Algemene Rekenkamer

EU Trend Report 2015

Developments in the financial management of the European Union

EU Trend Report 2015

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Executive summary

Purpose and structure

This is the thirteenth annual EU Trend Report to be published by the Netherlands Court of Audit. It provides an insight into the financial management of EU funds in the European Union (EU) as a whole, in the EU member states and in the Netherlands.

Financial management is an important factor in the Minister of Finance's decision on whether or not to grant discharge to the European Commission for its implementation of the EU budget. The Netherlands decides on the discharge every spring following a debate in the House of Representatives. We hope that our report will help the House to conduct a well-informed debate with the Minister.

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

As was the case last year, this year's EU Trend Report consists of two parts. The first part describes the current state of the EU's financial management. As in previous years, we examine financial management and the regularity, effectiveness and efficiency of EU spending, both EU-wide and in the individual member states. This year's report also contains a special section on fraud and corruption.

As in last year's report, the second part of the report sets out the findings of our own audit. This year, we report on an audit of six EU projects in the Netherlands as well as on an audit of the workings of EU public procurement rules.

Conclusions and recommendations in part 1, 'Trends in the EU's financial management'

Each year, we examine whether EU funds have been spent regularly, effectively and efficiently on the basis of various EU accountability documents and audit reports issued by the European Commission, the European Court of Auditors and the EU member states. This year's EU Trend Report contains a special section on the European Commission's 2014 anti-corruption report.

The main conclusions from the first part of the study are as follows:

EU-wide

- The European Court of Auditors was again unable to express an unqualified opinion on the use of EU funds. It is also clear from the accounts prepared by the European Commission on its own spending that there was no improvement in the regularity of expenditure in 2013.[1]

1 Although the Directors-General at the European Commission expressed fewer reservations about the reliability of the information in their annual accounts (such reservations are expressed, for example, in relation to irregular items of expenditure), the total value of the expenditure about which reservations were expressed remains just as high as in previous years.

- As in previous years, the members of the European Commission did not sign the synthesis report in which the Commission expresses its approval of the management exercised by the Directors-General.
- There is still scope for improvement in the European Commission's first report on the anti-corruption campaign. The anti-corruption measures proposed in the report are geared primarily towards the public perception of corruption and not at actually preventing corruption. In other words, the proposed measures will not have any impact on the root causes of corruption. The report would have greater value if it was based on empirical evidence and included the findings of the European Anti-Fraud Office (OLAF).
- Under the current Financial Regulation, the member states may render account by issuing a voluntary national declaration.[2] This is the practice currently followed by the Netherlands, Denmark and Sweden. At the request of the European Parliament, a Working Group on National Declarations made a number of recommendations in June 2014 for simplifying the use of a national declaration. For example, the Working Group produced a set of templates for the various sections of a national declaration and made all sorts of practical suggestions for the publication of such declarations, so as to encourage the member states to issue them. The European Commission has endorsed these recommendations.

Member states

- There was no improvement last year in the account rendered by EU member states for their use of the funds they receive from Brussels. In 2013, only three member states, one being the Netherlands, voluntarily issued a national declaration (or 'member state declaration') on their use of EU funds. To date, the other member states have not shown any sign that they are planning to issue a voluntary political statement on the management and spending of EU funds in their own countries. We believe that the procedure for scrutinising and reporting on the use of EU funds in each member state should culminate in the publication of a public, political statement. The recent developments in relation to revised EU contributions underline the importance of clear information on both spending and contributions in each member state.
- It is true that the EU member states issue annual summaries, i.e. summaries of the audits performed in each member state into the regularity of the spending of EU funds. Since 2014, these annual summaries have included a management declaration[3] providing an assurance about the regularity of the information. However, annual summaries and management declarations are much less authoritative than national declarations because (a) they do not express a general opinion on the regularity of incoming funding flows, and (b) are drawn up by government officials, which means any irregularities that are identified cannot have any political consequences, and (c) they are not made public, which means that EU citizens are not able to read them.
- Although information is available on the outputs delivered in the EU member states with the aid of EU funding, we still do not know much about the outcomes achieved with these outputs.

2 Article 59.5 of the Financial Regulation.

3 Accompanied by the opinion of an independent audit body.

With the exception of the third recommendation, our recommendations to the Minister of Finance and the Minister of Foreign Affairs are the same as those we made last year:

- Seek ways to encourage the member states to make use of a national declaration comparable to the Dutch annual national declaration, as it is important for each member state to issue a public document taking political responsibility for the spending of EU funds. Take advantage of the communication issued by the European Commission adopting the recommendations made by the above-mentioned Working Group on National Declarations (which has produced a more straightforward template for national declarations), and stating its willingness to look into ways of further encouraging the use of national declarations.
- Encourage the EU member states to publish their annual summaries of national audits (as from 2014 including the new management declaration) and encourage the European Commission to analyse these documents and make them comparable.
- Urge that the members of the European Commission sign the synthesis report.

Conclusions and recommendations in part 2, 'The Netherlands: effectiveness of projects and EU tendering procedures'

Our own audit of EU-funded projects in the Netherlands centred this year on six projects that received financial support from the following European funds:

1. the European Regional Development Fund (ERDF);
2. the European Fisheries Fund (EFF);
3. the European Agricultural Fund for Rural Development (EAFRD);
4. the European Social Fund (ESF);
5. the European Fund for the Integration of non-EU immigrants (EIF);
6. the INTERREG programme for European interregional cooperation.

Previous audits by both the European Court of Auditors and the Netherlands Court of Audit (Netherlands Court of Audit, 2014) have shown that, although a reasonable amount of information is available at EU level on the outputs and provisional outputs of EU projects, in many cases little is known about their outcomes. Too much emphasis is placed on checking that rules are obeyed in the implementation of EU programmes, not enough on on whether projects receiving EU funding have achieved the desired effect at the lowest possible cost.

The audit presented the following picture:

- Although programme managers pay some measure of attention to effectiveness during the selection process, thereafter no attention is paid to the effectiveness of the project in question.
- Although funders do have information on the outputs once most projects have been concluded (such as the construction of a sports hall, the number of vouchers issued for apprenticeships or the number of people signing up for an integration programme), they do not have much information on the project's outcomes (e.g. whether there has been an improvement in the quality of life, how many jobs have been created and whether the participants are now better integrated into Dutch society).
- In certain cases, the projects would have been undertaken anyway, even if EU

funding had not been forthcoming. In other words, there was in fact no need for EU funding.

We recommend that the responsible ministers make clear to the public at large what outcomes have been achieved with the aid of the EU funds received by the Netherlands (along the lines of the Europa om de hoek ('Europe round the corner') website, which states the amount of funding allocated to individual projects). It should be clear whether EU funds have been distributed in accordance with the rules and whether the desired outcomes have been achieved.

Further to the audit of the six EU-funded projects, this year's EU Trend Report also includes a study of errors made in EU procurement in the Netherlands. This study generated the following findings:

- The majority of errors in procurement procedures concern contracts worth less than the relevant EU threshold value. At present not all operational programmes systematically identify and record the reasons for the errors.
- In relative terms, more errors are made on ERDF-funded projects than on ESF-funded projects. This is partly due to the fact that, during the period under review, the rules governing the use of the ERDF were more complex than those governing other EU funds. The rules applying to all EU funds were harmonised under the Public Procurement Act 2012.
- The main causes of errors are incompetence and a lack of familiarity with the rules.

We recommend that the Minister of Economic Affairs and the Minister of Social Affairs and Employment take the following action.

- Perform regular analyses of the causes of errors in procurement and use the findings when reviewing programmes supported by EU Structural Funds.
- State clearly and explicitly whether ESF-funded and ERDF-funded projects may be made subject to additional regional and local procurement rules that are stricter than the provisions of the Public Procurement Act 2012. Weigh the potential benefits against the corresponding administrative burden and audit costs.

Government response and Court of Audit's afterword

The Minister of Finance responded to our recommendations on the government's behalf on 29 January 2015, saying that he endorsed most of our recommendations. A summary of the government's response follows below. Where relevant, we have added an afterword.

The full text of the government's response to this EU Trend Report is included in the appendix to this report.

Response to recommendations in part 1 of the report
The government regards our recommendation to continue to press for an EU-wide national declaration as an expression of support for its policy. The Netherlands has played an active role in this connection, as a member of the EU's Working Group on National Declarations. The European Commission is currently fleshing out the Working Group's recommendations. The Dutch Ministry of Finance has offered to assist the Commission with this at official level.

The government shares our view that the EU member states should publish their annual summaries (together with the opinion expressed by the relevant audit body and the new management declarations). Although the Financial Regulation allows for this, there is little support among the member states for this form of transparency. The Minister of Finance says that he will continue to press the European Commission to improve the transparency of accountability documents.

The government will not be acting on our recommendation that the synthesis report published by the European Commission should be signed by the Commission's members. The government feels that the members of the European Commission already provide accountability by publishing the report. According to the Minister of Finance, not only is there no legal requirement for the members of the European Commission to sign the report, it is also not necessary.

Court afterword: We made this recommendation in support of a request from the European Parliament. We feel that this is a reasonable request in a situation where the European Court of Auditors is still forced to conclude, year in year out, that the member states are a long way from meeting the 2% margin of tolerance for regularity.

Response to recommendations in part 2 of the report
The government endorses our recommendation to make clear to the public at large what outcomes have been achieved by EU-funded projects. The Minister of Finance points out in this respect that, apart from the information already made public in accordance with EU obligations, the public also has access to information on the results of EU-funded projects on public websites, such as the 'Europe round the corner' website and the annual European 'open days'.

Court afterword: We agree with the government that the 'Europe round the corner' website sets a good example. However, we believe that being transparent about EU funding means more than just 'showing who gets the money', as this website does. The concept of transparency should be extended to include 'showing what results have been achieved with the money'. Providing information on the results and outcomes (both envisaged and actually achieved) of projects would be a big improvement.

The government endorses our recommendation to analyse the causes of errors in procurement procedures on a regular basis and to use the findings when reviewing programmes supported by EU Structural Funds. The reviews will be informed by the lessons learned from these analyses. Another important aspect is the prevention of errors in procurement procedures, the Minister of Finance writes. He makes clear that the authorities responsible for managing programmes in the 2014-2020 programming period will be publishing more information in order to avoid such errors. The government feels, however, that those receiving EU funds are also responsible themselves for ensuring that the rules governing procurement procedures are correctly observed, for improving the procedures where necessary and for learning from previous mistakes.

The government also accepts our recommendation to state clearly and explicitly whether projects may be made subject to additional regional and local procurement rules that are stricter than the Public Procurement Act 2012. The Minister of Finance makes clear that the government would like to see clarity on this issue. For this reason, the government will this year look into whether it can be established that additional procurement rules may not be applied to ESF-funded and ERDF-funded projects. It will weigh up the benefits of using additional regional and local tendering rules against the corresponding administrative burden and audit costs, as we recommended.

Court afterword: We will be monitoring with interest whether the measures referred to do indeed reduce the number of errors in procurement procedures in relation to programmes supported by EU Structural Funds.

The European Union: a project of 28 countries

The European Union is currently made up of 28 member states. The Union was initially created as an economic project under the name European Coal and Steel Community by a small number of countries shortly after the Second World War. It has grown over the years into an organisation that is involved in a wide range of policy fields.

Democratic decision-making

Everything the EU does is based on treaties that are democratically adopted by all member states. The most common form of decision-making in the EU is the co-decision procedure: the directly elected European Parliament must approve proposed legislation with the Council of Ministers (in which the governments of all 28 member states are represented).

Laws and rules

The EU can take various types of decisions. Some are binding, others are not. Some apply in all EU member states, others in just a few.

Not binding

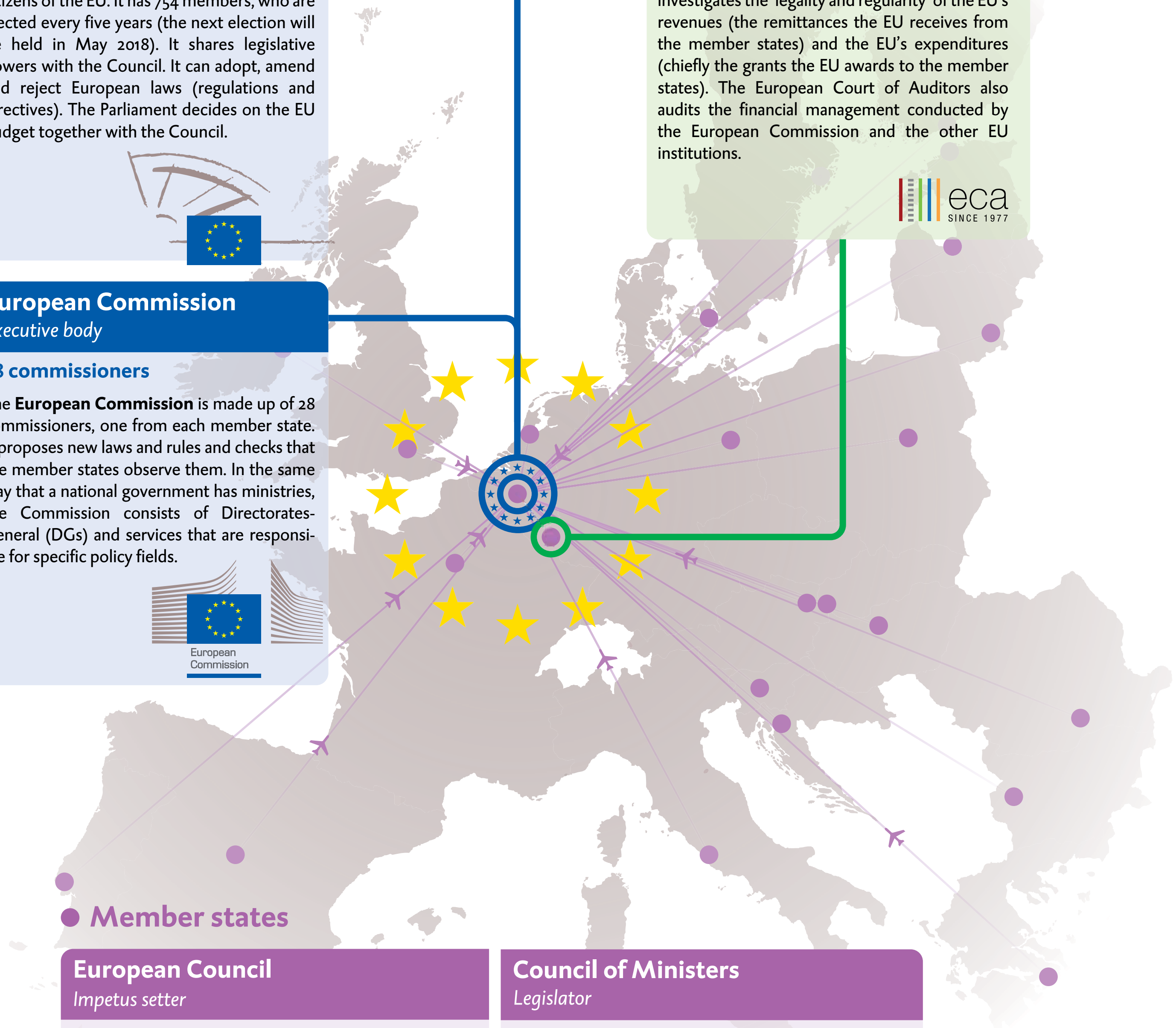
- **Recommendation**
  A proposal by an EU institution to all member states or to one or more named member states to adopt a particular policy line. Does not create legal obligations.
- **Guidance**
  A decision taken by heads of state or government in the European Council that sets out the broad lines of a given EU policy field.
- **Communication**
  A non-binding document issued by the European Commission concerning, for example, a policy evaluation, an explanation of an activity programme or a discussion piece for new policy.
- **Advice**
  An opinion given by an EU institution to one of more named member states, usually in response to an objection or as part of a given procedure. Does not create legal obligations.

Binding

- **Regulation**
  A decision by the EU that is binding in its entirety and directly applicable in all member states. Member states themselves do not need to take their own measures.
- **Directive**
  A decision by the EU that is binding as to the results to be achieved in all member states. Member states are free to choose the form and methods of the measure they take.
- **Decision**
  A decision by the EU of direct application in particular cases (to persons, organisations, businesses or member states).

EU institutions

The main EU institutions are the European Parliament, the European Commission, the Council of Ministers (made up of the member states' ministers), the European Council (made up of the member states' heads of state or government) and the European Court of Auditors.



Brussels

European Parliament
Legislator and controller

754 members

The **European Parliament** represents the citizens of the EU. It has 754 members, who are elected every five years (the next election will be held in May 2018). It shares legislative powers with the Council. It can adopt, amend and reject European laws (regulations and directives). The Parliament decides on the EU budget together with the Council.

European Commission
Executive body

28 commissioners

The **European Commission** is made up of 28 commissioners, one from each member state. It proposes new laws and rules and checks that the member states observe them. In the same way that a national government has ministries, the Commission consists of Directorates-General (DGs) and services that are responsible for specific policy fields.

European Commission

Luxembourg

European Court of Auditors
Auditor

The **European Court of Auditors'** main duty is to audit the implementation of the EU budget. It investigates the 'legality and regularity' of the EU's revenues (the remittances the EU receives from the member states) and the EU's expenditures (chiefly the grants the EU awards to the member states). The European Court of Auditors also audits the financial management conducted by the European Commission and the other EU institutions.

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Member states

European Council
Impetus setter

Heads of state or government of all 28 member states

The **European Council** is made up of the heads of state or government of all 28 member states. It provides the necessary impetus for the development of the Union and sets the general political policy lines and priorities. The European Council does not exercise legislative duties.

Council of Ministers
Legislator

Ministers of all 28 member states

The **Council of Ministers** (or **'Council'** in short) exercises legislative and budgetary duties together with the European Parliament. It must approve all legislation proposed by the Commission and every budget proposed for the EU.

Part I

EU: trends in financial management

EU revenue and expenditure

Common financing, common expenditure

The EU is financed by the annual remittance of funds to its budget by the member states. The budget may not run a surplus or a deficit. All expenditure must be covered by revenue and budgeted funds that are not spent must be returned to the member states, either by deducting them from future remittances or by refunding them on a pro rata basis.

The EU budget for 2013 totalled €148.5 billion. To put this in perspective, it was equal to about 1% of the member states' joint gross national income (GNI).

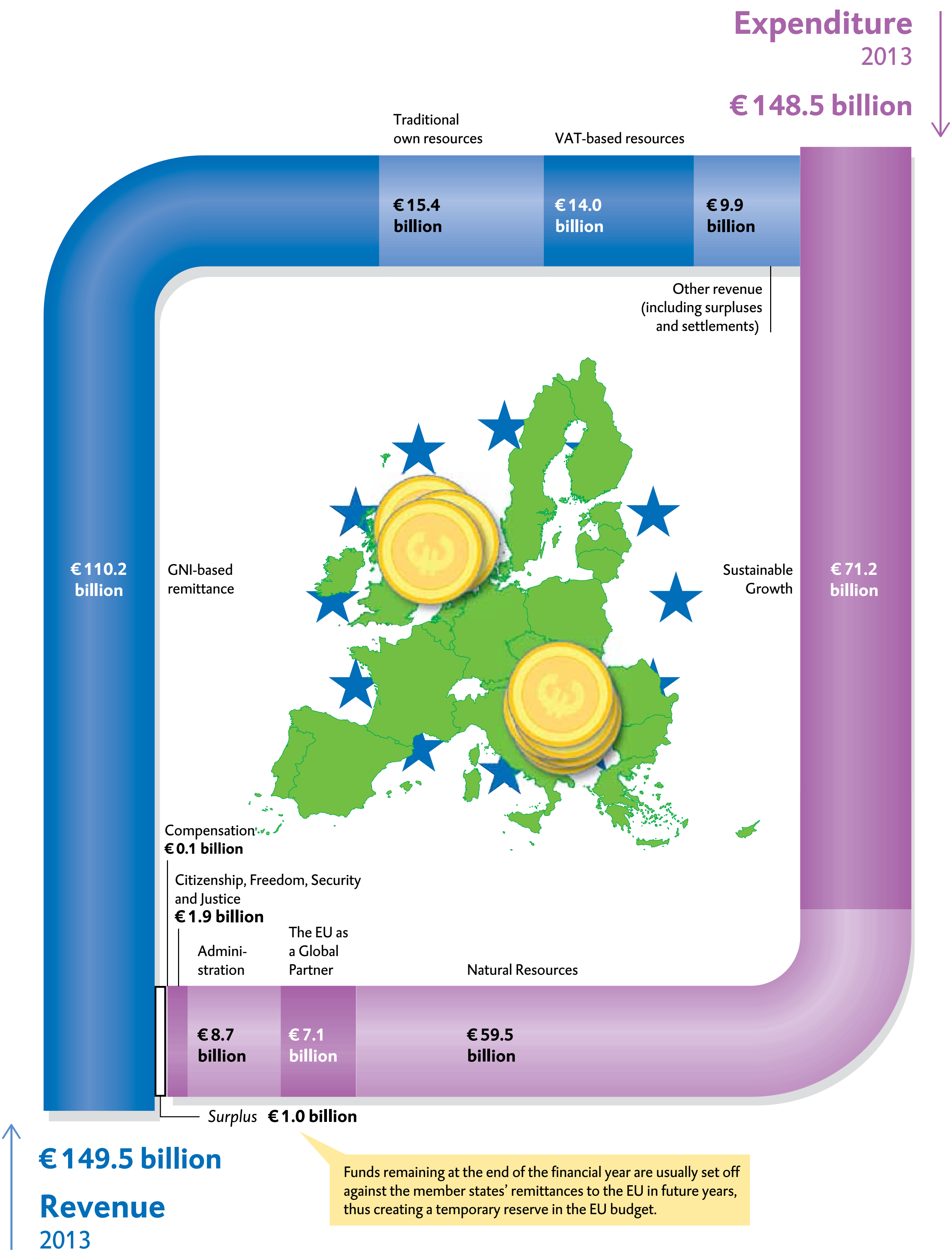
Three types of remittance

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

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

Shared management

Of the funds recognised in the EU budget every year, about 80% is managed jointly by the European Commission and the member states. These funds are said to be 'under shared management'. They include the structural funds, for example, which are designed to strengthen the economic, social and territorial cohesion of the EU. This report looks principally at the use of funds under shared management. The member states have a direct responsibility for the correct (regular, efficient and effective) use of these funds.



Funds remaining at the end of the financial year are usually set off against the member states' remittances to the EU in future years, thus creating a temporary reserve in the EU budget.

1 Financial management and regularity

This chapter considers the management and expenditure of the member states' remittances to the EU. EU funds must be spent in accordance with the regulations. If not, for example if they are awarded to a body that does not fully satisfy the grant application requirements, there is said to be an irregularity.

The European Commission publishes a series of documents each year to account for its financial management and its control of the regularity of expenditure. All the Commission's Directorates-General (DGs), for example, publish activity reports and the Commission itself compiles an overarching synthesis report.

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

The individual member states also issue annual documents on their use of EU funds. All member states are obliged to submit, for example, an annual summary to the European Commission, summarising their audits of the regularity of the use of funds received from Brussels. Furthermore, three member states[4] voluntarily issue national declarations to account for their use of EU funds.

OLAF,[5] the Commission's anti-fraud office, also publishes an annual report. Unlike the other reports, it does not directly consider the regularity of expenditure but it does influence the perception of financial management in the EU.

This chapter considers the scope and content of all these documents in 2014. We begin at EU level with the accountability documents issued by the Commission (section 1.1) and the annual audit report issued by the European Court of Auditors (section 1.2). We then discuss the national accountability documents issued by the member states (section 1.3) and their management of one of the emergency support measures (section 1.4). We close part 1 with a brief look at developments in the fight against fraud and corruption. This year we take a closer look at OLAF's operations and discuss a report issued by the Commission in 2014 on the fight against fraud and corruption (section 1.5).

1.1 Accountability documents issued by the European Commission

1.1.1 The European Commission's annual activity reports

The European Commission's DGs and services[6] issue annual activity reports in which they reports on their activities during the year and account for the results achieved.

4 The Netherlands, Denmark and Sweden.
5 OLAF stands for Office européen de lutte anti-fraude.
6 For the sake of convenience, we refer in the remainder of this report only to DGs; references to the DGs also include the services.

Accountability and control: who does what?

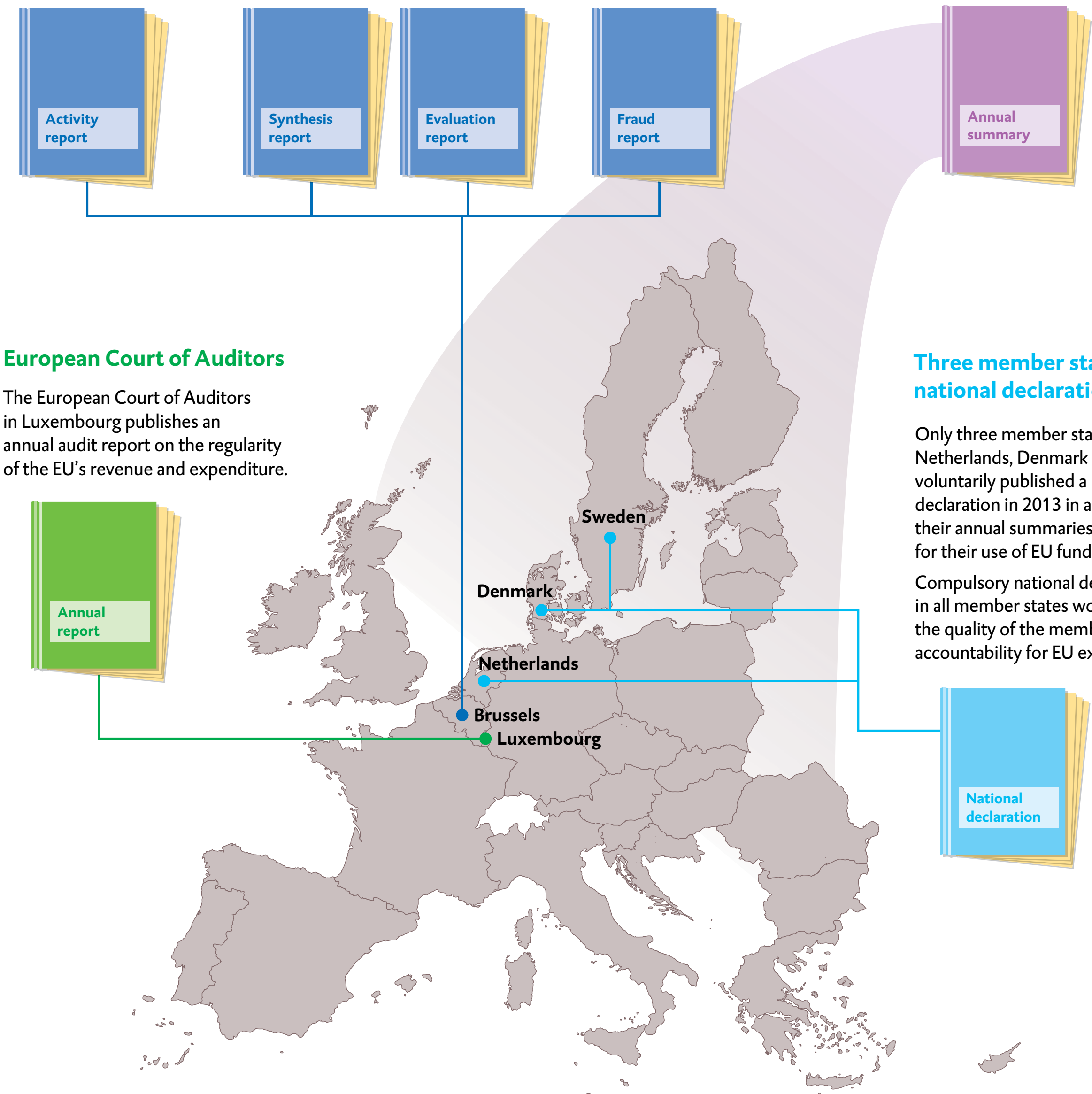
European Commission

The European Commission publishes annual accountability documents and control reports

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

All member states: annual summary

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



European Court of Auditors

The European Court of Auditors in Luxembourg publishes an annual audit report on the regularity of the EU's revenue and expenditure.

Three member states: national declaration

Only three member states (the Netherlands, Denmark and Sweden) voluntarily published a national declaration in 2013 in addition to their annual summaries to account for their use of EU funds.

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

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

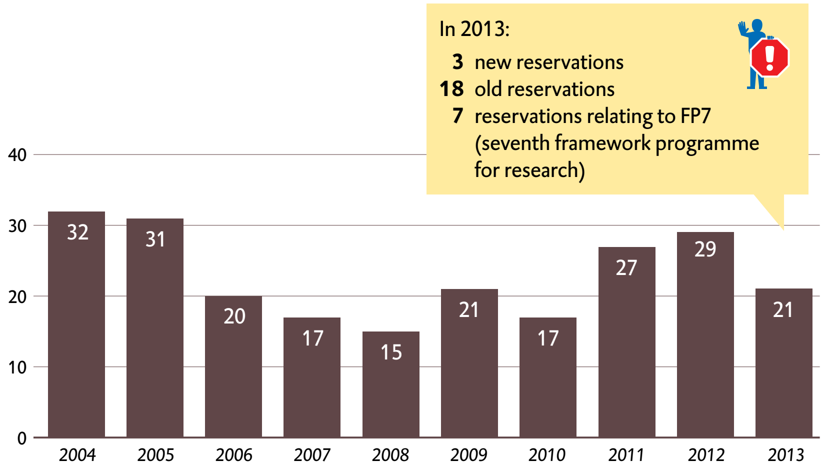
A Director-General can make a reservation in an activity report if there is uncertainty about the reliability of the information. Reservations are intended to point out shortcomings or problems that may prevent the Director-General issuing a full declaration of assurance. A reservation can be made if,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

In 2013, all DGs stated in their activity reports that they had reasonable assurance that the funds had been used correctly, that the principle of sound financial management had been observed, and that the control procedures provided the necessary assurances on the legality and regularity of the underlying transactions. The coherence and comparability of the activity reports were improved by significant changes in their structure in 2013.

Decline in number of reservations

The DGs made eight fewer reservations in the 2013 activity reports than in the 2012 reports. In total, 21 reservations were made in respect of 2013. They included 18 'old' reservations made in previous years and three new ones. Eleven reservations made in the previous year were no longer applicable because the DGs had taken appropriate corrective action.

Decline in DGs' reservations



Source: European Commission, synthesis reports, 2004-2013

The DGs improved the wording of their reservations in comparison with the previous year. Following criticism from the European Court of Auditors (in its 2012 annual report), the Commission introduced clear guidelines on how to define and quantify the reservations. All the DGs now estimate the amount at risk[7] in the same way. It is accordingly easier to compare the reservations.

The number of reservations may have declined, but the number of areas to which they relate has not, nor has there been a significant decline in the amount at risk. The DGs quantified the financial value of their reservations for 2013 at €2.4 billion in comparison with between €2.6 and €3.5 billion for 2012. As in 2012, 2011 and 2010, we examined 12 activity reports for 2013 in depth.[8] The reservations and notes they contained were detailed and quantified. The reservations related to shortcomings not only in financial transactions but also in the management and control systems.

7 The amount at risk is the Commission's estimate of programme or project funding that is not spent in accordance with the regulations and contracts.

8 The activity reports of the policy DGs Agriculture and Rural Development; Regional Policy; Employment, Social Affairs and Inclusion; Maritime Affairs and Fisheries; Home Affairs; Justice; Education and Culture; Environment; Mobility and Transport; Energy; Research and Innovation; and Taxation and Customs Union.

9 DG Agriculture and Rural Development, DG Regional Policy, DG Employment, Social Affairs and Inclusion, DG Maritime Affairs and Fisheries and DG Home Affairs.

No change in reports on results of controls in the member states

The five policy DGs responsible for funds under shared management by the Commission and the member states[9] provide detailed information in their 2013 activity reports on the results of their controls in the member states. The quality and quantity of the information is substantively of the same quantitative and qualitative order as in the 2012 activity reports.[10] Most of the other policy DGs state in their activity reports only the nature of their controls. Some also name the member states in which the controls were carried out.

Fewer reputational reservations

Two of the 12 DGs we studied made reservations in their activity reports in connection with potential harm to the Commission's reputation. In the previous year, five DGs had made reputational reservations.

Directors-General make reputational reservations in their declarations of assurance if a shortcoming, such as a weakness in the design or functioning of internal controls or financial management, could harm the reputation of the European Commission.

Nature of reservations and financial value

Budget heading	DG	Nature of reservation € Financial R Reputational	Financial risk (in millions of euros)
Sustainable Growth	Regional Policy	€ R	440.2
	Employment, Social Affairs and Inclusion	€ R	123.2
	Mobility and Transport	€	0.8
	Energy	€	5.3
	Research and Innovation	€	107.5
Natural Resources	Agriculture and Rural Development	€	198.3
		€	652.2
		€	598.8
		€	2.6
	Maritime Affairs and Fisheries	€	7.6
Citizenship, Freedom, Security and Justice	Home Affairs	–	–
Total number of reservations in policy DGs audited		€ 10 R 2	2,136.5
Total number of reservations		**€ 17** **R 4**	**2,436.6**

10 The improvement in the structure of the 2013 activity reports increased the comparability of, in this case, the social funds, in part through the introduction of a compulsory section entitled Key conclusions on resource management and internal control effectiveness.

11 ERDF: European Regional Development Fund.

The reputational reservations made in the 2013 activity reports we studied related to:

- DG Regional Policy: the management and control systems in place for the ERDF[11] and for the cohesion fund (transport sector) in Italy, Ireland, Poland and Romania;
- DG Employment, Social Affairs and Inclusion: the management and control systems in place for the ESF[12] in France, Italy, Sweden and the United Kingdom.

1.1.2 European Commission's synthesis report

The European Commission compiles the synthesis report on the basis of the annual activity reports. It is the closing document in the Commission's accountability to the European Parliament.

Synthesis report: final accountability document not signed by the European Commission

By adopting the synthesis report on the basis of the declarations of assurance reservations made its Directors-General, the Commission assumes overall political responsibility for the implementation of the EU budget. As in previous years, however, the 2013 synthesis report was not signed by the members of the European Commission.[13] The Commission, according to the European Parliament, therefore bears only implicit responsibility. We had also raised this point in our previous EU Trend Reports. To date the Commission has not responded to it.

As in the previous year, the Commission declared in the 2013 synthesis report that its Internal Audit Service (IAS) had expressed an overall opinion on the financial management underlying the DGs' activity reports.[14] In the IAS's opinion, the Commission's internal governance and risk management internal controls were, 'taken as a whole, adequate' to give reasonable assurance on the achievement of its financial objectives.

1.2 European Court of Auditors' audit report

The European Court of Auditors' core task is to audit the implementation of the EU's budget. It examines the 'legality and regularity' of both the EU's revenues (the remittances collected from the member states) and its expenditures (the majority of which are grants awarded to the member states). The European Court of Auditors also examines the financial management of the European Commission and the other EU institutions. It presents its findings for the previous financial year in its annual report. The findings play an important role in the European Parliament's decision to grant the Commission discharge or not.[15] The European Court of Auditors does not express an opinion on the regularity of EU expenditure in individual member states. It examines only the management and control systems in place for EU funds in the member states and expresses an opinion on their functioning.

Again no unqualified opinion on the regularity of EU expenditure

Although the European Parliament has granted discharge to the European Commission for its management of the EU budget every year since 1998,[16] the European Court of Auditors has never expressed an unqualified opinion on the Commission's

12 ESF: European Social Fund.

13 In the Commission's governance structure, this is a responsibility of the Directors-General but the College of Commissioners has political responsibility. This is laid down in article 66 (9) of the Financial Regulation.

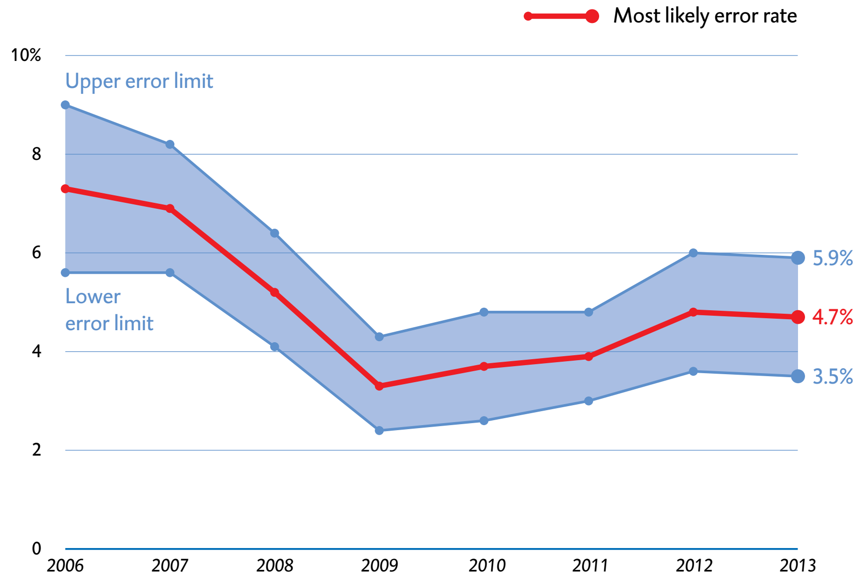
14 The IAS's opinion is not made public but is reflected in the Commission's synthesis report. Under article 99 (5) of the revised Financial Regulation, the European Parliament receives a summary of the IAS's work.

15 The discharge procedure is a procedure to approve the Commission's use of the funds in the EU budget. If approved, the Commission is officially discharged of its responsibility for budget implementation and cannot subsequently be held accountable for it.

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

expenditures. Each year, its audits find too many errors. An error occurs if, for example, the costs declared to carry out an EU project are ineligible but are paid nonetheless.

General error rate found by the European Court of Auditors
2006-2013



Minimal decline in error rate in expenditure by the European Commission
The European Court of Auditors was again unable to give an unqualified statement of assurance (*Déclaration d'Assurance*, DAS) on the Commission's implementation of the EU budget (European Court of Auditors, 2014a).

The European Court of Auditors states in its annual report for 2013 that the most likely error rate[17] for the Commission's budget as a whole was 4.7%, 0.1 percentage point lower than in the previous year.[18] Given that total expenditure for the year was nearly €148.5 billion, material errors amounted to nearly €7 billion. The European Court of Auditors classifies an error as material if its financial value is equal to 2% or more of total expenditure.

The errors found in expenditure exceeded the 2% materiality threshold in all policy areas. The two most error prone spending areas were *regional policy, energy and transport with* 6.9% and *rural development, environment, fisheries and health* with 6.7%. No material errors were found in revenues. The European Court of Auditors concluded, as it had in the previous year, that the supervisory and control systems were 'partially effective'.

For the seventh year in succession, the European Court of Auditors gave a clean opinion on the reliability of the accounts. It concluded that the accounts fairly presented the financial situation at the end of 2013 and the performance during the 2013 financial year.

17 The most likely error rate is the weighted average of the error rates found in the statistical samples of transactions.

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

1.3 Accountability by the member states

1.3.1 Member states' annual summaries

Since 2008 every member state has had to submit an annual summary to the European Commission. The annual summary presents (a) the results of audits of EU projects completed in the member state in the previous financial year, and (b) the results of audits of the management and use of grants received from the EU agricultural, structural and migration funds in the previous financial year. Every member state must submit its annual summary before 15 February of the following financial year.

The European Commission prepared a guidance note on the structure and content of annual summaries in 2008 (European Commission, 2008).

The guidance for the 2007-2013 programming period (which was not compulsory) proposed that the annual summaries for the structural funds include an audit opinion,[19] the quantification of deficiencies and irregularities, a calculation of any shortcomings (and any measures taken for systemic problems) and the error rate from audits of operations for each programme. Separate annual summaries are prepared for the agricultural and migration funds.

Changes in new Financial Regulation

The EU adopted a new Financial Regulation in October 2012. Article 59 (5b) lays down more precisely what audit information the member states must submit to the Commission each year: an annual summary of the final audit reports and the controls carried out, including an analysis of the nature and extent of errors and weaknesses detected in the systems and a summary of the corrective action taken and planned. The new Financial Regulation also requires the annual summaries to be accompanied by the opinion of an independent audit institution. The opinion should consider the legality and regularity of the underlying transactions included in the annual summary. The new rules came into force on 1 January 2014 and therefore did not apply to the 2013 accounts considered in this report.

The annual summaries are issued nationally by the designated authority and then submitted to the relevant DG of the European Commission.[20] In the Netherlands, the 2013 annual summaries for the agricultural funds (EAGF and EAFRD),[21] the ERDF and the EFF[22] were prepared by the Ministry of Economic Affairs (EZ). The annual summary for the ESF was prepared by the Ministry of Social Affairs and Employment (SZW) and the summary for the migration funds by the Ministry of Security and Justice (V&J).

2013 annual summaries: the Netherlands

The figure below shows the opinions in the 2013 annual summaries. They were given by the audit authority on programmes financed from the EAGF and EAFRD agricultural funds, the ERDF and ESF structural funds and the EFF in the Netherlands. It also shows the corrected (net) error rate per programme.

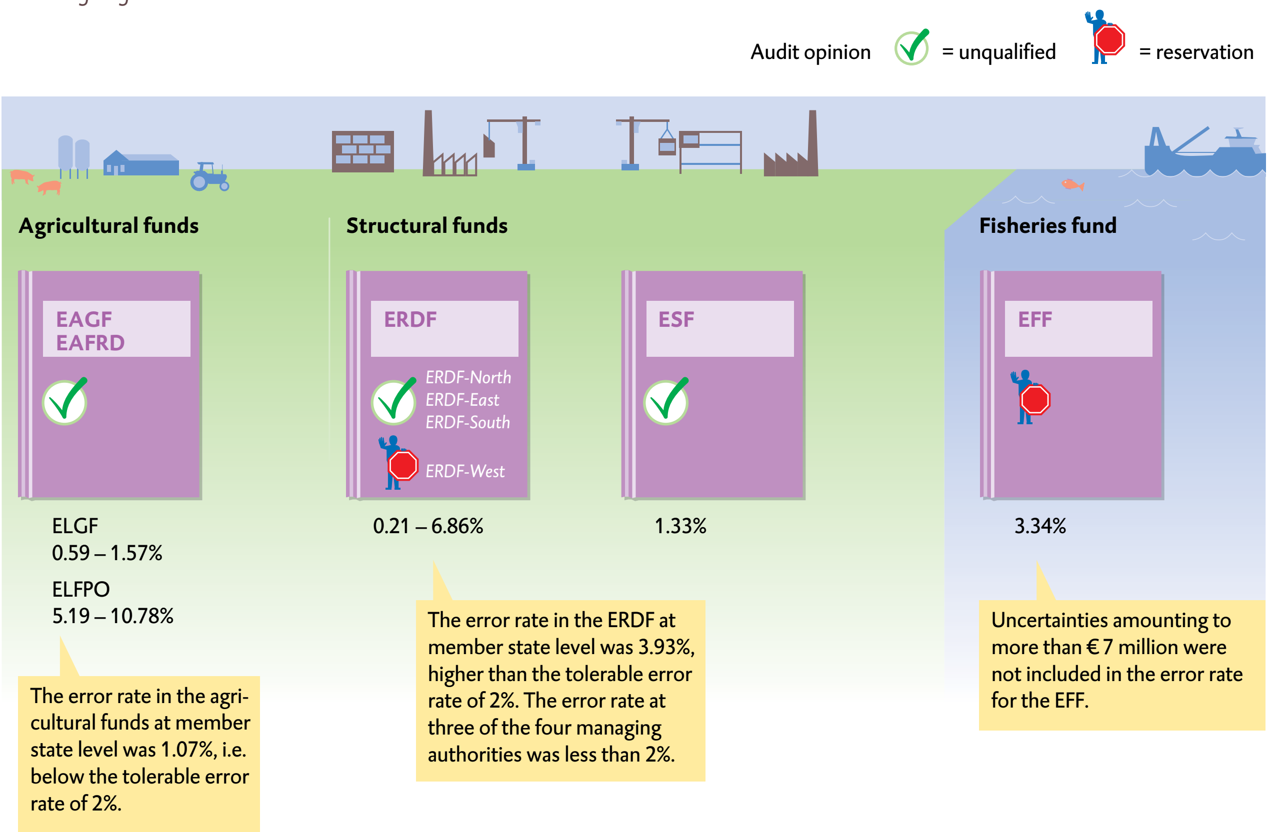
19 Unqualified opinion, with reservation, adverse opinion or disclaimer.

20 In the Netherlands, the Ministry of Economic Affairs sends the annual summary for the agricultural funds to DG Agriculture and Rural Development; the annual summaries for the ERDF, the ESF and the EFF are combined and sent by the Minister of Finance to DG Regional Policy and the summaries for the migration funds are sent by the Ministry of Finance to DG Home Affairs.

21 EAGF: European Agricultural Guarantee Fund. EAFRD: European Agricultural Fund for Rural Development.

22 EFF: European Fisheries Fund.

Audit opinion and error rate per programme in the Dutch annual summaries for 2013
Excluding migration funds



The figure shows that an unqualified opinion was expressed on all programmes except the EFF and one ERDF programme, on which reservations were made. The error rate in the EAFRD,[23] the EFF and one ERDF programme/region was higher than the materiality threshold of 2%.[24]

Unlike the annual summaries for the funds considered above, the annual summaries for the four *migration funds* disclose only the total amount of eligible costs audited and the amount at error, not an error rate per fund. The four migration funds are the European Integration Fund (EIF), the European Return Fund (RF), the European Refugee Fund (ERF) and the European External Borders Fund (EBF). Ten of the projects financed from these funds were audited in 2013.

The annual audit reports on the migration funds quantify the error rate by means of the European Commission's calculation method.

23 The audit opinion relates to both the agricultural funds (the EAGF and the EAFRD) together.

24 An error is material if the sum involved amounts to 2% or more of total expenditure.

Project audits and error rate per migration fund

	European Integration Fund (EIF)	European Return Fund (RF)	European Refugee Fund (ERF)	European External Borders Fund (EBF)
Number of project audits	4	2	3	1
Error rate	0%	0.53%	1.60%	6.71%

The error rate at member state level was 1.52%, less than the tolerable error rate of 2%.

The figure above shows the corrected (net) error rate for each migration fund. It can be seen that the error rate was higher than 2% only in the EBF (where it was higher than 6%).

The Dutch audit authority for the migration funds gave an unqualified opinion on the functioning of the certifying authority for the four migration funds for 2013; however, it made a reservation on the functioning of the managing authorities.

2013 annual summaries: EU-wide
To date the annual summaries have not been made public.

Annual summaries published only once
At the request of the European Parliament in 2012, 14 of the 27 member states posted their annual summaries for 2010 on the European Parliament's website. Our EU Trend Report for 2013 looked at how the annual summaries had been compiled and the audit results they presented. Unfortunately, this seems to have been a one-off action.

Despite a new Financial Regulation coming into force, the annual summaries will still not be made public. We think this is a missed opportunity because publication of all the EU member states' annual summaries would increase insight into the local implementation of EU programmes. At present, however, substantive information about these documents is not available.

There is nothing to prevent the member states publishing their annual summaries voluntarily. The European Commission has indicated that the member states are free to decide what accountability documents they publish. The member states themselves therefore decide whether they want to contribute to the transparency of the EU funds they spend (European Commission, 2014c).

The public activity reports published by the Commission's DGs are not narrative assessments of the implementation of EU programmes in the member states. They report only whether the annual summaries satisfied the minimum requirements. The DGs' assessment of the member states' annual summaries found that the vast majority did so.

1.3.2 Member States’ accountability in national declarations

A national declaration (formerly known as a member state declaration) is a document in which a member state’s government accounts for the management and use of EU funds in the country in the previous year. It is a public document in which the member state assumes political responsibility. The declaration reveals where there are problems in the management and where errors have occurred, with the member state being responsible for taking targeted and timely corrective measures. If, for example, a large sum is spent irregularity in member state x in a particular year, the responsible ministers can be held to account by the national parliament. A national declaration therefore differs from the other accountability documents that the member states submit to the European Commission. The political and official accountability attaching to it represents an improvement in the general public accountability for the use of EU funds. To date, however, the member states have not been *obliged* to issue national declarations. This situation will not change under the new Financial Regulation.

Still few national declarations issued

Only three member states issued a national declaration for 2013: Denmark, Sweden and the Netherlands. The scope of the three declarations is comparable; they express an opinion on the management and control of EU funds (are receipts from the EU managed correctly in the member state and paid to beneficiaries in accordance with the rules?) and on their regularity (were the EU funds allocated to the member states and spent on the programmes in accordance with the rules?).

Dutch national declaration: wider scope

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

Scope of the Dutch national declaration
2006-2013

	2006	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
ERF European Refugee Fund	✗	✗	✗	✗	✗	✓	✓	✓
RF European Return Fund	✗	✗	✗	✗	✗	✓	✓	✓
EBF External Borders Fund	✗	✗	✗	✗	✓	✓	✓	✓
EIF European Integration Fund	✗	✗	✗	✗	✓	✓	✓	✓
EFF European Fisheries Fund	✗	✗	✓	✓	✓	✓	✓	✓
ESF European Social Fund	✗	✗	✓	✓	✓	✓	✓	✓
ERDF European Regional Development Fund	✗	✗	✓	✓	✓	✓	✓	✓
EAFRD European Agricultural Fund for Rural Development	✓	✓	✓	✓	✓	✓	✓	✓
EAGF European Agricultural Guarantee Fund	✓	✓	✓	✓	✓	✓	✓	✓

Our opinion on the Dutch national declaration 2014: positive but ...
For the eighth year in succession the Dutch Minister of Finance issued a national declaration on the use of EU funds under shared management. We again issued a report with an independent opinion on the national declaration in 2014. On the whole, the opinion was positive but there are still points for improvement (Netherlands Court of Audit, 2014b).

The national declaration gives a good view of the management and use of EU funds in the Netherlands. However, we recommended that national remittances to the EU also be included, as is customary in Denmark. To date, however, the Dutch Minister of Finance has been unwilling to include remittances. In a letter of 13 February 2014 (Ministry of Finance, 2014), he gives such reasons as the lack of shared responsibility for remittances, the independence of Statistics Netherlands, and the European Commission's own audit chain. Nonetheless, we think comprehensive accountability for EU funds at member state level, with national accountability matching EU accountability, would be desirable. In our opinion, the Minister's letter does not make a convincing case to exclude remittances from the national declaration.

At our request, the Minister of Finance consulted the ministries responsible for the funds and prepared a summary of the current and expected information available on efficiency and effectiveness in the current programming period. We present this summary in annexe 3 of our *Report on the National Declaration 2014* (Netherlands Court of Audit, 2014). We suggested that the minister include a similar summary in the notes to the national declaration. This would anticipate the new programming period, in which more detailed information could be provided.

Developments in other countries
The *Swedish* government issued its sixth national declaration on the use of EU funds under shared management in 2014. Since the Swedish declaration is part of the central government's annual report and the Swedish SAI audits the annual reports of all executive government bodies, it also expresses an opinion on the regularity of the use of EU funds in Sweden.

In *Denmark* the national declaration to account for EU funds is issued by Rigsrevisionen, the national audit institution. In recent years Rigsrevisionen and the Danish Ministry of Finance have discussed options to prepare a statement that integrates all information on EU funds into the national accounts. Such a consolidated statement would enhance the transparency of financial transactions with EU funds. A consolidated statement is planned in 2015 (on 2014).

The *United Kingdom* has not issued a national declaration since 2012. The UK Treasury issues an annual declaration on the use of EU funds (and the national contribution to the EU budget). The declaration also provides information on developments in the management of EU funds. The Treasury thinks this is sufficient for accountability purposes. We, however, think it is a poor alternative to a national declaration because it does not express an opinion on systems and the amounts declared or provide an insight into the error rates in the declarations.

En route to better accountability?

The other member states have not taken any concrete initiatives yet to voluntarily render political account for the management and use of EU funds in their countries. There are some signs of change, however. At the request of the European Parliament, the European Commission established an interinstitutional working group at the end of 2013 with members from the European Commission, the European Parliament and the Council. Its remit is to make practical recommendations to support member states that wish to issue national declarations. The initiative has resulted in, among other things, a number of 'templates' for the preparation of national declarations. On 28 October 2013, the European Commission issued a communication in which it adopted the working group's recommendations[25] and supported the national declaration as an instrument for national governments to account to their national parliaments (European Commission, 2014). The Commission is also willing to investigate how the national declarations can be further promoted.

Little additional work to prepare national declaration

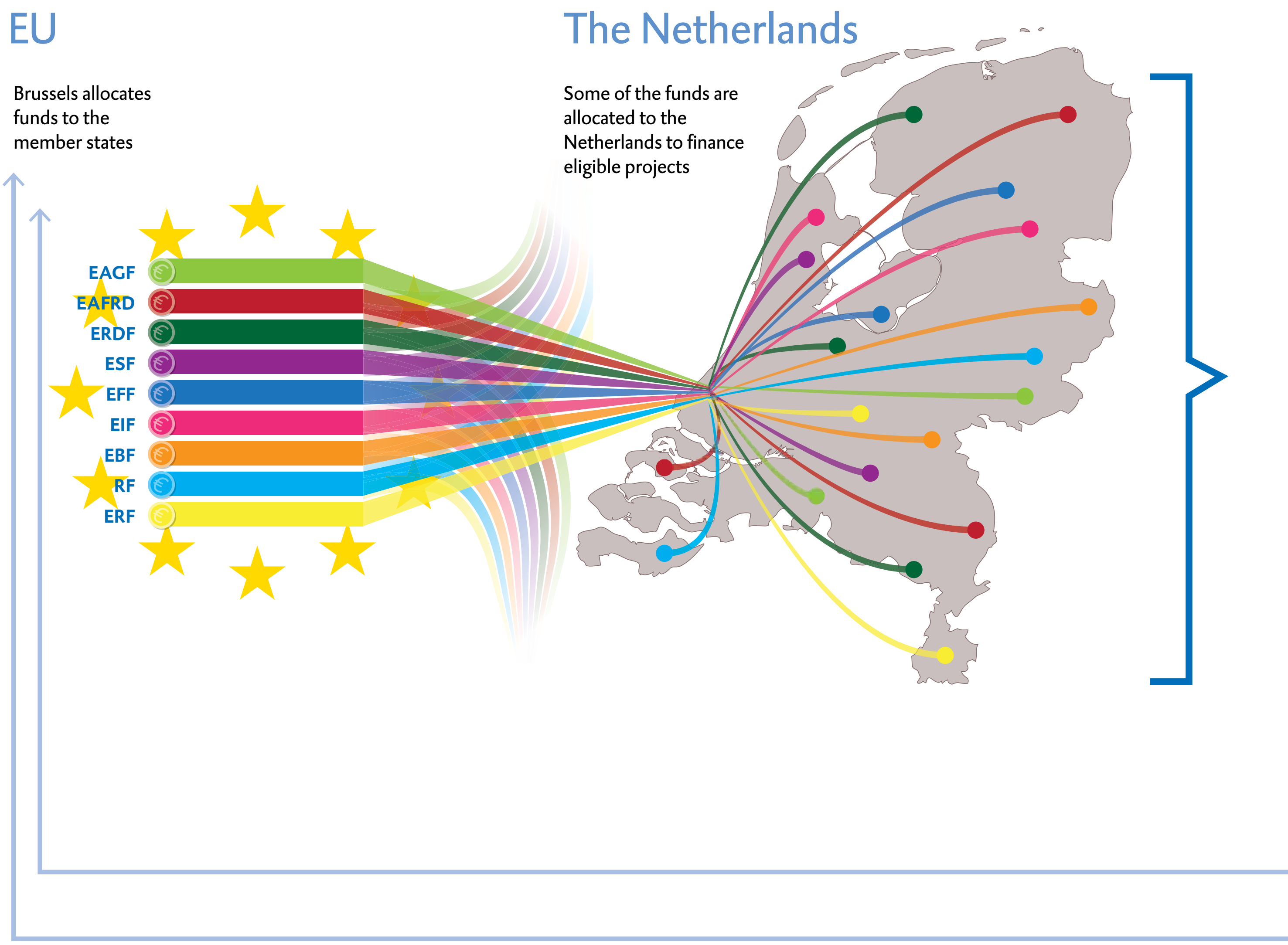
The preparation of a national declaration need not cost a significant amount of time and effort. The underlying declarations on which it is based are prepared by the responsible ministers. In the Netherlands, they are based largely on the audit report and opinion of the National Audit Authority, which is already submitted to the European Commission. The National Audit Authority performs only the following additional work:

1. preparation of an audit opinion on the figures in the underlying declarations;
2. preparation of an assurance report on the underlying declarations by a different cluster of the National Audit Authority.

The Ministry of Finance then prepares the national declaration on the basis of the underlying declarations. It is estimated that the National Audit Authority deploys less than 1 FTE per annum on the additional work for the national declaration. This is about 1% of the approximately 65 FTEs that it deploys for its compulsory control and reporting work for EU funds.

25 Unfortunately the working group's recommendation on a possible relaxation of the control regime if a national declaration is issued does not go very far.

Added value of a national declaration versus an annual summary



A first step to improve accountability for EU funds would be to make management declarations compulsory for all member states. Article 59 of the new Financial Regulation lays down that before 15 February of each year member states must submit not only annual summaries (see section 1.3.1) but also annual accounts of expenditure declared to the Commission with a management declaration providing assurance on the regularity of the information.[26]

National declarations, however, have considerably more added value than annual summaries and management declarations because (a) they contain an overarching opinion on the regularity of funds flows (rather than on individual funds) so that it is a more usable and accessible document, (b) political responsibility is assumed for the opinion, and (c) national declarations, unlike annual summaries and management declarations, are public documents that every EU citizen and member of parliament can access.

26 Accompanied by the opinion of an independent audit institution.

A national declaration has several advantages over annual summaries and does not have to cost much more.

Compulsory for all member states: accountability in annual summaries

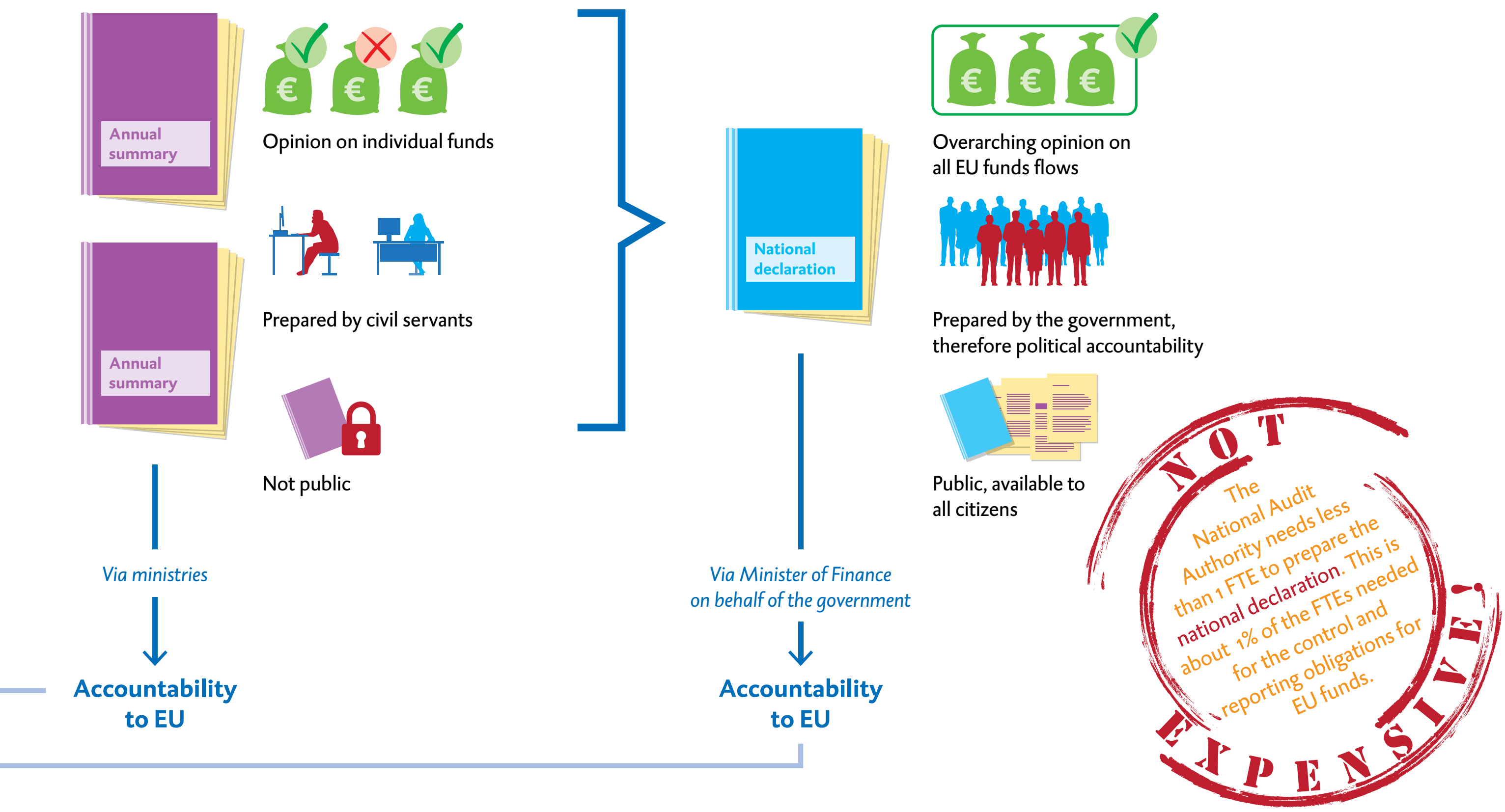
Account is rendered on the regularity of individual EU funds in **annual summaries**, not only by the Netherlands but by all member states.

Not yet compulsory: accountability in national declaration

In the Netherlands, the government assumes political accountability for the regularity of EU funds as a whole by issuing in a **national declaration**. Unfortunately not all member states issue a national declaration.

Key features of the annual summary

Key features of the national declaration



The Dutch House of Representatives' Committee on Government Expenditure also recently broke a lance for the national declaration. In a report issued in September 2014[27] (House of Representatives, 2014), it called for the removal of political and administrative obstacles so that *all* member states can issue national declarations. A simplification of EU regulations and streamlining of national and European control and audit practices would, according to the Committee, be the most effective means. National declarations can reveal where problems occur in management and where errors are made so that the member state can take targeted and timely corrective measures. The European Commission or the European Court of Auditors would then 'reward' member states that issue a national declaration or comparable document with a lower control burden.

27 The report was prepared by a working group of the Committee on Government Expenditure chaired by MP Aukje de Vries.

The Committee has made accountability for EU expenditure a priority for inter-parliamentary cooperation in the years ahead and will urge member states to make the accountability documents required under the new Financial Regulation both public and insightful.

In its recent 'landscape review' (European Court of Auditors, 2014b), the European Court of Auditors also supports a streamlining of audit practices. In it, it says it will explore all avenues to ensure that auditors at each level can rely on the work of other auditors. The European Court of Auditors and the national audit authorities in the member states would need to strengthen their cooperation to achieve this goal. It would complement the aims of a resolution recently adopted by the European Parliament regarding the role of the European Court of Auditors in relation to the national audit institutions. The resolution proposes that national audit institutions contribute to the annual activities of the European Court of Auditors and carry out more joint audits in order to reduce the overlaps and the burden on auditees (European Parliament, 2014).

1.3.3 National declaration and additional contribution

It was announced on 23 October 2014 that the Netherlands had received an assessment from the European Commission and had to make an additional contribution to the EU of €642.7 million.[28] The additional contribution was the outcome of a revision of the macroeconomic data underlying the calculation of the gross national income (GNI) of virtually all the member states.[29] The United Kingdom and the Netherlands in particular had to make significant additional contributions on account of their higher GNI.

The Minister of Finance explained to the House of Representatives[30] that there were two parts to the revision of the economic data:

1. a revision of the method and definitions used in the national calculations to bring them into line with the European System of Accounts (ESA 2010);
2. improved information sources for the figures in the national accounts (source revision).[31]

In the Netherlands, Statistics Netherlands (CBS) introduced ESA 2010 and updated the sources at the same time. The increase in Dutch GNI (which led to the additional contribution for the Netherlands) was attributable chiefly to the update for 2010-2013. The CBS has since invested in new and better databases. The data on sole-traders and the ICT sector, for example, have been improved.

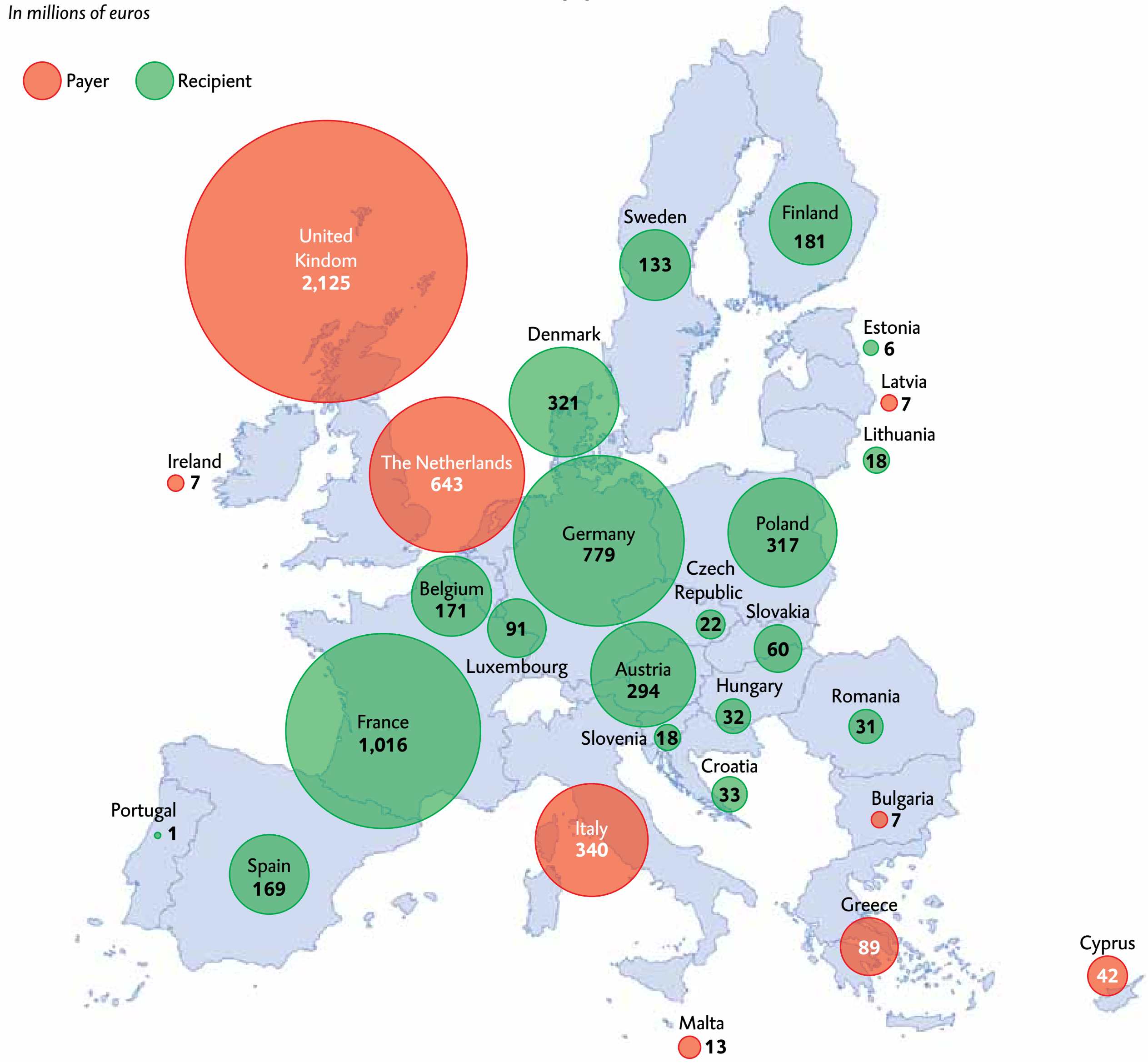
28 The gross contribution payable by the Netherlands was € 1,103.3 million with € 460.7 million being set off, leaving a net balance of € 642.7 million.

29 According to the Minister of Finance the additional contribution from the Netherlands was the result of relatively smaller upward GNI adjustments of other member states.

30 Consequences of macroeconomic revisions for EU remittances, letter from the Minister of Finance of 28 October 2014 (reference BFB 2014-11979M).

31 The data sources were updated by using newly developed information to measure the size of the economy.

Additional contribution to the EU: which countries had to pay and which countries were reimbursed?
In millions of euros



Reliability of GNI figures

The European Court of Auditors issued a report on 10 December 2013 on the quality of GNI data between 2002 and 2007. It showed that improvements had been made to the checks of the data used to calculate the member states' contributions to the EU budget (European Court of Auditors, 2013). The European Court of Auditors criticised the Commission's statistical office, Eurostat. The report revealed that Eurostat carried out insufficient work at member state level and its verifications in the member states were inconsistent. Furthermore, according to the European Court of Auditors, Eurostat's assessment reports did not adequately report on the GNI committee's recommendations or the Commission's activity reports regarding the verifications. The European Court of Auditors also notes in a recent publication that the nature and scope of the Commission's checks are limited and that it cannot guarantee the accuracy of the resultant data on the member states' GNI (European Court of Auditors, 2013). We are not aware of the extent to which Eurostat has improved its verifications.

National declaration

The government and the House of Representatives were evidently taken by surprise by the announcement that the Netherlands would have to make an additional contribution to the EU. For several years now, we have been urging the government to include remittances in the national declaration. Doing so would produce comprehensive EU accounts at member state level that presented both the receipts from the EU (EU grants) and the remittances to the EU. To date, the government has not acted on our recommendation. The inclusion of remittances would not have prevented the additional contribution but the assumption of political responsibility for remittances – stating the uncertainties and potential consequences, such as a revision of the GNI calculation – would allow for a timely debate with the House of Representatives.

The GNI-based contribution is only one of the elements in the member states' total annual remittances to the European Commission. It is the largest element but there are also import levies and customs duties (known as traditional own resources). The member states also remit a proportion of their VAT receipts to the EU. The Netherlands transfers its remittance to the Commission from the Minister of Foreign Affairs' budget. In our opinion, this budgetary responsibility is not consistent with the responsibility for the remittances, as we observed in our report on the national declaration for 2014 (Netherlands Court of Audit, 2014b). The Ministers of Finance and of Economic Affairs also bear responsibility for remittances.

1.4 Accountability for ESM emergency support measures

In the previous edition of the EU Trend Report we considered measures taken to combat the financial and economic crisis in the EU. One was the audit of and accountability for the emergency support measures introduced for member states in financial difficulties. We found that the member states benefiting from the emergency support measures were exposed to financial risks and we highlighted the need to mitigate the risks by means of good arrangements for independent public audit and transparent accounts.[32]

Audit arrangements have been made for one of the emergency support measures, the European Stability Mechanism (ESM). The ESM's Board of Auditors published its first report in mid-2013, for the period 8 October – 31 December 2012. The report identified several points for improvement: the external auditor had been appointed by the Board of Governors without following the required public procurement procedure, the audit committee did not have access to the external auditor's audit files and the ESM's internal audit was carried out by one person who did not follow documented procedures.

The Board of Governors approved the ESM's annual report for 2013 on 19 June 2014.[33] We examined whether improvements had been made in 2013 in response to the points highlighted by the ESM's Board of Auditors.

32 For more information on the emergency support measures, see our web dossier on EU governance at www.rekenkamer.nl/EU-governance.

33 For more information on the emergency support measures, see our web dossier on EU governance at www.rekenkamer.nl/EU-governance.

The 2013 annual report of the ESM's Board of Auditors reveals that some progress has been made. Internal controls, for example, have been improved. Nevertheless, it also shows that only limited action has been taken on many of the Board of Auditors' earlier recommendations. The recommendations related to:

- the adoption of a European legal framework for the ESM;
- the observance of European public procurement rules;
- the appointment of the external auditor for the ESM;
- the Board of Auditors' access to the external auditor's audit files and relevant information from the ESM's external service providers.

The ESM's management have given serious undertakings to adopt the recommendations of the ESM's Board of Auditors in 2013 and 2014.

The ESM management's response to the Board of Auditors' report suggests that it does not wish to comply with EU legislation, arguing that the ESM is an intergovernmental international financial institution that is not subject to it. The ESM's management think EU public procurement law does not apply to the ESM and that the accounting standards currently in use are more appropriate. It sees no reason for the auditor to publish more details than those in the annual report. The ESM therefore seems to wish to continue operating in the private domain, while it is actually an intergovernmental organisation set up and managed by the 18 euro countries.

1.5 Insight into fraud and corruption

1.5.1 OLAF's report on irregularities and fraud

Member states sometime make mistakes implementing the EU rules on the receipt and use of EU funds. These mistakes are known as irregularities. Member states also sometimes break the rules intentionally. These mistakes are instances of fraud. The member states are required to report all irregularities in excess of €100,000 to the European Commission and to take measures to recover undue payments.

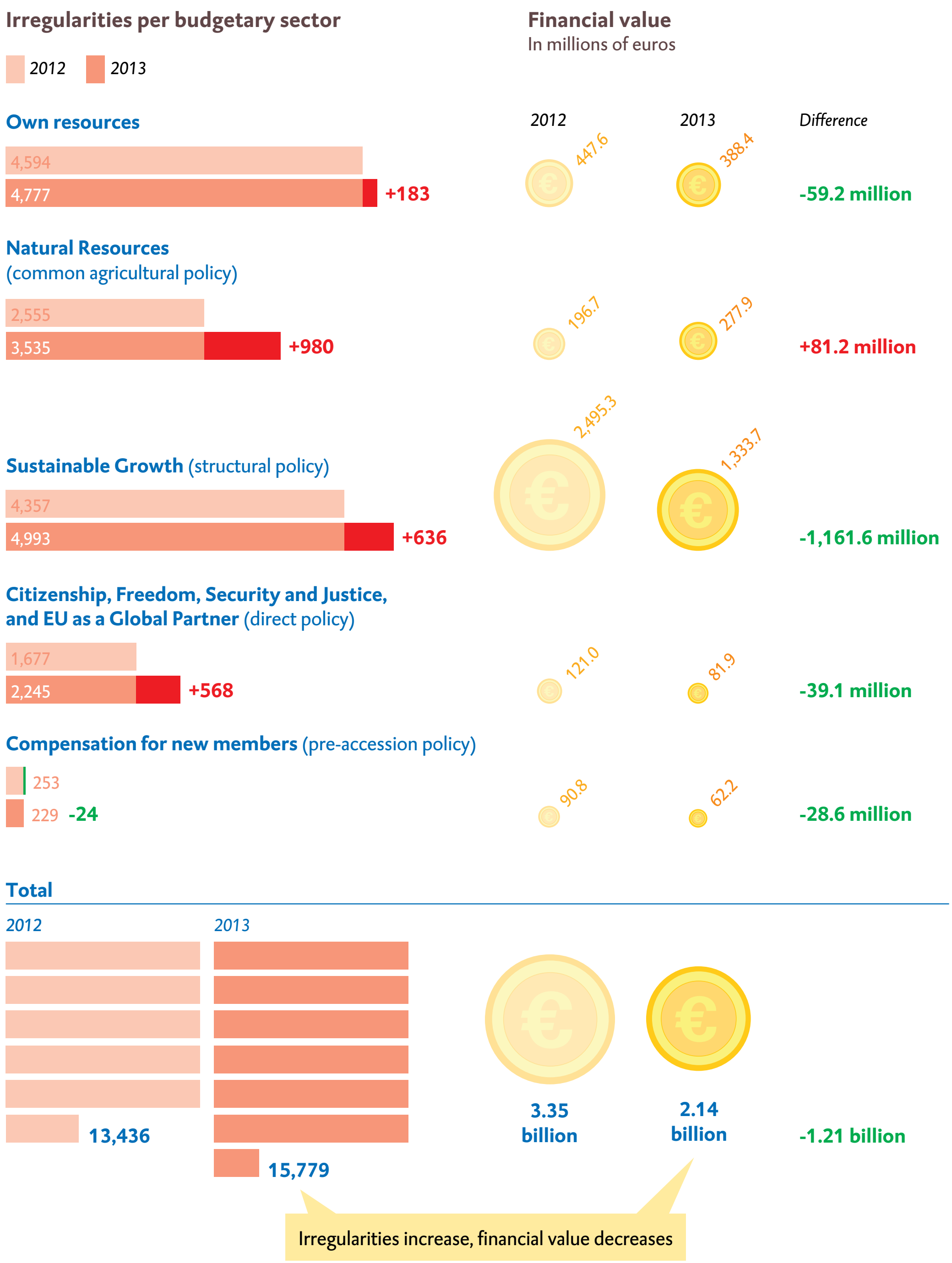
OLAF,[34] the EU anti-fraud office, compiles annual summaries for the Commission of the number of irregularities reported to it. The summaries do not provide a full and reliable picture, however, because the member states have not adopted uniform reporting procedures.

Increase in irregularities

Across the EU as a whole, the number of irregularities reported in 2013 increased by 17%. The financial value of the irregularities, however, declined by 36%: the member states reported 15,779 irregularities with a total financial value of €2.14 billion in 2013[35] (€3.35 billion in 2012).

34 OLAF Stands for Office européen de lutte anti-fraude.

35 Of this total, € 1.76 billion related to expenditures and the remainder to the EU's revenues.



The financial value of the irregularities exceeded €2 billion in 2013; half of this amount was reported by five member states: Italy, Greece, Poland, Romania and Germany. The irregularities occurred in agricultural funds (including the EFF), structural funds and the remittance of import levies and customs duties collected by the member states (traditional own resources). In the latter category, Germany reported the highest amount of irregularities: €99 million.

The member states must take all measures necessary to recover undue payments. If a member state reports an undue payment on time and takes appropriate action the Commission will not impose a financial correction.

In 2013 the Commission made financial corrections and recoveries to an amount of €3,363 million (2.3% of all payments from the EU budget).

Financial corrections and recoveries per budgetary sector 2012-2013

Begrotingsonderdeel	Budgetary sector Confirmed/decided (in millions of euros)				Implemented (in millions of euros)			
	Financial corrections	Recoveries	Total	Variation 2013/2012	Financial corrections	Recoveries	Total	Variation 2013/2012
Agriculture	1,090	380	1,470	71%	711	312	1.023	3%
EAGF	843	171	1,014	59%	481	155	636	-18%
Rural Development	247	209	456	106%	230	157	387	72%
Cohesion policy	1,402	83	1,485	-10%	1,759	81	1,840	-40%
ERDF	337	1	338	-65%	622		622	-74%
Cohesion Fund	220		220	8%	277		277	34%
ESF	834	40	874	106%	842	40	882	105%
Other (EFF, FIFG/EAGGF-Guidance and others)	11	42	53		18	41	59	
Internal policy areas	3	393	396	57%	3	398	401	74%
External policy areas		93	93	-13%		93	93	-6%
Administration		6	6	-14%		6	6	-33%
Total in 2013	2,495	955	3,450	20%	2,473	890	3,363	-24%
Total in 2012	2,172	695	2,867		3,742	678	4,419	
Variatie 2013/2012	15%	37%	20%		-34%	31%	-24%	
Own resources, total in 2013		380	380			234		62%
Own resources, total in 2012		459	459			272		59%
Variation 2013/2012		-17%	-17%			-14%		

Source: Report from the Commission to the European Parliament and the Council, Protection of the European Union's financial interests 2013, COM(2014) 474, p. 22.

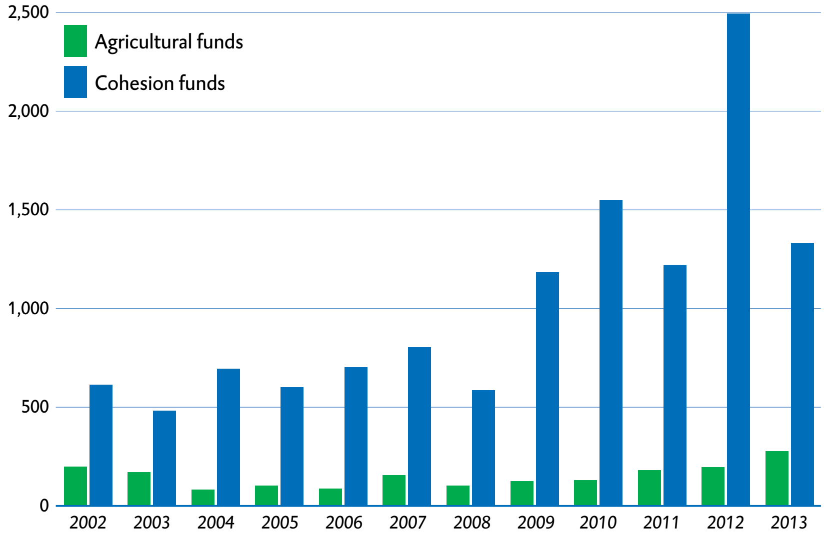
The European Commission encountered no problems collecting the confirmed import levies and customs duties (i.e. traditional own resources) from the member states.

Irregularities chiefly in cohesion policy

We have complete figures on the irregularities that member states reported to the Commission in the period 2002-2013 only in respect of grants awarded from the agricultural and cohesion funds.[36]

36 Cohesion policy is intended to strengthen the economies the least developed member states. Projects are financed to help the development of these member states (for example through the construction of roads and railways) and so help the Union 'stick together'.

Financial value of irregularities reported, 2002-2013
Per sector per annum, in millions of euros



Source: European Commission, reports and annexes of the Commission on the protection of the Union's financial interests.

Although the financial value of the irregularities reported in cohesion policy was lower in 2013 than in 2012, this policy field still had the highest number of irregularities in expenditure in euro terms.

Any consideration of the trend in this information (particularly the size of irregularities in cohesion policy) should bear in mind that the number of member states has increased considerably since 2004 and the reporting threshold has been raised.[37]

Slight increase in fraud

Fraud is an irregularity committed intentionally, for example by using or submitting false, incorrect or incomplete declarations or documents, non-disclosure of information contrary to the rules or the misapplication of funds for purposes other than those for which they were originally granted. The number of fraud cases reported to OLAF in 2013 increased from 1,264 in 2012 to 1,294, the highest number of new cases since OLAF was established.

By policy area, most fraud cases in 2013 were reported in structural funds.

Coordination service to combat fraud in the member states

The introduction of a new OLAF regulation on 1 October 2013[38] has brought fundamental change to OLAF's organisation and investigative procedures. The changes are currently being implemented. The member states have started to set up the national anti-fraud coordination services (AFCOS) required under the regulation. The AFCOs will work actively with OLAF and share operational and other information with it to strengthen the community fight against fraud. To date (June 2014), 23 member states have designated an AFCOS.[39] The European Commission is urging the other member states to take the necessary action before the end of 2014.[40]

37 Ten member states acceded in 2004 and a further two in 2007. The threshold to report irregularities in transactions financed from the structural funds, including the cohesion fund, was raised from € 4,000 to € 10,000 in 2006. The threshold for agricultural funds was raised to the same level a year later.

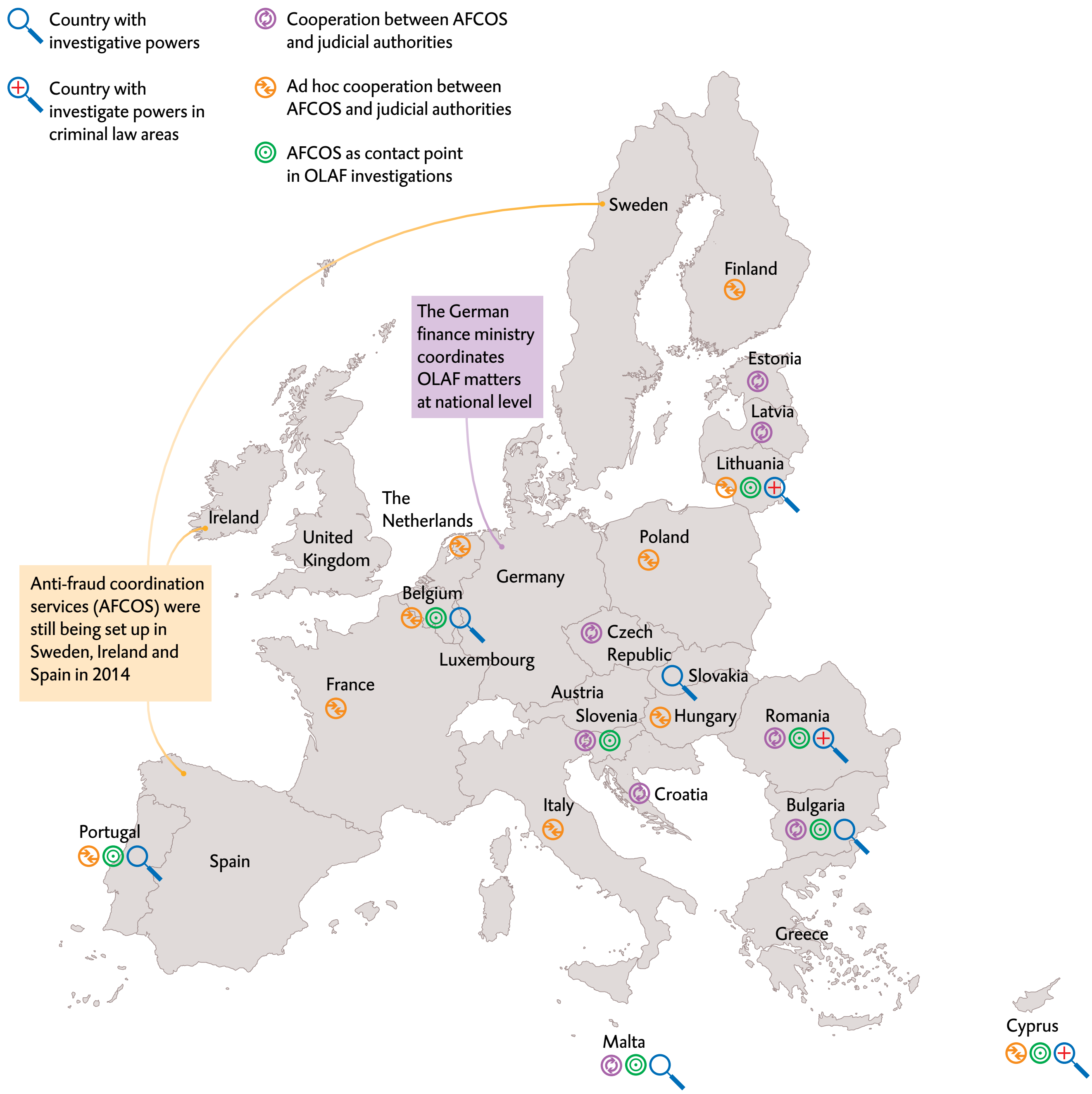
38 Regulation (EU, Euratom) no 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) no 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) no. 1074/1999.

39 The Netherlands has designated the Customs Information Centre (DIC), part of the Rotterdam Rijnmond regional customs office, as the AFCOS for customs matters and for carrying out checks for the Commission under Regulation (EC) 2185/96, which applies to all EU activities to combat fraud with EU funds. The DIC will deal with all judicial, legal and policy matters.

40 Protection report for 2013, COM(2014) 474 final, pp. 33-34.

The AFCOS' responsibilities can consist of coordinating national legislative, administrative and operational controls. In all member states, they will act as coordinators, but their scope will vary from one member state to another. In only a few member states will they have administrative and/or criminal law power to carry out investigations; in such cases the AFCOS will facilitate OLAF on the spot.

Anti-fraud coordination services and their powers in the member states
In 2014



The European Commission will monitor whether the coordination services facilitate OLAF efficiently and effectively.

European Commission's anti-fraud strategy

Internally, the Commission is also taking measures. Following the approval of the Commission's new anti-fraud strategy,[41] all DGs had to prepare an anti-fraud strategy in 2012-2013. Several annual activity reports for 2012 included measures to mitigate the risk of fraud (such as specific risk analyses of beneficiaries and strict control of selected projects or contracts) and described the results of the anti-fraud measures taken in 2012. At the end of 2013, 12 DGs had fully worked out their strategies, including the policy DGs Agriculture, Regional Policy, Employment, Home Affairs, Justice and OLAF.

1.5.2 European Commission's anti-corruption report

The European Commission published the first EU anti-corruption report on 3 February 2014.[42] It presents an analysis of the control and prevention of corruption in all 28 member states. The results are mixed. Both the character and the seriousness of the corruption and the effectiveness of the measures differ from one member state to another.

The Commission will check that the financial and administrative sanctions imposed by the member states under national legislation are effective, proportional and dissuasive. It may also prepare legislative initiatives. To date, it has not done so.

According to the Commission, the Netherlands' integrated approach to prevent and detect corruption can act as an example for other member states. There are still matters of concern, however. The Commission writes that the political parties in the Netherlands, for example, only recently reached agreement on new rules on the transparency of party financing and there is not enough evidence that foreign bribery is being adequately addressed. The Commission proposes in the report that a widening of the asset categories disclosed by elected officials. It also proposes that the Netherlands concentrate its efforts on the prosecution of corruption in international trade deals by increasing its capacity for the proactive detection of foreign bribery.

According to the European Commission, government contracts are vulnerable to corruption throughout the EU. The anti-corruption report shows that a third of companies in the EU think corruption is a problem in public procurement. It therefore calls on member states to include stricter and more dissuasive sanctions and ensure the transparency of the award procedures.

European Court of Auditors' criticism of the anti-corruption report

The European Court of Auditors was critical of the anti-corruption report. It noted that it contained not a single reference to OLAF's findings or information on the European institutions. According to the European Court of Auditors, the report did not present the information that the European Parliament, the Council of Ministers and the member states' national parliaments needed to formulate their own anti-fraud and anti-corruption policies. The information provided by the Commission consisted chiefly of the results of surveys of citizens and businesses and a description of anti-corruption measures planned or taken. The proposed anti-corruption measures as

41 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions and the Court of Auditors on the Commission anti-fraud strategy COM(2011) 376, final of 24 June 2011.

42 Corruption is defined as 'any abuse of power for private gain'.

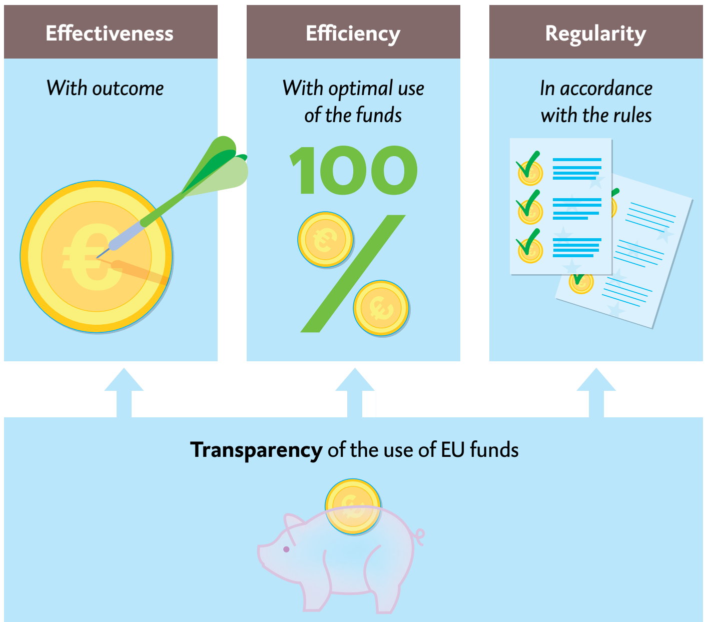
such are based principally on the social perception of corruption and not so much on its *prevention*. In the European Court of Auditor's opinion, one of the consequences is that the true causes of corruption will not be addressed by the measures proposed. The European Court of Auditors thinks that robust (timely and correct) information and independent evaluations, at EU and member state level, should be strengthened in order to define risk areas, identify causes and decide on the measures to be taken.

We agree with the European Court of Auditors' analysis that empirical and operationally-relevant information is necessary to take targeted anti-corruption measures.

2 Effectiveness and efficiency

The previous chapter asked whether the member states spent EU funds in accordance with the rules (regularly). This chapter asks two questions that are just as important to EU citizens: whether the use of those funds had the required outcome and whether the outcome could have been achieved more efficiently (at lower cost). The first question concerns effectiveness and the second efficiency.[43]

Use of EU funds: what can EU citizens expect?



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

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

2.1 Reports issued by the European Commission

2.1.1 The European Commission's activity reports

Little information on effectiveness of EU policy

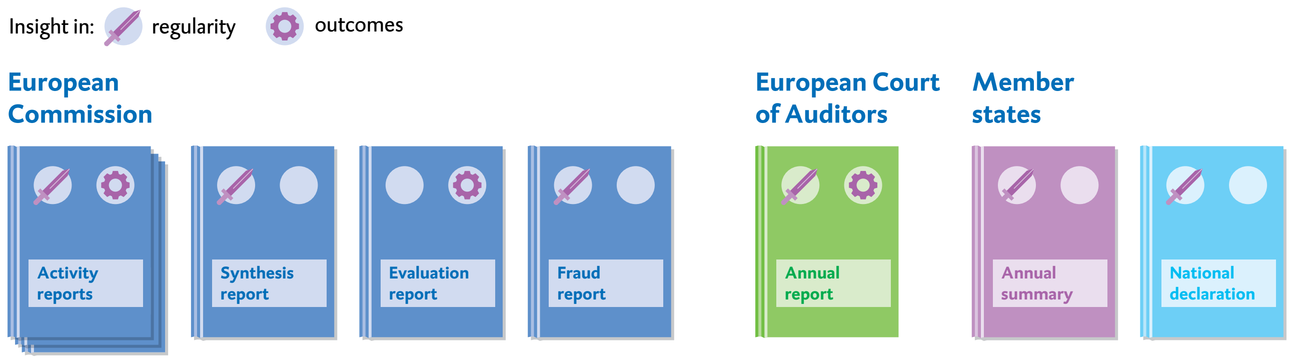
All the Commission's Directors-General must prepare an annual report on the activities they performed in their policy fields. We examined the activity reports of 12 Directors-General responsible for implementing policy (policy DGs).[44] In each EU

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

44 DG Agriculture, DG Regional Policy, DG Employment, DG Maritime Affairs and Fisheries, DG Home Affairs, DG Justice, DG Education and Culture, DG Environment, DG Mobility and Transport, DG Energy, DG Research and Innovation and DG Taxation and Customs Union.

Trend Report, we compare the activity reports of these 12 policy DGs to determine what information they present on the effectiveness of EU policy in the member states. We found that the 2013 activity reports (like those for the previous years) provided some information on the *outputs* in the member states but none on the *outcomes* of the policies and funding programmes.

Insight into regularity and outcomes



Most annual reports consider the regularity of the use of EU funds but few mention the results achieved.

Most annual reports consider the regularity of the use of EU funds but few mention the results achieved.

More transparency and coherence in the reports
In 2012, three policy DGs still restricted their activity reports to a qualitative description of their policy fields. The results achieved by the policy, and how they were achieved, were accordingly less transparent.

In their 2013 activity reports all 12 DGs considered the results they had achieved with the aid of key performance indicators. The performance data had also been further streamlined. Other performance-related improvements in the reports included:

- examples of the measures taken to enhance efficiency and make management more cost efficient;
- more detailed performance information, from evaluations, investigations, audits and impact evaluations;
- representative examples of the added value of EU programmes;
- greater transparency and coherence through the inclusion of management conclusions on the realisation of policy and the operational objectives, and the inclusion of a summary for the non-specialist reader of the main policy achievements (including management conclusions).

The improvements were due to new instructions from the European Commission regarding the structure of the annual activity reports. The content, structure and system of the policy DGs' activity reports for 2013 are now comparable and unnecessary differences have been virtually eliminated. The preparation of uniform reports has been brought a step closer.

2.1.2 European Commission's evaluation report

The European Commission issues an annual evaluation report to provide the European Parliament and the Council of Ministers with the information they need for the discharge procedure.[45]

In the past, the discharge procedure focused on the legality and regularity of the Commission's use of budgetary funds. The focus was shifted in 2012 to include the efficiency and effectiveness of policy as well as the legality and regularity of expenditure. A paragraph has been added to article 1 of the Treaty on the Functioning of the European Union (TFEU) requiring a policy-related assessment of budget implementation. The Commission must now issue an annual evaluation report to the European Parliament and the Council outlining the policy achievements. To date, it has issued four reports.

Evaluation reports 2010-2012: gradual improvement in information value

The scope of the first evaluation report (on 2010, issued in November 2011) was limited. The report contained little or no information on the achievement of the concrete goals of individual EU programmes. The second evaluation report (on the 2011 budget, issued in November 2012) was wider in scope, with 20 rather than two policy fields being reviewed and evaluated.

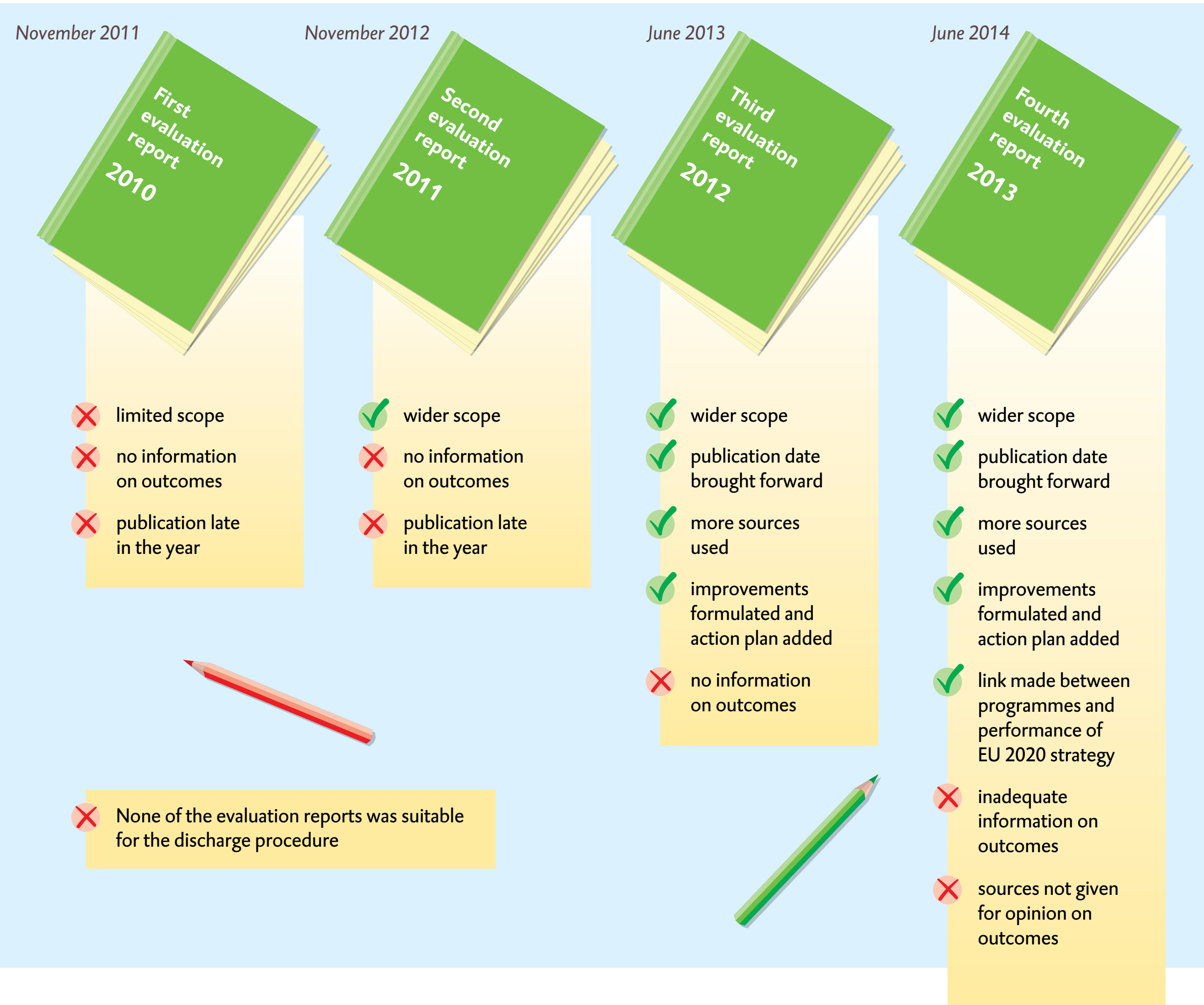
The third evaluation report (on 2012) showed a further improvement. It drew on more sources (special reports issued by the European Court of Auditors and recommendations by the Commission's Internal Audit Service), made recommendations for improvement and included an action plan for the further development of the report. The timing of the third evaluation report was also better: unlike previous reports, it was issued in June so that the European Court of Auditors had time to consider it in its own report, which was issued in November 2013. Nevertheless, the European Court of Auditors thought the third evaluation report could not be used in the discharge procedure because the scope was still not adequate, relevant or reliable enough.

Fourth evaluation report: still few conclusions on the outcomes of EU programmes

The evaluation report for 2013, issued in June 2014, also covered a large number of policy fields. It concluded that the greater part of the programmes contributed to the achievement of the Europe 2020 objectives but that it was still too early to express an opinion on the outcomes because the evaluations would not be completed until 2015 or later. Where conclusions could be drawn on the outcomes, however, the sources were usually not given. The report also paid little attention to the cost/benefit ratio of the programmes.

45 The discharge procedure is a procedure to approve the European Commission's implementation of the budget. If approved, the Commission is officially relieved of responsibility for budget implementation and cannot later be held accountable for it.

European Commission's evaluation reports 2010-2013: gradual improvement in information value



The European Court of Auditors found improvements in the 2013 evaluation report in comparison with previous years because the European Commission had tried to establish a link between the main financial programmes on the one hand and the performance data available on the Europe 2020 strategy on the other. It also thought that all available information on the progress towards the 2020 objectives should be brought together in the evaluation report so that the reader would have a better insight into the outcomes. In many important areas, the information and data presented in the evaluation report related only to the activities performed and the outputs, not the outcomes.

2.1.3 More emphasis on efficiency in new programming period

The new Regulation on Structural and Investment Funds for the 2014-2020 programming period (the ESI Regulation) contains provisions on a large proportion of the European funds under shared management.[46] Under the Regulation, the European

46 For the 2014-2020 period: the ERDF (regional development), the ESF (employment and labour market), the cohesion fund (not relevant to the Netherlands), the EAFRD (rural development) and the EFMAF (fisheries). Migration funds are also funds under shared management but are not subject to the ESI regime.

institutions must manage more by results in the new programming period. In contrast to the previous programming period, appropriations from the ESI funds have to be used specifically to achieve the Europe 2020 objectives.[47]

Appropriations from the ESI funds for the 2014-2020 programming period have been made partially dependent on the member states' achievement of the Europe 2020 objectives. To this end the Commission concludes *partnership agreements* with the member states, laying down the strategy, priorities and regulations a member state must observe to use the ESI funds efficiently and effectively to achieve the Europe 2020 objectives.

Part of the budget (6%) from the ESI funds will not be released until the results set in the partnership agreement have been achieved. If the performance targets are met, the member state receives the full appropriation but if an evaluation of the performance finds that a member state has seriously failed to hit the performance milestones (as included in the partnership agreement), payment can be suspended in full or in part. Should this be the case after the final report on the implementation of the operational programme has been submitted, financial corrections can be made and part of the funding can be withdrawn.

Performance agreements had also been made in the 2007-2013 programming period but they concerned a smaller proportion of the member states' programme budgets (3% instead of the current 6%). Furthermore, the member states themselves could set the performance targets for each of the objectives in the operational programmes. All member states satisfied the performance targets because they set the bar relatively low. This risk is a little smaller in the new programming period because the performance targets are laid down in the partnership agreements that have to be approved by the Commission.

At programme level, targets are set for a variety of indicators that must be met by 31 December 2018. Stricter requirements have also been made on the indicators for the new period. They consist of output indicators at project level, results indicators at programme level and general indicators at EU level to inform the European Commission of the progress made implementing the programmes and projects. These indicators will go a step further than those used in the previous programming period. An ERDF project to promote innovation, for example, will consider not only the businesses that receive funding (as was the case in the past) but also whether they produce something new. Evaluation will therefore be more focused on the desired outcome.

The European Commission will review the scores on the indicators and decide whether the performance reserve will be released in full of in part in 2019. The ex-post evaluations, which must be completed by 31 December 2025, will investigate the efficiency and effectiveness of the ESI funds and the extent to which the projects funded contributed to the Europe 2020 objectives.

The Dutch partnership agreement was submitted to the Commission for approval in March 2014 and was approved in August 2014. The new regulations will be considered in our audit for the next EU Trend Report.

47 The EU has set key objectives to be achieved by 2020 in five areas: (1) employment, (2) research, development and innovation, (3) climate change and energy, (4) education, and (5) poverty and social exclusion. These Europe 2020 objectives are translated into national targets for each member state so that they take account of specific national situations and circumstances.

2.2 European Court of Auditors' effectiveness and efficiency reports

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

The European Court of Auditors does not express an opinion on the expenditure of EU funds in the member states; that is not its task. Its annual report therefore does not include a formal opinion on the effectiveness of the EU programmes implemented in the member states.

Apart from its annual report, the European Court of Auditors also publishes about 20 special reports each year on the effectiveness of expenditure in specific areas. The special reports' subject matter, which the European Court of Auditors itself selects, varies from LIFE (the financial instrument for the environment) to EU development aid for central Asia. The European Court of Auditors often audits projects on a random basis in a number of selected member states. Most of the audits, however, consider the structure of a programme and provide more information on performance than effectiveness.

The European Parliament has proposed that the European Court of Auditors should concentrate more on the effectiveness and efficiency of EU policy and less on regularity. This was one of the key points in a draft resolution that the European Parliament's Budgetary Control Committee issued on 16 December 2013. The resolution was adopted by a plenary session of the European Parliament in February 2014 (European Parliament, 2014).

2.3 Effectiveness and efficiency reports issued by national supreme audit institutions

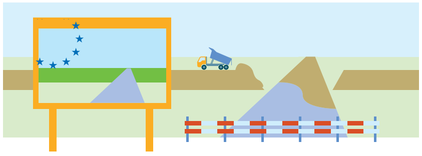
Unlike the European Court of Auditors, the member states' supreme audit institutions can audit the effectiveness and efficiency of EU policy in their home countries if they are mandated to do so.

Great variety in SAI audits
With the exception of the Luxembourg SAI, all supreme audit institutions in the EU audit the effectiveness and efficiency of EU-related subjects. The number of such audits has increased in recent years; about a third of the SAIs' audits consider the results and effects of policy. The audit scope varies greatly.

In the Netherlands, chiefly insight into performance, less into effects
In previous EU Trend Reports we considered the relevant national authorities' insight into the effectiveness of EU policy at both EU and member state level, with a particular emphasis on the Netherlands.

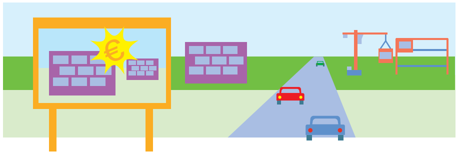
We repeatedly found that the Dutch programming authorities (and with them the responsible ministers) had an insight into policy performance and outputs but little into the ultimate outcomes achieved with EU funding and by EU policy.

Insight into outputs...



A road is built with EU funding

...but not into outcomes



Is the road used and what are the benefits for the region?

For our EU Trend Report last year we audited the insight into the effectiveness of ERDF projects. We found that although most of the projects we audited delivered on their promises, the effectiveness and efficiency of expenditure was often difficult to establish. Performance indicators had been set but they were often too general and said little about the exact effect achieved by the projects. Moreover, project applications that satisfied the funding criteria were honoured on a 'first come first served' basis. As a result, there was a risk that the most effective and efficient projects may miss out on EU funding.

No efficiency information yet in the Dutch national declaration

The national declaration issued by the Dutch government to account publicly for the use of EU funds contains no information on the effectiveness and efficiency of expenditure. We recommended in our report on the 2013 national declaration (Netherlands Court of Audit, 2013b) that such information be included. The government has not yet acted on this recommendation.

3 Conclusions and recommendations for part 1

3.1 Conclusions

Regularity of EU funding
Unfortunately, for the twentieth year in succession, the European Court of Auditors was unable to express an unqualified opinion on the regularity of EU expenditure.

We can be cautiously optimistic about the development of the European Commission's activity reports. Their transparency and coherence have improved on account of the reports' new organisation. The contents, structure and system have been brought more into line with each other to make the reports more uniform.

The activity reports contained fewer reservations, which is indicative of there being fewer shortcomings and problems in 2013 than in the previous year. However, the financial value of the reservations remained just as high.

The annual synthesis report issued by the Commission on the basis of its DGs' activity reports was, as in previous years, not signed by the members of the European Commission. The European Commission consequently has not assumed specific political responsibility for the implementation of policy.

On the whole, there was no improvement in the regularity of European finances in 2013, despite the positive developments we found.

Accountability by the EU member states
The member states' accountability for the use of EU funds did not improve last year. Only three member states – Denmark, Sweden and the Netherlands – voluntarily issued a national declaration in 2013. The other member states, with the exception of the United Kingdom,[48] have never done so.

Several improvements look imminent. The new EU Financial Regulation provides instruments that might be a step forward, such as the obligation to have an independent auditor express an opinion on the annual summaries of national audits of the regularity of EU expenditure. However, even if accompanied by an independent auditor's opinion the annual summaries are still not prepared at political/official level and so no consequences can be attached to irregularities. Furthermore, the annual summaries are not public documents that every EU citizen can access. This has not been changed by the new Financial Regulation. We think this is a missed opportunity.

Effectiveness and efficiency of EU policy
Previous investigations by the European Court of Auditors (at EU level) and by the Netherlands Court of Audit (at national level) found that there may be some insight into the performance (outputs) delivered in the member states using EU funds but too little is known about the effects (outcomes) achieved.

48 The United Kingdom issued a national declaration until last year but is no longer considering doing so.

Priority in the implementation of European programmes is given to checking compliance with the rules (regularity) rather than checking whether the projects use the funds effectively and efficiently to achieve the desired outcomes. There has been no significant change in this situation in the past year.

The European Commission's evaluation report is a work in progress and improvements were again seen last year. The 2013 report, however, also provides no insight into the outcomes of EU programmes; only the activities performed (outputs) are described. There is therefore no insight into the achievement of the underlying objectives.

Combating fraud and corruption
Significant steps were taken in 2012-2013 to protect the Union's financial interests. In its 2013 annual report, OLAF, the anti-fraud office, presented positive results and the annual activity reports revealed that most DGs had made substantial progress developing and implementing their anti-fraud strategies.

The European Commission has published its first anti-corruption report. It included an analysis of the measures taken to combat and prevent corruption in all 28 member states. This initiative is a promising start to a dedicated strategy to tackle the problems of corruption with EU funds. However, we agree with the European Court of Auditors' criticism of the anti-corruption report: it is inconsistent with OLAF's findings and evidence-based information was not used.

3.2 Recommendations

In our opinion, a political and public report, such as the national declarations issued by the Netherlands, Denmark and Sweden, should be the closing document in the national control and accountability cycle for the use of EU funds. Such a declaration would also enable the European Court of Auditors to rely on national audits, making its work more efficient.

The time seems ripe to take the next step. A working group of the Commission and the European Parliament has attempted to remove barriers to the introduction of national declarations. The Commission has accepted the working group's recommendation to use national declarations as an accountability instrument and is willing to study how this can be brought about. Recent developments regarding the additional contribution also show the importance of insight into both expenditure and remittances. Furthermore, other parties apart from the Commission are moving in the right direction: the European Parliament has asked the European Court of Auditors to place more reliance on national audits, the European Court of Auditors is open to more cooperation, and our national parliament has called on its counterparts in other member states to introduce an instrument such as the national declaration. We therefore repeat our recommendation to the Ministers of Finance and of Foreign Affairs to support the introduction of a political and public declaration on the use of EU funds in all member states. The new Financial Regulation unfortunately does not require the member states to prepare national declarations. We recommend that the ministers promote, throughout the EU, the use of the template for the national declaration developed by the working group of the Commission and the European Parliament.

A good start would in any event be the publication of accountability documents. We recommend that the Minister of Finance again urge the ECOFIN Council to have the member states publish their annual summaries and the new management declarations, and that the Commission analyse them and publish its findings. The minister has already informed the House of Representatives that he is in favour of the publication of such documents.[49]

As noted above,[50] the member states must submit their annual summaries and – for the first time – their management declarations to the European Commission before 15 February 2015. The House of Representatives' Committee on Government Expenditure has already undertaken to encourage the member states and their parliaments to make these accountability documents public and insightful. We would note that other member state institutions should also be urged to publish these documents.

Regarding the synthesis report, we recommend that the Minister of Finance call for it to be signed by the members of the European Commission. In our opinion, this would make the European Commission explicitly accountable for the policy conducted.

49 In a policy meeting of 26 June 2014, the Minister of Finance said it was essential for democracy and confidence in the Union as a whole that as much information was published as possible. 'The documents, the declarations by the managing authorities and the audit authorities, must simply be made public.'

50 See section 1.3.1 of this EU Trend Report.

Part II

The Netherlands: Effectiveness of EU funding and errors in European procurement

4 Insight into the effectiveness of EU funding in the Netherlands

Approximately 80% of the annual EU budget is spent under shared management by the European Commission and the member states. The budget is allocated to a variety of EU funds each year to support projects in the member states that promote each fund's policy objectives. To determine whether the policy objectives are compatible with the fund's objectives, project applications are reviewed in advance by a designated authority in the member states. A further general condition for EU funding is cofinancing: every euro a member state receives from the EU must be matched by at least one euro from the member state itself.

This year we looked at the effectiveness of six EU-funded projects carried out in the Netherlands between 2007 and 2013. Our key question was, did the projects' expected effectiveness and efficiency play a role in the award of grants and, if so, were the projects' expected effectiveness and efficiency taken into account during implementation and on final settlement? Answers to these questions reveal how the use of EU grants in the Netherlands contributes to the effectiveness of EU funds.

This chapter first presents a brief explanation of the audit structure (section 4.1). It then considers our findings on each of the projects we audited (section 4.2) and closes with a summary of our conclusions and recommendations (section 4.3).

4.1 Audit structure

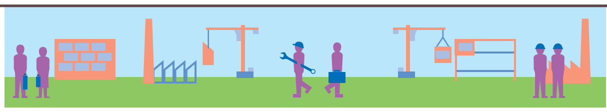
Which EU funds did we audit? The projects we looked at received funding from the following EU funds:

- the European Regional Development Fund (ERDF);
- the European Integration Fund (EIF);
- the European Agricultural Fund for Rural Development (EAFRD);
- the European Social Fund (ESF);
- the European Territorial Cooperation grant programme (Interreg);
- the European Fisheries Fund (EFF).

The main characteristics of these six funds are shown in the figure below.

The six EU funds audited

ERDF



European regional development fund (ERDF)

Objective

To reduce the main economic differences between European regions

Supports projects that

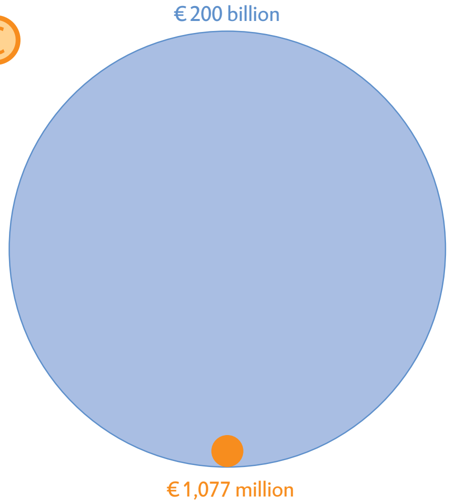
- Structurally improve employment and competitiveness in European regions
- Promote territorial cooperation within the EU
- Help the least developed member states catch up more quickly with the EU average (convergence)

Responsible for the use of ERDF funds in the Netherlands

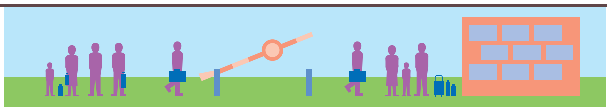
EA

Ministry of Economic Affairs

Budget



EIF



European Integration Fund (EIF)

Objective

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

Supports projects that

- Simplify and support admission procedures
- Promote the integration of third-country nationals in member states
- Enhance the member states' capacity to develop, implement, monitor and evaluate their integration policies

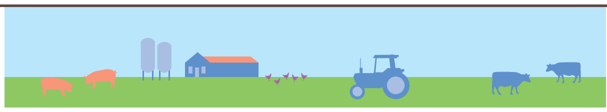
Responsible for the use of EIF funds in the Netherlands

SAE

Ministry of Social Affairs and Employment

Budget

EAFRD



European Agricultural Fund for Regional Development (EAFRD)

Objective

To strengthen rural development within the member states and simplify the implementation of national rural policy

Supports projects that

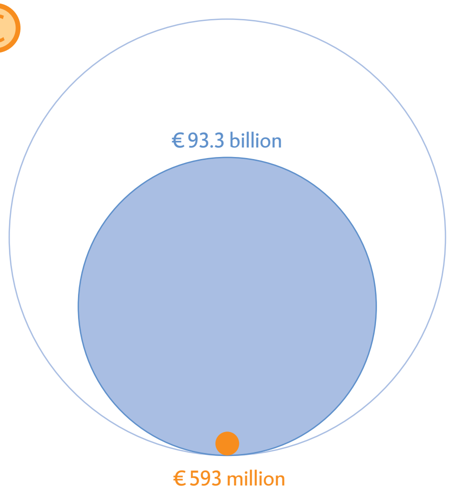
- Improve the competitiveness of agriculture and forestry
- Improve the environment and the countryside
- Improve the quality of life and the diversification of economic activity in rural areas

Responsible for the use of EAFRD funds in the Netherlands

EA

Ministry of Economic Affairs

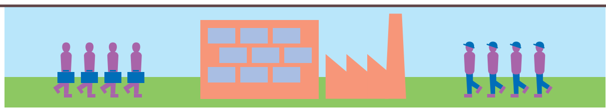
Budget



Legend budget 2007-2013: EU Netherlands

ESF

European Social Fund (ESF)



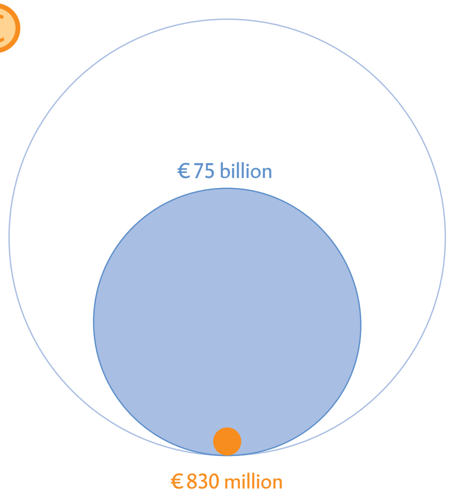
Objective
To promote employment in the member states

Supports projects that
- Enhance access to employment
- Promote an inclusive labour market with all participating to the best of their abilities
- Increase the flexibility of employees; investing in human capital

Responsible for the use of ESF funds in the Netherlands
SAE

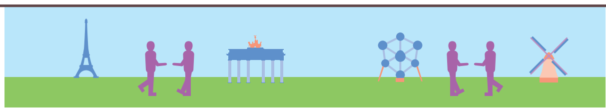
Ministry of Social Affairs and Employment

Budget



Interreg[1]

European Territorial Cooperation (Interreg)



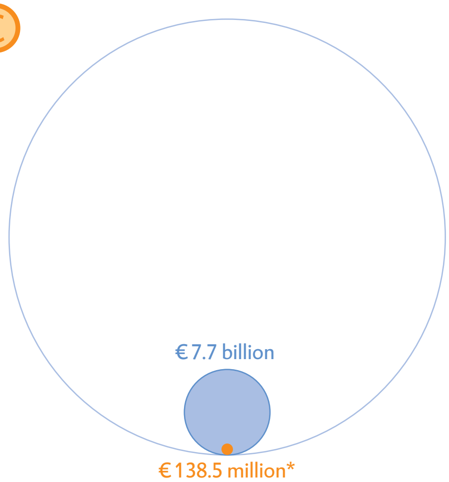
Objective
To promote European cooperation

Supports projects that
- Promote cross border spatial development
- Reduce economic differences between regions and member states
- Strengthen innovation capacities and the environment in the EU as a whole

Responsible for the use of Interreg funds in the Netherlands
IE

Ministry of Infrastructure and the Environment

Budget

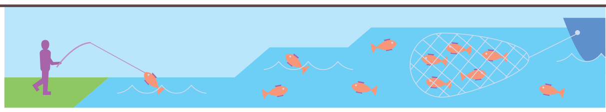


[1] The official name of Interreg is: European Territorial Cooperation

* For Interreg IVB North Sea Region Program

EFF

European Fisheries Fund (EFF)



Objective
To ensure the conservation and sustainable use of marine resources

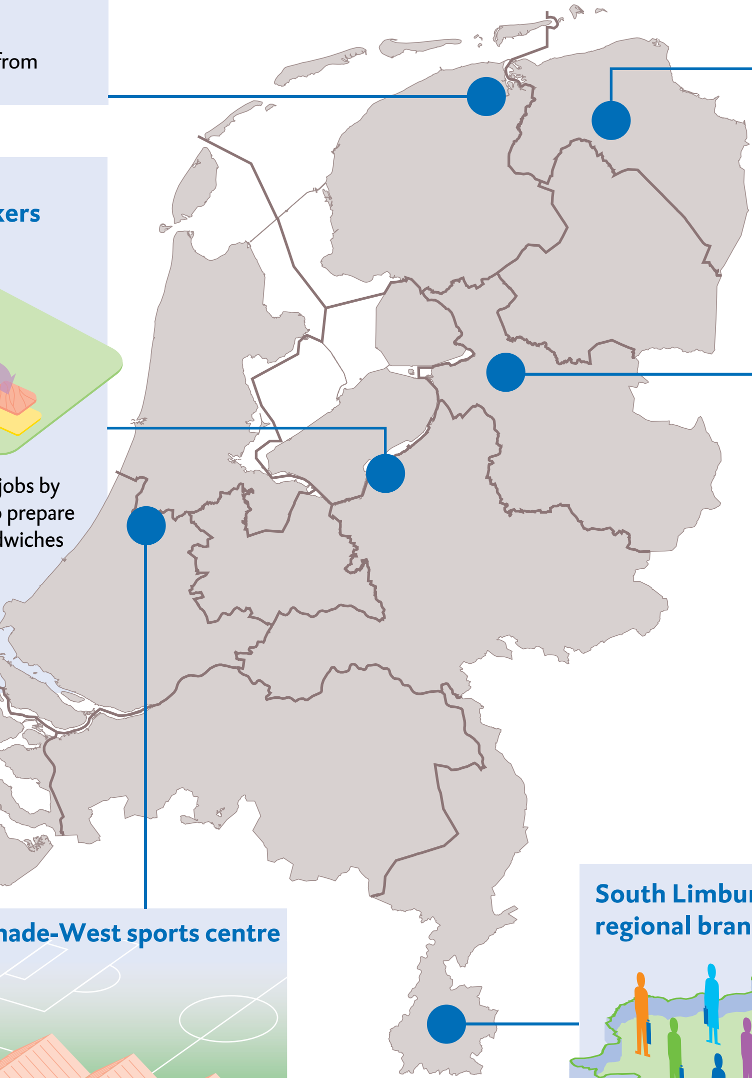
Supports projects that
- Reduce pressure on stocks
- Promote the sustainable development of inland fishing
- Help boost economically viable enterprises in the fisheries sector

Responsible for the use of EFF funds in the Netherlands
EA

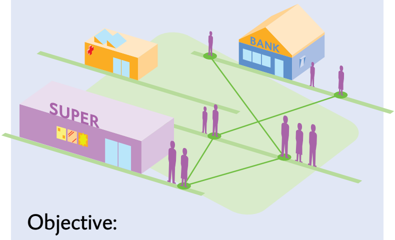
Ministry of Economic Affairs (formerly the Ministry of Agriculture, Nature Management and Fisheries)

Budget

The six projects audited



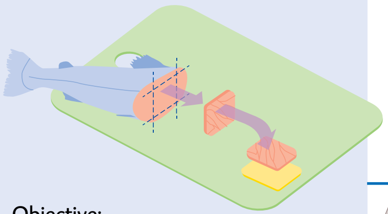
Vital Rural Area



Objective:
To develop a transferable method to maintain the quality of life in rural areas by strengthening small and medium-sized enterprises (SMEs), regional branding and improving social and medical facilities.

€ 3.9 million from Interreg

Salmon slices for sandwiches and crackers



Objective:
To increase sales and create jobs by developing a new method to prepare salmon slices for use on sandwiches and crackers.

€ 0.3 million from EFF

TOP

Objective:
To promote the integration and participation of illiterate/functionally illiterate persons, in part by means of language lessons, encouraging self-reliance and parenting support.

€ 0.3 million from EIF

Apprenticeship vouchers

Objective:
To increase the number of apprenticeships in the IJssel-Vecht region by providing vouchers to lower employers' wage costs in order to reduce youth unemployment.

€ 0.1 million from ESF
(€ 0.9 million requested)

Alkemade-West sports centre

Objective:
To improve social cohesion and the quality of life by means of a multifunctional sports centre in Rijpwetering.

€ 0.5 million from EAFRD

South Limburg regional branding

Objective:
To improve the image of the region so as to attract well-educated people to fill vacancies in the region.

€ 1.3 million from ERDF

Which projects did we audit?
We looked at six projects carried out in the Netherlands in the 2007-2013 programming period that received funding from one of the EU funds listed above. The projects are shown on the map opposite.

How were the six projects selected?
We selected projects that received a relatively high level of EU funding and had been completed. We also preferred projects that had a measurable objective. Furthermore, we selected projects that were spread evenly over the Netherlands.

How did we audit the projects?
We identified the steps the grant recipients took to receive EU funding and the projects' intended objectives. We then looked at how the grants were awarded and how the projects were implemented and settled and what was known about their impact.

Is our audit representative of all EU funds?
Our audit is too limited in scope to be representative of all projects financed from the selected EU funds. However, it does provide some insight into the use of a small proportion of the EU funds received by the Netherlands and what effect they have had. In the previous EU Trend Report, we had looked at the effectiveness of 30 ERDF projects. If our findings on the six projects selected this year confirm last year's findings, we believe we can conclude there is a trend.

4.2 Projects audited

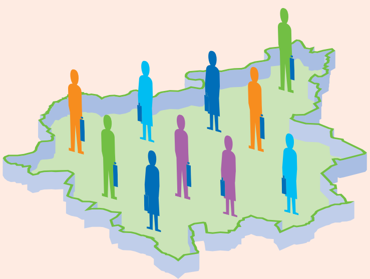
4.2.1 South Limburg regional branding: funded from the ERDF

IN 2008 several dozen companies in the South Limburg region foresaw difficulties filling vacancies in the longer term and decided to join forces to attract more highly educated people to the region. In the same year they founded the South Limburg Regional Branding Foundation, which also included all 18 municipalities in South Limburg and the Limburg provincial authority. The foundation prepared a plan to reverse the ageing population and improve the region's image. It launched a regional campaign to promote South Limburg as a region with good investment and career opportunities and a high quality of life.

Project facts
On 16 February 2009, the South Limburg Regional Branding Foundation applied to the Stimulus project management agency for an ERDF grant to fund the regional branding project.[51]

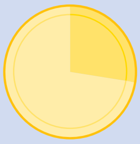
51 The managing authority for the South Limburg region had delegated implementation of the ERDF Programme to Stimulus, a project management agency.

South Limburg Regional Branding



4.7 million

Own funding* € 3.4 million



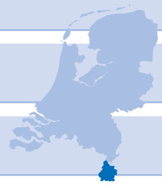
ERDF € 1.3 million

* Funding provided by the foundation, raised by enterprises and municipalities in the region and the province of Limburg.

South Limburg Regional Branding Foundation

Launch a regional promotional campaign to change the image of the South Limburg from a region attractive only for recreation to one with a strong investment and career opportunities and a high quality of life.

South Limburg region



5 November 2008 – 31 December 2012

Attract and retain highly educated people who can fill vacancies in the region.

A study by Maastricht University indicates that more than 2,400 knowledge workers moved to South Limburg to work there in the past three years and had been positively influenced by the promotional campaign. As a spin-off, approximately 145 jobs had been created.**

** Source: Sillen, 2012. We did not review the quality of this study.

The South Limburg regional branding project was a priority 2 project of the ERDF South Netherlands programme: attractive regions.

The grant applications were reviewed by Stimulus on behalf of the managing authority. Stimulus determined whether the project was compatible with the ERDF South programme. It dealt with the applications on a ‘first come first served’ basis.

The project in practice: an impression

South Limburg Regional Branding Foundation made a baseline measurement of the region’s image in 2008. It found that the Dutch labour force rarely associated South Limburg with career opportunities and high tech industries. The Foundation therefore set concrete goals to improve the region’s image in these areas.[52]

In the grant recipient’s opinion the project campaigns were successful and were completed as planned. A website was set up to present vacancies in the region and video portraits of new residents in South Limburg. Adverts were also placed on the internet and campaign spots were broadcast on radio and television.

The grant recipient carried out a follow-up study of the region’s image in 2012. The final project report concluded that the objective to improve the region’s image had been achieved. How much of the improvement could be attributed to the regional branding campaign, however, was not clear.

52 By 2012, 25% of the target group had to associate the region with career opportunities (base line: 15%) and 20% with high tech industries (baseline: 14%).

The grant recipient also commissioned a study of the number of people who had moved to South Limburg in response to the regional branding campaign, and the number of jobs created as a result (Sillen, 2012). The study indicated that in the past three years more than 2,400 knowledge workers had been positively influenced by the campaign and had moved to South Limburg and were in employment. As a spin-off, an estimated 145 jobs had been created, comfortably more than the target of 10. Sillen noted, however, that it was difficult to make an accurate estimate because the region's image was just one of the many factors at play. The calculations were based on assumptions and were therefore far from certain.

Effectiveness: our findings
Did the expected effectiveness of the South Limburg regional branding project play a role in the award of the grant and, if so, was it asked during implementation and on final settlement whether the project had lived up to expectations? Four matters caught our attention.

1 *Objective stated in grant application was not the actual objective*
The grant application made by the South Limburg Regional Branding Foundation described the project's objective as 'attracting business and creating FTE jobs'. In reality the objective was to improve the image of the South Limburg region in order to attract highly educated people to fill vacancies. The grant recipient stated in a talk with us that the objective had been chosen owing to the format of the grant application. The applicant had to state which of the six indicators of the ERDF programme the project would contribute to and what the objective was. The actual indicator (image improvement) was not listed. In consultation with Stimulus, the foundation had decided that the objective was to create jobs and had set the target at 10. This was a very conservative estimate that would definitely be achieved.

2 *Expected effectiveness not considered in grant award*
Stimulus (the project manager delegated by the managing authority) did not rank projects by their expected effectiveness. Project efficiency, too, did not play a demonstrable role in the selection. Stimulus did consider these aspects in its assessment of applications but they were not selection criteria because it adopted the principle of 'first come first served'.

3 *No consideration of project effectiveness on final settlement*
On final settlement, Stimulus did not consider whether the project goals had been achieved. The grant recipient did. Adoption of the grant, however, was based only on whether the agreed costs had been incurred. In other words, there had been a 'duty of best efforts' rather than an 'obligation to produce results'.

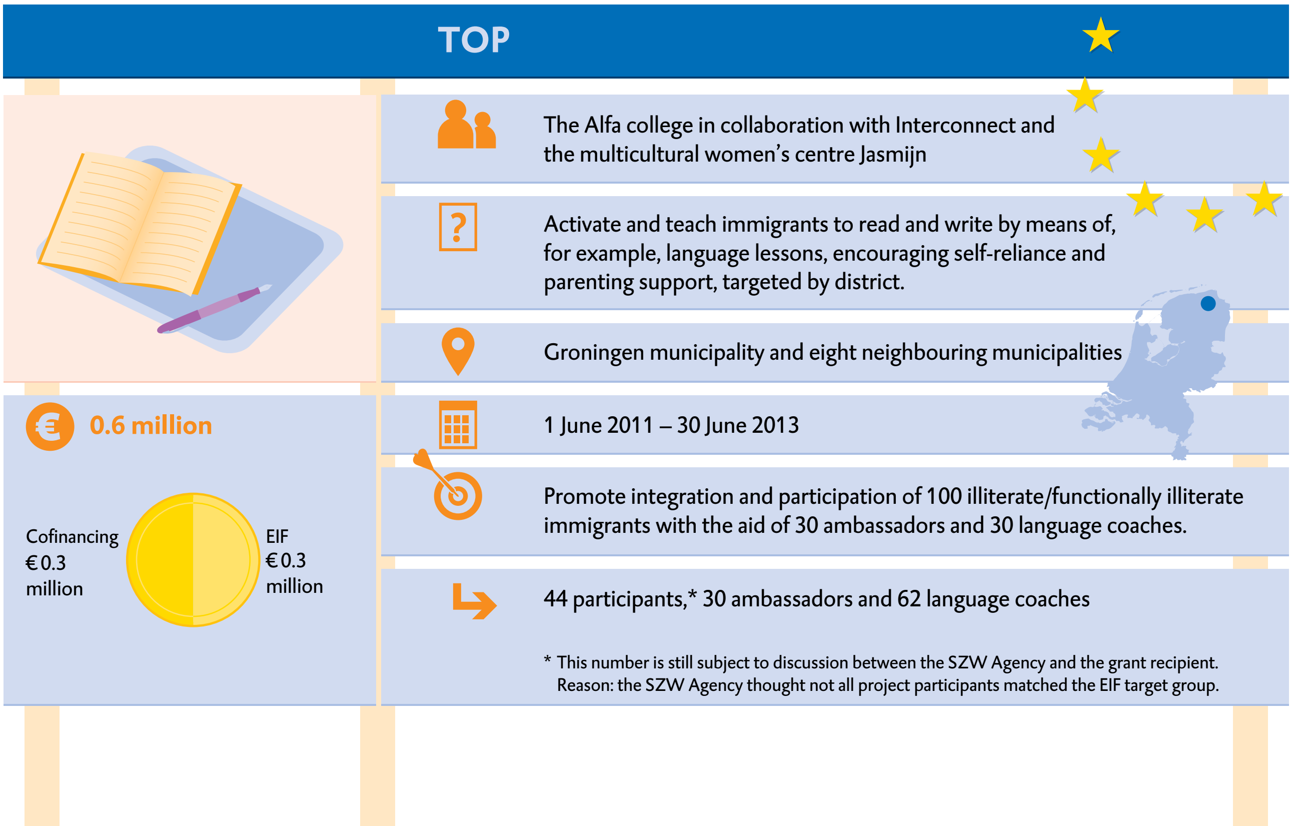
4 *Project would have been partially achieved without ERDF funding*
The foundation noted that the project would have gone ahead even if a grant had not been awarded. However, the campaign would have been smaller and results 'of this order' would not have been achieved.

4.2.2 TOP: funded from the EIF

The Alfa college, a regional training centre (ROC) in Groningen, helps integrate immigrants who cannot be reached by regular civic integration programmes. Together with two partner organisations, it decided in 2011 to carry out a project to activate and teach immigrants to read and write Dutch: the TOP Project.

Project facts

Together with its partner organisations, the Jasmijn Foundation and a company called Interconnect, the Alfa college applied for a grant from the EIF for the TOP project.



The grant applications were assessed by the Programme Secretariat for European Funds (now the Social Affairs and Employment (SZW) Agency) and scored using a points system. It considered general criteria (such as timely and complete application) and eligibility (correct target group, cofinancing). It also considered specific aspects such as the likelihood of success, the organisation, the target group's commitment, the level of innovation, scope of the results and the cost/benefit ratio.

The project in practice: an impression

The TOP project first gauged the linguistic skills of the participants and their position on the 'participation ladder' (a national measurement instrument). Their scores on these two indicators were kept during the course. The targets were set in advance. Someone on the first rung of the participation ladder could be raised to, for example, rung 4. The aim was to move up a rung every year and ultimately to guide the participants into paid or voluntary work.

The participation ladder

A social network map was drawn up for each participant at the start of the course. The map was discussed with the participant again after six months and annotated to show changes in the social network. The participants received individual coaching and group lessons. The teachers were supported by voluntary language coaches who had been trained for the project. 'Extramural' assignments were used that drew on the participants' initiatives and strengthened their integration.

The SZW Agency carried out inspections during the project. In turn, the grant recipient forwarded progress reports to inform the Agency of the substantive and financial progress made. The SZW Agency observed that at times it had inadequate capacity to review the progress reports.

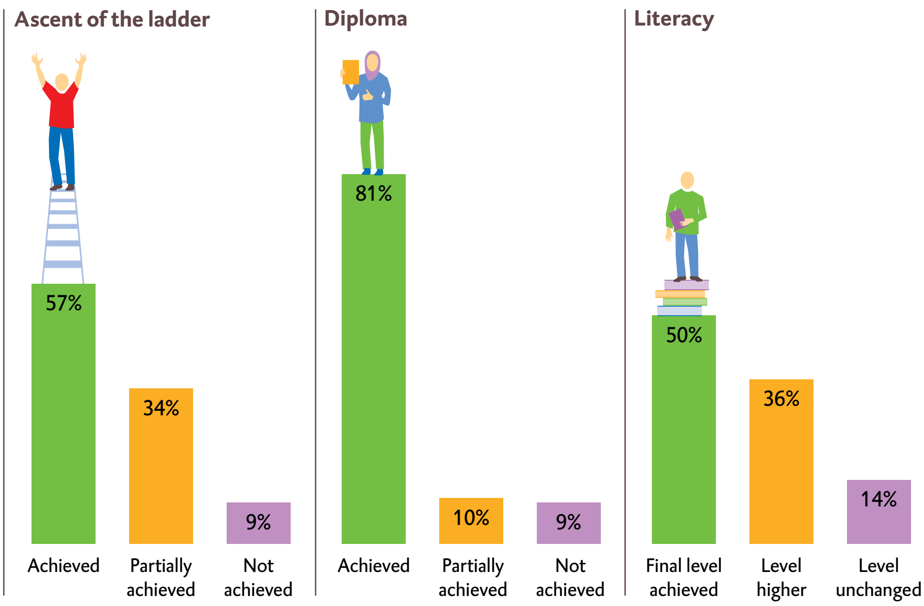
Effectiveness: our findings
Did the expected effectiveness of the TOP project play a role in the award of the grant and, if so, was it asked during implementation and on final settlement whether the project had lived up to expectations? Three matters caught our attention.

1 *Focus on performance*
The grant application stated that the TOP project's objective was to assist 100 participants; the participants would be enrolled by 30 ambassadors (experienced volunteers, former participants) and supported by 30 trained language coaches. Curiously, these performance targets were stated in the grant application (and also in the project assessment) but were regarded not only as the required result but also as the desired impact.

2 *Duty of best efforts, not an obligation to produce results*
The applicant had a duty of best efforts to achieve the required results. The final settlement was therefore dependent not on the results but on the demonstrable efforts made to achieve the results.

3 *Insight into impact available but not used*
The SZW Agency's indicators were based chiefly on performance (for example the number of people taking part in an integration course) rather than impact (for example whether participants were better integrated into Dutch society at the end of a course). The grant recipient itself (the Alfa college), however, was able to provide us with information on the impact 'behind the results'. The impact of participation in the TOP project on the level of integration was recorded on the participation ladder. It showed the participants' progress during the course: the number who had started paid or voluntary work, the number who had been awarded a diploma and the number who had formed a social network of a given size.

TOP participants and the impact achieved



4.2.3 Alkemade West sports centre: funded from the EAFRD

For many decades the villages of Oud Ade and Rijpwetering did not have indoor sports facilities. Ideas to build such facilities were first aired in 1993 but the plans never got off the ground. The municipality of Alkemade, in which the villages were located at the time,[53] then had to invest in a new gymnasium for the villages' combined primary school and agreed to build a sports centre.

Project facts
The Alkemade-West Sports Centre Foundation was established by four local sports clubs. It applied for a grant from the EAFRD on 28 September 2007 to build a multifunctional indoor sports centre for the villages of Rijpwetering and Oud Ade in the former municipality of Alkemade (South Holland).

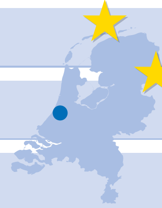
53 The municipality of Alkemade merged with other municipalities to form the municipality of Kaag en Braassem on 1 January 2009.

Alkemade-West sports centre

Alkemade-West Sports Centre Foundation

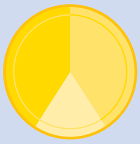
Build a multi-functional sports centre

Rijpwetering, province of South Holland



15 October 2007 – 31 July 2008

1.27 million



Improve social cohesion and the quality of life as the sports centre would raise the standard of amenities in Alkemade-West

Construction of multifunctional sports centre in Rijpwetering

By providing ‘basic amenities’ for the economy and rural population the project would contribute to the third objective of the national Rural Development Programme: improve the quality of rural life and the diversification of the rural economy. The grant was awarded by the province of South Holland.

The project in practice: an impression

The sports centre was built on time and on budget. The centre was opened barely a year after the grant application had been submitted. The foundation had wanted it to be ready before the start of the new school year so it could be taken in use immediately. Construction work was therefore strictly planned and completed according to plan.

Since its opening in September 2008, the centre has been used intensively for indoor sports such as badminton, basketball, handball, korfball, tennis, volleyball and indoor football. The primary school uses the centre three days a week for PE lessons. The centre can also be hired to hold events, concerts, flea markets, company functions, meetings etc.

Effectiveness: our findings

Did the expected effectiveness of the Alkemade-West Sports Centre project play a role in the award of the grant and, if so, was it asked during implementation and on final settlement whether the project had lived up to expectations? Four matters caught our attention.

1 *Impact intended only on paper*

The Alkemade-West Sports Centre Foundation said in a talk with us that the project’s impact had not been considered in advance. Its objective had been to build a sports centre to meet the need for one in the villages in Alkemade vmunicipality. The foundation had not calculated how the project would help improve the quality of life or social cohesion in the municipality. Quality of life, social cohesion and other outcomes had been named in the project plan submitted with the grant application.

2 *Expected effectiveness and efficiency considered in the grant award*
The provincial authorities had checked the grant application against the Provincial Multiyear Rural Area Programme 2007-2013 and considered the project's contribution to the policy goals of the Vital Rural Area sub-programme and whether there was a positive relationship between benefits and costs. The expected effectiveness and efficiency therefore played a role in the grant award.

3 *Grant not necessary for project implementation*
The foundation had stated in the grant application that it did not have enough funding to build the sports centre. In a talk with us, however, it conceded that the sports centre would have been built even without a grant from the EAFRD. The foundation would have borrowed the remaining funds from BNG Bank (the Bank for Netherlands Municipalities). In this sense, the EAFRD funding had not been necessary for the project to go ahead. The grant had made it easier to operate the centre, however, because the foundation's financial expenses would have been considerably higher if it had contracted a loan.

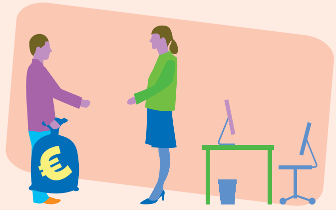
4 *No consideration of efficiency and effectiveness on final settlement*
The project's final settlement by the province of South Holland and the paying authority assessed whether the project had been carried out and whether the grant conditions had been satisfied. It did not consider the project's efficiency and effectiveness. These had been considered only when the grant was awarded.

4.2.4 Apprenticeship vouchers: funded from the ESF

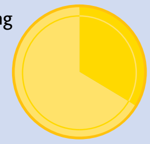
The Youth Unemployment Action Plan was launched in the IJssel-Vecht region in September 2009 to help young people under the age of 27 find a job, an apprenticeship or work placement. The plan was part of a national initiative. It was found in 2010 that there were fewer apprenticeships than work placements and jobs. The IJssel-Vecht region accordingly developed a voucher scheme as a financial incentive to encourage employers to provide apprenticeships.

Project facts
The IJssel-Vecht region decided at the beginning of 2011 to apply to the European Social Fund (ESF) to fund the voucher scheme. The municipality of Zwolle submitted the grant application to the SZW Agency on behalf of the IJssel-Vecht region on 7 February 2011.

IJssel-Vecht Apprenticeship Vouchers



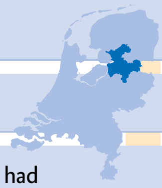
€ 0.3 million*



* The budget applied for had been € 2.2 million

13 municipalities in the IJssel-Vecht region.
Zwolle municipality acted as the secretary.

Award of 320 vouchers reimbursing employers 50% of the wage costs for up to 12 months if they provided apprenticeships to young people. The project scope was later widened to include 'work sites': offices with job coaches and consultants to help young people find work, training or a combination of the two.



IJssel-Vecht region

7 February 2011 – 7 February 2013. The original closing date had been 7 August 2012 but the project period was extended by six months.

Reduce youth unemployment in the region.

In total, 70 vouchers were issued. Job coaches and consultants assisted 1,683 young people. It is not known how many of them went on to find a job.

The Apprenticeship Vouchers project would contribute to the ESF's first objective: increase the labour supply and more specifically help young people participate in the labour market.

The project in practice: an impression
The IJssel-Vecht region used the voucher scheme to reimburse employers 50% of the statutory minimum youth wage for a period of up to one year if they created an apprenticeship for a young person. The municipalities in the region hoped the scheme would create apprenticeships for between 300 and 350 young people. In practice the voucher scheme had little success. Far fewer vouchers were issued than intended. The application procedure was therefore simplified in early 2011. Measures were also taken to raise awareness of the vouchers. By the end of 2011, however, only 44 of the intended 320 vouchers had been issued.

The economic crisis was probably a factor in the poor results. An evaluation of the regional Youth Unemployment Action Plan found that employers were more concerned about keeping their businesses afloat and finding enough work for their existing staff (Nautus/Zwolle municipality, 2011). The project to create new, additional places for young people was ill-timed.

On the advice of the SZW Agency, in November 2011 the municipality of Zwolle adapted the ESF project by adding 'work sites' in Zwolle, Hardenberg and Steenwijkerland to the voucher scheme, with offices to answer questions from young people aged between 16 and 27 about training, work and income. Job coaches and consultants worked in the offices to help young people find a job, training or a combination of the two.

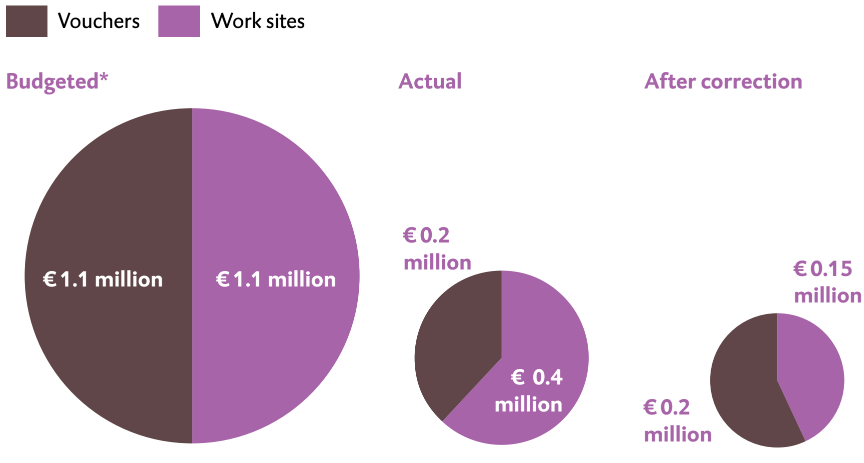
When the project closed on 7 February 2013, seventy of the intended 320 vouchers had been issued. The job coaches and consultants in the youth offices has assisted 1,683 young people. In total, therefore, 1,753 young people had participated in the ESF project. It is not known how many of them went on to find a job.

Effectiveness: our findings
Did the expected effectiveness of the Apprenticeship Vouchers project play a role in the award of the grant and, if so, was it asked during implementation and on final settlement whether the project had lived up to expectations? Three matters caught our attention.

1. *Limited consideration of effectiveness in project selection*
   The selection of projects eligible for ESF funding paid only limited attention to the expected effectiveness. The compatibility of project goals and the grant objectives was considered in the assessment framework for ESF project applications but in itself this says little about a project's potential effectiveness. A project's policy goals can be compatible but still be ineffective. Effectiveness is determined largely by a project's contribution to the policy objectives. Efficiency did play a role in the selection. In accordance with the assessment framework, selection considered whether the costs were reasonable, logical and substantiated.

2 *Test of outputs on final settlement but not of impacts*
   In the final settlement of the project, the SZW Agency looked at the number of vouchers issued and the documentation and substantiation of the other declared outputs. The output data co-determine the amount of the grant. The agency did not pay specific attention to the impact of the outputs. This is not one of the grant conditions that the agency assesses because it does not determine the amount of the grant. The grant awarded after final settlement was considerably lower than the amount applied for because a number of grant conditions had not been fulfilled.

Apprenticeship vouchers and work sites: ESF grant awarded



* In revised application of 27 December 2011

3 *Actual impact of voucher scheme not known*
The regional Youth Unemployment Action Plan as a whole was evaluated more than a year after the voucher scheme ended. The evaluation found that the regional action plan had helped 29,000 young people, and youth unemployment in the IJssel-Vecht region had declined. The impact of the voucher scheme, however, was not known. It would in any event not have been significant. It is not known what happened to the 70 young people involved in the voucher scheme; they were not monitored. It is equally uncertainty what the job coaches and consultants achieved. On the whole, there is no insight into the social impact of the ESF project we selected in the IJssel-Vecht region.

Apprenticeship vouchers: outputs delivered

4.2.5 Vital Rural Area: funded from Interreg

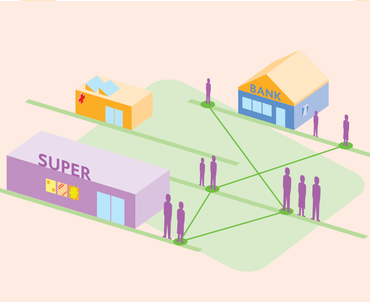
In 2008 four municipalities in northeast Friesland drew up a plan to give the region a socioeconomic boost and studied the problems they would have to tackle. When they learnt that other countries were suffering from the same regional problems they decided to apply for a grant from the EU Interreg programme.

Project facts
On 25 September 2008 NOFA,[54] an alliance of the Frisian municipalities of Achtkarspelen, Dantumadiel, Dongeradeel and Kollumerland, and 12 project partners from six countries bordering the North Sea[55] applied to the competent managing authority in Denmark for an Interreg-B grant to cofinance the Vital Rural Area project to enhance the quality of rural life.

54 NOFA: Northeast Frisian Approach.

55 Netherlands, United Kingdom, Denmark, Belgium (Flanders), Germany and Norway.

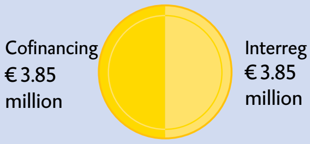
Vital Rural Area



NOFA (Northeast Frisian Approach, an alliance of the Frisian municipalities of Achtkarspelen, Dantumadiel, Dongeradeel and Kollumerland) and 12 project partners from six countries bordering the North Sea

To counter the effects of the ageing population, the decline in services and amenities, the loss of highly-skilled people and rising unemployment. The project partners carry out pilot schemes and share their experiences to develop a joint approach.

7.7 million*



The Netherlands and other countries bordering the North Sea: the United Kingdom, Denmark, Belgium, Germany and Norway

January 2009 – December 2014 (the original closing date had been March 2013 but was extended twice)

Socioeconomic strengthening of rural areas by means of a transferable general method to maintain the quality of life in rural areas. Specific areas of concern: strengthening small and medium-sized enterprises (SMEs), regional branding and improving social and medical amenities

Rural Power Pack with examples of best practices to resolve certain problems in rural areas

* Amount of the grant application, final settlement must still take place

The project initiators intended to use the grant to revitalise regions by improving the quality of life.

The project was targeted at ‘areas in decline’. The intention was to provide a socioeconomic stimulus to benefit SMEs, improve social and medical amenities and raise the public perception that their communities were sustainable and competitive and good places to live and work (regional branding). This corresponds with the fourth objective of the Interreg-B programme: create an attractive living and working environment.

The project’s ultimate product was the Rural Power Pack, a web-based toolkit for rural areas consisting of an analysis instrument, best practices and completed pilot studies that can be applied in other rural areas facing similar problems.

The grant application submitted by NOFA and the 12 project partners was assessed by the managing authority. According to the applicants, the project’s strengths lay in its focus on a tangible product (the Rural Power Pack) and its strong transnational character.

The project in practice: an impression

The project did not meet its closing date of 31 December 2013 and was extended until 31 December 2014. Owing to the delay, the final report had not been completed when we carried out our audit.

According to the applicants, the project was in its final stages and making good progress. Many local initiatives (pilot projects) had been developed in all the participating regions. They ranged from the launch of 'knowledge workplaces' in the Netherlands and an 'Innovation House' in Denmark (a stimulus for SMEs) to the 'Everyone West Flemish' and the election of the Meetjeslander (resident of a region in East Flanders) of the year in Belgium (a regional branding project) and an online coaching programme to improve the lifestyle of rural residents (to improve social and medical services). These pilot schemes make up the Rural Power Pack. The project also enjoyed national and European prominence through a variety of platforms and presentations, and cooperation was established with another Interreg project (Rural Alliance) that had a similar theme and approach.

Effectiveness: our findings

Did the expected effectiveness of the Vital Rural Area project play a role in the award of the grant and, if so, was it asked during implementation and on final settlement whether the project had lived up to expectations? Two matters caught our attention.

1. *Outputs considered during implementation but not impact*

   The various progress reports on the Vital Rural Area project showed that the targets for the indicators had been met. The project implementers had even introduced new indicators, such as the number of international meetings held, the presence of a communication plan, the number of pilot schemes and their transferability, etc. Most of the scores on these indicators were positive but they say little about the ultimate impact of the project; they say more about the pilot schemes' outputs than their impact.

   The managing authority's guidelines set for final reports also ask about the project's impact (the benefits to the public, organisations and regions). However, we could not ascertain how these aspects scored and how the project management scored them because the final report was not available during our audit.

2 *No focus on concrete project results*

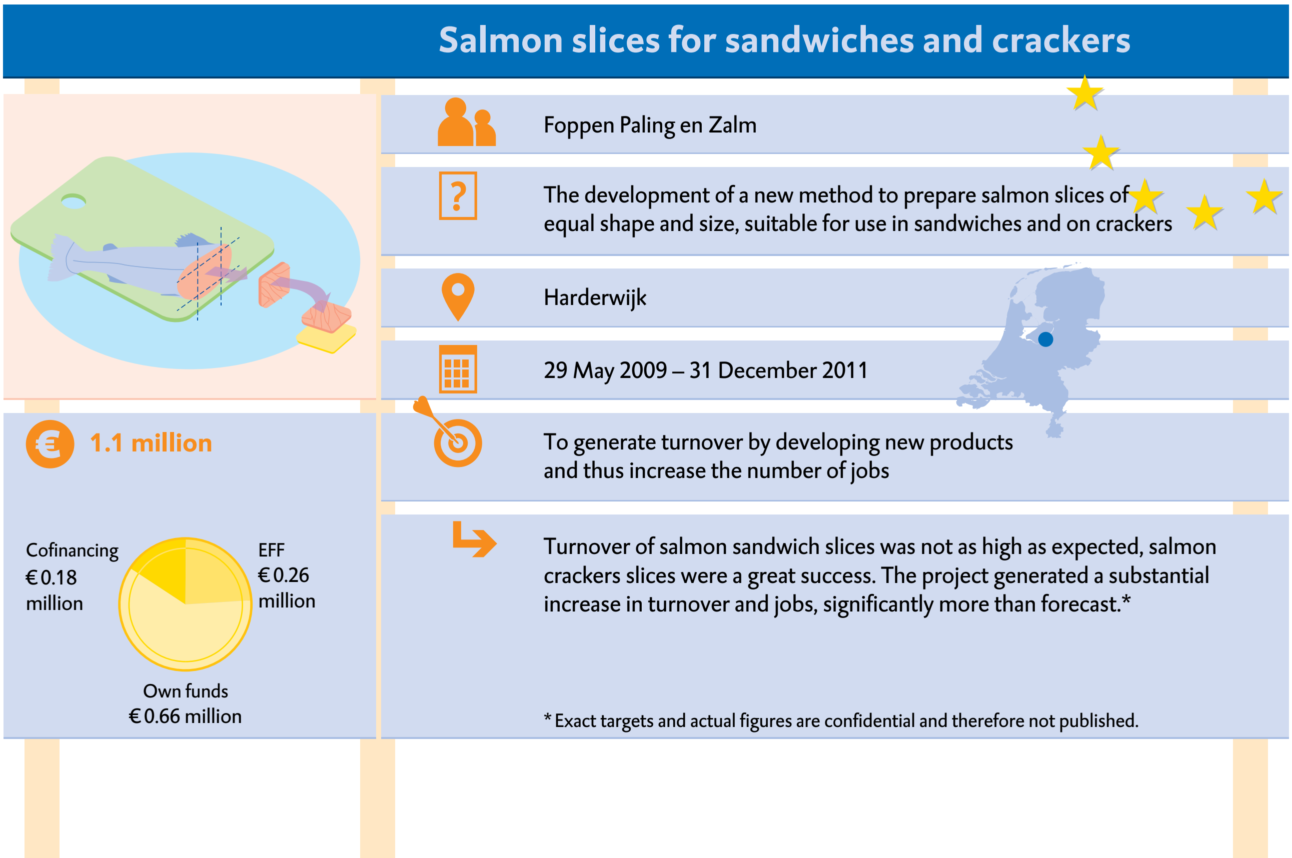
   Both the managing authority and the grant applicants stressed that the effectiveness of the Vital Rural Area project related to cooperation in problem solving and knowledge sharing rather than material investments and concrete results. The project's added value lay not primarily in concrete project results (which generally had a highly developed 'local' character) but in the *methodology* and *approach*.

4.2.6 Salmon slices for sandwiches and crackers: funded from the EFF

Foppen Paling en Zalm, an eel and salmon smoking company in Harderwijk, was looking for new products to add to its range. The company was developing a method to produce salmon slices of equal shaper and size so that they would be suitable for use in sandwiches and on crackers. The company wanted to make smoked salmon more convenient for consumers and increase its turnover and the number of its employees. It decided to apply for a grant in 2009.

Project facts

Foppen Paling en Zalm submitted a grant application to the fish processing and sales scheme on 27 February 2009. This Dutch scheme was opened at the beginning of 2009 and was 60% funded from the EFF. Its objective was to support investments in new facilities on land that could promote sustainability and quality in the fisheries sector. Foppen had already been developing salmon slices for some time when the scheme was introduced. The development project was a good match for the grant scheme.



The project in practice: an impression

The project's initial closing date was postponed twice, by a total of 18 months. The first postponement was due to the fact that developing salmon cracker slices was more complex than the company had foreseen and therefore took more time. The second postponement was due to the late delivery of a machine.

The production line for salmon sandwich slices was completed (including test and pilot production runs) in mid-2011. Cracker slices were first marketed at the end of December 2011. The company was unable to consider the project's impact on turnover and jobs in the final report because the slices had only just gone on sale. In an interview with us in mid-2014, the company said that the sale of cracker slices had been a great success. The increase in turnover and the number of jobs created had been above all expectations.[56] Owing to the great success of the cracker slices, the company decided to move production to its factory in Greece. Most of the new jobs were created there.

56 We know the precise amounts and numbers but do not publish this confidential information.

Effectiveness: our findings
Did the expected effectiveness of the salmon sandwich and cracker slices project play a role in the award of the grant and, if so, was it asked during implementation and on final settlement whether the project had lived up to expectations? Three matters caught our attention.

1 *Expected effectiveness considered in grant award*
Grant applications were assessed by a number of experts and by a committee set up by the minister. They considered whether projects would contribute to the policy objectives, i.e. to promote the sustainability of the production process, the quality of products and sustainable jobs in the fisheries sector. Projects were ranked by their final score. Efficiency was not one of the assessment criteria.

2. *Effectiveness not considered during implementation and on final settlement*
During the project's implementation and final settlement, the then National Service for Implementation of Regulations[57] concentrated on the regularity of expenditure. It checked, for example, whether costs had been incurred during the project period and whether invoices were clear. The grant recipient's final report also had to disclose whether the funded activities had actually been carried out. The effectiveness and efficiency of the project played no part in the final settlement. The Minister of EZ informed us that EFF grants were not conditional on effectiveness and efficiency. With hindsight it is therefore not clear to what extent the project contributed to the policy objective of promoting sustainability in the fisheries sector and whether the project was carried out efficiently. As Foppen bore 60% of the project costs itself, it had an interest in carrying out the project efficiently.

3 *Project would have been partially carried out without the grant*
Foppen informed us that if the company had not been awarded a grant, only the salmon sandwich slices would probably have been developed, not the salmon cracker slices as they had needed far more time to develop. Thanks to the EFF grant, the company could take the time. In the end, only the cracker slices proved to be the success the company had been hoping for.

4.3 Conclusions and recommendations

4.3.1 Conclusions
We believe EU citizens have a right to expect public EU money to be put to good use (effectively), optimally (efficiently) and in accordance with the regulations (regularly) in their own country and elsewhere. We also believe EU citizens have a right to expect complete transparency about the effectiveness, efficiency and regularity of expenditure.

In last year's EU Trend Report we looked at the effectiveness of 30 ERDF projects. We concluded that their effectiveness and efficiency were often uncertain, even though the projects themselves had achieved what they had set out to do. The lack of insight into the projects' effectiveness and efficiency was due to their vague targets, relatively meaningless performance indicators, inconsistent application of the effectiveness criterion in project selection and lack of competition among grant applications (first

57 Since merged into the Netherlands Enterprise Agency (RVO).

come first served). We also found that applicants were awarded grants, entirely in accordance with the regulations, on the basis of their efforts, not their results.

This year we decided to compare a number of projects that had been awarded grants from different EU funds. We are aware that the six projects we audited represent only a fraction of the total number of projects carried out in the Netherlands in the 2007-2013 programming period but the impression produced by our analysis confirms last year's findings.

We can summarise the main findings of our audit as follows:

- *Only limited attention is paid to effectiveness during project selection and none on final settlement.* Effectiveness has little priority in the selection of projects. In all cases, the programme management assessed only whether the project satisfied the fund's policy objectives and, in some cases (e.g. those funded from the EAFRD and EFF), to what extent. After project selection, the programme management took no account of effectiveness. In the period from monitoring to final settlement, its chief concern was the regularity of the grant awards. Grant recipients were then judged on their efforts, not on the results they produced.
- *On completion of the project, the programme management has an insight into outputs but not into impact*
  The programme management has an insight into the outputs delivered at the end of the projects (such as the number of apprenticeship vouchers issued or the number of participants in an integration course) but little insight into the project's impact (did employment increase? Are the participants better integrated?). In some cases, the grant recipient was aware of the impact (e.g. in the EIF project).
- *EU grants not always necessary to carry out a project*
  EU funding was not always necessary for a project to be carried out. In the EAFRD project, the applicant itself admitted that the sports centre would have been built without EU funding. In other cases (e.g. in the EFF and ERDF projects), the recipient said part of the project would have been carried out without EU funding. In both cases, however, it would have been at the cost of the project results.

In its recent report on the 2007-2013 programming report, the European Court of Auditors also observed that there was more concern for the absorption of EU funds and compliance with regulations than for the quality of outputs (European Court of Auditors, 2014a). In its opinion, the lack of concern about outputs is a fundamental and structural shortcoming in a large part of the EU budget.

4.3.2 Recommendations

It is important that both the implementing organisations and the responsible ministers consider the effectiveness and efficiency of approved EU projects as well as their regularity. In chapter 2 of part 1 we saw that the European Commission will pay more attention to effectiveness and efficiency in the 2014-2020 programming period. In particular it will introduce a performance reserve and indicators that are more relevant to impacts. We welcome the fact that more attention will be paid to effectiveness and efficiency as well as to regularity. It will focus the programme implementers' sights more sharply on efficiency than was the case in the six project we audited.

The performance reserve is not new, it had also been used in the 2000-2006 programming period. At the time, however, all member states satisfied the performance requirements because they usually set the bar so low that their projects would not lose funding. This risk has arisen again. The European Court of Auditors also has its reservations. It has pointed out that the more effective use of the performance reserve will depend on the European Commission's success in agreeing appropriate targets and milestones at the beginning of the programming period and receiving timely, accurate and reliable information from the member states so that it can determine whether the targets have been met (European Court of Auditors, 2014a).

We recommend that the responsible ministers ensure that the general public understand the impacts actually achieved with the EU funds the Netherlands receives (following the example of the *Europa om de hoek* website, which shows what grants have been awarded to what projects). The ministers themselves could do this or delegate it to the programme management. The regularity and effectiveness of EU funding must be transparent.

5 Public procurement errors in EU Structural Fund programmes

5.1 About the audit

Governments regularly engage third parties to supply goods and/or services. Third parties are also contracted to implement projects funded from the ERDF or the ESF. Many of the projects are subject to EU procurement rules if their value exceeds a certain threshold. Audits of the Structural Fund programmes by the managing authorities and the audit authorities have found that recipients of ESF and ERDF grants – not only in the Netherlands but also in other EU member states – have difficulty applying the rules in practice. They make errors that lead to corrections in declared expenditure. Less money is then available than the grant applicants had been anticipating.

In 2014, the EU Working Group on Structural Funds studied what type of procurement errors were the most frequent. The working group was made up of auditors from the supreme audit institutions (SAIs) of ten member states, including the Netherlands.[58] The audit covered the period 2010-2013 and was broken down into ten subsidiary audits. Each participating SAI carried out a subsidiary audit in its home country in accordance with a common audit structure.

The subsidiary audit that we carried out considered the four regional ERDF programmes being implemented in the Netherlands (ERDF North, ERDF East, ERDF South and ERDF West) and the Dutch ESF programme. In this report we present the findings of the Dutch audit. In next year's EU Trend Report we will discuss the findings of the working group as a whole.

In this chapter we first look briefly at the procurement rules applicable to ERDF and ESF projects. We then present the main findings of our audit of procurement errors. We close with our conclusions and recommendations.

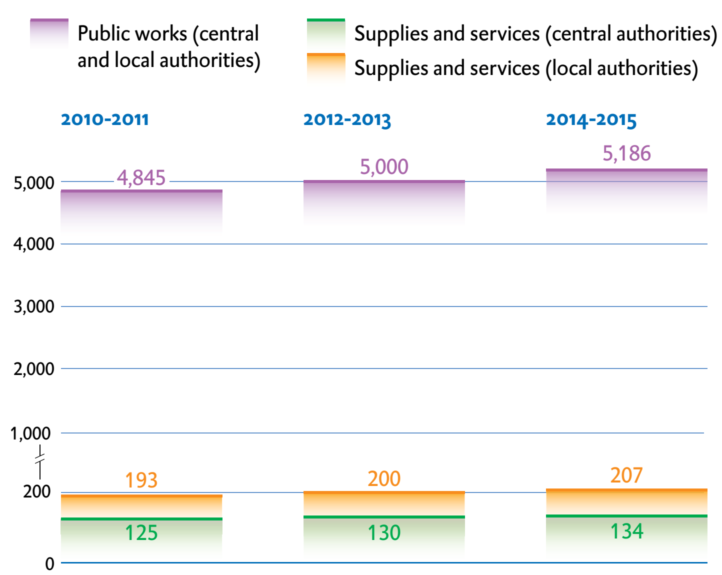
58 The participating SAIs were those of the Czech Republic, Estonia, Germany, Italy, Latvia, Malta, the Netherlands, Poland, Portugal and Slovakia.

ERDF regions in the Netherlands

5.2 Public procurement: policy and rules

Public authorities[59] must observe public procurement rules and procedures when procuring goods and services or contracting public works. Goods and services cannot simply be bought from a preferred supplier and public works cannot be awarded arbitrarily to a particular provider. At EU level, the procurement rules apply as soon as the procurement or contracting value exceeds a given threshold.[60] The European Commission revises the respective threshold values for public works, supplies and services every two years. For the purposes of our audit the values for the 2010-2013 period are the most relevant.

European threshold values for public contracts
In thousands of euros



Source: European Commission, 2009; 2011; 2013

59 More precisely, bodies that are entirely or largely financed from the public purse.

60 Directive on public works contracts, public supply contracts and public service contracts (2004/18/EC) and Directive on Special Sectors (2004/17/EC). New EU directives were introduced on 28 March 2014 but they have not yet come into force and also fall outside the period of our audit.

Until 1 April 2013 there was no uniform national policy regarding contracts *below* the European threshold values. Many bodies therefore applied their own procurement rules and thresholds, which differed one from another. This was also the case for ERDF and ESF projects.

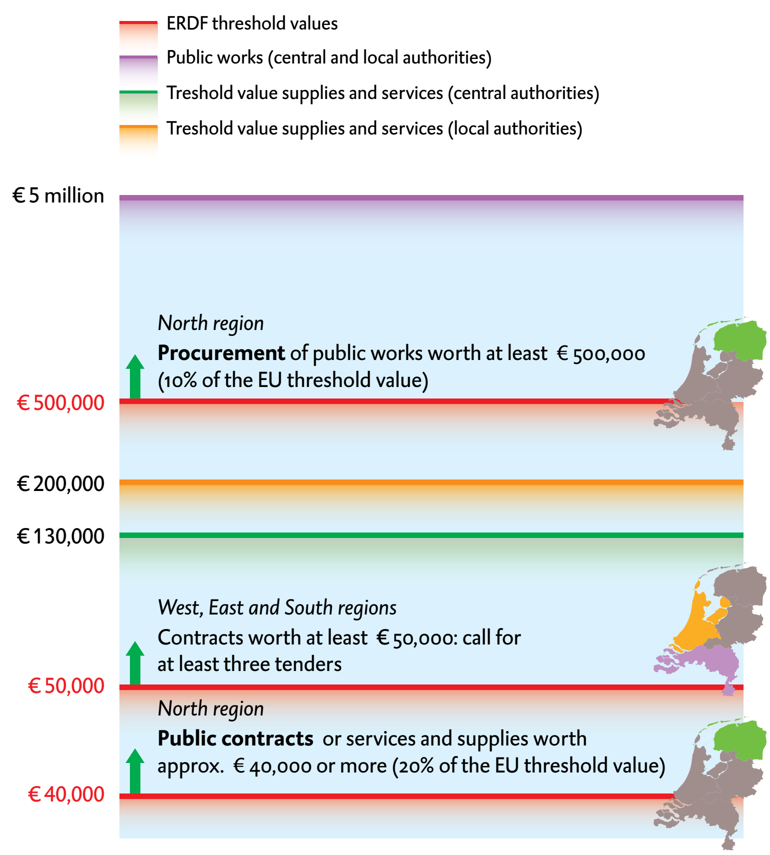
The Public Procurement Act 2012 came into force on 1 April 2013. It lays down that the transparency, equality, proportionality and non-discrimination principles of the EU procurement regulations also apply to contracts *below* the EU threshold values.

The legislation from before April 2013 is of greater relevance to our audit.

5.2.1 ERDF procurement rules below the EU threshold values

Before 1 April 2013 the managing authorities of the four ERDF regions followed the line taken by the implementers of ERDF contracts worth at least €50,000 that they must call for at least three tenders. North region applied a stricter rule: services and supplies worth about €40,000 or more (20% of the EU threshold value) and public works worth €500,000 or more (10% of the EU threshold value) had to be put out to public tender. This meant they had to be published on *aanbestedingskalender* (the national tendering database).

Procurement rules below the EU threshold: ERDF
As at 1 April 2013



In addition, the implementing organisations of projects that were at least 50% publicly funded in three of the four ERDF regions were in any event obliged to put the contracts out to tender. In the course of 2010, the ERDF West and South regions abolished this rule. The East region applied it only for contracts for public works and related services. The North region, however, still applies it for services, supplies and public works.

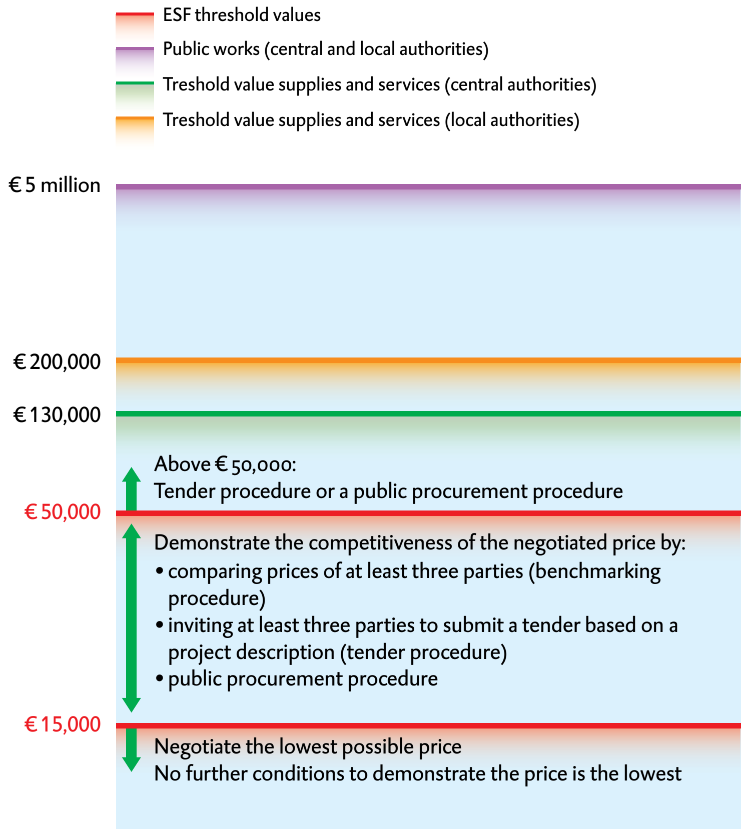
Another difference between the four ERDF regions before 1 April 2013 related to the way in which project expenditure was checked. Only the North region gave precedence to its own rules on contracts worth less than the EU threshold. In the other three ERDF regions, by contrast, the managing authorities initially checked project expenditure against the beneficiaries procurement rules as they were more consistent with the beneficiaries' operational management. The ERDF programme conditions were applied only when the beneficiary did not have its own procurement policy.
In practice, therefore, the projects were not subject to the same threshold values.

Since 1 April 2013, all four managing authorities of the regional ERDF programmes have based their assessment frameworks on the Public Procurement Act 2012 and related documents. Since then additional regional threshold values and rules have been redundant, at least in theory.[61]

5.2.2 ESF procurement rules below the EU threshold

Before 1 April 2013, the managing authority of the Dutch ESF programme, the SZW Agency, also applied its own rules for contracts below the EU threshold values.[62]

Procurement rules below the EU threshold: ESF
As at 1 April 2013



61 In practice public bodies can still apply an additional procurement policy and additional thresholds locally, provided the requirements are not disproportionate and are reasoned. We did not consider this situation in our audit because the errors we found related to the period before the Public Procurement Act 2012 came into force.

62 These rules are laid down in article 13 (4) of the ESF grant regulation 2007-2013 and further elaborated upon in the SZW Agency's Project Administration Manual.

The Agency applied two thresholds: €15,000 and €50,000 (excluding VAT). In contracts worth less than €15,000, the grant applicant had to negotiate the lowest possible price; further conditions to demonstrate that the price was the lowest possible, however, did not apply below this threshold. In contracts worth at least €15,000, it had to be demonstrated that the negotiated price was competitive. This could be done by comparing the prices of at least three parties (benchmarking procedure), by inviting at least three parties to submit a tender based on a project description or by conducting a public procurement procedure. In contracts worth €50,000 and more, competitiveness could be demonstrated only be means of a tendering procedure or a public procurement procedure. In practice, however, few public procurement procedures were or are conducted in the ESF programme.

Since 1 April 2013, the SZW Agency's assessment framework for the ESF and ERDF has referred to the European directives, the Public Procurement Act 2012 and the associated Proportionality Guide.

5.3 Procurement errors: our findings

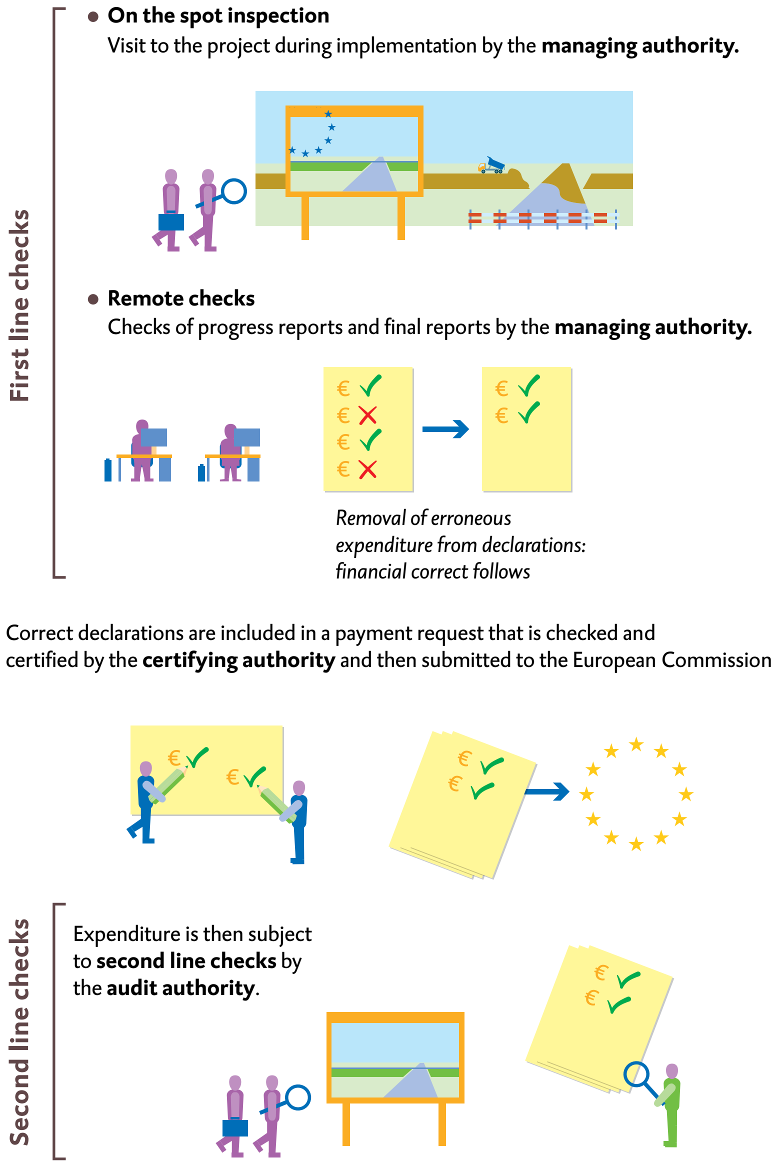
As part of our audit, we analysed the procurement errors that the ERDF and ESF managing authorities and the audit authority had found in 2010-2013 during their checks of the expenditure declared by project implementing organisations.

We refer to a procurement error if declared expenditure was not incurred in compliance with applicable European, national and/or regional rules (see section 5.2). This is initially reviewed during first line checks by the managing authorities. These checks are made both on the spot (inspection during the implementation of a project) and remotely (administrative check of the progress reports and final report).

The managing authorities correct expenditure errors by removing them from the declarations, A financial correction is then made and the project implementer receives less money than it had declared. Depending on how serious the error is, the correction rate can range from 2% to 100%. Some formal errors (for example an agreement with a supplier that is not reported to the European Commission on time) are not financially corrected.

When the corrected declarations are included in a payment request and submitted to the European Commission, the expenditure is subject to second line checks by the audit authority.

How are procurement errors checked?



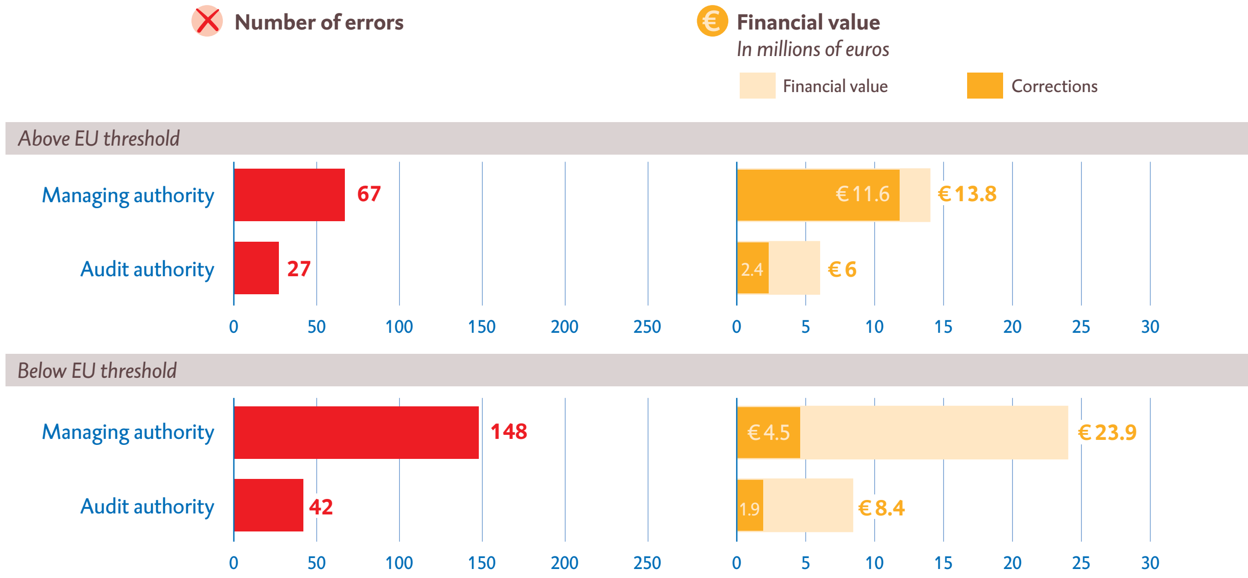
5.3.1 Relatively more procurement errors in ERDF than in ESF

The figure below shows the number and monetary value of procurement errors that the managing authorities and the audit authority found in the period 2010-2013[63] in the ERDF[64] and ESF. It also shows the corrections the managing authorities ultimately imposed on the grant recipients. We have made a distinction between errors above and below the EU procurement threshold.

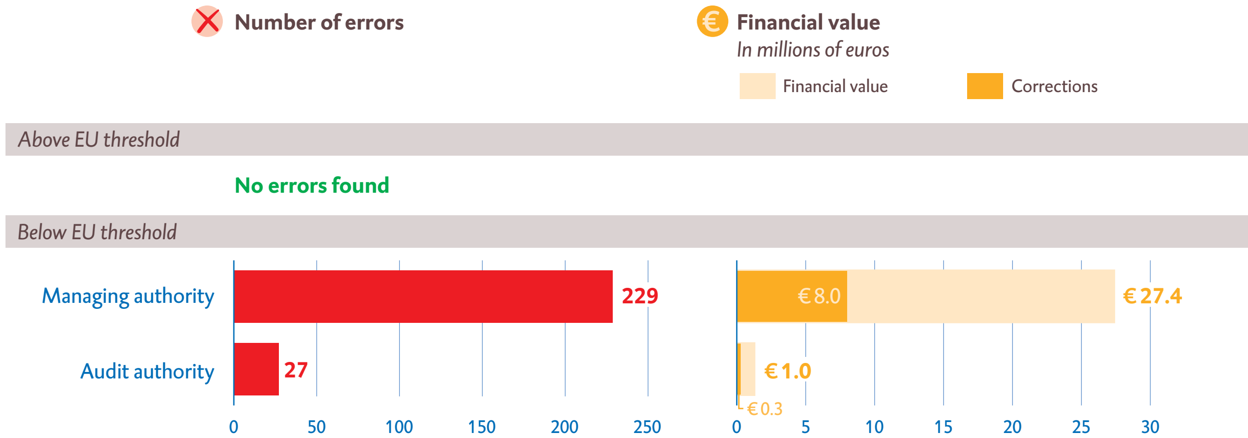
63 The audit authority's findings relate to expenditure incurred the years 2010-2012.

64 We have treated the four regional ERDF programmes in the Netherlands as a single programme. The procurement errors found in the ERDF may not be complete because not all the information necessary for the audit was available in the managing authorities' systems and records. The managing authorities are not obliged to keep this information. We would also note that the amount of the errors in the ERDF may rise when all the projects have been completed and all expenditure has been declared. Errors were found in both the mid-term and final declarations.

ERDF procurement errors and corrections
2010-2013



Estimated ESF errors and corrections
2010-2013



To place the financial value of the errors in perspective, the amounts stated above should be compared with the total certified ERDF expenditure.[65] Between 2010 and 2013, approximately €1,347 million in certified expenditure was declared in total for the ERDF programmes. This means that the value of the ERDF procurement errors found is equal to about 3.9% of total certified expenditure (€52.1 million/€1,347 million).
If we make a distinction between errors above and below the EU threshold, the rates are 1.5% and 2.4% respectively.[66]

The value of procurement errors found in ESF projects can also be put into perspective by comparing them with the total certified ESF expenditure of €1,200 million. The estimated amount of the ESF procurement errors was equal to approximately 2.4% of the total certified expenditure in the period 2010-2013 (€28.4 million/€1,200 million). No errors above the EU threshold were found in the ESF projects in our sample.

65 I.e., expenditure from the ERDF programmes declared to the European Commission.

66 These percentages are indicative of the procurement errors found during first and second line checks and should not be confused with the error the error rate calculated each year by the audit authority.

The data considered above show that more procurement errors were found in ERDF projects than in ESF projects (in terms of financial value). This is probably due to the relative size and longer duration of the ERDF projects, the greater diversity of projects and – as explained in section 5.2 – the more complex systems of national, regional and local procurement rules.

The information also shows that a considerable number of errors were found in both the ERDF and ESF declarations not only during first line checks but also during second line checks. There is a demonstrable difference, however, in the type of errors found. The errors found in the audit authority's second line checks tended to be less 'hard' and were often due to differences of interpretation, such as whether the beneficiaries had adequate reasons to depart from their own procurement policies.

5.3.2 Most errors below the EU procurement threshold

Errors below the EU procurement threshold

Most of the procurement errors in 2010-2013 – in both the ERDF and ESF – were made in contracts below the EU procurement threshold, i.e. in projects subject to local, regional or national rules.

The table below shows the nature of the most frequent errors in ERDF projects in the period 2010-2013. It also gives the most important causes of the errors, according to the managing authorities. The managing authorities, however, did not systematically identify and document the causes. In many cases, therefore, the cause is only suspected.

<table>
<tr><th colspan="2">Nature and cause of errors in ERDF projects found by managing authorities and audit authority in 2010-2013</th></tr>
<tr><th>Type of error</th><th>Main causes (according to managing authority)</th></tr>
<tr><td colspan="2">Below the EU procurement threshold</td></tr>
<tr><td rowspan="3">Inadequate publicity: one-to-one award/too few tenders called for</td><td>Lack of knowledge</td></tr>
<tr><td>Underestimated contract value</td></tr>
<tr><td>Preferred supplier</td></tr>
<tr><td rowspan="2">Non-compliance with essential elements, such as incorrect terms, award not notified, incomplete files</td><td>Human error/lack of knowledge</td></tr>
<tr><td>Difference of interpretation/complexity of rules</td></tr>
<tr><td>Application of unlawful selection and award criteria</td><td>Lack of knowledge/complexity of rules</td></tr>
<tr><td colspan="2">Above the EU procurement threshold</td></tr>
<tr><td rowspan="2">Inadequate publicity: one-to-one award/too few tenders called for/not published</td><td>Lack of knowledge/complexity of rules</td></tr>
<tr><td>Preferred supplier</td></tr>
</table>

We found that contracts for ERDF projects were usually awarded on a one-to-one basis without any form of competition, too few tenders were called for or several tenders were called for when the contract should have been announced on the national tender database. Consultancy contracts with third parties were sometimes incorrectly 'cut up' and renewed several times.

Another type of error we found in the ERDF files was the incorrect use of publication terms: the period between the announcement of a contract on the national tender database and the final date to submit tenders was several days too short.[67]

The errors made in ESF projects are more difficult to classify as the managing authority and the audit authority do not use a standardised error code for the ESF programme; they do for the ERDF programme. Our sample found that the errors below the EU threshold in the ESF in 2010-2013 were similar to those made in the ERDF. Where contracts had been awarded to providers and suppliers on a one-to-one basis, too few tenders had been called for or the required competiveness of the tenders could not be adequately demonstrated. Furthermore, the managing authority found that files were regularly incomplete or the choice of supplier was inadequately substantiated.

Errors above the EU threshold

Fewer errors were found in ERDF projects above the EU threshold than below the threshold. The errors detected by the ERDF managing authorities were due chiefly to too few tenders being called for or contracts being announced at national level instead of at European level. The audit authority also found that some contracts above the threshold had originally been put out to tender correctly but additional work had not been awarded correctly.

Our sample of ESF projects found no errors in contracts above the EU threshold.

5.3.3 Lack of knowledge and incompetence often the cause of errors

In the ERDF managing authorities' opinion the main causes of errors in contracts below the EU threshold in 2010-2013 were:

- lack of knowledge about the (sometimes strict) procurement rules and the ERDF programme rules;
- underestimation of the contract value (project costs);
- project work overrunning and the contract value consequently being exceeded;[68]
- the project implementers preferring one particular supplier;
- human error/carelessness.

Personal preference for one party

We found a number of cases in which the grant recipients based their selection of a contractor on the personal preference of a particular architect involved in the project. Some architects thought their design could be realised by only one specific party. By acquiescing to this wish, the grant recipients failed to comply with the requirement to put the contract out to market transparently and publicly.

According to the managing authority of the ESF programme, the main causes of errors were:

- lack of knowledge of the applicable rules;
- differences of interpretation about how to demonstrate competitiveness.

67 As this type of error is considered less serious, a financial correction is usually not imposed.

68 The error in such cases is that the grant recipient retained the same supplier instead of putting the work out to market again.

We would also note that instruments to prevent errors do not always work in practice. Grant recipients, for example, regularly make procurement errors, even if they engage an external grant adviser. The kick-off talks and public information meetings organised by the programme authorities to warn the beneficiaries of the risks, too, often do not have the desired effect. This might be due to the fact that the contact people for the funded projects in practice are often not the people who put the contracts out to market.

5.4 Conclusions and recommendations

Most procurement errors are made on contracts that are worth less than the EU threshold value. At present the causes are not systematically recorded and analysed within all operational programmes. A periodic analysis would be a useful instrument to minimise the number of common procurement errors.

We accordingly recommend that the Ministers of EZ and SZW:
- periodically analyse the causes of procurement errors and use the outcomes in the evaluation of the Structural Fund programmes.

Relatively more errors were found in ERDF projects than in ESF projects. This is due in part to the ERDF having a more complex system of rules during the period audited. The main causes of the errors were lack of knowledge and incompetence.

We recommend that the Ministers of EZ and SZW:
- provide good public information and advice in advance so that beneficiaries are more aware of the risks and consequences of non-compliance with the procurement rules in the operational programmes of the ESF and ERDF;
- specifically and clearly document whether additional regional and local procurement rules may be applied in ESF and ERDF projects that are more stringent than the Public Procurement Act 2012; weigh the required benefits against the administrative and control burden.

Appendix Government response

29 January 2015

Dear Ms Stuiveling,

On behalf of the Minister of Foreign Affairs, the Minister of Social Affairs and Employment and the State Secretary for Economic Affairs and the other members of the government, I hereby present the government's response the draft EU Trend Report 2015. In this response the government concentrates on the recommendations arising from the main conclusions. I would ask you to include the government's response to each conclusion in full in the report, as given below.

Recommendation (to the Ministers of Foreign Affairs and Finance): seek ways to encourage the member states to make use of a national declaration comparable to the Dutch annual national declaration, as it is important for each member state to issue a public document taking political responsibility for the spending of EU funds. Take advantage of the communication issued by the European Commission adopting the recommendations made by the Working Group on National Declarations (which has produced a more straightforward template for national declarations), and stating its willingness to look into ways of further encouraging the use of national declarations

Response:
The government regards this recommendation as an expression of support for its policy. The Netherlands has played an active role in this connection in the interinstitutional Working Group on National Declarations. The new European Commissioner for the Budget, Ms Georgieva, has recently placed voluntary national declarations on her 'better spending agenda'. The European Commission is currently fleshing out this agenda. The Ministry of Finance has offered to help the Commission work out the Working Group's recommendations at official level. The government will also draw attention to better spending of EU funds.

Recommendation (to the Ministers of Foreign Affairs and Finance): encourage the EU member states to publish their annual summaries of national audits (as from 2014 including the new management declaration) and encourage the European Commission to analyse the documents and make them comparable.

Response:
The government regards this recommendation as encouragement for its policy. It would like member states to publish the new management declarations and associated audit opinions as well as annual summaries (as from the 2014-2020 programming period). Although the Financial Regulation specifically allows member states to publish these EU accountability documents, there is little support among member states for this form of transparency. That is why it is important that the European Commission analyses the documents and reports on them. I will continue to press the Commission to improve the transparency of accountability documents.

Recommendation (to the Ministers of Foreign Affairs and Finance): urge the members of the European Commission to sign the synthesis report.

Response:
The government will not be acting on this recommendation because the European Commission already provides accountability at official level by publishing the synthesis report in accordance with article 66 (9) of the Financial Regulation. The accountability process outlined in that article comprises each DG's publication of its annual activity report and the European Commission's publication of a summary of the activity reports (the synthesis report). These reports are then submitted to the European Parliament and the Council as formal Commission publications. The documents have a formal and management status within the accountability process. Not only is there no legal requirement for the European Commissioners to sign the report, it is also not necessary. The European Commissioners are responsible for the policy conducted and debate it with the European Parliament during the hearings for the discharge procedure.

Recommendation (to the Ministers of EZ and SZW): we recommend that the responsible ministers make clear to the public at large what impact has been achieved with the aid of the EU funds received by the Netherlands (along the lines of the Europa om de hoek ('Europe round the corner') website, which states the amount of funding allocated to individual projects). It should be clear whether EU funds have been distributed in accordance with the rules and whether the desired impact has been achieved.

Response:
The government endorses this recommendation. For the 2007-2013 programming period, the Commission introduced an obligation to provide information periodically on the impact achieved with the aid of EU funds that is public and accessible (EC 1083/2006 and EC 1080/2006). For the 2014-2020 programming period the Commission will pay even more attention, as you note in your report, to the effectiveness of EU funds. The performance reserve, for example, allows members states to spend part of their programme budgets (6%) only if they deliver the pre-agreed outputs by the end of 2018. Moreover, article 54 of regulation 1303/2013 lays down that the effectiveness and efficiency of the programmes must be evaluated. It also requires the evaluations to be made public. In addition to information available to meet EU requirements, the public can learn about the goals and results of EU projects by means of public internet pages such as *Europa om de hoek* and the annual European Open Days. The causal relationship between a project grant and the regional or national impact, however, is difficult to show because other factors, such as macroeconomic developments, can influence the impact.

Recommendation (to the Ministers of EZ and SZW): perform regular analyses of the causes of errors in procurement and use the findings when reviewing programmes supported by EU Structural Funds.

Recommendation (to the Ministers of EZ and SZW): make beneficiaries even more aware of the risks and consequences of non-compliance with the procurement rules applicable in the ESF and ERDF operational programmes by providing good public information and advice in advance.

Response:
The government endorses these recommendations. The causes will be included as lessons learned in the evaluations of the Structural Fund programmes. Another important aspect is the prevention of errors in procurement procedures. The implementing bodies, the managing authorities (MAs), will publish more information at the outset of and during the 2014-2020 programming period in order to avoid such errors. The information will be fed by the lessons learned and will urge beneficiaries to observe the procurement procedures and the regulatory requirements. Manuals have also been prepared with practical advice for beneficiaries and information on the consequences of not complying with the procurement rules. The MAs therefore assume some responsibility but the beneficiaries themselves are also responsible for ensuring that the rules governing procurement procedures are observed, for improving the procedures where necessary and for learning from previous mistakes.

Recommendation: (to the Ministers of EZ and SZW): state clearly and explicitly whether ESF-funded and ERDF-funded projects may be made subject to additional regional and local procurement rules that are stricter than the provisions of the Public Procurement Act 2012. Weigh the potential benefits against the corresponding administrative burden and audit costs.

Response:
The government accepts this recommendation and recognises the importance of stating clearly and explicitly whether projects may be subject to additional local and regional rules that are stricter than the Public Procurement Act 2012. For this reason the government will this year look into whether it can establish that additional procurement rules do not apply to ESF-funded and ERDF-funded projects. It will weigh up the benefits of additional regional or local rules against the corresponding administrative burden and audit costs.

Yours sincerely,

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