

EU Trend Report 2006

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Introduction to the EU Trend Report 2006

The *EU Trend Report 2006* is the fourth in a series of annual reports in which the Netherlands Court of Audit examines financial management in the European Union (EU).

Structure of the report

The *EU Trend Report 2006* has the following parts:

- Part I: developments in EU-wide financial management and in the regularity and effectiveness of EU policy (both policy as a whole and by individual budget heading);
- Part II: a country comparison of the regularity and effectiveness of the expenditure of EU funds in the 25 EU member states;
- Part III: an overview of developments in financial management, control of EU funds and the regularity and effectiveness of EU policy in the Netherlands;
- Part IV: conclusions and recommendations, the response of the relevant ministers and the Court of Audit's afterword.

Main indicators

In parts I to III, we review the current status of financial management with the aid of five main indicators that the Court of Audit considers to be of key importance to gain an insight into the development of financial management in the EU:

- *Main indicator 1: Quality of EU financial management systems.* On the basis of public information, we look at the extent to which the management, control and supervision systems in the EU can guarantee the regularity (and, where possible, the effectiveness) of the EU budget as a whole and of the individual budget headings. The status of this main indicator is considered in part I of this report.
- *Main indicator 2: Insight into the regularity and effectiveness of the expenditure of EU funds at EU level and at member state level.* Such an insight stands or falls on the availability of information on regularity and effectiveness. Here, too, the information we consider is taken from public sources. The status of this main indicator is considered in parts I and II of this report.
- *Main indicator 3: Regularity and effectiveness of the expenditure of EU funds at EU level and at member state level.* We consider the regularity and effectiveness of the expenditure itself with the aid of public information. The status of this main indicator is also considered in parts I and II.
- *Main indicator 4: Insight into the regularity and effectiveness of the expenditure of EU funds in the Netherlands.* We review the insight that ministries in the Netherlands have into the regularity and effectiveness of the expenditure of the EU funds for which they are responsible. We do so by means of our own investigations and with the aid of public information. The status of this main indicator is considered in part III.

- Main indicator 5: *Regularity and effectiveness of the expenditure of EU funds in the Netherlands*. We review, again by means of our own investigations and with the aid of public information, the regularity and effectiveness of expenditure itself in the Netherlands. The status of this main indicator is considered in part III.

Similarities and differences between the EU Trend Report 2006 and previous editions

The main indicators and subjects considered in parts I to IV are the same as in previous editions. Again, only information obtained from public sources is used in parts I and II. The information we used has been externally audited (in so far as possible). It is taken, for example, from reports issued by supreme audit institutions or by the European Court of Auditors. We also studied documents issued by the European Commission.

The structure of the *EU Trend Report 2006* differs in parts from that of the EU Trend Reports for 2003, 2004 and 2005. To start with, we concentrate more than in previous years on EU funds, the preconditions for good financial management, including the policy developed for it, and the regular and effective use of European funds. We no longer make excursions into areas that might be of interest for a general understanding of the EU but have little to do with financial management, such as the internal market, competition, the environment and security.

Another difference from previous Trend Reports relates to the wording of the five main indicators. In the past we expressed a general, qualitative opinion on each of the indicators. We do so again in the *EU Trend Report 2006* but we have also introduced a number of *quantitative indicators* in order to enhance the transparency of financial management. Only if there is a *concrete and measurable insight* into the most relevant aspects of financial management or if it is known that there is no insight into certain aspects, can trends be identified. Revealing these trends can in turn contribute to increasing the government's and parliament's insight into developments in financial management in the EU, and thus in the Netherlands too.

Executive summary

Main conclusions

The first main conclusion from our findings is that the insight into and the regularity of the expenditure of EU funds did not improve between 2003 and 2004. As in previous years, the European Court of Auditors was unable to issue a positive Statement of Assurance on the accounts for the 2004 financial year. It is therefore again uncertain whether the funds that the Netherlands contributes to the EU – about € 5 billion – were spent correctly. In areas that the Court of Audit considers to be essential for the development of EU financial management, there is still little public information available on the EU budget as a whole and on the individual budget headings. This lack of insight prevents a proper assessment of both the regularity and the effectiveness of EU policy.

Our second main conclusion is that little comparative information is available on the expenditure of EU funds in the EU member states. At national level, there is no specific insight into the regularity of the expenditure of EU funds. Little public information is available on the effectiveness of this expenditure. The European Commission and the member states do not make full use of the information that is available, such as that on the application of structural funds.

Our third main conclusion concerns the situation in the Netherlands. In general, Dutch management, control and supervision systems in place for the agricultural and structural funds received from Brussels function reasonably well. However, insight into the regularity of expenditure is still incomplete. Since information on the effectiveness of EU policy is also thinly spread in the Netherlands, some ministries are restricted in their ability to coordinate national policy and European policy. There is a risk of policies overlapping, conflicting or being absent ('blind spots') in certain areas.

Our fourth and final main conclusion is that the European Commission's proposals to improve the EU's financial control and accountability, including the introduction of member state declarations regarding the correct application of funds, have made very little progress. They have met with opposition in many member states. The Netherlands is one of the few member states to support the Commission during the negotiation of its proposals.

Status in 2003-2005

On the basis of its findings, the Court of Audit presents an updated analysis of the five main indicators in the EU Trend Report.

Indicator 1: quality of EU financial management systems

The information contained in the annual activity reports issued by the European Commission's Directorates-General and services is gradually providing more insight into the work performed in 'Brussels' and its results. Information on internal audit and accountability, however, is still limited. The chain of accountability in the EU will not be complete until the Commission's Synthesis Report is signed.

Indicator 2: insight into the regularity of the expenditure of EU funds in the EU

Insight into the regularity of the expenditure of EU funds in the EU as a whole did not improve in 2004 in comparison with 2003. The European Court of Auditors' annual report provides an overall view for the EU as a whole (albeit not a quantitative view) but only a limited view by budget heading. The information currently available from public sources is also inadequate to arrive at a view of regularity by member state. Not enough information is currently available to quantify in full the Court of Audit's indicators of regularity at EU and member state level. The information available is not entirely reliable, comparable or representative.

Indicator 3: regularity of the expenditure of EU funds in the EU

The European Court of Auditors was again unable to issue a positive Statement of Assurance on the accounts for the 2004 financial year. In each of the European Commission's budget headings, there were problems to one degree or another regarding the legality and regularity of expenditure. Information provided by the European Commission on irregularities and fraud and the information in the statements of assurance issued by the Commission's Directorates-General and services do not provide an adequate basis to express quantitative opinions on regularity.

Indicator 4: insight into the regularity and effectiveness of the expenditure of EU funds in the Netherlands

In the Netherlands there is an insight into the quality of the financial management systems (management, control and supervision) in place for agricultural and structural policy. Insight into the regularity of expenditure in the Netherlands, however, is still incomplete. Furthermore, there is little insight into the regularity of expenditure on the Union's internal policies in the Netherlands and hardly any information on the effectiveness of EU policy implemented in the Netherlands. As a result, the ministries are unable to coordinate national policy and European policy effectively, and insight into the efficient and effective use of European and national funds in the same policy field is poor.

Indicator 5: regularity and effectiveness of the expenditure of EU funds in the Netherlands

Insight into the regularity of the expenditure of EU funds in the Netherlands is incomplete. The audit report issued on the European Commission's annual accounts does not refer to regularity. The only regularity information that member states report to the Commission relates to the irregularities they detect. The Netherlands reported more irregularities in 2004 but there is a risk, particularly in respect of the structural funds, that many irregularities will not be detected until programmes are closed. With regard to the effectiveness of EU policy implemented in the Netherlands, the EU's precise objectives in various policy areas in the Netherlands are uncertain, so is the timing. At individual programme level, there is more insight into the objectives but here, too, transparency is lacking. Nothing is known about the achievement of policy objectives within the policy fields as a whole; some information is available at an individual programme level in the Netherlands. The objectives are not always achieved.

Recommendations

The Court of Audit's main recommendations are:

- The Netherlands, in particular the Ministers of Finance and of Foreign Affairs, should call on the European Commission to make further improvements in the annual activity reports issued by its Directorates-General and services, to use its Synthesis Report as a fully-fledged document to account for itself, and to provide more insight into the effectiveness of EU policy at the highest level.
- The Netherlands should continue to work on improving financial management systems in the EU. In the Council of Ministers, the Netherlands should continue to support the Commission's proposals to reform financial control and accountability. The Netherlands itself can prepare an ex post statement of assurance based on information already available from the paying agencies (agricultural policy) and managing authorities (structural policy).
- To ensure that national and EU funds are used efficiently, especially in EU internal policy fields, the Ministers of Economic Affairs (EZ), Transport, Public Works and Water Management (venw), Housing, Spatial Planning and the Environment (vrom), and Education, Culture and Science (ocw) should provide more insight into precisely where national and EU policies coincide.
- The Ministers of EZ, Agriculture, Nature and Food Quality (LNV), Social Affairs and Employment (szw), Interior and Kingdom Relations (BZK), venw, vrom and ocw should, on the basis of national and European information available on structural policy and internal policies, disclose which final beneficiaries receive how much money from which European funds (as is already the case in agricultural policy). On the basis of available national and European evaluations of agricultural policy, structural policy and internal policies, the ministers should also provide an insight into the results of those policies in the Netherlands.

- The Ministers of EZ, LNV, SZW and BZK should prevent a situation arising in which most irregularities are not detected until after the structural fund programmes are closed, as happened with the 1994-1999 programming period. The managing authorities and ministries should improve their checks of progress information and of compliance with aid conditions during the programming period.

The government's response and the Court of Audit's afterword

The Minister of Finance responded to the *EU Trend Report 2006* on 17 January 2006 on behalf of himself, the other members of the government and the Minister for European Affairs. The Minister of SZW sent a supplementary response on 13 January 2006.

More insight needed into regularity and effectiveness

The government endorses the recommendation to call on the European Commission to provide more insight into regularity by budget heading and into the effectiveness of EU policy at the highest level. The government will urge the Commission to develop the annual activity reports and the Synthesis Report into fully-fledged accountability documents.

We are pleased with this undertaking by the government.

A better system of financial management in the EU

The government regrets that there is no majority in the Council in support of the European Commission's roadmap proposals as a whole. Nevertheless, the Netherlands will continue to call on the Commission and the other member states for a measurable improvement in financial management by seeking a positive Statement of Assurance.

We welcome the fact that the Netherlands will continue to call for a measurable improvement in financial management.

Ex post statements of assurance

The government is prepared to explore the feasibility of preparing a Dutch ex post statement of assurance using information already available from the paying agencies (agricultural policy) and the managing authorities (structural policy). A feasibility study will be carried out and the government will take a decision in summer 2006 on the possible introduction of a national declaration.

We welcome the government's intention to study the feasibility of introducing a national statement of assurance. We note that the Commission's roadmap relates not only to agricultural and structural funds (under 'shared management') but also to funds under indirect central management, decentralised management and joint management. We think these funds should also be included in the feasibility study.

We recommend that the government should consider submitting the national statement not only to the European Commission and the European Court of Auditors but also to the States-General in the Netherlands. The study could also consider the Commission's proposal to have the supreme audit institution (or another external auditor) audit the statement and report on its findings to parliament. In consultation with the Minister of Finance, we would be willing to determine how we could contribute to the feasibility study.

Greater transparency of national and EU policy fields

The government is involved in the formulation of the Union's internal policies in broad lines only and has no responsibility for their implementation.

The government therefore wishes accountability for internal policies to remain with the body responsible for their implementation, i.e. the European Commission. Nevertheless, the government agrees with us that various instruments might be strengthened if they complemented each other and overlaps were eliminated. This point will therefore be raised during the formulation of future European programmes

In our opinion, the government should know where there are overlaps, inconsistencies and blind spots. This might improve the quality of decisions on internal policies and enhance the efficient and effective use of EU and national funds. We will return to this matter in the future.

Disclosure of final beneficiaries of EU funds

According to the government, providing detailed reports on beneficiaries and the assistance they receive from which European funds would generate inadequate added value, especially if the administrative burden is taken into account. The government does not accept that our recommendation ties in with the respective ministers' responsibilities and refers to the deregulation of the recipients' duty to provide information.

We think the government's response is inconsistent with the European transparency initiative launched by Commissioner Kallas.¹ This initiative is designed to increase public access to information on European projects and the final beneficiaries of EU funds. In addition, we note that the final beneficiaries of agricultural funds were disclosed in 2005. We think it no more than logical that the recipients of other EU funds in the Netherlands be treated in the same way.

Provide insight into the results of EU policy in the Netherlands

In response to our recommendation that existing national and European evaluations of agricultural policy, structural policy and internal policies should be used to provide an insight into the results of these policies in the Netherlands, the government responded that the ministers concerned already reported to the House of Representatives each year on the financial results of agricultural policy and the results of structural policy. Their reports are based on existing national and European evaluations. We think it is a shame that the government is not willing to go further than the current reports on the results of EU policy, particularly since it could do so using underlying evaluations already available in a number of areas. It would also be in keeping with the form of accountability required under the From Policy Budgets to Policy Accountability operation in the Netherlands.

¹ The European transparency initiative is based on the strategic objectives of the European Commission for 2005-2009. See Commission communication COM (2005) 12 final. For the initiative itself, see the speech Commissioner Kallas gave at the European Policy Institutes Network, Brussels, 20 October 2005.

Prevent an increase in irregularities

The government replied that the ministries concerned reported all irregularities to the European Antifraud Office OLAF immediately. Furthermore, the risk of financial corrections during the final winding-up procedure had a preventive effect. It is inevitable, however, that the number of irregularities reported to OLAF will increase towards the end of the period because the number of project applications generally increases over the programming period.

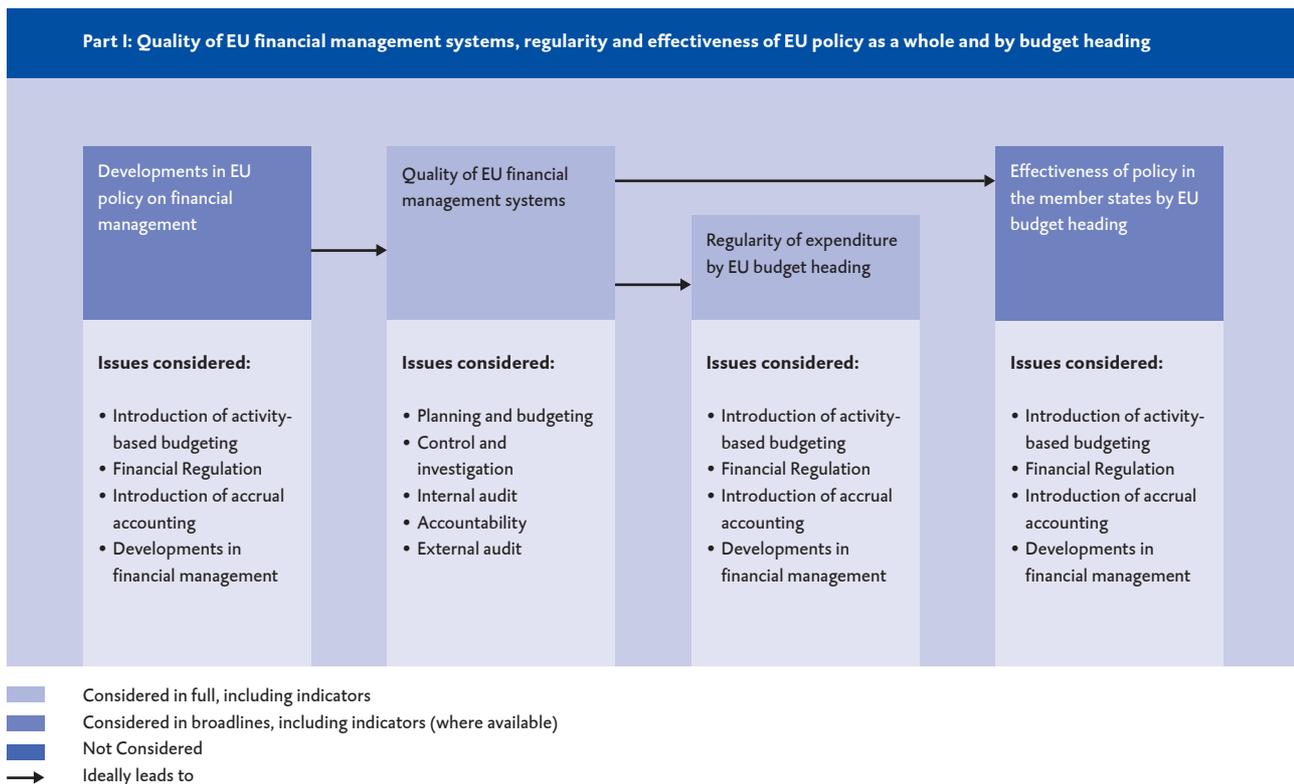
We do not think the current procedures are adequate to limit the number of irregularities detected during the winding-up. Several programme auditors have indicated that better checks should be made of the progress information and compliance with aid conditions. We will continue to follow the development of the number of irregularities and return to the issue in later reports.

Part I

EU institutions

I Introduction to part I

Part I of the *EU Trend Report 2006* is concerned with developments in financial management, the regularity of expenditure and the effectiveness of EU policy in the EU as a whole, at the level of the EU institutions. The figure below shows which issues are considered in this part of the EU Trend Report.



As the figure shows, part I considers the quality of financial management systems in the EU and the regularity of the expenditure of EU funds in the EU as a whole (by budget heading). We formulate indicators for each of these aspects and value them on the basis of public information. The issues in the shaded boxes (recent developments in EU financial management policy and information on the effectiveness of EU policy) are considered more descriptively.

Part I is organised as follows:

- Chapter 2: key figures on member state contributions to the EU budget and EU expenditure in the member states.
- Chapter 3: developments in EU financial management policy, including the Commission's proposals for the new Financial Perspective 2007-2013, the introduction of accrual accounting and the European Parliament's and Commission's initiative to reform the system of control in the Union.
- Chapter 4: general assessment of the quality of the European Commission's financial management, based on indicators of the budget, control, audit and accountability.

- Chapter 5: assessment of the insight into and regularity of expenditure by heading of the EU budget with the aid of indicators.
- Chapter 6: description of the effectiveness of EU policy by relevant EU budget heading for the three main budget headings: common agricultural policy, structural operations and internal policies.
- Chapter 7: conclusions to part I.

2 EU-wide: key figures

This chapter looks at the EU's revenue, i.e. the contributions made by the member states to the EU budget (section 2.1), and the EU's expenditure from its budget (section 2.2). We also consider the balance between revenue and expenditure: the surplus on the EU budget as a result of underspending (section 2.3).

2.1 Member state contributions to the EU budget

In 2003, 2004 and 2005, the EU's total expenditure was budgeted at € 97.5, € 99.7 and € 106.3 billion respectively. To finance expenditure, the member states contribute a fixed amount to Brussels each year. These contributions to the EU budget are known as *own resources*.

2.1.1 Own resources

The member states contribute (or 'remit') three types of own resource to the EU:

- traditional own resources (75% of the agricultural duties, sugar levies and customs duties collected by the member states);
- VAT-based own resources (a percentage of the individual member states' VAT revenue or level of consumption applied on a uniform basis across the EU);
- remittances that are related to the member states' gross national income (GNI).

Table 1. Actual revenue of the EU 2000-2004 (in millions of euros)

	2000 actual revenue	2001 actual revenue	2002 actual revenue	2003 actual revenue	2004 actual revenue
Traditional own resources	15 267.1	14 589.2	9 214.0	10 857.2	12 307.1
<i>Agricultural duties</i>	1 198.4	1 132.9	1 180.3	1 349.1	1 751.2
<i>Sugar levies</i>	1 196.8	840.0	864.8	510.8	535.5
<i>Customs duties</i>	14 568.3	14 237.4	12 917.5	12 616.1	14 122.8
<i>Less: collection costs</i>	-1 696.3	-1 621.0	-5 748.6	-3 618.9	-4 102.4
VAT-based own resources	35 192.5	31 320.3	22 388.2	21 260.1	13 912.2
GNI remittance	37 580.5	34 878.8	45 947.6	51 235.2	68 982.0
<i>British budget rebate</i>	-70.9	-70.3	148.2	280.1	-148
Actual contribution of own resources	87 969.2	80 718.1	77 698.0	83 632.5	95 053.3
Other revenue:					
<i>Prior year surplus</i>	4 755.2	13 571.2	17 736.4	9 836.1	8 458.7
<i>Miscellaneous revenue</i>	3 209.1	11 612.7	15 375.0	7 676.8	5 693.0
	1 546.1	1 958.5	2 361.4	2 159.3	2 765.7
Total	92 724.4	94 289.3	95 434.4	93 468.6	103 511.9

* Source: European Court of Auditors, annual reports 2000-2004.

The table shows that after several years in which the member states' contributions to the EU were more or less stable, they increased in 2004. This was on account of the accession of ten new member states.

2.1.2 Other member state contributions

European Development Fund

The European Development Fund (EDF) grants financial aid for social and economic development projects and programmes in African, Caribbean and Pacific states and regions (ACP states). The European Commission shares responsibility with the ACP states for the management of the EDF. The member states contributed € 13.8 billion to the ninth EDF. The European Commission proposed in October 2003 that the EDF be included in the general budget for the year 2007. No agreement has been reached on the proposal, however, and the draft budget for 2007 will probably not include the EDF.

Solidarity Fund

The Solidarity Fund was established to provide emergency aid to member states or candidate member states that are affected by a major disaster. The maximum amount that can be requested from the member states each year is € 1 billion. To date, the maximum contribution has never been requested from the member states.

In April 2005, the Commission presented a joint proposal by the Commission and the European Parliament to recast the Solidarity Fund as a new EU Solidarity Fund (EUSF).² The new fund would also be applied to finance aid for disasters that are not strictly limited to one member state or that are not natural disasters. It is also proposed that protection against pandemics and terrorist attacks be financed from the fund. The threshold for aid applications would be reduced in the proposal from € 3 billion in direct damage or 0.6% of a member state's GNI to € 1 billion or 0.5% of GNI.

In the impact assessment prepared for the proposal, the Commission wrote that the proposal would make the EU's joint response to disasters more effective.³ It also noted that the new fund would grant more aid in total and more applications would be made for smaller amounts. This entails management risks. The Commission's proposal is a starting point for negotiation at Council level.

2.2 EU expenditure 2000-2004

2.2.1 Actual EU expenditure by budget heading

Table 2. Actual payments by Financial Perspective heading 2000-2004 (in millions of euros)

	2000	2001	2002	2003	2004
Common agricultural policy	40 505.9	41 533.9	43 520.6	44 379.2	43 579.4
Structural operations	27 590.8	22 455.8	23 499.0	28 527.6	34 198.3
Internal policies	5 360.8	5 303.1	6 566.7	5 671.8	7 255.2
External action	3 841.0	4 230.6	4 423.7	4 285.8	4 605.8
Pre-accession aid	1 203.4	1 401.7	1 754.4	2 239.8	3 052.9
Administrative expenditure	4 643.0	4 855.1	5 211.6	5 305.2	5 856.4
Compensation for new member states	-	-	-	-	1 409.5
Reserves	186.3	207.2	170.5	147.9	181.9
Total	83 331.1	79 987.4	85 144.5	90 557.3	100 139.4

* Source: European Court of Auditors, annual reports 2000-2004.

² See Commission document COM (2005) 108 final, 6 April 2005.

³ See Commission document SEC (2005) 447 final, 6 April 2005.

Table 2 shows the EU's actual expenditure (2000-2004) by budget heading. Administrative expenditure includes expenditure incurred by the EU's institutions, such as the European Parliament and the European Court of Auditors.

2.2.2 Other expenditure

€ 2.46 billion was disbursed from the European Development Fund in 2004 (sixth to ninth EDF together). In response to requests from Malta, France and Spain, the Commission proposed that € 22 million be released from the Solidarity Fund in 2005 in respect of flooding in France and Malta and forest fires in Spain.⁴ On 6 June 2005 the European Commission proposed to the European Parliament and the Council of Ministers that € 5.7 million be provided to Slovakia in respect of a storm that hit the country in November 2004.⁵ In August 2005 it proposed that a total of € 93 million be paid from the fund to Sweden, Estonia, Latvia and Lithuania to finance emergency measures in those countries following a severe storm in January 2005.⁶ A decision still has to be taken on this proposal.

2.3 EU budget balance

Unlike the Netherlands, the EU may not run a budget surplus or deficit. All expenditure must be covered by revenue and appropriations that are not applied must be returned to the member states. The surplus is set off against the member states' contributions in subsequent years or returned to them in accordance with a fixed payment rate.

In 2004 the EU ran a budget surplus (excluding exchange differences and assigned revenue) of approximately € 2.1 billion. By way of comparison, in 2001, 2002 and 2003 the surplus had been € 14.9 billion, € 8.4 billion and € 5.5 billion respectively. The surplus in 2003 had been attributable chiefly to an underspend on structural policy. In 2004, more than a quarter of the surplus was due to underspending on internal policies.

⁴ See European Commission press release IP/04/313.

⁵ European Commission, Proposal for a decision of the European Parliament and of the Council on the mobilisation of the European Union Solidarity Fund (...), COM (2005) 247 final.

⁶ See European Commission press release IP/05/1060.

3 Developments in EU policy on financial management

In this chapter we outline recent developments in the EU's policy on financial management. We first look at the introduction of activity-based management (section 3.1). We then discuss the negotiation of the new Financial Perspective (section 3.2), the introduction of an accrual accounting system (section 3.3) and the proposals made by various parties to improve the internal control system (section 3.4). We close the chapter by looking at other relevant changes in policy by category of expenditure (section 3.5).

3.1 Introduction of activity-based management

In 2000 the European Commission published a white paper entitled *Reforming the Commission*.⁷ It announced that it wanted to increase the efficient use of funds and accordingly proposed the introduction of activity-based management. This form of management would require reports to be issued on the objectives and results of each activity and on the funds applied to achieve them. The EU's activities (and the Commission's in particular) would thus form the basis for the appropriation of budgets, expenditure and accountability.

In the white paper, the Commission wrote that it wanted this form of management to be fully operational in all its services by July 2002. To this end, the Commission split up its work into a series of politically relevant activities. Since then, it has been working on the necessary changes.

3.1.1 New requirements on management plans, activity reports and impact assessments

The introduction of activity-based management required changes to be made in the EU's annual policy cycle. The changes related chiefly to the way in which the Commission's Directorates-General prepare their plans and reports. Greater priority was also given to the actual effects of policy.

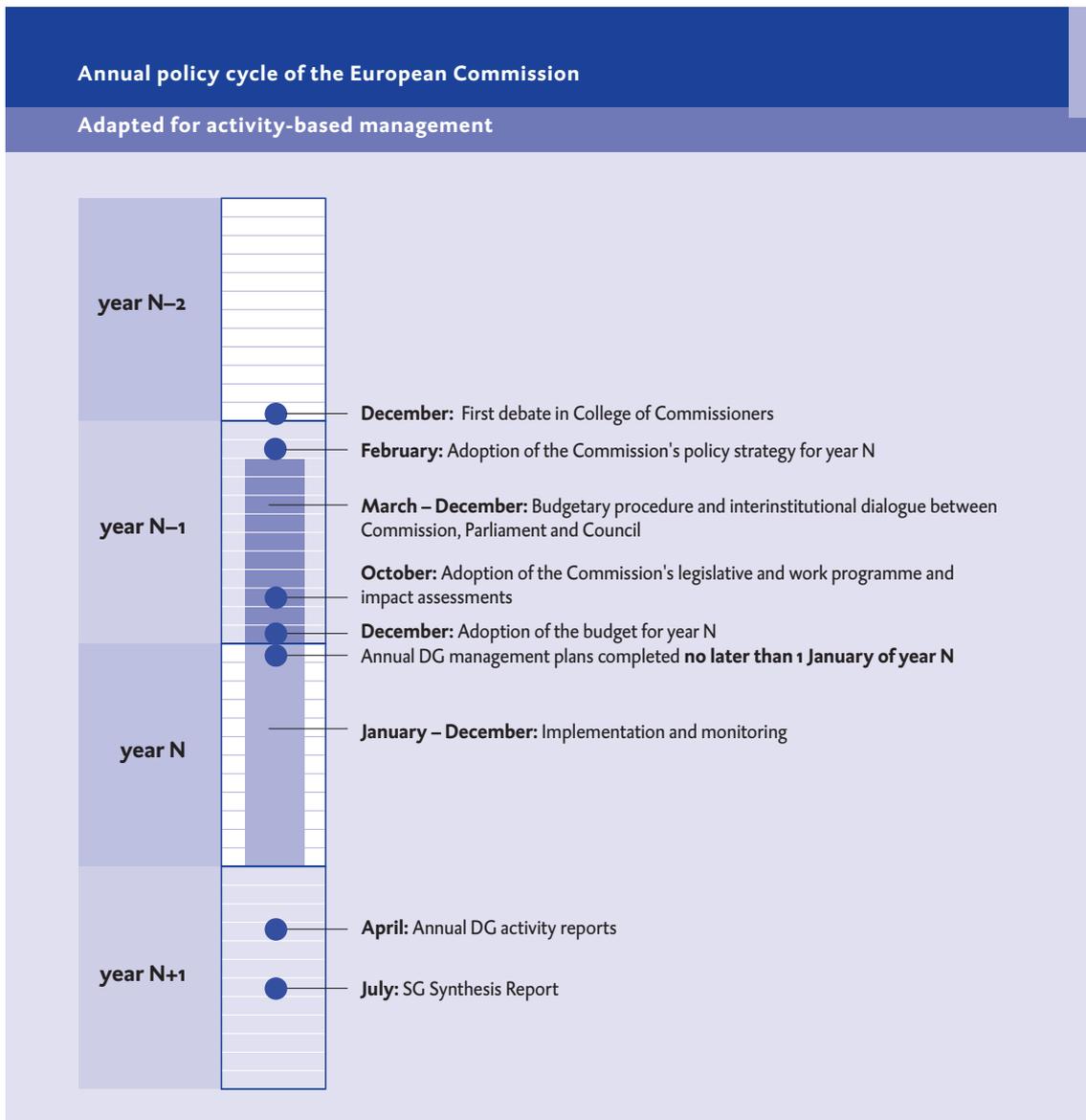
In accordance with the annual policy strategy, the Commission first draws up a legislative and work programme that defines its policy priorities for the forthcoming financial year and sets out a concrete action plan and a series of intended results. Each of the Commission's Directorates-General and services then prepares an annual management plan. The management-plans explain how the Directorates-General and services have planned their activities, how their activities will help achieve the Commission's priorities and what human and financial resources will be required to carry them out. Since the introduction of activity-based management, the plans must contain *clear, specific, measurable and verifiable* objectives for each activity and indicators to check and report on the progress made and the activities' significance to EU citizens.

⁷ See Commission document COM (2000) 200 final (White paper and action plan).

At the end of the financial year, all Directorates-General and services must prepare activity reports to report on the achievement of the objectives set in their annual management plans. All Directors-General and heads of services must issue a declaration on their annual activity reports. They must declare that the annual activity report gives a true and fair view and that there is reasonable assurance that the resources assigned to the activities described in the report were used for their intended purpose and in accordance with the principle of sound financial management.⁸ Any reservations must be summarised and explained in the declaration.

Figure 1 shows the timing during the calendar year (year n):

Figure 1



⁸ For the standard text of the DG declarations, see SEC (2001) 875/6 and SEC (2001) 1197/6&7.

The Commission issues a Synthesis Report every year in which it considers the activity reports. The Synthesis Report is submitted to the European Parliament and the Council of Ministers (see also Chapter 6, section 6.1). The Synthesis Report is not a summary of the activity reports. Formally, this is not in accordance with the Financial Regulation, which provides that: ‘The Commission shall, not later than 15 June each year, send to the budgetary authority a summary of the annual reports for the previous year’.⁹

A new procedure was introduced in 2002 to assess the effects of the activities in the work programme. The Commission’s services prepare an impact assessment for all the main initiatives in the programme.

The impact assessment is used in the political decision-making process.

3.1.2 Activity-based budgeting

Activity-based budgeting was introduced in 2004 and the Commission adopted new budget headings. Since then, the allocation of funds has been determined by the policy strategy and the Commission’s work programme.

3.2 Financial perspective 2007-2013

3.2.1 European Commission’s proposal

At the beginning of 2004, the European Commission submitted a proposal to the Council and the Parliament regarding the Financial Perspective for the period 2007-2013.¹⁰ The Financial Perspective is based on the Commission’s policy priorities for the same period. For the expenditure needed to finance the policy priorities, the Commission proposed a ceiling of 1.14% of gross national income (GNI) of the EU 27.¹¹ According to the Commission’s calculations, this ceiling is slightly lower than the own resources ceiling. Depending on the year, the margin between the two will be between 0.09% and 0.16%. The Commission’s proposal also includes 1.26% of the GNI of the EU 27 for commitments (in total € 1,025 billion).¹²

In July 2004, the Commission submitted a revised package of proposals¹³ to the Council and the Parliament as a basis to negotiate the EU’s new multiyear budget. It proposed expenditure of approximately € 928.7 billion for the entire period, divided into five new expenditure headings. The expenditure headings are:

1. Sustainable growth
 - 1a Competitiveness for growth and employment
 - 1b Cohesion for growth and employment
2. Preservation and management of natural resources (including the common agricultural policy)
3. Citizenship, freedom, security and justice
4. The EU as a global partner
5. Administration

⁹ Regulation (EC, Euratom) no. 1605/2002, Official Journal of the European Union, L 248/19, 16 September 2002, article 60.

¹⁰ See Commission document COM (2004) 101 final. The Financial Perspective is the framework for Community expenditure over a series of years. It is the outcome of an interinstitutional accord between the European Parliament, the Council and the Commission, and sets the maximum amount and composition of projected European expenditure. It is also referred to as the ‘multiyear budget’. This and other terms are explained in the glossary in appendix 2.

¹¹ The GNI of the 25 member states plus Romania and Bulgaria.

¹² Following a revision of the estimate of the EU 27’s GNI, the figure was adjusted to 1.24% in April 2005 (2004 prices).

¹³ See Commission document COM (2004) 498 final.

The Commission also proposed a generic correction mechanism that would be open to all member states (i.e. not only to the United Kingdom as is the case at present).¹⁴ A member state would automatically receive compensation whenever its net payment position, measured as a percentage of GNI, exceeded a given threshold.

3.2.2 Response of the Council of Ministers

The Council of Ministers discussed the Commission's proposals for the new Financial Perspective during the General Affairs and External Relations Council meeting of 23 and 24 February 2004. Several member states supported the Commission's wish to adopt policy for the forthcoming period and to match the financing to the policy (bottom-up). Other member states, one being the Netherlands, argued that the finances should first be agreed and then the priorities (top-down). Six member states said¹⁵ they wanted the expenditure ceiling to be 1% at most of the EU 27's GNI. The Commission's proposals therefore enjoyed little support from the member states.

3.2.3 Debate in the European Parliament

The European Parliament first considered the Commission's proposals in its temporary committee on policy challenges and budgetary means¹⁶ in May 2005 and then during a plenary session on 8 June 2005. In the plenary session, Parliament passed a resolution that referred to total budgeted funds of € 883.3 billion (1.07% on average of the EU 27's joint GNI). Parliament asked the Commission for more money for Trans-European Networks and rural development. It also regretted the fact that the Commission had not proposed a specific external action reserve that could be mobilised in response to unforeseen crises.¹⁷ Finally, Parliament confirmed the need to reform the current system of own resources and declared it was willing 'to evaluate' proposals for a correction mechanism.

3.2.4 Negotiation in the European Council

The heads of state and government of the EU member states debated the Financial Perspective 2007-2013 on 16 and 17 June 2005 and were unable to reach agreement on the proposals.

The presidency tried to reach agreement on an expenditure ceiling of about 1.06% of the EU 27's GNI for appropriations and 1.00% for payments. It was proposed that the British rebate be allowed to continue but in a revised form.¹⁸ This proposal went some way to meeting the wishes of certain member states that wanted to improve their own net payment positions, one of which was the Netherlands. The United Kingdom, however, did not agree to the proposal,

¹⁴ Although the United Kingdom's relative prosperity has increased sharply, this member state still receives a rebate on its contributions to the EU. Other net payers with a comparable or lower level of prosperity are not entitled to such a rebate. With the enlargement of the EU, the ten new, mainly less prosperous member states would have to co-finance the rebate unless policy is changed. The Commission therefore proposed this change in the mechanism.

¹⁵ The United Kingdom, France, Germany, Austria, the Netherlands and Sweden.

¹⁶ On 15 September 2004 the European Parliament decided to set up a temporary committee on policy challenges and budgetary means of the enlarged Union 2007-2013, in order to define the European Parliament's political priorities for future Financial Perspectives. The committee adopted its final report on 10 May 2005.

¹⁷ See document P5_TA (2004) 0367, Policy challenges and budgetary means in the enlarged Union 2007-2013, European Parliament Resolution regarding the Commission's communication to the Council and the European Parliament – building our common future: policy challenges and budgetary means of the enlarged Union 2007-2013 (COM (2004) 101 – C5-0089/2004 – 2004/2006 (INI)).

¹⁸ EU expenditure in the new member states, with the exception of expenditure on common agricultural policy including the phased introduction of income support in the new member states, would not be included in the calculation of total commitments for the British rebate.

preferring to link any decision on the rebate to an agreement on a more forward-looking EU budget for 2007-2013, including a thorough reform of common agricultural policy. This was not acceptable to France. The Netherlands, too, did not agree to the proposal.¹⁹

Since the rebate was a sticking point for the United Kingdom and the presidency preferred a specific solution for Sweden, the Netherlands and Germany, the discussion of the introduction of a generic correction mechanism was quietly forgotten.²⁰

3.3 Introduction of accrual accounting

The new Financial Regulation, which came into force on 1 January 2003, provides that the EU budget accounts must be kept on the basis of an accrual accounting system with effect from 1 January 2005.²¹ In an accrual accounting system, capital expenditure is depreciated over a series of years. Charging expenditure to the budget in the years in which it leads to usage provides a better insight into the annual cost of policy.

The introduction of accrual accounting meant the Commission's accounting system (SINCOM2) was no longer adequate and a new one had to be introduced that also satisfied applicable IT standards. The Commission's new accounting system became operational on 10 January 2005. It is based entirely on the accrual accounting system and, strictly speaking, satisfies the requirements of the Financial Regulation.²² However, not all subsidiary accounts (such as project accounts) and sub-systems (such as payment modules) were connected to the new system on time. Furthermore, not everything went according to plan. Of the 35 actions necessary, eight had not been completed by 31 January 2005.²³ Some matters must still (end-2005) be attended to. They relate chiefly to connecting subsidiary accounts, budgeting, and administration and reporting in accordance with the accrual accounting system.

Despite these 'loose ends', the Court of Audit believes it will be possible to keep the EU's budget accounts on an accruals basis within an ambitious time frame of about two years.

One area of concern is that the opening balance sheet as at 1 January 2005 was not available when this report was drafted.

¹⁹ House of Representatives, 2004–2005, 21 501-20, no. 286 3.

²⁰ Ultimately, five countries (the United Kingdom, Sweden, the Netherlands, Finland and Spain) objected to the presidency's proposals.

²¹ Regulation (EC, Euratom) no. 1605/2002.

²² See Report on progress at 31 January 2005 of the modernisation of the accounting system of the European Commission, COM (2005) 90 final.

²³ See Commission document COM (2002) 755 final.

3.4 Proposals to improve financial management

3.4.1 Opinion of the European Court of Auditors

On 10 April 2002 the European Parliament asked the European Court of Auditors to issue an opinion ‘...on the feasibility of introducing a single audit model applicable to the European Union budget in which each level of control builds on the preceding one, with a view to reducing the burden on the auditee and enhancing the quality of audit activities, but without undermining the independence of the audit bodies concerned.’²⁴

The European Court of Auditors provided the opinion requested on the single audit in April 2004.²⁵ It considered those aspects of the internal control system that safeguard the legality and regularity of revenue and expenditure but not those aspects that relate to effectiveness and efficiency.

The existence of an efficient and effective system of internal controls over EU revenue and expenditure would significantly help the European Court of Auditors fulfil its function as external auditor of the European Union. If the European Court of Auditors can rely on well designed and implemented control systems, it will be able to make better use of its own capacity and so improve its own performance.

The European Court of Auditors accordingly supports the introduction of a coherent and comprehensive system of internal controls over the EU budget, based on a logical framework using common principles and standards (Community internal control framework) to be applied at all levels of administration in the institutions and member states alike. The internal controls should provide reasonable assurance on the legality and regularity of transactions, and compliance with the principles of economy, efficiency and effectiveness. The cost of the controls should be in proportion to the benefits they bring in both monetary and political terms. The system should be based around a logical chain structure where controls are undertaken, recorded and reported to a common standard, allowing reliance to be placed on them by all participants. Many of the building blocks for implementing such a framework are fully or partially in place in the current systems, whereas others would need to be introduced.

The European Court of Auditors finds that the *European Commission* is responsible for defining minimum requirements for internal controls over the expenditure of EU funds. It also believes that the European Commission should promote improvements in the internal control systems in partnership with the member states. In the European Court of Auditors’ opinion, the Council of Ministers and the *European Parliament* should be responsible for approving the cost/benefit balance for the different budgetary areas.

Finally, the European Court of Auditors believes the controls should be applied, documented and reported in an open and transparent way, allowing the results to be used and relied upon by all parts of the system. The ‘owner’ of the checks should be the European Union, not the individual control organisations.

²⁴ The European Parliament made the request when granting discharge for the implementation of the EU’s general budget for the 2000 financial year.

²⁵ Opinion No. 2/2004 of the Court of Auditors of the European Communities on the single audit model (and a proposal for a Community internal control framework).

3.4.2 Proposals by the European Parliament

In April 2005, during the discharge procedure for the 2003 budget, the European Parliament expressed its concerns that, as in previous years, the European Court of Auditors had been unable to provide reasonable assurance on the legality and regularity of the EU's expenditure. Parliament thought the problem could not be resolved solely by centrally imposed controls. The current situation clearly demonstrates, according to the European Parliament, the need for new instruments to enhance the Commission's insight into the member states' management and control systems. In a resolution, Parliament made proposals to improve the financial management of the EU as a whole and to arrive at a positive Statement of Assurance in particular.²⁶

Parliament finds that the highest political authority (the finance minister) in the member states should:

- issue a sufficiently comprehensive formal disclosure statement. The statement must provide an insight into the quality of internal control systems in the member state before expenditure is charged to the EU budget;²⁷
- issue an annual assurance statement²⁸ in which the member states account for their expenditure.

Only that, according to the European Parliament, would enable the Commission to fulfil its obligations under article 274 of the Treaty.²⁹

The annual disclosure statement should include the following elements:

- a description of the control systems by the managing authority of a member state;
- an assessment of the effectiveness of these control systems;
- a remedial action plan if necessary, drawn up by the managing authority of the member state in consultation with the Commission;
- confirmation of the description by a national audit institution or another external auditor.

Parliament did not provide an indicative list of what the annual assurance statement should include.

In its resolution, the European Parliament invited the Commission to present an initial report before 1 October 2005 exploring a roadmap to a protocol with the member states on the disclosure statement. On 4 October 2005 the European Parliament organised a public hearing at which various speakers presented their ideas on how to improve EU financial management.³⁰

²⁶ See Resolution A6-0070/2005 (final version) of the European Parliament, 12 April 2005.

²⁷ This statement is also referred to as an 'ex ante declaration'.

²⁸ This statement, which can be seen as an annual accountability statement, is also referred to as an 'ex post declaration'.

²⁹ Article 274 of the EC Treaty lays down that the member states and Commission must cooperate to ensure that EU funds under shared management are spent in accordance with the principle of sound financial management.

³⁰ The speakers were: Mr Fazakas (Chairman of the Budget Control Committee of the European Parliament), Mr Kallas (Vice-President of the Commission), Mr Wynn (rapporteur for the budget 2003), Sir John Grant (permanent representative of the UK to the EU), Mr Caldeira (member of the European Court of Auditors), Ms Stuiveling (President of the Netherlands Court of Audit), Mr Ball (International Federation of Accountants) and Mr Muis (former director-general Internal Audit Service of the Commission).

3.4.3 Proposals by the European Commission

On 15 June 2005 the European Commission adopted a communication on a roadmap to a Community internal control framework.³¹ Commissioner Siim Kallas (administrative affairs, audit and anti-fraud policy) presented the roadmap during the Ecofin council of 12 July 2005.³² The roadmap's final destination is to have the European Court of Auditors issue a positive Statement of Assurance (*Déclaration d'Assurance*, DAS) on the annual accounts of the EU, partly to show European citizens that funds are being spent properly. Several measures must be taken to achieve this goal. The EU's internal control framework must be reorganised so that sufficient assurance can be provided on transactions down to the level of the final beneficiary. The roadmap has an ambitious time horizon. The first measures must be in place by 1 January 2006.

Further to the European Parliament's proposals for annual disclosure statements and annual assurance statements³³ the Commission proposed:

- to facilitate the issue of disclosure statements and assurance statements, the competent authority in the member states (authorised paying agency, paying authority, managing authority) should draw up a similar statement with a declaration by an independent auditor;³⁴
- the supreme audit institutions or other independent audit institutions should check the annual assurance statements and report to their national parliaments.

The Commission is therefore building on the European Parliament's proposals but assigns a clearer task to the supreme audit institutions or other independent audit institutions. It also expands on the concept of the single audit by introducing compulsory declarations at lower audit levels that are similar to the declarations required at national level.

The Commission also announced in its communication that the member states would be invited to indicate:

1. how they would determine the cost of control and whether they thought it should be borne by the EU budget;
2. the scope for introducing a single audit approach, implying the adoption of common principles and standards;
3. the scope for increasing the role of national supreme audit institutions through more systematic sharing of national audit reports on the use of EU funds with the European Court of Auditors.

On 21 and 22 September 2005 the British presidency and the Commission together held a panel meeting in Brussels to discuss and express opinions on the proposals in the roadmap and on the points listed above. The proposals would help the Committee of Permanent Representatives (COREPER) to agree a joint stance so that the ministers could then adopt a final position during the November Ecofin council.

³¹ See Commission document COM (2005) 252 final.

³² Commissioner Kallas is Vice-President of the Commission responsible for Administrative Affairs, Audit and Anti-Fraud policy.

³³ There is no agreement within the EU on the precise content and scope of the disclosure statements and assurance statements.

³⁴ This has already been a requirement for agricultural expenditure for several years but an additional requirement in other EU policy areas.

The expert panel, COREPER and the Council of Ministers successively failed to reach agreement on the Commission's proposals. The Ecofin council of 8 November 2005 did not adopt the proposal to introduce member state declarations. The Council said the existing statements at operational level, such as those issued on the common agricultural policy and structural policy, should continue to be used.

3.4.4 Other initiatives by the European Commission

European transparency initiative

The European Commission, through Commissioner Kallas, announced its plans for a European transparency initiative on 17 March 2005.³⁵ The initiative is designed to increase financial accountability and to strengthen personal integrity and political independence. To increase financial accountability, for example, the member states will be asked to publish information on the final beneficiaries of EU assistance. To strengthen integrity, European officials will be asked to adopt a code of conduct and declare their financial interests. On 18 May 2005, the college of the European Commission held a first exploratory debate of the initiative. A green paper is expected in autumn 2005.³⁶

Common agricultural policy: statements of assurance

A political accord was reached at the agricultural council of 30 May 2005 on the new Financial Regulation for the common agricultural policy. The Regulation provides for the financial management of the common agricultural policy. One of the new elements in it is the 'statement of assurance'.³⁷ The statement must be drawn up by the head of the paying agency, and the certifying authority in the member state must issue a report on it. This would help DG Agriculture prepare its annual management statement and as such would build on the initiative to introduce a single audit model. The changes should come into force as from the EAGGF – Guarantee section year commencing on 15 October 2006.

Structural funds: contracts of confidence

The European Commission wants to sign contracts of confidence with member states regarding the management of structural funds. These bilateral contracts between a member state and the Commission would contain agreements on the intensity of controls, control standards, reporting procedure (form, frequency, content and the like), authorisation of paying agencies and on the contracts of confidence the member state provides to the Commission.

In general, the proposals were not received positively. The Council of Ministers, for example, was not in favour of annual contracts of confidence. A meeting of audit authorities in Dublin in October 2002 also showed little enthusiasm for the idea. Now that the structural fund programming period is reaching its end and there is still little support for contracts of confidence in the member states, the Commission's Directorates-General are taking little action in this area.

³⁵ 'The need for a European transparency initiative', speech at the Friedrich Neumann Foundation in Berlin. Earlier, on 3 March 2005, Mr Kallas had given a speech on this subject at the Nottingham Business School.

³⁶ See http://europa.eu.int/comm/commission_barroso/kallas/transparency_en.htm.

³⁷ The head of the paying agency must declare in the statement that he has reasonable assurance that the annual declaration is correct and that control and management systems are adequate and function appropriately.

3.4.5 Proposals by national parliaments

The Conference of Community and European Affairs Committees of Parliaments of the European Union (COSAC) was held in Luxembourg from 16 to 18 May 2005. One of the issues discussed by the representatives of the national parliaments was the management and control of EU funds. In the resolution following the debate they noted that:

- Control of the expenditure of EU funds must be improved at national level.
- Management and control systems must be strengthened in order to improve the member states' accountability.
- COSAC is a supporter of a single audit model and welcomes the introduction of ex ante disclosure statements and ex post assurance statements.
- COSAC calls on the Council of Ministers to introduce a single audit model in the near future.
- COSAC welcomes cooperation between supreme audit institutions and calls on them to issue annual reports on the financial management of EU funds in their own member states.

3.5 Policy changes by expenditure heading

This section considers the areas in which policy is implemented 'under shared management'. These programmes are carried out jointly by the European Commission and parties in the member states.

3.5.1 Common agricultural policy

Significant changes will be made in common agricultural policy in the coming years. They are discussed below. The European Court of Auditors has issued an opinion on the proposed changes,³⁸ it is considered in Chapter 5, section 5.3.4.

Two pillars of common agricultural policy

On 1 January 2007 the new Financial Regulation will introduce a new legal framework for common agricultural policy. Policy will rest on two pillars: (1) market expenditure and income support and (2) a reformed pillar for rural development. The new agricultural policy itself will also differ in several areas and will be subject to new conditions (see below).

New conditions

Applicants must satisfy a number of specific conditions to be eligible for agricultural assistance. The new conditions will include management requirements based on European directives and regulations, agricultural and environmental requirements, and requirements on public health, animal welfare, animal and plant health and the notification of diseases. In addition, member states may set national conditions on the implementation of policy in their own countries.

In anticipation of the new policy, the requirements on good agricultural and environmental conditions have been applicable since 1 January 2005. So have the eight management requirements. The other requirements will come into effect as of 1 January 2006 or 1 January 2007. If a final beneficiary (i.e. aid recipient) does not comply with the conditions, the total aid received by that beneficiary will immediately be reduced. The maximum reduction will be 5%

³⁸ Opinion no. 1/2005.

but this figure may be multiplied by a factor of three if the applicant fails to comply with the requirements on a second occasion. If there is a third incident of non-compliance, the applications made in the current calendar year may, under certain conditions, be excluded from the aid scheme concerned.

Abolition of production assistance

Assistance granted under the common agricultural policy will be decoupled from production. The current income support and production aid will be replaced with a single farm supplement. The intention is to make agriculture more sustainable. Member states may opt to decouple assistance as from 1 January 2005, 2006 or 2007.³⁹

Abolition of the EAGGF

To date, agricultural assistance has been financed by the European Agricultural Guidance and Guarantee Fund – Guarantee section (EAGGF-Guarantee). Part of this fund is used to finance some rural development projects; others are financed by the structural funds. As from 2007, there will be two funds to finance common agricultural policy: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).

Control in the member states

The European Commission encourages the member states to make as much use as possible of the existing control capacity and expertise of the organisations that are already engaged in enforcement. If they do, they can include the compliance checks in their annual control programmes.

Rural development

Rural policy is laid down in a framework regulation on rural development.⁴⁰ Member states may provide assistance to farmers to finance investments and measures relating to the environment, natural resources and the landscape. To release funds for rural development, applications for direct aid payments made in 2005 will be reduced by 3%. This reduction does not apply to the first € 5,000 of an application.⁴¹ This mechanism is known as modulation.

Available budget

A ceiling was placed on agricultural expenditure in 1999. To ensure the affordability of common agricultural policy following the enlargement, the Commission wishes to increase the agricultural budget by € 8 billion. Italy suggested an alternative in May 2005: the introduction of a system of national co-financing for agricultural policy. Such a system would have a favourable impact on the net position of the Netherlands, the United Kingdom and Germany. Member states such as France and Spain, by contrast, would see their contributions increase by hundreds of millions of euros. The Dutch government's position is that the ceiling agreed for the 2007-2013 period should remain in place in subsequent years, even after the Union's enlargement with Romania and Bulgaria. The Netherlands accordingly rejects the Commission's proposal to increase the agricultural budget.

³⁹ The Netherlands will decouple the assistance as of 1 January 2006.

⁴⁰ Council Regulation (EC) no. 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

⁴¹ Info Bulletin Common agricultural policy, December 2004, Number 1.

Sugar market

On 22 June 2005 the European Commission proposed a reform of the common organisation of the sugar market. The new organisation would continue to offer developing countries preferential (i.e. low threshold) access to the European sugar market at a price that is above that on the world market. The Commission also proposed an assistance programme for countries in Africa, the Caribbean and the Pacific (the ACP states) that have traditionally exported sugar to the EU. The Commission wants to reduce the price of white sugar produced in the EU by a total of 39% in two steps. Even then, the price would still not be at market prices. Farmers will receive compensation for 60% of the price reduction by means of aid that is added to the farm supplement (for which they must also observe environmental and land management requirements). A voluntary four-year restructuring programme will be introduced to encourage the less competitive sugar factories to stop making sugar. Finally, market intervention (the purchase and storage of agricultural products at a fixed intervention price should the market price be lower) will be abolished.

The Commission wants the assistance programme to become operational in 2006. Owing to the complexity of the restructuring, the assistance will be provided through an eight-year programme. If the proposal is approved, € 40 million will be available for 2006 and guarantees will be provided for further assistance in the period 2007-2013.

3.5.2 Structural policy

On 14 July 2004, the European Commission proposed a series of simplifications to the Council of Ministers regarding the financing instruments and choice of themes in structural policy.⁴² The proposals and the response to them are considered briefly below. The European Court of Auditors has issued an opinion on the proposed changes in structural policy.⁴³ The opinion is considered in Chapter 5, section 5.3.4.

Reduction in the number of structural funds

The Commission's proposal, as laid down in a draft Regulation, includes a reduction in the number of structural funds from six at present to three: the European Regional Development Fund (ERDF, established for the construction of roads and other forms of infrastructure), the European Social Fund (ESF, established to finance training projects for the long-term unemployed and returnees to the labour market) and the Cohesion Fund (established to finance environmental and transport infrastructure projects in Greece, Spain, Portugal and Ireland).

Structural programmes are currently financed from several structural funds. It is proposed that in future just one structural fund be used for each programme. The future generation of programmes will be grouped into the following three categories: (1) convergence, (2) regional competitiveness and employment, (3) territorial cooperation. The Cohesion Fund and the ERDF will adopt a single programming system. It is also proposed that the current Community Initiatives be integrated into the general programming for structural policy.

⁴² See Commission document COM (2004) 492 of 14 July 2004.

⁴³ Opinion no. 2/2005.

Management and control conditions

The draft Regulation includes a minimum set of conditions with which the management and control systems for the funds must comply. It also lays down what responsibilities the member states and the Commission will bear to ensure respect for the principle of sound financial management. In this respect, the member states will have to provide an assurance on the management and control systems:

- at the beginning of the period, via the opinion on the system by an independent audit body;
- each year, via the opinion of the audit authority supported by an annual control report; and
- at the end of the period, via the assurance on the final statement of expenditure.

These last conditions in the 2004 proposal agree in broad lines with the requirements set by the European Parliament in April 2005 during the discharge procedure for the 2003 budget and those set by the Commission in the roadmap to a Community internal control framework (see section 3.4.3 and section 3.4.4).

Treatment by the European Parliament

On 6 July 2005 the European Parliament passed a resolution during its debate of the Commission's proposal. It contained the following points:⁴⁴

- Parliament considers that the amounts proposed by the Commission for the allocation of resources between the various objectives represent a fair balance of interests.
- Given the serious need for structural funding for many EU regions in the new programming period, Parliament calls for the possibility of re-using unspent resources due to the N+2 rules within Sub-heading 1b for the regions.
- Parliament calls for a political solution providing for special compensation to be established for those regions or member states facing substantial financial losses due to the disparities caused by the implementation of the Commission proposal.
- Parliament wants, as soon as the new Financial Perspective is approved, the Commission to resubmit the appropriations referred to in the proposal to Parliament and the Council to ensure that they are compatible with the set maximums.

⁴⁴ Resolution of the European Parliament of 6 July 2005, A6/2005/177.

3.6 Conclusions

Many important developments are taking place in EU financial management. They include the introduction of activity-based management and accrual accounting. The timeframe is often ambitious.

The most important development in financial management is undoubtedly the European Parliament's initiative to introduce a Community internal control framework that will culminate in the European Court of Auditors issuing a positive Statement of Assurance (DAS) and a system of member state declarations. This ambition can be looked upon as an 'EU Operation Financial Accountability'.⁴⁵ This is particularly important because such an operation will not only affect the work of the European Commission but will also involve all 25 member states more closely in the control and audit of the expenditure of EU funds, particularly those funds that are spent in the member states under shared management.

Following the European Court of Auditors' opinion, the European Parliament's proposals were picked up by the European Commission, which incorporated them into a roadmap to a Community internal control framework. The Ecofin council of 8 November 2005, however, did not adopt the main points of the proposals.

Progress in the various sub-fields has also been limited. The Commission has taken several initiatives in each policy field. They include the agreement of contracts of confidence between member states and the Commission on the management of structural funds and the member states' issuance of annual assurance statements on their declarations of agricultural assistance. These initiatives, however, do not seem to enjoy the support of all the Commission's Directorates-General. It is also uncertain how they tally with the proposals set out in the roadmap. This creates uncertainty in the member states. In the future, the Directorates-General concerned should closely coordinate any new proposals.

⁴⁵ We refer here to the 'Operation Financial Accountability' that the Dutch government launched in 1987. This operation involved the introduction of clear and timely budget reports, improved financial accounting, good administrative organisations, internal control and effective auditing.

4 EU financial management systems 2003-2004

In this chapter we discuss the execution of EU financial management and in particular the role played by the European Commission's Directorates-General and services. To gain a good understanding of their role, we studied the 2003 and 2004 annual activity reports issued by 12 of the Directorates-General and services.⁴⁶ We also analysed the European Court of Auditors' activity reports for 2003 and 2004. With the aid of indicators, an impression is given of the insight available into the following aspects of European financial management: planning and implementation of the EU budget (section 4.1), the controls and internal audit performed by the European Commission (section 4.2), the reports issued by the Commission's Directorates-General and services on their work and results (section 4.3) and the European Court of Auditors' external audit of the EU's annual accounts (section 4.4).

4.1 Planning and implementation of the budget

4.1.1 Policy fields and Directorates-General

The greater part of the EU's budget is appropriated for activities that are performed by the European Commission's Directorates-General. The following table shows which Directorates-General are involved in the implementation of policy for the various headings of the EU budget. The other services are not considered.

Table 3. Estimated expenditure and number of permanent personnel by Directorate-General of the European Commission in 2003-2004

Budget heading	Directorate-General	2003		2004	
		Appropriations (million euros)	Personnel	Appropriations (million euros)	Personnel
Common agricultural policy	Agriculture and Rural Development	47 904	1 080	50 460	1 125
Structural operations	Agriculture and Rural Development	as above	as above	as above	as above
	Regional Policy	22 009	603	26 785	646
	Employment	9 794	795	10 839	808
	Fisheries	907	317	931	321
Internal policies	Energy and Transport	985	1 015	1 346	1 077
	Environment	260	615	320	634
	Indirect Research	2 732	1 675	3 215	1 725
	Education and Culture	827	717	951	713
	Enterprise	263	945	306	944
	Competition	78	772	81	766
	Information Society	992	1 057	1 179	1 068
	Internal Market	56	495	68	535
	Direct Research	269	2 133	306	2 400
Health and Consumer Protection	467	830	469	860	
External action	External relations	3 273	3 047	3 526	2 404
	Development and relations with ACP States	1 140	2 182	1 176	1 446
	Humanitarian Aid	562	158	507	167
Pre-accession aid	Enlargement	1 976	785	1 284	310

⁴⁶ These are the activity reports of DGs Agriculture, Regional Policy, Employment, Fisheries, Education and Culture, the Environment, Transport and Energy, Research and Budget, and of the Secretariat-General, the Internal Audit Service and the European anti-fraud office OLAF.

Budget heading	Directorate-General	2003		2004	
		Appropriations (million euros)	Personnel	Appropriations (million euros)	Personnel
Own resources	Budget ⁴⁷	-	-	-	-
	Taxation and Customs Union	85	480	106	502
Other	Economic and Financial Affairs	327	517	475	532
	Justice and Home Affairs	133	338	507	376

* Source: Financial Report of the European Union 2003 and 2004. The amounts stated are the appropriations made available to the Directorates-General.

The table shows that the appropriations and number of personnel increased at nearly all the Directorates-General. DG Enlargement is an exception. This is to be expected given the decline in the number of candidate member states and accordingly in the DG's workload following the accession of ten new member states to the Union.

4.1.2 Results of budget planning and execution

The central documents in the budget and planning cycle of the European Commission's Directorates-General are the annual *management plans* and the annual *activity reports*. We determined whether these documents were available to the public and whether they considered certain financial management issues, such as strategic goals (are they formulated specifically in the management plans?), activity-based budgets (is information on them contained in the activity reports?), budget preparation and execution (is it clear how much capacity will be used in terms of personnel and time?).

Table 4. Results budget planning and execution ⁴⁸

Document	Indicator	Information in 2003?	Value 2003	Information in 2004?	Value 2004
Annual management plan (AMP)*	Number of AMPs published	Partial	4 of the 12	Partial	5 of the 12
	Number of AMPs that contain strategic and specific goals	Yes	Each of the 4 published AMPs	Yes	Each of the 5 AMPs published
Annual activity report (AAR)**	Number of AARs published	Yes	All	Yes	All
	Consideration of activity-based budgeting in AARs	Yes	All policy DGs studied + DG Budget	Yes	5 of the policy DGs studied
	Average % capacity applied to prepare DG's budget (input)	No	-	No	-
	Average % capacity applied to execute DG's or service's budget (input)	All 8 policy DGs studied	65.8% (min 48.7%, max 78.4%)	7 of the 8 policy DGs studied	66.6% (min 49.8% max 80%)
	Average % budget application (output)	All 8 policy DGs studied	88.4% (min 80.6%, max 98%)	All 8 policy DGs studied	83.5% (min 61.8%, max 99.1%)

* Source: AMPs of policy DGs Agriculture, Regional Policy, Employment, Fisheries, Education and Culture, Environment, Transport and Energy, and Research, and DG Budget, the Secretariat-General, the Internal Audit Service (IAS) and the European anti-fraud office (OLAF).

** Source: Activity reports 2003 and 2004 of eight policy DGs and Report on budgetary and financial management 2003, 2004.

⁴⁷ The Financial Reports of the European Union for 2003 and 2004 do not contain information on DG Budget.

⁴⁸ The results for each Directorate-General and/or service in this and subsequent tables in this chapter are included in appendix 3.

Annual management plan

The Directorates-General are responsible for implementing the budget in their policy fields. In anticipation, they prepare an annual work programme known as the annual management plan.⁴⁹ The AMP considers how the Commission's strategic goals can be achieved by means of concrete operations, with a breakdown of the activities and resources to be applied. The plan is issued internally before the start of the financial year. Each Directorate-General or service itself decides whether or not to publish its AMP. Of the 12 Directorates-General and services studied, four published their management plans in 2003 and five in 2004: Agriculture, Environment, Regional Policy, Transport and Energy, and Employment. For activity-based budgeting purposes, the management plans should contain information on the DGs' strategic and specific policy goals. This was the case in all the published management plans.

Annual activity reports

All annual activity reports are published. Given the importance of activity-based budgeting to the European Commission, it was to be expected that the Directorates-General and services would consider its introduction in these financial management reports. This was the case in 2003 and for some of the Directorates-General and services also in 2004.

The annual activity reports do not provide information on the capacity (human resources, time) the Directorates-General applied to prepare their budgets. Most policy Directorates-General did indicate what percentage of their capacity was applied to execute their budgets, i.e. to implement policy. According to the DGs' reports, this percentage, which varies significantly from one Directorate-General to another, increased sharply between 2003 and 2004. Most policy Directorates-General also reported what percentage of their budgets was applied during the financial year. This figure decreased between 2003 and 2004.

4.2 Control measures by the European Commission

Various control mechanisms are in place at the Directorates-General and services of the European Commission to safeguard the quality of the systems and the legality and regularity of expenditure:

- checks of the application of internal control measures within the Directorates-General and services;
- on-the-spot inspection by the policy Directorates-General in the member states;
- internal audit within the Directorates-General and within the Commission as a whole;
- follow-up investigations of fraud conducted by the European anti-fraud office OLAF.

⁴⁹ The other Directorates-General and services have not published their annual management plans. 'Published' in this context means made available to the public, for example through a generally accessible website. Relevant information on the policy goals of all Directorates-General is contained in Preliminary Draft General Budget of the European Commission of the Financial Year 2005, Working Document Part 1 Activity Statements, May 2005.

4.2.1 Internal control measures

With regard to internal control, we looked at the DGs' application of internal control standards and the Commission's on-the-spot inspections in the member states.

Table 5. Results internal control by the European Commission

Measure	Indicator	Information in 2003?	Value 2003	Information in 2004?	Value 2004
DG's application of internal control standards*	ECA opinion on application of internal control standards by Directorates-General and services (output) ⁵⁰	Yes	50% of DGs and services studied satisfy the standards studied	Yes	29% of the DGs and services studied satisfied in full the standards studied
DG's on-the-spot inspections in the member states**	Average % audit capacity per policy DG versus total capacity per DG (input)	No	-	Limited: 2 of the 8 policy DGs	Too limited and varied to give a value
	Average completion by policy DGs of planned inspections in member states (output)	Partial: 4 of the 8 policy DGs	3 DGs, each about 25 inspections. 1 DG, 27% of programmes	Partial: 5 of the 8 policy DGs	Too varied to give a value
	Average publication by policy DGs of planned public reports (output)	No	-	Limited: 2 of the 8 policy DGs	Too limited and varied to give a value
	Average publication of reports with specific opinion on member states by 'shared management' DGs (output)	No	-	Limited: 1 of the 4	Too limited to give a value
	Average publication of reports with specific opinion on member states by 'internal policy' DGs (output)	No	-	Limited: 1 of the 4	Too limited to give a value

* Source: European Court of Auditors annual reports for 2003 and 2004.

** Source: Activity reports for 2003 and 2004 of eight policy Directorates-General.

Application of internal control standards

Various actions have been undertaken as part of the administrative reform of the European Commission.⁵¹ One is the introduction of internal control standards at the Directorates-General and services. In 2003 and 2004 the European Court of Auditors investigated the status of the introduction of eight different internal control standards at 16 and 14 respectively Directorates-General and services of the European Commission. It found that in 2003 50% of the Directorates-General and services studied had adequately applied the internal control standards studied. The other 50% satisfied five or more of the internal control standards studied. In 2004, 29% of the Directorates-General and services studied satisfied the requirements in full.

⁵⁰ In its annual report for 2003, the European Court of Auditors provides the results of its investigation of the application of eight internal control standards by 16 Directorates-General and services. See table 1.4 in the European Court of Auditors' annual report for 2003. In its annual report for 2004, it provides the results at 14 (some different) Directorates-General and services. See table 1.4 in the European Court of Auditors' annual report for 2004.

⁵¹ See the white paper Reforming the Commission COM (2000) 200 of 5 April 2000.

On-the-spot inspections in the member states

The activity reports published by the Directorates-General and services studied provide only a limited insight into the results of on-the-spot inspections conducted by the European Commission. Although more information is available on the inspection results for 2004 than for 2003, it is often provided by different Directorates-General; a Directorate-General might publish the information in one year but not in another. The information that is available on, for example, the performance of planned audits and reports broken down by DG policy field is too limited and mixed to arrive at a general conclusion. With few exceptions, the activity reports provide too little insight into the inspection results by member state.

4.2.2 Internal audit by the European Commission

Internal audits of financial management are carried out at two levels within the European Commission: for all Directorates-General and services individually and for the Commission as a whole. Separate organisational units within the Directorates-General, known as the Internal Audit Capabilities (IACs), report internally to the Director-General. The overarching audit of the Commission as a whole is carried out by the Internal Audit Service (IAS). This service carries out Commission-wide audits and reports to the Audit Progress Committee (APC), which is made up of five Commissioners.

Table 6. Results internal audit

Measure	Indicator	Information in 2003?	Value 2003	Information in 2004?	Value 2004
Internal Audit Capabilities (IAC) per DG*	Average IAC audit capacity versus total DG capacity (input)	Limited: 1 of the 8 policy DGs	13.4%	Limited: 2 of the 8 policy DGs	Too varied to give a value
	Average % realisation of planned audits (output)	Limited: 1 of the 8 policy DGs	5 audits (100%)	Limited: 2 of the 8 policy DGs	Too varied to give a value
	Average % IAC reports published (output)	Limited: 1 of the 8 policy DGs	4 reports	No	-
Internal Audit Service (IAS)**	IAS audit capacity versus total IAS capacity (input)	Yes	67%	Yes	72%
	% IAS recommendations adopted by DGs (output)	Yes	88%	Yes	85%
	% realisation of planned IAS audits (output)	Yes	45% (including 73% of high risk cases)	Yes	Total 80%
	% IAS audit reports published (output)	No	0	No	0

* Source: Annual activity reports for 2003 and 2004 of eight policy Directorates-General.

** Source: Annual activity reports for 2003 and 2004 of the Internal Audit Service.

Limited information was provided in both 2003 and 2004 on the input and results of the policy DGs' IACs. Where more than one Directorate-General provided information, which was the case particularly in 2004, the results were too varied to formulate a meaningful value.

The annual activity report issued by the IAS provides more insight. The IAS applied 67% and 72% of its capacity to audit the Directorates-General and services in 2003 and 2004 respectively. On the output side, the IAS provides indicators on the percentage of planned audits that are completed (45% and 80% in 2003 and 2004 respectively) and the percentage of recommendations made by the IAS that are adopted by the Directorates-General and services. At about 85%, this percentage was high in both years.

The IAS's activity reports for both 2003 and 2004 contained reservations. In both years, the IAS was unable to audit the agencies owing to lack of human resources.

4.2.3 Follow-up investigation of fraud

Responsibility for detecting and recording irregularities lies primarily with the member states. Recorded irregularities must then be reported to the European anti-fraud office (OLAF). If fraud is suspected, OLAF conducts a further investigation.

Table 7. Results follow-up investigations of fraud by the European Commission

Measure	Indicator	Information in 2003?	Value 2003	Information in 2004?	Value 2004
Investigation of fraud*	% investigation capacity versus total OLAF capacity (input)	Yes	Of 267 positions filled, 111 people for investigation and operations = 41.6%	Yes	Of 267 positions filled, 111 people for investigation and operations = 41.6%
	% completion of planned OLAF investigations/reports (output)	No	-	No	-
	% published OLAF reports (output)	No	-	No	-

* Source: OLAF activity reports for 2003 and 2004.

OLAF's activity reports provide no information on the number of investigations carried out in proportion to the number planned, nor on the proportion of reports published. The annual activity reports for 2003 and 2004 do state what proportion of OLAF's personnel capacity was used to investigate fraud. It should be noted that OLAF also prepares operational reports as well as annual activity reports. These contain a great deal of information on the number of fraud cases per EU policy field and the time OLAF spends on each investigation. A striking amount of information is also provided at EU member state level.

4.3 Accountability

The Directorates-General and services account for the work they have performed and the results they have achieved in their annual activity reports. The reports, which contain declarations of assurance, are published in mid-June. The Commission uses them to prepare its Synthesis Report. We investigated what information was available on the input for the preparation of the activity reports and the Synthesis Report, i.e. accountability information, and what insight the activity reports provided into the regularity and effectiveness of the policy conducted.

Table 8. Results accountability

Measure	Indicator	Information in 2003?	Value 2003	Information in 2004?	Value 2004
Annual activity report per DG*	Average DG capacity applied for activity report versus total capacity per DG (input)	No	-	No	-
	Number of reservations by DG (output)	Yes	24 of the policy DGs studied (total 49)	Yes	13 of the policy DGs studied (total 32)
	Number of reservations with quantified financial volume (output)	Limited	2 of the 24 quantified	Majority	11 of the 13 quantified
	Number of DGs with accountability information at country level (output)	Limited	2 of the 8 policy DGs	Partial	4 of the 8 policy DGs
Synthesis Report**	SG capacity applied for Synthesis Report versus total SG capacity (input)	No	-	No	-
	Number of DGs addressed individually in Synthesis Report (output)	No	-	No	-
	Number of member states addressed individually in Synthesis Report (output)	No	-	No	-

* Source: Annual activity reports for 2003 and 2004 of all policy Directorates-General studied.

** Source: Annual activity reports for 2003 and 2004 of the Secretariat-General.

The activity reports published by the Directorates-General and services do not provide an insight into the time required to prepare the reports. Nor does the Synthesis Report. The activity reports contain only limited information on the regularity of expenditure in the member states and no information on the effectiveness of policy in the member states. The Synthesis Report does not specifically consider differences between the Directorates-General and services with regard to expenditure, activities and results. Furthermore, it contains no information on regularity and effectiveness at member state level. The content of the Synthesis Report is considered in more detail in chapter 6 and appendix 5.

Declarations of assurance, signed by the Directors-General, are issued on each activity report. The declarations state how many and which reservations were made by the Director-General. Between 2003 and 2004 the number of reservations fell sharply, both in total and, specifically, at the policy Directorates-General studied. The number of reservations in which the financial volume was quantified, moreover, was significantly higher. In its Synthesis Report, the Commission states that the reservations made in 2004

related chiefly to shortcomings that had already led to the same reservations in previous years. The Commission also found that, on the whole, the reservations were formulated more specifically and coherently and were better substantiated.

The Synthesis Report is the closing piece in the European Commission's accountability procedure. Since it is not signed by one or more Commissioners who have political responsibility, the chain of accountability at the Commission is incomplete.

4.4 External audit by the European Court of Auditors

In its annual report, the European Court of Auditors issues a Statement of Assurance (DAS) on the reliability of the accounts and the legality and regularity of the underlying transactions. It also publishes special reports and opinions each year. The European Court of Auditors' activity report (which is comparable to the annual activity reports issued by the Commission's Directorates-General) can provide an insight into the capacity that is applied for the audit, how much of the planned work is carried out and how many reports are published.

Table 9. Results external audit

Measure	Indicator	Information in 2003?	Value 2003	Information in 2004?	Value 2004
External audit by the European Court of Auditors	Capacity used for external audit versus total ECA capacity (input)	Partial	Information on number of audit positions = 363 (60% total) of which 48 vacant	Partial	Information on number of audit positions = 429 (58% total) of which 57 vacant
	% realisation of planned audit visits (output)	No	-	No	-
	Number of ECA reports published (output)	Yes	1 annual report 23 specific annual reports 15 special reports 10 opinions	Yes	1 annual report 25 specific annual reports 10 special reports 2 opinions

Source: Annual Activity Report concerning the financial year 2003 and Rapport annuel d'activités relatif à l'exercice 2004, European Court of Auditors.

The European Court of Auditors discloses in its annual reports how many people work in its audit units but does not indicate whether they are engaged directly in external audit. In both 2003 and 2004 the European Court of Auditors suffered from a large number of open vacancies. The European Court of Auditors' activity reports clearly disclose how many reports, broken down by type, it has published. They do not state, however, whether these were also the planned numbers. The European Court of Auditors' activity reports do not disclose how many audits were carried out in the member states or compare the number actually carried out with the number that had been planned.

4.5 Conclusions

The European Commission has started to introduce activity-based management and activity-based budgeting. The first results emerged in the course of 2003 and 2004 and were reported upon in the activity reports. The Court of Audit praises the European Commission's efforts to have the Directorates-General and services publish more and better information about their work. The annual activity report is a suitable format for such information. In the Court of Audit's opinion, there has been a slight improvement in the information provided in several policy fields between 2003 and 2004.

We would note, though, that the chain of accountability for the EU's activities is currently still incomplete. The Directors-General sign the statements of assurance issued by their own Directorates-General, including any reservations that have been made. The closing piece in the annual activity report cycle is the Synthesis Report. The Synthesis Report, however, contains chiefly management information and is not signed by a Commissioner or someone with political authority. The precise status of the reports is therefore uncertain.

Our analysis also shows that a great deal of work still needs to be done to increase insight into the use of resources and the results of the financial management activities performed by the European Commission's Directorates-General and services. In particular, more information is required on the DGs' audit visits for the implementation of the budget, internal control by and in the Directorates-General and services studied, and the accountability of the Directorates-General and services for the activities they carry out.

5 Regularity of the expenditure of EU funds

In this chapter we consider the regularity of the expenditure of EU funds. We begin by looking back at the discharge procedure for the implementation of the 2003 budget (section 5.1). We then discuss the information provided by the European Commission on the regularity of expenditure: the reservations that the heads of the Commission's Directorates-General and services made in their annual activity reports, and the irregularities that the member states reported to the Commission (section 5.2). Finally, we look at the European Court of Auditors' opinion on regularity for 2004 and compare it with its opinions for previous years (section 5.3).

To assess the information on regularity provided by both the European Commission and the European Court of Auditors we have formulated indicators wherever possible.

5.1 Discharge for the 2003 budget

5.1.1 European Commission

In April 2005, the European Parliament granted discharge to the European Commission for the implementation of the budget for 2003. In accordance with applicable procedures, the Council of Economic Affairs and Finance (Ecofin) made a recommendation to the European Parliament before discharge was granted. The European Parliament's Budget Control Committee prepared the discharge and issued its own report on it. It based its report chiefly on the European Court of Auditors' annual report and the special reports.

2003 annual report of the European Court of Auditors

On the whole, the European Court of Auditors was again unable to issue a positive Statement of Assurance (DAS) in respect of 2003. The DAS states that, taken as a whole, revenue, commitments and administrative expenditure were legal and regular. As regards other expenditure, the Court of Auditors established that agricultural payments were again materially affected by errors; in the case of the structural measures, payments were still subject to errors owing to persistent weaknesses at member state level in the systems for supervising and controlling the execution of the EU budget and in the case of internal policies, there were still significant errors in terms of payments. There were also a relatively large number of errors in respect of external action and pre-accession.

Ecofin council recommendation on discharge

The Ecofin council (the Council of Economics and Finance Ministers of the 25 EU member states) recommended on 8 March 2005 that the European Parliament discharge the European Commission for the implementation of the budget for the financial year 2003 subject to certain conditions. As in previous years, the Council's recommendation included a number of comments and suggestions:⁵²

- the Council was disappointed that the European Court of Auditors was still unable to issue a positive Statement of Assurance on most of the

⁵² Discharge recommendation of the Ecofin Council to the European Parliament in respect of the implementation of the budget 2003, section III/Commission, 8 March 2005 (C6-0077/2005).

expenditure. The Council had taken note of the European Court of Auditors' proposal for the development of a Community internal control framework as presented in its opinion on the single audit model (see section 3.4.1);

- the Council stressed the need for rapid progress in fully implementing the actions the European Commission announced in its 2000 white paper on audit, management and financial control. Furthermore, the Council urged the Commission to step up its efforts to apply the supervision systems and controls in close cooperation with the member states (see section 3.1);
- the Council thought the DGs' reservations should be worded more clearly;
- the Council expressed great concern regarding the continued increase in outstanding commitments ('appropriations for commitment') for differentiated expenditure.

Discharge by the European Parliament

The European Parliament's Budget Control Committee prepares the final discharge. In March 2005, it recommended that the European Parliament grant discharge in respect of 2003.⁵³ In April 2005 the European Parliament granted formal discharge to the Commission in respect of its implementation of the budget. During the discharge procedure, the European Parliament expressed a large number of concerns. These concerns were a factor in the European Commission's proposals to reform the internal control system, the roadmap considered in chapter 3.

5.1.2 Other institutions and agencies

As well as discharging the Commission, the European Parliament grants separate discharge to the institutions (such as the European Parliament, Council of Ministers, Court of Justice), the advisory committees of the EU (Economic and Social Committee, Committee of the Regions) and the Community organs, or 'agencies'.

The European Court of Auditors issued positive Statements of Assurance in respect of all institutions and committees for 2003. It concluded, though, that despite their best efforts the institutions and committees had not yet made all the changes required by the new Financial Regulation. The European Parliament granted discharge to all institutions and committees on 12 April 2005.

The European Court of Auditors issued positive Statements of Assurance in respect of all agencies except one.⁵⁴ Only in the case of the European Agency for Reconstruction did the European Court of Auditors conclude that the annual accounts did not give a true and fair view of the agency's economic and financial situation. Owing to the lack of necessary data on the expenditure of funds that the agency had entrusted to external bodies (both national and international), the European Court of Auditors could not express an opinion on the legality and regularity of the transactions underlying € 21.4 million of expenditure in 2003. In other respects, the European Court of Auditors was of the opinion that the transactions underlying the agency's annual accounts were legal and regular. The European Parliament granted the fourteen agencies discharge on 12 April 2005.

⁵³ Decision of the European Parliament, 12 April 2005, in respect of discharge, section III General budget of the EU, P6_TA-PROV (2005) 0092.

⁵⁴ A different discharge procedure is in place for two of the 16 agencies. The European Parliament has no power to discharge these two agencies because they do not receive Community funds and because the Financial Regulations agreed on their establishment lay down that they will be discharged by their own executive boards.

5.2 Regularity information provided by the European Commission

5.2.1 Reservations of the Directorates-General

In chapter 3 (section 3.1.1) we noted that the Commission's Directors-General and heads of services declare in their annual activity reports that the activity reports give a true and fair view and that there is a reasonable degree of assurance regarding the correct application of the budget. Where applicable, any reservations in the declaration should be summarised and substantiated. The table below shows the number of reservations in 2003 and 2004, broken down by Directorate-General and financial volume.

Table 10. Reservations made by the European Commission					
Budget heading	DG	Number of reservations in 2003	Quantification of potential financial risk 2003	Number of reservations in 2004	Quantification of potential financial risk 2004
Composition of own resources	Budget	3	Not quantitative	2	Not quantitative
Common agricultural policy	Agriculture	5	Not quantitative	3	2 of the 3, together 0.3% of DG's budget
Structural operations	Regional Policy	4	Not quantitative	3	1.7% of DG's budget
	Employment	1	98% of budget	1	Not quantitative
	Fisheries	2	Not quantitative	1	5.7% of FIFG budget
Internal policies	Education and Culture	3	1 of 3 quantitative: 34 million	0	-
	Transport and Energy	6	Not quantitative	4	2 without impact, 2 with 1.2% of DG's budget
	Environment	2	Not quantitative	0	-
	Research	1	Not quantitative	1	5.4% of DG's budget
Other reservations		22		15	
Total number of reservations		49		32	

Source: Activity reports for 2003 and 2004.

The table shows that there was a decline in the total number of reservations in 2004 and that more of them were quantified. This positive development might not be all that it seems, however. It is up to the Director-General to decide what does or does not constitute a reservation. The way in which reservations come about, and thus their importance, may differ from one Directorate-General to another and within a Directorate-General from one year to the next. DG Employment, for example, made a reservation in 2003 that related to 98% of the ESF budget because it was unable to check the majority of its programmes. DG Regional Policy was also unable to check some of its programmes but it did not make a similar reservation. To establish whether the decline in the number of reservations is *actually* a positive development or not, each reservation would have to be analysed separately. Each activity report would also have to be checked to determine whether other problems should have been expressed as reservations. Such a study of the content and quality of reservations, however, is beyond the scope of this EU Trend Report.

The European Court of Auditors reviewed the European Commission's activity reports and declarations (including reservations) in its annual report for 2003.⁵⁵ With regard to the common agricultural policy, it noted that DG Agriculture's annual activity report and declaration would have to be improved before they could be used as a source of information for its own Statement of Assurance. The European Court of Auditors had harsh words for the activity reports and declarations of the Directorates-General involved in structural operations: the reservations made were not always compatible with the assurance given. With regard to internal policies, too, the European Court of Auditors commented on weaknesses in the formulation of the reservations.

5.2.2 Irregularities and financial corrections by budget heading

Article 280 of the EC Treaty lays down that the Community and the member states must fight fraud and other irregular activities that might prejudice the Community's financial interests. The member states must also report fraud and irregularities to the European Commission.⁵⁶ Pursuant to Council Regulation 2988/95 of 18 December 1995, every irregularity shall involve withdrawal of the wrongly obtained advantage through the payment or repayment of amounts due or wrongly received and the loss of security provided in support of a request for an advantage granted. Where the irregularity is intentional or caused by negligence, administrative penalties may be imposed in addition to the withdrawal of the wrongly obtained advantage, for example the payment of an administrative fine or the payment of an amount that is greater than the amounts wrongly obtained or evaded. Pursuant to the Regulation, irregular conduct also includes fraudulent activities as referred to in the Convention on the protection of the European Communities' financial interests.⁵⁷ Violations of Community law that do not have a financial impact on the budget are not covered by the definitions of fraud and irregularity.⁵⁸

⁵⁵ See Annual Report 2003, European Court of Auditors, pp. 23-24.

⁵⁶ The member states must inform the Commission of all irregularities involving more than € 4,000 (€ 10,000 in respect of traditional own resources). Since 1 January 2006 the threshold for structural funds has increased to € 10,000.

⁵⁷ The Convention on the protection of the European Communities' financial interests came into force on 17 October 2002. The Convention specifies the different types of fraud. Fraud that is prejudicial to the Communities' interests may relate to both revenue and expenditure. Fraud may be due to an intentional act or an intentional omission involving: (a) the use or presentation of false, incorrect or incomplete statements or documents, (b) non-disclosure of information in violation of a specific obligation, or (c) the misuse of a correctly obtained advantage or funds for purposes other than those for which they were originally granted.

⁵⁸ Violations of Community law comprise more than just fraud/irregularity. They include: price-fixing agreements between national enterprises that distort fair competition and the provision of grants by national governments to a national industry in violation of Community law.

The table below shows the number of irregularities reported in 2003 and 2004 and their financial volume.

Table 11. Number of irregularities reported and their financial volume in 2003 and 2004 by budget heading (in millions of euros)*

Indicator irregularities	Number of irregularities reported 2003	Financial volume 2003	Number of irregularities reported 2004	Financial volume 2004
Own resources	2 659	276.5	2 735	205.7
Common agricultural policy	3 237	169.7	3 401	82.1
Structural operations (including Cohesion Fund)	2 487	482.2	3 339 ⁵⁹	695.6
Internal policies	Unknown	-	Unknown	-
External action	Unknown	-	Unknown	-
Pre-accession aid	58	467	240	829
Administrative expenditure	Unknown	-	Unknown	-
Total	PM	PM	PM	PM

* Figures taken from the annexes to Report from the Commission, Protection of the European Communities' financial interests and the fight against fraud. Statistical Evaluation of Irregularities - Agricultural, Structural and Cohesion Funds and Own Resources - Year 2004, SEC (2005) 974, pp. 51 ff. Other sources are referenced.

The number of irregularities reported increased in all budget headings in 2004. The financial volume of the irregularities, however, was lower in respect of common agricultural policy and own resources. The average financial volume of the irregularities was approximately 0.19% in respect of agricultural policy, 1.5% in respect of own resources and 2% in respect of the structural funds (including the Cohesion Fund). The Court of Audit finds it remarkable that the European Commission's Directorates-General and services do not publish any information on irregularities or on corrections they themselves have made in respect of internal policies, external action and administrative expenditure.

OLAF notes in its 2004 annual report that there had been an improvement in reporting discipline regarding agricultural expenditure and the structural funds, but further improvement was still necessary. According to the same annual report the candidate member states and acceding countries did not entirely observe their reporting obligations in respect of pre-accession aid in the period 2002-2004: there were some shortcomings in the timeliness and quality of the information.

Undue payments involved in the irregularities should be returned to the European Commission by means of a financial correction. Table 12 shows the financial corrections the European Commission can still recover in respect of common agricultural and structural funds and the amounts that have already been recovered. No information is available on financial corrections in respect of internal policies, external action, pre-accession aid and administrative expenditure.

⁵⁹ Table 2.1 in the Report from the Commission to the Council and the European Parliament, Protection of the financial interests of the Communities - fight against fraud, Commission's annual report 2004, COM (2005) 323 final, refers on p. 7 to 3,327 cases.

Table 12. Amounts repaid and recoverable in respect of irregularities reported in 2003 and 2004 by budget heading (in millions of euros)

Indicator	Information in 2003?	Financial volume 2003*	Information in 2004?	Financial volume 2004**
Financial corrections, traditional own resources (collected)	Yes	72.9 (26%) ⁶⁰	Yes	52.4 (27%)
Financial corrections common agricultural policy (to be collected)	Yes	148.2 (87%)	Yes	63.8 (78%)
Financial corrections, structural operations (to be collected)	Yes	203.9 (42%)	Yes	357.5 (51%)
Financial corrections, internal policies	No	Unknown	No	Unknown
Financial corrections, external action	No	Unknown	No	Unknown
Financial corrections, pre-accession aid	No	Unknown	No	Unknown
Financial corrections, administrative expenditure	No	Unknown	No	Unknown

* Report from the Commission, Protection of the European Communities' financial interests and the fight against fraud, 2003, SEC (2004) 1059, annex 5, p. 42.

** Report from the Commission Protection of the European Communities' financial interests and the fight against fraud. Statistical Evaluation of Irregularities - Agricultural, Structural and Cohesion Funds and Own Resources, 2004, SEC (2005) 974.

The financial volume of the own resources recovered in 2004 was € 52.4 million, or 27% of the total amount. Regarding the common agricultural policy, a further € 63.8 million was added to the amount still outstanding and collectible from the member states. The total amount collectible at the end of 2003 had exceeded € 2 billion.⁶¹ Legal proceedings had been brought in respect of approximately € 810 million of this total at the end of 2003. The amount qualified as 'uncollectible' was approximately € 259 million. In respect of the structural funds, the percentages still to be collected were lower than those for the common agricultural policy but the absolute amounts were higher.

5.2.3 Fraud

Number of fraud cases and financial risk

Fraud is an irregularity committed intentionally and a criminal offence.⁶² With regard to agricultural expenditure, suspected fraud accounted for about 11% of the irregularities reported (0.02% of the EAGGF – Guidance section budget).⁶³ With regard to the structural funds, OLAF estimated that 20% of the irregularities reported (0.4% of the structural funds and Cohesion Fund budget) qualified as fraud.

OLAF's supplementary annual activity report for 2004 discloses that OLAF's case management system (CMS) contained a total of 4,366 fraud files at the end of 2004.⁶⁴ These include more than 1,000 files assumed from UCLAF, OLAF's predecessor.⁶⁵ The number of new cases increased by 20% between 2003 and 2004 (from 602 to 720). Following an initial evaluation of 503 new cases in 2004, OLAF decided to investigate 219 cases. The estimated financial volume of the 720 cases is not disclosed.

⁶⁰ OLAF 2004, Annex 2, p. 5.

⁶¹ See: Report from the Commission, Protection of the European Communities' financial interests and the fight against fraud. Statistical Evaluation of Irregularities - Agricultural, Structural and Cohesion Funds and Own Resources - Year 2004, SEC (2005) 974, p. 49.

⁶² The member states apply different definitions of fraud and other irregularities. In consequence, many notifications do not indicate whether fraud is at issue or an ordinary irregularity. OLAF's 2004 annual report reveals that the European Commission and the member states were working on improving the notification system for irregularities in particular to clarify the terms 'fraud' and 'irregularities'.

⁶³ The number of 'suspected fraud' cases as a percentage of the total number of irregularities reported in the period 2000-2004 varies between 10% and 13%.

⁶⁴ Report of the European Anti-Fraud Office, Supplementary Activity Report for the Year 2004.

⁶⁵ OLAF assumed many cases from its predecessor during the transition from UCLAF to OLAF in 1999.

Of the 219 cases investigated, 64 related to agriculture, 22 to structural operations, 21 to Customs and two to VAT. With regard to direct expenditure, it was decided to investigate 21 cases. Together with 32 cases relating to external action, these accounted for 25% of the total number of cases investigated (219). According to OLAF, a shift is taking place: it is increasingly investigating areas in which the member states have no specific responsibility and in which OLAF is the sole or virtually sole authority in the fight against fraud.

The total financial volume of all cases in the period 2000-2004, including UCLAF cases that have not yet been settled, is estimated at € 5.8 billion. The table below shows the financial volume by budget heading.

Table 13. Financial risk of cases under investigation and settled, 2000-2004, by budget heading (in millions of euros)

Budget heading	Classification of policy sector by OLAF	Financial risk
Own resources	Customs	684.8
	VAT	478.1
	Alcohol	179.8
	Cigarettes	1 316.9
Common agricultural policy	Agriculture	272.9
Structural operations	Structural measures	1 336.6
Internal policies	Direct expenditure	89.3
External action	External aid	234.4
Other	Multi Agency Investigation	3.6
	ESTAT	5.5
	Trade	964.2
	Anti-corruption	232.7
Total		5 798.8

Source: Report of the European Anti-Fraud Office, Supplementary Activity Report for the Year 2004.

Internal investigations

In section 5.2.2 we noted that it was remarkable that neither OLAF nor any Directorate-General or other service reported information on irregularities in internal policies, external action and administrative expenditure (i.e. those areas for which the European Commission and other Community institutions and bodies are responsible). Some information is available, however, on fraud in these areas.

The table below shows the number of internal fraud investigations conducted by OLAF within the institutions and organs of the Community.

Table 14. Internal investigations by OLAF of Community institutions and bodies (at year-end 2004)

EU institutions and bodies	Internal review	Ongoing investigations	Total
European Parliament	0	4	4
Council	1	3	4
European Court of Auditors	0	2	2
European Commission	12	56	68
European Investment Bank	5	2	7
Committee of the Regions	1	0	1
Economic and Social Committee	1	1	2
EU agencies	5	2	7
Total	25	68	93

Source: Report of the European Anti-Fraud Office, Supplementary Activity Report for the Year 2004.

At the end of the 2004 reporting period, 68 internal investigations were still ongoing, including the investigation of cases relating to Eurostat.⁶⁶ A further 25 internal cases were still in the evaluation phase. The table shows that the Commission accounts for the majority of all OLAF's internal investigations. This is not surprising because the Commission is responsible for the lion's share of the Community's financial transactions.

Protection of the Communities' financial interests and fighting fraud: developments in 2004

In cooperation with the member states, the Commission issues an annual report to the European Parliament and the Council of Ministers on the measures that have been taken to combat fraud and protect the Communities'/EU's financial interests. One of the most important developments in 2004 was the strengthening of the anti-fraud office, OLAF. To this end, the European Parliament and Council drew up a proposal to amend Regulation (EC) no. 1073/1999 concerning investigations conducted by OLAF.⁶⁷ The proposal would enable OLAF to strengthen its operational efficiency, concentrate on its priorities and speed up its investigations by clarifying certain procedures. A hearing of the European Parliament's Budget Control Committee on 12 and 13 July 2005 found that the European Parliament, the Council and the European Commission were thinking along the same lines regarding the strengthening of OLAF.⁶⁸

In its special report no. 1/2005 concerning the management of OLAF, the European Court of Auditors was critical about OLAF's performance. The office's ambivalent status of conducting independent investigations but reporting to the Commission on other issues, however, did not compromise the independence of its investigative function. The European Court of Auditors thought it was not desirable to consider granting OLAF another status.

⁶⁶ In 2003 it emerged that staff at Eurostat, the European statistics office, had transferred funds to other bank accounts.

⁶⁷ COM (2004) 103 of 10 February 2004: Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No. 1073/1999 and (Euratom) No. 1074/1999 concerning investigations conducted by the European anti-fraud office (OLAF). Submitted by the Commission to the European Parliament on 12 February 2004.

⁶⁸ The hearing was attended by members of the European Parliament, the European Commission and other EU institutions (including the European Court of Auditors) and by experts from various member states and the US.

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

5.3.1 General opinion 2004

On the whole, the European Court of Auditors was again unable to issue a positive opinion on the legality and regularity of the transactions underlying the implementation of the 2004 budget. It noted, though, that the Commission, which under the Treaty has primary responsibility for the implementation of the budget, has made some progress with the reform of its internal control system. The European Court of Auditors recognises that this has had a positive effect on the legality and regularity of expenditure.

The table below shows the DAS opinions that the European Court of Auditors has issued since the 1994 financial year.

Table 15. European Court of Auditors' DAS opinions 1994-2004

Financial year	Overall DAS opinion	Quantitative picture
2004	No positive statement.	No quantitative opinion.
2003	No positive statement.	No quantitative opinion.
2002	No positive statement.	No quantitative opinion.
2001	No positive statement.	No quantitative opinion.
2000	No positive statement.	No quantitative opinion.
1999	No positive statement.	No quantitative opinion.
		Unacceptable number of errors.
1998	No positive statement.	No quantitative opinion. Percentage material errors about as high as in previous years.
1997	No positive statement.	No quantitative opinion. Unacceptably large number of material errors. Percentage about as high as in previous years.
1996	No positive statement.	Material errors 5.4% of payments. Formal errors not quantified. No opinion possible on 4.3% of payments.
1995	No positive statement.	Material errors 5.9%. Formal errors not quantified. No opinion possible on 2.3% of payments.
1994	No positive statement.	Material errors 4%. Formal errors 4.8%. No assurances on 14% of payments.

Source: European Court of Auditors annual reports 1994-2004.

5.3.2 Opinion by budget heading

The *EU Trend Report 2004* considered the European Court of Auditors' new approach to the Statement of Assurance (DAS) in its annual reports for the financial years 2002-2004. The new approach produced some, chiefly qualitative, insight into regularity by budget heading. The summary in figure 2 provides a qualitative overview of all relevant budget headings based on the European Court of Auditors' annual reports for 2003 and 2004.

Figure 2

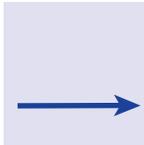
European Court of Auditors' opinion by EU budget heading, 2003-2004		
Indicator table		
2003	2004	Development
Regularity of own resources		
<p>In general, no material errors but a number of elements in supervision systems and controls and in accounts for traditional own resources need improvement.</p> <p>The general situation is stable but progress is needed to eliminate risks relating to the statistical data used to calculate VAT and GNI resources and the legality and regularity of certain transactions.</p>	<p>Taken as a whole, legal and regular.</p>	
Regularity of common agricultural policy		
<p>Again, material errors detected in payments. Fewer risks in arable crop payments than in animal premium payments. Other expenditure categories that are not subject to the integrated administration and control system (IACS) have higher risk levels and there are fewer targeted controls.</p>	<p>The IACS, provided it is applied correctly, is an effective system to limit the risk of irregular expenditure. Material errors were again detected in payments. Evidence was found of a higher risk of irregularity in expenditure not subject to the IACS or where the IACS was not applied correctly.</p>	
Regularity of structural operations		
<p>Shortcomings persist in systems that should ensure supervision and control of the implementation of the Community budget at member state level. Payments accordingly display similar and as many errors as in previous years. In rural measures, progress must still be made to overcome the serious weaknesses detected in the supervision and control systems.</p>	<p>For both the 1994-1999 programming period and the 2000-2006 programming period, many errors were detected in the regularity of expenditure. Management and control systems display weaknesses and must be improved.</p>	
Regularity of internal policies		
<p>There are weaknesses in the operation of the Commission's internal control systems and there are significant errors in transactions at final beneficiary level.</p>	<p>Despite the progress made in certain areas, there is inadequate assurance about the legality and regularity of transactions. The risk of error will remain unless the regulations are revised (simplification of cost reimbursement system and clarification of procedures and rules).</p>	

Figure 2 continued

European Court of Auditors' opinion by EU budget heading, 2003-2004		
Indicator table		
2003	2004	Development
Regularity of external action		
At Commission level, only a limited number of errors but many shortcomings and irregularities at the level of bodies that implement projects.	Improvements in the Commission's supervision and control systems have not yet had an effect at the level of the implementing organisations. A relatively large number of errors owing to the absence of a comprehensive approach to supervision, control and audit at these organisations.	
Regularity of pre-accession aid		
The weaknesses in the supervision systems and controls flagged in 2002 led to more errors and risks in the transactions in 2003.	Taken as a whole, legal and regular but risks to one degree or another in all programmes and instruments at the level of the implementing organisations in the candidate member states.	
Regularity of administrative expenditure		
The majority of the institutions have not made all the changes necessary to complete the internal control framework required by the Financial Regulation. There are no serious problems but the institutions must still take measures to strengthen supervision systems and controls.	Taken as a whole, legal and regular.	

At the level of the individual budget headings, the qualifications made in 2003 on own resources and administrative expenditure were not applicable in 2004: the European Court of Auditors considered the underlying transactions in these fields to be, on the whole, legal and regular. It drew the same conclusion on pre-accession aid but added the qualification that there were still risks at the level of the implementing organisations in the candidate member states. The European Court of Auditors' opinion on the other budget headings was still not positive. For common agricultural policy, it concluded that the IACS, provided it is applied correctly, is an effective system to limit the risk of irregular payments. Material errors were again detected, however, in payments. This was also the case with regard to structural operations, internal policies and external action.

5-3-3 Errors detected by budget heading

As part of its annual audit of the legality and regularity of the expenditure of EU funds in the Union, the European Court of Auditors samples the transactions at the level of the final beneficiaries to determine whether they are in accordance with applicable statutory regulations and contractual provisions and whether the amount of the transactions has been calculated

correctly. Departures from these criteria are referred to as 'errors'. For own resources, common agricultural policy, structural operations and internal policies, the Court of Audit has investigated whether the European Court of Auditors' reports contain a quantitative overview of the errors detected by budget heading.

Table 16. Number of errors in own resources, common agricultural policy, structural operations and internal policies

Indicator Budget heading	Sector	Quantitative information in annual report 2003?	Number of errors in 2003 and financial volume	Quantitative information in annual report 2004?	Number of errors in 2004 and financial volume
Number of errors Own resources	Traditional own resources	No	NA	No	NA
	GNI	No	NA	No	NA
	VAT	No	NA	No	NA
Number of errors Common agricultural policy	Area aid, area fodder crops and other crops	No, but a summary of Commission's 2002 IACS inspection results on amounts paid in 2003	NA	No, but a summary of Commission's 2003 IACS inspection results on amounts paid in 2004	NA
	Animal premiums	No, but a summary of Commission's 2002 IACS inspection results on suckler cow premiums paid in 2003	NA	No, but a summary of Commission's 2003 IACS inspection results on suckler cow premiums paid in 2004	NA
	Production-based aid	No, but a summary of Commission's 2002 IACS inspection results on olive oil payments paid in 2003	NA	No, but a summary of Commission's 2003 IACS inspection results on olive oil payments paid in 2004	NA
	Other parts of common agricultural policy	No	NA	No	NA
Number of errors Structural operations	General (no details by sector)	No	NA	No	NA
Number of errors Internal policies	Research	No, but a summary of amounts recoverable or payments reduced following Commission inspections	NA	No, but a summary of adjustments in eligible costs in favour of the Commission, following inspections completed by (or on behalf of) the Commission in 2004	NA
	Transport and Energy	No, but a summary of amounts recoverable or payments reduced following Commission inspections	NA	No, but a summary of adjustments in eligible costs in favour of the Commission, following inspections completed by (or on behalf of) the Commission in 2004	NA
	Milieu	No, but a summary of amounts recoverable or payments reduced following Commission inspections	NA	No, but a summary of adjustments in eligible costs in favour of the Commission, following inspections completed by (or on behalf of) the Commission in 2004	NA
	Education and Culture	No, but a summary of amounts recoverable or payments reduced following Commission inspections	NA	No, but a summary of adjustments in eligible costs in favour of the Commission, following inspections completed by (or on behalf of) the Commission in 2004	NA

Source: European Court of Auditors annual reports 2003 and 2004.

The summary shows that the European Court of Auditors' annual reports for 2003 and 2004 provide no quantitative information on the number of errors detected and thus on the financial volume by budget heading. With a view to transparency, they should provide such an insight. The limited insight is due to the European Court of Auditors' audit methodology for the DAS: the sample of underlying transactions is not representative of the individual budget headings. In the new approach to the DAS, the sample is designed so it can be representative of the various sectors of the budget headings, such as those sectors of common agricultural policy subject to the integrated administration and control system (IACS).

5.3.4 Other information provided by the European Court of Auditors Special reports

The table below shows the subjects on which the European Court of Auditors has issued special reports in recent years.

Table 17. Special reports issued by the European Court of Auditors 2002-2004

Number of studies by budget heading:	2002	2003	2004	2005
Own resources/revenue	0	1	0	0
Common agricultural policy	3	4	5	1
Structural operations	2	2	1	0
Internal policies	1	1	1	0
External action	1	4	1	2
Pre-accession aid	0	2	2	0
Administrative expenditure*	0	1	0	2
Total	7	15	10	5**

* A special report was also published on this budget heading in 2005: (1/2005) special report concerning the management of the European anti-fraud office (OLAF).

** These reports were published after closing the audit for the EU Trend Report 2006.

The European Court of Auditors published the following five special reports concerning the common agricultural policy in 2004:

- Forestry measures within rural development policy (9/2004);
- The Commission's management and supervision of the measures to control foot and mouth disease and of the related expenditure (8/2004);
- The common organisation of the market in raw tobacco (7/2004);
- The organisation of the system for the identification and registration of bovine animals in the European Union (6/2004);
- Recovery of irregular payments under the Common Agricultural Policy (3/2004).

In the last-named special report, the European Court of Auditors found that only 17% of the € 3.1 billion in irregular payments notified since 1971 had been recovered by the end of 2002. It also noted that member states provided the information required on irregularities in common agricultural policy but some did so more readily than others. There were also inconsistencies in the information. The European Court of Auditors further observed that responsibility for settling the irregularities reported was shared between DG Agriculture and OLAF, but misunderstandings arose owing to differences in the two organisations' working methods. The Commission does not make enough systematic use of the information it receives on irregularities.

The European Court of Auditors published one special report on structural operations in 2004:

- *The programming of the Community Initiative concerning trans-European cooperation – Interreg III (4/2004).*

The European Court of Auditors observes in this special report that the Commission provided guidance on Interreg too late and the guidance did not contain targeted, measurable and quantifiable goals and indicators. The criteria to evaluate proposed Community Initiative programmes were inadequately prepared.

The European Court of Auditors published one special report on internal policies in 2004:

- *Management of indirect RTD actions under the 5th Framework Programme (FP5) for Research and Technological Development (1998 to 2002) (1/2004).*

The fifth framework programme is a collective name for international assistance for research and technological development (RTD) in Europe. In its special report, the European Court of Auditors notes that the complicated rules in place to calculate the Community's financial participation were an obstacle to effective financial and administrative management by the Commission, and an unnecessary complication for the participants. Furthermore, the fragmentations of the programmes led to the dilution of responsibilities, duplication of functions and a greater need for coordination and consultation. The fifth framework programme, moreover, suffered considerable organisational problems and delays in its initial phase.

Opinions

In 2005 the European Court of Auditors issued among others the following opinions:⁶⁹

1. Amendments to the financing of common agricultural policy
Pursuant to the second paragraph of article 248 (4) of the EC Treaty, the European Court of Auditors issued an opinion on the proposed amendment to the financing of the common agricultural policy, as referred to in section 3.5.1. The European Court of Auditors welcomed the increase in transparency that would result from grouping all rural development expenditure under one budget heading. It thought that some potentially helpful changes would be made in the management of the European Agricultural Guarantee Fund (EAGF) but they would need further improvement in the light of the European Court of Auditors' opinion on the single audit.
2. Amendments to structural policy
The European Court of Auditors also issued an opinion on the Commission's proposals to amend structural policy as discussed in section 3.5.2. In its opinion on the Commission's proposals, as set out in a draft regulation, it made several references to the European Commission's ultimate responsibility for the implementation of the budget and called for a clear description of that responsibility in the final draft of the Regulation. The European Court of Auditors is opposed, for example, to the proposal that the member states should express an opinion on the system at the beginning of the period. It believes that, in the case of shared management, the Commission should conduct a preparatory review of

⁶⁹ Opinion no. 1/2005 on the proposal for a Council Regulation on the financing of the Common Agricultural Policy (COM (2004) 89 final); Opinion no. 2/2005 on the proposal for a regulation from the Council regarding ERDF, the ESF and the Cohesion Fund (COM (2004) 492 final).

documents and carry out on-the-spot checks to assure itself of the existence, relevance and proper functioning of procedures and systems. In keeping with its earlier opinion on the single audit, the European Court of Auditors found that the final text of the Regulation should lay down the intensity of the checks and the control standards. It also thought that the rules on management and control systems should be tightened up in the Regulation.

5.4 Conclusions

The European Court of Auditors was again unable to issue a positive opinion on the legality and regularity of the transactions underlying the 2004 accounts. An important difference from its opinion on the 2003 financial year is that the Commission, the European Court of Auditors observed, had made progress with its reform of its internal control system. This has had a positive impact on the legality and regularity of expenditure. Regarding the individual budget headings, the European Court of Auditors had a positive opinion on own resources, administrative expenditure and, with some qualification, pre-accession aid granted to the candidate member states.

To express an opinion on the regularity of the expenditure of EU funds, we formulated a number of complementary indicators: the reservations made by the Directorates-General and services in their annual activity reports, the irregularities detected by the member states and the European Commission during the implementation of the European programmes, and the errors detected by the European Court of Auditors. With the aid of public information on these indicators, we attempted to gain a well-founded picture of the regularity of the expenditure of EU funds. In practice, however, not enough information was available for us to do so.

In the first place, it is not clear from the reservations made by the European Commission's Directorates-General and services whether they all have the same significance and are therefore comparable.

In the second place, there are shortcomings and uncertainties in the information on irregularities provided by the Commission and the anti-fraud office, OLAF. It is striking that no information is available on *irregularities* in the funds that the Commission itself manages to implement, for example, internal policies and external action, yet information is available on the number of *fraud* cases involving these funds.

In the third place, the information provided by the European Court of Auditors on the number of errors detected is not quantitative. It can only be generalised to the EU budget as a whole and not to the various headings of the European Commission's budget.

6 Effectiveness of EU policy

In this chapter on the effectiveness of the Union's policy, we first outline how the European Commission accounts for the results of EU policy. On the basis of the Synthesis Reports for 2003 and 2004 we look at whether the main points of the reports agree with the main points of the policy strategy (section 6.1). We then determine what the intended and actual effects of policy are for the main headings of the EU budget, i.e. common agricultural policy, structural operations and internal policies (section 6.2).⁷⁰

6.1 Accountability for the results of EU policy

The Synthesis Report is the only general annual accountability document issued by the European Commission. It is the final piece in the Commission's strategic planning and programming cycle. The Synthesis Report takes note of how well the annual policy strategy was implemented, as well as of the DGs' achievements and management performance and decides on the measures necessary to address any major management weaknesses identified.⁷¹

Using the available information, including the Commission's website, we investigated the extent to which the Synthesis Reports for 2003 and 2004 include this information and whether they are adequate accountability instruments.⁷²

The Court of Audit found that the main points of the 2003 Synthesis Report did not agree in substance with the main points of the 2003 policy strategy. The 2003 Synthesis Report does not refer to the three policy priorities that underpin the policy strategy. Nor does it consider the objectives of the policy strategy. Furthermore, the Synthesis Report does not agree with the approach taken in the policy strategy to human resources and finance (related to the three policy priorities). The achievements of the Directorates-General are not considered in the 2003 Synthesis Report. The 2003 Synthesis Report does not refer to policy implementation in terms of policy priorities but only in terms of control, management and instruments. Moreover, it is not clear whether the view presented of control, management and instruments is complete.

We come to the same conclusion regarding the agreement between the 2004 Synthesis Report and the 2004 policy strategy. The political priorities on which the policy strategy is based play no part in the 2004 Synthesis Report. They are not named and are not referred to. Nor are the objectives of the policy strategy. The achievements of the Directorates-General are barely touched upon in the 2004 Synthesis Report.

⁷⁰ For this chapter, we looked at whether general documents published by the European Commission, such as the EU budget, annual management plans and annual activity reports, contained information on policy objectives. Ex ante, mid-term and ex post evaluations of individual programmes and activities were not considered.

⁷¹ See the website of the European Commission ('The Commission at work').

⁷² Appendix 5 presents a detailed description of the results of this analysis.

6.2 Intended and actual effects by budget heading

Figure 3 below shows the objectives of EU policy by budget heading.

Figure 3

EU policy objectives	
By budget heading: common agricultural policy, structural operations and internal policies	
Objective	Source
Budget heading Common agricultural policy 	
<p>The objectives of the common agricultural policy are to:</p> <ul style="list-style-type: none"> • increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; • thus ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; • stabilise markets; • assure the availability of supplies; • ensure that supplies reach consumers at reasonable prices. 	EC Treaty, article 33 (1)
Budget heading Structural operations 	
<ul style="list-style-type: none"> • Objective 1: to promote the development and structural adjustment of regions whose development is lagging behind. • Objective 2: to support the economic and social conversion of areas facing structural problems. • Objective 3: to support the adaptation and modernisation of education, training and employment policies and systems. 	EU budget
Budget heading internal policies 	
Internal policy: Research and Technological Development	
The Community shall have the objective of strengthening the scientific and technological bases of Community industry and encouraging it to become more competitive at international level, while promoting all the research activities deemed necessary by virtue of other Chapters of this Treaty.	EC Treaty, article 163
Internal policy: Energy and Transport	
To help achieve the objectives referred to in Articles 14 and 158 and to enable citizens of the Union, economic operators and regional and local communities to derive full benefit from the setting-up of an area without internal frontiers, the Community shall contribute to the establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructures.	EC Treaty, article 154
Internal policy: Environment	
<p>Community policy on the environment shall contribute to pursuit of the following objectives:</p> <ul style="list-style-type: none"> • preserving, protecting and improving the quality of the environment; • protecting human health; • prudent and rational utilisation of natural resources; • promoting measures at international level to deal with regional or worldwide environmental problems. 	EC Treaty, article 174

Figure 3 continued

EU policy objectives	
By budget heading: common agricultural policy, structural operations and internal policies	
Objective	Source
Internal policy: Education and Culture	
<p>The Community shall contribute to the development of quality education by encouraging cooperation between member states and, if necessary, by supporting and supplementing their action, while fully respecting the responsibility of the member states for the content of teaching and the organisation of education systems and their cultural and linguistic diversity.</p> <p>Community action shall aim to:</p> <ul style="list-style-type: none"> • facilitate adaptation to industrial changes, in particular through vocational training and retraining; • improve initial and continuing vocational training in order to facilitate vocational integration and reintegration into the labour market; • facilitate access to vocational training and encourage mobility of instructors and trainees and particularly young people; • stimulate cooperation on training between educational or training establishments and firms; • develop exchanges of information and experience on issues common to the training systems of the member states. <p>The Community shall contribute to the flowering of the cultures of the member states, while respecting their national and regional diversity and at the same time bringing the common cultural heritage to the fore.</p> <p>Action by the Community shall be aimed at encouraging cooperation between member states and, if necessary, supporting and supplementing their action in the following areas:</p> <ul style="list-style-type: none"> • improvement of the knowledge and dissemination of the culture and history of the European peoples; • conservation and safeguarding of cultural heritage of European significance; • non-commercial cultural exchanges; • artistic and literary creation, including in the audiovisual sector. 	<p>EC Treaty, articles 149, 150 and 151</p>

To establish the effectiveness of EU policy, also taking into account the wish of the Commission to move toward activity based management, target values or target directions must be formulated for the objectives. The table below shows where target values or target directions have been set for the general and more detailed operational objectives in each policy field.

Table 18. Intended and actual effects of EU policy in 2003-2004 (common agricultural policy, structural policy and internal policies)

Heading		2003 Intended effects	Actual effects	2004 Intended effects	Actual effects
Common agricultural policy*	Productivity	No target value	Absent	No target value	Absent
	Income	No target value	Present	No target value	Present
	Stable markets	No target value	Absent	No target value	Absent
	Available supplies	No target value	Present	No target value	Present
	Reasonable consumer prices	No target value	Present	No target value	Present
Structural operations**	1. Regions lagging behind	No target value	Absent	No target value	Absent
	2. Areas with structural problems	No target value	Absent	No target value	Absent
	3. Education, training and employment	No target value	Absent	No target value	Absent
Internal policies***	Research and technological development	No target value	Absent	No target value	Absent
	Energy and transport	No target value	Absent	No target value	Absent
	Environment	No target value	Absent	No target value	Absent
	Education and culture	No target value	Absent	No target value	Absent

* Source: DG Agriculture, Annual Management Plan 2003; Annual Activity Report 2003.

** Source: European Commission, 15th annual report on the implementation of the structural funds 2003 and annual activity reports of the DGs.

*** Source: Annual activity reports of the DGs.

Only in the field of agriculture do the annual reports provide some information on actual effects. But the effects are not compared with target values. The annual reports of the Directorates-General that have co-responsibility for structural policy and internal policies do not contain information on the achievement of goals (in terms of social effects).⁷³

Agriculture

A great deal of information is provided on agriculture. However, because there are no associated target values, it is difficult to tell whether the goals are actually being achieved. This is illustrated by the objective of ensuring a fair standard of living (income) for the agricultural community. Eurostat records a great deal of information on developments in agricultural incomes and publishes such information in its annual activity reports. But because there is no definition of what a fair standard of living is, it is impossible to determine whether the objective is being achieved.

There are no clear indicators of 'Productivity' and 'Stable markets'. No definition is given of what a stable market is.

Another agriculture objective is the availability of supplies. This can be read from the indicator used: the volume of supplies available (e.g. butter, milk, etc.). In its activity report for 2003, DG Agriculture writes that cereal supplies are developing positively (i.e. are decreasing) and that milk product supplies are developing negatively (i.e. are increasing). Although there is no specific definition of what an appropriate supply is, the preferred direction is clear.

⁷³ We also studied the DG's Activity Statements included in the Preliminary Draft General Budget of the European Commission of the Financial Year 2005, Working Document Part 1 Activity Statements, May 2005. This information, however, does not include a clear link between objectives, indicators, policy outcomes and evaluations of results.

By comparing the development of consumer food prices with general price movements, price stability, another agricultural objective, can be checked against a target value formulated in the management plan ('price index for food products compared to the general price index'). However, no conclusion on the effect of policy is drawn from the comparison of the two developments.

Structural policy and internal policies

There are no specific objectives for structural policy or internal policies. There are objectives in both fields but they are concerned more with processes than with effects. They are concerned, for example, with promoting 'the development and structural adjustment of regions whose development is lagging behind' and contributing 'to the development of quality education by encouraging cooperation between member states'. Such objectives are difficult to evaluate because no general target values have been set for either the process (promoting development) or the effects (structural adjustment).

A further complication is that these policy fields are covered by several Directorates-General and are implemented in several member states and by several parties, some of which are private operators. In practice, therefore, policy evaluations tend to be programme evaluations. They are not mutually comparable and there is no horizontal insight into the effectiveness of structural operations or internal policies. The DGs' annual reports and annual plans, furthermore, confine themselves to the process objectives. Many of them focus on the application of budgets (how much and how quickly) and present no information on the results of policy.

6.3 Conclusions

Accountability for EU policy is incomplete. There is no overarching document that links the EU's policy performance and effects at the most general level to the EU's policy priorities. The European Commission's annual Synthesis Report could fill this gap, but it does not. The annual activity reports published by the European Commission's Directorates-General contain only limited information on policy performance and effects.

To determine the effectiveness of EU policy, we studied the target values and target directions that had been set for the EU's general policy objectives and the policy effects in the three main policy fields. Our analysis found that no clear target values or target directions had been formulated. In common agricultural policy, some information is available on what has been achieved in three of the five policy sectors but since the effects of policy are not linked to target values or target directions the information is of limited value.

7 Conclusions and trends

EU-wide policy developments

The European Commission has made proposals to improve financial management: the Community Internal Control Framework. These ‘route map’ proposals will improve the work of the European Commission and – where funds are spent under shared management – that of the Union’s 25 member states. The proposals are supported by the European Parliament and the European Court of Auditors. The proposals can be seen as an ‘Operation Financial Accountability EU’ and a means to arrive at a positive DAS. It is up to the member states to take this step together with the EU institutions but at present most member states are not prepared to accept the proposal to introduce declarations at member state level or to have them audited externally. It is not clear whether the Commission’s proposals regarding common agricultural policy and the structural funds enjoy the support of all the Directorates-General concerned. This creates uncertainty in the member states. In the future, new proposals by the Directorates-General concerned should be closely coordinated with each other.

EU-wide systems

We praise the European Commission’s ambition of publishing more and better information on its work. There has been a slight improvement in the information published in certain areas. But there is still a lot of work to be done. In particular, only limited information is available on capacity and the results of on-the-spot inspections, internal audit and the accountability of the Directorates-General and services. This should be improved. The chain of accountability for the EU’s financial management is incomplete. The closing document to the DGs’ annual activity reports is the Synthesis Report for the Commission as a whole. It is not signed, however, by an official or political authority.

Regularity of EU policy

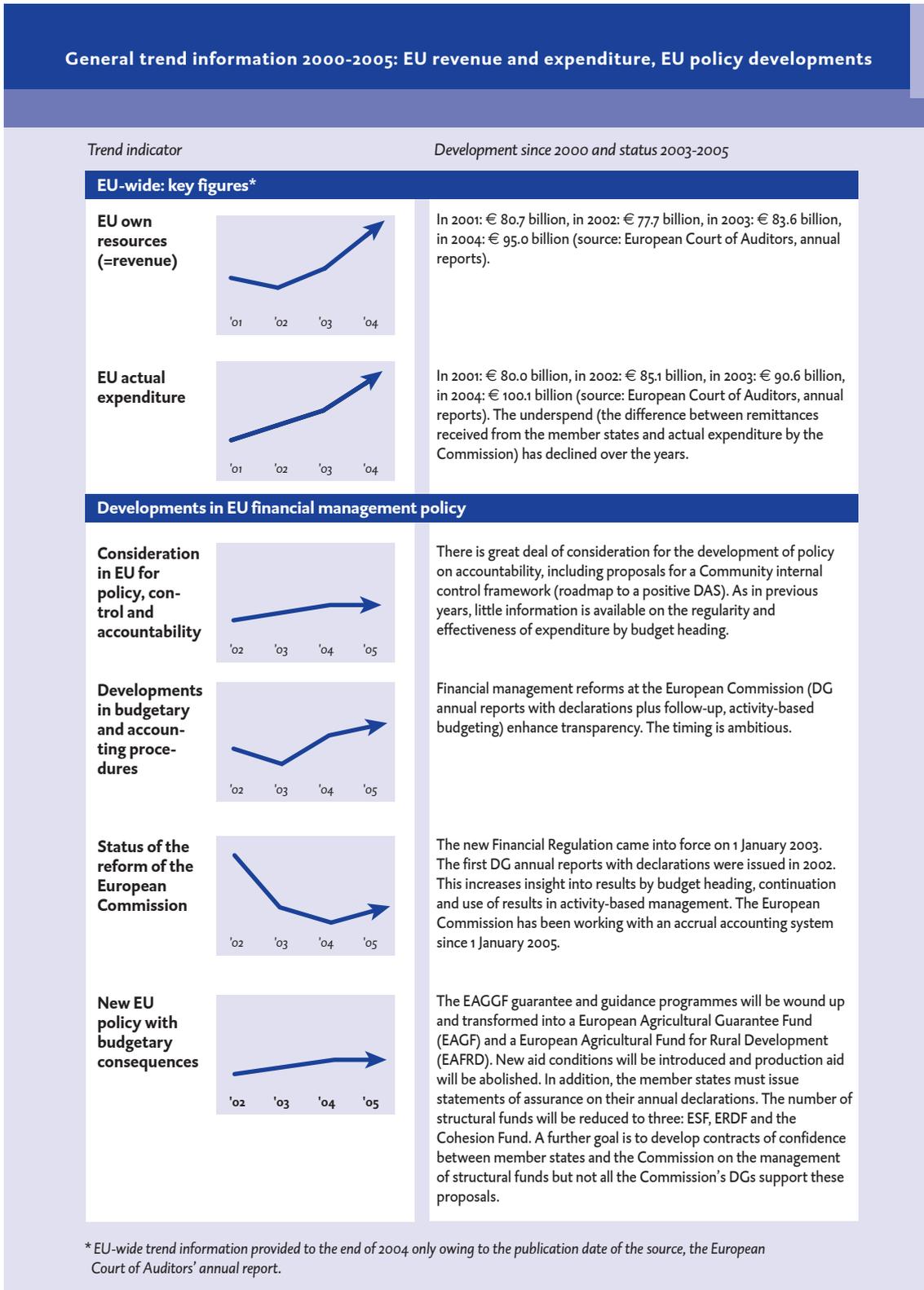
The European Court of Auditors’ general opinion on the legality and regularity of underlying transactions in the 2004 financial report was again not positive. A full insight into regularity cannot yet be gained from the public information that is available on ‘the European Commission’s reservations’, ‘irregularities’ and ‘errors’ detected by the European Court of Auditors. By definition, the Commission’s reservations do not all have the same importance, the information on irregularities contains gaps and uncertainties, and the information published by the European Court of Auditors on the errors it detects is not quantified and does not provide a limited insight by budget heading.

Effectiveness of EU policy

The reports issued on the effects of EU policy are inadequate. There is no overarching document that links the results of EU policy to EU policy priorities. No clear target values or target directions have been set for the objectives of common agricultural policy, structural operations or internal policies. There is a limited insight into effects but owing to the absence of target values and target directions it is not clear if the actual effects were also the intended effects.

The indicators used in part I of this EU Trend Report are summarised (aggregated) in figure 4:⁷⁴

Figure 4



⁷⁴ The Court of Audit provided a general estimate of trends in its EU Trend Reports 2003-2005. Thanks to the use of indicators, it is now possible to identify trends in certain areas. General trend indicators are described here in respect of 'key figures' and 'developments in EU financial management policy', and specific trend indicators in respect of 'systems', 'regularity' and 'effectiveness'.

In the EU Trend Reports 2003-2006 we gave a general appraisal of trends. Because of the use of indicators in this years' Trend Report, we are able to provide more insight in trends in a number of areas. Figure 4 above includes general information on trend indicators for the topics 'key figures' and 'developments in EU policy on financial management'. In the table below we provide specific information on trends for the topics 'systems', 'regularity' and 'effectiveness'.

Table 19. Specific trend information 2004-2005: EU financial management, regularity and effectiveness

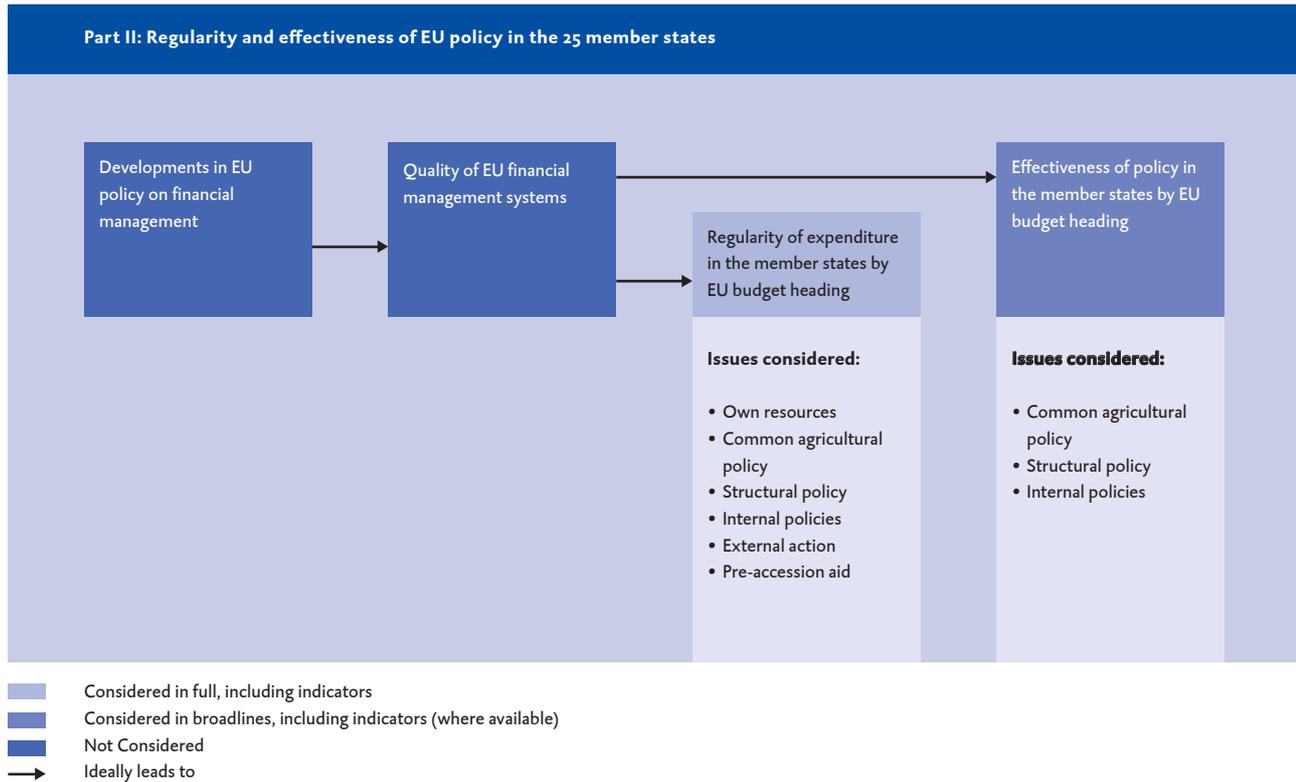
Chapter	Section	Indicators (aggregate level)	Degree of insight in 2003-2004	Results in 2003-2004
Systems	Budget planning and implementation	Presence of published annual management plans	Partial	Four and five of 12 DGs published annual management reports in 2003 and 2004 respectively
		Annual management plans with strategic and specific objectives	High	All published annual management reports contained these objectives
	Control by European Commission	Application by DGs of internal control standards (according to European Court of Auditors)	High	50% of DGs studied comply with the standards studied
		Capacity and output of on-the-spot inspections	Limited	Values impossible
		Capacity and output of Internal Audit Capabilities	Limited	Values impossible
		Capacity and output Internal Audit Service	High	Capacity used and recommendations adopted unchanged, performance of controls higher
		Capacity and output of fraud follow-up investigations	Partial	Capacity used for investigations: approx. 41%
	Accountability	DG capacity and output, annual activity report	Limited in 2003, partial in 2004	Reservations clear, more quantification, increase in number of DGs with country information
		SG capacity and output, Synthesis Report	None	Values impossible
	External audit European Court of Auditors	Capacity and output of European Court of Auditors	Partial	Audit positions clear, capacity used and realisation not
	Regularity	Information published by European Commission	Number and financial volume of DG reservations	Limited in 2003, partial in 2004
Number and financial volume of irregularities reported			Partial	Insight into four or seven budget headings. Increase in number and financial volume
Number and financial volume of corrections			Partial	Insight into three of seven budget headings. Increase in number and financial volume
Number and financial volume of fraud notifications			High	Number increased by 20%. Financial volume in 2004: approx. € 5,8 billion
Information published by European Court of Auditors		General opinion	Partial	Largely no positive DAS, no quantitative insight
		Opinion by budget heading	Partial	Qualitative insight by budget heading reveals many persistent weaknesses
		Errors by budget heading	None	No quantitative information on errors by budget heading
Effectiveness	Agreement between policy and reports	Agreement between Synthesis Report and policy strategy	High	Poor agreement: main points of policy strategy not considered in concrete terms in Synthesis Reports
	Effects	Intended and actual effects	Limited	Objectives are present but no target values. Virtually no information on actual effects

Part II

Member states

8 Introduction to part II

Part II of the *EU Trend Report 2006* compares the regularity (and where possible the effectiveness) of the expenditure of EU funds in the 25 member states. The figure below shows the subjects considered in part II.



As can be seen from the figure, part II looks at the regularity of the expenditure of EU funds in the member states by heading of the EU budget. For each member state we provide an overview of regularity and describe the effectiveness of EU policy. The indicators we use are similar to those used in part I. They are concerned with the number and financial volume of irregularities, the number of financial corrections, the number of errors, etc. Values were given to the indicators based on public information.

We look in particular at EU funds that are applied ‘under shared management’ in the member states (i.e. funds for policies implemented jointly by the European Commission and parties in the member states). The EC Treaty lays down that the member states must cooperate with the Commission to ensure that funds appropriated are used in accordance with the principles of sound financial management.⁷⁵ EU appropriations used under shared management relate chiefly to the common agricultural policy and the structural policy. These policies accounted for nearly 80% of the total EU budget in 2004. In addition to these policies, we look at internal policies and the member states’ contributions to the EU.

⁷⁵ See article 274 of the EC Treaty. Article 280 of the Treaty is concerned with combating and prosecuting fraud in the member states.

Ideally, the work performed for part II would produce the information necessary to complete the following table.

Table 20. Insight into the regularity of the expenditure of EU funds by member state				
Member state	Public reports available on regularity by EU policy field			
	<i>Agriculture</i>	<i>Structural policy</i>	<i>Internal policies</i>	<i>Other (including pre-accession)</i>
Austria				
Belgium				
Cyprus				
Czech Republic				
Denmark				
Estonia				
Finland				
France				
Germany				
Greece				
Hungary				
Ireland				
Italy				
Latvia				
Lithuania				
Luxembourg				
Malta				
Netherlands				
Poland				
Portugal				
Slovakia				
Slovenia				
Spain				
Sweden				
United Kingdom				

A similar table should also be completed for the insight available into the effectiveness of the expenditure of EU funds in the member states. The conclusion to part II will reveal the extent to which these tables can be compiled at present.

Part II is organised as follows:

- Chapter 9: key figures on remittances to the EU and receipts from the EU budget by member state.
- Chapter 10: description of the regularity of and insight into the expenditure of EU funds (in particular, agricultural funds, structural funds and funds for internal EU policies) by member state.
- Chapter 11: description of the effectiveness of EU policy implemented in the member states (in particular, the common agricultural policy, the structural policy and where possible the internal policies).
- Chapter 12: conclusions to part II.

9 EU member states: key figures

In this chapter we compare the contributions that the member states remitted to the EU in 2004 (section 9.1) and the funds that designated organisations in the member states received from the EU in 2004 (section 9.2). The net position of the individual member states in 2004 is also considered; the net position is the total amount that a member state contributes to the EU less the total amount that it receives from the EU budget (section 9.3). Finally, we discuss the ‘decommitment’ or cancellation of budgets that were not spent in 2004 (section 9.4).

9.1 Remittances to the EU in 2004 by member state

9.1.1 Member states remittances to the EU budget

The own resources (the EU’s income) consisted in 2004 of:⁷⁶

- traditional own resources, comprising agricultural duties, sugar levies and customs duties;
- VAT-based resources (a percentage of the individual member states’ VAT revenue or the level of consumption applied on a uniform basis across the EU);
- remittances that are related to the member states’ gross national income (GNI).

Table 21 compares the amounts remitted by the member states to the EU in the years 2002-2004.

Table 21. EU own resources, remittances by member state in 2002-2004 (actual figures, amounts in millions of euros)

Member state	Traditional own resources*	VAT-based remittance	GNI remittance	British budget rebate	Total 2004	Total 2003	Total 2002
Austria	176.0	248.3	1 596.9	25.4	2 046.5	1 935.9	1 840.5
Belgium	1 278.9	338.5	1 975.4	256.2	3 848.9	3 486.0	3 017.9
Cyprus	19.0	12.1	56.2	7.8	95.0	0.0	0.0
Czech Republic	60.4	80.1	373.0	51.6	565.2	0.0	0.0
Denmark	257.5	210.5	1 312.0	160.8	1 940.9	1 777.7	1 656.1
Estonia	7.1	7.7	35.7	4.9	55.4	0.0	0.0
Finland	94.6	203.8	1 012.1	132.8	1 443.3	1 337.9	1 184.5
France	1 134.9	2 233.3	11 149.8	1 495.3	16 013.4	15 153.7	14 152.3
Germany	2 406.5	2 633.9	14 837.9	351.3	20 229.6	19 202.6	17 582.2
Greece	196.5	247.9	1 148.4	149.5	1 742.3	1 533.7	1 337.5
Hungary	54.3	76.6	356.7	49.4	537.1	0.0	0.0
Ireland	128.4	181.7	833.7	106.7	1 250.5	1 127.5	1 018.8
Italy	1 236.6	2 072.5	9 257.4	1 219.5	13 785.9	11 758.5	11 279.5
Latvia	7.8	8.5	45.0	6.2	67.5	0.0	0.0
Lithuania	14.4	15.3	78.8	10.9	119.3	0.0	0.0
Luxembourg	12.6	36.6	162.0	20.0	231.3	204.5	183.8
Malta	5.1	4.4	20.7	2.9	33.0	0.0	0.0
Netherlands	1 377.0	666.2	3 178.5	47.0	5 268.8	4 919.5	4 467.4
Poland	112.8	190.0	884.9	123.1	1 310.7	0.0	0.0
Portugal	121.7	188.9	902.0	119.7	1 332.2	1 292.9	1 187.3
Slovakia	19.1	29.2	150.4	20.8	219.6	0.0	0.0
Slovenia	12.3	25.1	116.9	16.1	170.4	0.0	0.0
Spain	954.7	1 201.7	5 511.0	716.2	8 383.6	7 429.4	6 551.2
Sweden	315.2	375.7	1 959.7	30.0	2 680.6	2 501.3	2 086.2
United Kingdom	2 303.6	2 623.9	12 027.0	-5 272.1	11 682.4	9 971.2	10 152.8
Total	12 307.1	13 912.2	68 982.0	-148	95 053.3	83 632.5	77 698.0

* Agricultural duties, sugar and isoglucose levies and customs duties, less 25% that the member states may retain to defray the cost of collection (‘collection costs’).

Source: European Court of Auditors, annual reports 2002-2004.

⁷⁶ For an explanation of the system of own resources, see the EU Trend Report 2003, section 4.2.1.

The table above shows that the remittances were higher in 2004 than in previous years. This was attributable largely to the enlargement of the Union with ten new member states.

9.1.2 Member state remittances to the European Development Fund

The European Development Fund (EDF) is not part of the general EU budget (see also part I, section 2.1.2).⁷⁷ The EDF is financed directly by the member states. Each member state's contribution is based in part on its gross national income and its historical ties to countries in Africa, the Caribbean and the Pacific (the ACP states), such as former colonies. The member states transfer their annual EDF contributions to the European Investment Bank and the European Commission in accordance with a fixed contribution rate.

Table 22 shows the estimated contributions made by the 15 'old' member states for 2004 and 2005.⁷⁸

Table 22. Estimated contributions of the 15 'old' member states to the EDF 2004-2005 (in millions of euros)*

Member state	Contribution rate (%) ⁷⁹	Contribution 2004	Contribution 2005
Austria	2.65	64.7	75.7
Belgium	3.92	95.6	111.9
Denmark	2.14	52.2	61.1
Finland	1.48	36.1	42.3
France	24.3	593.0	693.8
Germany	23.36	570.0	666.9
Greece	1.25	30.5	35.7
Ireland	0.62	15.1	17.7
Italy	12.54	305.9	358.0
Luxembourg	0.29	7.1	8.3
Netherlands	5.22	127.4	149.0
Portugal	0.97	23.7	27.7
Spain	5.84	142.5	166.7
Sweden	2.73	66.6	77.9
United Kingdom	12.69	309.6	362.3
Total EU 15	100%	2,440.0	2,855.0

* Source: European Commission, DG Budget, Commission document COM (2003) 720 final, 21 November 2003.

The member states will contribute a total of € 13.8 billion to the ninth EDF. The two largest contributors will be Germany and France, each contributing more than € 3 billion. Luxembourg and Ireland will contribute the least, less than € 100 million each.⁸⁰ At the end of 2004, the EDF had more than € 43 billion in hand.⁸¹ In June 2003, the European Commission estimated that the actual EDF payments to ACP states would be € 3.2 billion in 2003 and € 2.6 billion in 2004.

⁷⁷ See Commission documents COM (2003) 590 and COM (2004) 487.

⁷⁸ Commission communication, European Development Fund, Estimate of commitments and payments and of contributions to be paid by the Member States for 2004 and 2005, Commission document COM (2004) 763 final.

⁷⁹ The percentages given are based on the contribution rate for the eighth EDF.

⁸⁰ See European Commission website, DG Budget, on the EDF.

⁸¹ The EDF was not part of the EU budget in 2005. The financing of projects still ongoing from the sixth, seventh and eighth EDFs will be transferred to the ninth EDF.

9.2 Funds received by the member states from the EU in 2004

9.2.1 EU funds granted to the member states

Table 23 summarises the financial assistance granted to designated organisations in the EU member states in the years 2002, 2003 and 2004. The figures do not include the EU's administrative expenditure because it is not incurred in the member states.

Table 23. EU expenditure by member state and policy field in 2002, 2003 and 2004 (actual figures, amounts in millions of euros)

Member state	Common agricultural policy	Structural operations	Internal policies	External action	Pre-accession aid	Compensation	Reserves	Total 2004	Total 2003	Total 2002
Austria	1 144.8	314.9	118.8	4.2	0.0	0.0		1 582.8	1 555.3	1 525.4
Belgium	1 083.6	351.4	901.7	42.1	14.8	0.0		2 393.7	1 687.6	1 787.3
Cyprus	7.5	5.3	8.4	12.9	0.0	107.0		141.1	0.0	0.0
Czech Republic	90.8	161.7	26.2	0.2	191.7	332.3		802.8	0.0	0.0
Denmark	1 221.6	183.4	129.0	1.1	2.5	0.0		1 537.6	1 449.1	1 417.2
Estonia	15.6	37.5	35.6	0.0	90.6	17.5		196.8	0.0	0.0
Finland	870.4	361.9	95.5	0.7	0.0	0.0		1 328.5	1 303.9	1 167.0
France	9 429.4	2 402.5	660.6	5.8	10.3	0.0		12 508.6	13 039.8	11 656.1
Germany	6 064.7	4 636.7	721.0	5.9	1.9	0.0		11 430.3	10 371.8	11 444.7
Greece	2 779.8	2 843.1	125.4	1.1	0.0	0.0		5 749.3	4 801.0	4 616.5
Hungary	60.7	203.1	92.2	0.3	194.5	172.0		722.8	0.0	0.0
Ireland	1 845.5	839.1	89.8	0.7	0.1	0.0		2 775.4	2 645.7	2 562.8
Italy	5 040.4	4 518.6	536.6	22.2	2.6	0.0		10 120.3	10 438.6	8 012.9
Latvia	32.8	64.9	37.7	0.0	103.9	21.6		261.1	0.0	0.0
Lithuania	49.5	94.4	115.9	0.0	187.4	38.5		485.8	0.0	0.0
Luxembourg	38.9	29.0	74.0	0.3	1.8	0.0		144.1	119.1	131.7
Malta	2.7	6.4	4.8	5.0	1.0	55.4		75.4	0.0	0.0
Netherlands	1 332.9	355.4	337.1	3.1	0.2	0.0		2 028.6	1 919.4	1 509.1
Poland	297.4	843.5	175.3	0.2	891.8	490.3		2 698.5	0.0	0.0
Portugal	828.0	3 471.7	85.8	0.2	0.0	0.0		4 385.7	4 744.2	3 839.7
Slovakia	41.1	116.1	35.5	0.0	137.1	70.0		399.8	0.0	0.0
Slovenia	49.4	24.4	56.6	0.0	47.7	105.1		283.2	0.0	0.0
Spain	6 345.4	9 627.0	282.7	7.2	0.1	0.0		16 262.5	15 814.1	15 127.1
Sweden	849.8	408.6	145.7	0.9	0.1	0.0		1 405.1	1 414.8	1 191.4
United Kingdom	4 056.0	2 209.4	618.8	17.3	1.7	0.0		6 903.2	6 008.5	5 959.8
Miscellaneous	0.3	88.3	1 744.5	4 474.4	1 171.1	0.0	181.9	7 660.3	7 791.5	7 813.7
Total	43 579.4	34 198.3	7 255.2	4 605.8	3 052.9	1 409.5	181.9	94 283.1	85 252.2	79 932.9

Source: European Court of Auditors, annual reports 2002-2004.

The amounts shown in the table were spent in the member states. In addition, administrative expenditure of € 5,856.4 million was charged to the budget. The total budget for 2004 amounted to € 100,139.4 million. Amounts listed under the heading Compensation are payments to ensure that the new member states are net recipients in the first years of their membership. More information on this is presented in the *EU Trend Report 2005*, section 4.1.1. The table above shows that total EU funds spent in the member states was higher in 2004 than in 2002 and 2003. This was attributable largely to the enlargement.

9.2.2 Other member state receipts

Part I of this *EU Trend Report 2006* (section 2.2.2) explains which member states received assistance from the EU solidarity fund in the period 2004-2005.

9.2.3 Receipt of EU funds in relation to national budgets

This section looks at the relationship between the funds the member states receive from the EU and the member states' own national budgets. Table 24 compares the EU funds granted to the 15 'old' member states in 2003 and 2004 with national government expenditure. The ten new member states are not listed. Since they did not receive EU funds to implement structural policy, common agricultural policy and internal policies for the whole of 2004, the amounts cannot be compared in the same way.

Table 24. Receipts by member state as a percentage of national government expenditure (in billions of euros)

Member state	National government expenditure*		Total EU funds received**		EU funds as a percentage of national government expenditure	
	2003	2004	2003	2004	2003	2004
Austria	114.9	119.1	1.6	1.6	1.4	1.3
Belgium	137.5	140.0	1.7	2.4	1.2	1.7
Denmark	105.6	109.5	1.4	1.5	1.3	1.4
Finland	72.8	75.8	1.3	1.3	1.8	1.8
France	880.6	886.1	13.0	12.5	1.5	1.4
Germany	1 038.9	1 033.9	10.4	11.4	0.9	1.1
Greece	76.9	85.9	4.8	5.7	6.2	6.6
Ireland	46.4	50.1	2.6	2.8	5.7	5.6
Italy	641.0	655.5	10.4	10.1	1.6	1.5
Luxembourg	10.8	11.8	0.1	0.1	1.1	1.1
Netherlands	222.5	226.5	1.9	2.0	0.8	0.9
Portugal	62.1	65.4	4.7	4.4	7.6	6.7
Spain	294.9	323.7	15.8	16.3	5.4	5.0
Sweden	156.8	159.9	1.4	1.4	0.9	0.9
United Kingdom	689.1	750.5	6.0	6.9	0.9	0.9

* Source: Eurostat, Total General Government Expenditure 2003/2004.

** Source: European Court of Auditors, annual reports 2003 and 2004.

As can be seen from the table, the funds received from the EU are equal to at least 5% of total national government expenditure in four member states: Greece, Ireland, Spain and Portugal. At the other end of the scale, EU funds represent less than 1% of total government expenditure in three member states: the Netherlands, the United Kingdom and Sweden.

9.3 Net position by member state in 2004

The difference between a member state's contribution to the EU and the funds it receives from the EU budget is known as the member state's net position.⁸²

Table 25 shows the net positions of the member states in the years 2002-2004. The ten new member states received funds in only part of 2004. The net position of the Netherlands is considered in section 14.4 of this report.

Table 25. Net position by member state 2002, 2003 and 2004 (in millions of euros)

Member state	Member state contribution to the EU			Member state revenue from the EU			Net position		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Austria	1 840.5	1 935.9	2 046.5	1 525.4	1 555.3	1 582.8	-315.1	-380.6	-463.7
Belgium	3 017.9	3 486.0	3 848.9	1 787.3	1 687.6	2 393.7	-1 230.6	-1 798.4	-1 455.2
Cyprus			95.0			141.1			46.1
Czech Republic			565.2			802.8			237.6
Denmark	1 656.1	1 777.7	1 940.9	1 417.2	1 449.1	1 537.6	-238.9	-328.6	-403.3
Estonia			55.4			196.8			141.4
Finland	1 184.5	1 337.9	1 443.3	1 167.0	1 303.9	1 328.5	-17.5	-34.0	-114.8
France	14 152.3	15 153.7	16 013.4	11 656.1	13 039.8	12 508.6	-2 496.2	-2 113.9	-3 504.8
Germany	17 582.2	19 202.6	20 229.6	11 444.7	10 371.8	11 430.3	-6 137.5	-8 830.8	-8 799.3
Greece	1 337.5	1 533.7	1 742.3	4 616.5	4 801.0	5 749.3	3 279.0	3 267.3	4 007.0
Hungary			537.1			722.8			185.7
Ireland	1 018.8	1 127.5	1 250.5	2 562.8	2 645.7	2 775.4	1 544.0	1 518.2	1 524.9
Italy	11 279.5	11 758.5	13 785.9	8 012.9	10 438.6	10 120.3	-3 266.6	-1 319.9	-3 665.6
Latvia			67.5			261.1			193.6
Lithuania			119.3			485.8			366.5
Luxembourg	183.8	204.5	231.3	131.7	119.1	144.1	-52.1	-85.4	-87.2
Malta			33.0			75.4			42.4
Netherlands	4 467.4	4 919.5	5 268.8	1 509.1	1 919.4	2 028.6	-2 958.3	-3 000.1	-3 240.2
Poland			1 310.7			2 698.5			1 387.8
Portugal	1 187.3	1 292.9	1 332.3	3 839.7	4 744.2	4 385.7	2 652.4	3 451.3	3 053.4
Slovakia			219.6			399.8			180.2
Slovenia			170.4			283.2			112.8
Spain	6 551.2	7 429.4	8 383.6	15 127.1	15 814.1	16 262.5	8 575.9	8 384.7	7 878.9
Sweden	2 086.2	2 501.3	2 680.6	1 191.4	1 414.8	1 405.1	-894.8	-1 086.5	-1 275.5
United Kingdom	10 152.8	9 971.2	11 682.4	5 959.8	6 008.5	6 903.2	-4 193.0	-3 962.7	-4 779.2

Source: European Court of Auditors, annual reports 2002-2004.

* Rounding differences in the totals are taken from the original sources.

Of the 15 'old' member states, only Greece, Ireland, Portugal and Spain receive more than they contribute. These are also the member states where revenue from the EU exceeded 5% of total national government expenditure. The ten new member states received more than they contributed because they received 'compensation'.

⁸² Different methods are used to calculate a member state's net position. Their application in the Netherlands is considered in the *EU Trend Report 2005* (part III, section 14.4). The Netherlands Court of Audit applies a purely accounting method in its EU Trend Reports: all a member state's contributions of own resources less all its receipts from the EU budget. The information we use is audited externally, i.e. it is taken from the European Court of Auditors' annual reports.

9.4 Decommitment of structural fund budgets

Under the N+2 rule, member states must apply structural funds allocated to implement multiyear programmes within two years of their commitment. Budgets that are not spent are automatically cancelled ('decommitted'). The Commission first informs the member state concerned and then officially cancels annual appropriations that have not been applied. The contribution from the structural funds to the programme is reduced by the amount not applied. The table below shows amounts decommitted by member state in 2004.⁸³

Table 26. Decommitment of structural funds in 2004 for year 2001 (amounts in millions of euros)*

Member state	Fund**				Total
	EAGGF-Guidance	FIFG	ESF	ERDF	
Austria	-	0.09	0.5	-	0.5
Belgium	-	0.3	1.0	-	1.3
France	-	-	13.0	-	13.0
Germany	4.5	-	-	9.9	14.5
Ireland	6.6	-	-	-	6.6
Italy	1.1	-	1.4	-	2.5
Netherlands	0.5	-	195.5	-	196.0
Portugal	-	-	0.9	2.6	3.5
Spain	0.3	-	2.3	-	2.6
United Kingdom	-	4.1	-	-	4.1
Total	13.1	4.5	214.9	12.6	245.1

* Source: European Commission, DG Budget: Analysis of the budgetary implementation of CAP and Structural Funds in 2004, Corrigendum, May 2005.

** EAGGF-Guidance: European Agriculture Guidance and Guarantee Fund - Guidance section; FIFG: Financial Instrument for Fisheries Guidance; ESF: European Social Fund; ERDF: European Regional Development Fund.

The Commission cancelled € 245 million of structural fund appropriations in 2004. The decommitments related to 39 multiyear programmes in ten member states. More than 87% of all decommitments (€ 215 million) related to 15 programmes financed by the ESF. More than 90% of this amount (€ 195 million) related to programmes implemented in the Netherlands.

⁸³ The table excludes transnational programmes such as Interreg III because they are implemented in more than one member state.

10 Regularity of the expenditure of EU funds in the member states

In this chapter we consider the information that is available within the EU on the regularity of the expenditure of EU funds in the individual member states to implement the Union's common agricultural policy, structural policy and internal policies. We look first at the aspects of regularity that the European Commission itself reports upon: reservations and irregularities (section 10.1). We then consider the European Court of Auditors' findings regarding the member states (section 10.2). Finally, we consider the work of the supreme audit institutions in the EU (section 10.3).

10.1 Regularity information from the European Commission

10.1.1 Information in activity reports

The European Commission uses the activity reports issued by its Directorates-General (DGs) and services to account for the conduct of policy, including the expenditure of EU funds. The greater part of the EU funds are applied in the member states. With this in mind, the Netherlands Court of Audit reviewed the activity reports of eight DGs for 2003 and 2004. It studied the insight the reports provided into the regularity of the expenditure of EU funds in the member states to implement common agricultural policy, structural policy and internal policies.⁸⁴

Table 27. Insight into the regularity of EU expenditure in the member states based on the activity reports of the European Commission's DGs*

	2003	2004
Number of DGs that name member states**	2	3
Number of DGs that provide member state information without naming member states	1	1
Number of DGs that do not provide member state information	5	4

* Source: Activity reports 2003 and 2004 of eight of the European Commission's policy DGs.

** Based on the number of times the DGs identifiably named one or more member states.

The number of DGs that provided information on the regularity of expenditure in the member states was limited in 2003. Only DGs Regional Policy and Employment provided concrete information at country level. DG Agriculture named a member state (Greece) only when it expressed a reservation. DG Fisheries referred to uncertainties detected but referred to only 'a group of nine member states'. In broad lines, the situation was the same in 2004: the same eight DGs provided the same amount of information on the regularity of the expenditure of EU funds.

⁸⁴ The 2003 and 2004 activity reports of the following policy DGs were studied: Agriculture, Regional Policy, Employment, Fisheries, Education and Culture, Environment, Transport and Energy, and Research. Although internal policies are not carried out under shared management, national programmes are sometimes implemented.

The member state information that DGs Regional Policy and Employment provided related chiefly to the management and control systems in the member states and the problems they found in them. In this respect DG Regional Policy referred to problems in Greece, Spain and Portugal. As a result, DG Regional Policy expressed reservations in the declaration on its annual activity report.⁸⁵

DG Employment considered the quality of management and control systems in the EU 15 member states in its 2004 activity report. It reviewed expenditure from the European Social Fund (ESF) to finance objective 1 programmes (development and structural adjustment of regions whose development is lagging behind), objective 3 programmes (modernisation of policy and systems in the field of education and employment) and the Community Initiative programme Equal (combating discrimination and inequality in the labour market). Several member states are therefore considered more than once in the analysis. DG Employment found that the quality of the management and control systems in place for programmes in Luxembourg and Portugal was generally 'adequate'. It found that the systems in ten member states (identified by name) were adequate but further improvements still had to be made.⁸⁶ The systems in place for programmes in eight member states (identified by name) still displayed serious weaknesses.⁸⁷

DG Fisheries noted in its reports for 2003 and 2004 that the Commission was still uncertain about the management and control system in nine member states. The Commission was unable to complete the requisite audits in these member states on time in 2004.

The annual activity reports of the DGs involved in the implementation of the EU's internal policies provide virtually no information at member state level. Only DG Education and Culture noted in its report for 2004 that 10% of the control systems at national 'agencies' in the member states still displayed serious shortcomings.

10.1.2 Information from member states included in OLAF's annual report

The European Commission reports each year on the results of the measures taken to protect the financial interests of the EU and to combat fraud. These reports are based on, amongst other things, the annual activity reports of the individual services, including the anti-fraud office, OLAF, and irregularities reported by the member states themselves.

⁸⁵ All DGs must issue a declaration on their annual activity reports, stating that the report gives a true and fair view and that there are reasonable assurances on the correct application of the budget. See also part I, section 3.1.1.

⁸⁶ Programmes in the member states Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, and the United Kingdom.

⁸⁷ Programmes in Austria, Finland, France, Germany, Italy, Spain, Sweden and the United Kingdom.

Notification of irregularities by member states

The member states are required by various regulations to report on the following budget headings each year: own resources, common agricultural policy, structural policy and internal policies.⁸⁸ The member states must accordingly periodically report fraud and irregularities that exceed a minimum threshold value.⁸⁹ With the introduction of a computerised reporting system in mid-2001, the member states were also asked to identify the irregularities individually. With the exception of Germany and Spain, all member states use this identification system. Germany and Spain are also the only member states that have not yet used the secure AFIS anti-fraud information system to report irregularities.⁹⁰

Member state information in OLAF annual report

The annual report of the anti-fraud office, OLAF, contains an overview of the main (statutory) measures the member states have taken during the reporting year to protect the Community's financial interests. According to the Commission, however, it is still difficult to make a true comparative analysis of the measures taken at member state level.⁹¹ Furthermore, the member state notifications do not provide a full and reliable picture. No conclusions can be drawn from the figures regarding the extent of fraud in individual member states or the effectiveness of the management and control authorities' activities or of the member state services involved in the prevention of fraud.

Figure 5 shows the number of notifications in each member state in the years 2002-2004, broken down into traditional own resources (agricultural duties, sugar levies and customs duties), common agricultural policy and structural policy. No information is available on irregularities in VAT-based and GNI remittances and internal policies.

As can be seen in figure 5, the total number of irregularities in traditional own resources increased gradually between 2002 and 2004. The number of notifications increased by 11% in 2004 in comparison with 2003.⁹² Remarkably, Belgium and the Netherlands made about half of all notifications in traditional own resources in 2004. There were particularly large increases in Belgium (+60%), Sweden (+42%) and France (+37%). In eight other member states of the EU 15, the number of notifications fell sharply in 2004, with Ireland (-70%) and Spain (-48%) realising the sharpest falls.⁹³

⁸⁸ For own resources, the reports are in accordance with the OWNRES reporting system. Pursuant to article 6 (5) of Regulation (EC) no. 1150/2000, the member states must notify the European Commission of fraud and irregularities in excess of € 10,000 by means of a web-enabled OWNRES application. See: Commission staff working document, Annex to the Report from the Commission Protection of the European Communities' financial interests and the fight against fraud Statistical Evaluation of Irregularities - Agricultural, Structural and Cohesion Funds and Own Resources - Year 2004, SEC (2005) 974, pp. 4 ff.

⁸⁹ The minimum threshold is € 4,000 for structural funds and agricultural expenditure and € 10,000 for own resources.

⁹⁰ See OLAF annual report for 2004, Annex 2.

⁹¹ Source: SEC (2005) 974, Annex 2.

⁹² Taking account of 206 notifications that arrived too late, the increase was about 3%.

⁹³ In total, the OWNRES database contained about 24,500 cases involving traditional own resources for the period 1989-2005 (as at 13 April 2005) and about 40,500 notifications from member states, including updates.

Figure 5

Number of irregularities reported in traditional own resources, common agricultural policy and structural policy

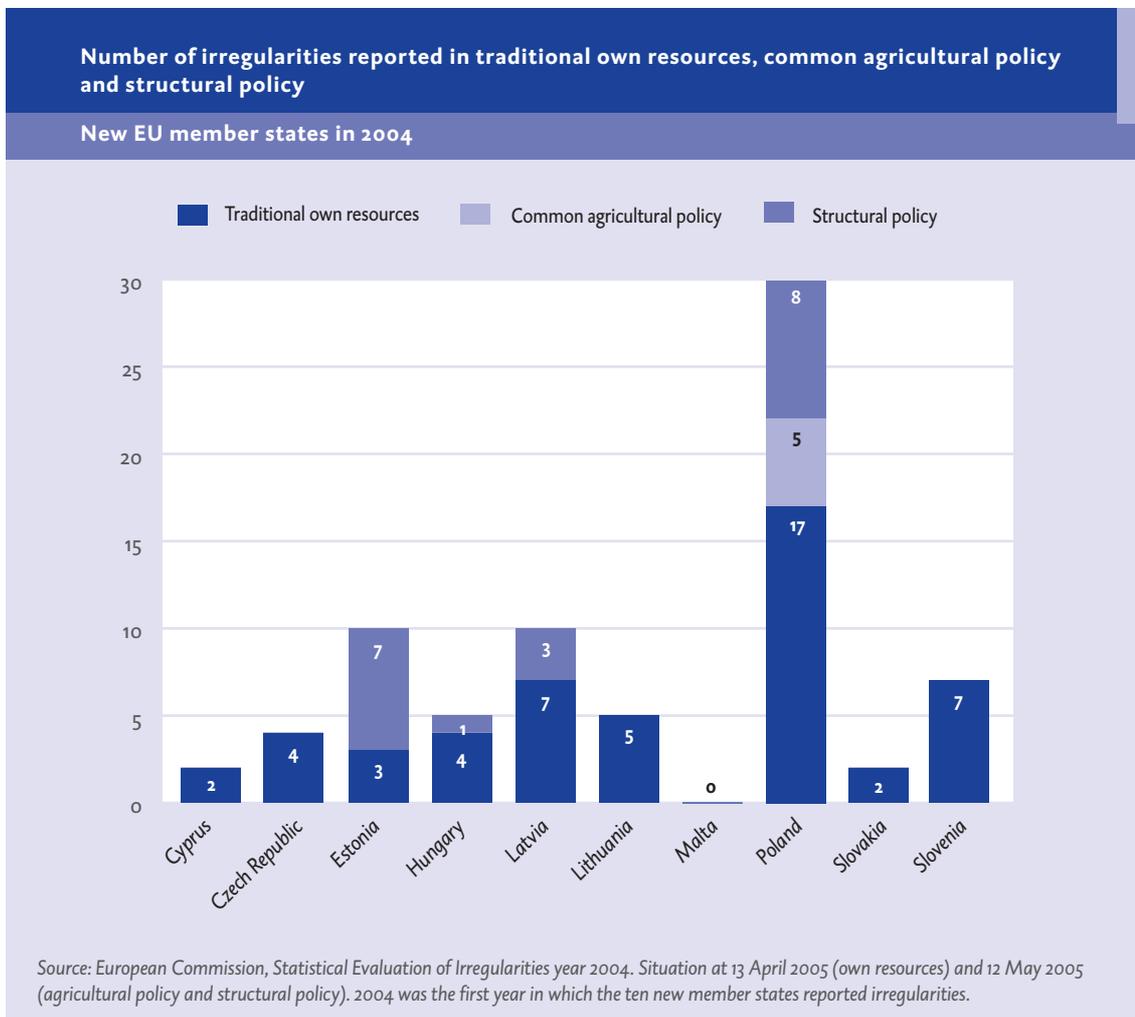
by EU member state (EU 15), 2002-2004



The number of irregularities reported in the common agricultural policy was 5% higher in 2004 than in 2003. Most of the notifications made in 2004 were made by four member states: Germany (24%), Spain (19%), France (15%) and the Netherlands (9%). The number of notifications relating to the structural funds also increased in 2004, after having fallen in 2003. In this area, too, most of the notifications were made by four member states, with Germany in the lead (29%) followed by Greece (12%).⁹⁴ The European Commission has questioned the low number of notifications made by the larger recipients such as France and Spain. The Commission suspects that notification discipline might be weaker in these two countries than in the other member states that receive a substantial amount of structural aid.⁹⁵

For the ten new member states 2004 was the first year in which they could report irregularities. Figure 6 shows the number of reported irregularities, broken down to traditional own resources, common agricultural policy and structural funds.

Figure 6



⁹⁴ These notifications relate to the closure of the previous two programming periods (37.4%) and the current structural fund period of 2000-2006 (62.6%).

⁹⁵ OLAF working document, 19 July 2005, SEC (2005) 974, p. 21.

Financial volume of notifications

Table 28 shows the number of irregularities reported and the related financial volume by member state in 2004.⁹⁶

Table 28. Notifications of irregularities and related financial volume in 2004 (in millions of euros, rounded) in 2004*

	Traditional own resources		Common agricultural policy		Structural funds		Total	
	# cases	amount	# cases	amount	# cases	amount	# cases	amount
EU 15								
Austria	73	8.3	133	1.3	38	3.4	244	12.9
Belgium	756	24.2	34	0.6	45	14.9	835	39.7
Denmark	79	7.6	62	0.7	47	2.5	188	10.8
Finland	28	1.6	24	0.2	37	1.5	89	3.2
France	252	24.4	524	7.8	110	3.1	886	35.4
Germany	262	17.1	813	18.7	985	127.5	2 060	163.2
Greece	38	1.8	29	1.0	**421	251.7	488	254.5
Ireland	10	0.4	105	0.9	43	3.5	158	4.8
Italy	193	35.5	96	3.1	638	194.9	927	233.5
Luxembourg	0	0.0	3	0.0	3	0.1	6	0.1
Netherlands	514	44.2	308	3.7	58	6.9	880	54.7
Portugal	14	1.0	232	3.8	**268	33.3	514	38.1
Spain	111	7.9	651	34.9	**264	26.3	1 026	69.1
Sweden	64	6.0	75	0.8	119	2.7	258	9.6
United Kingdom	290	21.7	307	4.5	244	22.1	841	48.3
New member states								
Cyprus	2	0.1	0	0.0	0	0.0	2	0.1
Czech Republic	4	0.5	0	0.0	0	0.0	4	0.5
Estonia	3	0.2	0	0.0	7	0.1	10	0.3
Hungary	4	1.3	0	0.0	1	0.0	5	1.3
Latvia	7	0.3	0	0.0	**3	0.4	10	0.7
Lithuania	5	0.1	0	0.0	0	0.0	5	0.1
Malta	0	0.0	0	0.0	0	0.0	0	0.0
Poland	17	0.6	5	0.0	**8	0.8	30	1.5
Slovakia	2	0.3	0	0.0	0	0.0	2	0.3
Slovenia	7	0.5	0	0.0	0	0.0	7	0.5
Total	2 735	205.7	3 401	82.1	3 339	695.6	9 475	983.4

* Traditional own resources as at 13 April 2005, common agricultural policy and structural funds as at May 2005. According to the European Commission, the figures should be interpreted carefully because the information from the member states is sometimes incomplete and/or is based on different definitions of the terms fraud and other irregularities.

** Including the cohesion fund.

The total financial volume of the irregularities reported in traditional own resources and the expenditure sectors (common agricultural policy and structural funds together) increased by more than 6% from € 922 million in 2003 to € 983 million in 2004. Three member states, Greece (25%), Italy (24%) and Germany (17%), were together responsible for about two thirds of the total financial volume notified in 2004.

The increase in the total volume notified in 2004 was attributable chiefly to a sharp increase in structural fund notifications. About two thirds of the total amount of the irregularities notified related to the structural funds. This is an increase of 44% in comparison with 2003. More than 53% of all notifications of irregularities in the structural funds relate to projects financed from the European Regional Development Fund (ERDF). The average volume per structural fund notification (in relation to the aid received by the member states) was higher in Greece, Italy and Germany than in the other member states.

⁹⁶ European Commission, working document Statistical evaluation of irregularities in agriculture, structural measures and own resources 2004, SEC (2005) 974, annex 10, pp. 61 and 62.

In own resources (-26%) and common agricultural policy (-52%), the financial volume notified was lower in 2004. In the common agricultural policy about two thirds of the volume was notified by Germany (23%) and Spain (43%).

Recovery of undue payments

The member states must do all they can to recover undue aid payments. If a member state reports an undue payment on time and takes appropriate action to recover the amount concerned the Commission will not impose a fine. The Commission publishes the status of amounts still recoverable each year in respect of the common agricultural policy and the structural funds. To date, such a report is not prepared for traditional own resources or other budget headings.

With regard to the common agricultural policy and the structural funds together, more than half (€ 1.8 billion) of the total amount still recoverable in the EU 15 at the end of 2004 (more than € 3.5 billion) was attributable to one country: Italy. Together with Spain and Germany, Italy is good for more than 80% of amounts still recoverable. Table 29 shows the balance of amounts still recoverable⁹⁷ by member state at the end of 2004, including amounts still recoverable from before 2004.⁹⁸

Table 29. Amounts recoverable, common agricultural policy and structural funds (in millions of euros, rounded)*

Member state	Common agricultural policy			Structural funds			Total amount outstanding at year-end 2004
	Amounts recoverable from before 2004**	Amounts still recoverable from 2004 notifications	Amount outstanding at year-end 2004	Amounts recoverable from before 2004**	Amounts still recoverable from 2004 notifications	Amount outstanding at year-end 2004	
Austria	3.6	0.2	3.8	3.7	2.9	6.6	10.4
Belgium	63.1	0.3	63.4	2.6	11.6	14.2	77.6
Denmark	2.0	0.2	2.2	13.7	1.6	15.3	17.5
Finland	0.2	0.0	0.2	2.2	0.8	3.0	3.2
France	74.9	6.1	81.0	17.6	2.3	19.9	100.9
Germany	144.2	14.4	158.6	457.7	111.0	568.7	727.3
Greece	79.9	0.8	80.7	9.3	***57.6	66.9	147.6
Ireland	3.1	0.5	3.6	1.2	1.2	2.4	6.0
Italy	1 547.3	2.1	1 549.4	146.1	148.1	294.2	1 843.6
Luxembourg	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Netherlands	19.0	1.5	20.5	7.2	1.2	8.4	28.9
Portugal	30.8	3.4	34.2	18.3	***28.6	46.9	81.1
Spain	334.8	32.8	367.6	32.5	***12.9	45.4	413.0
Sweden	0.6	0.2	0.8	0.7	0.4	1.1	1.9
United Kingdom	33.3	1.2	34.5	62.3	17.7	80.0	114.5
Total	2 336.8	63.7	2 400.5	775.1	398.0	1 170.1	3 570.6

* Source: European Commission / OLAF: Statistical analysis of irregularities and fraud notifications 2003 and 2004.

** The European Commission provides no information on the age of the amounts still recoverable from before 2004.

*** Including the cohesion fund.

⁹⁷ This includes amounts that the Commission refers to as 'not recoverable before/in 2004'.

⁹⁸ It is not certain that the amounts given in table 15 will be returned in full to the EU budget. That will depend in part on the quality and timeliness of the member states' reports and on the final outcome of national legal proceedings brought against final beneficiaries and authorities in the member states. Regulation (EC) no. 438/2001 requires member states to report to the European Commission each year on the status of structural operations.

The balance of amounts still recoverable under the common agricultural policy and the structural funds was 18% higher in 2004 than in 2003. At year-end 2003 the balance of amounts still recoverable under both budget headings in the EU 15 had been about € 3.5 billion.⁹⁹ Of the amounts still recoverable at year-end 2004, 25% related to structural funds. The amount increased by 41% in comparison with 2003 (€ 1.1 billion in 2004 versus € 0.8 billion in 2003).

Fraud investigations by OLAF

Table 30 summarises the fraud notifications by member state, including the three current candidate member states.¹⁰⁰

Table 30. Number of fraud notifications made to OLAF in 2004*			
'Old' member states		'New' and candidate member states	
<i>Member state</i>	<i>Number of notifications</i>	<i>Member state</i>	<i>Number of notifications</i>
Austria	14	Czech Republic	6
Belgium	42	Cyprus	4
Denmark	8	Estonia	8
Finland	6	Hungary	14
France	31	Latvia	7
Germany	83	Lithuania	14
Greece	35	Malta	2
Ireland	13	Poland	26
Italy	85	Slovakia	7
Luxembourg	6	Slovenia	3
Netherlands	25		
Portugal	8	Bulgaria	11
Spain	47	Romania	47
Sweden	6	Turkey	7
United Kingdom	34		
Total EU 15	443	Total new + candidate member states	156
Total EU 25	599		

* Source: European Commission / OLAF, Supplementary Activity Report for the year 2004.

In 2004 OLAF received 599 new notifications of suspected fraud in the member states. Of these notifications, 443 (74%) related to one of the 15 'old' member states. More than 12% (91) related to the new member states, and 8% (65) of the notifications related to the candidate member states Bulgaria, Romania and Turkey. Of all new fraud notifications made to OLAF in 2004, 19% related to the common agricultural policy and 17% to the structural funds. More than a third of the notifications were made by 'informants'. The remaining notifications were made by the member states (16%), services of the Commission (31%) or other EU institutions (4%). A further 10% of the notifications were made by whistle blowers and other sources.

⁹⁹ European Commission, SEC (2004) 1059/Working document Statistical evaluation of irregularities/annex 2 of the Annual report 2003 on the protection of financial interests and combating fraud.

¹⁰⁰ It is not clear whether the 2004 figures in OLAF's supplementary 2004 activity report have been restated on an annual basis in all respects. The tables in the report also include casting errors.

10.1.3 Withdrawal of agricultural aid 2004-2005

Each financial year, the member states must inform the Commission of the agricultural aid they have paid out. Before approving the accounts, the Commission checks the regularity of the payments by making more than 200 on-the-spot checks of the expenditure incurred by the member state. As part of its annual approval of the member state accounts, the Commission issues a decision on amounts it will refuse to finance from the Community budget and intends to recover from the member states. The Commission may issue a decision on the regularity of expenditure with retroactive effect of up to 24 months as from the date on which it informs the member state of the results of its checks.

In the period between January 2004 and September 2005 the Commission reclaimed about € 797 million in Community farm aid from 13 member states on account of incorrectly declared expenditure. About 75% of the amount reclaimed (€ 593 million) related to three member states: France (31%), Italy (19%) and Spain (25%). For the Netherlands, the corrections in this period amounted to € 2.7 million (0.3%).¹⁰¹

10.2 Regularity information from the European Court of Auditors

The European Court of Auditors does not express an opinion on the regularity of the expenditure of EU funds in the member states. It is not its task to express such an opinion. In principle, the information issued by the European Court of Auditors does not lend itself to making general, representative opinions on individual member states owing to the size of its sample and because its audit approach is based on the headings of the EU budget. Some of its audit findings are therefore ‘chance discoveries’. The information in this section is presented subject to this caveat.

10.2.1 Common agricultural policy

The European Court of Auditors investigates certain sectors of agricultural expenditure in a number of member states each year and checks whether there have been errors in individual payments. It also audits the quality of the operation of one or more control systems. These audits are designed to detect the risk of irregular payments and shortcomings in the operation of the member states’ control systems. Most payments for the common agricultural policy should be subject to a series of administrative checks in the integrated administration and control system (IACS). All member states operate such a system.

In 2003 and 2004 the European Court of Auditors investigated the operation of the IACS in the arable area payments and animal premium expenditure sectors using information from the European Commission. In 2004, it took a representative sample of the payments made by 25 paying agencies covering 72.5% of total agricultural expenditure. In 2003 its sample had covered 75% of all payments.

¹⁰¹ European Commission press releases, Recovery CAP expenditure: IP/04/166, IP/04/582, IP/04/945, IP/05/514, IP/05/1003.

The European Commission concluded that the number of errors and shortcomings it found in the IACS for arable area payment schemes in the two years broadly agreed with the results of a random sample of the IACS inspections that the member states themselves had carried out. On the whole, the IACS inspections of the animal premium scheme revealed small variations in the error rate from one member state to another.¹⁰² Below, the errors recorded for the two IACS schemes are considered in more detail.

In its annual report for 2004 the European Court of Auditors noted that 42.4% of the applications for area aid in the EU 15 contained errors. In 2003 the figure had been 38.1%. In both years, the applications with errors related to slightly more than 1.5% of the eligible area (in hectares).¹⁰³ In both years, approximately 65% of all applications containing errors were attributable to four member states.¹⁰⁴ In the suckler cow premium scheme, 10% of applications contained errors.¹⁰⁵ In 2003 the figure had been 11.6%. Of the applications containing errors, 72% concerned payments to four member states.¹⁰⁶

As in 2003, the European Court of Auditors found that the national control bodies in four member states had withheld or reduced EU olive oil production aid granted to 4.8% of the producers checked in 2004.¹⁰⁷ It was proposed that the accreditation awarded to 10% of the olive oil processing factories be withdrawn. With regard to rural development expenditure, the certifying authorities' declarations on the accounts of 20 paying agencies in ten member states contained reservations. The reasons for the reservations included material errors, ineligible expenditure and unreliable vouchers. The reservations had a negligible financial effect.

The European Court of Auditors concluded that, as in previous years, expenditure on common agricultural policy generally still contained significant errors. It noted that there were many risks and weaknesses in the main categories of this expenditure.

10.2.2 Structural funds

The European Court of Auditors also investigates several sectors of structural fund expenditure each year. In 2004 it investigated the Commission's management and control systems in ten member states. In 2003 it had investigated seven member states. On the basis of a random sample of 15 programmes and one cohesion fund project from the previous programming period (1994-1999) and the current period (2000- 2006), the European Court of Auditors carried out substantive tests of 167 projects in 2004. It found that the member states had not observed the regulations on management and control systems. There were still serious shortcomings. The main problems found in both programming periods related to:

- vague description, allocation and segregation of duties (in 25% of the programmes audited in two member states);
- inadequate audit trail (in 65% of the programmes audited in five member states);
- inadequate controls (in 56% of the programmes audited in 10 member states).

¹⁰² In one member state the 'non-eligible' rate is still very high: 10.2% of the animals declared for suckler cow premiums and 22.3% of the animals declared for special beef premiums.

¹⁰³ These figures differ from the information presented in DG AGRI's activity report for 2004.

¹⁰⁴ Three of the four member states were also in this group in 2003.

¹⁰⁵ These figures differ from the corresponding figures in DG AGRI's activity report for 2004.

¹⁰⁶ Two of the four member states were also in this group in 2003.

¹⁰⁷ In 2003 4.2% (435) of the producers inspected.

These system shortcomings were confirmed by errors found in the individual projects. The most frequent errors related the declaration of ineligible expenditure, the double declaration of expenditure, non-compliance with regulations on state aid and public tendering, inadequate supporting documents for project expenditure and the unreasoned and unfair allocation of fixed costs to projects.

10.2.3 Other funds

No conclusions on the member states can be drawn from the European Court of Auditors' investigation of internal policies. In respect of external action, the European Court of Auditors' annual report for 2004 reviewed the European Commission's delegations in five countries.¹⁰⁸ It reviewed the supervision and control systems and a number of transactions for which EuropeAid had management responsibility. The review found that the procedures in place were generally adequate to guarantee the legality and regularity of transactions accounted for by the Commission. Project checks found weaknesses in internal controls at three of the 17 organisations visited. Errors detected in the transactions of 11 of the projects checked were significant on account of their frequency or the materiality of expenditure.¹⁰⁹

The European Court of Auditors' findings provide no insight into the regularity and control of EU funds received at member state level. This is not unexpected because it is not the European Court of Auditors' task to provide such an insight. However, the European Court of Auditors does refer – without mentioning concrete numbers – to errors found in member states. Others have also run into this problem. In 2004, for example, the Centre for European Studies of the University of Twente tried to obtain empirical information by analysing the European Court of Auditors' annual reports and special reports (period 1996-2001) in order to improve insight into the quality of financial management and the regularity of EU expenditure in the member states. It found that the information available on financial management in the member states (chiefly errors detected, shortcomings in management and control systems and irregularities in payments) was of limited use.¹¹⁰ This study, too, found that it was impossible to express a valid opinion on the quality of financial management conducted at member state level.

10.3 Work of supreme audit institutions

10.3.1 Publications by supreme audit institutions

With the aid of public information for the period 2004-2005, we investigated which supreme audit institutions of the EU member states had issued reports on the expenditure of EU funds and the application of EU regulations in their home countries. Additionally, we sent questionnaires to the supreme audit institutions. The table below shows how many reports the supreme audit institutions issued publicly.¹¹¹

¹⁰⁸ Bosnia, Cambodia, Kazakhstan, the Philippines and Syria.

¹⁰⁹ European Court of Auditors, annual report for 2004, section 7.25- section. 7.32.

¹¹⁰ See Nico Groenendijk, *Member States' performances in managing EU finances*, Public Administration, Vol. 82 No. 3, 2004 (701–725), Centre for European Studies, University of Twente, The Netherlands.

¹¹¹ The table does not contain information on reports on EU policy fields issued to governments and/or parliaments that were not made public. See appendix 6 for the titles of the reports published.

Table 31. Number of reports published by the supreme audit institutions of EU member states (2004-2005)

Country*	Number of reports published by EU policy field			
	Agriculture	Structural measures	Internal policies	Other (including pre-accession)
Austria	7	1	1	2
Belgium				3
Cyprus	-	-	-	-
Czech Republic	1		1	4
Denmark		2		5
Estonia	1		1	4
Finland	3	1		5
France		2		
Germany		1		4
Greece		2	1	
Hungary	1			6
Ireland	-	-	-	-
Italy			1	2
Latvia		1		3
Lithuania	1	1		7
Luxembourg	-	-	-	-
Malta	1			1
Netherlands	1			4
Poland	1	1	2	5
Portugal	1	6		2
Slovakia				3
Slovenia				1
Spain		1		2
Sweden		1	1	1
United Kingdom	2			4

* No reports published on EU in 2004-2005.

The information was provided by the supreme audit institutions. Most of the publications are available in the local language only.

The table shows that the supreme audit institutions of most of the EU member states have carried out and published audits of EU policy fields. In some countries, such as Austria, emphasis is firmly on agriculture; in others, such as Portugal, the audits concentrated on structural policy. Furthermore, as was to be expected, the supreme audit institutions of the new member states focused chiefly on the receipt of pre-accession aid. Some of them, such as those of Lithuania and Slovakia, also carried out certification work.

The supreme audit institutions of a small number of countries – Denmark, Italy, the Netherlands – publish general reports on the expenditure of EU funds in their home countries. The National Audit Office in the United Kingdom publishes a report each year in which it interprets the European Court of Auditors' most recent annual report for the United Kingdom.

The audits of the supreme audit institutions do not provide a structured or complete picture of the regularity of the expenditure of EU funds. An overall view cannot yet be gained from their work.

10.3.2 Participation in the Contact Committee

On 6 and 7 December 2004, the Contact Committee of the presidents of all supreme audit institutions in the EU member states and the president of the European Court of Auditors met in Luxembourg to discuss, amongst other issues:

- cooperation between the European Court of Auditors and the supreme audit institutions of the EU member states to improve the organisational framework of their cooperation;
- recent financial management reports issued by supreme audit institutions of the EU member states, such as *Consideration of the Financial Consequences of European policy* issued by the Netherlands Court of Audit at the end of 2004;¹¹²
- results of the audit institutions' working groups, such as those on structural funds, cooperation and the national SAI reports on EU financial management;
- the development and maintenance of relations with the audit institutions of candidate member states and other external partners.

On 5 and 6 December 2005 the Contact Committee met in Stockholm.

The Contact Committee's meetings are prepared by the liaison officers of the supreme audit institutions and the European Court of Auditors. The liaison officers met on two occasions in both 2004 and 2005.

10.3.3 Working groups

Four working groups operate under the banner of the Contact Committee:

- Working Group on the Audit of Structural Funds (president: Germany, core group with the Netherlands, Poland and the United Kingdom);
- Working Group on the National SAI Reports on EU Financial Management (president: the Netherlands);
- Working Group on Public Procurement (president: Ireland);
- Working Group on Activities in the VAT Area (president: rotating).

The first two working groups concentrate on audit. The Working Group on National SAI Reports on EU Financial Management (also known as the EU Trend Report Working Group) was set up in 2004. It met on two occasions in 2005. Its main objective is to encourage supreme audit institutions to audit EU financial management in their own member states. Its growing success was demonstrated by the conference held in The Hague on 28-29 April 2005, which was attended by 22 supreme audit institutions of EU member states and the European Court of Auditors.

¹¹² See House of Representatives, 2003-2004, 29 751, nos. 1-2 and www.rekenkamer.nl

The Working Group on the Audit of Structural Funds has been active since 2000. At the end of 2004, it submitted its first report to the Contact Committee. It considered the status of audit trails (the compulsory presence of documentation that can be used to trace a transaction) and the 5% checks (the checks that member states must carry out of the management of at least 5% of structural funds received). The results of the Dutch part of this audit are included in the *EU Trend Report 2005*. The Contact Committee's December 2004 meeting decided to continue the Working Group on the Audit of Structural Funds. The subject selected for its next audit is 'irregularities'. A group of 14 supreme audit institutions plus the European Court of Auditors started working on this project at the beginning of 2005. The results of the Dutch activities will be published in the *EU Trend Report 2007*. The structural funds working group met on two occasions in 2005.

10.4 Conclusions

Only limited insight is available into the regularity of the expenditure of EU funds in the EU member states in 2003 and 2004. Some activity reports issued by the European Commission's Directorates-General, such as those issued by DG Regional Policy and Employment, provide a little information at member state level. This information, however, has not been audited externally and its reliability is therefore uncertain. OLAF publishes information on irregularities and fraud at member state level. The quality and comparability of the information (which is provided by the member states themselves) are open to question. Supreme audit institutions still publish little overarching and comparable information on the regularity of the expenditure of EU funds in their home countries. An overall picture cannot be pieced together from the available information. The European Court of Auditors provides virtually no information at individual member state level. It is not its task, however, to do so; it audits the European Commission, not the member states.

II Effectiveness of EU policy in the member states

In this chapter we consider the effectiveness of EU policy implemented in the member states (in particular common agricultural policy, structural policy and internal policies). We determined what information was available from the European Commission on the effectiveness of the expenditure of EU funds in the member states. We first look at the activity reports issued by the European Commission's Directorates-General (section II.1) and then consider common agricultural policy (section II.2), structural policy (section II.3) and internal policies (section II.4).

II.1 Information on effectiveness in activity reports

The European Commission uses the activity reports issued by its Directorates-General (DGs) and services to account for the conduct of its policy and the results achieved. Since most of the EU funds are spent in the member states, the Netherlands Court of Audit investigated what information was present in the activity reports for 2003 and 2004 of eight DGs regarding the effectiveness of EU policy in the member states. We looked at common agricultural policy, structural policy and internal policies.

Table 32. Insight into effectiveness of EU policy in the member states based on activity reports of the European Commission's DGs*

	2003	2004
Number of DGs that name member states	0	0
Number of DGs that provide information at member state level without naming member states	0	0
Number of DGs that provide no information at member state level	8	8

* Source: Activity reports 2003-2004 of Directorates-General Agriculture, Regional Policy, Employment, Fisheries, Education and Culture, Environment, Transport and Energy, Research.

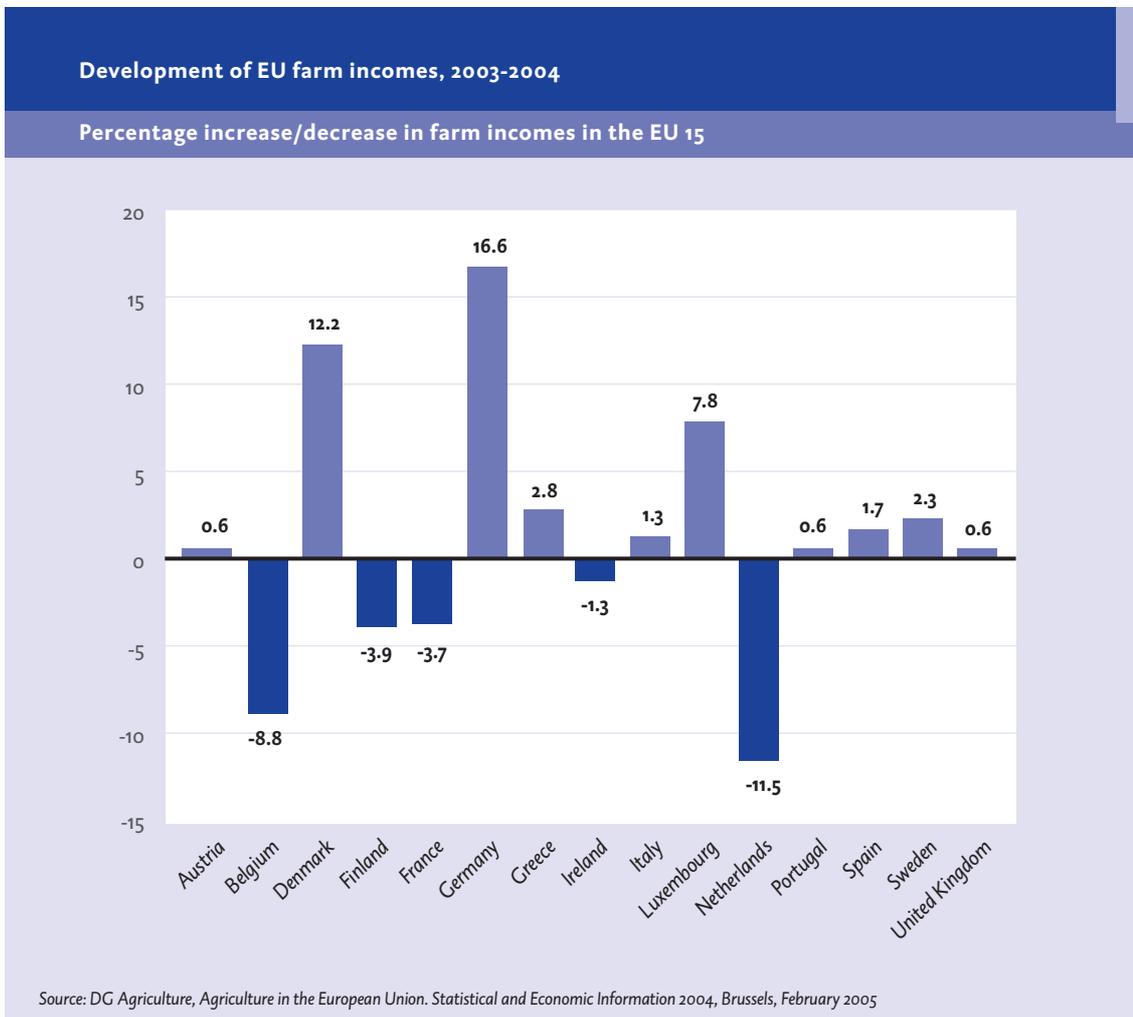
The activity reports of the Directorates-General for Agriculture (common agricultural policy), Regional policy, Employment and Fisheries (structural policy), Education and Culture, Environment, Transport and Energy and Research (internal policies) contain no information on the effectiveness of policy at member state level.

II.2 Common agricultural policy

The effectiveness of agricultural policy can be measured in terms of volume, price and market effects, and also in terms of income effects with regard to the income support granted to farmers. DG Agriculture's annual report contains a great deal of information at member state level that is based on data from Eurostat.¹¹³ For the first time, its report includes information on the ten new member states. The information relates not to the volume, price and market effects of policy but to the income effects.

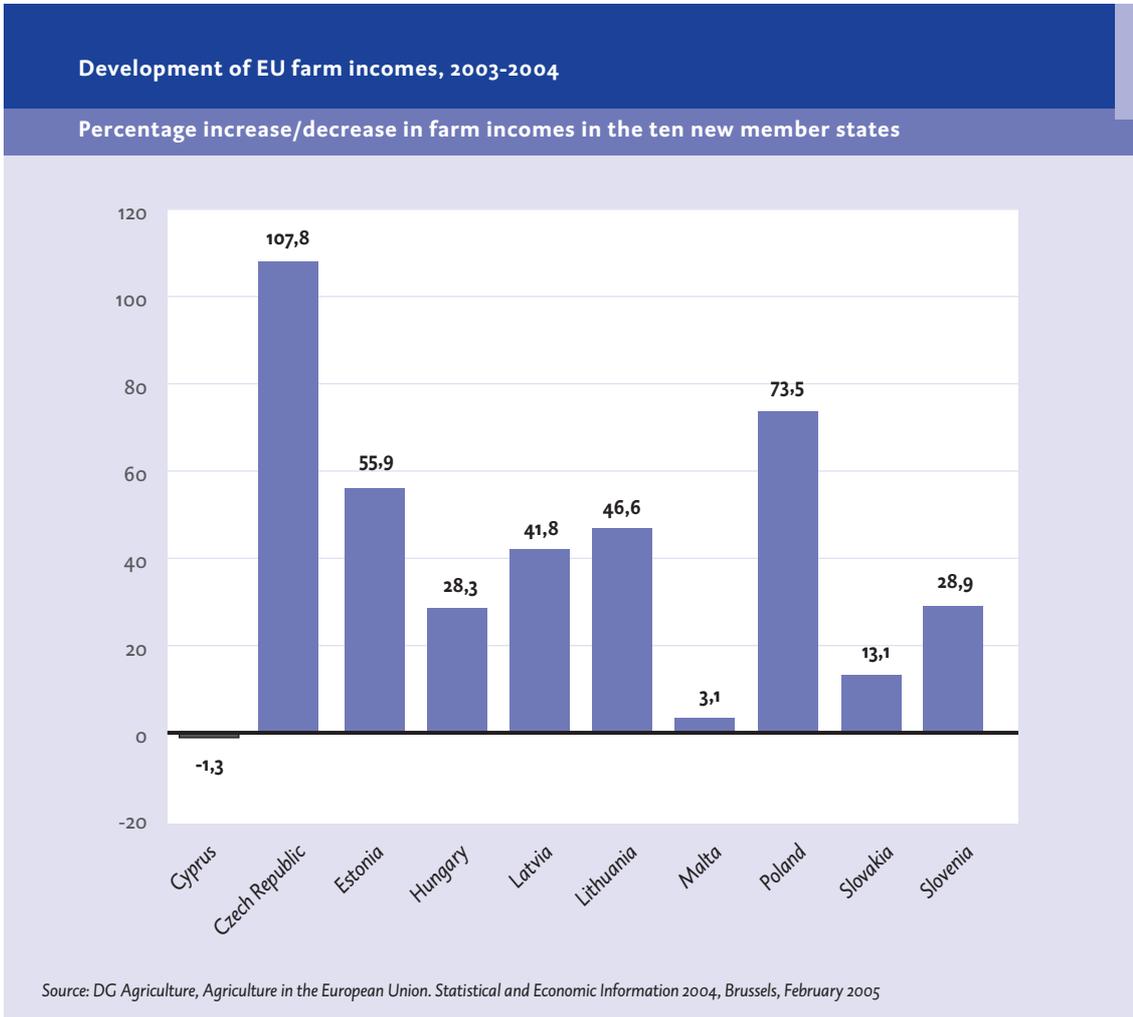
The dg report shows, amongst other things, that the increase in farm incomes in the eu 25 picked up again in 2003 after falling sharply in 2002 and rose by a further 3.3% in 2004. Figure 7 below summarises the change in 2004 in comparison with 2003 at the the 'old' member states' level; figure 8 (next page) shows the development in the ten 'new' member states.

Figure 7



¹¹³ This is not DG Agriculture's annual activity report but a separate annual report.

Figure 8



The contrast in the development of farm incomes in the 'old' and the 'new' member states is striking. On average, farm incomes in the 'new' member states increased by 53.8%, in comparison with 0.8% in the 'old' 15 member states. This at least seems to demonstrate the effect of the income support granted to farmers. Incomes rose sharply after accession to the EU. The effect might also have been due in part to the access provided to the European internal market.

11.3 Structural policy

Structural policy is designed to have a positive regional effect on employment and economic growth. Since 'regions' are areas within EU member states, information on the effectiveness of structural policy should be aggregated at member state level. At present, however, the information consists principally of midterm evaluations and updates at programme level. There is still little information available on the link between the policy implemented and its effects at member state level.

Some information is available on the allocation of the European Commission's *performance reserve*. The performance reserve is intended to increase the efficiency of measures financed by the structural funds. A proportion (4%) of the funds allocated to the member states was held in a reserve until 2003 and then allocated (in 2004) to the programmes with the best performance.¹¹⁴ Their allocation would therefore be an indicator of the success of structural fund programmes, at least in the European Commission's view. Commission decision 2004/344EC of 23 March 2004 laid down which objective 1 and 2 regions qualified for the allocation of the performance reserve. Nearly 90% of all structural fund programmes received the performance reserve. The conclusion therefore seems to be that the structural funds programmes are effective.

The Netherlands Court of Audit has several comments on this. Allocation of the performance reserve should have been based on financial, management and performance indicators and on an analysis of the timeliness and quality of the midterm evaluations completed in 2003. It can be seen from the European Commission's reports, however, that the financial and performance indicators were not applied in full by all member states and the performance indicators were less robust than the other indicators.¹¹⁵ With regard to the quality of the midterm evaluations, the Commission qualified 65% as 'good' and 35% as 'acceptable'. The Commission did, however, express certain methodological concerns. Sometimes, for example, not enough audits had been carried out for the evaluation and monitoring data were weak or absent. Sometimes, the Commission found, the member states had also placed too much emphasis on the financial results in the evaluations.¹¹⁶

The Commission's evaluation of the midterm evaluations found that the programme authorities of just 59 (27%) of all 220 objective 1 and 2 programmes had submitted a proposal to the Commission regarding the allocation of the performance reserve. The Netherlands Court of Audit finds it remarkable that the performance reserve was nevertheless allocated to 190 programmes (87%).¹¹⁷

11.4 Internal policies

We would have liked that all relevant DGs (Research, Energy and Transport, Environment, Education and Culture) published overviews of the effects of the internal policies implemented in each member state. No data are available, however, that can link the results in each member state to the implementation of the European Commission's policies.

¹¹⁴ *Structural policy 2000-2006, Reform of the structural funds – comparative overview* (European Commission, p. 18) states that the programmes with 'the best performance' qualify for the performance reserve. The Inforegio website of DG Regional policy refers to 'the best programmes'. Regulation (EC) 1260/1999, article 44 (2) refers to programmes that are 'considered to be successful'.

¹¹⁵ See *A report on the performance reserve and mid term evaluation in Objective 1 and 2 regions*, European Commission, DG Regional policy, 27 July 2004, pp. 8-9.

¹¹⁶ *Op. cit.*, pp. 15-18.

¹¹⁷ *Op. cit.*, p. 9.

II.5 Conclusions

Little information is available on the effectiveness of EU policy at EU member state level. Insight into the effectiveness of EU policy in the member states is therefore limited. The exceptions are certain parts of common agricultural policy – in particular direct farm income support – and structural funds. The required midterm evaluations and updates were completed for all individual structural fund programmes in all member states in 2004 and 2005. The European Commission could use the information in the evaluations to prepare an overview of the insight available into the effectiveness of structural policy in the member states. The member states themselves would probably also appreciate an insight into the effectiveness of EU policy in their own countries, for example in the form of an overview for their own countries prepared from the midterm evaluations. Such overviews, however, are not available.

With regard to structural policy it is uncertain why the European Commission allocated the performance reserve so generously. The Commission itself had doubts about some aspects of the content and quality of the underlying evaluations and only a third of the programme managing authorities had requested an allocation.

12 Conclusions and trends

Regularity by member state

There is only limited insight into the regularity of the expenditure of EU funds in the EU member states in 2003 and 2004. Some activity reports issued by the European Commission's Directorates-General provide some information at member state level and OLAF publishes member state comparisons on irregularities and fraud. This information is not audited externally and there are doubts about its quality and comparability. Supreme audit institutions still publish little overarching and comparable information on the regularity of the expenditure of EU funds in their home countries. An overall picture cannot be pieced together from the available information. The European Court of Auditors issues virtually no information at individual member state level. Its task, however, is to audit the European Commission, not the member states.

Effectiveness by member state

Virtually no information is available on the effectiveness of EU policy at EU member state level. Insight into the effectiveness of EU policy in the member states is therefore limited. The European Commission is in a position to change this situation, for example by using the midterm evaluations of all individual structural fund programmes completed in 2004 and 2005 (and updates where available) to prepare an overview of the insight available into the effectiveness of policy by member state. The member states could do this for their own countries but they currently do not.

Complete insight

We wrote in the introduction to part II that ideally we would be able to provide a complete insight into the regular and effective expenditure of EU funds in each member state and in each policy field. The information that is currently available, however, is inadequate to generate such an overview. The nature and depth of the information available from the European Commission and the supreme audit institutions of the EU member states is too disparate to do so. The indicators used in part II of this EU Trend Report are summarised (aggregated) in figure 9:¹¹⁸

¹¹⁸ The Netherlands Court of Audit provided a general estimate of trends in its EU Trend Reports 2003-2005. It is now possible to identify trends in certain areas. General trend indicators are presented here in respect of 'key figures' and 'contributions by supreme audit institutions' and specific trend indicators in respect of 'systems', 'regularity' and 'effectiveness'.

Figure 9

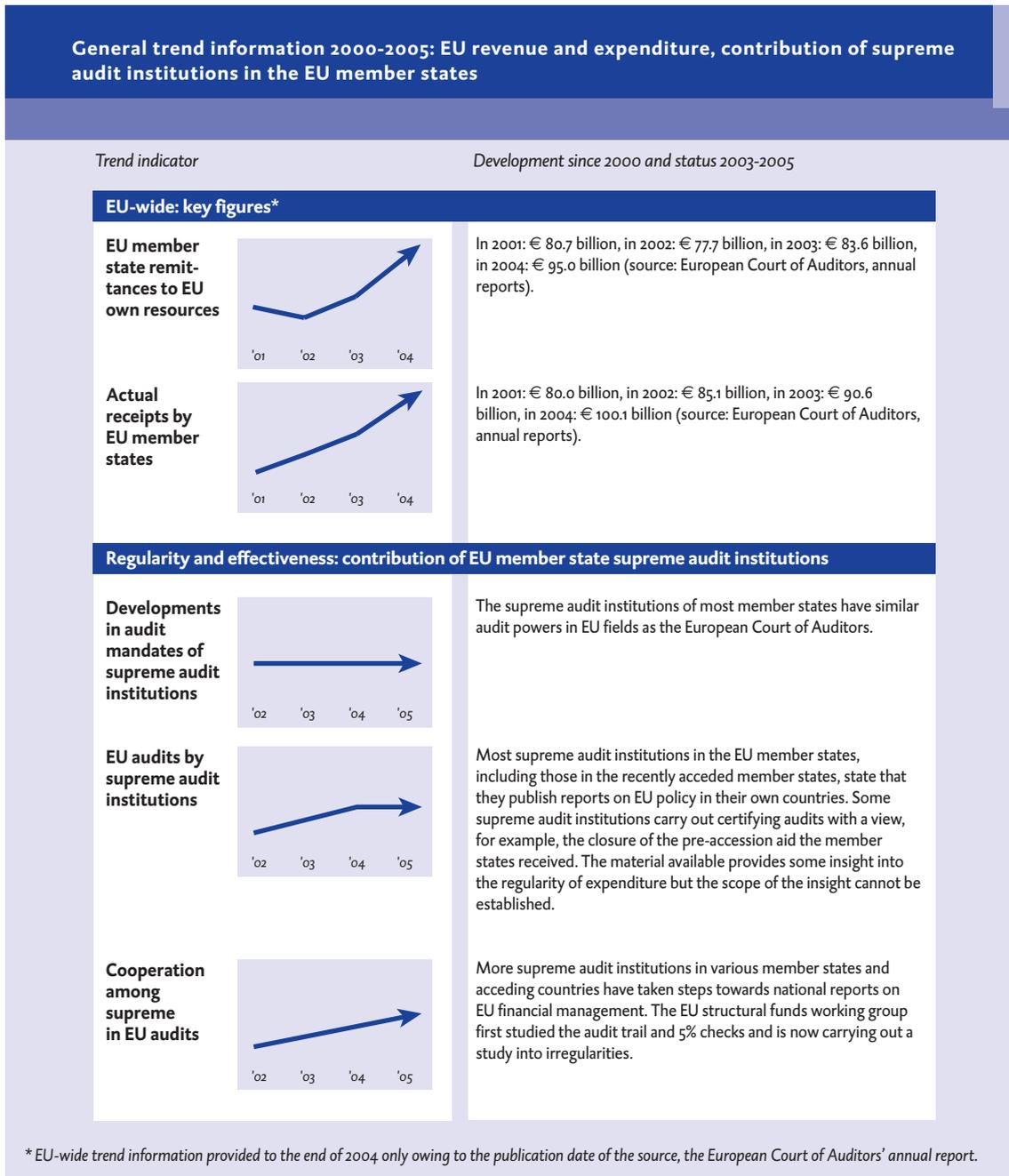


Figure 9 includes general information on trend indicators for the topics 'member states remittances to the EU budget', 'EU funds received by the members states', 'development audit mandate national audit offices', 'EU auditing by national audit offices' and 'cooperation between national audit offices'.

In table 33 we provide specific information on trends for the topics 'regularity' and 'effectiveness'.

Table 33. Specific trend information 2004-2005, EU member states: regularity and efficiency

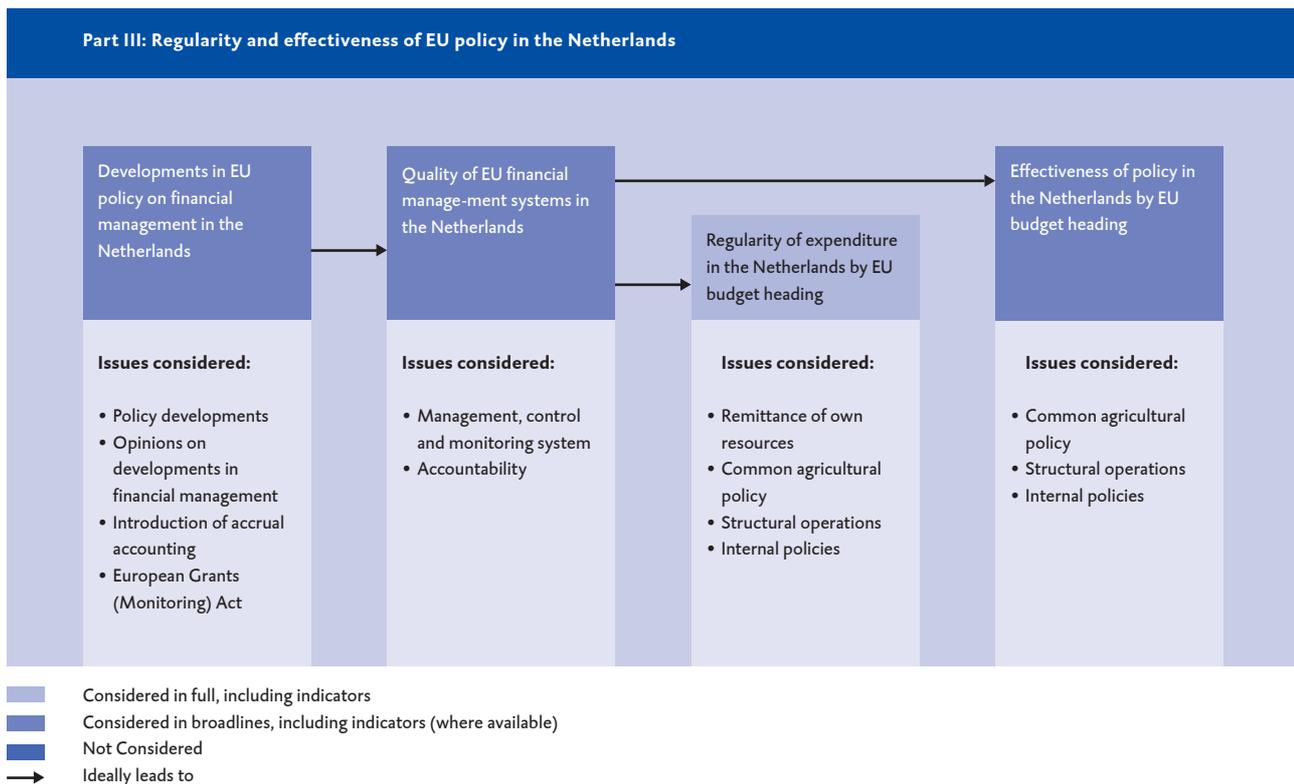
Chapter	Part	Indicator (aggregated)	Degree of insight in 2003-2004	Results in 2003-2004
Regularity	Information from the European Commission	Member state insight based on DG annual activity reports	Limited	Two of the eight DGs provide comparative member state- information. One DG names one member state in a reservation.
		Number and financial volume of irregularities notified by member states	Partial	Insight into agricultural policy, structural policy and traditional own resources. Number of notifications and financial volume increased in 2004. No insight into VAT-based and GNI remittances. Doubts about quality and comparability of information.
		Number and financial volume of irregularities notified by member states	Partial	Insight into two of the seven budget headings and limited insight into receipts. Number and volume of financial corrections increased in 2004.
		Number and financial volume of irregularities notified by member states	High	Number of notifications increased by 20%. Financial volume of pending fraud cases was about € 5,8 billion in 2004.
	Information from the European Court of Auditors	General opinion on member states	None, but this is not a task of the ECA	No information on member states.
		Opinion by member state by budget heading	Limited, but this is not a task of the ECA	Ad hoc member state information, especially regarding agricultural policy. No quantitative opinion by member state by budget heading.
		Number of errors by member state by budget heading	Limited, but this is not a task of the ECA	Quantitative insight into only expenditure covered by integrated administration and control system for agricultural policy (based on information from European Commission). Error rates differ widely by part.
Effectiveness	Information from the European Commission	Insight at member state level in DG's annual activity reports	None	No effectiveness information in activity reports at member state level.
		Insight at member state level in evaluations	Limited	Agricultural policy had an effect on farm income growth following the accession of the new member states in 2004. No effectiveness information at member state- level for other parts of agricultural policy, structural policy or internal policies.

Part III

The Netherlands

13 Introduction to part III

Part III of the *EU Trend Report 2006* looks at the financial management of EU funds in the Netherlands. In particular, it looks at the regularity and effectiveness of expenditure in the Netherlands and the regularity of Dutch contributions to the EU, as shown in the figure below.



As the figure shows, part III of the *EU Trend Report 2006* considers the Netherlands. We have formulated a series of indicators of regularity and effectiveness and given them scores based on our own investigations and on public information.

The recent developments in EU financial management considered in part I have implications for the Netherlands and for the requirements that might apply regarding the availability and quality of information on financial management. Where possible, we place our opinion on the Dutch situation in the context of these recent developments.

Part III contains the following chapters:

- Chapter 14: key figures on the Netherlands' contribution to the EU budget and the funds it receives from the EU.
- Chapter 15: policy developments that have implications for the financial management of EU funds in the Netherlands.
- Chapter 16: description of the financial management systems in place in the Netherlands for the common agricultural policy, structural policy and internal policies.
- Chapter 17: review of the insight into and regularity of the expenditure of EU funds in the Netherlands by heading of the EU budget.
- Chapter 18: review of EU policy objectives and results (and their measurability) in the Netherlands based on evaluations of the common agricultural policy, structural policy and internal policies.
- Chapter 19: conclusions and trends.

14 The Netherlands: key figures

This chapter begins with an overview of the funds the Netherlands receives from the EU (section 14.1) and the contribution it makes to the EU (section 14.2) including payments to the European Development Fund (section 14.3). We then consider the difference between the receipts and contributions, i.e. the net position of the Netherlands (section 14.4).

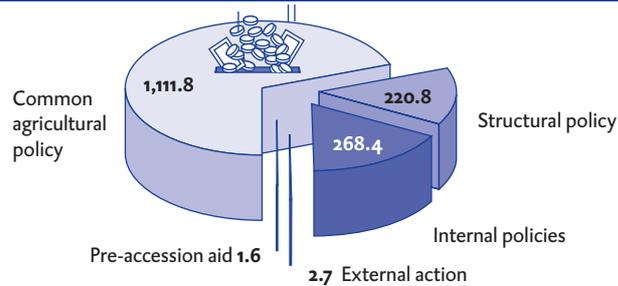
14.1 Funds received by the Netherlands from the EU

Figure 10 summarises the EU aid received by bodies in the Netherlands in the 2001-2004 budget period. In 2004 they received more than € 2 billion, an increase of € 100 million on 2003. There were sharp rises in the funds received to implement structural policy and internal policies.

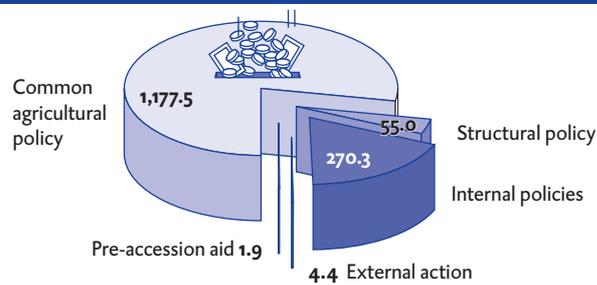
Figure 10

EU funds received by bodies in the Netherlands (in million euros)

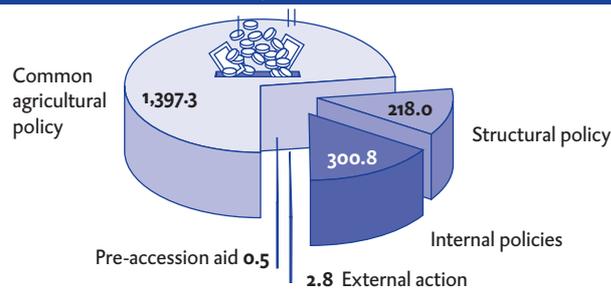
2001 (total funds received: € 1,605.3 million)



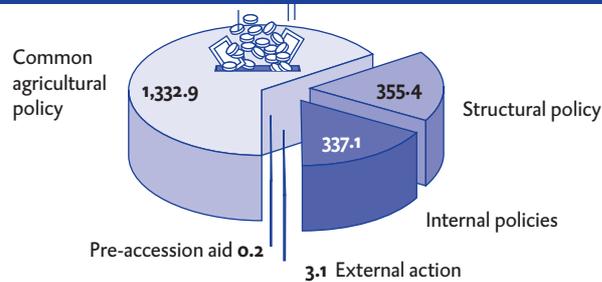
2002 (total funds received: € 1,509.1 million)



2003 (total funds received: € 1,919.4 million)



2004 (total funds received: € 2,028.7 million)



Source: European Court of Auditors, annual reports 2001-2004.

14.2 Remittances by the Netherlands to the EU

Table 34 summarises the actual amounts remitted by the Netherlands to the EU in 2003 and 2004 and estimated remittances for 2005-2008.

	Actual		Budgeted			
	2003	2004	2005	2006	2007	2008
Agricultural levies	328	440	245	240	240	240
Customs duties	1 382	1 431	1 591	1 682	1 781	1 885
Less: collection costs	-426	-466	-459	-480	-505	-530
VAT-based own resources	1 196	713	715	734	758	784
GNI-based own resources	2 681	2 914	3 813	4 184	4 189	4 235
Total EU remittance by the Netherlands	5 160	5 032	5 905	6 360	6 464	6 614

Actual figures: Central government annual financial report 2004, Ministry of Foreign Affairs.

Budgeted figures: National budget 2005. Rounding differences have been taken from the sources.

The total amount remitted by the Netherlands will increase in the years ahead as EU expenditure rises in accordance with the financial perspectives for the period to the end of 2006. The estimated remittances in 2007 and 2008 are extrapolations. The increase in remittances is due chiefly to the accession of ten new member states in 2004 and the EU-wide decline in the underspend of structural funds.

After adjustment for, amongst other things, prior-year budget surpluses and amounts deferred and accrued, final figures in the European Court of Auditors' annual report disclose that the Netherlands contributed € 5,268.8 million to the EU in 2004.

14.3 Other payments: European Development Fund

The Netherlands also contributes to the European Development Fund (EDF). The EDF provides financial aid to projects and programmes that contribute to the social and economic development of countries in Africa, the Caribbean and the Pacific (the ACP states). Its aims are to reduce poverty, to bring about sustainable participation in the world economy and to promote the principles of democracy and the rule of law in the countries concerned.

The ninth European Development Fund entered into force on 1 April 2003. The Netherlands is contributing more than € 720 million to it. The sixth, seventh and eighth EDFs have not yet been closed.

An additional sum of approximately € 25 million has been reserved for the Dutch contribution to the ninth EDF for the years 2005-2008. If the European Commission succeeds in allocating the ninth EDF in full within five years, the volume of the contributions will increase.¹¹⁹

The financial statements in the Ministry of Foreign Affairs' 2004 annual report include an open EDF obligation of € 1,049 million as at 31 December 2004.¹²⁰

¹¹⁹ National budget, Ministry of Foreign Affairs, House of Representatives, 2004-2005, 29 800 Chapter V, no. 2, p. 116.

¹²⁰ National budget 2004, Ministry of Foreign Affairs, House of Representatives, 2004-2005, 30 100, no. 1, p. 163.

14.4 Net position of the Netherlands

The balance between the contributions remitted to the EU budget and the funds received from it each year is known as the *net position*.¹²¹ The Netherlands and the European Commission have had a difference of opinion on the definition of the net position for some time. The two calculation methods are explained briefly in the box below.

Methods for calculating the net position

The Netherlands includes all remittances to the EU in its calculation of the net position, including customs duties that are collected on behalf of the Union. This is known as the 'accounting definition'.

The European Commission applies another definition in which customs duties that are collected in the Netherlands – particularly in the Port of Rotterdam – are not treated as remittances from the Netherlands but as funds belonging to the Community. This method does not include customs duties in the net position. In a recent Opinion, the European Court of Auditors agreed with this method of calculation.¹²² The Netherlands is a net contributor under both definitions.

The Netherlands' net position has been negative for several years. In other words, the Netherlands pays more into the EU budget than it receives from it. In 2003 its net position in absolute terms (accounting definition) was € 3 billion negative, based on the European Court of Auditors' final figures. It increased to € 3.2 billion negative in 2004. Section 9.3 (see part II of this report) presents a summary of the net position of the Netherlands and the other EU member states.

¹²¹ See the overview in the *EU Trend Report 2005*, p. 110. The Court of Audit uses an accounting definition: the balance of all EU-related remittances and all receipts from the EU. To calculate this position, the Court of Audit uses externally audited information, i.e. final figures from the European Court of Auditors.

¹²² See European Court of Auditors, Opinion no. 4/2005.

15 Developments in EU financial management policy

This chapter looks at the implications for financial management in the Netherlands of changes in EU policy, particularly common agricultural policy and structural policy (section 15.1). We also consider the Netherlands' response to developments in financial management (section 15.2).

We then look at recent developments regarding the European Grants (Monitoring) Act, which entered into force in 2002 to regulate Dutch liability for the management of EU funds received locally (section 15.3).

The chapter closes with conclusions (section 15.4).

15.1 Policy developments

Important changes are currently being made to the common agricultural policy and the structural policy. Below, we discuss the implications for the Netherlands.

15.1.1 Common agricultural policy

As noted in section 3.5.1 (see part I of this report), aid provided under the common agricultural policy will be decoupled from production as of 1 January 2006 in order to make agriculture more sustainable. The current system of farm income payments and product subsidies will be replaced with a single farm supplement. In anticipation of the introduction of a new legal framework for the common agricultural policy in 2007 (see part I, section 3.5.1), farmers will have to satisfy a number of specific requirements to qualify for the supplement.

The greater part of the requirements relate to farm management and will apply to the total area of every farm in the EU. A further requirement will apply to the protection of permanent pasture.

In the Netherlands, the protection of permanent pasture will be monitored in 2005 by means of the single application that EU aid applicants must submit to the National Regulation Agency of the Ministry of Agriculture, Nature and Food Quality (LNV). All applicants must declare their farm holdings in the single application.

The requirements have been set by the European Commission and are obligatory throughout the EU. In addition, minimum standards must be met to keep farmland in good condition both for farming and for the environment. Implementation of the standards is at the discretion of the member states, which will be free to adapt the national standards to their own national situation. There are two national standards applicable specifically to Dutch farmers.

The first prevents farmers from setting land aside without sowing grass on it.¹²³
The second concerns compliance with regulations to prevent soil erosion.¹²⁴

The European Commission allows the member states to have existing inspection and enforcement organisations check compliance with the requirements as part of their annual inspection programmes. The checks may also be carried out by a single organisation. In the Netherlands, the General Inspectorate (AID) and the inspection services of the local authorities (provinces, water boards and municipalities) check compliance with the requirements.

Available budget

The Netherlands currently receives about € 1.4 billion in European farm aid per annum. It is intended for market expenditure and income support. In 2006, the Netherlands will also receive more than € 60 million for rural policy and about € 14 million in modulation funds from the market and income support budget (see section 3.5.1). The modulation funds are expected to increase to about € 25 million per annum in 2007 and subsequent years.

The Dutch cabinet adopted the following position on the future agriculture budget on 8 July 2005:

- The Netherlands does not wish to revise the European agriculture budget as agreed for 2007-2013. The expenditure ceiling should no longer be a target level but a maximum.
- Farm aid granted to the future member states Romania and Bulgaria must also be met from the agreed agriculture budget. The Netherlands does not agree with the European Commission's proposal to increase the agriculture budget by € 8 billion a year to cover this additional expenditure.

Control and the new common agricultural policy

Implementation of the new common agricultural policy will be largely computer assisted in 2005. The systems concerned must meet the requirements of the new integrated administration and control system (IACS). This might require a different control approach from that used for the former common agricultural policy.

The National Regulation Agency of the Ministry of Agriculture, Nature and Food Quality (LNV), the Arable Farming Marketing Board (HPA), the Dairy Board (PZ) and the Livestock, Meat and Eggs Product Boards (PVVE) are responsible for implementing the new common agricultural policy. The AID is responsible for enforcement and supervision.

Control of the regularity of expenditure will be more complex than in the past because it will now include compliance with national and EU requirements. The Minister of LNV has appointed its National Regulation Agency as the coordinating paying agency and the AID as the competent control authority.¹²⁵

¹²³ This prohibition does not apply to accredited organic farms or to farms that are required by the Plant Protection Service not to sow land set aside in order to combat quarantined organisms. It also does not apply to farmers who are subject to a cultivation ban pursuant to the Central Arable Farming Marketing Board (HPA) 'regulation on the prevention of chufa 2004' or pursuant to the Horticulture Marketing Board (PT) 'regulation on the prevention of chufa in horticultural land'.

¹²⁴ Compliance with HPA 'regulation on farmland 2003', HPA 'decision on farm erosion 2003' and PT 'regulation on prevention of horticultural land erosion 2004'. These regulations and the decision are designed to prevent soil erosion. The combination of soil properties (loess), slopes and local land use (arable farming) makes areas of Limburg prone to water erosion.

¹²⁵ Regulation (EC) 1782/2003 and Regulation (EC) 796/2004, worked out in the CAP income support regulation of December 2004.

Statements of assurance

On 30 May 2005 the EU member states' agriculture ministers reached agreement on a new regulation regarding the financial management of European agricultural policy. One of the new elements in the regulation is the statement of assurance that each paying agency must append to the annual declaration of expenditure as from October 2006 (see part I, section 3.4.4). The certifying authority in the Netherlands (the Ministry of LNV's audit department) has indicated that it has no objection to DG Agriculture's proposals.

15.1.2 Structural policy

This section considers policy developments in the Dutch ESF programme, the possible introduction of contracts of confidence and the future of structural policy in the period 2007-2013.

ESF aid regulation

The aid regulation for the Dutch ESF-3 programme will be amended with effect from 1 January 2006 in order to reduce the risks arising from the 'retroactive effect rule' introduced on the ESF's delayed opening in 2001. Under this rule, applicants may apply for aid for projects that commenced in 2000 but that could not be notified at the time. Most of the Dutch structural fund programmes made use of the retroactive effect rule. Projects in the ESF-3 programme can also be notified with retroactive effect after 2001 and costs may be declared if they are incurred in the 12 months before an application is made.

The retroactive effect rule was introduced to minimise underspending.¹²⁶ However, there are practical objections to it: in some cases, projects had already ended when the aid application was approved. It was therefore impossible to check or enforce compliance with the aid rules during implementation. To limit the attendant risks, it was decided to amend the ESF aid regulation with effect from 1 January 2006. As from that date:¹²⁷

- Project activities must continue for at least six months after the managing authority's receipt of the application.
- The retroactive period in which costs are eligible will be reduced from 12 months to six months.
- Preparatory costs will be eligible if they are incurred up to six months before the start of a project and up to 12 months before the project application is received.
- Since the project activities may run until 31 December 2007 and must continue for at least six months after the date on which the project application is received, project applications must be submitted before 1 July 2007.

Contracts of confidence

As discussed in section 3.4.4 (see part I of this report) the European Commission has proposed introducing contracts of confidence for the management of structural funds. These bilateral contracts between a member state and the Commission would contain agreements on control (intensity, control standards), reporting (form, frequency, content) and the recognition of paying agencies.

¹²⁶ The underspend of ESF funds is considered in section 16.3.3 of the next chapter.

¹²⁷ Government Gazette, 11 July 2005, no. 131, p. 34.

The Commission's proposal generally did not receive a warm reception. On 27 May, delegations from Austria, Portugal, Ireland, the United Kingdom and the Netherlands met official representatives of the Commission. It was found that only the Commission's Directorate-General for Regional Policy supported the initiative. The other Directorates-General concerned (Agriculture, Fisheries and Employment) had withdrawn their support.

In the Netherlands all local administrative authorities responsible for objective 1 and objective 2 programmes¹²⁸ expressed an interest in signing contracts of confidence for the aid they receive from the European Regional Development Fund (ERDF). They undertook to work towards agreeing such contracts by autumn 2005 subject to the approval of their supervisory committees. The Social Affairs and Employment Agency also expressed an interest in signing contracts of confidence for ESF-3 and Equal.¹²⁹ SZW's audit department already reported in accordance with the draft prepared by the Commission.¹³⁰

Structural policy 2007-2013

In mid-2004 the European Commission published proposals for structural policy in the period 2007-2013. The draft regulations entail several changes from the current system as discussed in the *EU Trend Report 2005*.¹³¹

In response to the Commission's proposal, the Dutch government called for a stronger concentration of budgetary aid on the poorest member states and less transitional aid for the relatively prosperous member states. Regional aid in richer member states, according to the government, should be financed principally by the member states themselves. In addition, the Dutch government wishes to hold a member state's maximum entitlement to structural funds at 4% of the member state's gross national income.¹³²

An indicative allocation among the member states was not known at the end of 2005, partly because negotiation of the financial perspectives had not been completed.

15.2 Developments in financial management policy

As noted in section 5.1.1 (see part I of this report), the Council of Economics and Finance Ministers (Ecofin) of the 25 EU member states expressed its disappointment on the discharge for 2003 on 8 March 2005 that the European Court of Auditors had been unable for the tenth year in succession to issue a positive statement of assurance (Déclaration d'Assurance, DAS) on the EU's

¹²⁸ Objective 1: development and structural adjustment of regions whose development is lagging behind; objective 2: economic and social conversion of regions in structural difficulties.

¹²⁹ ESF-3 concentrates on training the long-term unemployed and returnees to the labour market, Equal on combating discrimination and inequality in the labour market.

¹³⁰ Draft addendum to administrative regulation on audit and control cooperation between the European Commission and protocol partner.

¹³¹ European Commission, *Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund*, Brussels, 14 July 2004, COM (2004) 492 final. As of 1 January 2007 this proposal for a Council regulation must replace Regulation (EC) 1260/1999, which is applicable to the period 2000-2006. With regard to structural policy after 2006, see section 5.4 of the *EU Trend Report 2005*.

¹³² This is the government's initial, general position as presented in: House of Representatives, 2004-2005, 22 112, no. 340, p. 19-20.

annual accounts. The Dutch finance minister also raised the issue during the Ecofin council. He asked the Commission to present a concrete solution at the end of its term of office and hoped that the single audit model¹³³ would be of assistance.¹³⁴

Some months later, in June 2005, the European Commission adopted a communication on a ‘roadmap’ towards a Community internal control framework. The roadmap should ultimately lead to the European Court of Auditors issuing a positive statement of assurance (see section 3.4.3, part I of this report). The Dutch position on the roadmap is presented in the minutes of the meeting of the euro zone¹³⁵ and the Ecofin council of 11 and 12 June 2005:

‘The member states express support for the proposals but think the timing is ambitious. The Netherlands notes that the European Commission should retain final responsibility for expenditure. The Netherlands also supports the idea of a statement of assurance issued nationally at high political level and stresses the independence of both the national audit institution and the European Court of Auditors. The Netherlands expresses explicit support and appreciation for the principle of the single audit.’

It will be clear that in broad lines the Netherlands supports the European Court of Auditors’ Opinion of April 2004 regarding the introduction of the single audit model (see part I, section 3.4.1).¹³⁶

The Netherlands also supports the idea of introducing national statements of assurance, an issue raised by both the European Parliament and the European Commission in 2005 (see part I, sections 3.4.2 and 3.4.3). The Ecofin council of 8 November 2005 did not adopt the proposed introduction of member state statements. It suggested that the current statements should be worked out at operational level in the same way as those for the common agricultural policy and the structural policy.

15.3 European Grants (Monitoring) Act

A bill to amend the European Grants (Monitoring) Act (TES) was submitted to the Dutch House of Representatives on 1 June 2005.¹³⁷

Background

The European Grants (Monitoring) Act (TES) was introduced in May 2002 to address the problems arising from the Netherlands’ liability for the consequences of any shortcomings in the management or control of EU funds even if such shortcomings occur at local level. Since by far the majority of the European grants received by the Netherlands are received directly by local administrative authorities (provinces, municipalities, water boards,

¹³³ Single audit model: audit model (for the European budget) in which each audit level relies on the previous level in order to reduce the audit burden and increase audit quality.

¹³⁴ House of Representatives, 2004–2005, 21 501-07, no. 475 3.

¹³⁵ The euro zone comprises all countries that have introduced the euro. Its meetings before and after each Ecofin council are attended by the European Commissioner for Economic and Monetary Affairs and the president of the European Central Bank. The euro zone meetings are designed to promote coordination of economic policy within the currency union and to discuss matters that concern the member states of the currency union.

¹³⁶ European Court of Auditors, Opinion no. 2/2004. See also www.eca.eu.int.

¹³⁷ House of Representatives, 2004–2005, 30 135, nos. 1-3.

autonomous administrative authorities and public law enterprises), there is a certain tension in this area: the minister is liable but has little direct influence on expenditure. The TES gives the minister responsible for a European grant certain powers vis-à-vis the local administrative authority that receives it. He may obtain information from the authority, he may give it directions and he may hold it liable (if the aid rules are not observed).

Proposed amendment

A proposal to amend the TES was submitted in June 2005. It followed an evaluation of the act by the Ministry of Finance in 2004. The ministry found that the act had limited added value yet entailed a significant administrative burden.¹³⁸ The government advised the House to ‘deregulate’ section 2 of the TES. This would relieve the aid recipients of their duty¹³⁹ to inform the minister.

The bill to amend the TES has since been passed by the House and the Senate and section 2 has thus been rendered inoperative. The minister, however, remains liable for any financial consequences. The Council of State’s opinion on the bill has not been published. This indicates that it was favourable or contained comments of only an editorial nature.¹⁴⁰

15.4 Conclusions

Several developments taking place in the EU might have consequences for the implementation of the common agricultural policy and structural policy in the Netherlands at various points in the future.

With regard to the common agricultural policy, paying agencies must append statements of assurance to their annual declarations of expenditure as from October 2006, and the provision of farm aid will be subject to conditions (part national, part EU) with effect from 2005 in anticipation of a new legal framework for agricultural policy entering into force on 1 January 2007. The conditions will make control of the regularity of expenditure more complex than in the past.

With regard to the structural funds, changes will be made in the aid regulation for the Dutch ESF programme. The curtailment of the retroactive effect rule will make it possible to check and enforce compliance with the aid regulations during the implementation of short-term projects.

The European Commission’s proposal to introduce contracts of confidence regarding control of and reporting on the management of structural funds and the recognition of paying agencies would also have consequences for the Netherlands. All local authorities concerned have expressed an interest in such contracts. Owing to the largely negative stance taken by the European Commission’s Directorates-General, however, it is still uncertain whether contracts of confidence will be signed during the 2000-2006 programming period.

¹³⁸ House of Representatives, 2004–2005, 30 135, no. 3

¹³⁹ Administrative authorities have a duty to inform the minister of the nature and scope of the activities for which a grant is awarded and the related obligations; they must also issue an annual report on the expenditure of EU funds and on the implementation of management, control and supervision.

¹⁴⁰ Section 25a (4.b) of the Council of State Act.

The House of Representatives has approved the deregulation of the duty to provide information under the TES. Recipients of EU aid now no longer need to inform the minister responsible for their policy fields of the nature and scope of eligible activities, the application of EU funds and the implementation of management, control and supervision.

In broad lines, the Dutch government agrees with the European proposals to reform financial management in the EU. It particularly supports the European Commission's roadmap towards a Community internal control framework. If the proposals are approved by the Council of Ministers, they may have consequences for the systems in place in the Netherlands for the financial management and control of EU funds.

16 EU financial management systems in the Netherlands

This chapter looks at the quality of management, control and supervision systems in the Netherlands. The performance of such systems is a key factor for the regularity of expenditure. On the basis of the information received by the Court of Audit from the ministries concerned, we describe the quality of the systems and the insight the ministries have into their quality. Particular attention is paid to the operation of the systems. The *EU Trend Report 2005*¹⁴¹ provides information on the structure of the systems.

We discuss the operation of the financial management systems in place for each of the main headings of the EU budget: own resources (Dutch remittances to the EU) (section 16.2), agriculture (section 16.3), structural funds (section 16.4) and internal policies (section 16.5). These chapters (which are summarised in section 16.1) cover all the Dutch contributions to the EU and more than 95% of the funds that organisations in the Netherlands receive from the EU. The chapter closes with conclusions (section 16.6).

16.1 Summary of the funds investigated

We asked the relevant ministries what information they had on the quality of the systems in place to manage and control a large number of EU funds. The funds are summarised in table 35.

Table 35. Programmes and funds studied by ministry

Ministry responsible	Own resources	Agriculture	Structural policy	Internal policies
BuZa (via FIN/LNV)	GNI remittance VAT-based Agricultural duties Customs duties			
LNV		Common agricultural policy	Obj.2 East NL FIFG Leader+	LIFE Nature
EZ			Obj.1 Flevoland Obj.2 North NL Obj.2 South NL Interreg III A	TEN Telecom TEN Energy Sixth framework programme (research)
BZK			Obj.2 Urban Areas URBAN 2	
OCW				Leonardo da Vinci Socrates Culture 2000
VROM			Interreg IIIB Interreg IIIC	LIFE Environment
VenW				TEN Transport

¹⁴¹ For own resources, see section 16.6 of the *EU Trend Report 2005*; for agricultural policy, see section 16.1 and for the Dutch structural funds programmes, see sections 16.2 and 16.3. See also chapter 10 of the *EU Trend Report 2003*. The reports can be downloaded from www.rekenkamer.nl.

16.2 Remittances by the Netherlands to the EU

The Netherlands' contribution to the EU's own resources is accounted for in the budget and annual report of the Ministry of Foreign Affairs (Buza). The Ministries of Finance (FIN) and Agriculture, Nature and Food Quality (LNV) are also involved.

The Ministry of Foreign Affairs' audit department is responsible for the full audit of own resources. Its audit findings and other regularity information are considered in chapter 7 of this report.

The European Court of Auditors investigated the Dutch contribution of own resources as part of its statement of assurance (DAS) for 2003. In a letter to the Court of Audit of 30 July 2004, it concluded that control in the Netherlands 'gave no rise to significant audit findings'.

16.3 Common agricultural policy

Certifying audits of the paying agencies

In its annual regularity audit, the Court of Audit considered the certifying audits carried out by the Ministry of LNV's audit department of the paying agencies' annual declarations in respect of assistance received from the European Agriculture Guidance and Guarantee Fund (EAGGF). For the sake of brevity, we consider only the main points here. Full details are available in the Court of Audit's report.¹⁴² The certifying audits relate to the 2004 financial year, which ran from 16 October 2003 to 15 October 2004.

In accordance with Community requirements, the ministry audit department carried out certifying audits of the paying agencies' EAGGF declarations, which amounted of € 1,264 million. The paying agencies are:

- the Arable Farming Marketing Board;
- the Horticulture Marketing Board;
- the Livestock, Meat and Eggs Product Boards;
- the Dairy Board;
- the government service for sustainable rural development; and
- the LASER agency.

The Ministry of LNV's audit department issued unqualified audit reports on all certifying reports. It observed in its audit reports that there had been an improvement in financial management. The audit reports provide a reasonable degree of assurance on the accounting accuracy of the declarations and on the quality of internal control and accounting systems. The audit reports thus provide important *assurances* on the regularity of expenditure of farm aid but they do not express an opinion on the regularity of expenditure as such. The European Commission has since approved the Dutch paying agencies' accounts for the 2004 financial year based on the certifying reports and its own customary checks.¹⁴³

¹⁴² Court of Audit, *Rapport bij het jaarverslag 2004 van het Ministerie van Landbouw, Natuurbeheer en Voedselkwaliteit*, House of Representatives, 2004-2005, 30 100 XIV, no. 2, The Hague, 9 May 2005.

¹⁴³ The Commission did make some comments on the declarations, some of which had also been made on the 2003 declarations. They included comments on the sampling method used, the description of the audit work and the quantity and quality of physical inspections. The Commission recommended that account be taken of its comments in future certifying work: the findings might therefore lead to financial corrections in the future (Source: Decision regarding the approval of the 2004 accounts - Communication in accordance with article 1663/95 of 30 March 2005).

All certifying reports follow a fixed pattern. One of the main sections sets out the certifying body's recommendations. They are divided into 'very important', 'important' and 'less important'. The audit department made no 'important' recommendations regarding the 2004 financial year but did make one 'very important' recommendation. It was addressed to the government service for sustainable rural development (DLG), the paying agency for rural development grants. The audit department recommended that DLG strengthen the paying agency's independence within the DLG organisation. In the field of rural development policy, project implementation and aid approval occur largely within one and the same organisation, DLG.

In its report on the Ministry of LNV's annual report for 2004, the Court of Audit pointed out the risks of DLG acting as paying agent and as project implementer and qualified the situation as a weakness in financial management. In his response, the minister of LNV wrote that financial management 'complies with applicable criteria' and that there were sufficient assurances regarding the segregation of duties within DLG. He also noted that the European Commission had approved the system.

IACS checks

The European Commission's annual activity report for 2004 noted that there had been shortcomings in the operation of the integrated administration and control system (IACS) in the Netherlands regarding the animal premium and area aid schemes.¹⁴⁴ The system is checked by Dutch bodies that report to the European Commission. The IACS covers about 59% of agricultural expenditure.

Arable area payments

On-the-spot checks of the area aid scheme found errors in 37.4% of the aid applications checked. Measured in hectares, however, the error rate was far lower: 4.2% by area of the farmland checked in the Netherlands. Nevertheless, this figure is considerably higher than the EU average of 1.6%¹⁴⁵ (in the 15 'old' member states).

Animal premium scheme

Checks of aid applications made under the animal premium scheme related to 652 farmers, 15% of the total number of farmers and 29% of all farm animals in the Netherlands. Applications made by 3.7% of the farmers checked were rejected in full or in part. The number of animals involved in the rejections was 126, or 0.8% of the animals checked. This error rate is below the European average of 1.4%.¹⁴⁶

Non-IACS farm aid

With regard to farm expenditure that is not covered by the member states' IACS¹⁴⁷ – about 37% of agricultural expenditure in 2004 – the European Court

¹⁴⁴ European Commission, DG Agriculture, *Annual Activity Report 2004*, Brussels, 5 April 2005, pp. 86 ff.

¹⁴⁵ In April 2005 the Commission reported a European average of 1.8%. The European Court of Auditors later adjusted the figure to 1.6% following the receipt of revised information on the number of errors in Greece and the United Kingdom (see table 4.4 of the European Court of Auditors' annual report for 2004).

¹⁴⁶ In April 2005, the Commission reported an average of 1.2%. The European Court of Auditors later increased the figure to 1.4% following the receipt of revised information on the number of errors (usually several errors) in six member states (see table 4.5 of the European Court of Auditors' annual report for 2004).

¹⁴⁷ This expenditure includes export refunds, intervention support, expenditure on the storage of 148 reduction surpluses, a small number of other support schemes and veterinary expenditure.

of Auditors found weaknesses in the member states' administrative inspections in 2003 and 2004.¹⁴⁸ On the basis of these post-payment checks in the member states, the Commission was unable to establish where there was the greatest risk of irregularity. No information was available on the size or seriousness of the shortcomings in agricultural expenditure in the Netherlands in 2003 and 2004.¹⁴⁹

16.4 Structural policy

Most of the Dutch structural programmes are implemented locally. This means that the provinces (usually) are responsible for management and front-line control subject to the ministries' supervision. The Court of Audit noted in 2004 that the Ministry of Economic Affairs (EZ), amongst others, carries out its supervisory tasks in a distant manner.¹⁵⁰ The situation did not improve in 2005. A reorganisation exerted pressure on coordination and second-line supervision by the policy directorate responsible. The Ministry of EZ's audit department has also urged the policy directorate to adopt a more active approach to checking information on structural fund programmes.¹⁵¹

The Urban Areas Netherlands programme (objective 2) and the ESF-3 programme (objective 3) are more centralised. The Ministry of the Interior and Kingdom Relations (BZK) and the Ministry of Social Affairs and Employment (SZW) respectively act as central management and paying authorities.

The information the Court of Audit received from the ministries concerned regarding the financial management systems in place for the objective 1, 2 and 3 structural programmes and the Community Initiatives is discussed below. Again, emphasis is placed on the operation of the management and control systems.

16.4.1 Objective 1, 2 and 3 programmes

Objective 1 of European structural policy aims to reduce socio-economic differences between regions in Europe by assisting those that are lagging behind. In the Netherlands, the province of Flevoland receives assistance under objective 1.

Objective 2 of the structural policy finances programmes for the economic and social conversion of areas facing structural difficulties. The Netherlands has four objective 2 programmes: *North Netherlands* (the provinces of Groningen, Friesland and Drenthe); *East Netherlands* (the provinces of Gelderland, Overijssel and Utrecht); *South Netherlands* (the provinces of North Brabant, Limburg and Zeeland); and *Urban Areas Netherlands* (the cities of Amsterdam, Arnhem, The Hague, Eindhoven, Enschede, Maastricht, Nijmegen, Rotterdam and Utrecht).¹⁵²

¹⁴⁸ These are ex post checks in accordance with Regulation (EC) 4045/89.

¹⁴⁹ European Court of Auditors, annual reports for 2003 and 2004.

¹⁵⁰ See chapter 15 of the EU Trend Report 2005.

¹⁵¹ The audit department made this comment on the problem of underspending in its report: *Audit 2004 EFRO-beheerssysteem. Een onderzoek naar de beheersing van de onderuitputtingsproblematiek bij de (EFRO) Structuurfondsen*, AD/5014.470, The Hague, 24 March 2005.

¹⁵² For information on the organisation of the structural funds, see the *EU Trend Report 2003*, pp. 80 ff and appendices 7 and 8. See www.rekenkamer.nl.

Objective 3 programmes are concerned with employment and education. In this area, the Netherlands carries out the *ESF-3 programme*.

The *FIFG outside objective 1* programme (not all structural actions financed by the *FIFG*¹⁵³ in the fisheries industry are objective 1 actions, hence the name) is carried out by the Ministry of LNV and aims at restructuring the fisheries sector and modernising the fishing fleet.

Table 36 summarises the system information on the aforementioned programmes that we gathered from the article 13 reports (the annual reports on the design and operation of management and control systems).

The 'opinion' in the third column is not that of the Court of Audit but that of the programme's manager and auditor.

Table 36. System information, structural fund programmes

Objective	Programme	Opinion in article 13 report	Information value of article 13 report	5% checks carried out? If so, opinion included?	System audits carried out? If so, opinion included?	Decommitment (in millions of euros)	Comments
1	Flevoland	Unqualified audit report	Inadequate insight into basis of opinion*	Yes, positive opinion	Uncertain	0	Article 13 report contains little information. Adverse audit report on 2002 annual report owing to overstatement of commitment and outcome.
2	North	Unqualified audit report	Insight into basis of opinion*	Yes, opinion with negative elements	Yes, checks found no material system weaknesses	0	Insightful report. Four errors totalling € 1 million; uncertainty of up to € 3.2 million. Inadequate control on application and during life of projects.
2	East	Unqualified audit report	Insight into basis of opinion*	Yes, positive opinion	Yes, checks found no material system weaknesses	0	
2	South	Unqualified audit report	Insight differs per area	Partly (no checks in Zeeland); opinion with negative elements	Yes, critical comments	0	Qualified audit report on 2004 annual report owing to insolvency of project implementer and uncertainty of project costs. Inadequate checks of progress; incomplete segregation of duties in North Brabant.
2	Urban Areas	Unqualified audit report	Insight into basis of opinion*	Yes, positive opinion	Yes, checks found no material system weaknesses	0	Informative; improvement in comparison with previous year. Information on 5% checks summary.
3	ESF-3	Unqualified audit report	Insight into basis of opinion*	Yes, positive opinion	Yes, checks found no material system weaknesses	79	Insightful report. Decommitment for 2000-2002 totalled € 295 million.
FIFG outside objective 1		No report	No report	Unknown	No report	0	Article 13 report on 2004 not issued at beginning of November 2005. 2004 annual report has no audit report.

* 'Insight into basis of opinion' relates to the number and nature of the checks and results.

The information presented in table 36 is explained further in the remainder of this section.

¹⁵³ FIFG: Financial Instrument for Fisheries Guidance.

Article 13 reports

All structural policy programmes must report each year on the design and operation of their management and control systems.¹⁵⁴ These reports are an important source of information for the European Commission and national supervisory bodies. Audit reports are issued on these article 13 reports in accordance with supplementary national regulations. The audit reports do not express an opinion on the regularity of expenditure.

The Court of Audit received the article 13 reports on all objective programmes with the exception of that on the FIGG outside objective 1 programme. The reports on ESF-3 and North Netherlands provide an overview of the checks carried out and their results. The Flevoland report, by contrast, contains little information. The article 13 report on Urban Areas Netherlands is more informative than in previous years. The SPD South article 13 report provides some insight into the results of the checks carried out. In a number of areas, however, the report is unclear and further background information is required. The report's information value for the four areas of the SPD South, moreover, is very mixed.

System audits and reviews

Most of the article 13 reports conclude that the management and control systems satisfy the requirements. It is not clear from the report on the Flevoland programme, however, whether system audits were carried out and, if so, what the findings were.¹⁵⁵ The Court of Audit notes that various programme auditors observed that errors went undetected until the final settlement of a project. They recommended improved checks of progress information and ex ante and interim checks of compliance with the grant conditions.¹⁵⁶ This would prevent a surge of irregularities on the closure of the programmes. In the Court of Audit's opinion, there is a danger of the pattern from 1994-1999 being repeated; by far the majority of the irregularities in those programmes were not detected or reported to OLAF until the programmes were closed in 2002-2003.

In 2005 the Ministry of EZ's audit department issued a review report on the Flevoland and South Netherlands programme auditors. The Flevoland review considered the auditor's activities in 2000-2002. The review could not take place earlier because several audit reports were issued at great delay: the audit reports on the financial statements for 2000, 2001 and 2002 were issued on 10 January 2005, partly because the province was late in contracting an auditor and an adverse report had been issued on the financial statements in the annual report for 2002. The review found that the programme auditor's work was adequate. The audit department recommended that the province include the audit findings in its annual article 13 report.

¹⁵⁴ This obligation arises from article 13 of Commission Regulation (EC) No 438/2001 of 2 March 2001 laying down detailed rules for the implementation of Council Regulation (EC) No 1260/1999 as regards the management and control systems for assistance granted under the Structural Funds.

¹⁵⁵ The report refers to a management letter issued by the Flevoland programme auditor but does not consider its content. We requested the management letter on several occasions but did not receive it.

¹⁵⁶ For example SPD North and SPD South.

The review of SPD South related to the 2003 audit.¹⁵⁷ The audit department concluded that the approach to and implementation of the programme auditor's work had been adequate. The audit had also provided an adequate basis to ensure the regularity of the final declaration. The audit department referred to the importance of planning the audit work over the programming period as a whole.

The reviews of the project auditors carried out by the Ministry of SZW's audit department were positive: the project auditors performed their work adequately. Owing to the summary nature of the information in the review reports, the Court of Audit carried out an additional investigation of the files kept by the Ministry of SZW's audit department. We concluded that the files were of adequate quality and provided an adequate basis for the opinion expressed. The internal control department also reviewed the project auditors. Two of the nine reviews found that the basis for the audit opinion was inadequate. The article 13 report, however, provided no insight into the 'most important weaknesses found by the reviews'.¹⁵⁸

The system audits carried out by the Ministry of SZW's audit department and the SZW Agency were positive.¹⁵⁹ The audit department reviewed the working of the SZW Agency's internal controls.¹⁶⁰ It found that there had been improvements in comparison with 2003, particularly with regard to documentation, but it also had several criticisms. According to the audit department, the method used to check that eligible costs were at arm's length had not been standardised. No control standards were in place to check records of participants and time spent, particularly with regard to the number of observations and the basis of the risk estimate. According to the Ministry of SZW, the audit department's findings relate chiefly to the non-verifiable documentation of standard methods (design). The controls in place, however, are verifiably documented (operation).

The SZW Agency has since set out its standard methods in a manual. The audit department also recommended that the Agency improve its uniform application of European legislation.

5% checks

The auditors of most of the structural programmes carried out the compulsory 5% checks in 2004. This is an improvement on previous years, when virtually no checks had been made of any of the programmes. In many cases, however, the checks will not be spread evenly over the 2000-2006 programming period as required.

In the North Netherlands programme, the auditor found four errors in the 5% checks (total amount in excess of € 1 million) and one uncertainty of up to € 3.2 million. In particular, several shortcomings in tendering procedures were being 'followed up' by the programme managers. These errors have not yet led to the notification of irregularities to OLAF.

¹⁵⁷ Ministry of EZ audit department, *Rapport inzake de review van de accountantscontrole van het D.2 programma SPD Zuid over 2003*. AD/5037590, The Hague, 15 June 2005.

¹⁵⁸ See p. 12 of the article 13 report on ESF-3 for 2004.

¹⁵⁹ See p. 11 and further of the article 13 report for 2004.

¹⁶⁰ Audit department of the Ministry of SZW, *Auditverslag naar aanleiding van ons review op het functioneren van de afdeling IC/OA van het Agentschap SZW in 2004*, AD/AV/2005/29124, The Hague, 21 April 2005.

Checks of the South Netherlands programme found that segregation of duties was inadequately assured and independent internal control was not possible at certain project implementers.¹⁶¹ The programme auditor thought the problems were systematic and the risks related to ‘the accuracy, completeness and regularity of the eligibility of expenditure’. The report does not say whether these findings had led to the notification of irregularities and/or financial corrections. The Zeeland programme auditor had not carried out any 5% checks by the end of 2004.

Financial progress: decommitment

The N+2 rule requires annual budgets to be applied within two years of the year in which the budget is committed. That part of the annual budget that is not spent is cancelled (‘decommitted’) and returns to the EU budget. The financial progress of most of the structural fund programmes (i.e. the degree to which committed funds are spent) is adequate. The ESF-3 programme is an exception.

Table 37. Decommitment of ESF-3 funds (rounded, in millions of euros)*

Annual tranche	2000	2001	2002	Total 2000-2002
Annual budget	245	250	255	750
Amount declared	-197	-83	-176	-456
Decommitment	48	167	79	294

* House of Representatives, 2004-2005, 26642, no. 71; House of Representatives, 2003-2004, 26642, no. 68. The declaration on the 2000 annual tranche includes an advance payment of €122 million.

More than € 79 million of the 2002 ESF aid tranche was cancelled at the end of 2004. Of the tranches for 2000-2002, therefore, € 294 million was left ‘on the shelf’ at the European Commission, equal to nearly 40% of the budget available for those years. The Dutch ESF programme is responsible for more than half of the total EU decommitment of structural funds.¹⁶² The financial progress seems to have improved in 2005.¹⁶³

Most of the other programmes had made adequate progress by the end of 2004 and no aid was decommitted. The Ministry of EZ’s audit department noted, however, that the Flevoland and East Netherlands programmes might see decommitments in the years ahead since there were structural arrears in the programmes’ actual expenditure.¹⁶⁴ The East Netherlands programme has, according to its own statements, made up lost ground.

Annual reports

The annual implementation reports consider the progress made implementing the various parts of the programmes as well as the financial progress. They contain little information on the management and control system since the article 13 reports are more appropriate documents for that information. Pursuant to national regulations, an audit report expressing an opinion on the correct presentation of the figures must be issued on the financial statements in the annual report. These audit reports do not express an opinion on the regularity of expenditure.

¹⁶¹ The Court of Audit referred in general to the risks that might arise when small and very small organisations act as project applicants and/or implementers in the *EU Trend Report 2005*, chapter 15.

¹⁶² See part II of this EU Trend Report for a comparison of member states.

¹⁶³ In November 2005, however, no figures were available on the underspend.

¹⁶⁴ Audit department of the Ministry of EZ, *Audit 2004 EFRO-beheerssysteem. Een onderzoek naar de beheersing van de onderuitputtingsproblematiek bij de (EFRO-) Structuurfondsen*, AD/5014470, The Hague, 24 March 2005.

An unqualified audit report was not issued on the financial statements of the Flevoland and South Netherlands programmes. The reason for this is explained in the following chapter on regularity. The FIGG annual report for 2004 was issued in October 2005 without an audit report.

Audits by the European Commission

The European Commission carried out an audit mission for SPD South in 2004. In the same year it issued a confidential audit report on the Dutch FIGG programme. At the beginning of 2005, the Commission issued an audit report on the management and control system for the ESF-3 programme. We discuss the Commission's findings below.

- **SPD South Netherlands**

The European Commission issued a draft report in mid-2005 on its audit of SPD South.¹⁶⁵ The Commission noted that certain checks that should have been carried out by the province of North Brabant (the paying authority and the managing authority) were in fact carried out by 'intermediate bodies'.¹⁶⁶ Formally this is not in agreement with European legislation nor is it in accordance with internal control procedures. The Commission recommended that the paying authority carry out the checks.

The Commission's report also commented on the VAT that is refunded to the municipalities and provinces from the VAT compensation fund. According to the EU auditors, aid cannot be granted in respect of this VAT because a national fund already provides compensation for VAT paid. It is irrelevant in this respect that the VAT fund is budgetary neutral.¹⁶⁷ The Court of Audit had referred in its previous EU Trend Report to the risk of this VAT not being eligible.¹⁶⁸ The Commission's comments might have consequences for the other Dutch structural programmes, all of which adopt the policy line that VAT that qualifies for compensation from the VAT compensation fund can also be declared in Brussels. Any financial corrections made by the Commission will be borne by the Ministries of Finance and EZ, which have given guarantees in this specific area. For the time being, the Netherlands is adhering to its stance that this VAT is eligible. Talks on this VAT question are still being held between the Commission and the ministries concerned.

- **FIGG outside objective 1**

The main conclusion in the confidential audit report that the European Commission issued on the Dutch FIGG programme in April 2004 was that the systems were adequate. The Commission insisted, though, that the compulsory 5% checks be carried out; a start had not been made on them by mid-2004. The division of tasks between the managing authority and the paying authority was also not entirely in accordance with EU regulations.

¹⁶⁵ European Commission, DG Regional Policy, *Auditverslag SPD Zuid-Nederland*, Missie 2004/NL/Regio/G3/35/1 of 22 June 2005. The report was submitted to the Dutch authorities for comment.

¹⁶⁶ At issue were checks for the certification of statements of expenditure as referred to in article 9 (2) of Regulation (EC) no. 438/2001.

¹⁶⁷ European Commission, DG Regional Policy, *Auditverslag SPD Zuid-Nederland*, Missie 2004/NL/Regio/G3/35/1 of 22 June 2005, p. 33.

¹⁶⁸ For more information, see pp. 121-122 of the *EU Trend Report 2005*.

- **ESF-3**

In its report on the management and control system for the Dutch ESF-3 programme issued at the beginning of 2005,¹⁶⁹ the European Commission was positive about both the control and the final declarations (with audit reports) of completed projects and the audit trail in the ESF management computer system. The Commission did make critical comments on the granting of aid with retroactive effect. In DG Employment's annual activity report, the ESF-3 programme is included in a group of programmes whose systems are generally satisfactory.¹⁷⁰

ESF: grants with retroactive effect

As noted in section 15.1.2, grant applications can be made in respect of ESF projects that have already commenced. Costs may be declared if they are incurred up to 12 months before the grant application. Some short-term projects may therefore have been completed before a grant application is made. There is an increased risk here of a conflict of interest between limiting underspending on the one hand and promoting sound financial management on the other. The problem is that where a grant application is made with retroactive effect some checks cannot be carried out. There is also a risk that the application has not complied with all applicable conditions from the very start of the project.

The Court of Audit's file study found that the accounts for one project had to be prepared with retroactive effect. The project auditor made a reservation in its audit report on the final declaration because the procurement procedure and the management of participants did not comply with ESF rules. This reservation led to the agency making a financial correction. This is indicative of the risks attaching to grant applications with retroactive effect.

The European Commission and the Ministry of SZW's audit department have also pointed out these risks and internal measures have been taken to resolve them, including an analysis of all controls. The rules will be revised as of 1 January 2006 so that completed projects will no longer be eligible for aid. The period of eligibility before an application is made will also be reduced from twelve to six months.¹⁷¹

Audit by the European Court of Auditors

The European Court of Auditors referred to its audit of the ESF-3 programme in its annual report for 2003.¹⁷² In its opinion, the audit trail in the projects carried out by regional training centres and other education institutions was inadequate. The projects were the responsibility of the Ministry of Education, Culture and Science (OCW), which submits its grant applications to the Ministry of SZW and provides national co-financing. The national co-financing is part of a lump sum provided by the Ministry of OCW to the education institutions. It does not identify exactly what part is earmarked as co-financing for specific ESF projects. According to the European Court of Auditors, it therefore cannot be verified from the accounts exactly how much is spent on an individual project since the national co-financing cannot be isolated from the total national funds allocated to the education institutions.

¹⁶⁹ European Commission, *Controleverslag ESF. Nederland – Controle van de beheer- en controlesystemen voor het programma doelstelling 3: 1999NLO53DO001*, Brussels, 21 April 2005.

¹⁷⁰ European Commission, DG Employment, *Rapport annuel d'activité 2004*, Brussels, 18 March 2005. The European Commission refers on p. 30 to 'des systèmes globalement satisfaisants'.

¹⁷¹ For the change in policy as of 1 January 2006, see section 15.1.2.

¹⁷² European Court of Auditors, *Annual report concerning the financial year 2003*, section 5.54 Luxembourg, November 2004. For the errors found by the European Court of Auditors, see section 17.3.3.

The European Commission does not agree with the European Court of Auditors.¹⁷³ According to the Commission, the audit trail is adequate and the Ministry of OCW's co-financing can be isolated in the project accounts. The Ministry of SZW and the Ministry of OCW's audit department have together investigated the European Court of Auditors' conclusions. This investigation led to the SZW Agency revising its final decisions on certain OCW projects. Their findings have been passed on to the European Commission, which saw no reason to make any systems changes further to the European Court of Auditors' observations.

16.4.2 Community Initiatives

The European structural funds finance Community Initiatives as well as 'objective' programmes. In the EU as a whole, these Initiatives account for about 5% of the structural funds. Four Community Initiatives are being implemented in the Netherlands: *Equal* (combating discrimination and inequality in the labour market), *Urban II* (sustainable urban development), *Leader+* (rural development) and – together with other member states and regions – *Interreg III* (regional cross-border cooperation).

Table 38. System information, Community Initiatives

Programme	Opinion in Article 13 report	5% checks carried out? If so, opinion included?	System audits carried out? If so, opinion included?	Decommitment (in millions of euros)	Comments
Equal	Unqualified audit report	Yes, positive opinion	Yes, checks found no material system weaknesses	12.8	Decommitment 2001-2002 approx. 25% of budget; single report together with ESF-3 programme
Urban II	Unqualified audit report	Yes, positive opinion	Yes, checks found no material system weaknesses	0	Separate reports per city
Leader+	Unqualified audit report	Yes, positive opinion	Yes, checks found no material system weaknesses	0.5	
Interreg IIIA Euregio Maas-Rhine	Unqualified audit report	Yes, positive opinion	Yes, checks found no material system weaknesses	0	
Interreg IIIB	No audit report (not a Community requirement)	Yes, positive opinion	Yes, checks found no material system weaknesses	0	Transnational programme, Dutch requirement of unqualified audit report not applicable
Interreg IIIC West	No audit report (not a Community requirement)	No 5% checks	No	16.6	Transnational programme, Dutch requirement of unqualified audit report not applicable

Table 38 summarises the system information we gathered from the article 13 reports on Community Initiatives. They are considered in more detail below.

Article 13 reports

The overriding conclusion from the article 13 reports is that audit found no material weaknesses in the management and control systems in place for Community Initiatives. The annual implementation reports on Interreg IIIB and IIIC include the article 13 reports as a separate section. Unlike the other structural fund programmes, these programmes do not issue separate article 13 reports.

¹⁷³ The Commission's reply is included in the European Court of Auditors' annual report for 2003, section 5.54, p. 176.

In Euregio Maas-Rhine, agreements have been made to arrive at an integrated audit approach in which the programme auditor can rely on the audit reports of the German and Belgian project auditors. For the final declaration a single audit report would therefore be issued on the entire programme, which is implemented in the Netherlands, Belgium and Germany. This has been a problem for many years since the foreign audit reports do not comply with the requirements of the Netherlands Institute of Registeraccountants (NIVRA).¹⁷⁴ In principle, the Court of Audit is in favour of the proposed change in audit approach. However, the new approach has not yet been formally approved or adopted.

System audits and 5% checks

The Ministry of SZW's audit department audited the grants, advance payments and final settlement of projects in the Equal programme. It concluded that they satisfied the requirements and there had been a 'clear improvement' in the documentation of Equal projects, although the electronic files were still incomplete and contained inaccuracies.

In the Amsterdam and Rotterdam Urban II programmes, the system audits and the 5% checks resulted, according to statements issued by the municipal auditors, in a positive opinion on the effectiveness of the management and control structure. In Heerlen it was found that the monitoring system was inadequately updated and reliable information on actual progress could not be provided to the Ministry of BZK or the European Commission.¹⁷⁵ Up-to-date information on financial progress was available in a separate system.

No material shortcomings were found in the systems for the Maas-Rhine and Leader+ Euregio programmes. No findings were available regarding the 5% checks of Leader+ East in mid-2005.

Two Interreg IIIB Northwest Europe projects were included in the 2004 5% checks. The reports were not available when the annual report was published in mid-2005. The annual report notes that the checks had taken far longer to complete than initially foreseen. Technical assistance (management costs) was also investigated and no shortcomings were found. The annual report on Interreg IIIB Northwest Europe concluded that the checks revealed no material shortcomings in the management and control system. In the Interreg IIIC West Zone programme, no 5% checks have been carried out yet. The intended implementer of the checks will be contracted in autumn 2005.

Reviews by ministries

The Ministry of EZ's audit department reviewed the Euregio Maas-Rhine programme auditor. It concluded that its approach and its conduct of the checks in 2003 had been adequate but it made several comments on the planning of checks over the programming period as a whole and on the approval and control tolerances. It also drew attention to the 'timely control' of management costs (technical assistance).

¹⁷⁴ The Court of Audit made critical observations on this at the beginning of 2002 in its report *Euregio's grensoverschrijdend financieel beheer*, The Hague, March 2002.

¹⁷⁵ This is a programme management system (PMS).

Audit by the European Commission and the European Court of Auditors

To the best of our knowledge, the European Commission and the European Court of Auditors have not audited the Community Initiatives in the Netherlands. DG Employment's annual activity report includes the Dutch Equal programme in a group of programmes whose systems are generally satisfactory.¹⁷⁶

Financial progress: decommitment

The Equal and Interreg IIIC programmes made insufficient financial progress and part of the budget was cancelled (decommitted). A relatively modest part of the Leader+ East budget was also cancelled. The funds were returned to the European budget.

Decommitment on the Interreg IIIC West Zone programme for 2004 amounted to € 16.6 million. Owing to the transnational nature of Interreg, not all the decommitment was attributable to the Netherlands. The indicative share of the Netherlands is about 20%.¹⁷⁷ The Ministry of EZ's audit department found that there had been no underspend on the Euregio Maas-Rhine Interreg programme but there were structural arrears in commitments ('undercommitment'). According to the audit department, these arrears might lead to an underspend in the years ahead.¹⁷⁸

The decommitment on Equal was € 12.8 million, out of an annual budget of € 35.2 million (2002). The decommitment on the 2001 annual tranche of € 29 million had been € 2.9 million. Of the 2001-2002 annual budgets, therefore, approximately 25% was cancelled.

Urban II made sufficient financial progress to avoid the decommitment of funds. The Heerlen programme, however, had a lower commitment of ERDF funds at the end of 2004 than at the end of the previous year owing to the cancellation of a large project to which the EU contributed € 3 million.¹⁷⁹

The decommitment on Leader+ East was € 500,000 in 2003 (annual tranche 2001) and € 210,000 in 2004 (annual tranche 2002). There was no decommitment on Leader+ North but, according to management, it would be a considerable feat to comply with the N+2 rule in 2005.¹⁸⁰

¹⁷⁶ European Commission, DG Employment, *Rapport annuel d'activité 2004*, Brussels, 18 March 2005. The European Commission refers on p. 30 to 'des systèmes globalement satisfaisants'.

¹⁷⁷ The actual share will depend on the number of successful project applications made by the Netherlands and the extent of Dutch participation in foreign applications. According to the Ministry of VROM the slow progress is due to the Commission's late approval of the programme (March 2002) and the programme's complex organisation structure.

¹⁷⁸ Audit department of the Ministry of Economic Affairs, *Audit 2004 EFRO Beheerssysteem AD/5014470*, The Hague, 24 March 2005.

¹⁷⁹ Annual report 2004, Urban II programme 2000-2006 Heerlen of June 2005.

¹⁸⁰ Annual report, Leader+ North 2004 of June 2005.

16.5 Internal policies

The European Union's internal policies are implemented in a direct contractual and financial relationship between the European Commission and the final beneficiary (project applicant). Dutch ministries are not involved directly unless they themselves are a contracting party. Apart from through such contracts, the ministries are responsible for the contours of policy through their participation in the European councils. Furthermore, national policies have been developed in all areas of the internal policies, such as nature and the environment, research and innovation. Below, we discuss the information available on the management and control systems in place for most of the internal policy programmes.

16.5.1 Research and technological development: sixth framework programme

The sixth framework programme for research and technological development (FP6) is the most important EU instrument to finance research in Europe. It promotes scientific quality, competitiveness and innovation so that the EU will become the most competitive and dynamic knowledge-based economy in the world by 2010 (the Lisbon strategy). Over the term of FP6, a total of € 17.5 billion will be available across the EU for research and technological development.

Enterprises, universities, research centres and local and national authorities engaged in scientific research, technological development or innovation can receive aid from FP6. The aid might be financial or in the form of international cooperation. Figures provided by EC Liaison¹⁸¹ show that the Dutch participants in FP6 received a total of € 540 million in aid from the sixth framework programme during its first two years. The Netherlands receives about 1% (€ 85 million) more than it contributes to the programme. According to the European Commission, the Netherlands is participating in 1,380 projects, including the networks of excellence, out of a total of 26,173 projects. The EU's financial contribution to Dutch projects, excluding the networks of excellence, is € 335.3 million.¹⁸²

Table 39. Dutch participation in the sixth framework programme

Member state	Number of projects (incl. networks of excellence)		Number of projects (excl. networks of excellence)		Financial contribution from the Commission (excluding networks of excellence)	
	Number	%	Number	%	(in € millions)	%
The Netherlands	1 380	5.3%	1 200	5.2%	335.3	5.9%
Other member states	24 793	94.7%	21 776	94.8%	5 307.6	94.1%
Total	26 173	100.0%	22 976	100.0%	5 642.9	100.0%

Source: European Commission.

¹⁸¹ EC Liaison is part of the SenterNovem agency of the Ministry of EZ. It provides advice on European grants.

¹⁸² European Commission, DG Research, *FP6 mid term review: implementation and participation*, Brussels, 13 July 2005. The reference date is 11 March 2005; the figures relate to contracts with CPM status 'signed', 'final' or 'validated'. The 'networks of excellence' are networks in which tens to hundreds of representatives of knowledge centres and enterprises establish long-term research partnerships.

Management and control

Accountability at project level takes the form of periodic activity reports, management reports and reports on the allocation of the Community's financial contributions. With effect from FP6, audit reports must be issued on the individual contracts when a project is completed. In the case of large projects (more than € 750,000) an audit report is required for each period. Advance payments and project clearance are based on the information contained in the audit reports. In the *EU Trend Report 2005* we noted that there was growing resistance to this administrative and financial burden at project level. The European Commission recently took measures to simplify and speed up the procedures to conclude contracts for FP6.

16.5.2 Trans-European networks

Pursuant to the EC Treaty, the member states are obliged to work on the development of trans-European networks (TENs) in the fields of transport, telecommunications and energy infrastructure.¹⁸³ In 1993 it was decided to accelerate the construction of TENs wherever possible.

TEN Telecom (eTEN)

The European Commission's policy on TEN Telecom (eTEN) is to support the introduction of services enabled by telecommunication networks (e-services) that have a trans-European dimension.

The Dutch Ministry of EZ has little information on the European Commission's payments to Dutch participants in eTEN. Consortia in which Dutch parties are members submit project proposals and, if they are successful, financial aid is granted directly to the consortia's members. Member states are not involved in the payment of grants. The member states' only involvement is that they can intervene in direct contract negotiations if a project is in danger of foundering.

Apart from the standard eTEN contract between the European Commission and its counterparties, the Financial Regulation and related implementation regulations are applicable to project proposals.¹⁸⁴ The European Commission exercises financial control and monitors the progress of the projects. If there are irregularities or if fraud is suspected, the European Commission can make corrections to the declarations. The parties concerned can appeal against corrections.¹⁸⁵ The Commission can also have audits carried out by external audit firms with which it has framework contracts. This is done by means of sampling and whenever irregularities are suspected. If there are signs of fraud OLAF, the anti-fraud office, is notified. The Commission's internal auditors check the internal implementation of the programmes.

TEN Energy (TEN-E)

The European Commission's policy on TEN Energy (TEN-E) is to establish an internal market for electricity and natural gas and guarantee the continuity of energy supplies.

¹⁸³ EC Treaty, chapter XII, articles 154-156.

¹⁸⁴ Regulation (EC, Euratom) no. 2342/2002 of 23 December 2002, and Regulation (EC, Euratom) no. 1605/2002 of 25 June 2002.

¹⁸⁵ If the contribution requested from the European Commission is € 150,000 or more, an audit certificate must first be submitted by an external auditor.

We received no information from the Dutch Ministry of EZ on the management and control of TEN-E in the Netherlands. The ministry also has no information on TEN-E expenditure in the Netherlands. To gain such information, we approached the Commission's Directorate-General for Energy and Transport and requested a summary of Dutch recipients of TEN funds and related financial details. DG Energy and Transport provided a detailed list of the funds received in the Netherlands in the years 2003-2005.

Table 40. TEN-E receipts in the Netherlands (in millions of euros)*

TEN-E**	2003	2004	2005
Financial aid granted to projects of common interest for the trans-European energy network	0.217	0	0.353
Total	0.217	0	0.353

* Amounts for 2005 are not payments but balances still open (RAL: 'reste à liquider').

** These are projects in which a Dutch ministry or a Dutch enterprise is the direct beneficiary.

They do not include research projects in which a Dutch enterprise is a partner.

Source: European Commission, Directorate-General for Energy and Transport.

TEN Transport (TEN-T)

The European Commission's policy on TEN Transport (TEN-T) is to realise major projects across the EU that promote road transport and combined transport, transport on inland waterways and the seaports, and the European network of high speed trains.

The Dutch Ministry of Transport, Public Works and Water Management (venw) has only limited insight into the management and control of the TEN-T programme in the Netherlands. The HSL South and Betuwe railway lines, two major programmes co-financed with TEN funds, are exceptions. The project organisations set up for these major undertakings are included in the Ministry of VenW's regular planning and control cycle. The two projects' progress is reported to the House of Representatives every six months.

The Ministry of venw does not keep records of the TEN-T payments received in the Netherlands. In response to questions from the Court of Audit, however, it attempted to compile an overview. The information is summarised in the table below. It relates largely to grants received by the ministry itself or its Directorate-General for Public Works and Water Management.

Table 41. TEN-T receipts in the Netherlands in 2004 (in thousands of euros)

TEN-T project	2004
HSL South: construction of the HSL and A4 motorway crossing	4 398
HSL South: tunnel boring	10 800
HSL South: civil engineering between Heerjansdam and Lage Zwaluwe	2 400
Betuwe line: Botlek railway tunnel	*751
Betuwe line: A15 substructure	9 600
Utrechtboog (Amsterdam-Utrecht railway connection)	1 200
TEAMS – Port Infolink	723
Modernisation IVS 90	**341
Hanze line	1 000
Total	31 194

* The original grant was reduced by €1,648,868 because eligible expenditure was too low. With the expenditure incurred, the grant would have exceeded the maximum assistance rate.

** The original grant was reduced by €158,699 because eligible expenditure was too low. With the expenditure incurred, the grant would have exceeded the maximum assistance rate.

Source: Ministry of VenW.

The Court of Audit also approached the European Commission (in particular DG Energy and Transport) and requested an overview of Dutch recipients of TEN funds and related financial details. The DG provided an overview of the funds received in the Netherlands in 2003-2005.

Table 42. TEN-T grants awarded to Dutch projects (in millions of euros)*

TEN-T project**	2003	2004	2005
Administrative expenditure	1.086	0.739	0.295
HSL	25.800	10.500	17.600
Betuwe line	-	15.000	19.050
Other	13.845	2.000	8.903
Total	40.731	28.239	45.847

* The table is an adaptation by the Court of Audit of information received from the European Commission. Amounts for 2005 are not payments but balances still open (RAL: 'reste à liquider').

** These are projects in which a Dutch ministry or a Dutch enterprise is the direct beneficiary. They do not include projects in which a Dutch enterprise is a partner.

Source: European Commission, DG Energy and Transport.

16.5.3 Nature and Environment

LIFE is a financial instrument that supports a multitude of nature and environmental projects in Europe. The LIFE programme consists of three parts: LIFE Nature, LIFE Environment and LIFE Third Countries. LIFE Nature is targeted chiefly at the conservation and restoration of the Natura 2000 network; LIFE Environment aims at developing innovative and integrated methods for the further implementation of Community environmental policy, and LIFE Third Countries supports environmental activities in non-member states bordering the Mediterranean and the Baltic Sea. By definition, LIFE Third Countries is not applicable to the Netherlands and is thus not considered further here. Across the EU, the LIFE programme co-financed more than 1,000 projects in the period 2000-2005.¹⁸⁶

Management and control

In the Netherlands, the Ministry of LNV is responsible for LIFE Nature. Its role is limited, however, to the 'preparatory stage' in that it provides information to potential grant applicants and receives the formal grant applications made to the European Commission. The European Commission, DG Environment, is responsible for the selection, financing and control of LIFE Nature projects. Since the Ministry of LNV is not responsible for financing or implementing LIFE Nature, it has no information on the management and control structure or its quality. Nor does it have an insight into the LIFE Nature projects carried out in the Netherlands or into their financial details.

LIFE Environment in the Netherlands is a responsibility of the Ministry of VROM. Here, too, the ministry's role is restricted to the preparatory stage. The Ministry of VROM does not have an overview of LIFE Environment projects carried out in the Netherlands. It therefore could not provide any information on management and control of the LIFE programme. The LIFE website, incidentally, includes a searchable database of projects in member states.

¹⁸⁶ <http://europa.eu.int/comm/environment/life/project/index.htm>, consulted on 12 September 2005.

Since there is no central source of information on payments to LIFE projects in the Netherlands, the Court of Audit requested the information from the European Commission (in particular, DG Environment). DG Environment provided a detailed overview of the final recipients of LIFE funds. The projects in the Netherlands are aggregated in the table below.

Table 43. LIFE projects in the Netherlands: number and receipts (in millions of euros)*

LIFE	2002	2003	2004
Number of LIFE Environment projects	10	12	7
Subtotal receipts	6.591	6.859	4.376
Number of LIFE Nature projects	1	**1	4
Subtotal receipts	1.306	0.098	4.916
Total receipts	7.897	6.957	9.292

* According to a statement issued by the European Commission, DG Environment; data processed by the Court of Audit.

** This is a LIFE Nature Co-op project to exchange experiences on LIFE Nature projects.

Source: European Commission, DG Environment.

16.5.4 Education

Socrates

Socrates is the European education programme. It aims to:

- strengthen the European dimension of education at all levels;
- improve knowledge of European languages;
- promote cooperation and mobility throughout education;
- encourage innovation in education;
- promote equal opportunities in all sectors of education.

The Socrates programme comprises eight actions: 1. Comenius (school education); 2. Erasmus (higher education); 3. Grundtvig (adult education and other education pathways); 4. Lingua (learning European languages); 5. Minerva (information and communication technology (ICT) in education); 6. Observation and innovation of education systems and policies; 7. Joint actions with other European programmes; 8. Accompanying measures.

Leonardo da Vinci

Leonardo da Vinci is the European action programme for the development of a Community policy on vocational training. The programme's main objectives are:

- to strengthen the competencies and skills of people, especially young people, in initial vocational training at all levels, via work-linked training and apprenticeship, with a view to improving their employability and promoting their professional integration;
- to improve the quality of and access to continuing vocational training and the life-long acquisition of qualifications and skills, with a view to increasing and developing adaptability;
- to promote and reinforce the contribution of vocational training systems to the process of innovation in order to improve competitiveness and entrepreneurship.

The programme's objectives are realised through: support for the transnational mobility of people undergoing vocational training in Europe and of training organisers; support for pilot projects based on transnational partnerships designed to promote innovation and quality in vocational training; promotion of language skills, including for less widely used and taught languages, and understanding of different cultures in the context of vocational training.

Management and control

In all member states, the European Commission relies on national agencies (also known as intermediaries) to implement the Socrates and Leonardo da Vinci programmes. These agencies are responsible for implementing the programmes, assisting candidates and promoting the programmes. The national agencies are therefore an important link between the European Commission and the programmes' target groups.

To determine what funds were received from the Socrates and Leonardo da Vinci programmes by beneficiaries in the Netherlands, we drew on two sources: the European Commission (in particular DG Education and Culture) and the Dutch Ministry of OCW. The information received from these two sources is considered below.

The following tables show the direct aid awarded, i.e. funds awarded directly by the European Commission to Dutch project implementers.¹⁸⁷

The information is from the Commission only; the Ministry of OCW provided no information on direct aid.

Table 44. Socrates: aid awarded directly by the European Commission to Dutch projects (in millions of euros)

Socrates	2003	2004	2005
Comenius	0.594	1.634	0.391
Erasmus	1.811	1.176	1.266
Grundtvig	0.503	0.176	0.460
Lingua	0.260	0.642	0.000
Minerva	0.000	0.530	0.558
Observation and innovation	0.262	0.000	0.305
Total	3.430	4.158	2.980

Source: European Commission, DG Education and Culture.

Table 45. Leonardo da Vinci: aid awarded directly by the European Commission to Dutch projects (in millions of euros)

Leonardo da Vinci	2003	2004	2005
Procedure C projects ¹⁸⁸	0.407	0.178	0.285
Total	0.407	0.178	0.285

Source: European Commission, DG Education and Culture.

The following tables show indirect aid awarded under the Socrates and Leonardo da Vinci programmes, i.e. funds that are awarded to Dutch project implementers via the Dutch agency. The information is from the Commission only; the ministry had figures on 2004 only, which were virtually identical to the figures received from the Commission.

¹⁸⁷ The figures do not relate to payments made.

¹⁸⁸ Projects to develop and update Community reference material, thematic and joint actions and projects of European organisations.

Table 46. Socrates: aid awarded to Dutch projects via the national agency (in millions of euros)

Socrates	2003	2004	2005
Comenius	2.482	2.500	2.800
Erasmus	4.762	5.200	5.700
Grundtvig	0.369	0.420	0.460
Observation of education systems, policies and innovation	Not known	0.082	0.084
Total	7.613	8.202	9.044

Source: European Commission, DG Education and Culture.

According to the Ministry of OCW, Dutch beneficiaries received aid in 2004 to finance preparatory visits and to defray administrative costs incurred by the agency ('National Agency Operating Agreement').

Table 47. Leonardo da Vinci: aid awarded to Dutch projects via the national agency (in millions of euros)

Leonardo da Vinci	2003	2004	2005
Procedure A projects	2.952	3.300	3.900
Procedure B projects	3.708	2.300	2.400 ¹⁸⁹
Total	6.660	5.600	6.300

Source: European Commission, DG Education and Culture.

With regard to indirect Leonardo aid, the Ministry of OCW has figures on 2004 only: in total € 5.7 million. The figures are reasonably similar to those received from the European Commission; differences might be due to the distinction between the amount awarded (European Commission) and the amount actually paid (ministry).

16.5.5 Culture

Culture 2000 is a Community programme that aims to create a common cultural area for all Europeans. The programme supports cooperation between artists, cultural actors, promoters in the private and the public sectors, activities by cultural networks and other partners, and those of cultural centres in the member states and other participating countries.

Management and control

Financial assistance from the EU Culture 2000 programme is granted directly by the European Commission to project implementers without the intervention of a national agency. Stichting Internationale Culturele Activiteiten (SICA) assists and advises applicants in the Netherlands.

The Ministry of OCW has no information on the Culture 2000 funds paid to the Netherlands. The Ministry of OCW noted that the Commission's website provided an overview of European cultural organisations that had been selected to receive financial assistance from the programme in a particular year. No financial information, however, is provided.¹⁹⁰

¹⁸⁹ The amount shown is a projection; the selection process has not yet ended.

¹⁹⁰ See <http://www.europa.eu.int/comm/culture/eac/>

We have compiled the following table using the information the European Commission provided to the Court of Audit.

Table 48. Culture 2000: grants awarded to Dutch projects (in millions of euros)		
Culture 2000	2003	2004
Number of one-year projects	3	5
Subtotal	0.307	0.389
Number of three-year projects	1	2
Subtotal	0.637	1.343
Total	0.944	1.732

Source: European Commission, DG Education and Culture.

16.6 Conclusions

Common agricultural policy

The Ministry of LNV's audit department has issued unqualified audit reports on the accounts of the six Dutch paying agencies in respect of the aid received from the European Agricultural Guidance and Guarantee Fund (EAGGF) for the 2004 financial year. These audit reports provide a reasonable degree of assurance that settlement was technically correct and that internal controls and accounting system are in order. But they do not express an opinion on the regularity of agricultural expenditure.

Many errors of limited materiality are often detected in the applications. Dutch error rates are below the EU average for animal premium schemes but considerably higher than the EU average for area aid. The audit department recommends that the paying agency for rural development, the government service for sustainable rural development (DLG), strengthen the independence of the paying agency within the DLG organisation. The implementation of rural development projects and the approval of aid are performed largely within the same organisation, DLG. The Court of Audit has qualified the DLG's 'double role' as a weakness in financial management.

Structural funds

The managing authorities of most of the structural fund programmes carried out the compulsory 5% checks and system audits in 2004. This is an improvement on previous years. Most of the annual article 13 reports (which inform the Commission about the design and operation of management and control systems) concluded that the management and control systems met the requirements. The insight they provide into the systems' operation and the checks carried out, however, is mixed. The report on the ESF-3 programme provides a good insight; the report on the Flevoland objective 1 programme is too summary. The Urban Areas Netherlands article 13 report is more informative than in previous years.

Various programme auditors recommend that progress information be better monitored and compliance with aid conditions be better checked during implementation. This would prevent a surge of irregularities on the closure of the programmes. Since virtually no notifications have been made to date in respect of some programmes, the Court of Audit thinks the situation faced in 1994-1999 might be repeated. Then, most of the irregularities were detected and reported to the Commission's anti-fraud office, OLAF, only on the closure of the programmes in 2002-2003.

The financial progress of the structural fund programmes is on the whole adequate. The ESF-3 programme is an exception in that it again saw a decommitment in 2004. The European Commission cancelled nearly € 300 million in unapplied commitments from the programme's 2000-2002 annual budgets. The Equal programme also had a relatively large decommitment. Both are financed from the ESF and are a responsibility of the Ministry of szw.

Internal policies

Little information is available on management and control of the internal policy programmes. In these programmes the Commission usually enters into a direct relationship with counterparties without the involvement of national government. Dutch ministries are involved only if they themselves are counterparties. Government institutions are sometimes involved in certain areas of internal policy as agencies or sources of information. As well as through these contractual relations, the ministries share responsibility for the contours of policy through their participation in the European councils. Furthermore, national policies have been developed in all areas of the internal policies. If they are to coordinate European and national policies, the ministries should have an insight into the nature and effects of EU programmes. However, with the exception of the Ministry of venw, which is often involved as a counterparty, they have very little insight.

With the exception of some education projects and TEN Transport, no information is available at central government level on the financing of Dutch projects to implement internal EU policies. Such information is available, however, at most of the European Commission's Directorates-General. The Court of Audit finds it strange that the Dutch ministries do not have this information. Owing to the lack of substantive and financial information on project implementation, the ministries have only limited ability to coordinate national and European policies. Such insight is required to prevent overlaps, contradictions and blind spots and to ensure the efficient and effective use of national and European public funds.

17 Regularity of the expenditure of EU funds in the Netherlands

This chapter looks at the regularity of the expenditure of European funds in the Netherlands and of Dutch remittances to the EU with the aid of the following three indicators: irregularities reported to the European Commission, financial corrections made by the European Commission and errors detected by the European Court of Auditors.¹⁹¹ Although none of these indicators provides a 'definitive' view of regularity, when taken together they do provide some insight. Fraud is not referred to separately here because it is a subset of the irregularities. The regularity information is presented by heading of the EU budget: remittances to the EU (own resources) (section 17.1); agricultural policy (section 17.2); structural policy (section 17.3) and internal policies (section 17.4). The chapter closes by summarising the conclusions in section 17.5.

17.1 Remittances to the EU

Table 49. Irregularities in and financial corrections to Dutch remittances to the EU

Remittance of own resources	2003	2004
Number of irregularities	507	514
Financial volume of irregularities	60 663 773	44 170 117
Value of financial corrections	Not known	Not known

Information from the European Commission

The number of cases of fraud and irregularity in traditional own resources has gradually increased throughout the EU. The total number of irregularities in traditional own resources has also gradually increased in the Netherlands: by 1.38% in 2004 in comparison with 2003 (EU average: 2.86%). The financial volume of irregularities in the Netherlands, however, declined by 27.19% in 2004 in comparison with 2003 (EU average: 25.6% decline).

In 2004, the Netherlands was responsible for 21.47% of the total volume of irregularities in the EU's own resources. After Belgium, the Netherlands was the member state to report the highest number of irregularities. The number of irregularities in the Netherlands related to 1.18% of Dutch remittances in 2003. The figure fell to 0.88% in 2004. In comparison with other member states, a relatively large number of irregularities in the Netherlands related to customs warehousing arrangements, free circulation and the release of goods for free circulation and community transit.¹⁹²

¹⁹¹ It is not the European Court of Auditors' task to publish findings on the member states. The European Court of Auditors investigates the budget of the European Commission (and other EU institutions, bodies and agencies). Information it provides based on its DAS audits does not lend itself to general, representative opinions on individual member states owing to the size of the sample and because the approach is based on the headings of the EU budget. Some of its audit findings are therefore 'chance discoveries'. The information from the European Court of Auditors presented in this chapter is subject to this caveat.

¹⁹² European Commission Staff Working Document 2004, SEC (2005) 974, p. 26.

Information from the Netherlands

The Ministry of Foreign Affairs' audit department found no irregularities, shortcomings or uncertainties during its comprehensive audit of own resources. The final memorandum on the comprehensive audit of own resources for 2004 discloses the following amounts.¹⁹³

Table 50. Findings of the comprehensive audit of EU own resources, 2004, audit department of the Ministry of Foreign Affairs

Own resource	Audited expenditure	Regular	Irregular	Incomplete	Uncertain
Agricultural duties	440 327 580	440 327 580	0	0	0
Import duties	1 431 373 973	1 431 373 973	0	0	0
VAT-based remittance	713 215 128	713 215 128	0	0	0
GNI remittance	2 913 981 722	2 913 981 722	0	0	0
Total	5 498 898 403	5 498 898 403	0	0	0

Information from the European Court of Auditors

The European Court of Auditors investigated own resources in the Netherlands for the DAS 2003. In a letter to the Court of Audit of 30 July 2004 it concluded that its work in the Netherlands for the DAS 2003 'gave no rise to significant audit findings'. The European Court of Auditors' annual report for 2004 contains no information that can be traced back to the Netherlands regarding the regularity of remittances of own resources.

Table 51. Errors found by the European Court of Auditors in remittances to the EU

Remittance of own resources	2003
Number of errors	0
Financial volume of errors	0
Error rate (financial volume)	0

17.2 Common agricultural policy

Audit reports on certifying audits

The previous chapter looked at the certifying audits for the 2004 financial year. The reports issued on those audits do not express an opinion on the regularity of expenditure (see also section 16.3).

Irregularities

In 2004, the Netherlands reported a total of 308 irregularities, with a financial volume of € 3.7 million, to the Commission. The Ministry of LNV declared that the financial volume of these 308 irregularities was € 2.9 million. The € 0.8 million difference relates to irregularities detected before payment.

Table 52. Irregularities and financial corrections in the common agricultural policy in the Netherlands

Common agricultural policy	2003	2004
Number of irregularities	106	308
Financial volume of irregularities*	2 200 000	3 700 000
Value of financial corrections	Not known	23 443 525

* Amounts after rounding.

¹⁹³ Final memorandum, Remittance of own resources to the European Union 2004, Ministry of Foreign Affairs, Audit department, The Hague, 14 March 2005, p. 9.

Both the number and the financial volume of irregularities increased in 2004 in comparison with 2003. In 2003, 106 irregularities had been reported with a financial volume of € 2.2 million. In 2002 the Netherlands had reported only 58 irregularities. This increase can be explained at least in part by the arrears in the notifications made by the government service for sustainable rural development (DLG) and by the National Regulations Agency of the Ministry of LNV. In the certifying audit report for 2003, the Ministry of LNV's audit department reported that the DLG had run up arrears in reporting irregularities in rural development assistance. According to the audit department, DLG made up the arrears in 2004.

Together with Portugal, the Netherlands reported a relatively high number of irregularities in farm aid. In relation to total agricultural receipts, the financial volume of the irregularities reported increased from 0.17% in 2003 to 0.3% in 2004. The Netherlands was thus above the EU 15 average for 2004 of 0.19%.

The Netherlands finds itself in a group of five member states that rarely if ever fulfil the obligation (as laid down in Regulation (EC) 595/91) to inform the Commission of the identities of the legal or natural persons involved in an irregularity. It fulfilled this obligation in respect of only one of the 308 irregularities reported in 2004.¹⁹⁴

Recovery of undue payments

At year-end 2004 the Netherlands still had to recover € 24.3 million in undue payments.¹⁹⁵ This is equal to 0.7% of the total amount of agricultural funds still recoverable in all member states of the EU 15.

Financial corrections

The financial corrections made by the European Commission totalled € 23.4 million. The following corrections were made.

Table 53. Financial corrections (2004), common agricultural policy broken down by area*

Reason	Amount (€)
Beef premiums	1 037 614
Swine fever	20 291 540
Beef export refunds	1 064 627
Programme overhead costs	147 126
Exceeding payment term	763 843
Total	23 443 525

* Financial corrections made by the European Commission in 2004 and early 2005 that were included in the four synthesis reports of, successively: 31-1-2004 DG AGRI 60619-2004-NL-rev-1; 2-4-2004 DG AGRI 61701-2004-NL-rev1; 31-10-2004 DG AGRI 64241-2004-NL-rev1; and 15-2-2005 DG AGRI-61234-2005-NL-rev1.

¹⁹⁴ EC196OLAF Commission Staff Working Document SEC (2005) 974, pp. 7/8.

¹⁹⁵ Including amounts recoverable that were still subject to national judicial investigation at the end of 198004 and amounts qualified as 'not recoverable' by the Netherlands that had arisen before 2004.

17.3 Structural policy

Information is provided below on the regularity of expenditure in each programme. The audit reports issued on the annual accounts (article 13 reports and annual reports) are generally unqualified. They do not, however, express an opinion on the regularity of expenditure and, with the exception of the qualified reports, are not considered further here.

17.3.1 Objective 1 – Flevoland

Irregularities

According to the Ministry of EZ no irregularities were reported in the years 2003-2004 in respect of the objective 1 Flevoland programme. In the second half of 2002, several irregularities had been reported to Brussels.

At the beginning of 2005, an adverse audit report was issued on the financial statements in the Flevoland 2002 annual report because financial obligations for 2002 had been overstated by € 16.9 million. Furthermore, the financial realisation for 2002 incorrectly included a sum of € 42.6 million. According to the programme auditor, in both cases the province of Flevoland had implemented projects before they had been approved in order to prevent the European Commission cancelling funds under the N+2 rule. This is contrary to the audit protocol and to the design of the accounting system. The adverse audit report did not lead to the notification of irregularities, financial corrections or decommitment. Flevoland has not formally informed the European Commission of the adverse audit report, despite a request to that end by the Ministry of EZ. Flevoland reasons that the audit report is a national requirement, not a European requirement. The Court of Audit finds this remarkable. It would be preferable to identify any problems at as early a stage as possible and find solutions in consultation with the supervisory bodies. A more transparent attitude towards the European Commission would also prevent problems arising during final settlement of the programme.

Financial corrections

The European Commission made a correction of € 5.9 million to the total ERDF expenditure declaration of € 25,680,573 for 2004. According to Flevoland, this correction is the outcome of a mathematical procedure regarding the treatment of payment applications and is not a correction in the negative sense of the word.

Table 54. Irregularities and financial corrections, Structural policy, Objective 1 Flevoland

Structural operations: Objective 1-Flevoland	2003	2004
Number of irregularities reported	0	0
Financial volume of irregularities	0	0
Value of financial corrections	Not known	5 932 044

17.3.2 Objective 2 programmes

Information is presented below on each of the objective 2 programmes. The Ministry of EZ must still provide information on financial corrections.

Table 55. Irregularities and financial corrections, Structural policy, Objective 2

Structural operations: objective 2	2003	2004
Number of irregularities reported	2	3
Financial volume of irregularities	90 378	860 282
Value of financial corrections	Not known (in part)	Not known (in part)

North Netherlands

The programme auditor found four errors and one uncertainty in 2004. The total volume of the errors exceeded € 1 million; the uncertainty amounted to up to € 3.2 million. At the end of 2005 no irregularities had been reported to OLAF in respect of these errors.

East Netherlands

According to a statement received from the Ministry of LNV, one irregularity with a financial volume of € 12,104 was reported to the European Commission in 2004 in respect of SPD East Netherlands. According to the same statement, there had been no financial corrections in the programme.

South Netherlands

In 2003-2004 three irregularities were reported in respect of the objective 2 South Netherlands programme on account of insolvencies. Recovery therefore seems uncertain. The total amount of € 169,541 consists for € 84,769 of EU financing (ERDF) and for € 84,772 of national financing.

A qualified audit report was issued on the 2004 financial statements since they included expenditure incurred by an insolvent project implementer that probably cannot be recovered and the costs incurred on three projects were uncertain. The auditor noted that the financial statements included more projects 'where there is a risk that [...] audit of the final declaration of the project will not provide the required assurances'.¹⁹⁶

Urban Areas Netherlands

No irregularities were detected in the Urban Areas Netherlands programme in the years 2000-2003. In 2004 an irregularity was found and reported to OLAF. It related to a project that had not been put out to European tender. The size of the irregularity has provisionally been set at the total value of the ERDF assistance. The ultimate amount might be lower. Settlement is still being discussed by the Netherlands and the European Commission.

According to the Ministry of BZK, no financial corrections were made in the period 2000-2004.

¹⁹⁶ Audit report on the financial statements in the annual report for 2004 of the Objective 2 SPD South Netherlands programme, 27 May 2005.

17.3.3 Objective 3 – ESF-3

The European Commission reported on its audit of the ESF-3 programme in 2005. It did not find any irregularities. The audit is considered in section 16.4.3.

Table 56. Irregularities and financial corrections, Structural policy, Objective 3

Structural operations: ESF-3	2003	2004
Number of irregularities reported	5	42
Financial volume of irregularities	€ 2 620 828	€ 3 997 100
Value of financial corrections	Not known	€ 924 097

Irregularities

No irregularities were reported in the ESF-3 programme in the years 2000-2002. In 2003 there were five notifications and in 2004 the number rose sharply to 42.¹⁹⁷ The main reason for the increase was that few projects had been started in the initial years: if no money is spent, nothing can go wrong. The slow start and progress of the ESF programme led to a reduction (decommitment) of the ESF budget.

The article 13 report provides some insight into the type of problems that can lead to an irregularity.¹⁹⁸ They include the declaration of ineligible costs, poor documentation of costs, the absence of time sheets and 'hard financing' that does not require ESF assistance. The last point can be particularly problematic when a project receives aid retroactively, i.e. when aid is not requested until most of the costs have already been incurred.

There were also 30 minor irregularities in ESF-3 in 2004 (eight in 2003) that remained below the threshold of € 4,000. These do not need to be reported to OLAF. It is pleasing to note that these incidents were also recorded. Earlier investigation by the Court of Audit found that this had not always been the case on other Dutch structural fund programmes.¹⁹⁹

The article 13 report notes on page 16 that there had been no 'financial irregularities' in 2004 and that 'no concrete cases of irregularities' had been detected. This does not tally with the figures just given: the irregularities in 2004 amounted to about € 4 million. Enquiries found that the ministry had actually meant to say that the irregularities had not led to the submission of an incorrect declaration to the EU. The Ministry of szw's audit department verified that all financial corrections further to the irregularities had already been made. The audit department will improve the wording of the relevant passages in the report for 2005.

Financial corrections

Following an audit by the European Court of Auditors, the Ministry of szw made financial corrections. The initial correction of € 1,275,363 was later adjusted to € 924,097 because part (€ 143,814) had in fact been eligible and there had also been an administrative error (€ 207,452). The size of this error is still under discussion between the European Commission and the szw Agency. According to the Ministry of szw, the European Commission made no financial corrections apart from the automatic decommitment on account of underspending.²⁰⁰

¹⁹⁷ Many irregularities in these years related to projects from the 1994-1999 programming period, which have already been reported by the Court of Audit and other bodies.

¹⁹⁸ Ministry of SZW, Article 13 report 2004, AD/2005/49230, The Hague, 30 June 2005.

¹⁹⁹ See the *EU Trend Report 2005*, chapter 15, available at www.rekenkamer.nl.

²⁰⁰ See the previous chapter, section 16.4.3.

Information from the European Court of Auditors²⁰¹

The European Court of Auditors selected 11 programmes in seven member states as part of its audit for the DAS 2003. In the Netherlands it audited the ESF-3 programme.

Table 57. Errors found by the European Court of Auditors, Structural policy, Objective 3

Structural operations: ESF-3		2003
Number of errors (European Court of Auditors)		41
Financial volume of errors		35 108 041
Error rate (financial volume)		Not known

The European Court of Auditors found 41 errors; the financial volume could be estimated in 23 cases. The errors related chiefly to absence of payments: implementers had not been paid in full on the date the costs were declared to the European Commission. The Ministry of OCW was responsible for a particularly large proportion (€ 15,926,437) of errors that the European Court of Auditors qualified as 'material'. There were also several formal and material errors where the financial volume could not be estimated (for example non-compliance with publication requirements and inadequate segregation of duties). The European Court of Auditors did not disclose the error rate. In its annual report for 2004, the European Court of Auditors provides no further information on the regularity of expenditure on the Dutch ESF-3 programme.

17.3.4

The Netherlands reported two irregularities to the European Commission with a financial volume of € 53,978 in 2004.²⁰² Both notifications related to the Cod Stocks Recovery Measures Regulation implemented by the Ministry of LNV.

Table 58. Irregularities and financial corrections, Structural policy, FIFG

Structural operations: FIFG	2003	2004
Number of irregularities reported	0	2
Financial volume of irregularities	0	53 978
Value of financial corrections	Not known	Not known

The European Commission carried out an investigation and reported on its findings. Its report is considered in section 16.4.1.

17.3.5 Community Initiatives

The European Commission made no corrections in respect of Community Initiatives Urban II and Euregio Maas-Rhine in the period 2003-2004 and no irregularities were reported to it. Of the two other Community Initiatives, there were several irregularities in Equal. The information in this section has been obtained from institutions in the Netherlands.

Equal

There were no irregularities in the Equal programme in the years 2000-2002, partly because few projects were carried out.

²⁰¹ Based on the sector letters of the European Court of Auditors.

²⁰² Source: statement by the Ministry of LNV.

Table 59. Irregularities and financial corrections, Community Initiative EQUAL

Structural operations: Equal	2003	2004
Number of irregularities reported	1	4
Financial volume of irregularities	13 711	42 567
Value of financial corrections	0	0

One irregularity was reported in 2003 and four in 2004. In addition, there were eight irregularities in Equal below the threshold value of € 4,000 in 2003 (three in 2004) that did not need to be reported to OLAF. It is pleasing to note that these incidents were also recorded. Earlier investigation by the Court of Audit had found that this had not always been the case on other Dutch structural fund programmes.²⁰³ According to the Ministry of szw, the European Commission had not made any financial corrections apart from a decommitment as a result of underspending (as noted in the previous chapter).

Leader+

The province of Overijssel reported one irregularity relating to the Leader+ East subsidiary programme in 2004, with a financial value of € 12.104.²⁰⁴ The Ministry of LNV indicated a financial correction has been carried out.

Table 60. Irregularities and financial corrections, Community Initiative LEADER+

Structural operations: Leader+	2003	2004
Number of irregularities reported	Not known	1
Financial volume of irregularities	Not known	12 104
Value of financial corrections	Not known	12 104

17.4 Internal policies

Much of the information available in the Netherlands on the regularity of expenditure on European internal policy programmes is unclear and incomplete. The European Commission and the Dutch ministries issue little if any public information on the regularity of this expenditure. Below, we consider only the information that is available at the Dutch ministries. The European documents we studied contained no information on irregularities in the Netherlands.

17.4.1 TEN Transport

According to a statement from the Ministry of venw three corrections were made in 2004. An advance payment of € 800,000 for HSL East was repaid when the European Commission withdrew its grant decision (of € 2,000,000) on account of the project's late start. Another correction was made in respect of € 644,273 that had been declared contrary to the grant conditions for a project carried out by Air Traffic Control The Netherlands. In 2004 the European Commission also recovered funds that, in hindsight, had been incorrectly declared by the Ministry of venw in respect of HSL South in 1999-2001. The Commission made a financial correction of € 3.7 million.²⁰⁵ The last two corrections had not been finalised at the end of 2005 and have not yet been repaid.

²⁰³ See the *EU Trend Report 2005*, chapter 15.

²⁰⁴ Article 13 report, Leader+ East of 8 July 2005.

²⁰⁵ European Commission, Directorate-General for Energy and Transport, *Financial audit – TEN-T decisions – Final Report*, Brussels, 8 June 2004. European Commission, Directorate-General for Energy and Transport, *Notification of pre-information of recovery order for Decision NL/1999/108 PBKAL-Preparatory studies Dutch section*, Brussels, 8 April 2005.

Table 61. Irregularities and financial corrections, Internal policies, TEN Transport

TEN Transport	2003	2004
Number of irregularities	Not known	Not known
Financial volume of irregularities	Not known	Not known
Value of financial corrections	Not known	5 179 530

Source: Ministry of VenW.

17.4.2 Leonardo da Vinci programme²⁰⁶

In June 2003, the agency notified the Ministry of OCW and the European Commission of an irregularity in the 2001 'mobility' application round at an education institution. A sum of € 10,411 had been declared twice. According to a statement from the ministry, no irregularities were reported in 2004. It is not known whether the European Commission made any financial corrections.

Table 62. Irregularities and financial corrections, Internal policies, Leonardo da Vinci

Leonardo da Vinci	2003	2004
Number of irregularities	1	0
Financial volume of irregularities	10 411	0
Value of financial corrections	Not known	Not known

17.5 Conclusions

Insight into the regularity of the expenditure of European funds in the Netherlands is incomplete. The audit reports issued in respect of the common agricultural policy (on the certifying reports) and structural policy (on the article 13 reports and annual reports) do not express an opinion on the regularity of expenditure. The number of irregularities in Dutch remittances to the EU was higher in 2004 than in 2003. Their financial volume, however, was lower. The comprehensive audit of Dutch remittances carried out by the Ministry of Foreign Affairs' audit department did not reveal any irregularities or uncertainties.

The number of irregularities reported in respect of the *common agricultural policy* was nearly three times higher in 2004 than in 2003. The increase in the financial volume was lower. In respect of *structural policy*, by far the majority of the irregularities reported related to the ESF-3 programme. Remarkably few irregularities were reported in respect of the other programmes. In the Court of Audit's opinion, there is a risk of most notifications not being made until the programmes are closed, as occurred in respect of the 1994-1999 programming period.

Virtually no information is available on the regularity of expenditure on *internal policies*. With the exception of the Ministry of venw, which was able to provide some data on TEN Transport, the Dutch ministries have no insight whatsoever into the situation. The European Commission also has little information on the regularity of expenditure on internal policies.

²⁰⁶ This section is based on information from the Ministry of OCW.

18 Effectiveness of EU policy in the Netherlands

In this chapter we look at objectives and results (and their measurability) of EU policy in the Netherlands using the midterm evaluations of common agricultural, structural and internal policy programmes implemented in the Netherlands in the period 2000-2003.²⁰⁷ In addition, we reviewed a number of ministerial budgets and annual reports for 2004 as to the presence and quality of information on effectiveness.²⁰⁸

The documents were studied with a view to answering the following three questions:

1. Are the programmes' objectives and how they will be achieved clear (intended effect, intended performance, operationalisation and target values)?
2. Do the midterm evaluations indicate whether the programmes' objectives will be achieved or what impediments will prevent their being achieved?
3. Is the relationship between European programmes and Dutch policy considered?

Following a brief description of our approach (section 18.1) we answer questions 1 and 2 in section 18.2. Question 3 is considered in section 18.3. The chapter closes with conclusions in section 18.4.

18.1 Approach

We first determined which programme evaluations in any event contained information on the measurability and achievement of objectives. Interestingly, this excluded a large proportion of the common agricultural policy. Despite extensive searches of several websites, we found no information on this policy area. We did find some general information on the development of farm incomes but it was not related to the programmes. The European Court of Auditors tried to relate the two but was forced to conclude that the member states' calculation of statistical information was so disparate that it could not express an opinion on the influence of policy on the development of farm incomes.²⁰⁹

²⁰⁷ As can be seen from the bibliography in appendix 6, most of the evaluations were published in 2003. In a number of cases, it was too early to determine whether the desired effects had been achieved or not. The evaluations will be updated at the end of 2005 and more attention will be paid to the achievement of objectives. It may then transpire that the situation is better or worse than we conclude from the 2003 evaluations in this chapter.

²⁰⁸ Midterm evaluations of the effectiveness of programmes that are implemented directly by both the European Commission and the final beneficiaries without the intervention of the Dutch government are not usually made at national level. In these cases, we have used the midterm evaluations made at European level.

²⁰⁹ European Court of Auditors (2004). *Special report no. 14/2003 on the measurement of farm incomes by the Commission*, Luxembourg: Official Journal of the European Union C45/1.

To the best of our knowledge, the other objectives of agricultural policy (increase productivity, stabilise the market, secure food supplies, guarantee reasonable prices for consumers) are not operationalised or linked to individual programmes. The Dutch Ministry of LNV did not have such information either. Nothing is therefore known about the effectiveness of such major programmes as area aid, animal premiums, production aid and export refunds. The only exception is rural development (POP) but the evaluation of this policy area contains little information on the achievement of objectives.

We made a selection from the other programmes, ensuring there was a fair balance between structural policies and internal policies, and studied the midterm evaluations for the period 2000–2003 of 22 programmes that are still being carried out (see table 63).

Table 63. Programmes studied

<i>Common agricultural policy</i>	POP
<i>Structural policy</i>	Objective 1: SPD Flevoland
	Objective 2: SPD South; SPD East; SPD North; SPD Urban Areas; SPD FIG
	Objective 3: ESF
	Community Initiatives: Interreg III Rhine-Waal and Rhine-Maas North; Equal; Leader+
<i>Internal policies</i>	Altener; Save; Leonardo da Vinci; Sustainable Mobility Policy; Transport Safety Policy; the sixth framework programme; Tempo; LIFE Environment; LIFE Nature; TEN-E and TEN-T.

We also studied the 2004 budgets and annual reports of the Ministries of EZ, SZW, BZK, VROM, venw and LNV, which are responsible for the relevant national policies in the Netherlands.

18.2 Analysis of the objectives

18.2.1 Objectives of the programmes studied

Many programmes have several objectives. Yet one and the same objective is sometimes defined differently in one programme than another. To introduce some order, we grouped the programme objectives into 11 general categories, as summarised in figure 11 below. For the sake of clarity, ‘objective 2’ is considered here as a single programme.

Figure 11



18.2.2 Measurability of the objectives

A programme’s effectiveness cannot be determined unless its objectives are expressed in measurable units. ‘Measurable’ need not necessarily relate to the precise percentage increase or decrease in a process but it must be at least possible to show whether something has increased or decreased.

Ideally, (a) the intended effects are expressed in measurable units, (b) the intended performance includes measurable indicators, and (c) target values have been set. The extent to which this is the case differs widely in the programmes we studied. To compare the programmes, we calculated scores that weighted these aspects of measurability (see Appendix 7, Calculation of scores, for details). The results are shown in the table below.

Table 64. Measurability of objectives

Low measurability (0 to 5)	High measurability (6 to 10)
POP (social)	Objective 1 Flevoland (social)
Equal (social)	Objective 2 Region North (social)
Altener (social)	Objective 2 Region East (social)
ITS Deployment programme, TEMPO (technical)	Objective 2 Region South (social)
LIFE Environment (technical)	Objective 2 Urban Areas (social)
LIFE Nature (technical)	Objective 3 (social)
Research and technology, sixth framework programme	FIFG (social)
Save (social)	Interreg Rhine-Waal and Rhine-Maas North (social)
Sustainable Mobility Policy (technical)	LEADER+ (social)
TEN-E (technical)	Leonardo da Vinci (social)
TEN-T Multi-annual Indicative Programme (technical)	
Transport Safety Policy (technical)	

Just over half (12 out of the 22) of the programmes studied scored 5 or less for the measurability of their objectives; the other ten scored 6 or more.

Differences in measurability

Without exception, the programmes targeted at more ‘tangible’ technical goals pay scant attention to the measurability of intended effects and actions. The more social programmes (chiefly the structural fund programmes), by contrast, include concrete and measurable indicators (ten of the 14 score 6 or higher). This might be because the effort needed to formulate measurable objectives is more obvious in a social programme. Terms such as ‘socio-economic potential’ or ‘cultural identity’ clearly need to be expressed as indicators whereas a term such as ‘road safety’ appears self-explanatory. In the latter case, though, it is still necessary to indicate when safety has increased (e.g. based on the number of accidents, the number of accidents per kilometre driven, the number of casualties or the amount of material damage).

Problems formulating measurable objectives

Below, we consider three practical problems that arise when making objectives measurable.

- **Example 1: focus on results obscures the insight into effectiveness**

The Rhine-Waal and Rhine-Maas North Euregios, part of Interreg III, encourage many forms of cooperation on both sides of the border between the Netherlands and Germany. A copious set of indicators has been developed for this programme. The evaluation report we studied shows that the indicators are a reasonable tool to measure the ‘products’ (e.g. number of cross-border talks, alliances, etc.) but are of little help to determine whether the intended effects have been achieved. The link between result indicators and intended goal seems to have been lost. The number of public transport passengers, for example, is an indicator of improvements in the provision of cross-border public transport. But the intended objective of improved provision is not specified. If the intended objective is shorter cross-border journey times by public transport, it would be better to have an effect indicator of average journey times or number of connections. If, however, the objective is to make public transport more attractive than private cars, indicators of passenger satisfaction should be used.

The European Court of Auditors published a special report on Interreg III in 2004 (see also part I, section 5.3.4). It observed that the European Commission's guidelines were issued late and did not contain specific, measurable or quantifiable objectives and indicators.

- **Example 2: effectiveness cannot be measured if the objective is ambiguous**

One of the objectives of the Leader+ programme is to make more efficient use of 'endogenous resources' in rural areas (resources that are already there, such as natural beauty). The indicator proposed in the indicator set is the number of subsidised projects that are designed to achieve that objective. However, before it can be said whether more efficient use is being made of endogenous resources the endogenous resources available in an area must be identified. 'More efficient use' must also be defined: better application of endogenous resources for the development (social objective) or conservation (environmental objective) of an area.²¹⁰

- **Example 3: objectives set centrally have to be achieved locally**

The Equal and Leader+ programmes aim to facilitate modernisation at local level. Local parties must therefore have considerable freedom to develop projects and to formulate objectives. To determine whether the programme as a whole has achieved its objectives, all the links between the objective and the target values must be documented at *local project level* and at *programme level*. This is not the case for Equal, Leader+ or for Interreg Rhine-Waal and Rhine-Maas North.

18.2.3 Achievement of objectives

Achievement by programme

The objectives of two of the 22 programmes studied, TEMPO and POP, were formulated so vaguely that nothing can be said about their achievement. The evaluation of Sustainable Mobility Policy was carried out at project level and did not consider the objectives of the individual projects. No straightforward conclusions can therefore be drawn on the objectives of the programme as a whole. These three programmes are not considered further.

Table 65 divides the remaining 19 programmes into two categories again: low achievement of objectives (0 to 5) and high achievement of objectives (6 to 10). The precise scores for each programme are given in the table in section 18.2.4.

Table 65. Achievement of objectives: score by programme

Low achievement (0 to 5)	High achievement (6 to 10)
Objective 2 Region North (social)	Objective 1 Flevoland (social)
Objective 2 Region East (social)	Objective 2 Urban Areas (social)
Objective 2 Region South (social)	Altener (social)
Objective 3 (social)	LIFE Nature (technical)
FIFG (social)	Save (social)
Equal (social)	TEN-E (technical)
Interreg Rhine-Waal and Rhine-Maas North (social)	
Leader+ (social)	
Leonardo da Vinci (social)	
LIFE Environment (technical)	
Research and technology, sixth framework programme (technical)	
TEN-T Multi-annual Indicative Programme (technical)	
Transport Safety Policy (technical)	

²¹⁰ L. Boot (2003) *Evaluatie-indicatoren Leader+ Nederland; Indicatorenset voor de tweede tussentijdse evaluatie in 2005*, Ecorys-NEI, Rotterdam, 15 December 2003.

Of the 19 programmes, six have satisfactory scores (6 or higher) and 13 do not. The social programmes achieve their objectives about as often as the technical programmes (four out of 13 versus two out of six). Altener, TEN-E and LIFE Nature are exceptions in that they have perfect scores. But this should be put into context. LIFE Nature has one objective, which it achieved. The same is true of Altener. TEN-E achieved two of its three objectives while no practical information was available on the third objective. At the other end of the scale, the evaluation found that Interreg Rhine-Waal and Rhine-Maas North achieved very few of their objectives.

Achievement by type of objective

Many programmes have several objectives. We have categorised the objectives to see whether certain types are achieved more often than others. The findings are presented in table 66.

General objective	Full achievement	Partial achievement	Non-achievement	Number of objectives	Achievement rate
To have the population of marginal rural areas implement initiatives to increase opportunities.	13%	75%	13%	32	50%
To introduce sustainable and dynamic economic and social development in combination with the conservation and strengthening of natural values.	38%	8%	54%	13	42%
To achieve continuous growth, whereby population, connections, facilities, employment and incomes are in balance with each other.	36%	55%	9%	11	64%
To modernise and strengthen the social and economic infrastructure.	11%	61%	28%	18	42%
To achieve the harmonious and balanced development of the European space.	0%	0%	100%	2	0%
To combat/reduce discrimination.	0%	50%	50%	8	25%
To promote and improve alternative energy sources and energy efficiency in all sectors.	67%	33%	0%	3	83%
To promote a Europe based on knowledge by developing a space of European cooperation in the field of education, vocational training and research.	0%	77%	23%	13	38%
To promote the development of trans-European networks in the fields of transport, telecommunication and energy infrastructure.	50%	50%	0%	2	75%
To improve the safety of land, sea and air transport without reducing economic efficiency.	33%	17%	50%	6	42%
To conserve or improve the environment.	10%	60%	30%	10	40%
Total	18%	55%	27%	118	45%

Source: analysis of the midterm evaluations.

It can be seen from all the programmes that objectives relating to combating discrimination are seldom achieved. It is unlikely that any of these objectives will be achieved in full by the end of the projects (total score 25%). Objectives relating to promoting knowledge through the development of a European space of cooperation also score poorly (total score 38%). Objectives relating to energy efficiency and alternative energy sources are achieved relatively

frequently (total score 83%), as are objectives relating to the development of trans-European transport, telecommunication and energy infra-structure networks (total score 75%). The latter is due largely to the description of the objective. The infrastructure can be improved, for example, simply by overcoming technical and financial problems of construction. In this case, the objectives should specify how the infrastructure should be improved (e.g. reduce journey times, make regions more attractive for location, divert through-traffic around residential areas).

18.2.4 Summary of measurability and achievement

It can be seen from the above that there are significant differences in the measurability of programmes and the achievement of objectives. There seems to be some relationship with the programmes' focus: programmes targeted at social improvement score higher than the more technical programmes. The scores of all programmes are summarised below.

Table 67. Measurability and achievement of objectives

Policy field	Programme	Focus	Measurability of objectives	Achievement of objectives
Common agricultural policy	Rural development (POP)	Social	0	Not known
Structural policy	Objective 1 Flevoland	Social	9	6
Structural policy	Objective 2 Region North (Groningen, Friesland, Drenthe)	Social	8	4
Structural policy	Objective 2 Region East (Overijssel, Gelderland, Utrecht)	Social	9	5
Structural policy	Objective 2 Region South (North Brabant, Zeeland and Limburg)	Social	9	4
Structural policy	Objective 2 Urban Areas (A'dam, R'dam, The Hague, Utrecht, Eindhoven, Arnhem, Enschede, Nijmegen and Maastricht)	Social	10	8
Structural policy	Objective 3	Social	8	5
Structural policy	FIFG	Social	6	5
Structural policy	Equal	Social	3	5
Structural policy	Interreg Rhine-Waal	Social	6	3
Structural policy	Leader+	Social	8	4
Internal policies	Altener	Social	4	10
Internal policies	ITS Deployment programme (TEMPO)	Technical	0	Not known
Internal policies	Leonardo da Vinci	Social	8	5
Internal policies	LIFE Environment	Technical	3	5
Internal policies	LIFE Nature	Technical	4	10
Internal policies	Research and technology, sixth framework programme	Technical	4	4
Internal policies	Save	Social	3	8
Internal policies	Sustainable Mobility Policy	Technical	4	Not known
Internal policies	TEN-E (Energy)	Technical	3	10
Internal policies	TEN-T Multi-annual Indicative Programme (MIP)	Technical	0	5
Internal policies	Transport Safety Policy	Technical	3	4

Source: analysis of the midterm evaluations.

18.2.5 Impediments to achieving objectives

Where an objective is inadequately or incompletely achieved, the evaluations often refer to impediments. In total we identified 138 impediments in the midterm evaluations, which we divided into seven categories:

1. Failings in the programme organisation (referred to 29 times, e.g. the programme is complex; the subject is abstract; the link between objective and programme is incorrect; the meaning of a particular term is uncertain).
2. Failings in the selection of eligible projects (referred to 21 times, e.g. a project lasts too long, is vague, is not selective enough).
3. Failings in the implementation (referred to 22 times, e.g. late start of the programme; heavy administrative burden; lack of experienced or competent project leaders).
4. Failings in evaluation capacity making it difficult to determine whether the objective has been achieved or not (referred to 27 times, e.g. target figures are vague, evaluation is too early, limited availability of information on achievement).
5. Coordination problems with other government programmes (referred to 15 times, e.g. complex coordination with other programmes; achievement dependent on other EU policy; long through-time owing to spatial planning procedures; reorganisation of other authorities).
6. Coordination problems with private parties (referred to 14 times, e.g. rural parties are not internationally-oriented; achievement dependent on third parties; limited ability or willingness to invest in the sector concerned; low concentration of enterprises).
7. Unforeseen or non-governmental circumstances (referred to 10 times, e.g. epidemics, economic stagnation).

Failings in evaluation capacity are mentioned 27 times. Strictly speaking, these are not impediments to achieving the objectives but to determining whether the objectives have been achieved or not. The organisation of the programme was the cause of a relatively large number of problems (29), whereas the other categories all caused about the same number. Most of the impediments relate to matters that the parties themselves cannot influence.

18.3 Relationship between EU programmes and Dutch policy

As noted in the introduction to this chapter, we also studied whether the midterm evaluations of the EU programmes we studied (some of which²¹¹ were conducted at European rather than national level) considered the relationship between EU programmes and Dutch policy. This is relevant because national and/or regional policies are already in place for the general, European objectives of the programmes studied (or objectives that are closely related to them). To gain an insight into the effectiveness of the policy initiatives, the Dutch government and parliament should have information on the relationship between the progress of European programmes in the Netherlands and the corresponding national policies. Do both policy levels reinforce each other, do they impede each other or are they separate from each other?

²¹¹ The Union's internal policy programmes are evaluated at European level only. There is no breakdown at member state level. Leonardo da Vinci is an exception in that certain parts of it are implemented by the member states. This programme is evaluated at both European and national level. The reports on the Interreg Rhine-Waal and Rhine-Maas North programmes for cross-border cooperation consider the entire region, which is located partly in the Netherlands and partly in Germany.

We determined whether the midterm evaluations of the programmes and the ministries' budgets and annual reports for 2004 considered these questions. Our findings are presented in the table below and explained in section 18.3.1 and section 18.3.2.

Table 68. Consideration of the relationship between European programmes and corresponding Dutch policy in the midterm evaluations, budgets and annual reports

Policy field		Midterm evaluation	Ministry	Budget	Annual report
Common agricultural policy	POP	+	LNV	+	+
Structural policy	Objective 1				
	SPD Flevoland	+	EZ	+/-	---
	Objective 2				
	SPD North	+	EZ	+	+/-
	SPD South	+	EZ	---	---
	SPD East	+	LNV	+	+
	SPD Urban Areas	+/-	BZK	+	+/-
	Objective 3	+	SZW	+	+
	FIFG	+	LNV	+	+
	Equal	+	SZW	+	+
	Leader+	+	LNV	+	+
Interreg III	+	VROM	+	+	
Internal policies	Sixth framework programme		---	EZ	+ +/-
	Altener	---	EZ	---	---
	Save	---	EZ	---	---
	TEN-E	---	EZ	---	---
	LIFE Nature	---	LNV	---	---
	LIFE Environment	---	VROM	---	---
	Tempo	---	VenW	---	---
	Sustainable Mobility Policy		---	VenW	---
	Transport Safety Policy	---	VenW	---	---
	TEN-T	---	VenW	---	---
	Leonardo da Vinci	+*	OCW	+	---

+ considered

+/- partially considered (one level refers to the other but does not consider the relationship)

--- not considered

* Only the national agency's report on the activities carried out in the Netherlands explains that the objectives of the EU programme agree with national policy objectives. This is not considered in the European midterm evaluation.

18.3.1 Common agricultural policy and structural policy

As the table shows, the midterm evaluations of the rural development (POP) and structural fund programmes consistently consider the relationship between European and national policy. In the latter case, this is to be expected because the Netherlands and the European Commission share management of the structural fund programmes and the evaluations check the programmes' compliance with consistency requirements. The midterm evaluation of the ESF programme, for example, observes that the programme measures are consistent with national employment and the labour market policies.

It can also be seen from the table that the ministries' annual reports tend to pay slightly less attention to the relationship between European programmes and Dutch policy than the budgets and midterm evaluations. This is not the case at the Ministry of LNV, however, which included appendices on 'European funds' in both its budget and its annual report for 2004. The appendices provide a clear explanation of the relationship between European agricultural and structural policy on the one hand and the POP, the objective 2 programmes for the South and East Netherlands and Leader+ on the other.

18.3.2 Internal policies

The Union's internal policy programmes are managed and implemented by the European Commission. Member states have no say in the financing of EU internal policies but often have their own complementary and/or overlapping assistance programmes in the same policy areas. An example of this in the Netherlands is the EOS Demo programme carried out by the Ministry of EZ, which promotes demonstration projects in the field of sustainable energy.

Since the Netherlands has no direct liability for these European aid programmes, ministries are not obliged to consider the relationship between them and national policy in their annual reports and, as the table shows, they rarely do so. The Ministry of OCW is an exception: its budget discusses the relationship between the Leonardo programme and national education policy (the ministry does not return to the subject in its annual report). With regard to the sixth framework programme for research and development, SenterNovem, which supervises the programme in the Netherlands on behalf of the Ministry of EZ, considers the participation of Dutch parties in relevant international alliances in its midterm review²¹² but not the relationship between the European programme and national policy on knowledge intensification. The midterm evaluation and the Ministry of EZ's budget and annual report do not consider the relationship either.

In the Court of Audit's opinion, the ministries' budgets and annual reports are ideal instruments to consider the achievement of Dutch objectives in a European context. They can also explain any overlap and/or additionality of Dutch policy vis-à-vis European policy.

²¹² SenterNovem (2005), *Nederland en het zesde Kaderprogramma*; Tussenbalans 2003-2004, The Hague, SenterNovem.

18.4 Conclusions

Little is known about the effectiveness of the common agricultural policy. This is striking because the Netherlands receives more EU funds in this policy area than in any other.

Measurability of objectives

Many of the objectives of EU policy in the Netherlands are measurable, especially in structural fund programmes that have a social focus. But it is difficult to establish a clear link between measurable indicators and their relevance to underlying objectives. In the more technical programmes, key elements of the objectives are often poorly defined and operationalised even though this is necessary if the objectives are to be measurable.

Achievement of objectives

Nearly all the social programmes score better than the more technical programmes regarding the achievement of objectives. Programmes targeted at reducing discrimination and promoting European cooperation in education and research have had only modest success in achieving their objectives. Programmes designed to establish trans-European transport, telecommunication and energy infrastructure networks and to promote alternative energy sources and energy efficiency score particularly highly.

Consideration of the relationship between European and national policy
In general, the midterm evaluations and ministerial annual reports consider the relationship between the progress of European structural policy programmes in the Netherlands and the corresponding national policy. Slightly more attention is paid to the objectives (in the budget) than to their achievement (in the annual report). There are also differences from one ministry to another.

The member states are not obliged to report on the relationship between the progress of European internal policy programmes at national level and the corresponding national policy if the programmes are implemented directly by the EU and the final beneficiaries. The evaluators and ministries virtually never consider this relationship voluntarily. In our opinion, this limits the insight available into the effectiveness of the various policy initiatives. Furthermore, there is a risk of poor coordination between European and Dutch policy reducing effectiveness.

19 Conclusions and trends

Policy developments in the Netherlands

The proposals to improve the financial management of the EU might – if approved by the Council of Ministers – have consequences for the financial management and control systems in place for EU funds in the Netherlands. They might also represent a solution to the lack of national accountability for EU funds in the Netherlands. The proposed introduction of statements of assurance (common agricultural policy) and contracts of confidence (structural funds) might help improve the member states' accountability for these funds to the European Commission.

Systems in the Netherlands

The 2004 accounts of the six Dutch paying agencies for the common agricultural policy and the unqualified audit reports issued thereon provide reasonable assurances that expenditure was accounted for correctly and that internal controls and accounting systems are adequate. No opinion is expressed on the regularity of agricultural expenditure. The managing authorities for most of the structural fund programmes carried out system audits and 5% checks in 2004. Most of the article 13 reports conclude that the management and control systems meet requirements. The insight they provide into the operation of systems and the checks carried out is mixed. The financial progress of the structural fund programmes is generally adequate (with the exception of ESF-3). Several programme auditors recommend that progress information be better monitored and grant conditions be checked during implementation. This recommendation should be taken seriously, otherwise the majority of irregularities will not be detected and reported to OLAF until the closure of the programmes, as was the case for the 1994-1999 programming period.

Little information is available in the Netherlands on the management and control of the internal policy programmes that are implemented in the country. Greater attention should be paid to this because the ministries share responsibility for the contours of European policy and national policy has been developed in all areas of the internal policies. The Court of Audit finds it strange that, with rare exceptions, the ministries have no insight into the funds that Dutch projects receive from the EU. The Court of Audit gained the required insight from enquiries at the Commission. The lack of substantive and financial information on the implementation of projects prevents the ministries from coordinating national and European policy. Overlap, contradictions and 'blind spots' can occur and insight into the efficient and effective use of national and European public funds is inadequate.

Regularity in the Netherlands

Insight into the regularity of the expenditure of European funds in the Netherlands is incomplete. The audit reports issued in respect of the common agricultural policy (on the certifying reports) and structural policy (on article 13 reports and annual reports) do not express an opinion on the regularity of expenditure. With regard to the regularity of the expenditure of EU funds in the Netherlands, information is available only on the number and financial volume of irregularities reported. In the case of the common agricultural policy, the number of irregularities nearly trebled between 2003 and 2004. The increase in the financial volume was lower. In the case of the structural funds, by far the majority of the irregularities reported related to the ESF-3 programme. Virtually no information is available on the regularity of expenditure on internal policies. With regards to Dutch remittances to the EU, the number of irregularities reported in 2004 was slightly higher than in 2003 but the financial volume was lower.

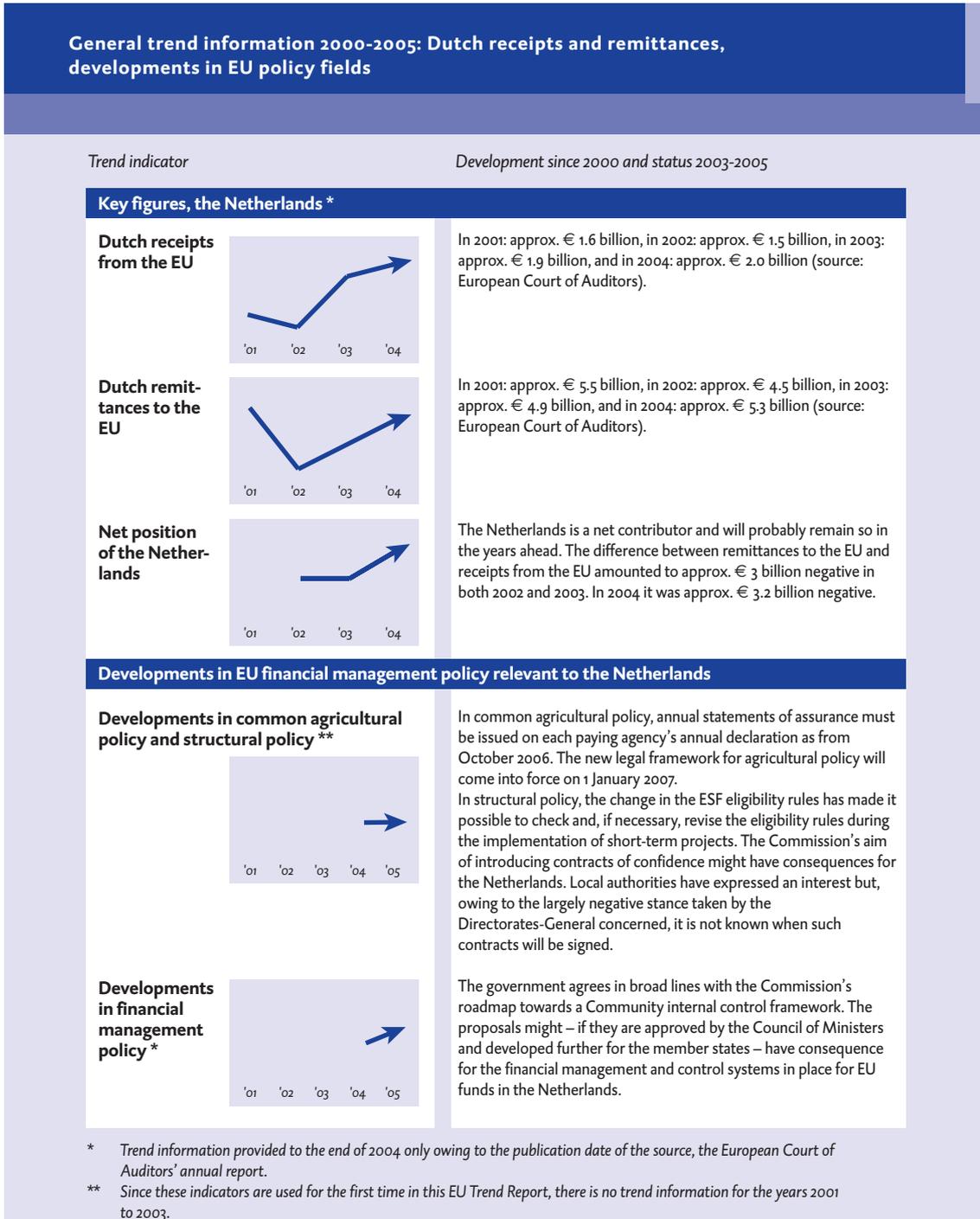
Effectiveness in the Netherlands

It is not clear what tangible objectives the EU is seeking at policy field level or when those objectives must be achieved. There is no insight into the degree to which the EU achieves its objectives, neither in general nor in the Netherlands in particular. At individual programme level, there is more insight into the objectives but, again, it is often inadequate: more than half the programmes carried out in the Netherlands that were studied had objectives that were inadequately measurable. The objectives of the social programmes, usually within structural policy, are more measurable and allow for the development of indicators. The link between measurable indicators and underlying objectives, however, is often missing. Nothing at all is known about the achievement of objectives at policy field level, a little is sometimes known at individual programme level in the Netherlands. The objectives considered in the evaluation studies are seldom achieved: the objectives were adequately achieved in fewer than one third of the 19 programmes studied.

In structural policy, the Dutch ministries usually considered the relationship between national policy and European programmes. They are not obliged to do so in respect of internal policy programmes and evaluators and ministries rarely do so voluntarily. Insight into the effectiveness of these programmes and the corresponding national or regional policy is therefore limited. Furthermore, there is a risk of poor coordination between European and Dutch policy reducing the effectiveness of policy.

The indicators used in part II of this EU Trend Report are summarised (aggregated) in figure 12 (see also next page):²¹³

Figure 12



²¹³ The Court of Audit provided a general estimate of trends in its EU Trend Reports 2003-2005. Thanks to the use of indicators, it is now possible to identify trends in certain areas. General trends are described here in respect of 'key figures', 'development in EU financial management policy' and 'systems'. Specific trend indicators are then provided on 'regularity' and 'effectiveness'.

Figure 12 continued

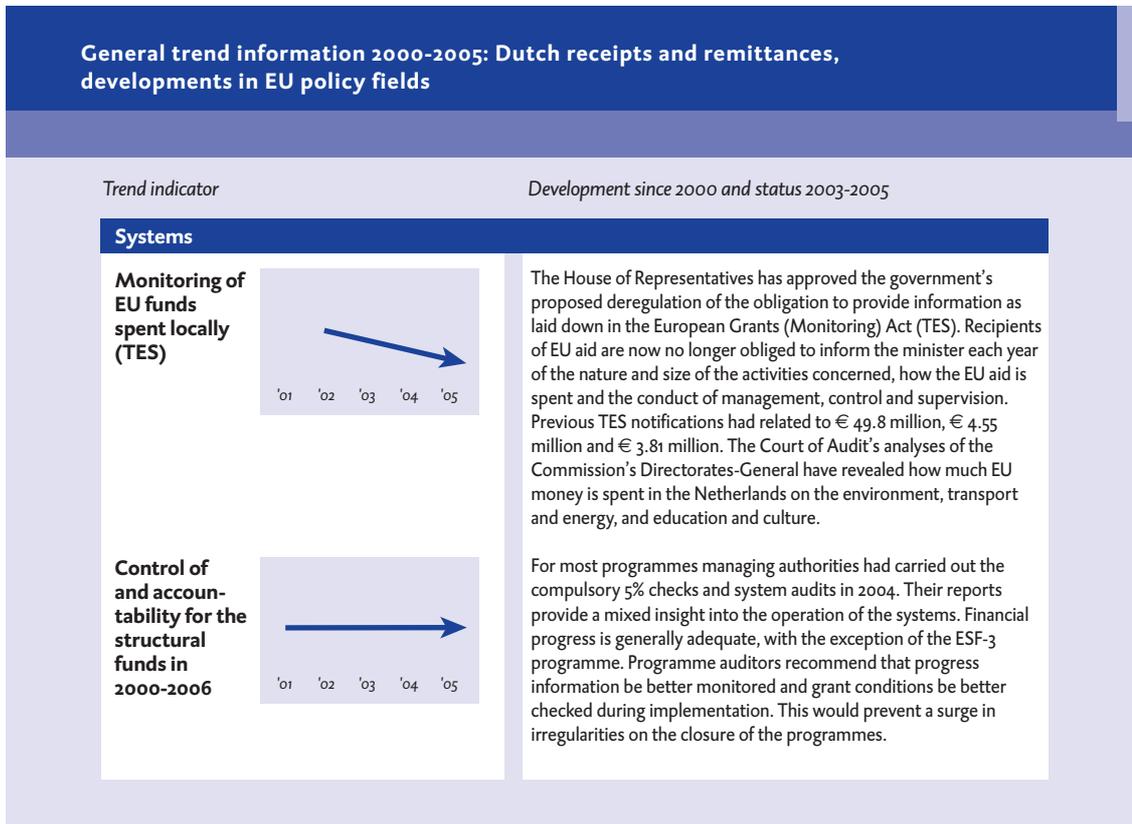


Figure 12 above provides information about trends for 'EU funds received by the Netherlands', 'the Netherlands' contributions to the EU', 'policy developments in CAP and structural policy' and 'developments in financial management'. Additionally, the table below provides specific information about trend indicators for 'regularity' and 'effectiveness'.

Table 69. Specific trend information 2004-2005, the Netherlands: regularity and effectiveness

Chapter	Part	Indicators (aggregate level)	Degree of insight in 2003-2004	Results in 2003-2004
Regularity	Information from European Commission	Insight based on DG's annual activity reports	None in 2003, limited in 2004	In 2004 DG Agriculture pointed out errors in the operation of the IACS in the Netherlands.
	Information from the Netherlands and European Commission	Number and financial volume of irregularities reported	Partial	Insight into only remittances and agricultural and structural policy. In remittances, more irregularities in 2004 but lower financial volume. In agricultural policy, more irregularities in 2004 and higher financial volume. In structural policy, more irregularities in 2004 and higher financial volume, especially in ESF.
		Number and financial volume of financial corrections	Partial	Insight into remittances, agricultural policy, structural policy and TEN-T of the internal policies. In remittances, the Netherlands accounted for 21.5% of all financial corrections in the member states in 2004. In agricultural policy, the corrections amounted to more than € 25 million in 2004, in structural policy approx. € 7 million. In TEN-T, the value of the financial corrections in 2004 was approx. € 5 million.
	Information from the European Court of Auditors	General opinion on the Netherlands	No, but this is not a task of the ECA	No general opinion on the regularity of the expenditure of EU funds in the Netherlands.
		Opinion on each budget heading for the Netherlands	No, but this is not a task of the ECA	No general information on the Netherlands by budget heading.
		Errors by budget heading	Limited, but this is not a task of the ECA	Only information on the Netherlands in 'sector letters' on ESF in 2003. European Court of Auditors found 41 errors with a financial volume of approx. € 35 million.
Effectiveness	Information from the Netherlands and European Commission	Insight based on DG's annual activity reports	None	No information in DG's activity reports on effectiveness in the Netherlands.
		Insight based on evaluations	Partial	No insight into the effectiveness of agricultural policy in the Netherlands except for an evaluation of the POP programme. A great deal of insight in the midterm evaluations specifically for structural policy in the Netherlands. Evaluations of internal policies do not specifically consider the Netherlands. In social programmes, the relevance of measurable indicators to the underlying objective is often problematic. Achievement of objectives is high on six of the 21 programmes studied. The objectives of two programmes were so vague that nothing could be said about their achievement.

Part IV

Conclusions,
recommendations and
replies

20 Conclusions and recommendations

20.1 Main conclusions

Again, no assurance in ‘Brussels’ about the regularity of the expenditure of EU funds

Our first main conclusion is that the insight into and the regularity of the expenditure of EU funds did not improve between 2003 and 2004. The European Court of Auditors was unable to issue a positive Statement of Assurance on the 2004 financial year. It is therefore again uncertain whether the funds that the Netherlands contributes to the EU – about € 5 billion a year – are spent correctly. The indicators we used to assess the regularity of the overall EU budget and of the individual budget headings cannot be completed using information from public sources. The regularity information is partly not representative, partly unreliable and partly not comparable with information from other sources.

The annual activity reports issued by the European Commission’s Directorates-General and services provide more insight into the activities in ‘Brussels’ than in previous years but further improvement is still required. Furthermore, the European accountability chain will remain incomplete as long as the closing document, the European Commission’s Synthesis Report, is not signed.

Improvements are also required in the insight available into the effectiveness of EU policy. The general objectives of EU policy are often formulated in such a way that it is uncertain what precisely has to be achieved. At Commission level, moreover, there is no convenient overview of the effects of EU policy.

In the member states, too, little information on the regularity and effectiveness of the expenditure of EU funds

Our second main conclusion is that little comparable information is available on the regularity of the expenditure of EU funds in the member states.

No detailed picture can therefore be given of regularity within the Union. With regard to effectiveness, too, little public information is available.

The information that could be used, for example on the application of structural funds, is not used by the European Commission or by the member states.

Only limited information on the regularity and effectiveness of the expenditure of EU funds in the Netherlands

Our third main conclusion is that, on the whole, the Dutch management, control and supervision systems in place for the agricultural and structural funds the country receives from the EU function reasonably well but there is no complete insight into the regularity of expenditure. Owing to the lack of information on the effectiveness of EU policy implemented in the Netherlands, some ministries are restricted in their ability to coordinate national policy and European policy. There is a risk of policies in certain areas overlapping, being inconsistent or being absent (‘blind spots’). In these areas, the insight into the efficient and effective use of European and national public funds is inadequate.

Strengthening EU-wide financial control and accountability is making slow progress

Our fourth main conclusion is that the European Commission's proposals to improve the EU's financial control and accountability have made very little progress. They have met with strong resistance from many member states, particularly regarding the introduction of a member state declaration on the correct application of funds. The Netherlands is one of the few member states to have taken a positive stance during the negotiation of the proposals. The Court of Audit believes the Netherlands should continue to do so. It is difficult to explain to Dutch citizens that the EU member states are unwilling to improve their financial systems so that members of the public know their money is being spent correctly. Furthermore, a negative stance is difficult to rhyme with the strict demands that the EU made on financial management in the new member states prior to their accession in 2004.

20.2 Values of the main indicators

We used our findings not only to draw the four main conclusions considered above but also to update the five standard key indicators used in the EU Trend Report. The values of these indicators are as follows.

Indicator 1: quality of EU financial management systems

The information in the annual activity reports issued by the European Commission's Directorates-General and services is gradually providing more insight into the work performed in 'Brussels' and its results. Information on internal audit and accountability, however, is still limited. The chain of accountability in the EU will not be complete until the Commission's Synthesis Report is signed.

Indicator 2: insight into the regularity of the expenditure of EU funds in the EU

Insight into the regularity of the expenditure of EU funds in the EU as a whole did not improve in 2004 in comparison with 2003. The European Court of Auditors' annual report provides an overall view for the EU as a whole (albeit not a quantitative view) but only a limited view by budget heading.

The information currently available from public sources is also inadequate to give an opinion on regularity by member state. Not enough information is currently available to quantify in full the Court of Audit's indicators of regularity at EU and member state level. The information available is not entirely reliable, comparable or representative.

Indicator 3: regularity of the expenditure of EU funds in the EU

The European Court of Auditors was again unable to issue a positive Statement of Assurance on the accounts for the 2004 financial year. In each of the European Commission's budget headings, there were problems to one degree or another regarding the legality and regularity of expenditure. Information provided by the European Commission on irregularities and fraud and the information in the statements of assurance issued by the Commission's Directorates-General and services do not provide an adequate basis to express quantitative opinions on regularity.

Indicator 4: insight into the regularity and effectiveness of the expenditure of EU funds in the Netherlands

In the Netherlands there is an insight into the quality of the financial management systems (management, control and supervision) in place for agricultural and structural policy. Insight into the regularity of expenditure in the Netherlands, however, is still incomplete. Furthermore, there is little insight into the regularity of expenditure on the Union's internal policies in the Netherlands and hardly any information on the effectiveness of EU policy implemented in the Netherlands. As a result, the ministries are unable to coordinate national policy and European policy effectively, and insight into the efficient and effective use of European and national funds in the same policy field is poor.

Indicator 5: regularity and effectiveness of the expenditure of EU funds in the Netherlands

Insight into the regularity of the expenditure of EU funds in the Netherlands is incomplete. The audit reports issued on the annual accounts submitted to the European Commission does not refer to regularity. The only regularity information that member states report to the Commission relates to the irregularities they detect. The Netherlands reported more irregularities in 2004 but there is a risk, particularly in respect of the structural funds, that many irregularities will not be detected until programmes are wound up. With regard to the effectiveness of EU policy implemented in the Netherlands, the EU's precise objectives in various policy areas in the Netherlands are uncertain, so is the timing. At individual programme level, there is more insight into the objectives but here, too, transparency is lacking. Nothing is known about the achievement of policy objectives within the policy fields as a whole; some information is available at an individual programme level in the Netherlands. The objectives are not always achieved.

20.3 Recommendations

We make the following recommendations to the Ministers of Finance and Foreign Affairs:

- The Netherlands should call on the European Commission to make further improvements in the annual activity reports issued by its Directorates-General and services, to use its Synthesis Report as a fully-fledged accountability document, and to provide more insight into the effectiveness of EU policy at the highest level.
- The Netherlands should continue to work on improving financial management systems in the EU. It is difficult to explain to the Dutch public that the member states are unwilling to improve their financial systems so that members of the public know their money is being spent correctly. In the Council of Ministers, the Netherlands should continue to persuade the other EU member states of the importance of the Commission's proposals to reform financial control and accountability.
- The Netherlands itself should set an example by preparing an ex post statement of assurance. To do so, it could make use of the information that is already provided by paying agencies (agricultural policy) and managing authorities (structural policy).

We make the following recommendations to the Ministers of EZ, venw, vrom and ocw:

- To ensure that national and EU funds are used efficiently, especially in EU internal policy fields, the ministers should provide more insight into precisely where national and EU policies (and funds) coincide.

We make the following recommendations to the Ministers of EZ, LNV, SZW, BZK, venw, vrom and ocw:

- The ministers should, on the basis of national and European information available on structural policy and internal policies, disclose which final beneficiaries receive how much money from which European funds (as is already the case with agricultural policy).
- On the basis of existing national and European evaluations of agricultural policy, structural policy and internal policies, the ministers should provide an insight into the results of those policies in the Netherlands.

Finally, we make the following recommendations to the Ministers of EZ, LNV, SZW and BZK:

- The ministers should ensure that the majority of irregularities are not detected until after the structural fund programmes are wound up, as happened with the 1994-1999 programming period. The managing authorities and ministries should improve their checks of progress information and of compliance with aid conditions during the programming period.
- The ministers should ensure that the article 13 reports on the structural fund programmes and Community Initiatives provide a better and more uniform insight into the operation of systems and the results of controls.

21 The government's response and the Court of Audit's afterword

The Minister of Finance responded to the *EU Trend Report 2006* on 17 January 2006 on behalf of himself, the other members of the government and the Minister for European Affairs. The government responded to each of the Court of Audit's recommendations (as shown in appendix 1). The response is summarised below along with the Court of Audit's afterword on each point.²¹⁴ We then briefly consider the supplementary response we received from the Minister of SZW.

21.1 Government response

More insight needed into regularity and effectiveness

The government endorses the recommendation to call on the European Commission to provide more insight into regularity by budget heading and into the effectiveness of EU policy at the highest level. The government will urge the Commission to develop the annual activity reports and the Synthesis Report into fully-fledged accountability documents. The government points out that the European Court of Auditors concluded that the Commission's organisation and its management of the budget had improved since the start of the reform process in 2000. Although the European Court of Auditors was again unable to issue a positive Statement of Assurance (*déclaration d'assurance*, DAS) on the EU budget, it cannot be concluded that there had been no improvement in the regularity of the expenditure of EU funds between 2003 and 2004. The European Court of Auditors referred, for example, to improvements in agricultural expenditure subject to the integrated administration and control system. The government shares the opinion expressed elsewhere in this report, however, that the lack of a positive Statement of Assurance does not mean there has been an improvement in the ultimate insight into the regularity of expenditure; the government also regrets this.

Court of Audit's afterword

We are pleased with the government's undertaking to call on the Commission to develop the annual activity reports and the Synthesis Report into fully-fledged accountability instruments.

A better system of financial management in the EU

The government is pleased that the Court of Audit recognises the extreme lengths that the government, and in particular the Minister of Finance, has gone to in the past year to improve financial management in the Union and to have a positive Statement of Assurance issued on the EU budget. In this light, the Netherlands supports the Commission's recent proposals to improve EU financial management through the 'roadmap to an integrated control framework'. The government regrets that there is no majority in the Council in support of the roadmap proposals as a whole. Nevertheless, the Netherlands will continue to call on the Commission and the other member

²¹⁴ The full text of the government's response (in Dutch) can be read on the Court of Audit's website at: www.rekenkamer.nl.

states for a measurable improvement in financial management by seeking a positive Statement of Assurance. The Council's conclusions on the roadmap, according to the government, offer sufficient opportunities to keep both the member states and the Commission on board.

Court of Audit's afterword

We welcome the fact that the Netherlands will continue to call on the Commission and the other member states for a measurable improvement in financial management. We shall continue to follow developments with interest.

Ex post statements of assurance

In response to the recommendation that the Netherlands should prepare an ex post statement of assurance using the information already available from, amongst others, the paying agencies (agricultural policy) and the managing authorities (structural policy), the government indicates that it is prepared to explore the opportunities. A feasibility study will first be carried out before the government takes a decision in summer 2006 on the possible introduction of a national declaration as provided for in the Commission's proposal for a roadmap to an integrated control framework. The feasibility study should provide an insight into the criteria that the European Commission and the European Court of Auditors will set for national statements of assurance. It should also reveal what undertakings would be expected from the European Commission and the European Court of Auditors in response to such a Dutch initiative. The government also thinks it should reveal what capabilities are available to prepare ministerial declarations for the national statement of assurance and what year would be realistic for the introduction of a national statement if it is decided to introduce one.

The feasibility study will assume that the national statement will be based on EU legislation and control and management practices. A national statement would thus be an aggregation of what is already done at operational level (paying agencies and management authorities) to comply with Community obligations.

Court of Audit's afterword

We welcome the government's intention to carry out a feasibility study as the first step towards the possible introduction of a national statement of assurance. We also believe that a study should be made of how such a statement can build on what is already being done at operational level. The statement, we believe, should be introduced one step at a time, beginning with the funds for which the most reliable information is already available. We note that the Commission's roadmap relates not only to funds under shared management but also to funds under indirect central management, decentralised management and joint management.²¹⁵ The Commission indicates that it will also introduce the same principles, *mutatis mutandis*, for these forms of management. We therefore think that these funds should also be included in the feasibility study.

We recommend that the feasibility study should specifically consider the submission of the national statement not only to the European Commission and the European Court of Auditors but also to the States-General in the

²¹⁵ See Commission communication COM (2005) 252 final, p. 8.

Netherlands. The study could also consider the Commission's proposal to have the supreme audit institution (or another external auditor) audit the statement and report on its findings to parliament. In consultation with the Minister of Finance, we would be willing to participate in a feasibility study for a national statement of assurance regarding the expenditure of EU funds in the Netherlands.

Greater transparency of national and EU policy fields

With regard to our recommendation that, with a view to the efficient use of Dutch and EU funds, the Ministers of EZ, venw, vROM and OCW should indicate where national and EU policy fields coincide, the government responded as follows. The government is involved in the formulation of the Union's internal policies, on which the funds concerned are spent, only in broad lines and has no responsibility for their implementation, the Commission has. The government therefore wishes accountability for internal policies to remain with the body responsible for their implementation, i.e. the European Commission. Nevertheless, the government thinks various instruments might be strengthened if they complemented each other and overlaps were eliminated. This point will therefore be raised during the formulation of the future seventh framework programme for research and technological development (2007-2013) and the framework programme for competitiveness and innovation (also 2007-2013), both in relation to each other and in relation to national policy and structural policy. The current EU education programmes, Leonardo da Vinci II and Socrates II, will be amalgamated into a single programme, Life Long Learning (2007-2013), with the same goal in mind. The same will happen with national spatial policy.

The government also notes that there is an important difference between internal policies and structural policy. A member state can influence the formulation of internal policies chiefly in the period up to implementation but can still exercise a great deal of influence on structural policy during implementation. To improve coherence, therefore, future structural programmes in the Netherlands will be obliged to ensure that the choice and assessment of projects are coherent.

Court of Audit's afterword

We support the government's intention to build certain guarantees into structural policy in order to improve coherence. With regard to the EU's internal policies, we accept that the Netherlands has no responsibility for implementation in most cases. This does not mean, however, that the government should not know where and how, for example, there are overlaps in these fields. The activities surrounding the seventh framework programme and the Life Long Learning programme are therefore positive developments. We think knowing where there are overlaps, inconsistencies and blind spots might improve the quality of decisions on internal policies and, by extension, the efficient and effective use of EU and national funds. We therefore intend to study whether adequate information is available on areas in which there are overlaps, inconsistencies and blind spots.

Disclosure of final beneficiaries of EU funds

We recommended that the Ministers of EZ, LNV, SZW, BZK, venw, vROM and OCW should disclose which final beneficiaries receive how much money from

which European funds. In response, the government writes that the ministries inform the House of Representatives in detail about the use of structural and agricultural funds in the Netherlands. Providing detailed reports on beneficiaries and the assistance they receive from which European funds (with a view to better coordination of national and European policy) would, according to the government, generate inadequate added value, especially if the administrative burden is taken into account. Given the number of projects and beneficiaries and the limited opportunity to determine which parties in the Netherlands receive funds (especially if they are received by consortia led by non-Dutch parties), the government does not accept that our recommendation ties in with the respective ministers' responsibilities. The government also refers to the deregulation of the recipients' duty to provide information following the repeal of section 2 of the European Grants (Monitoring) Act.

Court of Audit's afterword

We think the government's response is inconsistent with the European Commission's pursuit of transparency, for example through the European transparency initiative launched by Commissioner Kallas.²¹⁶ This initiative is intended precisely to increase public access to information on European projects and the final beneficiaries of EU funds. In Mr Kallas's opinion, European citizens have a right to this information because, in the final reckoning, EU funds are their funds. In addition, we note that the final beneficiaries of agricultural funds were disclosed in 2005. We think it no more than logical that the recipients of other EU funds in the Netherlands be treated in the same way.

Provide insight into the results of EU policy in the Netherlands

We recommended that the Ministers of EZ, LNV, SZW, BZK, venW, vROM and OCW should provide an insight based on existing national and European evaluations of agricultural policy, structural policy and internal policies into the results of these policies in the Netherlands. In response, the government writes that the Ministers of LNV and EZ (together with the other ministers involved in structural funds) already report annually to the House of Representatives on the financial results of agricultural policy and the results of structural policy. Their reports are based on existing national and European evaluations. The government will provide information on the midterm and final evaluations of the results in the Netherlands of the seventh framework programme, the Life Long Learning Programme and the Culture 2007 programme.

Court of Audit's afterword

In our opinion, the reports that are currently submitted to the House of Representatives on the results of EU policy in the Netherlands are concerned more with the financial results than with the substantive results of policy in relation to the policy objectives. We think it is a shame that the government is not willing to go further, particularly since it could do so using the underlying evaluations already available in a number of areas. It would also be in keeping with the form of accountability required under the From Policy Budgets to Policy Accountability operation in the Netherlands.

²¹⁶ The European transparency initiative is based on the strategic goals of the European Commission for 2005-2009. See Commission communication COM (2005) 12 final. For the initiative itself, see the speech of Commissioner Kallas gave at the European Policy Institutes Network, Brussels, 20 October 2005.

Prevent an increase in irregularities

We suggested to the Ministers of EZ, LNV, SZW and BZK that the managing authorities and ministries would be well advised to improve their checks of progress information and compliance with aid conditions during the structural fund programming period since most irregularities in the 1994-1999 programming period had not been detected until the programmes were wound up. The government replied that the irregularity coordinators at the ministries reported all irregularities to OLAF immediately via the AFIS anti-fraud information system. Furthermore, the risk of financial corrections during the final winding-up procedure discourages implementation of a policy under which irregularities are not detected until the end of the programming period (2000-2006). It is inevitable, however, that the number of irregularities reported to OLAF will increase towards the end of the period, especially in the ESF3 programme. This is because of the uneven receipt of project applications: few in the initial years, many in later years. The Minister of SZW also refers to this in his response (see section 21.2).

Court of Audit's afterword

We share the government's observation that the number of irregularities will logically increase as the programming period nears its end. On the basis of our investigation, however, we do not share the government's opinion that the current financial corrections procedure is adequate to limit the number of irregularities detected during the final winding-up. It became clear to us that several programme auditors think better checks should be made of the progress information and compliance with aid conditions. We will continue to follow the development of the number of irregularities and return to the issue in later reports.

Uniform article 13 reports

We suggested that the Ministers of EZ, LNV, SZW and BZK should ensure that the article 13 reports on structural fund programmes and Community Initiatives provide a better and more uniform insight into the operation of systems and the results of controls. The government responded that annual consultation took place with the European Commission on the article 13 reports during the implementation of the programmes (the 'coordination meetings'). Coordination between the Commission and the ministries improves the quality of the article 13 reports and of the accounting and control systems during the programming period. Since the article 13 reports are submitted to the Commission and the Commission then organises the coordination meetings, the government believes it would be more efficient for the Commission to seek greater uniformity in the reports.

Court of Audit's afterword

We agree with the government's suggestion that the European Commission should seek more uniformity in the article 13 reports. It is not certain, however, whether this will happen. As part of the Dutch feasibility study for a national statement of assurance on the expenditure of EU funds in the Netherlands, in which the Netherlands will build on the information that is already available at operational level, however, it is of great importance that the contents of the Dutch article 13 reports – which will be prepared at

operational level – are comparable. If they are not, they will be of limited use for accountability purposes. We therefore repeat our recommendation that the government should undertake its own activities in this area.

Regularity and audit reports

We conclude in the *EU Trend Report 2006* that insight into the regularity of the expenditure of European funds in the Netherlands is incomplete. In our opinion, the audit reports that are issued each year on structural policy (on the article 13 reports and the annual reports) do not express an opinion on the regularity of expenditure. We therefore conclude that information is provided on only the number and financial volume of the irregularities reported. The government responds that the audit protocol drawn up by the Ministries of EZ and LNV integrates regularity audits into the various audits carried out each year by the programme auditors. Over the programming period as a whole, the final opinion on the regularity of structural policy is issued with the winding-up declaration. Each year, the two ministries' audit departments review the programme auditors' compliance with the audit protocol, including the conduct of regularity audits as part of their audit programmes. With regard to structural policy, therefore, the government believes that, apart from the irregularities reported, regularity aspects are also considered in the annual audits.

Court of Audit's afterword

We note that, according to the government, regularity is part of the annual audits carried out by the programme auditors. The text of the annual audit report (on the article 13 reports and annual reports), however, makes no specific or clear reference to regularity. In accordance with the audit protocol, the report on the annual article 13 reports relates to the design, existence and operation of the management and control systems, not to the regularity of expenditure. The report on the financial statements in the annual reports expresses an opinion on the correct presentation of the financial information in the reports. This audit report therefore gives a view of the reliability of the financial statements but not of the regularity of the underlying transactions. The ERDF/EAGGF audit protocol of October 2001 notes that users should be able to rely on the financial statements but they do not yet form a basis for a final settlement. As the government also replies, the final opinion on the regularity of structural policy throughout the entire programming period is issued with the winding-up declaration.

21.2 Supplementary response from the Minister of szw

In addition to the coordinated response from the government, we received a separate official response from the Minister of szw. This response, dated 13 January 2006, specifically considers the prevention of irregularities. The minister notes that his policy is to detect irregularities as quickly as possible. In other respects, he gives the same explanation as the government for the increase in the number of notifications towards the end of the structural fund programming period (see above).

Appendices

EU Trend Report 2006

Appendix I Main conclusions, recommendations and undertakings

Conclusion	Recommendation	Government undertaking	Court of Audit's afterword
<p>The regularity of the expenditure of EU funds did not improve between 2003 and 2004.</p> <p>The annual activity reports of the European Commission's Directorates-General and services provide more insight into their activities but further improvement is needed. The European accountability chain is not complete and improvement is needed in the field of regularity.</p>	<p>The Netherlands should call on the European Commission to improve further the annual activity reports of the Commission's Directorates-General and services, to use the Synthesis Report as a fully-fledged accountability document, and to provide more insight into regularity by budget heading and into the effectiveness of EU policy at the highest level.</p>	<p>The government endorses this recommendation. It will call on the Commission to develop the annual activity reports and the Synthesis Report into fully-fledged accountability documents.</p>	<p>We are pleased with this undertaking.</p>
<p>The European Commission's proposals to improve financial control and accountability in the EU have made very little progress.</p>	<p>The Netherlands should continue working for a better system of financial management in the EU. It is difficult to explain to the Dutch public that the EU member states are unwilling to improve their financial systems so that members of the public know their money is being spent correctly. In the Council of Ministers, the Netherlands should continue to persuade the other EU member states of the importance of the Commission's proposals to reform financial control and accountability.</p>	<p>The government regrets that there is no majority in the Council in support of the roadmap proposals in full. Nevertheless, the Netherlands will continue to call on the Commission and the other member states for a measurable improvement in financial management by seeking a positive Statement of Assurance.</p>	<p>We welcome this undertaking and will continue to follow developments with interest.</p>
	<p>The Netherlands can prepare its own ex post statement of assurance using information already available from the paying agencies (agricultural policy) and managing authorities (structural policy).</p>	<p>The government is willing to explore the possibilities of preparing a Dutch ex post statement of assurance using information available from the paying agencies (agricultural policy) and managing authorities (structural policy). A feasibility study will be carried out and the government will take a decision before summer 2006 on the possible introduction of such a statement.</p>	<p>We welcome the government's intention to carry out a feasibility study. Since the Commission's roadmap relates not only to funds under shared management but also to funds under indirect central management, decentralised management and joint management, we think that these funds should also be included in the feasibility study.</p> <p>A national statement should also be submitted to the States-General in the Netherlands. In accordance with the Commission's proposal, the supreme audit institution, for example, could audit the statement and report its findings to parliament. If required, we would be willing to participate in the feasibility study.</p>
<p>Little comparable information is available on the regularity of the expenditure of EU funds in the member states. With regard to effectiveness, too, little public information is available.</p>	-	-	-

Conclusion	Recommendation	Government undertaking	Court of Audit's afterword
<p>Dutch financial management systems for agricultural and structural funds operate reasonably well but insight into the regularity of the expenditure of EU funds is incomplete.</p> <p>The lack of information on the effectiveness of EU policy in the Netherlands restricts some ministries in their ability to coordinate national and EU policies. Insight into the efficient and effective use of European and national funds is inadequate.</p>	<p>To ensure the effective use of national and EU funds (particularly in the internal policy fields), the Ministers of EZ, VenW, VROM and OCW should clarify what and precisely where national and EU policy fields coincide.</p>	<p>Since the government is involved in only the broad lines of EU internal policy formulation and has no responsibility for implementation, it wants accountability for internal policies to remain with the European Commission.</p> <p>The government agrees that various policy instruments would be strengthened if they complemented each other rather than overlapped. This will therefore be a point in the formulation of future European programmes in relation to national policy and structural policy.</p>	<p>The government should know precisely where and how there are overlaps, inconsistencies and blind spots. This would lead to better decisions on national policy and efficient and effective use of EU and national funds. We shall study whether overlaps, inconsistencies and blind spots are adequately identified in the future.</p>
	<p>Using existing national and European information on structural policy and internal policies, the Ministers of EZ, LNV, SZW, BZK, VenW, VROM and OCW should disclose which final beneficiaries receive how much money from which European funds (as is currently the case with agricultural assistance).</p>	<p>The added value of detailed disclosure is inadequate, especially in relation to the administrative burden. The government thinks our recommendation is not compatible with the ministries' accountability and refers to the deregulation of the beneficiaries' duty to provide information.</p>	<p>The government's response is inconsistent with the European transparency initiative presented by Commissioner Kallas. In addition, we note that the final beneficiaries of agricultural assistance were disclosed in 2005. We find it no more than logical that other recipients of EU funds in the Netherlands should be treated in the same way.</p>
	<p>On the basis of existing national and European evaluations of agricultural policy, structural policy and internal policies, the Ministers of EZ, LNV, SZW, BZK, VenW, VROM and OCW should provide an insight into the results of these policies in the Netherlands.</p>	<p>The ministers concerned already submit annual reports to the House of Representatives on the financial results of agricultural policy and the results of structural policy. This accountability information is based on existing national and EU evaluations.</p>	<p>We think it is a shame that the government is not willing to go further than the current method of reporting on, in particular, the financial results of EU policy, especially since it could do so by using underlying evaluations already available in a number of areas. This would also agree with the accounting requirements of the VBTB operation.</p>
	<p>The Ministers of EZ, LNV, SZW and BZK should prevent a situation arising in which most irregularities are not detected and reported to OLAF until the structural fund programmes are wound up, as happened with the 1994-1999 programming period. The managing authorities and ministries should improve their checks of progress information and of compliance with aid conditions during the programming period.</p>	<p>The ministries concerned report all irregularities immediately to the European anti-fraud office, OLAF. In addition, the risk of financial corrections during the final winding-up procedure prevents irregularities. It is inevitable, however, that the number of notifications will increase as the programming period nears its end because few project applications were received in the initial years and many in later years.</p>	<p>We do not share the opinion that the current procedure is adequate to limit the number of irregularities during the winding-up. Several programme auditors have indicated that checks of progress information and compliance with aid conditions should be improved. We shall return to developments in the number of irregularities in later reports.</p>
	<p>The Ministers of EZ, LNV, SZW and BZK should ensure that the article 13 reports on structural fund programmes and Community Initiatives provide a better and more uniform insight into the operation of systems and results of controls.</p>	<p>The government believes it would be more efficient for the European Commission, to which the reports are submitted, to seek greater uniformity rather than the ministers concerned.</p>	<p>We think it is of great importance for the feasibility study of a national statement of assurance that the contents of the article 13 reports in the Netherlands – which are prepared at operational level – should be comparable. We therefore repeat our recommendation to the government.</p>

Appendix 2 Abbreviations, terms and definitions

Abbreviations	
Abbreviation	Meaning
AAR	Annual activity report (Directorates-General and services of the European Commission)
ACP	African, Caribbean and Pacific
AD	(Ministerial) Audit Department
AID	General Inspectorate
AMP	Annual management plan (Directorates-General and services of the European Commission)
AO/IC	Administrative organisation/internal control
APC	Audit Progress Committee (European Commission)
B&W	Municipal Executive
BuZa	(Ministry of) Foreign Affairs
BZK	(Ministry of) the Interior and Kingdom Relations
CAP	Common Agricultural Policy
CFP	Common Fisheries Policy
CoCo	Coordination Committee for European integration and association problems
Coreper	Committee of Permanent Representatives
Cosac	Conference of Community and European Affairs Committees of Parliaments of the European Union
DAS	Déclaration d'assurance (Statement of Assurance issued by the European Court of Auditors)
DG	Directorate-General
DLG	Government service for sustainable rural development
EAFRD	European Agricultural Fund for Rural Development (as from 2007)
EAGF	European Agricultural Guarantee Fund (as from 2007)
EAGGF - Guarantee	European Agricultural Guidance and Guarantee Fund, Guarantee section
EAGGF - Guidance	European Agricultural Guidance and Guarantee Fund, Guidance section
EC	European Community (EEC and Euratom together)
ECA	European Court of Auditors
ECB	European Central Bank
Ecofin	Council of economics and finance ministers
EDF	European Development Fund
EEC	European Economic Community
EIB	European Investment Bank
EMR	Euregio Maas-Rhine
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
Euratom	European Atomic Energy Community
EUROSAI	European Organisation of Supreme Audit Institutions
EUSF	EU Solidarity Fund
EZ	(Ministry of) Economic Affairs
FIFG	Financial Instrument for Fisheries Guidance

Abbreviations	
Abbreviation	Meaning
FP5/FP6	Fifth and sixth framework programme (Internal policies of the European Commission)
GDP	Gross domestic product
GNI	Gross national income
GNP	Gross national product
IAC	Internal Audit Capabilities (Directorates-General and services of the European Commission)
IACS	Integrated Administration and Control System
IAS	Internal Audit Service (European Commission)
IPO	Association of Provincial Authorities
JHA	Justice and Home Affairs
Laser	Dutch paying agency for agricultural schemes
LNV	(Ministry of) Agriculture, Nature and Food Quality
MCA	Management and control application
NIVRA	Royal Netherlands Institute of Registeraccountants
OCW	(Ministry of) Education, Culture and Science
OLAF	Office européen de lutte antifraude (European anti-fraud office)
OP	Operational programme
PME	Programme Management Europe (Flevoland)
PMS	Programme management system
POP	Rural development plan
PS	Provincial Council
PVE	Cattle, Meat and Egg Boards
REB	Spatial Economic Policy Directorate (Ministry of EZ)
ROC	Regional education centre
RWT	Legal person with statutory tasks
SAPARD	Special Accession Programme for Agriculture and Rural Development
SG	Secretariat-General (European Commission)
SNN	North Netherlands Alliance
SPD	Single Programming Document
SZW	(Ministry of) Social Affairs and Employment
TEN	Trans-European Networks
TES	European Grants (Monitoring) Act
UCLAF	Unité de coordination de la lutte anti-fraud (predecessor of OLAF as anti-fraud office of the European Commission)
VAT	Value added tax
VBTB	From Policy Budgets to Policy Accountability
VenW	(Ministry of) Transport, Public Works and Water Management
VNG	Association of Netherlands Municipalities
VROM	(Ministry of) Housing, Spatial Planning and the Environment
VWS	(Ministry of) Health, Welfare and Sport
WTO	World Trade Organisation

Terms and definitions

Activity-based management	Form of management in which the organisation's activities are decisive, also for the budget. The Commission's administrative expenditure is related to policy expenditure.
Accrual accounting system	Accounting system in which revenues and expenses are matched to the period in which they are earned or incurred.
Activity report	A report that all the European Commission's Directors-General must prepare each year on the implementation of their management plans. Each DG issues a declaration on its report.
Appropriation	The European term for a budgeted amount.
Approved body	A body that, subject to criteria set by the Commission, approves paying agencies that make payments for the common agricultural policy.
Article 13 report	An annual report on the design, existence and operation of the management and control system in place for structural funds. Pursuant to article 13 of Regulation (EC) no. 438/01, it must be prepared by the managing authority and submitted to the European Commission no later than 30 June.
Audit authority	An audit authority is an institution that is functionally independent of the managing authority and of the paying authority that a member state designates for each structural fund programme to be responsible for verification of the proper performance of the management and control system. Such an authority has been proposed for the 2007-2013 programming period.
Certifying body or certifying authority	A body designated by a member state to certify the paying agencies for the common agricultural policy and to certify expenditure declarations and payment applications before they are submitted to the Commission. In the Netherlands this body is the Ministry of LNV's audit department.
Commitment appropriation	The budgetary term for the maximum amount of financial commitments that the Commission may enter into for a given project over a series of years.
Community Initiative	The structural funds finance the structural policy objectives and also the Community Initiatives. These are smaller projects implemented on the Commission's initiative. There are four Initiatives: Interreg III, Leader+, Equal and Urban II.
COREPER	Committee of Permanent Representatives. It is made up of ambassadors of the EU's member states ('Permanent Representatives'). It assists the Council of the European Union by preparing dossiers on the Council's agenda (proposals submitted by the Commission and draft decisions).
Decommitment	The amount of structural funds committed by the European Commission in year N must have been spent on the programmes by the end of year N+2. If they are not, the Commission will automatically cancel (decommit) the funds that have not been spent. The funds themselves return to the EU budget.
Directorate-General	Name of the largest independent unit in the Commission's administrative organisation. The Directorates-General are organised into directorates, which are in turn organised into administrative units. The Secretary-General is the head of the Commission's administrative organisation. In addition to the Secretariat-General and the Directorates-General, the Commission has a number of services, such as the Legal Service and the Internal Audit Service.
Discharge	The procedure whereby, pursuant to article 276 of the EC Treaty, the European Parliament, on the recommendation of the Council to the Commission, approves the budget implemented in the previous year.
Financial correction	Reversal, cancellation or adjustment of an aid payment previously granted.
Financial Perspective	The Financial Perspectives are the framework for Community expenditure over a period of several years. They are the outcome of an interinstitutional accord between the European Parliament, the Council and the Commission, and set the maximum amount and composition of projected European expenditure. They are also known as the multiyear budget.
Fraud	Fraud is defined in Community legislation as: with regard to expenditure: any intentional act or intentional omission involving the use or presentation of false, incorrect or incomplete statements or documents which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities or in violation of a specific obligation, with the same effect, or the misapplication of such funds for purposes other than those for which they were originally granted; with regard to revenue: the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the illegal diminution of the resources of the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities, or non-disclosure of information in violation of a specific obligation, with the same effect, or the misapplication of a legally obtained benefit, with the same effect.
Generic correction mechanism	A mechanism whereby a member state that makes relatively high contributions to the EU budget receives compensation.

Terms and definitions	
Irregularity	Any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure.
Managing authority	A government body responsible for the implementation of a structural fund programme, including the collection of financial and statistical information and reporting on the programme's implementation (30 June report), internal control of the effectiveness and transparency of programme expenditure, the organisation of the midterm evaluation and revision of implementation on its own initiative or at the request of the Committee of Supervision.
Net position	The difference between the amount a member state remits to the EU budget and the amount the same member state receives from the EU budget. Different methods are used to calculate the net position.
Own resources	The EC's revenue. The European Community has had own resources since 1970 (before which there was a system of financial contributions from the member states). The term 'own resources' indicates that they are not regulated contributions from the EU member states but accrue to the Union as of right. The own resource are: <ul style="list-style-type: none"> – customs duties levied in the member states on imports from third countries; – agricultural levies on products from third countries and producer contributions for certain agricultural products; – a percentage of the VAT revenue; this remittance is reduced if VAT revenue is more than 50% of GNP; – the so-called 'fourth source' in the form of an annual percentage of the member states' GNI.
Paying agency	Body that makes payments on behalf of the European Commission in respect of agricultural policy. The body must be authorised to do so. The authorisation criteria are set by the Commission.
Paying authority	A government body that attends to the preparation of payment applications and their submission to the Commission, certifies the midterm expenditure declarations and the winding-up declaration, receives payments from the Commission and makes subsequent payment to the final beneficiary in a structural fund programme.
Payment appropriation	Budgetary term expressing the maximum amount included in the budget for commitments entered into in the financial year and/or previous financial years.
Review	The primary purpose of a review is to determine whether the outcome (the report on) a given control can be used as a basis for an opinion. The secondary purpose of a review is to make recommendations to improve operations, the annual report, the trial balance and/or the statutory audit. A review is a form of assessment.
Roadmap	Communication of the Commission (in this case, Commissioner Kallas) to the Council, the European Parliament and the European Court of Auditors on a roadmap towards an integrated internal control framework, COM (2005) 252 final, Brussels, of 15 June 2005.
Single audit model	The underlying principle is that a single audit should be adequate to meet the requirements of all stakeholders. The intention is to prevent the duplication of audit work.
Statement of Assurance	Pursuant to article 248 of the EC Treaty, the European Court of Auditors must issue an annual statement to the European Parliament and the Council confirming the reliability of the EU's accounts and the legality and regularity of the underlying transactions. Also known as 'Déclaration d'Assurance' or DAS.
Structural funds	The structural funds are the European Social Fund (ESF), the European Regional Development Fund (ERDF), the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG). For the period 2000–2006, a total of € 195 billion is available for the structural funds and € 18 billion for the Cohesion Fund. For the ten new member states that acceded in 2004, € 24 billion euro has been granted from the structural funds and the Cohesion Fund for the period 2004-2006. The majority will be applied through the objective 1 programmes and about a third through the Cohesion Fund.
Supervisory committee	A supervisory committee is appointed for every structural fund programme. The supervisory committee monitors the effectiveness and quality of the implementation of the operational programme. The supervisory committee is chaired by a representative of the member state or of the managing authority. A representative of the Commission with an advisory role may participate in its activities. The member state decides on the composition of the supervisory committee.
Synthesis Report	Pursuant to article 60 of the Financial Regulation, the Commission issues an annual Synthesis Report on the DG's activity reports. The Synthesis Report is submitted to the European Parliament and the Council of Ministers.
System audit	An audit that examines the operation of a control and management system rather than individual transactions.
TES	European Grants (Monitoring) Act, Bulletin of Acts and Decrees 2002, no. 40.

Appendix 3 Indicator values at the European Commission's DGs and service studied

In all tables we used the following definition of 'staff capacity':

Staff capacity (permanent as well as temporary staff) for 'policy strategy and coordination' and 'administrative support' was excluded from the staff numbers given in the table. Staff capacity for all other DG activities is related to 'budget implementation related activities'. Budget implementation rates are generally calculated in terms of payment appropriations.

DC Agriculture		
Indicator EU financial management	2003	2004
Commitments (in million euros)*	€ 47 904	€ 50 460
Budget planning and implementation	<ul style="list-style-type: none"> – AMP: mentions strategic and specific objectives. – AAR: publicly available and consideration for ABB. – staff capacity used to prepare budget is not known. – staff capacity used to implement budget was 51.8%. – budget implementation rate (in payment appropriations and payments executed) was 98%. – budget implementation rate vs. planned implementation level is not known. 	<ul style="list-style-type: none"> – AMP: mentions strategic and specific objectives. – AAR: publicly available and consideration for ABB. – staff capacity used to prepare budget is not known. – staff capacity used to implement budget was 49.8%. – budget implementation rate (in payment appropriations and payments executed) was 99.1%. – budget implementation rate vs. planned implementation level was 99.1%.
Audit and control by the Commission	<ul style="list-style-type: none"> – use of DG capacity for audit and control in member states is not known. – audit performance rate in 2003 is not known. 	<ul style="list-style-type: none"> – average use of DG capacity for all audits and control audits in member states was 11.3%. – audit performance rate in 2004 was 109% (281 vs. 257 planned).
Internal Audit DG	<ul style="list-style-type: none"> – in compliance with baseline requirements of IC standards for 95% (Feb. 2004). – planned audit capacity was 13.4% (use of audit capacity is not known). – 4 IAC reports were publicly available. 	<ul style="list-style-type: none"> – in full compliance with baseline requirements of IC standards. – use of audit capacity was 11.3% of total DG capacity.²¹⁷
Accountability information	<ul style="list-style-type: none"> – use of capacity to prepare the AAR in proportion to total DG capacity in 2003 is not known. – number of reservations made: 5. – number of reservations with a quantification of monetary materiality/volume in 2003: 3.²¹⁸ 	<ul style="list-style-type: none"> – use of capacity to prepare the AAR in proportion to total DG capacity in 2004 is not known. – number of reservations made: 3. – number of reservations with a quantification of monetary materiality/volume: 3.

* Source: European Commission, Report on budgetary and financial management 2003 and 2004.

²¹⁷ This includes DG audits and control.

²¹⁸ Materiality for all 5 reservations is known.

DG Regional Policy**Indicator EU financial management**

Commitments (in million euros)*

	2003 € 22 009	2004 € 26 785
Budget planning and implementation	<ul style="list-style-type: none"> – AMP mentions strategic and specific objectives. – AAR: publicly available and attention for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget in 2003 was 48.7%. – budget implementation rate was 94.8%. – rate of budget implementation vs. planned implementation level is not known. 	<ul style="list-style-type: none"> – AMP mentions strategic and specific objectives. – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 62.2%. – budget implementation rate was 97.5%. – rate of budget implementation vs. planned implementation level for 2004 was 99%.
Audit and control by the Commission	<ul style="list-style-type: none"> – use of DG capacity for audit and control in MS is unclear (number of staff capacity for ABB 'controls' in 2003 was 63). – number of audits performed in 2003 was 24. 	<ul style="list-style-type: none"> – use of DG capacity for audit and control in MS is unclear; (staff capacity used in ABB 'controls' in 2003 was 63). – number of audits performed in 2004 is not known.
Internal Audit DG	<ul style="list-style-type: none"> – in compliance with baseline requirements of IC standards. – use of audit capacity is not known. – number of audits planned is not known (audits performed by IAC in 2003: 5). 	<ul style="list-style-type: none"> – in compliance with baseline requirements of IC standards. – use of audit capacity and number of audits planned/performed are not known.²¹⁹
Accountability information	<ul style="list-style-type: none"> – use of capacity in proportion to total DG capacity to prepare the AAR is not known. – number of reservations made in 2003: 4. – number of reservations with a quantification of monetary materiality/volume in 2003: 0. 	<ul style="list-style-type: none"> – use of capacity to prepare the AAR in proportion to total DG capacity is not known.²²⁰ – number of reservations made in 2004 was 3 (all with quantification of monetary materiality/volume).

* Source: European Commission, Report on budgetary and financial management 2003 and 2004.

DG Employment**Indicator EU financial management**Commitments (in million euros)²²¹

	2003 9 794	2004 10 839
Budget planning and implementation	<ul style="list-style-type: none"> – AMP: mentions strategic and specific objectives – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget in 2003 was 68.1%. – average budget implementation rate was 86.7% (for ESF: 77.3% and for DM average BI rate was 96.2%). – average budget implementation rate vs. planned average implementation level is not known. 	<ul style="list-style-type: none"> – AMP: mentions strategic and specific objectives – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 71.2%. – average budget implementation rate (direct management + ESF management) was 88.3% (2004).²²² – Total BI rate: 98.8%. – average budget implementation rate for direct expenditure plus ESF vs. planned average budget implementation level was approximately 93%.²²³
Audit and control by the Commission	<ul style="list-style-type: none"> – staff capacity used for MS audits is not known. – number of audits in 2003 is not known.²²⁴ – number of publicly available audit reports is not known. 	<ul style="list-style-type: none"> – capacity used for MS audits is not known. – number of audits: 68 'missions on 34 programmes'.²²⁵
Internal Audit DG	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards in 2003. – audit capacity used for and number of audits planned/performed are not known. 	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards unclear. – audit capacity used for and number of audits planned/performed are not known.²²⁶
Accountability information	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known. – number of reservations made: 1 (monetary materiality was 98% of total DG budget). 	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known. – number of reservations made: 1 (no quantification of monetary volume).²²⁷

²¹⁹ DG reported that 'audit strategy was implemented as foreseen'.

²²⁰ In 2004 the IAC activities came under the ABB activity: Administrative support and management. The total capacity for this ABB was 23.5% (148 posts) of total DG capacity (630 posts).

²²¹ European Commission, Report on budgetary and financial management 2003 and 2004.

²²² 2004 BI rate for ESF was 99.3% and for internal policies 77.4%. (DG EMPLOY/AAR 2004, section 3).

²²³ AAR 2004 page 21.

²²⁴ Audits performed in 2003 cover 27% of all programmes.

²²⁵ Planned audit level for 2004 was defined as 'covering 70% of all expenditure'. Performance rate was 100%.

²²⁶ Over 70% of the 2004 ESF budget was covered by DG audits.

²²⁷ The DG finds quantification impossible due to the fact that the identified risk was not based on the audit of financial transactions. (Materiality of the reservation concerns 98% of the 2004 commitment appropriations.)

DG Fisheries**Indicator EU financial management**

Commitments (in million euros)*

	2003 € 907	2004 € 931
Budget planning and implementation	<ul style="list-style-type: none"> – AMP: mentions strategic and specific objectives. – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 70%. – budget implementation rate was 80.6%. – budget implementation rate vs. planned implementation level is not known. 	<ul style="list-style-type: none"> – AMP: mentions strategic and specific objectives. – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – staff capacity used to implement budget was 70%. – budget implementation rate was 78.5%. – budget implementation rate vs. planned implementation level is not known.
Audit and control by the Commission	<ul style="list-style-type: none"> – staff capacity used for member state audits in 2003 is not known. – number of audits: 27. 	<ul style="list-style-type: none"> – staff capacity used for member state audits is not known. – number of audits: 17.
Internal Audit DG	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards in 2003 was 75%. – capacity used for and number of audits performed in 2003 are not known. 	<ul style="list-style-type: none"> – most of the baseline requirements of IC standards were implemented.²²⁸ – staff capacity used for audits performed was 19.6% (60 posts)
Accountability information	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known. – number of reservations made: 2 (no quantification of monetary volume). 	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG-capacity is not known. – number of reservations made: 1 (no quantification of monetary volume).²²⁹

* Source: European Commission, Report on budgetary and financial management 2003 and 2004.

DG Budget²³⁰**Indicator EU financial management**

Commitments (in million euros)*

	2003 € 46.0	2004 € 59.6
Budget planning and implementation	<ul style="list-style-type: none"> – AAR 2003: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 82.4%. – budget implementation rate in 2003 was 97%.²³¹ – budget implementation rate vs. planned implementation level is not known.²³² 	<ul style="list-style-type: none"> – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 83%. – budget implementation rate was 83.2%.²³³ – budget implementation rate vs. planned implementation level is not known.
Internal Audit DG	<ul style="list-style-type: none"> – compliance with applicable baseline requirements of IC standards is not known. 	<ul style="list-style-type: none"> – in full compliance with applicable baseline requirements of IC standards.
Accountability information	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity in 2003 is not known. – number of reservations made: 3 (no quantification of monetary volume). 	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity in 2004 is not known. – number of reservations made: 2 (no quantification of monetary volume).

* Source: Annual management plan 2003 and 2004.

²²⁸ Most of the baseline requirements were implemented. Three internal control standards would be met in early 2005 (AAR 2004).

²²⁹ The materiality of appropriations concerned was quantified up to 5.7% of the FIG appropriations.

²³⁰ DG Budget updated figures on the draft of this fact sheet. Its figures showed lower capacity as well as budget implementation rate figures then originally published in the AARs, and were therefore not used.

²³¹ In terms of payment appropriations.

²³² The objective is always to reach 100%. The Budget policy area includes non-specific appropriations to DG Budget.

²³³ In terms of commitment appropriations: 83.9%.

DG Education & Culture ²³⁴**Indicator EU financial management**
Commitments (in million euros)*

	2003 € 827	2004 € 951
Budget planning and implementation	<ul style="list-style-type: none"> – AMP: not publicly available.²³⁵ – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 78.4%. – budget implementation rate was 83.3%. – budget implementation rate vs. planned implementation level is not known. 	<ul style="list-style-type: none"> – AMP: not publicly available.²³⁶ – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – staff capacity used to implement budget was 80%. – budget implementation rate was 83.3%. – budget implementation rate vs. planned implementation level is not known.
Audit and control by the Commission	<ul style="list-style-type: none"> – capacity used for MS audits in 2003 is not known. – number of planned and performed audits is not known. 	<ul style="list-style-type: none"> – capacity used for MS audits is not known. – number of planned and performed audits in 2004 was 33.²³⁷
Internal Audit DG	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards in 2003 was 60%. – staff capacity used for and number of planned/performed audits are not known. 	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards was 100%. – capacity used for and number of planned/performed audits are not known.
Accountability information	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity in 2003 is not known. – number of reservations made in 2003: 3 (1 with quantification of monetary volume).²³⁸ 	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known. – no reservations.

* Source: European Commission, Report on budgetary and financial management 2003 and 2004.

DG Environment ²³⁹**Indicator EU financial management**
Commitments (in million euros)*

	2003 € 260	2004 € 320
Budget planning and implementation	<ul style="list-style-type: none"> – AMP 2003 publicly available. – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known (budget is prepared centrally). – average staff capacity used to implement budget was 64.1%. – budget implementation rate 2003 (in terms of payment appropriations) was almost 100%. – budget implementation rate vs. planned implementation level was 75%. 	<ul style="list-style-type: none"> – AMP: mentions strategic and specific objectives. – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 62%.²⁴⁰ – budget implementation rate (in terms of payment appropriations) was 71.1% (2004). – budget implementation rate vs. planned implementation level is not known.
Audit and control by the Commission	<ul style="list-style-type: none"> – capacity used for and number of MS audits planned and performed are not known. 	<ul style="list-style-type: none"> – capacity used for and number of MS audits planned and performed are not known.
Internal Audit DG	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards was 99%. – audit capacity used: not known; number of audits performed was 6. 	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards was 100%. – audit capacity used for and number of audits performed are not known.²⁴¹
Accountability information	<ul style="list-style-type: none"> – staff capacity used to prepare the AAR in proportion to total DG capacity in 2003 is not known. – 2 reservations were made in 2003, no quantification of monetary volume. 	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity in 2004 is not known. – no reservations.

* Source: European Commission, Report on budgetary and financial management 2003 and 2004.

²³⁴ DG EAC updated figures on the draft of this fact sheet. These figures showed other staff capacity figures than those presented in the AARs, and were therefore not used.

²³⁵ The AMPs of seven DGs were not publicly available. Most relevant information about policy objectives can be found in the Preliminary Draft General Budget 2005 of the European Commission (Source: European Commission, working document 1 Activity Statements, May 2005).

²³⁶ The AMPs of seven DGs were not publicly available. Most relevant information about policy objectives can be found in the Preliminary Draft General Budget 2005 of the European Commission (Source: European Commission, working document 1 Activity Statements, May 2005).

²³⁷ 33 audits were performed at the level of national agencies in 21 member states; another 140 audits were performed at final beneficiary level (validated reports: approximately 70).

²³⁸ In terms of 'more than 1000 orders of recovery' to an amount of € 34 million.

²³⁹ Updated figures from the Directorate-General on the draft of this fact sheet showed partially different staff capacity and budget implementation figures and a different ICS compliance level for 2004 (95%) in comparison with those presented in the AARs. These figures were not used in our overviews.

²⁴⁰ Excluding staff (15%) for the ABB 'development of new activities'.

²⁴¹ Number of audits planned in 2004 is unclear; IAC carried out 6 audits in 2004, including two exercises that contributed towards the preparation of the 2003 AAR.

DG Transport & Energy**Indicator EU financial management**

Commitments (in million euros)*

	2003	2004
	A 985	A 1 346
Budget planning and implementation	<ul style="list-style-type: none"> – AMP mentions strategic and specific objectives. – AAR: publicly available and consideration for ABB. – staff capacity used to implement budget was 69.6%. – average staff used to prepare budget is not known. – budget implementation rate was 83%. – budget implementation rate vs. planned implementation level is not known. 	<ul style="list-style-type: none"> – AMP: mentions strategic and specific objectives. – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare and implement budget is not known. – budget implementation rate was 78.5% (incl. additional appropriations). – budget implementation rate vs. planned implementation level is not known.
Audit and control by the Commission	<ul style="list-style-type: none"> – capacity used for MS audits is not known. – number of audits performed was 24.²⁴² 	<ul style="list-style-type: none"> – capacity used for MS audits is not known. – number of audits performed was 89.
Internal Audit DG	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards in 2003 was 96%. – staff capacity used for and number of planned/performed audits are not known. 	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards was 100%. – capacity used for and number of planned/performed audits are not known.
Accountability information	<ul style="list-style-type: none"> – staff capacity used to prepare the AAR in proportion to total DG capacity is not known. – number of reservations made: 6. – number of reservations with quantification of monetary materiality/volume: 2. 	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known. – number of reservations made: 4. – number of reservations with quantification of monetary materiality/volume: 2.²⁴³

* Source: European Commission, Report on budgetary and financial management 2003 and 2004.

DG Research**Indicator EU financial management**

Commitments (in million euros)*

	2003	2004
	€ 2 732	€ 3 215
Budget planning and implementation	<ul style="list-style-type: none"> – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget 2003 was 76.1% (planned: 76.3%). – budget implementation rate was 96.4%. – budget implementation vs. planned implementation level is not known. 	<ul style="list-style-type: none"> – AAR 2004: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 70.9%. – budget implementation rate (in terms of payment appropriations) was 61.8%. – budget implementation rate vs. planned implementation level is not known.
Audit and control by the Commission	<ul style="list-style-type: none"> – capacity used for and number of MS audits are not known. 	<ul style="list-style-type: none"> – capacity used for and number of MS audits are not known. 118 audits of the fifth framework programme were performed in 2004.²⁴⁴
Internal Audit DG	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards was 90%. – audit capacity used is not known. – audit performance rate was 100%.²⁴⁵ 	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards is not known. – audit capacity used is not known. – audit performance rate was 100%.²⁴⁶
Accountability information	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known. – number of reservations made in 2003: 1 (with quantification of monetary materiality/volume). 	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known. – number of reservations made in 2004: 1 (with quantification of monetary materiality and volume).²⁴⁷

* Source: European Commission, Report on budgetary and financial management 2003 and 2004.

²⁴² For contracted projects to an amount of € 52.9 million.

²⁴³ The other 2 reservations had no monetary impact worth mentioning.

²⁴⁴ Le nombre d'audits externes clos en 2004 concernant les 5èmes programmes-cadres est de 118.

²⁴⁵ Number of planned/performed audits was 5.

²⁴⁶ For 2004 number of planned/performed audits was 4.

²⁴⁷ L'assurance peut cependant être donnée par le fait que la fréquence d'erreurs n'a pas d'impact financier significatif sur le budget communautaire et tout spécialement en 2004 où le taux d'ajustement est de 0.21% (AAR 2004, pages 58 and 60).

OLAF

Indicator EU financial management Commitments (in million euros)	2003 Unclear	2004 Unclear
Budget planning and implementation	<ul style="list-style-type: none"> – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare and implement budget is not known.²⁴⁸ – budget implementation rate 2003 is not known. 	<ul style="list-style-type: none"> – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare and implement budget is not known.²⁴⁹ – budget implementation rate was 75.6%.²⁵⁰
Audit and control by the Commission	<ul style="list-style-type: none"> – staff capacity used in investigations and operations was 41.6%. – % performed vs. planned investigations is not known. – % of publicly available reports is not known. 	<ul style="list-style-type: none"> – staff capacity used in investigations and operations was 41.6%. – % performed vs. planned investigations is not known. – % of publicly available reports is not known.
Internal Audit DG	<ul style="list-style-type: none"> – compliance with 15 of all 24 IC standards: 8 IC standards were partially completed. 1 standard was not yet completed. – capacity for and number of planned/performed audits are not known. 	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards in 2004: not known – capacity for and number of planned/performed audits are not known.

Internal Audit Service

Indicator EU financial management Commitments (in million euros)	2003 Unclear	2004 0.51 ²⁵¹
Budget planning and implementation	<ul style="list-style-type: none"> – AAR not publicly available. – average staff capacity used to prepare budget is not known. – staff capacity used to implement budget was 72.2%. – budget implementation rate is not known. 	<ul style="list-style-type: none"> – AAR publicly available. – average staff capacity used to prepare budget is not known. – staff capacity used to implement budget was 72%. – budget implementation rate was 30.1%.
Internal Audit DG	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards is not known. – planned audit capacity was 64.7%. – audit performance rate in 2003 was 45%.²⁵² 	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards in 2004 is not known. – planned audit capacity was 71.8%. – audit performance rate was 90%.²⁵³
Accountability information	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known. 	<ul style="list-style-type: none"> – capacity used to prepare the AAR in proportion to total DG capacity is not known.

Secretariat-General

Indicator EU financial management Commitments (in million euros) ²⁵⁴	2003 34.9	2004 14.4
Budget planning and implementation	<ul style="list-style-type: none"> – AAR: publicly available and consideration for ABB – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 82.1%. – budget implementation rate was 66.64%. – budget implementation rate vs. planned implementation level is not known. 	<ul style="list-style-type: none"> – AAR: publicly available and consideration for ABB. – average staff capacity used to prepare budget is not known. – average staff capacity used to implement budget was 84.8%. – budget implementation rate was 55.6%.²⁵⁵ – budget implementation rate vs. planned implementation level is not known.
Internal Audit DG	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards in 2003 was 95%. 	<ul style="list-style-type: none"> – compliance with baseline requirements of IC standards in 2004 was 96%.
Accountability information	<ul style="list-style-type: none"> – capacity used to prepare Commission's Synthesis Report 2003 is not known. – no Directorate-General or member state was addressed separately in the Synthesis Report 2003. 	<ul style="list-style-type: none"> – capacity used to prepare Commission's Synthesis Report 2004 is not known. – no Directorate-General or member state was addressed separately in the Synthesis Report 2004.

²⁴⁸ Calculated total staff at the end of 2003: 385 posts. According to AAR 2003: 358 as at 01-01-2004.

²⁴⁹ Calculated total staff at the end of 2004: 447 posts of which 57 for support activities.

²⁵⁰ Annex 3 of the AAR.

²⁵¹ Does not include all IAS budget lines.

²⁵² Including audits of 8 out of 11 'high risk' cases. IAS was not able to audit agencies as well in 2003.

²⁵³ 253 out of 31 planned audits.

²⁵⁴ In t254 of commitment appropriations.

²⁵⁵ In terms of payment appropriations.

Appendix 4 Discharge procedure for the 2003 budgets of other institutions and agencies

The Treaty Establishing the European Community²⁵⁶ provided for the foundation of the European institutions and its two advisory committees. The activities of the institutions and committees are financed from the EU's administrative expenditure (heading V in the Commission's budget). In 2003, administrative expenditure accounted for 5.9% of the Commission's total budget.

Administrative expenditure of the European institutions and advisory committees (million euros)			
Institution / Committee	Expenditure 2002	Expenditure 2003	Expenditure 2004
European Parliament	1 083	986	1 166
Council of Ministers	394	410	507
European Commission	3 438	3 546	3 721
Court of Justice	145	148	216
European Court of Auditors	76	84	84
European Ombudsman	4	4	5
Economic and Social Committee	76	81	92
Committee of the Regions	44	46	63
Total	5 212	5 305	5 854

* Source: Annual reports 2003 and 2004, European Court of Auditors.

The status of the implementing agencies is laid down in the EU's Financial Regulation. The agencies are legal persons that can be authorised to carry out all or part of a Community programme on behalf of the Commission. Pursuant to article 185 of the Financial Regulation, the Commission has drawn up a framework Financial Regulation that further regulates, amongst other things, the European Parliament's discharge of the agencies' budget implementation.²⁵⁷ The agencies are financed from the Commission's budget (heading III of the EU budget). The Commission's contribution to each agency is the balance of expenditure and the agency's own revenue.

²⁵⁶ Treaty of 25 March 1957, consolidated version.

²⁵⁷ Commission Regulation (EC, Euratom) No 2343/2002 of 23 December 2002 on the framework Financial Regulation for the bodies referred to in Article 185 of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities.

Operating expenditure of the EU agencies in financial years 2002-2004 (million euros)			
Agency	Expenditure 2002	Expenditure 2003	Expenditure 2004
European Centre for the Development of Vocational Training	13.9	15.4	16.6
European Foundation for the Improvement of Living and Working Conditions	17.3	16.8	18.1
European Environment Agency	25.1	27.3	33.6
European Training Foundation	16.6	17.5	18.4
European Monitoring Centre for Drugs and Drug Addiction	9.7	10.1	12.2
European Agency for the Evaluation of Medicinal Products	58.4	75.8	99.1
Office for Harmonisation in the Internal Market	96.9	96.2	190.0
European Agency for Safety and Health at Work	12.2	14.1	10.7
Community Plant Variety Office	8.2	10.2	11.3
Translation Centre for the Bodies of the EU	18.4	18.3	29.8
European Monitoring Centre on Racism and Xenophobia	6.0	7.1	7.9
European Agency for Reconstruction	457.8	358.7	374.6
Eurojust	0.7	5.6	9.3
European Food Safety Authority	-	10.2	29.1
European Maritime Safety Agency	-	1.4	13.3
European Aviation Safety Agency	-	4.0	11.3
Total	741.2	688.7	855.3

* Source: Annual reports 2003 and 2004, European Court of Auditors.

A different discharge procedure is in place for two of the 16 agencies.²⁵⁸ The European Parliament does not have power of discharge in these two cases because the agencies do not receive Community funds and the financial regulations drawn up on their establishment provide for discharge by the agencies' own boards.²⁵⁹

In addition to the institutions, committees and agencies, there are other European organisations. These organisations are not discharged by the European Parliament. The European Investment Bank and the European Central Bank, for example, are not legally part of the Community because they are financed directly by the member states. The EU's contribution to Euratom and the European Schools is covered by the European Parliament's general discharge of the Commission.

The discharge procedure

The discharge procedure begins with the financial statements drawn up by the institutions, committees and agencies, including senior management reports and a summary of internal control findings. Since 2003, the European Court of Auditors has drawn up separate annual reports on the institutions, committees and agencies. These reports, like the annual report, are published together with the replies of the institutions under audit. The European Council, which is made up of the heads of government of the 25 EU member states and the Commission's President, then makes a recommendation by qualified majority of votes to Parliament regarding the granting of discharge.

²⁵⁸ The European Office for Harmonisation in the Internal Market and the Community Plant Variety Office.

²⁵⁹ These financial regulations have not been published in the Official Journal.

The European Parliament decides whether to grant discharge or not in conformity with or after amendment of the Budget Control Committee's draft decisions and resolution. Pursuant to the Financial Regulation, discharge should be granted no later than 30 April in the second year after the financial year in question.

Findings on the institutions and committees

The European Court of Auditors issued a Statement of Assurance for all institutions and committees. The European Court of Auditors concluded that the institutions and committees had gone to great lengths but had not yet made all the changes required by the new Financial Regulation.

The new Financial Regulation came into force as from the 2003 financial year and lays down conditions on the design and operation of internal supervisory systems and controls, the financial commitments and the annual activity reports of the authorising officers. The European Court of Auditors notes that non-compliance with the Financial Regulation represents a risk regarding the regularity and legality of the underlying transactions. Apart from non-compliance with the Financial Regulation, the European Court of Auditors notes that the prescribed tendering procedures have not been fully observed in a number of cases.

The European Court of Auditors also notes in its annual report that the general risk in respect of administrative expenditure is low. In the first place, this is because management is conducted directly by the Community institutions and organs themselves and is not outsourced to third parties. Secondly, virtually all administrative expenditure relates to personnel and equipment rather than to grants and project financing.

The European Parliament granted all institutions and committees discharge on 12 April 2005.

Findings on agencies

The main weaknesses disclosed in the European Court of Auditors' reports on the agencies are:

- conformity with budget rules and, in particular, the carrying over of commitments to a subsequent year;
- management of resources;
- conformity with applicable recruitment and tendering procedures.

The European Court of Auditors issued a Statement of Assurance in respect of all agencies except one. Only in the case of the European Agency for Reconstruction did the European Court of Auditors conclude that the annual accounts did not give a true and fair view of the agency's economic and financial situation. Owing to the lack of necessary data on the expenditure of the funds the agency had entrusted to third-party national and international institutions, the European Court of Auditors could not express an opinion on the legality and regularity of the transactions underlying € 21.4 million of expenditure in 2003. In other respects, the European Court of Auditors was of the opinion that the transactions underlying the agency's annual accounts were legal and regular.

In the European Parliament's opinion, the structure of current and future agencies deserves in-depth consideration. The European Parliament asked the Commission to analyse the evaluations made to date of the individual agencies. Parliament finds, amongst other things, that communication between the Commission and the agencies should be improved, that supervision and evaluation standards should be introduced and that the allocation of funds should be improved. In future, Parliament expects to receive from each of the agencies a report summarising information on the audits carried out by the Internal Auditor, the recommendations made and the action taken on these recommendations. Parliament also expects the agencies to comply fully with the budgetary principles as laid down in the Financial Regulation, in particular those regarding unity and budgetary accuracy.²⁶⁰ Furthermore, agencies that have not yet done so must fulfil the Financial Regulation's requirements on accounting matters and strengthen further their procedures as regards internal management and control with the aim of increasing accountability, transparency and European added value in accordance with the Financial Regulation.

The European Parliament granted the 14 agencies discharge on 12 April 2005.

²⁶⁰ Framework Financial Regulation, article 72 (5).

Appendix 5 Agreement between the Synthesis Report as an accountability document and the European Commission's policy strategy

Synthesis Report 2003

The Synthesis Report 2003 evaluates the implementation of policy with a view to the policy strategy. The following points are considered:

- **Internal control**

The Commission observes that urgent action is required regarding internal control of parts of the Commission outside headquarters (delegations, representations and external organisations).

- **Activity-based management and strategic planning and programming**

This section does not look back at the previous year but explains what still has to be done. In this respect, it refers to the European Court of Auditors' recommendations on the development of performance indicators.

- **Human resources**

There are long-standing vacancies at a number of Directorates-General. Finding qualified personnel is difficult.

- **Financial management and reporting**

The new Financial Regulation came into effect in 2003. This chapter considers:

- Shared management: Directorates-General involved in structural funds cannot issue statements of assurance. The Commission wants to gain assurance through its own controls and through declarations from bodies responsible in the member states. This includes the single audit model advocated by the European Court of Auditors.
- Direct and indirect centralised management: there are too many errors in the DG declarations regarding the reimbursement of beneficiaries' expenditure. The Commission wants to simplify its management.
- Ex ante and ex post controls: controls are strengthened through the exchange of best practices. A network of ex post controls is being set up.
- Implementation of the Financial Regulation: there are problems at certain Directorates-General. Application provisions will be revised.
- Accounting/financial reporting: the project to switch to a transaction-based accounting system in 2005 has, according to the multiyear plan, been completed.

In the Synthesis Report, the Commission notes that the scope of the statements of assurance must be unambiguous. It is essential that the statements of assurance reflect the exact status of internal control, without undermining the assurance or the content. Guidelines will be drawn up and best practices exchanged between the Directorates-General. They must give priority to risks, audit and internal control.

The Commission concludes that many issues at the Directorates-General are not new; new action plans will therefore not be drawn up. Some activities from the previous Synthesis Report will be followed up, others are still being carried out. The reform of the Commission has been largely completed.

The Commission finds, however, that it should strike a better balance between

its role as initiator of policy and strategy on the one hand and its role as implementer of that policy, including management, on the other.

This will require an improvement in audit and control. Synergy must be realised between audit bodies at member state level and at EU level.

Cooperation between auditors and auditees must also be enhanced.

Agreement with the 2003 policy strategy

The EU's annual policy strategy is adopted by the European Commission and forms its strategic framework: the document sets out the Commission's policy priorities. These priorities agree with the five-year strategic objectives that the Commission adopts at the beginning of its five-year term of office. The main points in the 2003 policy strategy are:

- three policy priorities for the European Commission: (1) the enlargement of the EU, (2) stability and security, (3) a sustainable and inclusive economy;
- concrete objectives and associated activities for each of the three policy priorities;
- human resource for the three policy priorities;
- financial resources for the three policy priorities and guidelines for the budget;
- implementation of strategic evaluations in 2003.

The Court of Audit finds that the main points of the Synthesis Report 2003 do not agree substantively with the main points of the policy strategy 2003. The three policy priorities, which underpin the policy strategy, are not mentioned in the Synthesis Report 2003. Furthermore, the objectives of the policy strategy are not referred to in the Synthesis Report and the approach to human and financial resources (in relation to the three policy priorities) taken in the Synthesis Report does not agree with the approach taken in the policy strategy. The results of the Directorates-General are not considered in the Synthesis Report 2003. The Synthesis Report 2003 does not consider the policy implemented in terms of the policy priorities but in terms of control, management and instruments. Moreover, it is not clear whether the description of the status of control, management and instruments is complete.

Synthesis Report 2004 and agreement with policy strategy

The Synthesis Report 2004 considers the following matters:

- **Global overview**

Many services were able to lift reservations relating to ex post controls. They were better able to identify weaknesses in the implementation of the budget by national authorities regarding the application of EU funds under shared management with the member states. Decentralised management with third countries brought risks with it: a great deal of attention must be paid to the control framework. The conclusion is that reservations are usually indicative of recurring weaknesses and that measures must be developed that better support the services' reasonable assurance of the legality and regularity of their activities. The European Commission's roadmap offers the European Court of Auditors a strong basis for its opinion.

- **Reinforcement of the annual activity report process**
More focused and explicit annual activity reports are required, with balanced reporting and a common methodology by ‘policy family’ (shared management, research and internal policies).
- **Synthesis Report and statements of assurance**
The Commission sees the synthesis as an act through which ‘the Commission exercises its political responsibility, by analysing the annual activity reports and related declarations and by adopting a position on major horizontal issues, including appropriate action on issues requiring remedy at Commission level.’²⁶¹ The Commission finds that its responsibility can be strengthened by improving the quality of the activity reports of some services and through more precise reservations and better definition of their impact.
- **Governance issues**
The Commission is facing the challenges of enhancing the effectiveness of its supervisory and control systems, of reinforcing risk management at departmental level and of developing Commission-wide risk management, as well as improving supervisory arrangements for agencies.
- **Financial management and reporting**
Financial management has been overhauled with a recast Financial Regulation, which entered into force in 2003, the introduction of activity-based budgeting in 2004 and the transition to accrual-based accounting with effect from January 2005. The Commission is now proposing to the other institutions a roadmap to an integrated control framework, which will provide the Commission and its stakeholders with greater assurance as to the legal and regular use of EU monies, including under shared management with Member States. Ex post controls will also be better focused and harmonised, in particular by ensuring increased consistency at the level of ‘families’ of services.
- **Human resources**
The simplification of some instruments is designed to ensure an efficient human resources policy. There is a lack of specialised staff. Attaining the targets for the recruitment of officials from the new member states has been delayed.

The Commission concludes in the Synthesis Report 2004 that the synthesis establishes a reference framework ensuring consistency and explaining the rationale behind the proposed initiatives, contributing among other things to the objective of obtaining an assurance statement from the European Court of Auditors.²⁶²

The Court of Audit draws the same conclusion on the agreement between the policy strategy 2004 and the synthesis 2004 as it did for the Synthesis Report 2003. The political priorities underpinning the policy strategy are not considered in the Synthesis Report. They are not mentioned and they are not referred to. The same is true of the policy strategy’s objectives. The results of the Directorates-General are barely touched upon in the Synthesis Report 2004.

²⁶¹ European Commission, Synthesis Report 2004, p. 9.

²⁶² European Commission, Synthesis Report 2004, p. 18.

Appendix 6 Reports published by supreme audit institutions in the EU member states on the expenditure of EU funds

The Court of Audit determined what reports on the implementation of EU policy in 2004-2005 had been published by the supreme audit institutions of the member states of the EU.

Austria: Rechnungshof	<ul style="list-style-type: none"> – Organisation and handling of agricultural and viticultural grants. Förderung (published in 2004 in Special report, Reihe Burgenland 2004/1) – Organisation and handling of agricultural and viticultural grants. Förderung (published in 2003/2004 in Special report, Reihe Kärnten 2004/2; Reihe Niederösterreich 2004/10; Reihe Tirol 2003/4; Reihe Wien 2004/1) – Community Initiative INTERREG III A Alpenheim - Bodensee – Hochrhein. Joint audit with the ECA (published in 2004 in Special report, Reihe Vorarlberg 2004/2) – Customs Duties and Agricultural Duties - Joint audit with the ECA – (Annual report 2003) – Measures regarding the production potential on the market of wine- Joint audit with the ECA – Reihe Burgenland 2005/1, Reihe Niederösterreich 2005/1, Reihe Steiermark 2005/1, Reihe Wien 2005/1 and Annual Report 2003) – Payment Agency Agrarmarkt Austria; Integrated administration and control system for certain Community aid schemes - Joint audit with the ECA – (Annual Report 2003) – EU-funding for transport telematics - Joint audit with the ECA – (Annual Report 2003) – Effectiveness of the integrated administration and control system for certain Community aid schemes in the implementation of the agri-environmental programme ÖPUL 2000 - Joint audit with the ECA – (Reihe Bund 2005/2). European Agricultural Guidance and Guarantee Fund (EAGGF Guarantee Section), Statement of Assurance 2003 - Joint audit with the ECA – (Reihe Bund 2005/2) – European Agricultural Guidance and Guarantee Fund (EAGGF Guarantee Section), Statement of Assurance 2003 – (Special Report, Reihe Bund 2005/2) – Agrarmarkt Austria Marketing GesmbH (Reihe Bund 2005/9) – Research relevant information: Grants and subsidies database (Reihe Bund 2005/9)
Belgium: Belgian Court of Audit	<ul style="list-style-type: none"> – Investment premiums in the Walloon Region. The concept of ‘employment’ and ‘firm creation/ expansion’ (February 2004) – Funding in the European context of the Flemish municipal water treatment network (January 2005) – Explanatory note on the ESR methodology (May 2005)
Cyprus: Audit Office of the Republic of Cyprus	<ul style="list-style-type: none"> – No reports published in 2004/2005
Czech republic: Supreme Audit Office	<ul style="list-style-type: none"> – Auditing operation No. 03/09 - The Realisation of the National Programme of the Preparation of the Czech Republic for the Membership in the European Union under the competence of the Department of Agriculture (May 2004) – Auditing operation No. 03/25 - The State Budget Funds provided from the chapter - the Ministry of Health for preparation of the Czech Republic for Membership in the European Union (July 2004) – Auditing operation No. 03/27 - Funds earmarked to Regional Operational Programmes at NUTS II level (PHARE) (September 2004) – Auditing operation No. 04/08 - The State Budget and the European Union funds earmarked for the SAPARD programme (March 2005) – Auditing operation No. 04/20 - Financial resources provided in the framework of the EU supportive programmes ISPA and PHARE for improving the environment measures (June 2005) – Auditing operation No. 04/21 - Funds earmarked for the sector operational programme Industry (January 2005)
Denmark: National Audit Office of Denmark	<ul style="list-style-type: none"> – Memorandum concerning the EU accounts for 2002 (February 2004) – Memorandum concerning the discharge of the 2002 EU accounts (September 2004) – Parallel audit on Structural Funds (October 2004) – Special report on border control (November 2004) – Special report on the European Social Fund (December 2004) – NAOD memorandum concerning EU accounts for 2003 (January 2005) – NAOD memorandum concerning the discharge of the 2003 EU accounts (June 2005)
Estonia: State Audit Office of Estonia	<ul style="list-style-type: none"> – Results of PHARE projects aimed at economic development (April 29, 2004, English version available) – Procurement process in road building and construction (June 18, 2004) – National program ‘Integration in Estonian society’ (June 30, 2004) – Audit of the economic activities of the foundations for Estonian Vocational Education Reform (2005) – Efforts of the public authorities of Estonia to avoid generation of surplus sugar stock by the time of acceding to the European Union (June 1, 2005)

Finland: State Audit Office	<ul style="list-style-type: none"> – Hansel Ltd's structural arrangements and the company as part of the state's procurement strategy (2004) – The Directorate of Immigration's activities - mainly from the viewpoint of operational processes (2004) – The Finnish Geodetic Institute's activities (2004) – Regional Innovative Actions Programmes (2004) – Local action groups as developers of rural areas (2004) – Support for organic farming (2004) – Parallel audit on the audit trail including the 5% check (2005) – The special undertakings of agri-environment measures (2005) – Evaluation of national financial impacts concerning EU regulations (2005)
France: Cour des Comptes	<ul style="list-style-type: none"> – Financial management of the European Social Fund (in the 2003 Annual Report) (2004) – Audit of professional bodies (issuing European grants): national professional body for cereals and oil yielding plants and national professional body for fruits, vegetables and horticulture (in the 2003 Annual Report) (2004)
Germany: Bundesrechnungshof	<ul style="list-style-type: none"> – Inadequate application of public procurement legislation - Taking regard to EU public procurement law (Annual Report on Federal Financial Management 2004 - abridged English version available on www.bundesrechnungshof.de) – Audit of invitations to tender for building contracts to verify compliance with EU public procurement law (Annual Report on Federal Financial Management 2004 - abridged English version available on www.bundesrechnungshof.de) – Audit of invitations to tender for contracts for professional services in connection with building to verify compliance with EU public procurement law (Annual Report on Federal Financial Management 2004 - abridged English version available on www.bundesrechnungshof.de) – VAT Assessment of public entities - Proposals for making the taxation of bodies incorporated under public law compatible with EU-legislation (Report from November 2004 under section 99 of the German Federal Budget Code) – Allocation of grants from the European Social Fund (2004 Annual report on federal financial management/ Abridged Version).
Greece: Hellenic Court of Audit	<ul style="list-style-type: none"> – Organisation, operation and financial management of the Community Programme SOCRATES in Greece during the financial years 2000-2002 (February 2004) – Operational Programme HEALTH AND PREVENTION (3rd C.S.F.) (April 2004) – Operational Programme ROAD AXES, PORTS AND URBAN DEVELOPMENT (3rd C.S.F.) (June 2004)
Hungary: Hungarian State Audit Office	<ul style="list-style-type: none"> – Audit of the PHARE Programme realised in the field of healthcare (2004) – Audit of the environmental programmes realised from the ISPA support. – Audit on improving transportation infrastructure implemented in the frame of ISPA Programmes (2005) – 2004 certifying audit of the Hungarian institutional framework set up in order to implement the SAPARD programme and to effect payments of financial assistance – 2004 certifying audit of the organisation serving as the Paying Agency administering the measures financed under the European Agricultural Guidance and Guarantee Fund – Audit of the utilisation of the funds spent on the 'Statistics' national program (20% EU PHARE Funds) – Audit of environmental protection and nature conservation in the Hungarian-Austrian-Slovenian border region (partly EU PHARE and EU CBC Funds)
Ireland: Office of the Comptroller and Auditor General	<ul style="list-style-type: none"> – The Irish Office does not produce any specific or composite report on EU financial management. Within the bodies audited, EU funds are audited in like manner to national funds and reported on where issues arise regardless of the source of the funding. Furthermore separate Financial Statements are prepared and audited annually for EAGGF-Irish Operations.
Italy: Corte dei Conti	<ul style="list-style-type: none"> – Annual Report 2003: The financial relationships with the EU and the use of EU funds (March 2004) – Annual Report 2004: The financial relationships with the EU and the use of EU funds (March 2005) – Environmental sustainability and tourism – The reports above listed are the ones produced by the Specialised Chamber and sent to the Parliament. Other reports are produced by the Regional Audit Chambers and sent to the relevant Regional Assembly.
Latvia: State Audit Office	<ul style="list-style-type: none"> – Report on the assessment of management effectiveness, compliance of the results with the set goals and long-term effect of PHARE project CA 98 LE9812.02 <i>Corruption prevention training, legislation and information program</i> (2004) – Report on the legality audit on the utilisation of funding of PHARE P2000 project LE 00.10.02 <i>Development of Latvian strategy of drug control and drug addiction prevention and its implementation in accordance with EU recommendations</i> (2004) – Report on the legality audit on the utilisation of funding of ISPA 2000/LV/16/P/PA/001 project <i>Technical assistance to environmental projects in Latvia</i> and of preparatory works carried out for the establishment of hazardous waste bury site (2004) – Audit on the preparedness of the involved institutions to take up the funding of European Social Fund and European Regional Development Fund (2004)
Lithuania: National Audit Office of the Republic of Lithuania	<ul style="list-style-type: none"> – Certification audit of SAPARD for the financial year 2003 (2004 - English version available) – Winding-up audit of ISPA funded TA project 2001/LT/16/P/PA/003 (2004) – Interim winding-up audit of ISPA funded TA project 2000/LT/16/P/PA/001(2004) – Certification audit of EAGGF GS for the financial year 2004 (2005) – Winding-up audit of Cohesion (ISPA) funded transport project 2000/LT/16/P/PT/002 (2005) – Certification audit of SAPARD for the financial year 2004 (2005) – Audit on assessment of Structural Funds SPD programme management and control system built-up in Lithuania (2005) – Final winding-up audit of Cohesion (ISPA) funded TA project 2000/LT/16/P/PA/001 (2005) – Interim winding-up audit of Cohesion (ISPA) funded TA project 2001/LT/16/P/PA/002 (2005).

Luxembourg: Cour des comptes	No reports published in 2004/2005
Malta: National Audit Office of Malta	<ul style="list-style-type: none"> – Ministry for Rural Affairs and the Environment – Agriculture Support Scheme Account (Mid-Year Audit Report on Public Accounts 2004 – July 2005) – Social Security Department – Old Age Pensions within the EU Scenario (Mid-Year Audit Report on Public Accounts 2004 - July 2005)
The Netherlands: The Netherlands Court of Audit	<ul style="list-style-type: none"> – EU Trend Report 2004 (February 2004, TK 2003-2004, English version available) – Administrative Controls Butter Subsidies (September 2004, TK 2003-2004) – Financial consequences of new EU policy (September 2004, TK 2003-2004, English version available) – EU Trend Report 2005 (February 2005, TK 2004-2005, English version available) – Use of border checks in the fight against terrorism (September 2005, TK 2005-2006)
Poland: The Supreme Chamber of Control	<ul style="list-style-type: none"> – Using PHARE Crossborder funds in the field of cross-border co-operation of Slovakia and Poland in the period 2000-2003 (January 2004) – Realisation of the Government's obligations which were negotiated with the European Commission in the area of environment protection (February 2004) – Preparation of public administration for acquisition and implementation of structural funds (March 2004) – Preparation of Polish fisheries to the integration with the European Union (December 2004) – Using of the EU pre-accession funds as regards to PHARE's Economical and Social Cohesion Programme 2000 (April 2005) – Using of the public funds for the programmes concerning reduction of unemployment, including EU pre-accession funds (May 2005) – Implementation of the Framework Programme for European Research & Technological Development (May 2005) – Audit on the state budget execution in the 2004 year – part 84 'EU own resources' (May 2005) – Preparation of public administration for implementation of the Cohesion Fund (June 2005)
Portugal: Tribunal the Contas	<ul style="list-style-type: none"> – Audit to the Internal Control System of the Community Funds (January 2004) – Audit to the Management Systems of the Priority Area 3 of the Operational Programme of the Centre Region - CSF III (May 2004) – Management and evaluation system of the PEDRAA II (Special Programme of the Azores Autonomous Region Development) – EAGGF-O (May 2004) – Audit to the managing expenses on the controls of the EAGGF - Guarantee, within the scope of the Integrated Administration and Control System (IACS) (July 2004) – Audit to the Management Systems of the Priority Area 3 of the Operational Programme of the North Region - CSF III (July 2004) – Financial Management Audit to the Component 1 – Integrated Operations of Urban Revitalisation and Environmental Valorisation – of the POLIS Programme (July 2004) – Analyse of the accounting and support systems of the community financial flows, within the sphere of Operational Programme for the Employment, Training and Social Development, of the CSF III (FSE) (August 2004) – Integrated Project within the framing of the PRODESA (Operational Programme for the Economic and Social Development of Azores) / FEOGA-O – Construction and betterment of agricultural pathways of the Ponta Delgada milk basin – Azores (December 2004) – Integrated Project within the scope of the PRODESA/FEDER – Variant Ponta Delgada – Lagoa (December 2004).
Slovak republic: Supreme Audit Office of the Slovak Republic	<ul style="list-style-type: none"> – Audit Report of Pre-Accession CBC Phare Funds, disposable for the projects within the Financing Memorandum 2000-200? in the field of cross-border co-operation of Slovakia and Poland (2004) – Audit of the management of Phare Funds disposable for selected projects for the support of the Roma minority in Slovakia (2004) – Report on certification audit of the SAPARD Programme in Slovakia for the financial year 2003 (2004) – The Supreme Audit Offices publishes regularly during the year two periodicals: 'Reporter' (for state bodies) and 'Audit' (for the general public) with information on audit reports.
Slovenia: Court of Audit of the Republic of Slovenia	<ul style="list-style-type: none"> – Audit Report on Regularity of implementation of the projects from ISPA pre-accession programme in 2002 (July 14, 2004)
Spain: Tribunal the Cuentas	<ul style="list-style-type: none"> – Reporting on EU matters is incorporated in different general reports of the Tribunal the Cuentas (2004, 2005) – Audit on the Management of Structural Funds (2005)
Sweden: The Swedish National Audit Office	<ul style="list-style-type: none"> – Speedy scrutiny for asylum – Management and Control of the Structural Funds – Environmental toxins from waste incineration - are supervisory systems effective
The United Kingdom: The National Audit Office	<ul style="list-style-type: none"> – HM Customs and Excise: Tackling VAT fraud (HC 357, 2003-2004) – Financial management of the European Union: A progress report (HC 529, 2003-2004) – Department for Environment, Food and Rural Affairs: Helping farm businesses in England (HC 1028, 2003-2004) – Helping Farm Businesses in England Overall Report (HC 1028, 2003-2004, Sept. 2004). – Financial Management of the European Union (HC 289 2004-2005, March 2005). – Lost in Translation, Responding to the challenges of European Law (HC 26 2005-2006, May 2005)

Appendix 7 Methodology and literature (to chapter 18)

Calculation of values

The evaluations were analysed with the aid of a standard questionnaire.²⁶³ The answers were saved in text and partly in code in a database. We calculated values for the core issues of measurability of objectives and achievement of objectives, ranging from zero (nothing) to ten (complete).

For the measurability of the objectives, we analysed the evaluations on four points:

- logical relationship between intended social effects and intended performance;
- expression of the intended social effects in measurable units;
- formulation of measurable target values for these measurable units;
- expression of the intended performance in measurable units.

The answers were coded as zero, partial and comprehensive. A programme scores nil for each 'zero', 1.25 for each 'partial' and 2.5 for each 'complete'. This produced an overall index from 0 to 10.

To draw conclusions on the degree to which the objectives of the programmes studied had been achieved by the middle of the programming period, a valuation model was formulated with figures ranging from 0 to 10 by giving the answer to the relevant question for each objective a 5 if it was 'partial' and a 10 if it was 'complete' and then averaging the score over the objectives.

Many programmes seek a wide variety of objectives. To determine whether certain types of objective were achieved more frequently than others, the objectives were divided into general categories. We then calculated the percentage of objectives that had been achieved in full in each category and the percentage of objectives that had been partially achieved. To gain an overall value, we then counted half the 'partials' (and all the 'completes' and none of the 'nothings') to produce an index ranging from 0 (no objectives achieved) via 50 (all objectives partially achieved) to 100 (all objectives completely achieved), with many scores in between. If it could not be said whether an objective had been achieved or not (for example, because it was too vague or because no information had been collected), that objective was not taken into account. A programme might accordingly have a high value but the value might relate to only a small number of objectives and say nothing about the other objectives.

²⁶³ Four evaluations have been made of the Leader+ programme, one for each geographical area. Here, we have taken the average of the four individual values. One European and one Dutch evaluation have been made of Leonardo da Vinci. Here, we have not considered the Dutch evaluation because it says little or nothing about the measurability or achievement of results.

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