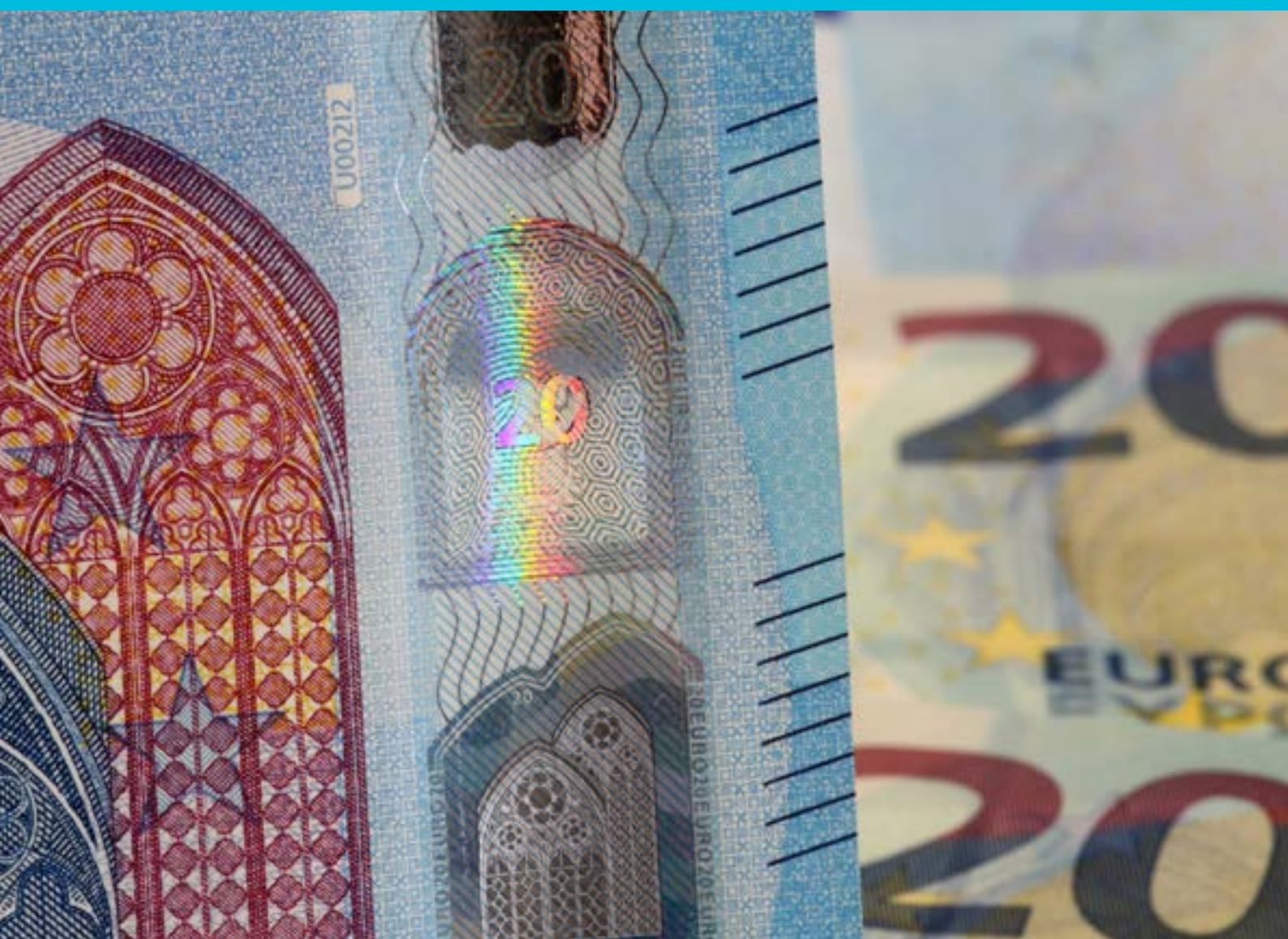




# Report on the National Declaration 2016



# Report on the National Declaration 2016



## Preface

The Netherlands issues a National Declaration every year to account for the funds it receives from the EU to carry out EU projects. *The National Declaration 2016* accounted for € 1,492 million in EU funding. The money was spent ‘under shared management’ with the European Commission in a variety of policy fields.

The National Declaration considers:

- the functioning of management and control systems;
- the regularity (legality and regularity in EU terms), accuracy and completeness of the expenditures and receipts disclosed in the consolidated statement in which the actual financial figures are stated;
- the regularity (legality and regularity), accuracy and completeness of the receivables outstanding as disclosed in the consolidated statement in which the financial positions are stated.

The government does not consider the effectiveness or efficiency of EU funding in the National Declaration. Furthermore, information on the contributions that the Netherlands pays to the EU each year is presented in the Ministry of Foreign Affairs’ annual report rather than in the National Declaration.

The Netherlands Court of Audit expresses an opinion on the reliability of the National Declaration every year. The Minister of Finance subsequently passes our opinion on to the EU. This report presents our opinion on the *National Declaration 2016* and highlights areas for improvement.

The text in this document was adopted on 28 April 2016. The document was submitted to the House of Representatives on 18 May 2016. Other publications submitted by the Court of Audit on 18 May 2016 (Accountability Day) can be read at [www.rekenkamer.nl/verantwoordingsonderzoek](http://www.rekenkamer.nl/verantwoordingsonderzoek) 2015.



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## 1 Our conclusions

The assertion made in the *National Declaration 2016* regarding the functioning of management and control systems for EU funds spent in the Netherlands is sound. The assertion on the regularity, accuracy and completeness of financial transactions is also sound down to the level of the beneficiaries. Furthermore, preparation of the declaration as a whole was sound. The *National Declaration 2016* therefore gives a true and fair view: the management and control systems in place for nearly all EU funds functioned adequately and the funds were in general spent regularly. There are areas for improvement in most of the funds, however, such as the timely submission of payment applications and the resolution of differences of interpretation.

### **Timely submission of payment applications**

The Netherlands may lose out on EU funding. As a member state, it must close programmes from the 2007-2013 programming period in March 2017 at the latest. The European Commission must therefore receive the Netherlands' final payment applications for funded projects on time. All authorities concerned still have to perform a great deal of work to check the costs and applications on time. We therefore stress the need to submit the final payment applications for the European Regional Development Fund (ERDF, section 3.3.2), the European Social Fund (ESF, section 3.4.1) and the European Fisheries Fund (EFF, section 3.5.1) on time.

### **Differences in the interpretation of regulations**

Cooperation among the ERDF authorities has been difficult for several years; most of the problems are caused by differences in the interpretation of regulations. Regularly, there is also disagreement on the depth of the audit authority's audit. We recommend that the State Secretary for Economic Affairs have the authorities concerned introduce a new dispute resolution mechanism and improve their working agreements as soon as possible so that they work together better. The 2007-2013 programming period must be closed correctly and the 2014-2020 period must get off to a good start (section 3.3.1, Improvement path for cooperation among ERDF authorities).

### **More consideration for the added value of funds**

These problems do not arise in isolation from each other. Errors often occur because of the complexity of the funding regulations and procedures. Many of the parties involved are not fully aware of what is and what is not eligible for EU funding. We support the initiatives taken by the European Commission to reduce the complexity of the regulations (and thus

the risk of irregularities). But more is needed to improve accountability for EU funding (and the associated debate). The error rate in expenditure should not be the sole measure of the regularity of EU expenditure. The National Declaration has shown over several years that the management and regularity of EU funds are on the whole in order in the Netherlands. We therefore believe more attention could be paid to the added value of the projects funded.

The European Commission is heading in the right direction with its initiatives to strengthen the added value of EU funding. Under new regulations the EU will give higher priority to the intended impact of EU funding. The member states will therefore have to submit more information on effectiveness than they do at present. Effectiveness is regularly audited by the European Court of Auditors.

### **Debate of the budgetary system**

Effectiveness is closely related to the current debate about the budgetary system. In the current system, member states are allocated funds for a period of seven years. This is an incentive for the member states to ‘pocket’ as much money as possible (which creates a second incentive of ‘having’ to spend it). By definition, this system does not support projects that have the greatest added value. Although the system cannot be changed until after 2020, other systems are being considered. The Commission’s mid-term evaluation of the Multiannual Financial Framework is expected at the end of 2016.

### **The importance of accounting and auditing to the National Declaration**

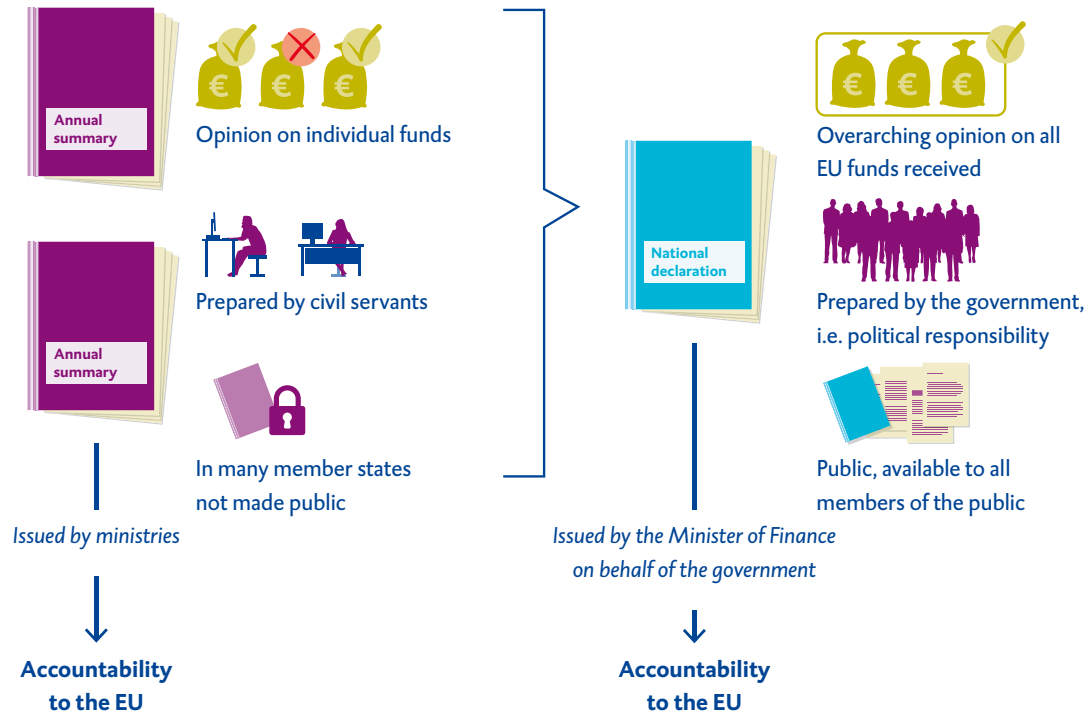
Appropriate accounting and auditing are also relevant to the debate. The European Commission wishes to increase the efficiency of audits of EU funding and reduce the audit burden. We think it is very important that problems in the management, regularity and effectiveness of expenditure remain transparent.

It is largely up to the member states to achieve these ambitions. The Netherlands – along with Denmark and Sweden – is setting a good example. With its annual publication of the National Declaration, the Dutch government is bearing its responsibility for the management and expenditure of EU funds. This form of accountability reflects the fact that funds under shared management are spent in the member state. The member state therefore bears shared responsibility for their use. This enhances transparency of how member states manage and spend EU funds.

submitted to the European Commission, such as the annual summaries.

**Features of the annual summary**

**Features of a national declaration**



If the European Commission really wishes to manage by results, the government should consider including information on the effectiveness of EU funding in the National Declaration. The National Declaration would then better reflect the changing European ambitions and budgetary system. We looked at this in more detail in our EU Trend Report 2016 (Netherlands Court of Audit, 2016a).

**Audit burden and the National Declaration**

A national declaration can also reduce the audit burden and related administrative burdens: EU auditors could rely on the work of the auditors who assess the regularity of EU funds in the member states. The Netherlands has already taken steps in this direction. To express an opinion on the National Declaration, the Court of Audit reviews and relies on the work of the Central Audit Service.

**Inclusion of contributions to the EU in the National Declaration**

The EU’s budget is fed by contributions from the member states. The remittance of these ‘own resources’ must be transparent. It must be known how much the Netherlands

contributes, whether it remits the right amount, and if and why it must make additional contributions. In Findings of the 2015 Audit of the Ministry of Foreign Affairs, we comment that the explanatory notes on EU contributions had improved in comparison with the previous year (Netherlands Court of Audit, 2016b). In the Report on the National Declaration 2014 and the Report on the National Declaration 2015, we recommended that contributions be included in the National Declaration (Netherlands Court of Audit, 2016, 2015). Their inclusion would create comprehensive accounts at member state level disclosing both the member state's receipts (funds received from the EU) and its expenditures (contributions to the EU).

All these points would strengthen democratic accountability for EU funds, clarify what results they had achieved and thus influence the activities funded by the EU.



## 2 Facts and figures

The Netherlands issues an annual declaration to account for its use of EU funds to carry out EU projects. The amount accounted for in the National Declaration 2016 was € 1,492 million. This money was spent ‘under shared management’ with the European Commission in a variety of policy fields: agriculture, rural development, fisheries, employment, economic development, migration, etc. They are summarised below.

### 2.1 Funds under shared management

The EU’s approved budget for 2014 amounted to € 142.7 billion (European Commission, 2015). The Netherlands contributed more than € 8 billion to it, equal to about 3.2% of central government expenditure for the year. EU receipts and expenditures are considered in more detail in our EU Trend Report 2016 (Netherlands Court of Audit, 2016a). The European Commission and the member states are together responsible for managing about 80% of the EU’s budget. These funds are said to be ‘under shared management’. The European Commission and the member states share responsibility for the regular, effective and efficient use of this money (European Union, 2012). This present report considers the management and use of these funds.

Nine funds are spent under shared management in the Netherlands:

- agricultural funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD);
- structural funds: the European Regional Development Fund (ERDF) and the European Social Fund (ESF);
- the European Fisheries Fund (EFF);
- migration funds: the European Refugee Fund (ERF), the European Return Fund (RF), the European External Borders Fund (EBF) and the European Integration Fund (EIF).

### 2.2 Summary of the funds


With the exception of the European Agricultural Guarantee Fund and the migration funds, the European Commission reserved multiannual budgets to fund the 2007-2013 programming period in each member state. The amounts reserved in the EAGF are earmarked chiefly for farm income support. The European Commission can reduce these reservations, for example to form a reserve for farming crises. This is not the case with the other funds.

In the migration funds, a common reservation is made for all the member states at the start of the programming period. Annual tranches are then calculated for each of the member states.

The 2007-2013 programming period must be closed by 2017 at the latest. The 2014-2020 programming period has already commenced. To date expenditure has only been claimed for the agricultural funds.

In the National Declaration 2016, the government accounts for € 1,492.1 million in expenditure that it has declared to the European Commission. This amount relates to both the 2007-2013 and the 2014-2020 programming periods. Of the amount claimed, the Netherlands received € 1,092.1 million. The difference between the amount received and the expenditure declared is due to the national cofinancing, contributions made by private or public recipients and additional funding from other public or private organisations. Below we provide a brief summary of the funds, their objects, who is accountable for them, the accounting reference period and their financial volume (including the use of the budgets). More information is available in the explanatory notes on each fund on our website.

## EAGF



**Object**  
To provide food security for European citizens and price and income stability for European farmers

**Supports**

- Direct income support
- Grants for joint marketing by producer organisations
- Market interventions

**Responsible for the use of the EAGF in the Netherlands**  
State Secretary for Economic Affairs

**EAGF budget 2014-2020**  
**direct income support: € 5.1 billion**  
(cumulative use in National Declaration 2016: n.a.)

### Financial volume in National Declaration 2016 (in millions of euros)

1,492.1	Total declared expenditure as stated in National Declaration
1,092.1	Total contribution from European funds in National Declaration
741.4	Contribution from EAGF = declared expenditure from EAGF

## EAFRD



European Agricultural Fund for Rural Development (EAFRD)



### Object

To strengthen rural development in EU member states and facilitate the implementation of national rural policy



### Supports

- The competitiveness of the agriculture and forestry sector
- Landscape and countryside management
- The quality of rural life and diversification of the rural economy



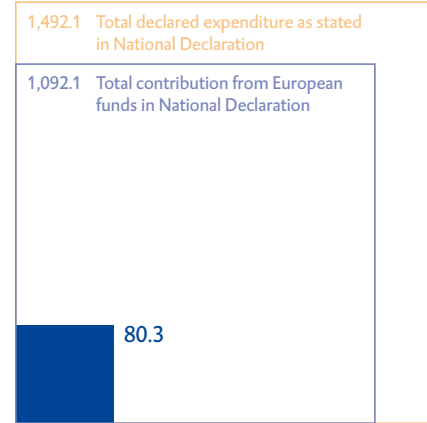
### Responsible for the use of the EAFRD in the Netherlands

State Secretary for Economic Affairs

**EAFRD budget 2007-2013: € 593.2 million**  
(cumulative use in National Declaration 2016: € 570.5 million)

**EAFRD budget 2014-2020: € 765.3 million**  
(cumulative use in National Declaration 2016: € 28.5 million)

### Financial volume in National Declaration 2016 (in millions of euros)



## ERDF



European Regional Development Fund (ERDF)



### Object

To reduce the main economic disparities between European regions



### Supports

- Structural employment and competitiveness in European regions
- Territorial cooperation within the EU
- The faster development of the least developed member states and regions

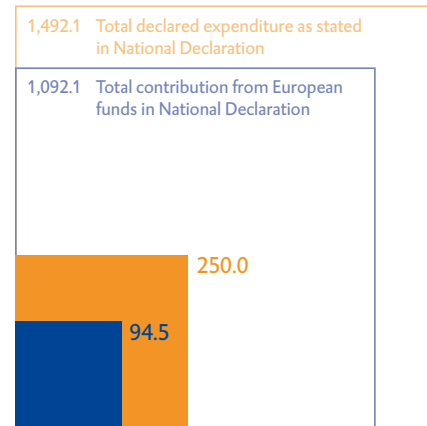


### Responsible for the use of the ERDF in the Netherlands

State Secretary for Economic Affairs

**ERDF budget 2007-2013: € 830.0 million**  
(cumulative use in National Declaration 2016: € 663.4 million)

### Financial volume in National Declaration 2016 (in millions of euros)



## ESF



### Financial volume in National Declaration 2016 (in millions of euros)



#### Object

To promote employment in the EU member states



#### Supports

- Employment
- An inclusive labour market in which all can participate to the best of their ability
- The deployability of employees, investments in human capital

European Social Fund (ESF)

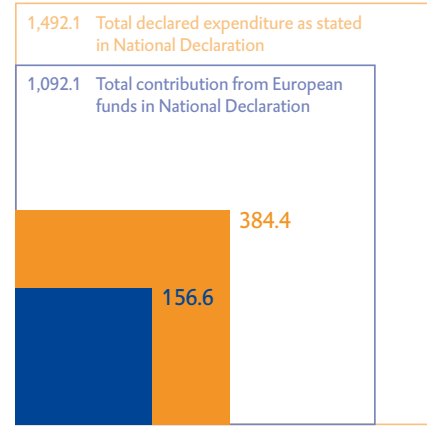


#### Responsible for the use of the ESF in the Netherlands

State Secretary for Social Affairs and Employment

**ESF budget 2007-2013: € 830.0 million**

(cumulative use in National Declaration 2016: € 672.2 million)



■ Contribution from ESF ■ Declared expenditure from ESF

## EFF



### Financial volume in National Declaration 2016 (in millions of euros)



#### Object

To promote the maintenance and sustainable exploitation of natural marine resources



#### Supports (among others)

- To promote the maintenance and sustainable exploitation of natural marine resources
- To promote the sustainable development of inland fisheries
- To support the development of economically feasible businesses in the fisheries sector

European Fisheries Fund (EFF)



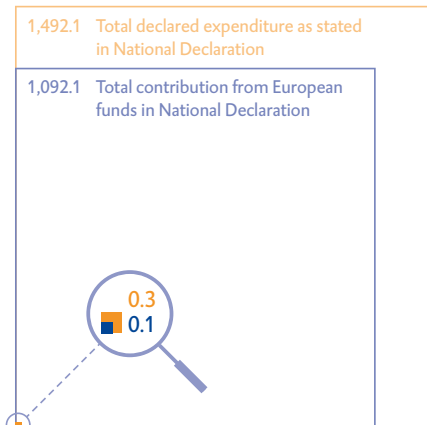
#### Responsible for the use of the EFF in the Netherlands

State Secretary for Economic Affairs

**EFF budget 2007-2013: € 48.6 million\***

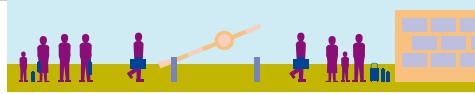
(cumulative use in National Declaration 2016: € 32.4 million)

\*reduced to € 43.3 million in 2015



■ Contribution from EFF ■ Declared expenditure from EFF

## ERF



### Financial volume in National Declaration 2016 (in millions of euros)



#### Object

To finance projects to receive and integrate asylum seekers and refugees



#### Supports

- Conditions to receive asylum seekers and asylum procedures
- Integration of refugees
- Increase the EU member states' capacity to develop asylum policy
- Relocation of refugees
- Transfer of refugees from one member state to another

European Refugee Fund (ERF)

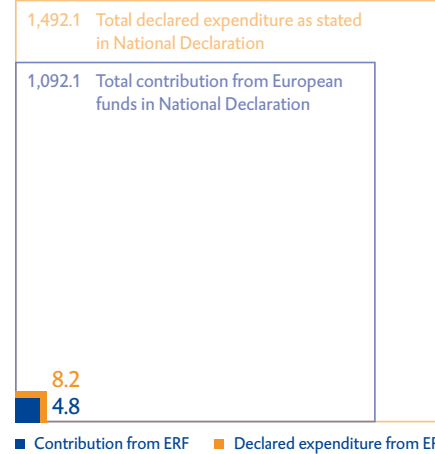


#### Responsible for the use of the ERF in the Netherlands

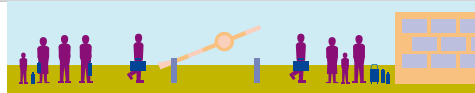
State Secretary for Security and Justice

#### ERF budget 2007-2013: € 29.0 million

(cumulative use in National Declaration 2016: € 18.4 million)



## RF



### Financial volume in National Declaration 2016 (in millions of euros)



#### Object

To assist migrants who cannot or do not wish to stay in the Netherlands return to their own countries



#### Supports

- The organisation of the return process
- Stronger cooperation among member states in the return process
- The effective and uniform application of common return standards

European Return Fund (RF)

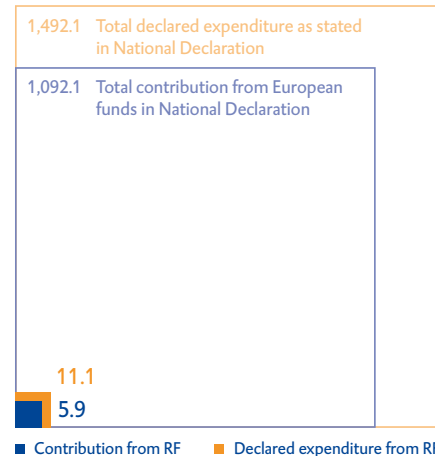


#### Responsible for the use of the RF in the Netherlands

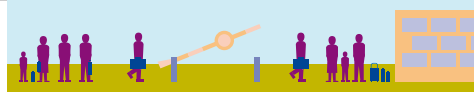
State Secretary for Security and Justice

#### RF budget 2007-2013: € 30.8 million

(cumulative use in National Declaration 2016: € 15.5 million)



## EBF



### Financial volume in National Declaration 2016 (in millions of euros)



#### Object

To control external borders through customs, security and visa policy but also to promote respectful, humane treatment of people who cross external borders illegally



#### Supports

- Efficient control of secure external borders
- Respectful and humane management of people at the border so as to maintain a high security level and smooth border crossings in accordance with the Schengen agreement
- The equal application of conditions at border crossings under Community law

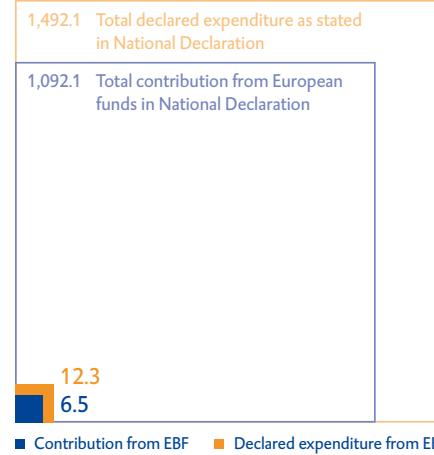
External Borders Fund (EBF)



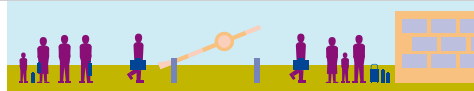
#### Responsible for the use of the EBF in the Netherlands

State Secretary for Security and Justice

**EBF budget 2007-2013: € 38.0 million**  
(cumulative use in National Declaration 2016: € 17.0 million)



## EIF



### Financial volume in National Declaration 2016 (in millions of euros)



#### Object

To stimulate common EU policy to receive and integrate immigrants in the EU



#### Supports

- Simplified admission procedures
- Integration of newcomers from countries outside the EU
- Development, implementation, monitoring and evaluation of the EU member states' capacity for integration policy

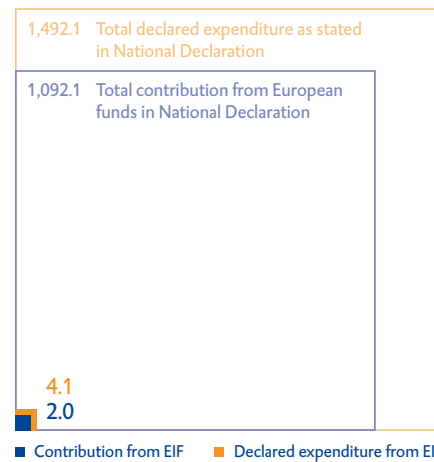
European Integration Fund (EIF)



#### Responsible for the use of the EIF in the Netherlands

Minister of Social Affairs and Employment

**EIF budget 2007-2013: € 18.1 million**  
(cumulative use in National Declaration 2016: € 9.2 million)



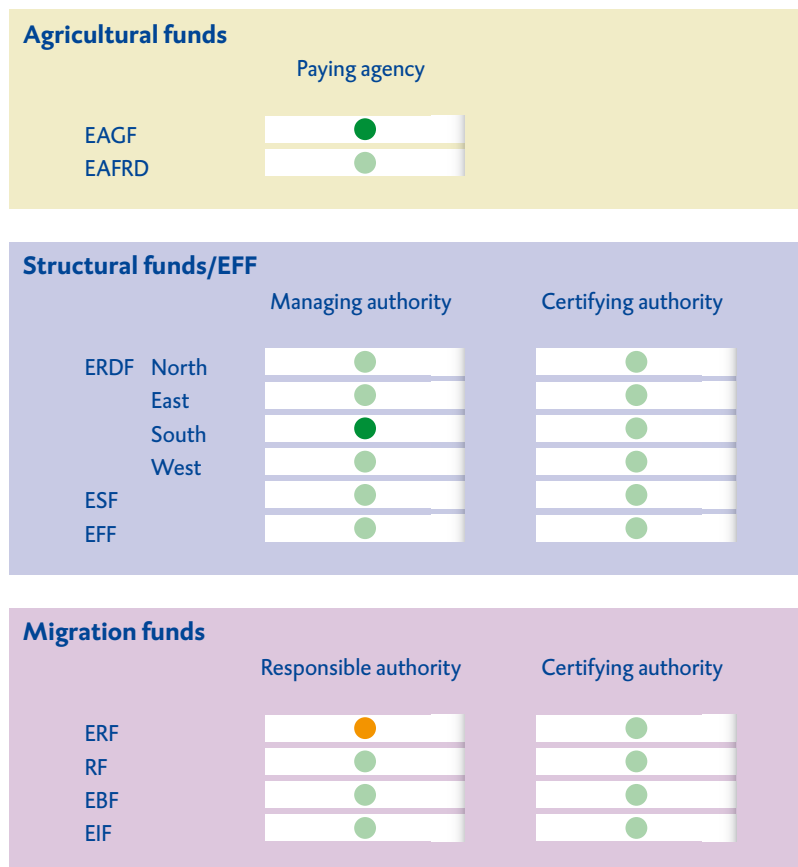
### 3 Opinion on the management and control systems

In our opinion, the assertion made in the National Declaration 2016 is sound with regard to the functioning of the management and control systems (and the measures they contain) in place in the Netherlands for the transactions financed from the EU funds accounted for in the National Declaration 2016.

#### 3.1 Functioning of the management and control systems

Figure 3.1 shows that the management and control systems of all funds functioned adequately during the period audited. An exception is the ERF. Improvements can still be made, however, in most of the funds. In contrast to the previous year, the EFF systems functioned adequately, whereas the ERF system functioned less adequately than in the previous year (due to an incidental error).

Figure 3.1 Functioning of management and control systems



- system functions well, minor improvements necessary
- system functions adequately, some improvements necessary

See also Appendix II, Audit methodology

Below, we consider the improvements that can be made in each fund.

### 3.2 Points for improvement in the agricultural funds

We concluded from our audit that the management and control systems we reviewed for the EAGF and EAFRD agricultural funds functioned adequately during the period concerned. We found, however, as we had in the previous year, that some of the administrative checks of grants awarded to improve the quality of rural life (EAFRD) needed strengthening. The paying agency began implementing an improvement plan in mid-2015. It is still too early to draw any conclusions on its impact. We found that the number of irregular payments from the EAFRD for nature and landscape management should be further reduced, e.g. by having farms comply better with the agreed management rules. Additional measures are also needed in this area.

These conclusions are considered below. The following points are also considered in the notes to the funds on our website:

- improve checks of producer organisations (EAGF);
- accelerate delivery of some of the results of on-the-spot checks (EAFRD);
- timely receipt of amounts receivable from grant recipients (EAFRD).

#### 3.2.1 Administrative checks of EAFRD rural development projects

The EU invests in the quality of rural life through the EAFRD. The investments must be cofinanced by national governments.

##### Examples of projects financed from the EAFRD

A project was financed to build a cycle and walking network between Maastricht and Valkenburg to strengthen the recreational function of the countryside in the province of Limburg. Another project involved the construction of four tunnels under the N48 road between Hoogeveen and Ommen to create safe passage for agricultural and other local traffic. The goal was to strengthen the agricultural infrastructure in the province of Drenthe.

The paying agency, the Netherlands Enterprise Agency (RVO), made the payments in accordance with EU rules and carried out administrative checks of funding applications and payment applications. The quality of some of these checks – of grants paid to public authorities and non-governmental organisations – was inadequate during a large part of 2015. As a result, irregular payments could have been made. They were not, however,



because the RVO subsequently requested missing documents from the beneficiaries to ensure that the payments had been regular (see box).

#### Example of poor administrative check

Contract award procedures have been introduced to give enterprises in the EU an equal opportunity to bid for public contracts. When an application is made for EU funding, the RVO checks whether public contracts have been awarded in compliance with the rules. The documents necessary to establish that contracts had been awarded correctly were missing in several dossiers. To check the regularity of payments, the RVO had to request the missing documents from the grant recipients.

The RVO drafted an improvement plan to address the shortcomings in the administrative checks. Implementation of the plan began in June 2015. Most of the expenditure for the 2015 claim year (16 October 2014 to 15 October 2015), however, had already been incurred by then. The plan, which we approve of, must still prove its worth. We will look at its effectiveness in our next audit.

#### Recommendation:

*We recommend that the State Secretary for Economic Affairs have the RVO monitor the results of the improvement plan.*

### 3.2.2 On-the-spot checks of agricultural nature and landscape management

The RVO also awards grants from the EAFRD to agricultural undertakings to carry out nature and landscape management projects. These projects must be cofinanced by the relevant provincial authorities. On behalf of the RVO, the Netherlands Food and Consumer Product Safety Authority (NVWA) carries out on-the-spot samples to check compliance with the grant conditions, for instance to establish that an agricultural undertaking has observed the management rules or that the agreed nature goals have been achieved. In the following two examples of on-the-spot checks, the NVWA found that the beneficiary had not complied with the grant conditions.

#### Example of non-compliance with management rules

An agricultural undertaking had agreed a management package for a 'floral field border' with the province of South Holland. The key measure in the package was to maintain the plant species that were already present. Grassland improvement, fertilising and slurry spraying were forbidden as they reduced the quality of nature. The NVWA found liquid animal manure on one edge of the field. In accordance with the grant regulations, the RVO reduced the grant for that field edge by 100%.

### Example of failure to achieve agreed nature goal

An agricultural undertaking agreed a management package to 'maintain herb-rich pasture'. One of the conditions was that at least 15 native plant species had to be present in an area of 25 square metres at the end of the management period. The NVWA found that the agricultural undertaking had taken the right management measures but had not achieved the target for native species. In accordance with the grant conditions, the RVO reduced the grant by 15%.

Experience shows that external factors reduce an agricultural undertaking's ability to achieve the ultimate nature improvements. Provincial grant schemes have therefore not included nature goals since 2010. There has accordingly been a steady decline in the number of management packages with a nature goal in recent years (management packages are agreed for a period of six years). The provinces have partially succeeded in their aim of reducing the number of irregular payments. An analysis of the NVWA's sample checks, however, found that many grant payments for agricultural nature and landscape management projects were still irregular. To reduce their number even further and ensure that beneficiaries comply with the grant conditions, additional measures are needed alongside the changes that have already made to provincial grant schemes.

#### Recommendation:

*We recommend that the State Secretary for Economic Affairs have the RVO and provinces analyse the causes of non-compliance with management rules and take appropriate measures.*

### 3.3 Points for improvement in the European Regional Development Fund

We concluded from our audit that the management and control systems we reviewed for the ERDF functioned adequately during the period audited. However, we identified three important areas for improvement.

- There have been problems in the cooperation between the ERDF authorities for several years. Many of these problems relate to differences in the interpretation of regulations. There is also regular disagreement concerning the depth of the audit authority's audits. An improvement programme was launched in 2015. Better cooperation is necessary to close the 2007-2013 programming period and start the 2014-2020 programming period correctly.
- A great deal of audit work still needs to be performed to close the ERDF East and West programmes. The authorities will have to claim comparatively high amounts for these programmes at a relatively late date in 2016. In order not to miss out on EU funding for ERDF projects, the authorities should check and claim the costs in good time.

- The European Commission is currently studying how the certifying authority accounts for financial corrections (amounts withdrawn) in an annual statement. According to the European Commission, the Netherlands has not disclosed these amounts correctly in recent years and the certifying authority should restate them. This has led to the Commission suspending payments for the ERDF West programme. This creates an additional risk to the timely reimbursement of costs for ERDF West.

These conclusions are considered below. The following points are also considered in the notes to the funds on our website:

- improvements in the management verifications performed by the managing authority for ERDF West and in the IT systems of all managing authorities;
- improvements in documentation of the audit trail and performance of certifying procedures by the certifying authority;
- stricter standards on the eligibility of costs.

### 3.3.1 Improvement path for cooperation among ERDF authorities

The ERDF is implemented locally by four regional managing authorities. Their work frequently has to be coordinated with the central certifying authority, the audit authority and the Ministry of Economic Affairs (which has systemic responsibility for implementation). We have been reporting for several years that cooperation between these parties is problematic. The problems were not resolved last year. One of the main problems is differences in the interpretation of regulations. The audit authority verifies compliance with the regulations and in some cases its understanding is stricter than the managing authority's and the certifying authority's.

#### Example of difference in the interpretation of regulations: the 1,650 hours standard in wage cost claims

The regional managing authorities and the central audit authority have had a long difference of opinion on how to calculate an hourly wage rate when claiming wage costs (the 1,650 hours standard). This has been one of several persistent problems where the authorities cannot agree on the interpretation of the regulations. To date, all the steps they have taken to resolve it (discussions during regular consultative meetings, mediation procedure, request for external advice) have been to no avail. The protracted disagreement is a source of uncertainty, delays and confusion. The disagreement arises if an employee works more hours on a project than the standard 1,650 hours and charges only some of the hours to an ERDF project. Giving total wage costs of €82,500, an hourly wage rate of €50 could then be claimed, based on the 1,650 hour standard. If the employee works 2,000 hours on the ERDF project, there is no disagreement: the managing authority approves the wage costs up to maximum of €82,500. If 1,000 hours are spent on ERDF activities and 1,000 hours on other activities, the managing authority will approve

$1,000 \times 50 = 50,000$ . But under EU rules, the costs must be allocated proportionately and the audit authority will recognise only  $1,000 \times (1,650/2,000) \times 50 = 41,250$  as eligible and will make a correction of € 8,750.

There is then a discussion about both the interpretation of the rules themselves and the audit authority's power to interpret the rules. Moreover, there is regular disagreement about the depth of the audit and the resultant audit burden: what has to be audited and what supporting documents must the beneficiary provide? In some cases, moreover, the audit authority reports its audit findings at a relatively late stage. If the managing authority disagrees with them, the friction only increases.

In such cases the parties concerned must agree on an effective dispute resolution mechanism. They have not yet done so, however, and differences of opinion in the recent past have led to the Ministry of Economic Affairs providing a lot of external advice (known as 'mediations' although there has been no mediation). But this has not brought a real solution and has tended to cause delays and conflicts. The audit authority often stuck to its own position, referring to the requirements set by the European Commission. According to the Commission, the audit authority must form an independent opinion. The current procedure will therefore be replaced but there is no agreement on a new procedure as yet. The audit authority also regularly consults the Commission directly about differences of interpretation. It does not always do so in writing and the parties concerned do not always put their questions jointly. The consultation often does not resolve the dispute because not all the parties concerned accept the outcome.

The parties concerned need to resolve their differences quickly so that they can close the 2007-2013 programming period and open the new 2014-2020 programming period punctually and effectively.

The Ministry of Economic Affairs had an external committee, the Good Services Committee, report on the problems in the cooperation among the authorities. Friction in their collaboration and communication is a recurring theme. We recognise the experiences and problems. Three working groups must report before the summer of 2016 on how project implementation and control can be improved and how the regulations can be limited.

*Recommendation:*

- *We recommend that the State Secretary for Economic Affairs give a strong signal to make real improvements in the cooperation among the ERDF authorities to complement the steps*

already proposed in the Good Services Committee's report. The improvements should in any event include:

- speedy introduction of a dispute resolution mechanism supported by all parties, with disputes being submitted to independent experts in accordance with an agreed procedure and subject to deadlines, after which the audit authority forms its opinion (as in the case of the EFF). The mechanism should also allow for agreements on the procedure if it is necessary to consult the European Commission (joint question setting and transparent procedure);
- speedy resolution of the disputes still outstanding that are preventing the smooth closure of the 2007-2013 programming period;
- timely completion of the audit authority's project audits with adequate time for clearance procedures;
- better working agreements among the authorities on, for instance, the interpretation of regulations, communication and reliance on each other's audit work;
- improvements in the information provided to beneficiaries on audit requirements and the audit protocol and improvements in the managing authority's ex ante checks of whether the beneficiaries can satisfy the requirements;
- the beneficiaries' use of standard costing in order to simplify audit.

### 3.3.2 Closure of the 2007-2013 programming period

To close the seven-year programming period, the managing authorities must submit their final payment applications to the European Commission in 2016. At the end of 2015, the ERDF East and West programmes still had to submit the most applications. In the eighth and final claim year, 2016, East must still claim € 39.6 million (25% of the available ERDF budget) and West must claim € 55.3 million (18%).

#### The closure procedure

The ERDF, like the ESF and the EFF, is implemented over a seven-year period. The member states must close the 2007-2013 programming period in 2017. The managing authorities must submit the final claims for funded projects to the European Commission in 2016. They can only do so after the certifying authority has certified the payment application. The managing authorities will include a buffer (about 10% for the ERDF) in the final claims to compensate for any costs that are later declared irregular. After submitting the payment applications, the audit authority then audits them by means of random sampling. The earlier the applications are made, the better the audit authority can perform its work and the more time it has to carry out its checks and the clearance procedure. The audit authority must issue its final audit report and an opinion on the closure no later than 31 March 2017. The Commission has recommended that the final payment

### The closure procedure

applications be submitted no later than 30 June 2016 so that the audit authority has sufficient time to carry out its closing work. At the same time the authorities must also carry out audit work for the new programming period (2014-2020). Capacity problems may therefore arise.

The ERDF East managing authority must still submit two payment applications, with the final application planned for June/July 2016. If the managing authority and the audit authority interpret the regulations differently, submission of the – substantial – payment applications could be delayed. The ERDF East managing authority has stated that differences of interpretation prevented it from submitting payment applications in 2015.

The ERDF West managing authority must still submit at least two payment applications. The final one is planned in or after the summer of 2016. There is a risk of the final grants not being approved owing to the substantial audit work that must be carried out, especially on projects that have been delayed.

No hard agreements have been made on the number of payment applications and the proposed submission dates for the ERDF programmes. Only intentions have been aired. By way of comparison, ERDF North still has to claim € 21.2 million (12%) and South still has to claim € 14.1 million (8%). They will also submit their final payment applications in early 2016. No problems are expected here and the final checks to close the programmes should be completed on time.

#### *Recommendation:*

*We recommend that the State Secretary for Economic Affairs monitor the timely and correct submission of the final payment applications in 2016 so that the audit authority has sufficient time to carry out its closing audit work.*

### 3.3.3. Financial corrections

In 2015, the European Commission studied how the Netherlands had dealt with financial corrections ('amounts withdrawn') in its cost claims. The Commission found that the certifying authority had not disclosed these amounts in full in an annual statement. The Commission had not completed its study when this report went to press. None of the authorities involved in the Netherlands agreed with the Commission's interpretation of how the corrections should be accounted for. The Dutch authorities said the accounting method had been agreed with the Commission in previous years. Nevertheless, the Commission was obliging the member state to change it.

Regarding ERDF West, the Commission's findings led to a temporary suspension of payments. The Commission thought that irregularities that had not been corrected by the end of the programming period, as disclosed by the financial statements submitted to it, exceeded 2%. The ERDF West managing authority has already made all necessary changes in the payment applications and the audit authority referred to the corrections in the annual audit report it submitted to the European Commission. Not all the corrections, however, had been included in the financial statements. It is thought that the payment suspension will be quickly lifted once the statements have been corrected. Until then, the Commission will not deal with payment applications made by the ERDF West managing authority. We pointed out the risk of late submissions in the ERDF West programme in the previous section.

#### Note on amounts withdrawn

The managing authority of a multiannual project submits payment applications during project implementation. If it or the audit authority finds an irregular payment in a claim that has already been submitted to the Commission, the managing authority will deduct a corresponding amount from the next payment application. On balance, therefore, the managing authority does not claim too much from the Commission and there is no receivable from the beneficiary. A receivable can arise only after a grant and the project's final settlement have been decided upon. The Commission uses the statement of amounts receivable and withdrawn (Appendix XI) at the end of the programming period to calculate the cumulative percentage of irregularities (errors not corrected).

#### Recommendation:

*We recommend that the State Secretary for Economic Affairs have the appendix on financial corrections restated on a timely and adequate basis in accordance with the European Commission's wishes so that the payment suspension is quickly lifted and the final payment applications for ERDF West can be submitted on time.*

### 3.4 Points for improvement in the European Social Fund

We concluded that the management and control systems that we audited for the ESF functioned adequately during the period concerned. We would note that a great deal of work still needs to be done to close the programming period.

These conclusions are considered below. The following points are also considered in the notes to the funds on our website:

- improvements in management verifications, documentation of the audit trail and reliability of IT systems at the managing authority;

- improvements in documentation of the audit trail, performance of certifying procedures and checks of amounts receivable and withdrawn by the certifying authority.

### 3.4.1 Closure of the 2007-2013 programming period

Before the seven-year programming period is closed, the managing authority (the Social Affairs and Employment Agency) can still claim € 109.7 million (13% of the available ESF budget) from the European Commission in 2016 – the eighth and final claim year. The managing authority is seeking to minimise, subject to the regulations, the risk of losing funding (i.e. the decommitment of funds), for example by studying whether overruns and underruns on different projects can be set off against each other.

The audit authority has regularly pointed out the need for the managing authority to deal with final claims and to shorten the processing time. The managing authority also referred to this in its annual report as a point for improvement. With the end of the programming period approaching, it is particularly important that applications are dealt with promptly. The managing authority wants to submit three or four payment applications in 2016, with the final (relatively small) application planned for relatively late in the year, at the end of October 2016 at the latest.

The managing authority, the certifying authority and the audit authority still needs to perform a great deal of work to close the programming period by the end of March 2017 (see box in section 3.3.2). To close the programming period on time and ensure that part of the EU funding of ESF projects is not lost, clear working agreements have been made between the authorities. They include hard agreements on the deadlines to submit payment applications. We agree that the authorities are right to draw attention to his matter.

#### *Recommendation:*

*We recommend that the State Secretary for Social Affairs and Employment ensure compliance with the agreements made on the timely and correct submission of the final payment applications in 2016 so that there is enough time for the audit authority to carry out its closing audit work.*

## 3.5 Points for improvement in the European Fisheries Fund

We concluded that the management and control systems that we audited for the EFF functioned adequately during the period concerned. This is an improvement on the previous year. We would note, though, that a great deal of work must still be performed to close the programming period. The managing authority must still claim a relatively



substantial amount of costs, many at a relatively late date in 2016. There is a risk that the authorities will not be able to claim all costs on time and EU funding for fisheries projects will be lost. Despite the improvements in the management and control systems, further improvements can still be made.

These conclusions are considered below. The following point is also considered in the notes to the funds on our website: improvements in documentation of the audit trail, performance of certifying procedures and checks of amounts receivable and withdrawn by the certifying authority.

### 3.5.1 Closure of the 2007-2013 programming period

After years of many problems, the managing authority (the Animal Agrichains and Animal Welfare Department (DAD) of the Ministry of Economic Affairs) made improvements to the management and control systems in 2015. The audit authority qualified the improved system as adequate and in December 2015 the European Commission lifted the payment suspension introduced in 2014. Many points in all areas of the management and control system, however, are still open to further improvement. The managing authority can improve its own checks (management verifications) in several areas. Examples include the depth and documentation of the checks, staff training and supervision and the necessary increase in the number of on-the-spot checks.

To close the seven-year programming period in 2016, the managing authority must still declare € 12 million to the European Commission. This means 28% of the available EFF budget must still be received in the final claim year. The managing authority wants to submit three payment claims in 2016. The final application is planned for relatively late in the year, in September. All three authorities therefore still have to perform a great deal of work. The dates planned for the submission of payment applications are intentions, not hard agreements. Owing to the late submission of a relatively substantial number of large payment applications and the many time-consuming audit procedures (see box in section 3.3.2), there is a risk that the Netherlands will miss out on EU funding for fisheries projects. Timely closure and sufficient time for audit and clearance procedures are important.

The EFF has faced serious problems in recent years. The management and control systems functioned inadequately and the error rate was very high, in excess of 20% in the past two years. The European Commission suspended payments in 2014 and requested an improvement plan. An amount of € 5.3 million in EFF funds (out of a total budget of € 48.6 million) went unpaid in 2015. The managing authority drew up an action plan in 2014 and

implemented it in 2015. In 2014, the managing authority did not claim any costs for funded EFF projects from the European Commission in order to avoid the problem of irregular funding.

*Recommendation:*

*We recommend that the State Secretary for Economic Affairs ensure that:*

- *the final payment applications are submitted on time and correctly in 2016 so that there is enough time for the audit authority to carry out its closing audit work;*
- *the remaining improvements are made in the managing authority/ intermediate body's systems as soon as possible, in particular in the management verifications so that these authorities can close the programme correctly.*

### 3.6 Points for improvement in the migration funds

We concluded that the management and control systems that we audited for the RF, EBF and EIF functioned adequately during the period concerned. The systems in place for the ERF did not function adequately, as the error rate was higher than the 2% threshold.

We consider these conclusions below. We have no further comments on the migration funds.

#### 3.6.1 Functioning of the ERF management and control system

The audit authority concluded that the managing authority's management and control system for the ERF essentially did not function last year. The reason was that there were too many irregular payments (more than 2%, see next chapter). This high error rate was due chiefly to a relatively large, non-recurring error on one project. The same management and control system in place for the three other migration funds essentially functioned adequately. We therefore think the ERF's system should be described as 'system functions partially, substantial improvements necessary' (see figure 2.1). The 2007-2013 programming period for the migration funds has now been closed.

## 4 Opinion on the financial transactions

*In our opinion the assertion on financial transactions made in the National Declaration 2016 is sound down to the level of final beneficiaries of EU funding.*

The financial transactions are the grants awarded to beneficiaries (net of receipts, i.e. corrections to expenditures). The European Commission wants to know whether EU funds are awarded to beneficiaries in accordance with its rules and conditions. To this end, the member states must have effective management and control systems and do everything they can to prevent and recover irregular payments.

The European Commission imposes sanctions if the percentage of irregular payments exceeds 2%. One sanction is to suspend further payments. We therefore report error rates in excess of 2%, as disclosed in the National Declaration itself.

Table 4.1 summarises the opinions on the reported error rates in expenditure. The amounts receivable do not include material irregularities.

**Table 4.1** Opinions on error rates in expenditure

Expenditure	Irregularities*
Agricultural funds	Less than 2%
ERDF	Less than 2%
ESF	Less than 2%
EFF	Less than 2%
ERF	4.46%
RF	Less than 2%
EBF	Less than 2%
EIF	Less than 2%

\* Tolerable error rate = 2%

The excessively high error rate in the ERF is explained in section 3.6.1. The responsible authority acted on all the audit authority's findings before submitting the payment application to the European Commission. The explanatory notes to the funds on our website provide further information on the underlying financial information.

## 5 Opinion on preparation

*In our opinion the National Declaration 2016, as issued by the Minister of Finance on behalf of the government, was on the whole prepared in a sound manner.*

We have no further comment on this opinion.

## 6 Review of the Central Audit Service's work

The Central Audit Service (ADR) acts as the audit authority for all the funds (ERDF, ESF, EFF and the migration funds) and as the certifying authority for the agricultural funds. We reviewed its work to determine whether we could rely on its findings to form our own opinion. Our review confirmed that we could rely on the ADR's findings in its capacity as the audit authority and the certifying authority. We would draw the ADR's attention to the need for:

- further harmonisation and standardisation of similar activities at the various funds (e.g. audit documentation and internal review/quality control);
- timely completion of project audits, external hires and optimisation of audit documentation for the audit of the ERDF;
- improved audit documentation and stricter checks of public contract awards by the audit authority for the ESF.

Further information is provided in the explanatory notes to each fund on our website.

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

The Minister of Finance forwarded the government's response to our report on 25 April 2016. The Minister thanked us for our report. The government was pleased that our opinion had been favourable in recent years. Our opinion was positive again this year. The Minister's letter considered the points for improvement and indicated how the government would address them. The government's response is presented in full in section 7.1. The letter has also been posted on our website.

### 7.1 Response of the government to the Court of Audit's recommendations

#### **European Agricultural Fund for Rural Development (EAFRD)**

*Recommendation 1: We recommend that the State Secretary for Economic Affairs have the Netherlands Enterprise Agency (RVO) monitor the results of the improvement plan.*

The government accepts this recommendation. Administrative checks of the EAFRD were tightened up in 2015. The effectiveness of the stricter checks clearly falls within the scope of the RVO's monitoring of the EAFRD 2014-2020 programming period.

*Recommendation 2: We recommend that the State Secretary for Economic Affairs have the RVO and provinces analyse the causes of non-compliance with management rules and take appropriate measures.*

The government accepts this recommendation. The analysis has been carried out and the following causes have been identified. The applicants were asked to deliver results that proved unfeasible owing to factors beyond their control. Individual applicants, moreover, did not have the necessary understanding of the extensive management requirements. The following measures have been taken to address these causes. On the introduction of the Nature and Landscape grant scheme in 2010, the management requirements and the duty to deliver results were abolished. The government has also worked on an entirely new system for agricultural nature management in recent years that is based on professional partnerships to increase the sharing of management knowledge and thus raise compliance with the management conditions. The system was not introduced until 2016 and results are not expected until the end of the year.

## European Regional Development Fund (ERDF)

*Recommendation 3: We recommend that the State Secretary for Economic Affairs give a strong signal to make real improvements in the cooperation among the ERDF authorities to complement the steps already proposed in the Good Services Committee's report. The improvements should in any event include:*

- *speedy introduction of a dispute mechanism supported by all parties, with disputes being submitted to external experts in accordance with an agreed procedure and subject to deadlines, after which the audit authority forms its opinion (as in the case of the EFF). The mechanism should also allow for agreements on the procedure if it is necessary to consult the European Commission (joint question setting and transparent procedure).*

The government accepts this recommendation. On behalf of the managing authorities (MAs), the audit authority (AA), the certifying authority (CA) and the Ministry of Economic Affairs (EZ), the Good Services Committee issued a report in August 2015 containing recommendations to improve management and audit of the ERDF in the Netherlands. The government sees the Court of Audit's recommendations as support for the improvements already set in motion by the Good Services Committee. All parties (AA, CA, MA, EZ) are working together on the improvements, while continuing to bear their own responsibilities, to arrive at a solution to the current problems. The improvements include the rapid introduction of a widely-supported dispute resolution mechanism, with the final opinion being given by the audit authority acting on an external recommendation. The improved resolution mechanism will also consider the experiences with the mechanism used for the European Fisheries Fund (EFF). This mechanism can also be used to make a joint approach to the European Commission if a difference of opinion cannot be resolved. The Commission's opinion would then be binding on all parties.

- *Speedy resolution of the disputes still outstanding that are preventing the smooth closure of the 2007-2013 programming period.*

The government recognises the importance of resolving the remaining disputes as soon as possible. All parties are working hard to reach a solution in the near future so that the 2007-2013 programming period can be closed smoothly and assurance can be given to the beneficiaries regarding the 2014-2020 programme.

- *Timely completion of the audit authority's project audits with adequate time for clearance procedures.*

The government recognises the importance of completing project audits on time and allowing enough time for clearance procedures. The audit authority has taken measures to guarantee the completion of project audits, subject to the managing authorities' timely submission of the payment applications. If the condition is fulfilled there will be sufficient time for the clearance procedure.

- *Better working agreements among the authorities on, for instance, the interpretation of regulations, communication and reliance on each other's audit work.*

The government accepts this recommendation and sees it as support for measures that have already been taken. In the light of the ERDF improvement plan and further to the Good Services Committee's report, various working groups (a Regulations working group, an Organisation working group and a working group to optimise the control chain) were already attempting to clarify and improve the interpretation of regulations and the organisation of the control chain. A working group on cross-cutting points was improving communication and cooperation.

- *Improvements in the information provided to beneficiaries on audit requirements and the audit protocol and improvements in the managing authority's ex ante checks of whether the beneficiaries can satisfy the requirements.*

The government accepts this recommendation. Project beneficiaries will be better informed in the 2014-2020 period. The managing authority will publish a detailed ERDF manual to inform all beneficiaries as fully as possible of the conditions and requirements they must fulfil. The managing authority will run through a checklist before awarding a grant to make sure the conditions have been satisfied. The provision of personalised information will also be a standard task of the managing authority and a key requirement (essential control measure) of the managing authority's system that the audit authority will assess. The working group on optimising the control chain for the ERDF is also working on a more transparent control process.



- *The beneficiaries' use of standard costing in order to simplify audit.*

The government recognises the benefit of standard costing to simplify controls. Wages account for the greater part of the costs incurred for ERDF projects. The Ministry of Economic Affairs' European Grant Regulations allows simplified costing to be used only to calculate eligible wage costs. Should standard costing be allowed for other cost items in the future, the government will use this option.

*Recommendation 4: We recommend that the State Secretary for Economic Affairs monitor the timely and correct submission of the final payment applications in 2016 so that the audit authority has sufficient time to carry out its closing audit work.*

The government recognises the importance of submitting the final payment applications on time and correctly. All parties involved have prioritised the timely submission of the final payment applications for the 2007-2013 programming period. They will attempt to submit them as soon as possible and for as much as possible. The North managing authority has already submitted its final payment application to the Commission. The South managing authority is planning to follow the Commission's advice and submit its payment applications no later than 30 June 2016. The West managing authority will submit its final application to the Commission no later than 31 July 2016 and the East managing authority is expected to do so in September 2016. The Ministry of Economic Affairs will consult the managing authority and the certifying authority to discuss whether the process can be brought forward and what other solutions can ensure that the audit authority is able to complete its audit correctly before the final date of 31 March 2017.

*Recommendation 5: We recommend that the State Secretary for Economic Affairs have the appendix on financial corrections restated on a timely and adequate basis in accordance with the European Commission's wishes so that the payment suspension is quickly lifted and the final payment applications for ERDF West can be submitted on time.*

The government recognises the importance of restating the appendix on financial corrections so that the payment suspension can be lifted. The West managing authority submitted a restated appendix with financial corrections for 2014 and the appendix for 2015 on 10 March 2016. The European Commission lifted the payment suspension on 5 April 2016. The payment applications submitted by the West managing authority are now being processed in the customary manner again.

## European Social Fund (ESF)

*Recommendation 6: We recommend that the State Secretary for Social Affairs and Employment ensure compliance with the agreements made on the timely and correct submission of the final payment applications in 2016 so that there is enough time for the audit authority to carry out its closing audit work.*

The government accepts this recommendation. The Social Affairs and Employment Agency has released additional capacity for the closing audit procedures. The final claims will be dealt with on time so that the payment applications can be submitted on time. To ensure the work for the 2007-2013 programming period is rounded off on time, as you recommend in your report, the managing authority, the certifying authority and the audit authority have drawn up a procedure with a time line.

## European Fisheries Fund (EFF)

*Recommendation 7: We recommend that the State Secretary for Economic Affairs ensure that:*

- *the final payment applications are submitted on time and correctly in 2016 so that there is enough time for the audit authority to carry out its closing audit work.*

The government accepts this recommendation. All parties have worked on an action plan to close the fund. The managing authority will ensure that all deadlines agreed in the plan are met. The plan's progress will be monitored every month. Agreements have also been made on the timely escalation of any differences of opinion. The final payment applications are planned for submission to the European Commission in September 2016.

- *The remaining improvements are made in the managing authority/ intermediate body's systems as soon as possible, in particular in the management verifications so that these authorities can close the programme correctly.*

The government accepts this recommendation. Key frameworks were adapted at the end of 2015, particularly for the management verifications. The current project audits must show whether the improvements to the system are adequate. Periodic progress talks are held between the managing authority and the intermediate body, the RVO. All parties concerned have held monthly talks since April 2016 to discuss the progress of the closure of the EFF.

## 7.2 Court of Audit's afterword

We are pleased the government accepts or recognises the importance of our recommendations regarding the National Declaration 2016 and will take or has already taken improvement measures. Steps have therefore been taken for the timely closure of the 2007-2013 programming period. In our first recommendation regarding the EAFRD, we assumed that monitoring the impact of improvements in administrative checks would affect not only the 2014-2020 programming period but also the 2007-2013 period.

We think the government's undertakings for the 2014-2020 programming period will contribute to maintaining an orderly management and control of EU funds. The National Declaration is a suitable instrument for the government to account for EU funds. Their orderly management and control means more attention could be paid to the added value of the projects. The National Declaration could then be used to shed light on the use of EU funds to achieve the greatest social impact.

## Appendix 1

### Conclusions recommendations and points for attention

#### Conclusions, recommendations, response of the government and afterword

##### 1 Agricultural funds (ERDF and EAFRD)

<b>Conclusion</b>	<b>Administrative checks of the EAFRD need strengthening*</b>
Recommendation	(To the State Secretary for Economic Affairs) Have the Netherlands Enterprise Agency monitor the improvement plan.
Response of the State Secretary	The State Secretary accepts the recommendation. Administrative checks were tightened up in 2015. Their effectiveness falls within the scope of the Netherland Enterprise Agency's monitoring of the EAFRD in the 2014-2020 programming period.
Court of Audit's afterword	We assumed that monitoring the impact of improvements in administrative checks would affect not only the 2014-2020 programming period but also the 2007-2013 period.
<b>Conclusion</b>	<b>Compliance with agricultural nature and landscape management regulations must be improved.</b>
Recommendation	(To the Secretary of State for Economic Affairs) Have the provinces and the RVO analyse the causes of non-compliance with management rules and take appropriate measures.
Response of the State Secretary	The State Secretary accepts the recommendation. The analysis has been carried out and the following causes were identified. The applicants were asked to deliver results that proved unfeasible owing to factors beyond their control. Individual applicants, moreover, did not have the necessary understanding of the extensive management requirements. The following measures have been taken to address these causes. On the introduction of the Nature and Landscape grant scheme in 2010, the management requirements and the duty to deliver results were abolished. The government has also worked on an entirely new system of agricultural nature management in recent years that is based on professional partnerships to increase the sharing of management knowledge and thus raise compliance with the management conditions. The system was not introduced until 2016 and results are not expected until the end of the year.

2 **ERDF**

Conclusion Cooperation in the ERDF must be improved	
Recommendation	<p>(To the State Secretary for Economic Affairs) Give a strong signal to make real improvements in the cooperation among the ERDF authorities to complement the steps already taken through the Good Services Committee's report. The improvements should in any event include:</p> <ol style="list-style-type: none"> <li>speedy introduction of a dispute mechanism supported by all parties, with disputes being submitted to external experts in accordance with an agreed procedure and subject to deadlines, after which the audit authority forms its opinion (as in the case of the EFF). The mechanism should also allow for agreements on the procedure on the procedure if it is necessary to consult the European Commission (joint question setting and transparent procedure).</li> <li>Speedy resolution of the disputes still outstanding and preventing the smooth closure of the 2007-2013 programming period.</li> <li>Timely completion of the audit authority's project audits with adequate time for clearance procedures.</li> <li>Better working agreements among the authorities on, for instance, the interpretation of regulations, communication and reliance on each other's audit work.</li> <li>Improvements in the information provided to beneficiaries on audit requirements and the audit protocol and improvements in the managing authority's ex ante checks of whether the beneficiaries can satisfy the requirements.</li> <li>The beneficiaries' use of standard costing in order to simplify audit.</li> </ol>

Conclusion Cooperation in the ERDF must be improved	
Response of the State Secretary	<p>The State Secretary accepts this recommendation. On behalf of the managing authorities (MAs), the audit authority (AA), the certifying authority (CA) and the Ministry of Economic Affairs (EZ), the Good Services Committee issued a report in August 2015 containing recommendations to improve the management and audit of the ERDF in the Netherlands. The government sees the Court of Audit's recommendations as support for the improvements already set in motion by the Good Services Committee. All parties (AA, CA, MA, EZ) are working together on the improvements, while continuing to bear their own responsibilities, to arrive at a solution to the current problems.</p>

Conclusion	Cooperation in the ERDF must be improved
	<p>a The improvements include the rapid introduction of a widely-supported dispute resolution mechanism, with the final opinion being given by the audit authority acting on an external recommendation. The improved resolution mechanism will also consider the experiences with the mechanism used for the European Fisheries Fund (EFF). This mechanism can also be used to make a joint approach to the European Commission if a difference of opinion cannot be resolved. The Commission’s opinion would then be binding on all parties.</p> <p>b The State Secretary recognises the importance of resolving the remaining disputes as soon as possible. All parties are working hard to reach a solution in the near future so that the 2007-2013 programming period can be closed smoothly and assurance can be given to the beneficiaries regarding the points mentioned for the 2014-2020 programme.</p> <p>c The State Secretary recognises the importance of completing project audits on time and allowing enough time for clearance procedures. The audit authority has taken measures to guarantee the completion of project audits, subject to the managing authorities’ timely submission of the payment applications. If the condition is fulfilled there will be sufficient time for the clearance procedure.</p> <p>d The State Secretary accepts this recommendation and sees it as support for measures that have already been taken. In the light of the ERDF improvement plan and further to the Good Services Committee’s report, various working groups (a Regulations working group, an Organisation working group and a working group to optimise the control chain) were already attempting to clarify and improve the interpretation of regulations and the organisation of the control chain. A working group on cross-cutting points was improving communication and cooperation.</p> <p>e The State Secretary accepts this recommendation. Project beneficiaries will be better informed in the 2014-2020 period. The managing authority will publish a detailed ERDF manual to inform all beneficiaries as fully as possible of the conditions and requirements they must fulfil. The managing authority will run through a checklist before awarding a grant to make sure the conditions have been satisfied. The provision of personalised information will also be a standard task of the managing authority and a key requirement (essential measure) of the managing authority’s system that the audit authority will assess. The working group on optimising the control chain for the ERDF is also working on a more transparent control process.</p>

<b>Conclusion</b>	
<b>Cooperation in the ERDF must be improved</b>	
	<p>f The State Secretary recognises the benefits of standard costing to simplify controls. Wages account for the greater part of the costs incurred for ERDF projects. The Ministry of Economic Affairs' European Grant Regulations allows simplified costing to be used only to calculate eligible wage costs. Should standard costing be allowed for other cost items in the future, the government will use this option.</p>

<b>Conclusion</b>	
<b>A great deal of work still needs to be done to close the 2007-2013 programming period.</b>	
<b>Recommendation</b>	<p>Monitor the timely and correct submission of the final payment applications in 2016 so that the audit authority has sufficient time to carry out its closing audit work.</p>
<b>Response of the State Secretary</b>	<p>The State Secretary for Economic Affairs recognises the importance of submitting the final payment applications on time and correctly. All parties involved have prioritised the timely submission of the final payment applications for the 2007-2013 programming period. They will attempt to submit them as soon as possible and for as much as possible. The North managing authority has already submitted its final payment application to the Commission. The South managing authority is planning to follow the Commission's advice and submit its payment applications no later than 30 June 2016. The West managing authority will submit its final application to the Commission no later than 31 July 2016 and the East managing authority is expected to do so in September 2016. The Ministry of Economic Affairs will consult the managing authority and the certifying authority to discuss whether the process can be brought forward and what other solutions can ensure that the audit authority is able to complete its audit correctly before the final date of 31 March 2017.</p>

<b>Conclusion</b>	
<b>Reports submitted to the European Committee on financial corrections must be restated</b>	
<b>Recommendation</b>	<p>Have the appendix on financial corrections restated on a timely and adequate basis in accordance with the European Commission's wishes so that the payment suspension is quickly lifted and the final payment applications for ERDF West can be submitted on time.</p>
<b>Response of the State Secretary</b>	<p>The State Secretary for Economic Affairs recognises the importance of restating the appendix on financial corrections so that the payment suspensions can be lifted. The West managing authority submitted a restated appendix with financial corrections for 2014 and the appendix for 2015 on 10 March 2016. The European Commission lifted the payment suspension on 5 April 2016. The payment applications submitted by the West managing authority are now being processed in the customary manner again.</p>

3

**ESF**

<b>Conclusion</b>	<b>A great deal of work must still needs to be performed to close the 2007-2013 programming period</b>
<b>Recommendation</b>	(To the State Secretary for Social Affairs and Employment) Ensure compliance with the agreements made on the timely and correct submission of the final payment applications in 2016 so that there is enough time for the audit authority to carry out its closing audit work.
<b>Response of the State Secretary</b>	The State Secretary for Social Affairs and Employment accepts this recommendation. The Social Affairs and Employment Agency has released additional capacity for the closing audit procedures. The final claims will be dealt with on time so that the payment applications can be submitted on time. To ensure the work for the 2007-2013 programming period is rounded off on time, as you recommend in your report, the managing authority, the certifying authority and the audit authority have drawn up a procedure with a time line.

4

**EFF**

<b>Conclusion</b>	<b>A great deal of work still needs to be performed to close the 2007-2013 programming period; there are still areas for improvement in management and control systems. *</b>
<b>Recommendation</b>	(To the State Secretary for Economic Affairs) Ensure that: <ul style="list-style-type: none"> <li>• The final payment applications are submitted on time and correctly in 2016 so that there is enough time for the audit authority to carry out its closing audit work.</li> <li>• The remaining improvements are made in the managing authority/ intermediate body's systems as soon as possible, in particular regarding the management verifications so that the authorities can close the programme correctly.</li> </ul>
<b>Response of the State Secretary</b>	The State Secretary for Economic Affairs accepts this recommendation. All parties have worked on an action plan to close the fund. The managing authority will ensure that all deadlines agreed in the plan are met. The plan's progress will be monitored every month. Agreements have also been made on the timely escalation of any differences of opinion. The final payment applications are planned for submission to the European Commission in September 2016. Key frameworks were adapted at the end of 2015, particularly for the management verifications. The current project audits must show whether the improvements in the system are adequate. Periodic progress talks are held between the managing authority and the intermediate body, the RVO. All parties concerned have held monthly talks since April 2016 to discuss the progress of the closure of the EFF.

\* We made a similar recommendation in our Report on the National Declaration 2015.





## Points for attention

1 Agricultural funds (EAGF and EAFRD)	
Points for attention	<ul style="list-style-type: none"> <li>• Improve checks of producer organisations and growers (EAGF)*</li> <li>• Bring forward the delivery of results of on-the-spot checks (EAGF and EAFRD).*</li> <li>• Recover undue payments from grant recipients on a timely basis (EAFRD).*</li> </ul>
2 ERDF	
Points for attention	<ul style="list-style-type: none"> <li>• Improvements in the management verifications performed by the managing authority for ERDF West and in the IT systems of all managing authorities.*</li> <li>• Improvements in documentation of the audit trail and performance of certifying procedures by the certifying authority.*</li> <li>• Stricter standards on the eligibility of costs.*</li> </ul>
3 ESF	
Points for attention	<ul style="list-style-type: none"> <li>• Improvements in management verifications, documentation of the audit trail and reliability of IT systems at the managing authority.</li> <li>• Improvements in documentation of the audit trail, performance of certifying procedures and checks of amounts receivable and withdrawn by the certifying authority.</li> </ul>
4 EFF	
Points for attention	<ul style="list-style-type: none"> <li>• Improvements in documentation of the audit trail, performance of certifying procedures and checks of amounts receivable and withdrawn by the certifying authority.*</li> </ul>

\* We highlighted similar points for attention in our Report on the National Declaration 2015 (2015b).

## Conclusions and recommendations from the National Declaration 2015, settled in current year

### 1 Agricultural funds (EAGF and EAFRD)

<b>Conclusion</b>	<b>Error rate in investment and project grants above 2% (EAFRD)</b>
Recommendation	Have the RVO analyse the causes of irregularities in EAFRD investment and project grants and whether increased checks are appropriate to reduce the error rate.

### 2 ERDF

<b>Conclusion</b>	<b>Despite improvements in management verifications, the error rate in ERDF West is still above 2%</b>
Recommendation	Carry out the improved management verifications (chiefly by tightening up the managing authority's checks) and obtain assurance on payment applications so that the risk of exceeding the maximum permitted error rate is kept to a minimum.

### 3 ESF

<b>Conclusion</b>	<b>Error rate above 2%</b>
Recommendation	Quickly and effectively have the managing authority monitor the Education Inspectorate's reports and carefully check duplicate claims. Determine whether more attention should be paid to preventing and detecting misuse and improper use of funding. Use public information in management verifications wherever possible, including reports issued by the Education Inspectorate.

### 4 EFF

<b>Conclusion</b>	<b>Error rate in EFF above 2%, with many uncertainties remaining; partly because of the uncertainties, risk of losing EU funding for fisheries projects.</b>
Recommendation	Monitor the effective and speedy introduction of the necessary improvements in all parts of the management and control system, especially in management verifications, in order to reduce the error rate. Resolve the uncertainties as soon as possible. Use the method used for the structural funds (inclusion of findings taken to mediation) to calculate the error rate in the EFF so that error rates in EU funds are comparable.

<b>Conclusion</b>	<b>Uncertainty about the accuracy and completeness of receivables</b>
Recommendation	State Secretary for Economic Affairs: ensure that the managing authority and the certifying authority make clear arrangements about the definition and registration of receivables, so that the reliability of the receivables may henceforth be confirmed.
<b>Conclusion</b>	<b>Mediation process is open to improvement</b>
Recommendation	State Secretary for Economic Affairs: continue to ensure that mediation is used with prudence and at an early stage, by seeking to minimise any differences of interpretation about rules and regulations and by resolving any such disputes as quickly as possible. Ensure that requests for mediation are dealt with quickly. Ensure that the error rate for the EFF is calculated in the same way as for the structural funds (i.e. by also including findings submitted for mediation), so that comparisons can be made of the error rates at the EU funds.

## Appendix 2

### Audit methodology

We have audited and reviewed the National Declaration 2016. Our opinion on it is based on the consolidated statements, the accounts disclosing actual expenditures and receipts (net) and open amounts receivable for each EU fund.

#### Opinion

We express an opinion on:

1. the assertion made on the management and control systems in place for the EU funds;
2. the assertion made on the legality, regularity, accuracy and completeness of the transactions accounted for down to the level of the final beneficiaries;
3. the preparation of the National Declaration and the underlying sub-declarations and associated consolidated statements.

#### Audit activities

To arrive at our opinion on the management and control systems and financial transactions, we carried out risk-based audits of each fund. We also relied on the work performed by the Central Audit Service (ADR) in its capacity as audit authority and certifying authority. This is an efficient use of our resources, as the object and scope of the ADR's audits were largely equal to those of the Court of Audit's. To determine whether we could rely on the ADR's findings, we reviewed its work and concluded that we could use it to form our opinion. Points for attention in each fund are reported on our website.

To arrive at our opinion on the preparation of the National Declaration, we carried out our own review of the preparation of the sub-declarations at the Ministries of Economic Affairs, Social Affairs and Employment, and Security and Justice, and the Ministry of Finance's preparation of the National Declaration. In doing so, we relied on the assurance reports issued by the ADR on each sub-declaration.

Apart from interviews with the bodies concerned in the context of our review and own audit work, we organised two meetings to discuss implementation problems and potential solutions. These meetings were not held as part of our audit but to improve our working methods and publications so that they more closely reflect the day-to-day practice.

## Report

For each fund, we report our conclusions, recommendations and points for attention. Our recommendations relate to the more serious points for improvement; less serious points are reported as points for improvement.

EU regulations make different demands on the management and control of each fund and accountability for them. The National Declaration therefore had to be tailored to each fund and in some areas the information presented differs per fund. Our report concentrates on areas that are open to improvement.

Table 3.1 presents an overall view of the functioning of management and control systems during the period audited. Owing to different regulations issued by the European Commission, the organisation and names of the actors differ at the various funds. The assessment system also differs. Nevertheless, we wished to present an overall view of the functioning of the management and control systems. To do so, we interpreted the scores reported to the European Commission for the agricultural funds and the audit conclusions for the migration funds as strictly as possible. More information on the scores and the required scoring method for each fund is available on our website.

## Appendix 3

### End notes

1. Expenditures and receipts (chiefly corrections to expenditures) are stated as a single net amount. For the sake of convenience, we refer to 'declared expenditure'.
2. National cofinancing also applies to the EAFRD, but is not expressed in the difference between declared expenditure and EU funding. This is chiefly because only the part funded by the EU is declared.
3. Based on a formula developed by the Ministry of Economic Affairs, the Central Audit Service and the Court of Audit in 2015 to calculate the error rate for agricultural funds, the percentage of irregular payments relating to agricultural nature and landscape management is 3.6%. This formula had to be developed because the audit statistics collected for the European Commission had to be adapted to calculate the error rate correctly. The audit statistics for the European Commission relate to the findings of the RVO's and NVWA's administrative checks.
4. The sub-declarations issued by the State Secretary for Economic Affairs and the State Secretary for Social Affairs and Employment erroneously do not refer to this ongoing study. This was corrected in the National Declaration 2016.

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