partnership agreements.

A large proportion of the ERDF budget will not be released in the new programming period until results have been achieved. If the member states perform well on the agreements, they will receive the funds earmarked for them. If they underperform (fail to achieve the milestones set in the partnership agreement), payment will be suspended and if the underperformance is serious funding will be partially withdrawn. This arrangement is not new; it had also been applied in the 2000-2006 programming period. At the time, however, the member states satisfied the performance requirements because they set the bar so low that funding could not be withdrawn. That risk has now returned.

Financial incentive to achieve results

A 'performance reserve' will be used in the new ERDF programming period. Member states will receive a proportion of the ERDF budget (6%) only if they can demonstrate that they have delivered the agreed performance. At programme level, the targets set for the various indicators must be achieved by 31 December 2018. The European Commission will evaluate the scores on the targets in 2019 and will decide on releasing the performance reserve accordingly. The entire programme will be evaluated in 2025; financial corrections may follow.

Stricter demands will also be made on the impact indicators in the new programming period. In addition to regional indicators, the European Commission will set common indicators to provide an insight into project implementation at EU level.
New indicators for innovative ERDF projects include:

- number of new researchers at supported institutions;
- number of researchers working in improved research facilities;
- number of auxiliary undertakings that bring new products to market.

These indicators are intended to go a step further than the current indicators. Not only do they consider whether businesses receive assistance but also whether they have actually produced something new. They therefore say more about the intended outputs.

More cooperation among managing authorities

The managing authorities of the ERDF programmes are already responding to the changes proposed by the European Commission for 2014-2020. They intend to set more uniform criteria for programme implementation. They will include identical quality criteria so that only high quality projects receive funding. The aim is to introduce uniform national criteria and procedures for project selection and implementation. Projects will be assessed by means of identical qualitative and quantitative criteria so that only high quality projects receive funding. One option under consideration is a system to award funding only to projects that exceed a given score on the criteria. This would improve the comparability of projects and the competition among them. Some regions are also considering a tendering procedure for the allocation of funding.

The managing authorities will also work together more closely and adopt the same administrative procedures and control and management systems for the implementation of the programmes, and work with one IT system.

The steering group that advises on the allocation of funds currently includes representatives of the project management but will in future be made up of experts from knowledge institutions and business. They will score the projects using uniform criteria in order to select them on their quality.

6 Conclusions and recommendations for part II

6.1 Conclusions

In our opinion, the citizens of the EU have a right to expect that the public EU funds spent in their countries and elsewhere achieve the intended result (effectively), at the lowest possible cost (efficiently) and in accordance with the regulations (regularly). We also believe EU citizens have a right to expect complete transparency regarding the effectiveness, efficiency and regularity of expenditure.

Our audit of the ERDF programmes in the Netherlands found that the effectiveness and efficiency of expenditure are often not self-evident: the projects delivered what they promised, but project selection did not systematically consider effectiveness and efficiency.

It is often unclear precisely how targets are set for each of the regional ERDF programmes. In practice, they are reached so easily (sometimes several times over) that they are perhaps not well thought out. They do not give a good view of the effectiveness of ERDF funding. The significance of achieving targets depends largely on how demanding the performance indicators are formulated. We found they were often formulated in general terms (for example, ‘number of SMEs assisted’ instead of ‘number of SMEs that develop new products’). In consequence, little can be said about a project’s impact even after it has been completed.

Furthermore, value for money is not always assessed uniformly and was not always taken into account during the selection of the ERDF projects we audited. The selection phase is concerned chiefly with the targets set by the project applicants themselves, which are often linked to indicators that say little about a project’s actual impact. In the projects we audited, effectiveness and efficiency played no role whatsoever during progress monitoring and final settlement. Beneficiaries were funded on the basis of best efforts, not results.

The funding applications in the files we audited were not assessed in competition with each other. Applications that satisfy the conditions are funded in the order in which they are submitted. This can lead to relatively more effective and efficient projects not being funded.

6.2 Recommendations

Both the implementing bodies and the Minister of Economic Affairs (EZ) should take greater account of the effectiveness and efficiency of ERDF projects that are approved.

We therefore recommend that the Minister of Economic Affairs:
- consider obliging the managing authorities, together with the beneficiaries, to provide public information on the concrete results achieved with the funds received from the EU (following the example of the 'Europa om de hoek' website, which discloses the allocation of funds to projects);
- consider whether standards can be developed for recurring project cost components, based on many years' experience awarding funds, and take them into account in the assessment of applications.
- This recommendation agrees with a recommendation made in our latest report on the national declaration, in which we recommended that stricter standards be used regarding proportionality and efficiency (Netherlands Court of Audit, 2013b). The State Secretary for EZ undertook to adopt this recommendation;
- when assessing value for money, take both the ERDF component and other components such as national cofinancing and private investments into account.

In keeping with the initiatives already being taken by the managing authorities for the new programming period, we further recommend that the Minister of EZ:
- link targets more closely to the required outcomes and less to the achievement of interim results. At the same time, select indicators that more closely agree with the required final outcome. There must be a plausible link between the concrete project outcomes and the required impacts (indicators) and they must contribute to clearly formulated and better defined programme goals;
- ensure that the targets at project and programme level are more objective and better substantiated, especially when a project's effectiveness can be derived from the targets. Clarify from the outset what is understood by each indicator and do not revise the indicators or the scoring method during project implementation or programming period;
- have project applications compete against each other during the selection phase so that more effective and efficient projects have a higher chance of being selected. The managing authorities are already considering this in the new programming period;
- introduce compulsory implementation agreements in the new programming period for all ERDF regions, as is already the case in the West region. This would create more shared responsibility for results between the funding body and the beneficiary and agree with the managing authorities' ambition of more uniform implementation.

Annexe 1 Old versus new structure of the EU Trend Report

Subject	Place in EU Trend Report 2013	Place in EU Trend Report 2014
Main findings, conclusions, recommendations and government response	Part I	Executive summary
Developments in EU financial management	Part II	Part I
EU member states	Part II	Part I
The Netherlands	Part II	Part I for accounting documents Part II for the ERDF (funding flows audited this year)

Annexe 2 Government response in full

27 January 2014

Dear Ms Stuiveling,

Following consultation with the Minister of Foreign Affairs and the State Secretary for Economic Affairs, I hereby present the government's response to the draft EU Trend Report 2014. The government's response considers the recommendations arising from the main conclusions. I would ask you to reproduce the government's response to each recommendation in full, as set out below, in your final report.

Recommendation 1. Seek ways to have the member states issue a compulsory public statement on their use of European funds (comparable to the Dutch annual national declaration) now that it has proved impossible to make such a declaration compulsory in the new Financial Regulation.

Response
The government regards this recommendation as an endorsement of government policy. Unfortunately, a compulsory national declaration could not be introduced in the Financial Regulation or the Interinstitutional Agreement for the new Multiannual Financial Framework. There is currently too little support in the EU; the government does not think this step will be taken in the near future. Nevertheless it will continue to promote the benefits and quality of non-compulsory national declarations, for example through the recently established European working group on the formulation of EU-wide guidance on the declarations. The government will also remain alert to new opportunities that might arise in the future.

Recommendation 2. Include remittances in the national declaration, as we recommended in our latest report on the national declaration.

Response
The government will not adopt this recommendation for the detailed reasons already given (see the government's response to your opinion on the National Declaration for 2011, 2012 and 2013 and the government's response to the EU Trend Report 2009). There are three parts to the government's position. Firstly, the European Court of Auditors has expressed a positive opinion on the own resources in the EU budget for many years, but not on expenditure; added value would therefore seem to lie with the latter. Secondly, the government, like the Financial Regulation, makes a distinction between the various 'management modes' and the related control structures.
The European Commission is bound by law to control the reliability and accuracy of information on own resources and an adequate control structure is already in place for it to do so. Furthermore, the Dutch government expresses no opinion on the considerable flow of EU funds that are under direct management by the Commission and are subject to a separate control regime. Thirdly, the independence of Statistics Netherlands (CBS) is an important pillar to ensure that the data on GNI-based remittances are generated without political influence. The government would not be respecting this independence if it expressed an opinion in the National Declaration on the GNI figures produced by the CBS.

Recommendation 3. Encourage all EU member states to publish their annual summaries of national controls in the years ahead (as from 2014 including the new management declaration) along with an analysis by the European Commission.

Response
The government will adopt this recommendation and will continue to work on improving the transparency of and accountability for EU funds in the member states, for example in the annual discharge procedure and various legislative procedures. The government is also minded that the new compulsory management declaration and related independent audit opinion should be published by all member states.

Recommendation 4. In consultation with like-minded countries ensure that the ESM's Board of Auditors has sufficient human and financial resources.

Response
The government agrees with this recommendation. The Netherlands called for an independent Board of Auditors with wide-ranging powers when the ESM was established so that its financial management, risk policy and accountability would satisfy the highest standards. The government will continue to highlight the importance of the Board of Auditors' work and provide further support wherever possible, for example by providing sufficient human resources and support for the members of the Board of Auditors. Access to information issued by the ESM is laid down in the ESM's by-laws. With regard to the Board of Auditors' financial resources, there are currently no signs of restrictions. The ESM's budget for 2014 includes a significant increase in the Board of Auditors' financial resources.

Recommendation 5. Consider – and discuss in the euro group – whether the solution chosen for the EFSF's audit committee can be enriched, subject to applicable legislation, with members from outside the EFSF's own ranks.

Response
This recommendation has the government's attention. The new audit committee appointed in 2013 consists of members of the EFSF's Board of Governors, who also make up the ESM's risk committee. The EFSF grew to such an extent in 2012 that it is required to have a separate audit committee under Luxembourg law on the audit profession. The committee can be assisted by external advisers if required. In the government's opinion, external audit of the EFSF is adequately assured and it awaits the first results of the new audit committee. Changes can be made if desirable or necessary in the future. The government would stress that the EFSF has not entered into new loan agreements since July 2013 and will attend only to the settlement of the programmes for Ireland, Portugal and Greece.

Recommendation 6. Consider obliging the ERDF managing authority and the ERDF beneficiaries to publish, preferably on the internet, what they have achieved with the funds received.

Response
The government agrees with this recommendation. European Regulations (EC nos. 1083/2006 and 1080/2006) already provide for the compulsory publication of information on the outcomes of ERDF projects. In addition to fulfilling the European information requirements, such as the publication of annual reports,

the managing authorities and the Ministry of Economic Affairs together organise the European Open Days every year.

Recommendation 7. Consider whether standards can be developed for recurring project cost components, based on many years' experience awarding funds, and take them into account in the assessment of applications.

Response
A study by a specially appointed working group of Dutch civil servants found that ERDF cost components were so heterogeneous that standards could be developed only for salary costs. This recommendation will therefore be followed up in respect of salary costs.

Recommendation 8. When assessing value for money, take both the ERDF component and other components such as national cofinancing and private investments into account.

Response
The government agrees with this recommendation. Value for money is a criterion in the selection of project applications. Furthermore, it will increase in importance in the new programming period, as the Commission will require projects to be managed more by outcomes. Projects are assessed on the basis of the underlying business case, which includes national cofinancing and private investments as well as ERDF funding.

Recommendation 9. Link targets more closely to the required outcomes and less to the achievement of interim results. At the same time, select indicators that more closely agree with the required final outcome. There must be a plausible link between the concrete project outcomes and the required impacts (indicators) and they must contribute to clearly formulated and better defined programme goals.

Recommendation 10. Ensure that the targets at project and programme level are more objective and better substantiated, especially when a project's effectiveness can be derived from the targets. Clarify from the outset what is understood by each indicator and do not revise the indicators or the scoring method during project implementation.

Response to recommendations 9 and 10
The government agrees with these recommendations. The finishing touches are currently being put to the four regional ERDF programmes for the new 2014-2020 programming period. A key assessment criterion will be the description and substantiation of the output and the outcome indicators. It will be concerned specifically with the ultimate impact, not interim results. European Regulations require each of the indicators to be formulated in objective and measurable terms. Late achievement of the intended milestones can have consequences for the amount of ERDF funding (the performance reserve). The government agrees with the Court of Audit that changes to the indicators' definition or the scoring method during project implementation should be avoided.

Recommendation 11. Have project applications compete against each other during the selection phase so that more effective and efficient projects have a higher chance of being selected.

Response
The government agrees with this recommendation. In the government's opinion, project selection should culminate in the selection of the best projects. Although the principle of 'first come, first served' will remain important in practice, the managing authorities will give greater priority to the projects' effectiveness and efficiency.
The regional ERDF programmes and the descriptions of internal control systems explain how project applications will be assessed and selected. The assessment criteria are: contribution to the operational programme, degree of innovation, quality of the business case and/or business plan, quality of the project and sustainability.
The managing authorities' new assessment system also provides for greater use of tenders and calls. Substantive assessment will be made by an independent advisory committee, which will express an advisory opinion based on the score given on the assessment criteria.

Recommendation 12. Introduce compulsory implementation agreements in the new programming period for all ERDF regions, as is already the case in the West region, so as to create more shared responsibility for results between the funding body and the beneficiary.

Response
The government agrees with this recommendation and will encourage the managing authorities to adopt it. When awarding funding, the managing authorities already make agreements with the recipients on the results to be achieved. How they do so is a task and responsibility of the managing authorities.

The Minister of Finance

J.R.V.A. Dijsselbloem

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