



Report on the National Declaration 2017





Report on the National Declaration 2017





Preface

The Dutch government issues a National Declaration every year to account for the funds it receives from the EU to carry out EU projects. The *National Declaration 2017* (see www.rekenkamer.nl or www.rijksoverheid.nl) renders account for € 702.2 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 true and fair view given by the accounts submitted to the European Commission;
- the regularity (legality and regularity) of the net expenditure statements submitted to the European Commission for payment.¹

The government has not included information on the impact of EU funding in the National Declaration. Furthermore, information on the money that the Netherlands contributes to the EU each year is presented in the Ministry of Foreign Affairs’ annual report and in the Central Government Annual Financial Report rather than in the National Declaration.

The Netherlands Court of Audit expresses an opinion on the true and fair view given by the National Declaration every year. The Minister of Finance subsequently informs the EU of our opinion. This report presents our opinion on the *National Declaration 2017* and highlights points for improvement.

The text of this document was adopted on 2 May 2017. This document was submitted to the House of Representatives on 17 May 2017 (Accountability Day). Other publications the Court of Audit submitted to the House on 17 May 2017 can be found at www.rekenkamer.nl/verantwoordingsonderzoek2016.



Contents

	Preface	3
1	Our conclusions	6
2	Facts and figures	8
	2.1 Accountability for EU funds	8
	2.2 Funds under shared management	10
	2.3 Competent authorities	10
	2.4 The funds	11
	2.5 Consideration of results	18
3	Opinion on management and control systems	19
	3.1 Functioning of the management and control systems	19
	3.2 Points for improvement agricultural funds	21
	3.3 Point for improvement in the European Regional Development Fund	24
	3.4 Points for improvement in the European Social Fund and the Fund for European Aid to the Most Deprived	25
	3.5 Points for improvement in the European Maritime and Fisheries Fund	25
	3.6 Points for improvement in the migration and security funds (2014-2020 programming period)	28
	3.7 Points for improvement in the migration funds (2007-2013 programming period)	28
4	Opinion on the reliability of the financial statements and the regularity of financial transactions	30
5	Opinion on preparation	32
6	Review of the Central Audit Service's work	33
7	Response of the government and the Netherlands Court of Audit's afterword	34
	7.1 Government's response to the Netherlands Court of Audit's recommendations	34
	7.2 The Netherlands Court of Audit's afterword	36

Appendix I	
Closure of the 2007-2013 programming period	37
Appendix II	
Conclusions, recommendations and points for attention	41
Appendix III	
Follow-up to conclusions and recommendations in the Report on the National Declaration 2016	44
Appendix IV	
Audit methodology	46
Appendix V	
Bibliography	48
Appendix VI	
End notes	49

1 Our conclusions

The assertion made in the *National Declaration 2017* regarding the functioning of management and control systems in place for EU funds spent in the Netherlands is sound. The assertions on the reliability of the accounts submitted to the European Commission and the regularity of net expenditure down to the level of the final beneficiary are also sound. Furthermore, preparation of the declaration as a whole was sound. The *National Declaration 2017* therefore gives a true and fair view: the management and control systems in place for EU funds functioned adequately and the funds were spent regularly, with the exception of the European Integration Fund (EIF). Improvements can still be made, however, in most of the funds. The most important points for improvement are summarised below.

- The Netherlands awards grants to farmers to defray the cost of taking out insurance against adverse weather conditions. The grant is part-funded from the European Agricultural Fund for Rural Development (EAFRD). The management and control system is efficient but may contravene EU rules. The Ministry of Economic Affairs will review the controls in consultation with the European Commission. In our opinion, this is the appropriate way to minimise the risk of the European Commission imposing corrections (see [section 3.2.1 Weather insurance](#)).
- Funding awarded for agricultural nature and landscape management from the EAFRD still contains too many irregular payments. We therefore recommend that the State Secretary for Economic Affairs evaluate the results of the new regime introduced for agricultural nature and landscape management during the first year of its implementation and take additional measures if necessary to strengthen compliance with the management rules (see [section 3.2.2 Agricultural nature and landscape management](#)).
- It is of urgent importance that the authorities responsible for the European Regional Development Fund (ERDF) resolve the remaining differences of interpretation regarding the regulations as soon as possible so as not to jeopardise the timely submission of expenditure statements to the European Commission. The authorities intend to resolve their differences quickly and thus bring the ERDF improvement programme to a successful conclusion (see [section 3.3.1 ERDF improvement programme](#)).
- In our opinion, improvements need to be made to the electronic information system established for the new European Maritime and Fisheries Fund (EMFF) (particularly with regard to information security) before all processes become operational.

A consistent and comprehensive set of process descriptions, work instructions and frameworks is also required before the schemes are opened up to applicants (see [section 3.5.1 Functioning of the managing authority's management and control system](#)).

For the first time, the Minister of Finance has included the National Declaration as an annexe to the [Central Government Annual Financial Report](#). In an explanatory note to the Central Government Annual Financial Report, the minister presents policy-relevant information on the EU funds under shared management and considers the Netherlands' contributions to the EU. He explains the different kinds of contribution, their financial importance and how they are calculated. This strengthens the coherence of the information that the government currently provides on contributions in a variety of budget and accountability documents. The Netherlands' contributions to the EU are not considered in the *National Declaration 2017*. In previous publications, we recommended that contributions should be included in the National Declaration so that the government could provide the same assurances on them as it does on the use of EU funds under shared management.

The minister has taken a step in the right direction by including information on planned and completed evaluations of EU funds in the Central Government Annual Financial Report. In doing so, he has followed the good example set by the European Commission to improve insight into the added value of EU funds. We believe there is still potential to increase the relevance of the information in the Central Government Annual Financial Report. The minister could do so by, for example, also considering the outcomes of evaluations once their utility has been established.

2 Facts and figures

The Netherlands issues a National Declaration every year to account for the EU funds it spends on EU projects. The funds accounted for in the *National Declaration 2017* amounted to € 702.2 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. The National Declaration is summarised below.

2.1 Accountability for EU funds

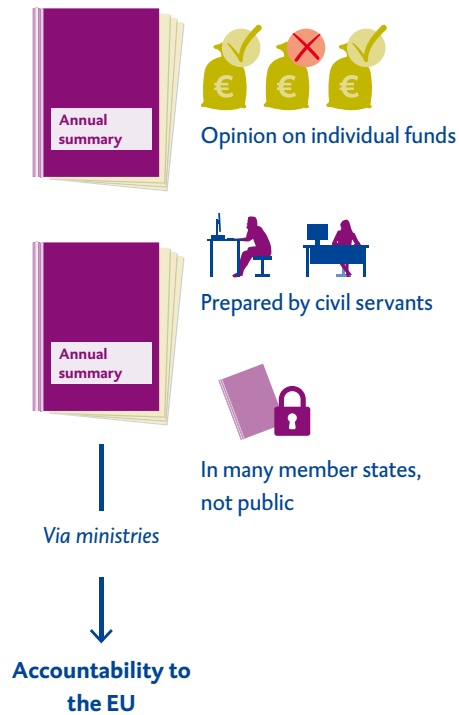
The Dutch government has been issuing an annual National Declaration since 2007 in order to account for the management and use of EU funds in the Netherlands.

The National Declaration reports on:

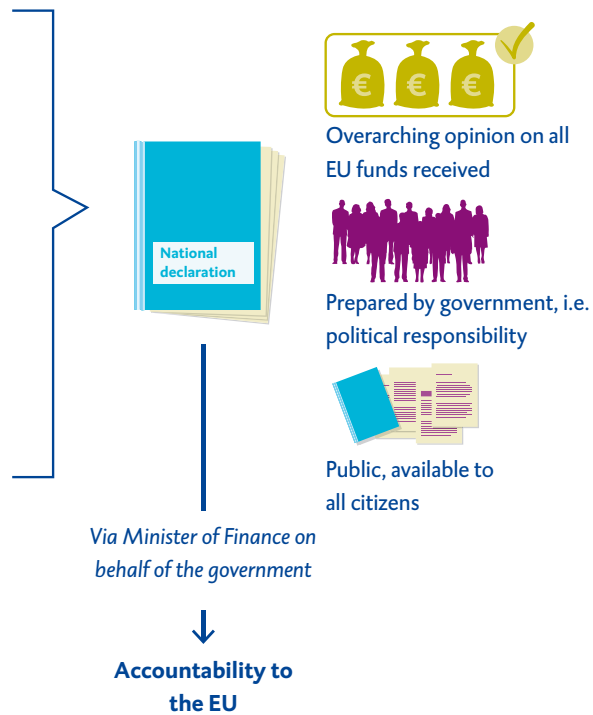
- the functioning of management and control systems;
- the true and fair view given by the accounts submitted to the European Commission;
- the regularity (legality and regularity) of the net expenditure statements submitted to the European Commission for payment.²

Several EU member states have taken similar initiatives to issue National Declarations. The Netherlands did so as it was a transparent means to give the House of Representatives an insight into the use and supervision of EU funds in the Netherlands and to strengthen the quality of the financial management of EU funds. All member states have made agreements with the European Commission that they will issue annual summaries of their audit findings, but the scope of the National Declaration is far wider.

Characteristics of the annual summaries



Characteristics of national declarations



For the first time in 2017, the Minister of Finance appended the National Declaration to the Central Government Annual Financial Report. The annexes to the National Declaration contain more information on the individual funds and have been posted on the Ministry of Finance’s website. The Central Government Annual Financial Report itself includes an explanatory section with policy information on the EU funds, further clarification of the various EU funds under shared management and notes on planned and completed evaluations. We welcome this consideration for efficiency and results. The information would be more relevant if it also considered the outcomes of evaluations once their utility has been established.

The Minister of Finance also considers the contributions the member states make to finance the EU’s budget. In 2016, the Netherlands contributed € 2.3 billion in customs duties,³ € 0.9 billion in VAT-based remittances and € 4.8 billion in GNI-based remittances (an amount based on each member state’s gross national income). The Netherlands’ contributions to the EU, however, are not considered in the *National Declaration 2017* and the government therefore does not provide the same assurances on them as it does on the use of EU funds under shared management.

2.2 Funds under shared management

The adopted *EU budget* for 2015 amounted to €145.2 billion (European Commission, 2016). The European Commission and the member states are together responsible for managing about 80% of the EU budget. These resources are known as ‘funds under shared management’. The European Commission and the member states share responsibility for the regular, effective and efficient use of this money (EU, 2012), and are accountable for it. This present report considers the management and use of those funds.

In the current 2014-2020 programming period, eight funds are spent under shared management in the Netherlands. The *National Declaration 2017* considers the following funds:

- Agricultural funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).
- The European Regional Development Fund (ERDF).
- The European Social Fund (ESF) and Fund for European Aid to the Most Deprived (FEAD).
- The European Maritime and Fisheries Fund (EMFF).
- Migration and security funds (in the new 2014-2020 programming period): the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF).

Four migration funds from the previous programming period (2007-2013) are considered in the National Declaration for the last time: the European Refugee Fund (ERF), the European Return Fund (RF), the European External Border Fund (EBF) and the European Integration Fund (EIF).

2.3 Competent authorities

Many authorities are involved in the management and control of EU funds in the Netherlands. The *explanatory notes on the individual funds* on our website (www.rekenkamer.nl) name the authorities involved in each fund. The authorities’ titles differ from one fund to another because their titles differ in the various EU regulations.

There are basically three types of authority:

- Authorities that are responsible for the **management of a fund**. In the agricultural funds, these authorities are known as *paying agencies*; in the ERDF, ESF, FEAD and EMFF they are known as *managing authorities*, and in the migration and security funds as the *responsible authorities*.
- Authorities that are responsible for the **external audit** of a fund. In the agricultural funds these authorities are known as *certification bodies*; in all the other funds they are known as *audit authorities*.

- Authorities that are responsible for **certifying** the expenditure statements submitted to the European Commission. Only the ERDF, ESF, FEAD and EMFF have such *certifying authorities*.

2.4 The funds

The European Commission has formed multiannual budgets for the member states to implement projects in the 2014-2020 programming period in respect of all the funds except the European Agricultural Guarantee Fund. The amounts reserved in the EAGF are intended chiefly for direct farm income support. The European Commission can reduce this direct income support, for example to form a reserve for farming crises. It cannot do this with the other funds. In the migration funds, a common reserve was formed for all the member states at the start of the 2007-2013 programming period. Annual tranches were then set aside for each of the member states.

In the *National Declaration 2017*, the government accounts for € 702.2 million in net expenditure that it declared to the European Commission.⁴ In its capacity as a member state, the Netherlands received € 688 million of this amount in EU funding. The difference between the amount declared and the amount received is due to national cofinancing: contributions made by private and public grant recipients and additional funds from other public or private sources. The national cofinancing of the EAFRD and the AMIF and ISF is not included in the difference as only the expenditure funded by the EU is declared.

The accounting reference period for each fund differs in accordance with EU regulations. The figures for the agricultural funds in the *National Declaration*, for example, relate to the period from 16 October 2015 to 15 October 2016, while the figures for the ERDF, ESF and EMFF structural funds relate to the year ending on 30 June 2016.

On the basis of the *National Declaration 2017*, the funds' objects and financial volume (including the use of the budgets) are summarised below. More information is available in the *explanatory notes on the individual funds* on our website (www.rekenkamer.nl).

EAGF



Object

To provide food security for European citizens and price and income stability for European farmers by stabilising incomes and market and price policies



Supports

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



Responsible for the use of the EAGF in the Netherlands

State Secretary for Economic Affairs

EAGF-budget 2014-2020 direct income support in the Netherlands: € 5.1 billion

Cumulative use (2014-2020 budget): n.a.

Financial volume in National Declaration 2017

(in millions of euros)

Total declared expenditure in ND 702.2

Total contribution from EU funds in ND 688.0



■ Contribution from EAGF = declared expenditure from EAGF

European Agricultural Guarantee Fund (EAGF)

EAFRD



Object

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



Supports

- The competitiveness of the agriculture 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

Total EAFRD budget in the Netherlands 2014-2020: € 765.3 million

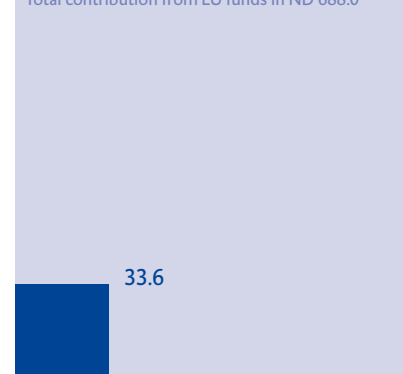
Cumulative use (2014-2020 budget): € 62.1 million

Financial volume in National Declaration 2017

(in millions of euros)

Total declared expenditure in ND 702.2

Total contribution from EU funds in ND 688.0



■ Contribution from EAFRD = declared expenditure from EAFRD

European Agricultural Fund for Rural Development (EAFRD)

ERDF



European Regional Development Fund (ERDF)



Object
To reduce the main economic disparities between European regions



- Supports**
- Innovation
 - Low-carbon economy
 - Sustainable urban development

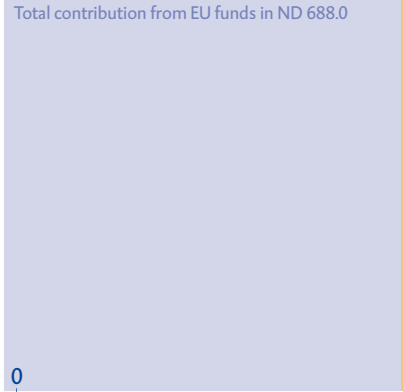


Responsible for the use of the ERDF in the Netherlands
State Secretary for Economic Affairs

Total ERDF-budget in the Netherlands 2014-2020: € 507.3 million
Cumulative use (2014-2020 budget): € 0.0 million

Financial volume in National Declaration 2017 (in millions of euros)

Total declared expenditure in ND 702.2



0 Contribution from ERDF = declared expenditure from ERDF

ESF



European Social Fund (ESF)



Object
To promote employment in the EU member states



- Supports**
- Actions to promote social inclusion, combat poverty and any form of discrimination
 - Actions to promote sustainable and quality employment and support labour mobility
 - Actions to promote sustainable urban development and combat socioeconomic division (ITI)

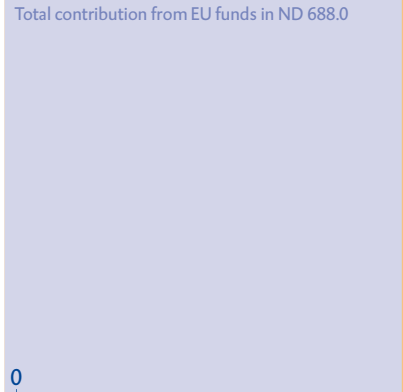


Responsible for the use of the ESF in the Netherlands
State Secretary for Social Affairs and Employment

Total ESF budget in the Netherlands 2014-2020: € 507.3 million
Cumulative use (2014-2020 budget): € 0.0 million

Financial volume in National Declaration 2017 (in millions of euros)

Total declared expenditure in ND 702.2



0 Contribution from ESF = declared expenditure from ESF

FEAD



Fund for European Aid to the Most Deprived (FEAD)



Object
To combat the social exclusion of low-income elderly people who have reached retirement age



Supports
Measures to activate vulnerable elderly people and make them visible in municipal services



Responsible for the use of the FEAD in the Netherlands
State Secretary for Social Affairs and Employment

Total FEAD budget in the Netherlands 2014-2020: € 3.9 million
Cumulative use (2014-2020 budget): € 0.0 million

Financial volume in National Declaration 2017 (in millions of euros)

Total declared expenditure in ND 702.2

Total contribution from EU funds in ND 688.0

0
Contribution from FEAD = declared expenditure from FEAD

EMFF



European Maritime and Fisheries Fund (EMFF)



Object
To implement the EU Common Fisheries Policy and Integrated Maritime Policy



Supports
The transition to sustainable fisheries
Innovations for sustainable and profitable fisheries
Projects that create employment and improve the quality of life on European coasts
Actions to simplify access to finance



Responsible for the use of the EMFF in the Netherlands
State Secretary for Economic Affairs

Total EMFF budget in the Netherlands 2014-2020: € 101.5 million
Cumulative use (2014-2020 budget): € 0.0 million

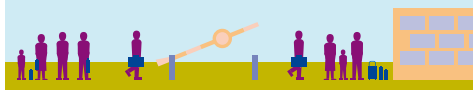
Financial volume in National Declaration 2017 (in millions of euros)

Total declared expenditure in ND 702.2

Total contribution from EU funds in ND 688.0

0
Contribution from EMFF = declared expenditure from EMFF

AMIF



Financial volume in National Declaration 2017 (in millions of euros)



Asylum, Migration and Integration Fund (AMIF)



Object
To strengthen and develop the quality of the reception and asylum system, to promote participation in society and to strengthen the return process



- Supports**
- Asylum and reception processes
 - Integration
 - The return process



Responsible for the use of the AMIF in the Netherlands
State Secretary for Security and Justice

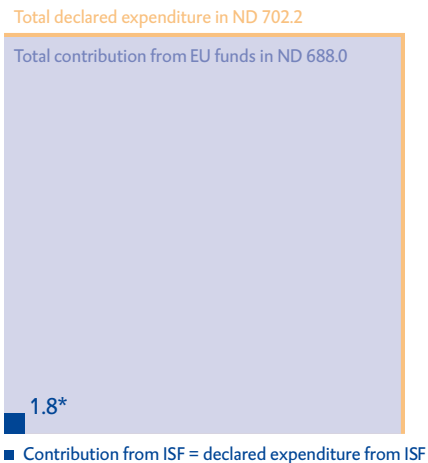
Total AMIF budget in the Netherlands 2014-2020: € 193.8 million
Cumulative use (2014-2020 budget): € 14.7 million

* An additional sum of € 20.5 million has been declared in respect of advance payments to beneficiaries. This sum was included in the expenditure statement submitted to the European Commission but has not yet been accounted for in the National Declaration because the expenditure has not been audited at the beneficiaries.

ISF



Financial volume in National Declaration 2017 (in millions of euros)



Internal Security Fund (ISF)



Object
To promote law enforcement cooperation and crisis management, and to strengthen external border control and visa processing



- Supports**
- Visa processing
 - External border controls
 - Preventing and combatting crime
 - Risk and crisis management

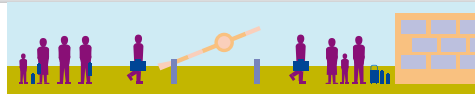


Responsible for the use of the ISF in the Netherlands
State Secretary for Security and Justice

Total ISF budget in the Netherlands 2014-2020: € 65.7 million
Cumulative use (2014-2020 budget): € 1.8 million

* An additional sum of € 13.8 million has been declared in respect of advance payments to project beneficiaries. This sum was included in the expenditure statement submitted to the European Commission but has not been accounted for in the National Declaration because the expenditure has not been audited at the beneficiaries.

ERF



Object

To finance projects for the reception and integration of asylum seekers and refugees



Supports

- Conditions to receive refugees and guarantee asylum procedures
- Integration of refugees
- The EU member states' capacity to develop asylum policy
- Resettlement of refugees
- Transfer of asylum seekers and 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

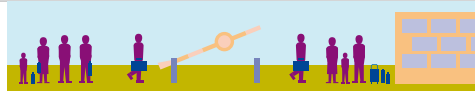
Total ERF budget in the Netherlands 2007-2013: € 29.0 million

Cumulative use (2007-2013 budget): € 25.1 million

Financial volume in National Declaration 2017 (in millions of euros)



RF



Object

To help migrants who cannot or do not wish to stay in a member state 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

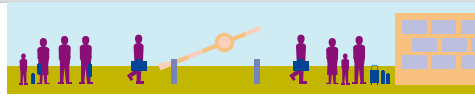
Total RF budget in the Netherlands 2007-2013: € 30.8 million

Cumulative use (2007-2013 budget): € 21.3 million

Financial volume in National Declaration 2017 (in millions of euros)



EBF



Financial volume in National Declaration 2017 (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 Border Fund (EBF)



Responsible for the use of the EBF in the Netherlands

State Secretary for Security and Justice

Total EBF budget in the Netherlands 2007-2013: € 38.0 million

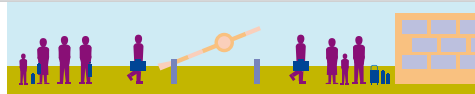
Cumulative use (2007-2013 budget): € 21.5 million

Total declared expenditure in ND 702.2



■ Contribution from EBF ■ Declared Expenditure From EBF

EIF



Financial volume in National Declaration 2017 (in millions of euros)



Object

To promote common European policy for the reception and integration of immigrants in the EU



Supports

- Simplification and facilitation of the admission procedure
- The integration of newcomers from outside the EU
- EU member states' capacity to develop, implement, monitor and evaluate integration policy

European Integration Fund (EIF)



Responsible for the use of the EIF in the Netherlands

Minister of Social Affairs and Employment

Total EIF budget in the Netherlands 2007-2013: € 18.1 million

Cumulative use (2007-2013 budget): € 11.7 million

Total declared expenditure in ND 702.2



■ Contribution from EIF ■ Declared Expenditure From EIF

2.5 Consideration of results

Goals have been set for all EU funds under shared management in order to define what the EU and the individual member states expect EU funding to achieve. It must then be determined to what extent have the goals have been achieved. To strengthen the focus on results and determine what has been achieved, the European Commission launched the 'Budget focused on results' project in 2015. The European Commission is already periodically evaluating its policy and requesting annual reports and periodic evaluations from the member states, and the European Court of Auditors regularly carries out performance audits. The EU will give even more consideration to the intended impact of EU funding in future regulations. The member states will therefore have to provide more relevant information in the years ahead than they do at present. The information available on the results of EU funding in the Netherlands is derived from:

- In respect of the agricultural funds, the Netherlands evaluated the second rural development programme (POP2) for the 2007-2013 programming period in 2016 (Ecorys, 2016).
- The ERDF was evaluated after it was opened up to applications to determine how the opening had gone and to identify improvements for the future. The managing authorities are also required to carry out mid-term evaluations.
- Many examples of evaluations of the ESF are available for [the 2014-2020 programming period](#). The annual reports and progress letters on the ESF consider the results of ESF funding.
- The EMFF is subject to annual risk analyses and an annual evaluation meeting, the findings are summarised in the annual report.
- The migration funds were [evaluated](#) in 2016 ahead of the closure of the 2007-2013 programming period. A mid-term evaluation of the 2014-2020 programming period is planned for the end of 2017.

We are encouraged by the consideration being given to results. We have not yet formed an opinion on the utility of this information, however, because we have not examined it.

3 Opinion on management and control systems

In our opinion, the assertion made in the National Declaration 2017 is sound with regard to the functioning of the management and control systems (and the measures they contain) in place in the Netherlands for transactions financed from the EU funds that are accounted for in the National Declaration 2017.

3.1 Functioning of the management and control systems

The European Commission understands a management and control system to comprise the system in place to allocate, manage and control grants awarded by the authorities designated to do so under EU regulations.⁵ Figure 3.1 shows that the management and control systems of all the funds examined bar the EIF functioned adequately during the period audited. It also shows that the management and control systems of some funds were evaluated only at the managing authority and some were not evaluated at all. No expenditure statements had been submitted to the European Commission for these funds and the Central Audit Service (ADR) has therefore carried out only limited audits, at best, of these funds. Improvements are needed at most of the funds examined. Points for improvement in each fund are considered in the following sections.

Appendix II (Conclusions, recommendations and points for attention) presents a number of areas that are open to improvement. Appendix III (Follow-up to conclusions and recommendations in the Report on the National Declaration 2016) presents the recommendations we made in the Report on the National Declaration 2016 that have since been followed up or are no longer relevant owing to the closure of the 2007-2013 programming period. Appendix IV (Audit method) explains how the standards we used led to our opinion.

Agricultural funds

	Paying agency
EAGF	●
EAFRD	●

Structural funds/EFF

	Managing authority	Certifying authority
ERDF North	–	–
ERDF East	–	–
ERDF South	–	–
ERDF West	–	–
ESF	●	–
FEAD	●	–
EMFF	●	–

Migration and security funds (2014-2020)

	Responsible authority
AMIF	●
ISF	●

Migration funds (2007-2013)

	Responsible authority	Certifying authority
ERF	●	●
RF	●	●
EBF	●	●
EIF	●	●

- system functions well, minor improvements necessary
- system functions adequately, some improvements necessary
- system functions partially, substantial improvements necessary
- system essentially does not function
- not yet audited

Figure 3.1 Functioning of management and control systems

3.2 Points for improvement agricultural funds

We concluded from our audit that the management and control systems in place for the EAGF and EAFRD agricultural funds during the period examined functioned adequately. However, the management and control system for weather insurance (EAFRD) contravened two European rules and, as in the previous year, the rate of irregularities in grants for agricultural nature and landscape management was too high (EAFRD).

These conclusions are explained below. We name a number of other points in the *explanatory notes on the individual funds* on our website (www.rekenkamer.nl). These points relate to:

- Conditions for the provision of support to livestock sectors (EAGF);
- The recovery of undue payments to grant recipients (EAFRD).

3.2.1 Weather insurance

As from the 2014-2020 programming period, the EU has been encouraging rural development by having farmers improve their risk management. In 2015, the Netherlands introduced grants to defray the cost of taking out insurance against adverse weather conditions.⁶ Half of this grant is charged to the budget of the Ministry of Economic Affairs and the other half to the EU budget (EAFRD). The EU funding for the 2015 application year was approximately € 3.9 million. The Netherlands declared this amount to the European Commission.

Weather insurance

Dutch farmers frequently have to cope with extreme drought, heavy rainfall and hail. These risks can have a huge impact on farm incomes. Grants are provided to defray the cost of taking out weather insurance. The eligible insurance covers all the risks facing open cultivation, does not exclude any sectors and pays out only if the damage exceeds 30% of annual output. The insurance is used to insure crops, plants and trees against economic losses caused by adverse weather conditions. The State Secretary for Economic Affairs uses the grant to encourage more farmers to take out insurance. The grant is equal to 65% of the insurance premium.

The Netherlands has introduced national regulations on weather insurance, and the paying agency, the Netherlands Enterprise Agency (RVO), has set up a management and control system. One of its features is that the grant is based on the insurers' records. The records are sampled and their accuracy is checked against the insurers' accounts, policies, premium notices and proofs of payment. These checks are made once a year at one of the three

insurance companies that offer weather insurance. In this light the system is an efficient and effective means to ensure regularity. Its efficiency and effectiveness was confirmed by the certification body (the Central Audit Service). The certification audit of the RVO's source documents (the premium notices, policy details and bank statements requested from the insurers) found no irregularities. By using the insurers' records and making on-the-spot checks at one of the insurers, moreover, the administrative costs of the system are low for the applicants.

In our opinion, however, two aspects of the management and control system contravene EU rules. This involves checking expenditure by sampling rather than performing separate on-the-spot checks of insured parcels.

As noted above, the policies, premium notices and proofs of payment are not checked for all applicants every year but are sampled. Annual checks of all applicants are required under the rules.

The weather insurance funding is based in part on the area of the parcels insured. The area is checked against the details in the RVO's parcel register. In addition to this administrative check, the RVO samples the parcels and checks them against the on-the-spot samples made to award area-based income support under the EAGF. However, by using these on-the-spot checks, the RVO carries out fewer checks for the weather insurance than prescribed by the rules. Furthermore, this method means the RVO does not carry out the obligatory separate risk analyses required to select the on-the-spot checks.

As a result, the EU and national rules might lead to a disproportionate control burden. The Ministry of Economic Affairs will reconsider the controls in consultation with the European Commission. We think this is the appropriate way to mitigate the risk of corrections by the European Commission. We therefore make no recommendations to the State Secretary for Economic Affairs at present.

3.2.2 Agricultural nature and landscape management

Farmers are awarded grants from the EAFRD to carry out nature and landscape management projects. Cofinancing by the provinces is one of the funding conditions. The *National Declaration 2017* disclose that approximately € 28 million was charged to the EU budget. The National Declaration accounts for this funding on the basis of the grant applications made for 2015.

On behalf of the paying agency, the RVO, the Netherlands Food and Consumer Product Safety Authority (NVWA) carried out on-the-spot checks of compliance with the funding conditions before the grants were paid out, and in particular of compliance with the management rules. The following example of one of the NVWA's on-the-spot checks reveals a contravention of the management rules.

Example of non-compliance with a management rule

A farmer agreed a 'botanical meadowland' management package with the province of Friesland. Many grasslands have been degraded by intensive farming and many grasses and herbaceous plants have been lost. The 'botanical meadowland' package was designed to maintain or help develop the current grass and herbaceous varieties. The key measures included a prohibition on fertilisers and the land was to be mowed and the hay removed at least once a year. The NVWA carried out an on-the-spot check and found that the farmer had not removed the hay and achievement of the goal was accordingly at risk. Under the rules, the RVO was obliged to cut the grant by 100% and did so.

An analysis of the NVWA's samples found too many irregularities in payments for nature and landscape management.⁷ To improve compliance with the management rules, we recommended in our *Report on the National Declaration 2016* that the State Secretary for Economic Affairs analyse the causes of non-compliance and take targeted measures. In response to this recommendation, the state secretary informed us that he had analysed the causes and found that individual farmers were poorly informed about the detailed management rules. With effect from the 2016 application year, the Ministry of Economic Affairs and the provinces together introduced an entirely new regime for agricultural nature and landscape management. It is based on professional alliances (collective management).⁸ The new regime will make management more ecologically effective and economically efficient, partly because specific knowledge can be exchanged to improve compliance with the management rules. The on-the-spot checks of the first applications made under the new regime in 2016 are currently nearing completion and will be evaluated by the RVO and taken into account in the collectives' payment decisions. The results of these on-the-spot checks (grant reductions) will be aggregated and become available in July 2017 in the form of control statistics provided to the European Commission. These results will be reported in the *National Declaration 2018*.

We recommend that the State Secretary for Economic Affairs evaluate the results of the new agricultural nature and landscape management regime during the first year of its implementation and, where necessary, take additional measures to increase compliance with the management rules.

3.3 Point for improvement in the European Regional Development Fund

The *National Declaration 2017* does not include an opinion on the functioning of the management and control systems in place for the ERDF. The audit authority has not audited the systems because expenditure statements have not yet been submitted to the European Commission. We therefore cannot draw a conclusion on the functioning of the management and control systems. We found, however, that the ERDF improvement programme to remove sticking points in the cooperation between the actors itself could be improved. Although many points are being addressed and many measures have been taken, not all the problems have been resolved.

Our conclusions are explained below. The *explanatory notes on the individual funds* on our website (www.rekenkamer.nl) provide more information on the ERDF. Apart from the following point for improvement, we do not have any further comments on the ERDF this year.

3.3.1 Progress of the ERDF improvement programme

We observed in our previous report that there had been difficulties in the cooperation between the various parties involved in the ERDF for several years. Many of the problems were due to differences in the interpretation of the rules. There was also regular disagreement about the depth of the audit authority's audits. An improvement programme was launched in 2015. We noted last year that the cooperation had to be improved in order to close the 2007-2013 programming period and open the 2014-2020 programming period efficiently.

Further progress with the ERDF improvement programme was made in 2016-2017. The Ministry of Economic Affairs set up work groups in 2016 to implement the recommendations made by an external committee. Proposals were subsequently made to improve implementation and control and to limit rules that were open to interpretation. Various measures have been taken: the Ministry of Economic Affairs has issued a circular with a non-exhaustive summary of the rules, agreements have been made on a new dispute resolution mechanism and, on an experimental basis, the audit authority has started making more use of the managing authorities' audit work ('reperformance plus').

The improvement programme required a lot of effort and coordination. However, there is still no agreement on the interpretation of the rules or the audit depth, particularly regarding the performance agreements and the method used to check salary costs based on the

integrated cost system. Such differences of interpretation can continue to frustrate cooperation among the authorities. They will also prevent the timely submission of the expenditure statements required by the European Commission. Some managing authorities have already announced that they will postpone their submission of expenditure statements until autumn 2017, or are considering doing so.

To bring the ERDF improvement programme to a successful conclusion the authorities concerned must resolve the remaining differences of interpretation as soon as possible so that the expenditure statements can be submitted to the European Commission on time. The authorities have said this problem has their urgent attention. We made a lengthy recommendation regarding this problem last year. The recommendation was adopted and the improvement programme has made progress. The authorities are addressing the remaining interpretation differences. We accordingly do not make any new recommendations this year.

3.4 Points for improvement in the European Social Fund and the Fund for European Aid to the Most Deprived

We concluded from our audit that the management and control systems introduced for the ESF and the FEAD functioned adequately during the period investigated. This conclusion relates only to the systems in place at the managing authorities (and does not relate to the management verifications, which the audit authority has not yet evaluated because the expenditure statements still have to be submitted to the European Commission). The *National Declaration 2017* does not include an opinion on the functioning of the management and control systems in place at the certifying authority for the ESF and FEAD. The audit authority has not audited them because the expenditure statements have not yet been submitted to the European Commission.

The *explanatory notes on the individual funds* on our website (www.rekenkamer.nl) provide more information on the ESF and the FEAD and names a number of points for attention in their management and control systems.

3.5 Points for improvement in the European Maritime and Fisheries Fund

We concluded from our audit that the management and control systems introduced for the EMFF functioned adequately during the period investigated. This conclusion relates only to the systems in place at the managing authority (and does not relate to the management verifications, which the audit authority has not yet evaluated because the expenditure

statements still have to be submitted to the European Commission). The *National Declaration 2017* does not include an opinion on the functioning of the management and control systems in place for the EMFF at the certifying authority. The audit authority has not audited them because the expenditure statements have not yet been submitted to the European Commission. We did observe, though, that many parts of the management and control system are open to improvement. The managing authority has carried out a risk analysis of the potential improvements and will address the shortcomings as soon as possible. Our conclusion is explained further below. The *explanatory notes on the individual funds* on our website (www.rekenkamer.nl) provide more information on the EMFF. Apart from the following points for improvement, we have no further comments on the EMFF this year.

3.5.1 Functioning of the managing authority's management and control system for the EMFF

In the 2007-2013 programming period, there were protracted problems in the managing authority's (and the intermediate body's) management and control systems in place for the precursor of the EMFF, the European Fisheries Fund (EFF). The managing authority has introduced a new management and control system for the new programming period. At its heart is an electronic information system ('implementation platform'). The managing authority has learned the lessons from the shortcomings in the previous EFF system and applied them in the new EMFF system. The audit authority has carried out its first audit of the new management and control system and concluded that it functions but improvements are still necessary. This opinion is given on six of the seven key requirements applicable to the system. The improvements reported by the audit authority relate to:

- The absence of a consistent and complete set of process descriptions, work instructions and frameworks for some of the grant schemes and how they are opened up.
- The continuous monitoring and recording of risks and controls.
- The procedure to select eligible projects.
- The audit trail in the electronic information system.
- The resolution of serious shortcomings in the electronic information system in general and information security in particular.

The box below takes a closer look at two of the most serious improvement points.

Points for improvement in the management and control system for the EMFF

It is in both the managing authority's and the beneficiaries' interests that the rules are clearly understood and are consistent with the work processes. The audit authority has identified several points for improvement. The managing authority did not have up-to-date process descriptions or work instructions when all the schemes were opened up. There should also be more consistency between the process descriptions, work instructions and frameworks. There is a risk of beneficiaries and applicants being unaware of the internal frameworks and interpretations used by the managing authority. This could lead to differences of interpretation, the rejection of certain costs and disagreements about eligibility.

The managing authority's electronic information system is at the heart of the management and control system. It is of the utmost importance for all concerned that the information in this system is reliable, accessible and secure. The audit authority has audited these aspects and made several recommendations based on its findings. Some of them must be acted upon soon in order to avoid risks. Otherwise, according to the audit authority, the information system will not meet the requirements when all management processes are operational (which was not the case during the period audited). The audit authority noted that improvements could be made in the following and other areas:

- Uncertain entry in the information system of data required by the European Commission.
- Lack of software to aggregate data reliably.
- Weaknesses in the management of information security, in particular the absence of systematic monitoring, measurement and evaluation of information security.
- Weaknesses in management controls of information security. This relates to both general and application-specific measures (such as inadequate back-up and recovery procedures).
- Absence of a Privacy Impact Assessment to determine whether data entries violate the beneficiaries' privacy.

The managing authority has drawn up several improvement plans in order to act on these recommendations.

The managing authority now uses a risk analysis tool to record all points for improvement and is working proactively to resolve the shortcomings as soon as possible. We would stress the importance of resolving the priority points before the fund's management processes become fully operational.

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

- *the managing authority implements the points for improvement (including information security measures) in the electronic information system in 2017, before all management processes become operational;*
- *a consistent and complete set of process descriptions, work instructions and frameworks is available before all the schemes are opened up.*

3.6 Points for improvement in the migration and security funds (2014-2020 programming period)

We concluded from our audit that the management and control systems in place for the AMIF and ISF functioned adequately during the period investigated.

The *explanatory notes on the individual funds* on our website (www.rekenkamer.nl) provide more information on the AMIF and ISF. They also include a number of comments on the management and control systems introduced for the AMIF and ISF.

3.7 Points for improvement in the migration funds (2007-2013 programming period)

We concluded from our audit that the management and control systems in place for the ERF, RF and EBF migration funds functioned adequately during the period investigated. The system in place for the EIF, however, did not function adequately. At 2.28%, the percentage of irregularities exceeded the tolerable error rate of 2%.

Our conclusion is considered further below. The *explanatory notes on the individual funds* on our website (www.rekenkamer.nl) provide more information on the migration funds. Apart from the points for improvement considered below, we have no further comments on the migration funds this year.

3.7.1 Functioning of the EIF management and control system

The audit authority concluded that the managing authority's management and control system for the EIF essentially did not function during the year audited as the percentage of irregular payments was too high (2.28%, see also [chapter 4](#)).

The percentage of irregular payments was too high due to an error in one project. The records kept of the participants in this project did not entirely satisfy the requirements. The error came about because the definition of the target group used by the Social Affairs and Employment Agency (the delegated authority) was too broad. The audit authority adopted the strict definition of the target group that was used in the award decision and found that the project included participants who were not in the target group. The internal management and control system therefore did not function adequately. The estimated error rate of 2.28% exceeded the 2% limit set by the European Commission. The audit authority's estimate of the financial value of the error for all EIF projects was € 111,881

(of which € 57,898 related to EU financing). The responsible authority corrected all the errors found by the audit authority before the expenditure statement was submitted to the European Commission. The annual report on the 2013 annual tranche has since been accepted by the European Commission.

The 2007-2013 programming period for the migration funds has now been closed. The responsible authority has included the audit authority's recommendations in the operational controls that it will perform for the Asylum, Migration and Integration Fund (AMIF) in the 2014-2020 programming period. The responsible authority will also pay closer attention to the definition of the target group.

4 Opinion on the reliability of the financial statements and the regularity of financial transactions

In our opinion the assertion on the reliability of the financial statements submitted to the European Commission and the regularity of the financial transactions made in the National Declaration 2017 is sound down to the level of final beneficiaries of EU funding.

Financial transactions comprise payments to beneficiaries (net of receipts, i.e. corrections to expenditures) and amounts recoverable from beneficiaries. The European Commission requires assurances that 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 take all necessary measures to prevent and recover undue payments. The European Commission can impose a sanction if the percentage of irregular payments exceeds 2%. One sanction is to suspend future payments. Like the National Declaration, we therefore report error rates that are higher than 2% (see also [Appendix IV, Audit method](#)).

Table 4.1 summarises the opinions on the reported error rates in expenditure. Expenditure statements have not yet been submitted in respect of the ERDF, ESF, FEAD and EMFF, and no irregularities have accordingly been found in expenditure from these funds.

Table 4.1 *Opinions on error rates in expenditure*

Expenditure	Irregularities
Agricultural funds	Less than 2%
ERDF	N.A.
ESF	N.A.
FEAD	N.A.
EMFF	N.A.
AMIF	Less than 2%
ISF	Less than 2%
ERF	Less than 2%
RF	Less than 2%
EBF	Less than 2%
EIF	2.28%

* Tolerable error rate = 2%.

No amounts have been claimed in respect of the ERDF, ESF, FEAD and EMFF as no expenditure statements have been submitted. No amounts have been claimed in respect of the migration and security funds, either, but expenditure statements have been submitted. The expenditure statements in respect of the agricultural funds contained no errors.

Final expenditure in the 2007-2013 programming period

The government accounts for the funds in the 2014-2020 programming period and for the four migration funds from the 2007-2013 programming period in the *National Declaration 2017*. In consultation with the Netherlands Court of Audit, the four migration funds from the 2007-2013 programming period are accounted for in an annexe to the *National Declaration 2017* rather than in the main body of the *National Declaration 2017*. This is explained further in [Appendix I \(Closure of the 2007-2013 programming period\)](#).

5 Opinion on preparation

In our opinion the National Declaration 2017, 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) is the audit authority for all the funds (ERDF, ESF, FEAD, EMFF and the migration funds) and the certifying authority for the agricultural funds. The ADR carried out fewer controls of four funds (ERDF, ESF, FEAD and EMFF) during the year because no expenditure statements had been submitted to the European Commission. We reviewed the ADR's work to determine whether we could rely on its findings to form our own opinion. Our review confirmed that we could rely on its findings in its capacity as the audit authority and the certifying authority.

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

We received the government's response to our report from the Minister of Finance on 26 April 2017. The minister thanked us for preparing this report. The government was pleased that our opinion was again positive, as it had been in previous years. The minister considered the points for improvement and how the government would address them. The government's response is presented in full in section 7.1. The *letter from the minister* has also been posted on our website (www.rekenkamer.nl). We close this chapter with our afterword in section 7.2.

7.1 Government's response to the Netherlands Court of Audit's recommendations

The government responded as follows:

“European Agricultural Fund for Rural Development (EAFRD)

Recommendation: We recommend that the State Secretary for Economic Affairs evaluate the results of the new agricultural nature and landscape management regime during the first year of its implementation and, where necessary, take additional measures to increase compliance with the management rules.

The government accepts the recommendation. 2016 was the first year of the new agricultural nature and landscape management regime. The causes of the departures from the rules will be analysed and the findings will be evaluated. Any points for improvement will then be discussed with the parties (collectives) concerned and measures will be taken where necessary. Implementation of the new regime will be considered in the permanent evaluation.

European Maritime and Fisheries Fund (EMFF)

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

- *the managing authority enters the points for improvement (including information security measures) in the electronic information system in 2017, before all management processes become operational;*
- *a consistent and complete set of process descriptions, work instructions and frameworks is available before all the schemes are opened up.*

The government accepts the recommendation and will ensure that the recommendations regarding the European Maritime and Fisheries Fund (EMFF) are acted upon. We are currently working on the points for improvement. An improvement plan has been prepared for information security. The measures include improvements to work processes, enhanced documentation to manage the applications and to follow up service level agreements for the electronic information system. We are also developing and updating application authorisation tables and profiles and related procedures to ensure they remain up to date and are regularly checked in the future.

The measures are already being implemented and progress is being monitored. With regard to the process descriptions, frameworks and work instructions, the necessary frameworks and work instructions will have been finalised before grant applications and payment requests are evaluated. The Central Audit Service will determine the efficiency of the measures during its regular audit work.

The Netherlands Court of Audit made no recommendations regarding the European Agricultural Guarantee Fund (EAGF), the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Fund for European Aid to the Most Deprived (FEAD), the migration funds (2007 – 2013) and the migration and security funds (2014 – 2020).

Information on contributions to the EU

The government is pleased the Netherlands Court of Audit found that the explanatory notes included in the Central Government Annual Financial Report strengthened the coherence of the information on the Netherlands' contributions to the EU. It was decided to include these explanatory notes in close consultation with the Court of Audit and the Ministry of Finance. The notes provide an insight into both the funds under shared management and the contributions made to the EU so that a policy-relevant description can be made of the system behind the contributions and their size. The National Declaration is based on technical audit opinions and is not the appropriate place for such a description. The information in the National Declaration is based on article 59 of the Financial Regulation, which is concerned exclusively with funds under shared management.”

7.2 The Netherlands Court of Audit's afterword

We are pleased that the government will accept and implement the recommendations accompanying our opinion on the *National Declaration 2017*. In consultation with the Minister of Finance we will continue to consider how the member states can best account for the contributions they make to the EU.

Appendix I

Closure of the 2007-2013 programming period

The *National Declaration 2017* does not consider the closure of the 2007-2013 programming period for the EAFRD, ERDF, ESF and EFF. The final accounting periods for these funds had not been considered in previous National Declarations either. The final accounting periods were the 2015 and 2016 financial years for the ERDF, ESF and EFF and the period from 16 October 2015 to 31 December 2015 for the EAFRD.

The audit authority and the certification body have findings but have not expressed separate opinions on regularity. For efficiency purposes when preparing the National Declaration, the government wished to use only information and reports that were already available. The European Commission requires the member states to issue regularity opinions on the 2007–2013 period as a whole (ERDF, ESF and EFF) and on the period from 16 October 2014 to 31 December 2015 (EAFRD), but does not require separate opinions on the final accounting period. The government has therefore not requested a separate regularity opinion on final expenditure from the audit authority (for the ERDF, ESF and EFF) or the certification body (for the EAFRD) and expresses no firm opinion on the regularity of the transactions or the functioning of management and control systems.

For these reasons, the government, in consultation with the Netherlands Court of Audit, does not account for this expenditure in the National Declaration itself but in a separate annexe to the *National Declaration 2017*. On behalf of the government, the Minister of Finance reports the audit authority and the certification body's findings on the final expenditure during the 2007-2013 programming period in the annexe. Based on our audit, we endorse the findings. The table below summarises the ADR's main findings.

Summary of the ADR's findings:

	ERDF (1 January 2015 to 31 December 2016)	ESF (1 January 2015 to 31 December 2016)	EFF (1 January 2015 to 31 December 2016)	EAFRD (16 October 2015 to 31 December 2015)
Total eligible costs (TEC), EU funding (ERDF, ESF and EFF) ⁹ and net expenditure (EAFRD) ¹⁰	North: € 65.7 million TEC, of which € 28.4 million ERDF East: € 132.8 million TEC, of which € 39.6 million ERDF South: € 81.3 million TEC, of which € 22.6 million ERDF West: € 291.6 million TEC, of which € 76.0 million ERDF	€ 374.0 million TEC, of which € 157.8 million ESF	€ 28.1 million TEC, of which € 10.6 million EFF	€ 21.3 million net expenditure
Projected error rate (ERDF, ESF and EFF) ¹¹ and actual error rate, based on sample, (EAFRD) ¹²	North: 0.80% East: 0.00% South: 1.45% West: 4.21%	0.37%	18.87%	3.01%
Score for the management and control system ^{13*}	North: 2 (MA 1 and CA 2) East: 2 (MA 2 and CA 2) South: 2 (MA 2 and CA 2) West: 2 (MA 2 and CA 3)	2 (MA 2 and CA 2)	3 (MA 3 and CA 3)	2

* Legend: Score 1: system functions well, minor improvements needed. Score 2: system functions adequately, some improvements needed. Score 3: system functions partially, substantial improvements needed. Score 4: system essentially does not function.

The management and control systems in place for the EFF at both the managing authority and intermediary body (MA/IB) and the certifying authority were inadequate: the systems functioned partially and substantial improvements were needed. The audit authority found

substantial shortcomings in two of the four key requirements at the MA/IB relating to the performance of management verifications and the documentation of the audit trail. The audit authority found substantial shortcomings in two of the four key requirements at the certifying authority relating to the performance of certification activities and the recording of amounts recoverable. The actual error rate of 18.87% is significantly higher than the tolerable error rate of 2%. On closure, however, the critical, cumulative error rate over the entire programming period after additional corrections was less than 2% (1.90%). The error rate in the ERDF West for the final accounting period (4.21%) was also higher than the permitted 2%. But the cumulative error rate over the programming period as a whole was reduced by additional corrections to less than 2% (namely 0.0%). The 3.01% error rate in the EAFRD was higher than the permitted 2%, but over the period as a whole (16 October 2014 to 31 December 2015) it was less than 2%. This rate, too, is the number of errors found expressed as a percentage of the sample.

The expenditure accounted for in the 2007-2013 closure and the budget utilisation in 2007-2013 are shown below.

European Agricultural Fund for Rural Development (EAFRD)	
Net expenditure, 16 October 2015 to 31 December 2015, accounted for in the 2007-2013 closure (= annexe to the <i>National Declaration 2017</i>)	€ 21.3 million
Total EAFRD budget 2007-2013	€ 593.2 million
Cumulative utilisation (budget 2007-2013)	€ 591.8 million
Utilisation rate 2007-2013	99.8%

The Netherlands utilised virtually all the EAFRD funding provided by the European Commission.

European Regional Development Fund (ERDF)	
Total eligible costs and EU funding, 1 January 2015 to 31 December 2016, accounted for in the 2007-2013 closing (= annexe to the <i>National Declaration 2017</i>)	€ 571.3 million, of which € 166.6 million ERDF ¹⁴
Total ERDF budget 2007-2013	€ 830.0 million ¹⁵
Cumulative utilisation (budget 2007-2013)	€ 830.0 million
Utilisation rate 2007-2013 (fund)	100%

The Netherlands utilised all the ERDF funding provided by the European Commission. ‘Overcommitment’¹⁶ created a buffer that absorbed corrections of irregularities. This is permitted under EU rules. The final overcommitment is funded nationally (central government, local authority or private funding).

European Social Fund (ESF)	
Total eligible costs and EU funding, 1 January 2015 to 31 December 2016, accounted for in the 2007-2013 closure (= annexe to the <i>National Declaration 2017</i>)	€ 374.0 million, ¹⁷ of which € 157.8 million ESF
Total ESF budget 2007-2013	€ 830.0 million
Cumulative utilisation (budget 2007-2013)	€ 830.0 million
Utilisation rate 2007-2013 (fund)	100%

The Netherlands utilised all the ESF funding provided by the European Commission. Part of the expected overcommitment was also transferred to the 2014-2020 programming period. In the event of overcommitment, the remainder will be funded nationally.

European Fisheries Fund (EFF)	
Total eligible costs and EU funding, 1 January 2015 to 31 December 2016, accounted for in the 2007-2013 closure (= annexe to the <i>National Declaration 2017</i>)	€ 28.1 million, ¹⁸ of which € 10.6 million EFF
Total EFF budget 2007-2013	€ 48.6 million ¹⁹
Cumulative utilisation (budget 2007-2013)	€ 34.4 million
Utilisation rate 2007-2013 (fund)	70.8%

The Netherlands utilised 70.8% of the EFF funding originally provided by the European Commission. This ‘undercommitment’ was due to management shortcomings and the high rate of irregularities on the one hand and the lower acceptance and withdrawal of projects on the other. A considerable proportion of the funded amount could therefore be spent on fisheries projects.

Appendix II

Conclusions, recommendations and points for attention

Conclusions, recommendations, response of the government and afterword

1 Agricultural funds (EAGF and EAFRD)

Point for improvement:	The management and control system in place for weather insurance (EAFRD) contravenes two EU rules.
Recommendation:	None (the Ministry of Economic Affairs will reconsider the controls in place for weather insurance in consultation with the European Commission).
Point for improvement:	As in the previous year, the percentage of irregularities in agricultural nature and landscape management (EAFRD) is too high.
Recommendation:	Evaluate the results of the new nature and landscape management regime during the first year of its implementation and take additional measures if necessary to strengthen compliance with the management rules.
Government response:	The government accepts the recommendation. The causes of the departures will be analysed and the results evaluated. Implementation of the new regime is considered in the permanent evaluation.

2 ERDF

Point for improvement:	ERDF improvement programme: remaining differences in the interpretation of the rules should be resolved as soon as possible so that expenditure statements can be submitted to the European Commission on time.
Recommendation:	None (is part of the recommendation in our previous report and is being addressed).

3 ESF and FEAD

Point for improvement:	None.
Recommendation:	None.

4 EMFF

Point for improvement: Several improvements in the management and control system, in particular in the electronic information system and in process descriptions, work instructions and frameworks for funding schemes.	
Recommendation:	<p>Ensure that:</p> <ul style="list-style-type: none"> the managing authority enters the points for improvement (including information security measures) in the electronic information system in 2017, before all management processes become operational; a consistent and complete set of process descriptions, work instructions and frameworks is available before all the schemes are opened up.
Government response:	The government accepts the recommendation and will ensure that it is acted upon. Measures are already being taken and progress is being monitored. The Central Audit Service will determine the measures' effectiveness during its regular audits.

5 Migration and security funds

Point for improvement: None.	
Recommendation:	None.

No points for improvement or recommendations were formulated for the migration funds from the previous programming period; the period has been closed.

Points for attention

The points for attention considered below are also explained further in the notes on our website (www.rekenkamer.nl).

1 Agricultural funds (EAGF and EAFRD)	
Points for attention:	<ul style="list-style-type: none"> Conditions for support for livestock sectors (EAGF). Recovery of undue payments (EAFRD).

2 ERDF	
Points for attention:	None.

3 ESF and FEAD

Points for attention:

- Improvements in the managing authority's system:
 - o ESF: segregation of duties; selection of projects.
 - o ESF and FEAD: audit trail; electronic information systems; anti-fraud measures; preparation of management declaration and annual summary.

4 EMFF

Points for attention:

None.

5 Migration and security funds (AMIF and ISF)

Points for attention:

Improvements in the responsible authority's system: audit trail.

No points for attention were formulated for the migration funds from the previous programming period; the period has been closed.

Appendix III

Follow-up to conclusions and recommendations in the Report on the National Declaration 2016

The conclusions and recommendations formulated in the Report on the National Declaration 2016 that have been followed up and/or are no longer relevant are summarised below.

1 Agricultural funds (EAGF and EAFRD)	
Conclusion:	Administrative checks in the EAFRD need strengthening.
Recommendation:	Have the RVO monitor the results of the improvement plan.

2 ERDF	
Conclusion:	A great deal of work still needs to be done to close the 2007-2013 programming period.
Recommendation:	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.
Conclusion:	The reports on financial corrections submitted to the European Commission must be revised.
Recommendation:	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 the ERDF West can be submitted on time.

3 ESF	
Conclusion:	A great deal of work still needs to be done to close the 2007-2013 programming period.
Recommendation:	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 closing audit work.

4 EFF	
Conclusion:	A great deal of work still needs to be done to close the 2007-2013 programming period; many improvements can still be made in the management and control systems.
Recommendation:	<p>Ensure that:</p> <ul style="list-style-type: none"> 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.

5 Migration funds	
Conclusion:	N.A.
Recommendation:	N.A.

Appendix IV

Audit methodology

We audited and assessed the *National Declaration 2017*. Our opinion on it is based on the consolidated statements, the accounts of 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 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 purpose and scope of the ADR's activities were largely the same as those of the Court of Audit. 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 in the *explanatory notes on each fund* on our website (www.rekenkamer.nl).²⁰

Our opinion on the financial transactions is based on our review of the national authorities' interpretation of the applicable laws and regulations. The European Commission can nonetheless interpret the laws and rules differently in its own conformity audits and so arrive at a different error rate. As a result, there is some uncertainty regarding the reductions the European Commission can still impose on the Netherlands.

To express an opinion the preparation of the National Declaration, we reviewed the orderliness and auditability of the National Declaration's preparation and its consistency with underlying documents.²¹ The Ministry of Finance based its preparation of the National Declaration principally on sub-declarations issued by the ministers and state secretaries in respect of the funds for which they are responsible. In accordance with the

applicable procedure, these sub-declarations are accompanied by assurance reports issued by the Central Audit Service. The Minister of Finance also tested the plausibility of the sub-declarations against the underlying documents. We reviewed the form, content and presence of the sub-declarations and the assurance reports and checked their consistency against the underlying documents.

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 attention.

EU regulations make different demands on the management and control of each fund and accountability for them. The National Declaration therefore has 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 the management and control systems during the period audited. Owing to differences in the regulations issued by the European Commission, the organisation and titles of the actors at the various funds differ. The assessment system also differs. Nevertheless, in order to present an overall view of the functioning of the management and control systems we adopted the system used for the structural funds (ERDF, ESF and EMFF). We interpreted the scores reported by the ADR to the European Commission in respect of the agricultural funds and the audit scores awarded to the migration funds (2007-2013 programming period) and the migration and security funds (2014-2020 programming period) as strictly as possible. More information on the scores and the prescribed scoring method can be found in the *explanatory notes* on our website (www.rekenkamer.nl).

Appendix V

Bibliography

Ecorys (2016), *Ex post evaluatie POP2 2007-2013*, Rotterdam, 9 December 2016.

European Commission (2016). *EU annual budget life-cycle: figures*.

http://ec.europa.eu/budget/figures/interactive/index_en.cfm

European Union (2012), *Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002*, Official Journal of the European Union, L 298/1.

Netherlands Court of Audit (2016). *Report on the National Declaration 2016*. The Hague. Netherlands Court of Audit.

Appendix VI

End notes

- 1 The National Declaration discloses the balance of expenditures and receipts.
- 2 The National Declaration discloses the balance of expenditures and receipts.
- 3 The European Commission does not consider customs duties to be a national contribution but as one of the EU's own resources that the member states collect on its behalf in exchange for a collection fee.
- 4 The National Declaration discloses the balance of expenditures and receipts (mainly corrections to expenditures). Of the € 702.2 million, € 33.7 million relates to the migration funds from the previous programming period, 2007-2013.
- 5 The audit authority (ERDF, ESF, FEAD, EMFF and the migration and security funds) and the certifying authority (EAFRD and EAGF) check compliance with the European Commission's requirements on management and control systems. It follows that the audit authority and certifying authority are not part of the management and control systems.
- 6 This support is comparable with the support provided from the EAGF during the 2007-2013 programming period under article 68 (1) of Regulation (EU) No. 73/2009.
- 7 Using a method developed by the Ministry of Economic Affairs, the Central Audit Service and the Netherlands Court of Audit in 2015, the percentage of irregularities in agricultural nature and landscape management for the 2015 application year was calculated at 4.4% (application year 2014: 3.6%). This method was developed because the control statistics prepared for the European Commission had to be processed before the percentage of irregularities could be calculated. The control statistics are derived from the RVO's administrative checks and the NVWA's on-the-spot checks.
- 8 The provinces have been implementing agricultural nature and landscape management by means of agricultural collectives since 2016. An agricultural collective is a certified alliance -- a cooperative association -- in a self-selected, defined area, consisting of farmers and other land users (managers with a right to use the land) who have

voluntarily come together to carry out agricultural nature and landscape management. The collective itself is awarded the funding, enters into contracts with agricultural nature managers and checks implementation.

- 9 The 'EU funding' for 2015-2016 is the total actual amount provided by the EU at the end of the programming period (March 2017) less the cumulative EU funding declared at the end of 2014.
- 10 The declaration systems differ. In the ERDF, ESF and EFF, the member states declare the total eligible costs (TEC). A proportion of these costs is funded by the EU. In the EAFRD, the member states declare the portion of eligible costs funded by the EU.
- 11 In the ERDF, ESF and EFF, the tolerable error rate can allow for buffers in each project. If ineligible costs are declared to the European Commission, the irregularities are offset against the buffer of undeclared costs. The large buffers in the ERDF East were due to over-utilisation and all errors were offset against buffers. This resulted in an error rate of 0%.
- 12 The sampling methods differ on account of different closure requirements set by the European Commission. Under EU regulations, irregularities in ERDF, ESF and EFF projects can be offset against a buffer when calculating the error rate in the case of 'over-utilisation' (where eligible costs are higher than declared costs). In the ERDF East, all irregularities found were offset against buffers.
- 13 The scoring method for the ERDF, ESF and EFF differs from that for the EAFRD. For comparative purposes, the EAFRD scores in the table were calculated using the method used for the ERDF, ESF and EFF.
- 14 By Operating Programme: North: € 65.7 million, of which € 28,4 million ERDF. East: € 132.8 million, of which € 39.6 million ERDF. South: € 82.4 million, of which € 22.6 million ERDF. West: € 290.7 million, of which € 76.0 million ERDF.
The final closing statements of March 2017 disclose € 21.9 million (total eligible costs) less than the payment applications at the end of 2016 (North: 1.5 million, East: N.A., South: 7.6 million, West: 12.8 million). This is due to adjustments to payment applications already submitted that have no consequences for the final ERDF funding that the Netherlands receives from the European Commission.

- 15 By Operating Programme: North: € 169.4 million. East: € 164.1 million. South: € 185.9 million. West: € 310.6 million.
- 16 Overcommitment means more funds are awarded ('committed') than are budgeted. If budgeted expenditure is subsequently not incurred, a buffer is available to offset any additional expenditure. This prevents underutilisation of the EU budget, for example in the case of underutilisation on projects or corrections based on the audit authority's findings. The ultimate size of this buffer, which cannot be declared to the European Commission, must be funded nationally.
- 17 The final closing statement of March 2017 discloses € 14.7 million (total eligible costs) less than the payment applications at the end of 2016. This is due to adjustments to payment applications submitted earlier, including amounts awarded following objection procedures and the partial transfer of two projects to the 2014-2020 programming period. These adjustments have no consequences for the final ESF funding that the Netherlands receives from the European Commission.
- 18 The final closing statement of March 2017 discloses € 4.7 million (total eligible costs) less than the payment applications at the end of 2016. This is due to adjustments to payment applications previously submitted and an additional correction on account of the high error rate. In the EFF (where there was no overcommitment and therefore no buffer at programme level), these corrections led to a further reduction in the EFF budget for the Netherlands. The managing authority lodged an objection with the European Commission against the calculation of the ultimate funding.
- 19 Reduced to € 43.3 million following a decommitment in 2015. The utilisation rate of the reduced budget was 79.5%.
- 20 Our opinion on the financial transactions is also based in part on the results of on-the-spot checks at beneficiaries carried out by the Netherlands Food and Consumer Product Safety Authority, after we first validated the results by means of a review and our own checks. In some of these checks, the results period reported upon to the European Commission (on-the-spot checks of expenditure in year t) did not coincide with the expenditure period reported upon to the Commission (expenditure from 16 October in year t to 15 October in year t+1). In addition, the results of on-the-spot checks of year t+1 were not known when the National Declaration was prepared. In

this light, we based our opinion on the financial transactions in the agricultural funds in part on the results of on-the-spot checks of an earlier period (year t).

- 21 Orderliness means the National Declaration was prepared in accordance with the applicable procedure. Auditability means the procedure followed can be repeated. Underlying documents are the documents that were regarded as building blocks for the National Declaration during the procedure.

Information

**The Netherlands Court of
Audit Communications
Department
P.O. Box 20015
2500 EA The Hague
The Netherlands
T: +31-70-342 44 00
E: voorlichting@rekenkamer.nl
I: www.rekenkamer.nl**

Translation

Intact (Alan Hyde)

Cover

**Design: Corps Ontwerpers
Photograph:
Corbis/Hollandse Hoogte**

The Hague, May 2017

