



EUROPEAN COMMISSION

Brussels, 29.9.2011
SEC(2011) 1108 final

COMMISSION STAFF WORKING PAPER

**Statistical Evaluation of Irregularities- Own Resources, Agriculture, Cohesion Policy,
Pre-Accession Funds and Direct Expenditure -Year 2010**

Accompanying document to the

**Report from the Commission on the protection of the European Union's financial
interests and the fight against fraud – 2010**

{COM(2011) 595 final}
{SEC(2011) 1107 final}
{SEC(2011) 1109 final}

TABLE OF CONTENTS

LIST OF ABBREVIATIONS	6
PART I – INTRODUCTION AND METHODOLOGY	8
1. INTRODUCTION.....	8
1.1. Scope of the document	8
1.2. Structure of the document	8
2. THE EUROPEAN UNION BUDGET.....	9
2.1. Revenues	9
2.2. Expenditure	10
2.3. Management of the Budget	11
3. THE LEGAL FRAMEWORK FOR IRREGULARITIES REPORTING	12
3.1. The legal framework	12
3.1.1. The reporting obligation.....	13
3.1.2. Derogations to the reporting obligation	14
3.2. Implementation of the Reporting Obligation	14
4. DEFINITIONS	15
4.1. Legal definitions.....	15
4.1.1. Irregularity.....	15
4.1.2. Fraud	15
4.1.3. Suspected fraud	16
4.2. Indicators.....	17
4.2.1. Irregularity and Fraud Rates.....	17
4.2.2. Fraud Frequency and Fraud Amounts Levels	17
5. METHODOLOGY.....	18
5.1. Data Capturing – The irregularity reporting systems.....	18
5.1.1. OWNRES	18
5.1.2. Irregularity Management System (IMS)	18
5.1.2.1. The modules	18
5.1.2.2. The national structures and users	19

5.1.2.3.	Data input and data quality	21
5.1.2.4.	Impact of IMS on irregularity reporting.....	22
5.1.3.	ABAC – Recovery context.....	22
5.2.	Data analysis – cases of irregularity and (suspected) fraud	23
PART II - REVENUES		25
6.	TRADITIONAL OWN RESOURCES (ANNEXES 3-13)	25
6.1.	Management of Traditional Own Resources (TOR).....	25
6.1.1.	Monitoring of establishment and recovery of TOR	25
6.1.2.	Procedure for managing Member States' reports for write-off.....	26
6.1.3.	Particular cases of Member State failure to recover TOR	27
6.2.	Reporting discipline	28
6.2.1.	Year of discovery versus year reported.....	28
6.3.	General trends	29
6.3.1.	Types of irregularity and fraud	29
6.3.2.	TOR and cigarettes.....	31
6.3.3.	Data main sectors TOR	31
6.4.	Detection of fraud and irregularity.....	31
6.4.1.	Member States' control systems – Method of detection expressed in cases	31
6.4.2.	Member States' control systems – Method of detection expressed in monetary terms	32
6.4.3.	Customs procedures affected to fraud and irregularity in 2010.....	33
6.4.4.	Percentage of established or estimated amounts in OWNRES to collected TOR	35
6.5.	Recovery	37
6.5.1.	Recovery rate	38
6.6.	Conclusions	38
PART III - EXPENDITURE.....		40
7.	AGRICULTURAL EXPENDITURE (Annexes 13-14)	40
7.1.	Introduction.....	40
7.2.	Financial Year 2010	42
7.2.1.	Financial Year 2010: cases reported	42

7.2.2.	Financial Year 2010: reporting discipline.....	43
7.2.3.	Financial Year 2010: financial follow up of irregularity cases.....	45
7.3.	General trends	48
7.3.1.	Financial Years 2006-2010: impact on the budget	48
7.3.2.	Financial Years 2006-2010: cases classified as suspected fraud	51
7.3.3.	Financial Years 2006-2010: overview per budget post.....	53
7.3.3.1.	Financial Years 2006-2010: decoupled direct aids (B-050301)	55
7.4.	Specific analysis.....	57
7.4.1.	Financial Years 2004-2005: expenditures and cases reported per Member State	58
7.4.2.	Financial Years 2004-2005: expenditures and cases reported per budget post	61
7.4.2.1.	Financial Years 2004-2005: fruits and vegetables (B-050208)	63
7.4.2.2.	Financial Years 2004-2005: direct payment for arable crops (B-050203)	66
7.4.2.3.	Financial Years 2004-2005: beef and veal (B-050302)	71
7.4.2.4.	Financial Years 2004-2005: rural development (B-0504xx)	74
7.4.2.5.	Financial Years 2004-2005: milk and milk products (B-050301)	76
7.4.2.6.	Financial Years 2004-2005: olive oil (B-050206)	77
7.5.	Conclusions	78
7.5.1.	Financial Year 2010	78
7.5.2.	Financial Years 2006-2010	79
7.5.3.	Financial Years 2004-2005	79
8.	European Fisheries Fund.....	80
9.	COHESION POLICY (Annexes 15-20)	81
9.1.	Reporting Discipline	81
9.2.	General Trends	82
9.2.1.	Yearly trends	82
9.2.2.	Detection of irregularities	85
9.2.3.	Types of irregularity.....	86
9.2.4.	Suspected frauds.....	86
9.3.	Specific analysis – Analysis by Programming Period: 2000-2006 and 2007-2013... ..	89
9.3.1.	Irregularities related to the programming period 2000-2006 – Structural Funds	89

9.3.2.	Established fraud – Structural Funds	95
9.3.3.	Irregularities related to the programming period 2000-2006 – Cohesion Fund.....	96
9.3.4.	Irregularities related to the programming period 2007-2013	98
9.4.	Conclusions	99
9.4.1.	Structural Actions.....	99
9.4.2.	Programming Period 2000-2006	99
9.4.3.	Cohesion Fund	100
10.	Pre-accession funds (Annexes 21-22).....	101
10.1.	Reporting discipline	102
10.2.	General Trends	103
10.2.1.	Overall trend.....	103
10.2.2.	Irregularities affecting different funds	105
10.2.3.	Amounts involved and impact on budget.....	106
10.2.4.	Detection of irregularities	106
10.2.5.	Detected types of irregularities / modus operandi.....	107
10.3.	Specific analysis.....	107
10.3.1.	Suspected and established fraud.....	107
10.3.2.	Cases of suspected fraud related to the programming period 2002-2006.....	109
10.3.3.	Fraud rates related to SAPARD – programming period 2002-2006.....	109
10.3.4.	Estimated Fraud Rate for the Programming Period 2002-2006 – all funds.....	111
10.3.5.	Recovery	111
10.4.	Conclusions	112
11.	DIRECT EXPENDITURE – CENTRALISED DIRECT MANAGEMENT	114
11.1.	Methodology and scope	114
11.2.	General analysis	114
11.2.1.	Financial amounts involved	114
11.2.2.	Financial amounts involved by geographical area and Member State.....	116
11.2.3.	Method of detection	119
11.2.4.	Types of irregularity.....	121
11.3.	Specific analysis.....	124

11.3.1. Irregularity versus Suspected Fraud.....	124
11.3.2. Time delay.....	124
11.3.3. Trends.....	125
11.4. Recovery	126
11.5. Conclusions	127
ANNEXES	129

LIST OF ABBREVIATIONS

ABAC	Accrual Based Accounting
AFIS	Anti-Fraud Information System
CN	Combined Nomenclature
COCOLAF	Advisory Committee for the Coordination of Fraud Prevention
DG AGRI	Directorate General for Agriculture and Rural Development
DG EMPL	Directorate General for Employment, Social Affairs and Equal Opportunities
DG MARE	Directorate General for Maritime Affairs and Fisheries
DG REGIO	Directorate General for Regional Policy
DG TAXUD	Directorate General for Taxation and Customs Union
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Commission
EFF	European Fishery Fund
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EU-10	The 10 Member States joining the EU in 2004
EU-15	The 15 Member States before the enlargement of 2004
EU-2	The 2 Member States joining the EU in 2007
EU-25	The 25 Member States before the enlargement of 2007
EU-27	The 27 Member States of the European Union
EUR	Euro
EURATOM	European Atomic Energy Community
FAL	Fraud Amount Level
FFL	Fraud Frequency Level
FIFG	Financial Instrument for Fishery Guidance
FinR	Financial Regulation
FrR	Fraud Rate
FY	Financial Year
GNI	Gross National Income
IMS	Irregularity Management System
IPA	Instrument for Pre-Accession
IrR	Irregularity Rate
OLAF	European Anti-Fraud Office
OWNRES	Own Resources
PAA	Pre-Accession Assistance
PIF	Protection of Financial Interests (European Convention on the)
TFEU	Treaty on the Functioning of the European Union

TOR	Traditional Own Resources
VAT	Value Added Tax
WOMIS	Write-Off Management and Information System

PART I – INTRODUCTION AND METHODOLOGY

1. INTRODUCTION

1.1. Scope of the document

The present document¹ is based on the analysis of the notifications provided by national authorities of cases of irregularities and suspected or established fraud. The reporting is performed in fulfilment of a legal obligation enshrined in sectoral European legislation.

The document is accompanying the Annual Report adopted on the basis of article 325 of the Treaty on the Functioning of the European Union (TFEU), according to which “The Commission, in cooperation with Member States, shall each year submit to the European Parliament and to the Council a report on the measures taken for the implementation of this article”.

For this reason, this document should be regarded more as an analysis of the achievements of Member States rather than of their failures.

Being based on the notifications of cases of irregularities and suspected and established fraud, the paragraphs dedicated to recovery (with the exception of that related to Agriculture) are limited to the results of the actions undertaken by national authorities to recuperate amounts unduly paid to beneficiaries (mostly private economic operators). Moreover, as explained more in details in paragraph 3.1.2. from these analyses are excluded recoveries concerning irregularities whose amount does not exceed EUR 10 000. Chapter 7 (Agricultural expenditure) covers all recoveries.

In this respect, the present document differs in scope and results from other Commission publications dealing with financial corrections and recoveries² following the detection of irregularities, as these concern actions taken by the Commission in relation to Member States. This document, instead, reflects the amounts recovered by the national authorities and not by the Commission services.

The exception is Chapter 11 of this document, dedicated to the expenditure directly managed by the Commission services, which uses data extracted from the Commission Accrual Based Accounting (ABAC) system.

1.2. Structure of the document

The present document is divided in three parts.

¹ This document cannot be considered as an official position of the Commission.

² See for example the Annual Accounts of the European Union – Financial Year 2009, and in particular note 6 of the Notes to the financial statements, “Financial corrections and recoveries following the detection of irregularities”.

http://ec.europa.eu/budget/library/biblio/documents/2009/EU_final_accounts_2009_en.pdf.

The first introductory part is composed of five chapters which contain, respectively: the structure and scope of the document; a short description of the European Budget and its different “management” modes; a summary of the legal background for the reporting of irregularities; the definitions of the specific terms used throughout the document; and the methodology adopted for data capturing and analysing (the reporting system and the techniques adopted for the qualification of the irregularities).

The second is dedicated to the analysis of irregularities reported in the area of the Traditional Own Resources (Revenues).

The third is composed of 5 chapters dedicated, respectively, to Agricultural expenditure, European Fisheries Fund, Structural measures, Pre-accession Assistance and Direct expenditure.

2. THE EUROPEAN UNION BUDGET

Taxpayers' money is used by the European Union (EU) to fund activities that all Member States and parliaments have agreed upon in the Treaties. The overall budget for 2010 is about EUR 141.5 billion and it represents around 1% of the Union's wealth.

2.1. Revenues

The EU has its 'own resources' to finance its expenditure. Legally, these resources belong to the Union. Member States collect them on its behalf and transfer them to its budget.

Own resources are of three kinds:

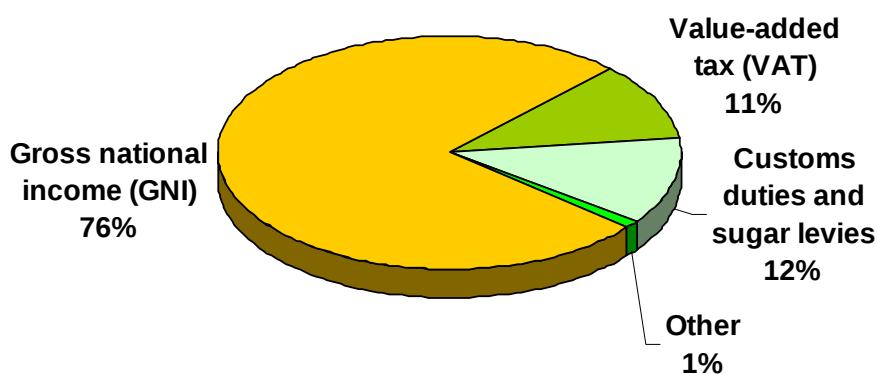
- **Traditional own resources** (TOR) — these mainly consist of duties that are charged on imports of products coming from a non-EU state.
- The resource based on **value added tax** (VAT) is a uniform percentage rate that is applied to each Member State's harmonised VAT revenue.
- The resource based on **gross national income** (GNI) is a uniform percentage rate applied to the GNI of each Member State.

The budget also receives other revenue, such as taxes paid by EU staff on their salaries, contributions from third countries to certain EU programmes and fines on companies that breach competition or other laws.

Revenue flows into the budget in a way which is roughly proportionate to the wealth of the Member States. The United Kingdom, Germany, the Netherlands, Austria and Sweden, however, benefit from some adjustments when calculating their contributions.

Chart 2-1 shows how the four elements indicated above contribute to the EU budget, while Annex 1 provides a summary of financing by type of own resource and by Member State.

Chart 2-1: Source of financial resource to the European Budget



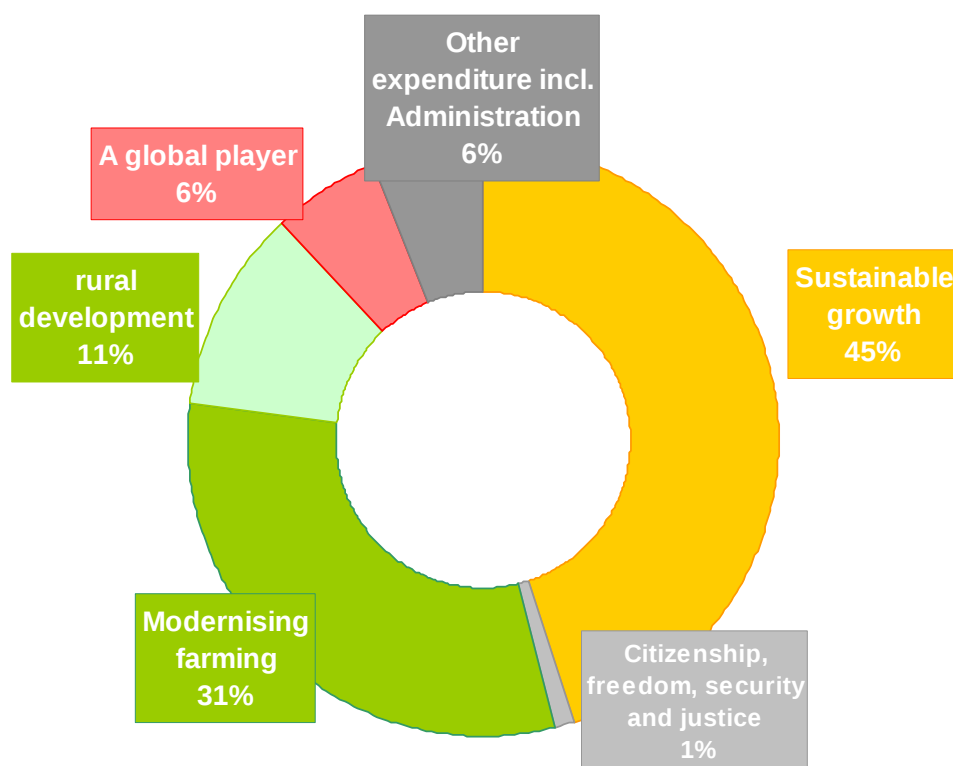
2.2. Expenditure

The EU Budget for 2010 includes 6 headings of expenditure:

- **Sustainable Growth** represents the largest share of the EU budget, which will go to research, innovation, employment and regional development programmes;
- **Natural Resources** cover the second largest portion of the expenditure supporting the agricultural expenditure and direct aids, rural development, fisheries and environment; it is divided between ‘**Modernising farming** and producing high-quality food’ and ‘**Rural development**’;
- **Citizenship, Freedom, Security and Justice** supports initiatives aiming at strengthening active citizenship or addressing issues like terrorism, crime and immigration;
- The **EU as a Global Player** sets the resources for the Common Foreign and Security Policy, the EU Neighbourhood Policy, Pre-Accession Assistance, Humanitarian Aid and Development Cooperation;
- **Other expenditure** includes the running costs for the European Institutions and some compensation to Bulgaria and Romania.

Chart 2-2 shows the distribution of the EU financial resources among the six different headings, while Annex 2 provides a more detailed overview of the 2010 budget.

Chart 2-2: Distribution of the expenditure financial resource by Budget Heading



2.3. Management of the Budget

According to article 317 of the TFUE, the Commission shall implement the budget. Council Regulation (EC, Euratom) No 1605/2002³ of 25 June 2002 on the Financial Regulation (FinR)⁴ applicable to the general budget of the EU indicates that the Commission implements the budget:

- (1) on a centralised basis: implementation tasks are performed either directly by its departments or indirectly by executive agencies created by the Commission, bodies set up by the EU - provided that this is compatible with the tasks set out in the basic act - and, subject to certain conditions, national public-sector bodies or bodies governed by private law with a public-service mission;
- (2) on a shared or decentralised basis: implementation tasks are delegated to the Member States (shared management) or third countries (decentralised management); the Commission applies clearance-of-accounts procedures or

³ Official Journal L 248 of 16.09.2002

⁴ Amended by Council Regulation (EC, Euratom) No 1995/2006 of 13 December 2006 (OJ L 390 of 30.12.2006) and by Regulation (EC) No 1525/2007 of 17 December 2007 (OJ L 343 of 27.12.2007).

financial correction mechanisms enabling it to assume final responsibility for the implementation of the budget;

- (3) by joint management with international organisations: certain implementation tasks are entrusted to international organisations.

3. THE LEGAL FRAMEWORK FOR IRREGULARITIES REPORTING

3.1. The legal framework

European legislation provides for the protection of the Union's financial interests in all areas of activity⁵. The FinR sets the principles and rules for the correct implementation of the budget. Member States are required to notify the European Commission (EC) of evidence of fraud and other irregularities. This need is particularly evident in those sectors of the EU budget where the main responsibility for management is with the Member States, namely, in the fields of Agriculture and Cohesion Policy (on the expenditure side) and Own Resources (on the revenue side). In these areas, Member States must inform the Commission of all irregularities involving more than EUR 10 000 of EU finances. This applies at all stages in the procedure for recovering monies unduly paid or not received.

Regulation No 1150/2000 specifies the requirement for own resources and Regulation No 1848/2006 for the agriculture sector. For the Cohesion Policy, which runs over multi-annual programmes the legal framework is more complex and is covered by Regulations Nos 1681/94⁶ and 1831/94⁷ for the programming periods until the 2000-2006 and by Regulation No 1828/2006⁸ for the period 2007-2013⁹. Regulation No 498/2007 covers the European Fishery Fund (EFF).

⁵ See in particular for traditional own resources: Article 6(5) of Council Regulation (EC, Euratom) No 1150/2000; for expenditure: Articles 3 and 5 of Council Regulation (EC) No 1848/2006 of 14 December 2006 (OJ L 355, 15.12.2006) for Agriculture; articles 3 and 5 of Commission Regulation (EC) No 1681/94 of 11 July 1994 (OJ L 178 of 12.7.1994), as amended by Regulation (EC) No 2035/2005 of 12 December 2005 (OJ L 328 of 15.12.2005) for the Structural Funds until the programming period 2000-2006 included; articles 3 and 5 of Regulation No 1831/94 of 26 July 1994 (OJ L 191, 27.7.1994), as amended by Regulation (EC) No 2168/2005 of 23 December 2005 (OJ L 345 of 28.12.2005) for the Cohesion Fund until the programming period 2000-2006 included; articles 28 and 30 of Commission Regulation (EC) No 1828/2006 of 8 December 2006 (OJ L 371, 27.12.2006) as amended by Commission Regulation (EC) No 846/2009 of 1 September 2009 (OJ L 250, 23.9.2009) for the Cohesion Policy 2007-2013; Articles 55 and 57 of Commission Regulation (EC) No 498/2007 of 26 March 2007 (OJ L 120, 10.5.2007) as amended by Commission Regulation (EC) No 1249/2010 (OJ L 341, 23.12.2010) for the European Fishery Fund (EFF).

⁶ Regulation 1681/94 applies to the Structural Funds, that is to say European Regional Development Fund (ERDF), European Social Fund (ESF), European Agriculture Guidance and Guarantee Fund (EAGGF) – Section Guidance and Financial Instrument for Fisheries Guidance (FIFG). It has been amended by Regulation No. 2035/2005 of 12 December 2005

⁷ Regulation 1831/94 applies to the Cohesion Fund. It has been amended by Regulation No. 2168/2005 of 23 December 2005.

⁸ Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund, OJ L 371, 27.12.2006. This repeals Regulations (EC) No 1681/94 and

The obligation to report irregularities in the area of pre-accession assistance is established in the Financing Agreements/Memoranda signed between the acceding countries, Candidate countries and the European Community/Union and is in accordance with the provisions of Commission Regulation (EC) 1681/1994¹⁰ and 1828/2006¹¹. This obligation is yet enhanced by the Commission decision granting conferral of management on extended decentralised basis (EDIS).

3.1.1. The reporting obligation

Member States shall report to the EC any irregularities which have been the subject of a primary administrative or judicial finding, within two months following the end of each quarter. Therefore, the reporting period is divided in four quarters the last of which has as deadline the end of February of the following year¹².

The first communication of a case of irregularity is also known as 'Initial Communication'

The information to be submitted concerns, among others:

- (1) The identification of the operation or budget line (for agriculture) affected by the irregularity;
- (2) The detection method and the *modus operandi*;
- (3) The financial impact of the irregularity;
- (4) The natural and legal persons having committed the irregularity.

Member States can differ to a subsequent updating communication the integration of the information of which they do not dispose at the moment of the initial communication.

Updating communications provide relevant information about the administrative and judicial follow-up of the irregularities. In the areas of Cohesion and Pre-Accession

(EC) No 1831/94. Commission Regulation (EC) No 498/2007 of 26 March 2007 laying down detailed rules for the implementation of Council Regulation (EC) No 1198/2006 on the European Fisheries Fund.

⁹ Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999; Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999; Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999; Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94, OJ L 210, 31.7.2006.

¹⁰ As amended by Regulation (EC) No 2035/2005

¹¹ As amended by Regulation (EC) No 846/2009

¹² For the Agriculture sector, however, the financial year, which is also taken as a reference for the analysis of reported irregularities, runs from October 15 to October 14 of the following year.

information about financial follow-up has to be provided for irregularities related to previous programming periods (until 2000-2006 included)¹³.

The reporting of irregularities shall happen by electronic means, using the modules provided by the EC (see Chapter 5 about the electronic reporting systems).

In certain sectors, namely Cohesion Policy and Pre-accession, financial information has to be expressed in Euro by countries which have not adopted it as their currency.

3.1.2. Derogations to the reporting obligation

As a general rule, where the irregularities relate to amounts of less than EUR 10 000 chargeable to the general budget of the EU, Member States shall not send the EC the irregularity communication, unless the Commission expressly requests it.

Further specific derogations to the reporting obligation are foreseen in the areas of Agriculture, Cohesion and Pre-accession policies. In particular, should not be reported:

- cases where the irregularity consists solely of the failure to partially or totally execute a (co-)financed operation owing to the bankruptcy of the final beneficiary or the final recipient; however, irregularities preceding a bankruptcy and cases of suspected fraud must be reported,
- cases brought to the attention of the administrative authority by the final beneficiary or the final recipient voluntarily and before detection by the relevant authority, whether before or after the payment of the public contribution,
- cases where the administrative authority finds a mistake regarding the eligibility of the financed expenditure and corrects the mistake prior to payment of the public contribution.

3.2. Implementation of the Reporting Obligation

The practices of the national administrations still vary, though improvements have been achieved thanks to the efforts made to harmonise their approaches. The data communicated by Member States is sometimes incomplete. Furthermore, the distinction between “suspected fraud” and other irregularities is not consistent as Member States do not always have the same definition of criminal risk. Consequently, a certain proportion of communications received by the Commission does not distinguish between suspected fraud and irregularity.

The Commission works in close cooperation with the Member States to improve the notification system for irregularities, in particular to clarify the concepts of “fraud” and “irregularity”¹⁴ and as a result of this, some measures of the possible economic

¹³ Regulation (EC) No 846/2009 has simplified the reporting obligation specified in Regulation (EC) No 1828/2006.

¹⁴ The Commission opened a dialogue with the representatives of the Member States to clarify basic concepts and to re-assure Member States that the communication of irregularities in no way prejudices the outcome of criminal judicial proceedings. A working document on the practical modalities for the

impact of fraud in certain sectors have been made. However, for the reasons outlined above, the figures presented in the document should be interpreted with caution. It would be particularly inappropriate to draw simple conclusions about the geographical distribution of fraud or on the efficiency of the services which contribute to the protection of financial interests. The findings ***can not be considered as empirical evidence of the level of fraud and irregularity.***

4. DEFINITIONS

For the purposes of this document, two sets of definitions are used. The first set refers to legal definitions, the second to specific indicators used throughout the different chapters.

4.1. Legal definitions

4.1.1. Irregularity

Irregularity: means any infringement of a provision of European law resulting from an act or omission by an economic operator which has, or would have, the effect of prejudicing the general budget of the European Union or budgets managed by it, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Union, or by an unjustified item of expenditure¹⁵.

4.1.2. Fraud

Fraud: affecting the European Communities' financial interests shall consist of¹⁶:

a) in respect of expenditure, any intentional act or omission relating to:

- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities;
- non-disclosure of information in violation of a specific obligation, with the same effect;
- the misapplication of such funds for purposes other than those for which they were originally granted;

b) in respect of revenue, any intentional act or omission relating to:

- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the illegal diminution of the resources of the general budget

communication of irregularities was established in 2002 and is currently under revision. Discussions are continuing in the Advisory Committee on the Coordination of Fraud Prevention.

¹⁵ Article 2 of Regulation (EC) No 2988/95.

¹⁶ Article 1(1), point (a), of the "Convention on the Protection of the European Communities' Financial Interests" (PIF Convention).

of the European Communities or budgets managed by, or on behalf of, the European Communities;

- non-disclosure of information in violation of a specific obligation, with the same effect;
- misapplication of a legally obtained benefit, with the same effect.”

National legislations contain several provisions that describe the conducts and the related penalties and sanctions. Some of these provisions are the result of the implementation of the PIF Convention into the national legal system.

The two definitions indicated above seem similar as both refer to “acts or omissions”. In fact, the concept of irregularity is much wider than that of fraud, which explicitly refers to “intentional” act or omission. In this respect, the concept of irregularity includes that of fraud, but refers also to a whole series of infringements of rules which do not imply a deliberate intent to violate or for which such intent is not clear (for instance a breach of rules due to the misinterpretation of certain provisions because of their complexity).

Therefore, the distinction between irregularities and fraud is that fraud is a criminal act that can only be determined by the outcome of judicial proceedings. As such, it is only when the judicial procedure has come to an end that the actual amount of fraud can be determined. While awaiting these results, the Commission works on the basis of the information supplied by Member States concerning cases of irregularities some of which, in the opinion of the reporting Member States, give rise to suspicions of fraud (as explained in paragraph 4.1.3). The Commission's statistical assessment of and ability to respond to, irregularities are influenced by the accuracy and timeliness of the notifications made by the Member States.

4.1.3. *Suspected fraud*

Suspected fraud¹⁷: means an irregularity giving rise to the initiation of administrative and/or judicial proceedings at national level in order to establish the presence of intentional behaviour, in particular fraud, such as is referred to in Article 1(1), point (a), of the PIF Convention.

In their communications of irregularity to the Commission, Member States have been requested to indicate whether a reported irregularity can be regarded as 'suspected fraud'. This notion was introduced in order to provide some data for statistical purposes and to avoid the necessity of waiting until the end of criminal procedures for a final indictment.

¹⁷ This definition has been introduced in Commission Regulation (EC) No 2035/2005. It has been "confirmed" in Regulation (EC) No 1828/2006 for the Programming Period 2007-2013 and in Regulation (EC) No 1848/2006 for the agriculture sector.

4.2. Indicators

4.2.1. Irregularity and Fraud Rates

The **Irregularity Rate** (IrR) is calculated using Equation 4-1 below:

Equation 4-1: Irregularity Rate

$$\text{Irregularity Rate (IrR)} = \frac{\text{Total financial amounts affected by irregularity}}{\text{Total payments / expenditure}} \times 100$$

The **Fraud Rate** (FrR) is calculated using Equation 4-2 below:

Equation 4-2: Fraud Rate

$$\text{Fraud Rate (FrR)} = \frac{\text{Total financial amount affected by suspected and established fraud}}{\text{Total payments / expenditure}} \times 100$$

The IrR and FrR can be calculated by financial year (as in the case of the Agriculture sector – see Chapter 7) or on the entire Programming Period (as in the case of Structural Funds – see Chapter 9) and by Member State. The FrR is calculated using amounts linked to cases of suspected and established fraud¹⁸.

4.2.2. Fraud Frequency and Fraud Amounts Levels

The **Fraud Frequency Level** (FFL) represents the percentage of cases qualified as suspected frauds on the total number of reported irregularities and is calculated using Equation 4-3 below.

Equation 4-3: Fraud Frequency Level

$$\text{Fraud Frequency Level (FFL)} = \frac{\text{Total number of reported cases of suspected and established fraud}}{\text{Total number of reported irregularities}} \times 100$$

The **Fraud Amounts Level** (FAL) represents the percentage of financial amounts involved in cases qualified as suspected frauds on the total reported financial amounts affected by irregularities and it is calculated using Equation 4-4 below.

¹⁸

These rates and the following levels had already been introduced in the 2008 Report and Commission Staff Working Paper “Statistical Evaluation of Irregularities” with similar names. This year’s Commission Staff Working Paper “Statistical Evaluation of Irregularities” defines precisely these concepts in order to use them in the years to come. In other parts of the Commission Staff Working Paper “Statistical Evaluation of Irregularities” or in the Report itself, the Fraud Rate may be referred to also as Suspected Fraud Rate. The calculation method remains the same. In the 2008 report the same concept was identified as “suspected fraud rate” or “estimated fraud rate”.

Equation 4-4: Fraud Amounts Level

$$\text{Fraud Amount Level (FAL)} = \frac{\text{Total financial amount affected by suspected and established fraud}}{\text{Total financial amount affected by irregularities}} \times 100$$

FFL and FAL can be calculated by financial year (as in the case of the Agriculture sector – see Chapter 7) or on an entire Programming Period (as in the case of Structural Funds – see Chapter 9) and by Member State.

5. METHODOLOGY

5.1. Data Capturing – The irregularity reporting systems

Two main systems are in place for the reporting of irregularities to the Commission: Own Resources (OWNRES) managed by the Directorate General for Budget and the Irregularity Management System (IMS) managed by the European Anti-Fraud Office (OLAF). For the chapter dedicated to ‘Direct expenditure’, data come from a specific functionality of the ABAC (Accrual Based Accounting) system of the Commission.

5.1.1. OWNRES

Under Article 6(5) of Regulation No 1150/2000, Member States are required to communicate to the Commission, via the OWNRES system, cases of fraud and irregularity, if the TOR amount exceeds EUR 10 000.

5.1.2. Irregularity Management System (IMS)

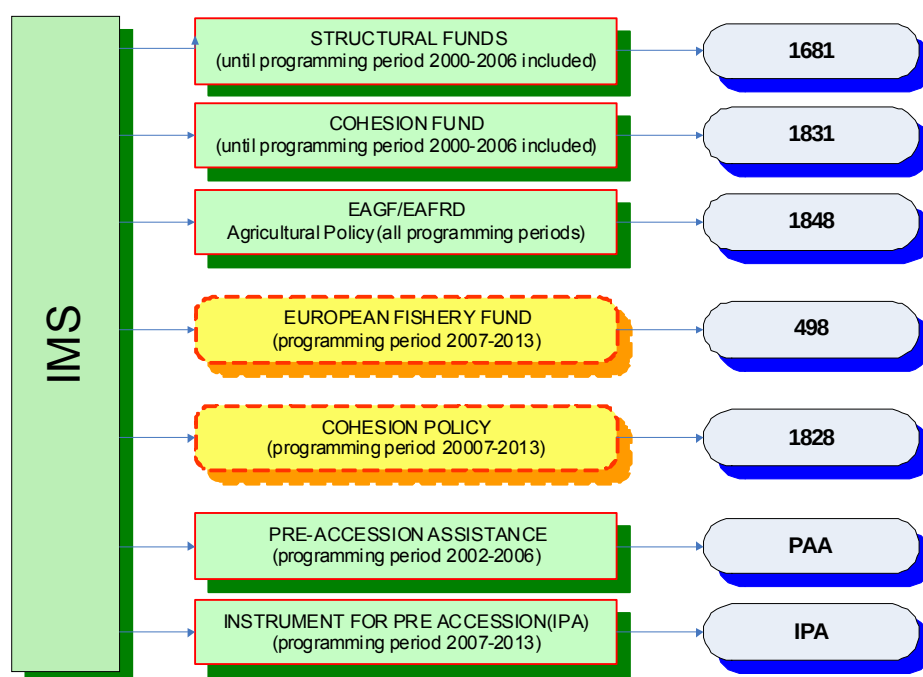
5.1.2.1. The modules

The Irregularity Management System (IMS) is an application of the Anti-Fraud Information System (AFIS), developed and maintained by OLAF for a secure exchange of information between Member States and the Commission.

IMS is a complex application divided in several modules which enable Member States to report cases of irregularities and (suspected) fraud under the different sectoral legislations mentioned in chapter 3. The modules are named after the corresponding Regulation, with the exception of the two modules related to Pre-Accession Assistance.

Figure 5-1 summarises the architecture of IMS and distinguishes between modules under development (framed by a dotted line) and modules currently operational (framed by a continuous line).

Figure 5-1: IMS architecture

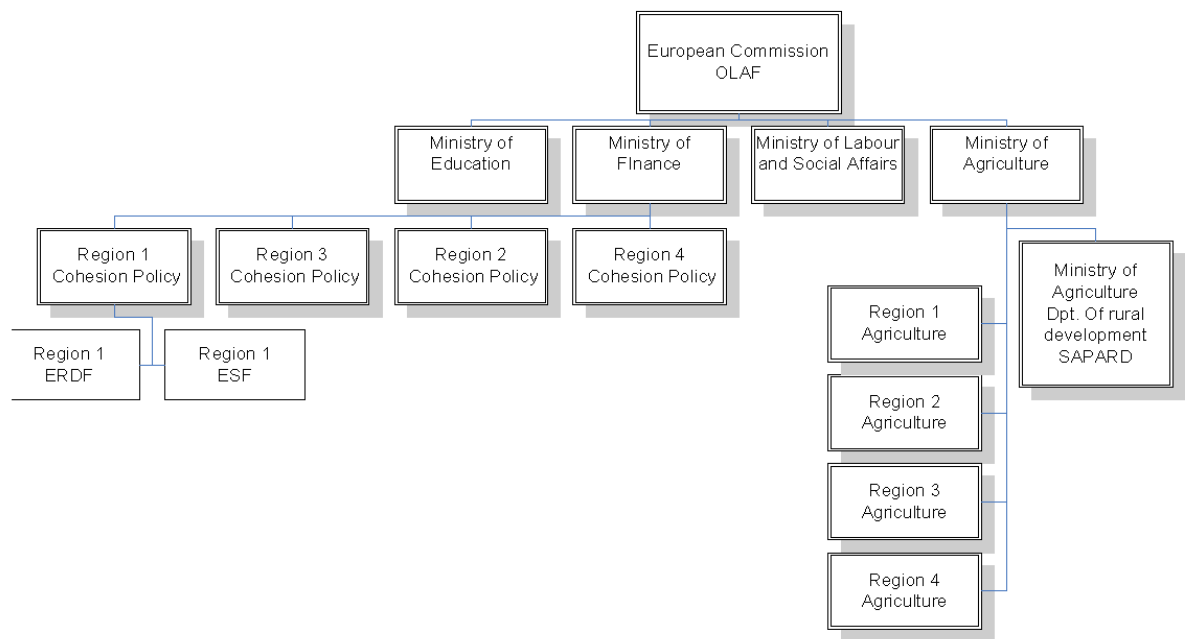


5.1.2.2. The national structures and users

According to their competencies and responsibilities national authorities have access to the module(s) which is(are) relevant for them. IMS flexibility allows a cascading system to be set up: national organisations can be arranged in a hierarchical structure with different levels of responsibility, in which the superior level approves the communication prepared by the inferior and forwards it to the next level or to OLAF. Within each organisation, users can receive different roles such as creator (creates the communication of irregularity), manager (validates it and forwards it to the next level) and observer (read-only access). 584 national organisations and 3 572 users are set up in IMS. Some of them may be responsible for more than 1 module.

Figure 5-2 provides an example of a national structure, showing the complexity that the system allows and supports.

Figure 5-2: Example of a national reporting structure



IMS does not exclusively support the needs of the organisations to structure the reporting task, but, being a web based application that can be accessed directly via internet, also introduces an extended accessibility to the system. This has led to an enormous increase in the number of users if compared to the previous electronic reporting system (from less than 200 to 3 572 users).

Table 5-1 summarises the number of organisations and users per Member State and per module¹⁹.

¹⁹ As already mentioned, the same organisation and user can be “operational” in more than one module. Therefore only sums of users and organisations per columns are displayed.

Table 5-1: number of organisations and users per Member State and module

Member States	1848		1681		1831		PAA		IPA	
	Organis.	Users	Organis.	Users	Organis.	Users	Organis.	Users	Organis.	Users
AT	2	5	4	12						
BE	3	21	10	30						
BG	2	54	13	136			10	137		
CY	2	3	2	14						
CZ	6	32	21	59	5	25	2	8		
DE	41	126	75	341						
DK	1	2	7	20						
EE	1	12	1	2			1	2		
EL	26	55	7	17	7	16	5	9	3	3
ES	4	14	-	-						
FI	5	12	5	35						
FR	6	41	-	-						
HU	2	21	19	66	1	13	6	33	1	1
IE	2	24	1	6						
IT	39	216	28	326						
LT	2	11	2	16	1	3	1	3		
LU	1	5	2	6						
LV	2	23	2	144	1	14	3	23		
MT	2	5	2	4			1	3		
NL	1	1	12	92						
PL	27	112	87	585	2	9	3	11		
PT	4	12	1	4	1	4				
RO	4	17	13	60			10	61		
SE	28	65	25	53						
SI	2	5	2	5	2	2	1	2		
SK	2	11	10	179			6	33		
UK	4	16	9	132						
TOTAL	221	921	360	2344	20	86	49	325	4	4

5.1.2.3. Data input and data quality

The different modules of IMS offer the users the possibility of submitting the information requested by the sectoral regulations in a structured manner. The different fields are grouped in pages according to “subjects” and users are assisted through the possibility of choosing from pre-defined selection lists.

Communications of irregularity can also be imported into the system using excel or xml files structured according to specific templates.

Information considered to be essential are treated as mandatory, meaning that a communication cannot be successfully finalised and transmitted without it. Other ‘business rules’ provide warnings or produce errors if the user does not fill correctly the requested data.

Data quality checks are also provided by the different levels of the reporting structure and by OLAF.

The ‘Initial Communication’ and its ‘Updating Communication(s)’ form a ‘Case’.

5.1.2.4. Impact of IMS on irregularity reporting

The introduction and successful implementation of IMS has produced a number of consequences on the reporting behaviour and practise of Member States. Those countries which have adopted the system have

- (1) rationalised the distribution of the workload related to the reporting obligation: in the past, level 2 or 3 was filling a paper form and transmitting it to level 1, which had the task to perform a quality check and to submit the form to the Commission, on paper or electronically. If the communication was forwarded on paper, someone in OLAF was keying in the information into the irregularities database. This duplication of tasks was at the origin of several clerical mistakes;
- (2) accelerated the reporting process. The decentralisation of the reporting task through the same system allows more users to prepare, at the same time, a greater number of communications. The “superior” levels are freed from the “filling” of communications and can, therefore, concentrate on data quality and process the irregularities in a faster way. This acceleration is possibly the source for an increased number of reported irregularities in the first years of implementation of the IMS;
- (3) improved the completeness and overall quality of the communications, thanks to the mandatory fields and the “consistency rules” foreseen by the system.

5.1.3. ABAC – Recovery context

The ABAC system is a transversal, transactional information system allowing for the execution and monitoring of all budgetary and accounting operations by the Commission. The system was developed by the Commission to facilitate compliance with the requirements of the Financial Regulation and its implementing rules.

One of the functionalities of the ABAC system is the ‘Recovery Context’, which gathers detailed information on recovery orders issued by the Commission services and registered in ABAC. The information introduced into the recovery context relates, amongst others, to the **qualification** of the recovery order: financial officers have to indicate for each recovery order whether it relates to an error, an irregularity or a suspected fraud that has been identified in the implementation of a grant agreement or contract. In case the recovery order is qualified as 'suspected fraud', OLAF has to be notified. For each recovery order, information is given on the method of detection as well as the type of irregularity or suspected fraud that constitutes the basis for the recovery.

The recovery context is a relatively new functionality within ABAC. The collection of data from the Commission services only started recently and the current data available in ABAC refer to recovery orders issued since 2008. This first exercise conducted in 2008 revealed a number of practical problems, which are related to different interpretations throughout the Commission of definitions used in ABAC; the omission of certain information in the 'Recovery Context' and the link of the information with other data in ABAC. The Commission has tried to diminish the impact of these shortcomings to provide more accurate analysis of the irregularities

in expenditures managed directly by the Commission. Nevertheless, the limitations of the data have not been removed completely and they might still influence the analysis.

5.2. Data analysis – cases of irregularity and (suspected) fraud

The analyses presented in parts II and III of the present document are based on the cases of irregularities and (suspected) fraud gathered through the tools described in paragraph 5.1. The extent to which those systems are implemented and correctly used influences the accuracy and completeness of the analytical results.

Each chapter devotes a specific attention to the analysis cases of suspected and established fraud detected and reported by national authorities and Commission services. For this reason, the distinction between simple irregularities and instances of possible fraud is one of the bases for a correct interpretation of the data.

As already indicated in paragraph 4.1.3, in their communications of irregularity to the Commission, Member States have been requested to indicate whether a reported irregularity can be regarded as 'suspected fraud'. This action is performed in IMS by filling a specific field (which is mandatory in all modules except module 1848) which allows classifying any case under three possible categories: (a) irregularity; (b) suspected fraud; (c) established fraud. Therefore, all Member States having implemented IMS specify the requested information.

The analysis of this information, however, has revealed that a number of inconsistencies are still present. Namely, the classification provided by national authorities can be contradictory with other data given in the same communication, for instance the description of the types of irregularities committed and the judicial follow-up undertaken.

In particular, the inconsistencies appear evident in the presence of the following information:

- (1) the case is classified as “irregularity”, but it is also indicated that penal proceedings have been initiated;
- (2) the case is classified as “irregularity”, but one or more of the *modus operandi* described in Table 5-2 are indicated.

Table 5-2: List of *modus operandi* conflicting with the classification ‘irregularity’

IMS CODE	DESCRIPTION	ARTICLE OF THE CONVENTION
103	Falsified Accounts	Art. 1(a) first alinea
104	Accounts Not Presented	Art. 1(a) second alinea
205	False Or Falsified Commercial Documents	Art. 1(a) first alinea
208	False Or Falsified Request For Aid	Art. 1(a) first alinea
213	Falsified Supporting Documents	Art. 1(a) first alinea
214	False Or Falsified Certificates	Art. 1(a) first alinea
316	Falsified Product	Art. 1(a) first alinea
402	Non Existant Operator	Art. 1(a) first alinea
411	False Declaration Of Loss Or Damage	Art. 1(a) first alinea
412	Declaration Of Fictitious Land	Art. 1(a) first alinea
504	Theft	Art. 1(a) third alinea
606	Incompatible Cumulation Of Aid	Art. 1(a) first alinea
608	Refusal Of Control	Art. 1(a) second alinea
611	Several Requests For The Same Object	Art. 1(a) first alinea
818	Falsified Declaration	Art. 1(a) first alinea
850	Corruption	Protocol
851	Abuse	Protocol

For the purposes of the analyses conducted in Chapters 8 and 9 of this document, in presence of one of the two conditions mentioned above, the case has been considered as a “suspected fraud” even in absence of such classification from the national authorities.

PART II - REVENUES

6. TRADITIONAL OWN RESOURCES (ANNEXES 3-13)

6.1. Management of Traditional Own Resources (TOR)

The Union must have access to Traditional Own Resources ('TOR')²⁰ under the best possible conditions. In conformity with Regulation (EC, EURATOM) No 1150/2000²¹ Member States are responsible for making TOR available to the Commission, within the deadlines set, that they have established. Established amounts of customs or agricultural duties, that have been recovered, and debts, that are guaranteed and not under appeal, are to be made available via the *A-account*. However, if TOR have been established by a Member State but not yet recovered and if no security has been provided or the secured amount has been disputed, Member States may enter these TOR amounts in the *B-account*. These amounts of TOR are not made available until actually recovered. Most fraud and irregularity cases relate to B-account items.

6.1.1. *Monitoring of establishment and recovery of TOR*

In order to get the right picture of Member States' TOR recovery activity, it is important to keep in mind that over 97% of all amounts of TOR established are subsequently recovered without any particular problem. These amounts are entered in the A-account and made available to the Commission. This covers most of the 'normal' import flows where release for free circulation gives rise to a customs debt. The remaining exceptional items are entered in the B-account. This proportion should be borne in mind, when evaluating Member States' recovery activity.

In return for their collection task, and to support sound and efficient management of public finances, Member States may keep 25% of the amounts recovered. In its capacity as Authorising Officer responsible for executing the EU budget, the Commission (DG Budget as delegated Authorising Officer) monitors Member State activity concerning establishing and recovering TOR.

The following three methods are used:

- (1) Overall monitoring of recovery of TOR via the write-off procedure;
- (2) Regular inspection in Member States of the establishment and recovery of TOR and B-account entries;
- (3) Specific monitoring (in close cooperation with OLAF, DG TAXUD and DG AGRI) of Member States' follow-up of recovery in individual cases, which have a significant financial impact and usually involve Mutual Administrative Assistance.

²⁰ These are mainly customs and agricultural duties but also include anti-dumping duties and sugar levies.
²¹ Regulation No 1150/2000 of 22 May 2000.

These three methods allow the Commission to monitor Member States' performance without interfering too much in their day-to-day operations.

6.1.2. Procedure for managing Member States' reports for write-off

Member States must take all requisite measures to ensure that established amounts of TOR are made available to the Commission. This requirement, mentioned in Article 17(1) of Regulation No 1150/2000, also implies that a Member State is only released from its obligation to make available TOR if it can prove that the debt is irrecoverable either:

- (1) for reasons of *force majeure*; or
- (2) for other reasons, which cannot be attributed to that Member State.

There are two ways to conclude that amounts of TOR have become irrecoverable. The first is by a decision of a Member State *declaring* that they cannot be recovered — this declaration may be made at any time. However, TOR must be *deemed* irrecoverable by a Member State at the latest five years from the date on which the debt was established, or in the event of an administrative or judicial appeal, the final decision was given, or the last part-payment to the debt was made, whichever is the later. If the amount of the written-off debt is less than EUR 50 000, Member States do not have to communicate the case to the Commission, unless the Commission makes a specific request. However, if the irrecoverable amount of TOR exceeds EUR 50 000, the write-off must be reported to the Commission which has to decide whether the necessary conditions are fulfilled in order to release the Member State from the obligation to make the TOR available.

An amendment to Regulation No 1150/2000²² introduced certain timeframes within which a Member State has to provide the Commission with information on amounts of established entitlements of TOR declared or deemed irrecoverable where these exceed EUR 50 000. Consequently, in years 2008 and 2009 the number of Member States' write-off reports increased significantly. A new IT application called WOMIS²³ was introduced in January 2010 to support Member States and the Commission in managing write-off reports. Member States submit their requests to be released from the obligation to make the TOR available directly via WOMIS. Experience in the first year showed that it cuts delays in the process and permits improved up-to-date and easy-to-obtain management information. In 2012 a WOMIS version 2.0 will be released.

In 2010 116 write-off reports amounting to EUR 42 million were communicated via WOMIS to the Commission by 13 Member States. The following table shows that thereof 53 cases have been processed by the Commission in 2010 with the following results:

²² Regulation No 2028/2004, amending Regulation No 1150/2000.
²³ WOMIS: Write-Off Management and Information System.

Table OR1: Write-off reports treated in 2010

MS	Cases ²⁴	Total amount	Acceptance		Refusal		Additional information request	
	N	EUR	N	EUR	N	EUR	N	EUR
AT	12	1 730 716	2	254 706			10	1 476 010
CZ	1	73 305					1	73 305
DE	11	2 091 599	6	1 453 929			5	637 670
ES	6	323 853	2	65 487			4	258 366,42
FI	6	541 637	3	259 330				
UK	6	8 726 983	3	875 305			2	7 696 147
HU	3	822 619			1	267 224	2	555 395
IT	7	1 337 402	2	286 651			5	1 050 751
NL	1	1 114 350					1	1 114 350
Total	53	16 762 464	18	3 195 408	1	267 224	30	12 861 994

In addition, 294 cases which had been communicated before 2010 to the Commission have been processed in 2010 with the following results:

OR: TABLE 2

MS	Cases ²⁵	Total amount	Acceptance		Refusal		Additional information request	
	N	EUR	N	EUR	N	EUR	N	EUR
AT	3	2 217 810	2	2 153 780	1	64 030		
BE	10	1 691 376	1	168 024	2	395 068	7	1 128 284
DE	69	28 897 230	39	7 792 226	6	700 612	24	20 404 392
DK	17	3 952 012	14	2 355 405	2	1 484 152	1	112 455
ES	94	25 426 940	31	4 695 999	19	5 588 538	44	15 142 403
FI	1	226 820					1	226 820
FR	1	48 568	1	48 568				
IT	47	29 462 972	5	1 665 657	34	12 669 134	5	14 803 910
LV	1	109 969					1	109 969
NL	44	28 356 691	18	2 951 337	7	916 474	18	24 436 819
PT	2	1 731 625			2	1 731 625		
SE	3	537 402	3	537 402				
UK	2	234 666	1	53 444			1	181 222
Total	294	122 894 081	115	22 421 842	73	23 549 633	102	76 564 275

Examination of Member States' diligence in these cases constitutes a very effective mechanism for gauging their activity in the field of recovery. It encourages national administrations to step up the regularity, efficiency and effectiveness of their recovery activity, since any lack of diligence leading to failure to recover, results in individual Member States having to foot the bill.

6.1.3. Particular cases of Member State failure to recover TOR

If TOR are not established because of an administrative error by a Member State, the Commission applies the principle of financial liability²⁶. In 2010 Member States

²⁴ Thereof, 4 cases were non-admissible as write-off cases: 3 cases from Finland with a total of EUR 282 307 and 1 case from the UK with an amount of EUR 155 531.

²⁵ Thereof, 4 cases have been considered as non-admissible: 3 cases from Finland involving EUR 324 270 and 1 case from the Netherlands with EUR 52 061.

²⁶ Case C-392/02 of 15 November 2005. These cases are identified on the basis of Articles 220(2)(b) (administrative errors which could not reasonably have been detected by the person liable for payment)

have been held financially liable for over EUR 37 million and new cases are being given appropriate follow-up.

The main objective of these procedures is to encourage individual Member States to improve their administrative performance and to address weaknesses leading to a loss of TOR. Payments for these cases are made available via the A-account and they reduce in effect the contribution of the Member States via the GNI resource in proportion to their contribution to the EU budget.

6.2. Reporting discipline

Under Article 6(5) of Regulation No 1150/2000, Member States are required to communicate to the Commission, via the OWNRES system²⁷, cases of fraud and irregularity, if the TOR amount exceeds EUR 10 000. The requirement to report such cases is designed to inform the Budgetary Authority of the state of play relating to fraud and irregularities in TOR. This political dimension is a clear signal to all stakeholders of the importance of prompt, accurate and complete reporting. The OWNRES database is a key tool for obtaining data for global analyses of fraud and irregularities, and presents valuable information to the Budgetary Authority.

Because all TOR amounts exceeding EUR 10 000 in the B-account normally represent an irregularity (fraud included) by definition, therefore the match between the two - from the standpoint of the B-account - should be 100%²⁸. This match is checked during the regular inspections in the Member States. New analysis showed some unexplained discrepancies. The Commission will therefore start an enquiry to the Member States to clarify the situation.

6.2.1. Year of discovery versus year reported

Cases should be included in OWNRES upon the initial discovery of the irregularity or fraud case. As a result the year of the customs operation and the year of discovery of the irregularity or fraud can diverge. Member States are continually adding new cases and updating existing items. So the information generated by OWNRES represents the situation on the date of the query. For instance, the number of irregularities and frauds concerning 2009 in last year's report was 4 684 cases, whereas the number of cases now shown for 2009 is 5 204 cases²⁹. This continuing development is inherent to the system.

and 221(3) (time-barring resulting from Customs' inactivity) of the Community Customs Code, Articles 869 and 889 of the Provisions for application of the Code, or on the basis of non-observance by the customs administration of Articles of the Community Customs Code giving rise to legitimate expectations on the part of an operator.

²⁷ OWNRES is an abbreviation for **Own Resources**.

²⁸ Items registered in OWNRES are not necessarily also in the B-account. If a debt has been paid or not established (for instance where goods have been seized and confiscated), the amounts should not be entered in the B-account.

²⁹ The information generated by OWNRES to produce the figures in this chapter was all obtained from queries made on 4 March 2011. Subsequent corrections by Spain related to the country of origin Ceuta have been taken into consideration.

6.3. General trends

The number of cases communicated to OWNRES for 2010 is currently 9% *lower* in comparison with 2009 (from 5 204 to 4 744). The amount of TOR involved is however 10% bigger (from EUR 357 million to EUR 393 million)³⁰.

The number of communications from the *ten new Member States* showed continued growth since their accession in 2004 until 2007. From 2007 to 2009 the communicated cases remained stable. 2010 shows 17% less communicated cases compared with 2009 although the amount of TOR increased by 5% from 2009 to 2010.

The number of communications from Bulgaria and Romania increased since their accession. In 2007 both countries together reported 52 cases, whereas in 2010 both countries reported 151 cases.

The OWNRES database now contains 62 743 cases in total (1989-2010) and shows an increase of 9% during 2010³¹. Significant changes in the *number* of registrations in 2010 compared with 2009 can be seen for Romania (+71%), Bulgaria (+ 47%), Malta (- 71%), Estonia (- 55%), Latvia (-37%) and Slovakia (-36%). Significant changes of *amounts* can be seen in Spain (+169%), Denmark (+158%), Czech Republic (+119%) and Malta (-72 %)³².

From 2006 to 2009 the number of *belatedly discharged transit operations* decreased continually. Compared to 2009 the number of belatedly discharged transit operations increased.³³ In the case of transit, practice shows that up to 90% of the initially established debts are ultimately cancelled, because of proof of regular discharge after all.

6.3.1. Types of irregularity and fraud

A breakdown of frauds and irregularities by *customs procedure* and by *mechanism type* confirms that most cases of irregularity or fraud relate to the procedure of *release for free circulation* (81% of established amounts³⁴). False declarations (false description, incorrect value, origin and preferential arrangements) and formal

³⁰ See annex 1 (table) and annex 2 (chart).

³¹ This percentage will gradually decrease since the cumulative number of existing cases in OWNRES will exceed the number of new cases added every new reporting year (last year this percentage was 11%).

³² Significant changes in amounts involved generally relate to one or a few (very) big cases, e.g. Spain: 4 cases totalling to EUR 27 million involving Sugar levies, CN 17 and 1 case of EUR 5 million (CN 16); Denmark: 1 case of EUR 18 million (CN 84), Italy: 1 case of EUR 7 million (CN 08), Belgium: 1 case of EUR 6 million (CN 85), Czech Republic: 1 case of EUR 6 million (CN 85) and Germany: 1 case of EUR 6 million (CN 32).

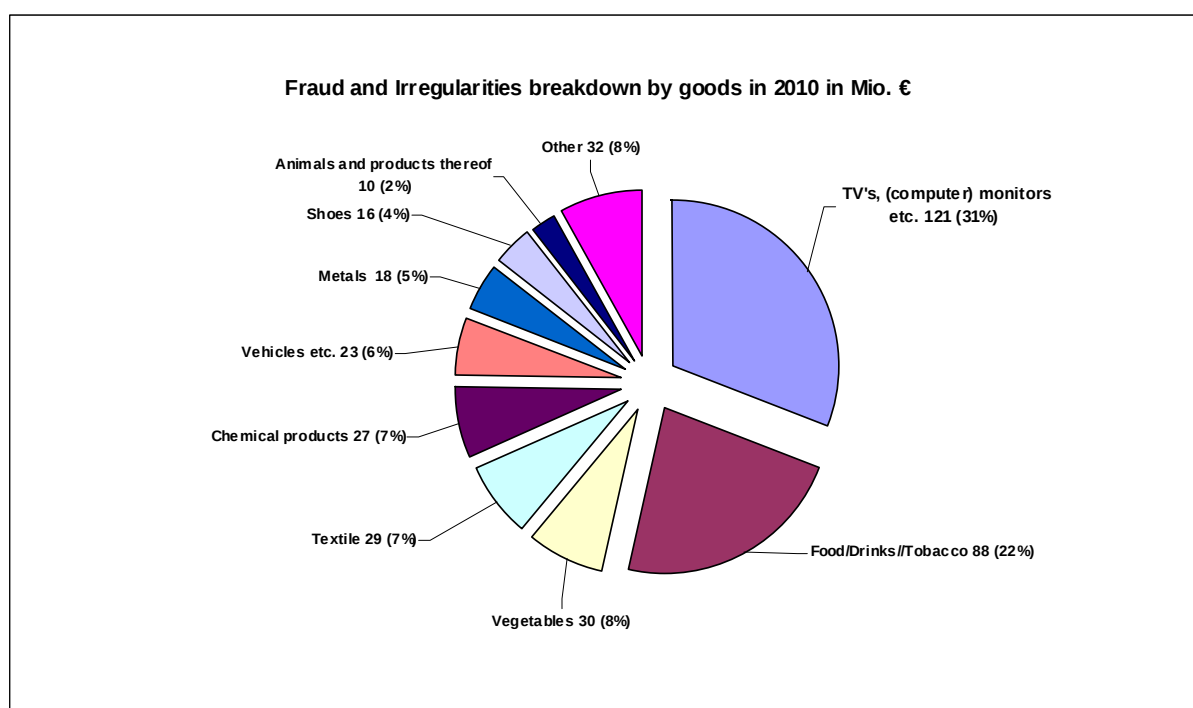
³³ In 2006 the number of cases of belatedly discharged transit was 1 498, being 24% of the total number of cases registered and 19% of the total amount initially established. In 2007 there were 1 399 cases (22% of cases and 16% of the total amount) and in 2008 there were 1 150 cases (19% of cases and 14% of the amount), in 2009 there were 759 (15% of cases and 13% of the amount). In 2010 the figures are respectively 908 (19% of cases and 18% of the amount initially established).

³⁴ See annex 3.

shortcomings (failure to fulfil obligations or commitments) are the mechanisms most frequently mentioned, but also smuggling is highly placed.

The goods (defined by the first two numbers of the CN code³⁵) the most affected by fraud and irregularities in 2010, as in previous years, are TVs/monitors etc. (CN 85). Furthermore, Machines (CN 84), Sugar (CN 17)³⁶ and Vegetables (CN 08) increased in importance when compared to 2009. Organic chemicals (CN 29) and Food (CN 16) decreased in importance and these goods were not listed anymore in 2010 in the TOP 10 Chapter Heading list.³⁷

Chart OR1: Fraud and irregularities breakdown by good in 2009 (in million EUR)³⁸



Evaluation of the *origin* of goods subject to fraud and irregularity³⁹ reveals that, just as in 2009, goods originating from China and the USA remain very much affected. The number of cases originating from Latin America in particular from Ecuador, Brazil, and El Salvador has increased. Spain communicated 4 cases of fraud involving EUR 28 million in relation to sugar levies established linked to the framework of the common organisation of the sugar market. Also goods originating from Ceuta were importantly involved in the fraud and irregularities detected during 2010⁴⁰. Japan has decreased in importance as country of origin in comparison with the last year and goods from South Korea have been more affected.

³⁵ Combined nomenclature or CN — nomenclature of the Common Customs Tariff.

³⁶ Mainly sugar levies (irregularities in relation to the common organisation of the sugar market).

³⁷ See annexes 4 and 5.

³⁸ The product description in the chart is a generic description of the goods involved. See Annexes 4 and 5 for detailed analysis.

³⁹ See annex 8.

⁴⁰ Information according to the subsequent amendments made in OWNRES on 22 March 2011 by Spain.

6.3.2. *TOR and cigarettes*

In 2010 there were 190 cases registered of seized and confiscated cigarettes (CN code 24 02 20 90) involving estimated TOR of around EUR 23.5 million. In 2009 the number of registered cases concerning seized and confiscated goods was 217, totalling around EUR 26 million. The decrease of the number of cases is related to the EU-15, of which the United Kingdom shows the most significant decrease as regards the estimated amount of TOR in euro. As regards the EU-12, the established amount of seized and confiscated cigarettes increased significantly in Bulgaria and it decreased considerably in Romania.

6.3.3. *Data main sectors TOR*

See Annexes 3-10.

6.4. **Detection of fraud and irregularity⁴¹**

Of all the cases registered in OWNRES in 2010 19% (883 out of 4 744 registered cases) are categorised as fraud, which is the same proportion as in 2008 and 2009⁴². However, like in previous years, the differences between Member States are relatively large. In 2010 most of the Member States categorised between 10-60% of all cases as fraud. However, nine Member States categorised less than 10%⁴³ of the cases as fraud, whereas four Member States registered more than 60%⁴⁴ of the cases as fraud. These figures demonstrate that the categorisation of irregularity and fraud in OWNRES may still not be fully reliable because of differences in the interpretation of the definition of fraud and irregularities.

According to OWNRES the moment of discovery is an indicator for classifying a case as fraud, since primary inspections more often result in classifying cases as fraud than post-clearance inspections.

OWNRES is not a fully reliable source of data on fraud alone, isolated from irregularity. This is because (until a court judgment is obtained) the distinction between fraud and irregularity is usually made on subjective grounds, and, these grounds vary between national administrations.

6.4.1. *Member States' control systems – Method of detection expressed in cases*

The methods of detection of irregularities or fraud cases registered vary between Member States. There are several possible explanations for these differences, for instance the customs control strategies applied, the way of classifying a method, the reporting authorities involved or the relative presence or absence of type of customs procedures.

⁴¹ For the definition of irregularity and fraud, see paragraph 4.1.1 and 4.1.2(b) respectively.

⁴² See annex 9.

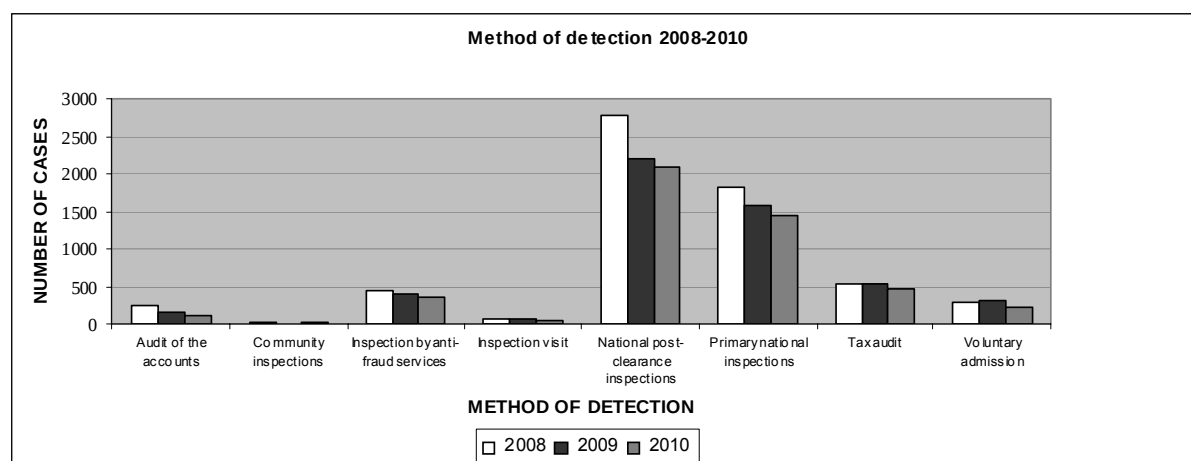
⁴³ Belgium (5%), France (5%), Netherlands (5%), United Kingdom (4%), Czech Republic (1%) and Hungary (7%). No cases were categorised as fraud in Latvia, Estonia and Slovakia. Luxembourg reported no cases of fraud and irregularity in 2010.

⁴⁴ Greece (100%), Spain (71%), Bulgaria (92%) and Malta (100%).

A range of detection methods can reveal irregularity or fraud. Judging from the 2010 data *national post-clearance inspections* and *primary national inspections* (either physical inspections or inspections of documents — the latter category featuring most frequently) are detection methods that have revealed most cases. Post-clearance inspections feature in 44% of the cases discovered, whereas primary national inspections cover 30%. All in all, the vast majority of cases (74%) were detected in 2010 by means of either primary national inspections or post-clearance control audits.

It is clear that the shift from primary to post-clearance inspections, which could already be seen in previous years, continued in 2010. The relative importance of inspections by anti-fraud services was relatively stable with 8% in 2009 and 7% in 2010. Since the final results of such inspections take more time than regular inspections, a (slight) increase in the percentage for 2010 may be expected in future registrations.

CHART OR 2: Method of detection 2008-2010



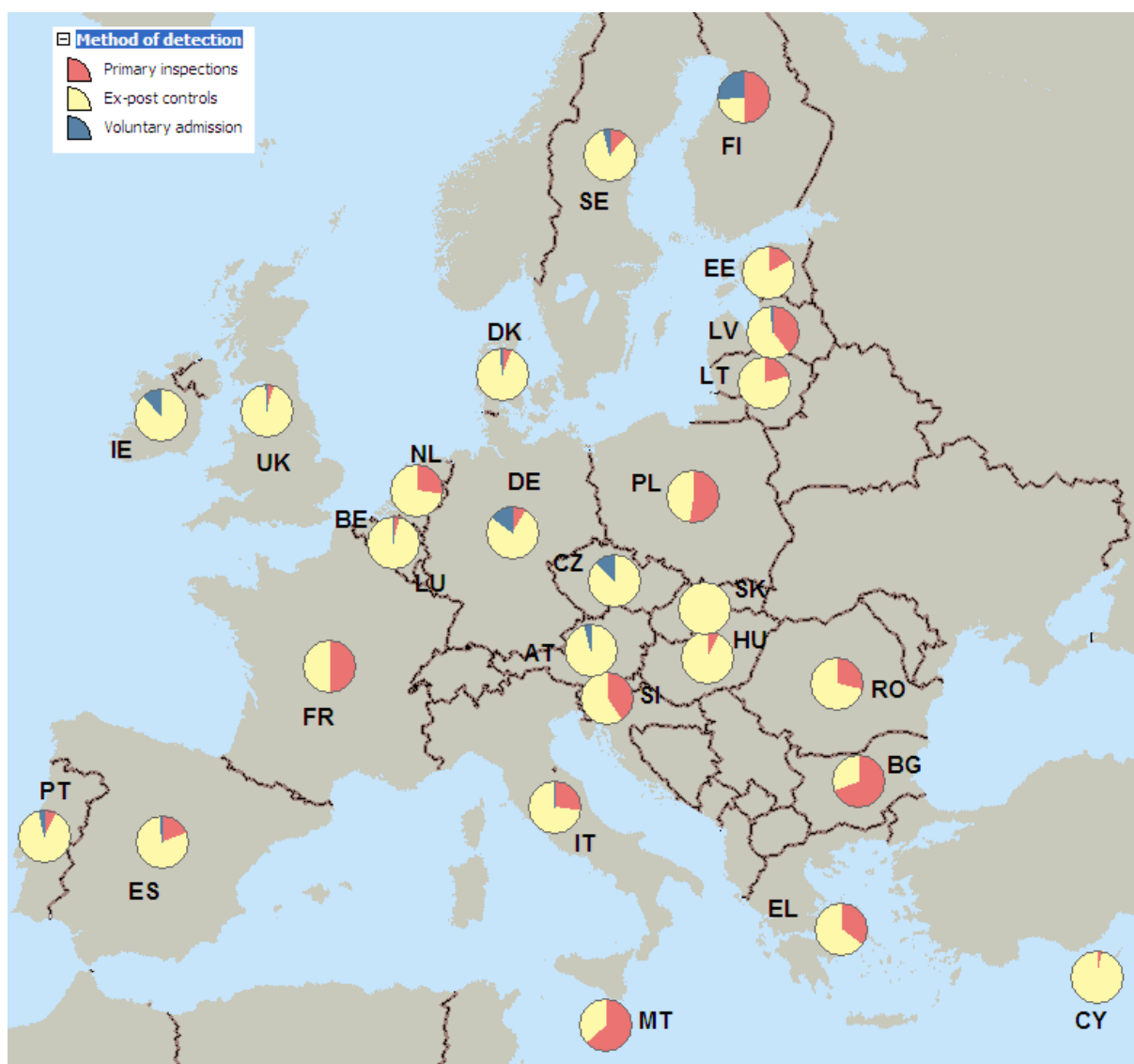
6.4.2. Member States' control systems – Method of detection expressed in monetary terms

The map below illustrates by which methods OWNRES cases - in amounts - have been discovered by the Member States⁴⁵ in 2010. For reasons of presentation the following methods are included in the term "ex-post controls": audit of the accounts, Union inspections, inspections by anti-fraud services, inspection visits, national post-clearance audits and tax audits. In EUR – 27 around 18% of all cases – *in amounts* – have been discovered by primary inspections, whereas 78% of all cases – in amounts – have been detected via "ex-post controls". In the following six Member States more than 40 % of all cases – in amounts – have been detected by primary inspections: Finland (50%), France (50%), Malta (64%), Poland (52%), Slovenia (40%) and Bulgaria (69%). More than 90% of all cases – in amounts – have been detected by "ex-post controls" in Austria (95%), Belgium (95%), Denmark (92%), United Kingdom (95%), Cyprus (96%), Hungary (92%) and Slovakia (100 %). In four

⁴⁵ For details see annex 10. Luxemburg did not register any OWNRES case in 2010.

Member States more than 10 % of all cases – in amounts- have been detected by voluntary admission.⁴⁶

MAP OR 1: Visualising the method of detection



6.4.3. Customs procedures affected to fraud and irregularity in 2010

In 2010, the majority of established amounts in OWNRES (81%) in EU-27 are related to the customs procedure "release for free circulation".⁴⁷ 9% of all established amounts of OWNRES cases in 2010 involve the transit procedures (3%), the customs warehousing (3%) and the inward processing (3%). Between the Member States are however significant differences. In Bulgaria 64 % of all established amounts of OWNRES cases relate to the transit procedure⁴⁸, whereas 36 % relate to the release for free circulation. Furthermore, transit was much affected, in amounts, in Slovenia

⁴⁶ Germany (15%), Finland (26%), Ireland (12 %) and the Czech Republic (12%).

⁴⁷ See annex 11.

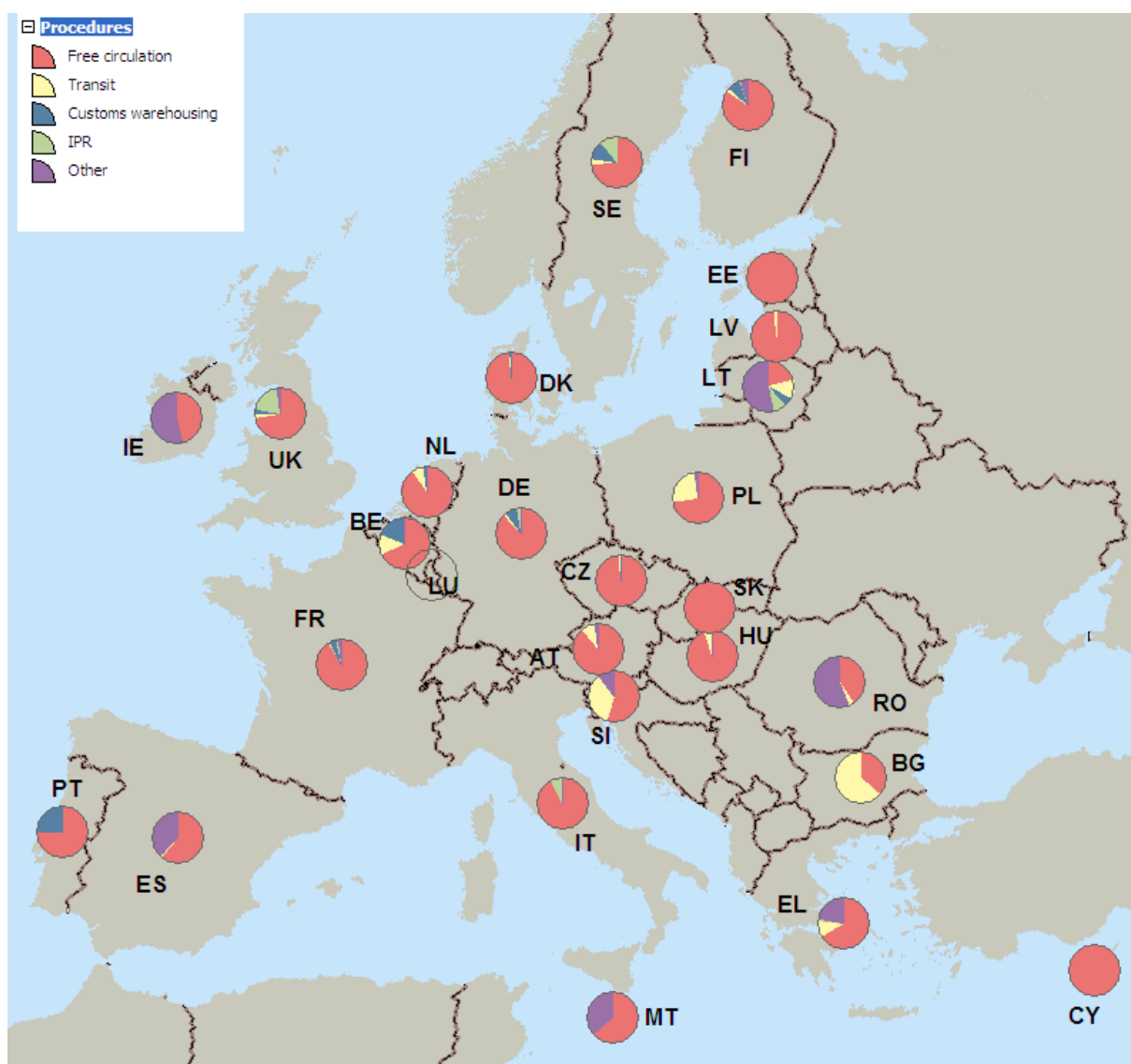
⁴⁸ All those cases from Bulgaria concern smuggling of cigarettes and other tobacco products.

(35%), Poland (25%) and Belgium (13%). In comparison to the other Member States, the Netherlands detected during transit procedures OWNRES cases with the highest total (EUR 2 950 732). Furthermore, Belgium (EUR 1 663 005) and Germany (EUR 1 303 854) are ranked high.

The amounts established of detected cases under the customs warehousing were relatively high in the following Member States: Belgium (19%), Finland (8%), Portugal (25%) and Sweden (12%). Germany established in comparison to the other Member States most amounts (EUR 5 956 757) related to the customs warehousing. Belgium ranks second with an established sum of EUR 2 450 644 detected under the customs warehousing. From the EU-12 only the Czech Republic and Lithuania reported cases detected under the customs warehousing. Italy reported mainly detection of cigarette smuggling under this procedure. Austria, Greece and Ireland did not report any cases. Established amounts of fraud and irregularities related to the inward processing were mainly reported by the United Kingdom (20%), Sweden (11%), Lithuania (8%), and Italy (7%). The United Kingdom was also top ranked as regards established amounts (EUR 7 347 871) under the inward processing. From the EU-12 only Poland and Lithuania reported cases detected under the inward processing. Austria, Belgium, Ireland, the Netherlands and Portugal neither report cases of fraud and irregularity in relation to this procedure.

Finally, 10% of all established amounts in EU-27 fall under the category "Other". This category combines, among others, the following procedures or treatments: Processing under customs control, temporary admission, outward processing and standard exchange system, exportation, free zone or free warehousing, re-exportation, destruction and abandonment to the Exchequer.

MAP OR 2: visualising the customs procedures affected to fraud and irregularity in 2010



6.4.4. Percentage of established or estimated amounts in OWNRES to collected TOR

As indicated before over 97% of all amounts of TOR established are recovered without any particular problem and made available to the Commission via the A-account. For 2010 around EUR 20.9 billion TOR (gross) have been collected by the Member States and thereafter made available to the EU budget after deduction of 25% collection costs. These amounts relate mainly to ‘normal’ import flows where goods are declared for a customs procedure (e.g. release for free circulation) giving rise to a customs debt. In comparison, according to the OWNRES communications, around EUR 418 million have been established or estimated by the Member States in connection to detected cases of fraud and irregularities where the amount at stake exceeds EUR 10 000. Usually, this report refers to *established* amounts of TOR reported in OWNRES with the exception of information about seized and confiscated cigarettes (Annex 7). However in this paragraph, for the purpose of this comparison, also *estimated* amounts in OWNRES have been taken into account and added to the *established* amounts. This is to take also into account the several cases of fraud and

irregularities reported by Member States where the unlawfully imported goods had been seized and confiscated by the customs authorities and therefore, in accordance with the customs rules, no customs duties for these goods had been established.

For EU-27 the established and estimated amounts reported in OWNRES represent 2.00% of the collected TOR (gross).⁴⁹ A percentage of 2.00% reflects that out of each EUR 100 of TOR (gross) collected an amount of irregularity or fraud is registered in OWNRES of EUR 2.00. Within the Member States there are differences. In 12 Member States the percentage is equal or above the average of 2.00%. The highest percentage can be seen in Romania with 7.13%. In 9 Member States the percentage is between 1.00 % (half the average) and the average of 2.00%. In 5 Member States the percentage is equal or below 1.00%. Luxembourg did not report any OWNRES cases in 2010. For EU-15 the established and estimated amounts reported in OWNRES represent 1.94% of the collected TOR, whereas in EU-12 the established and estimated amounts reported in OWNRES represent 2.93% of the collected TOR.

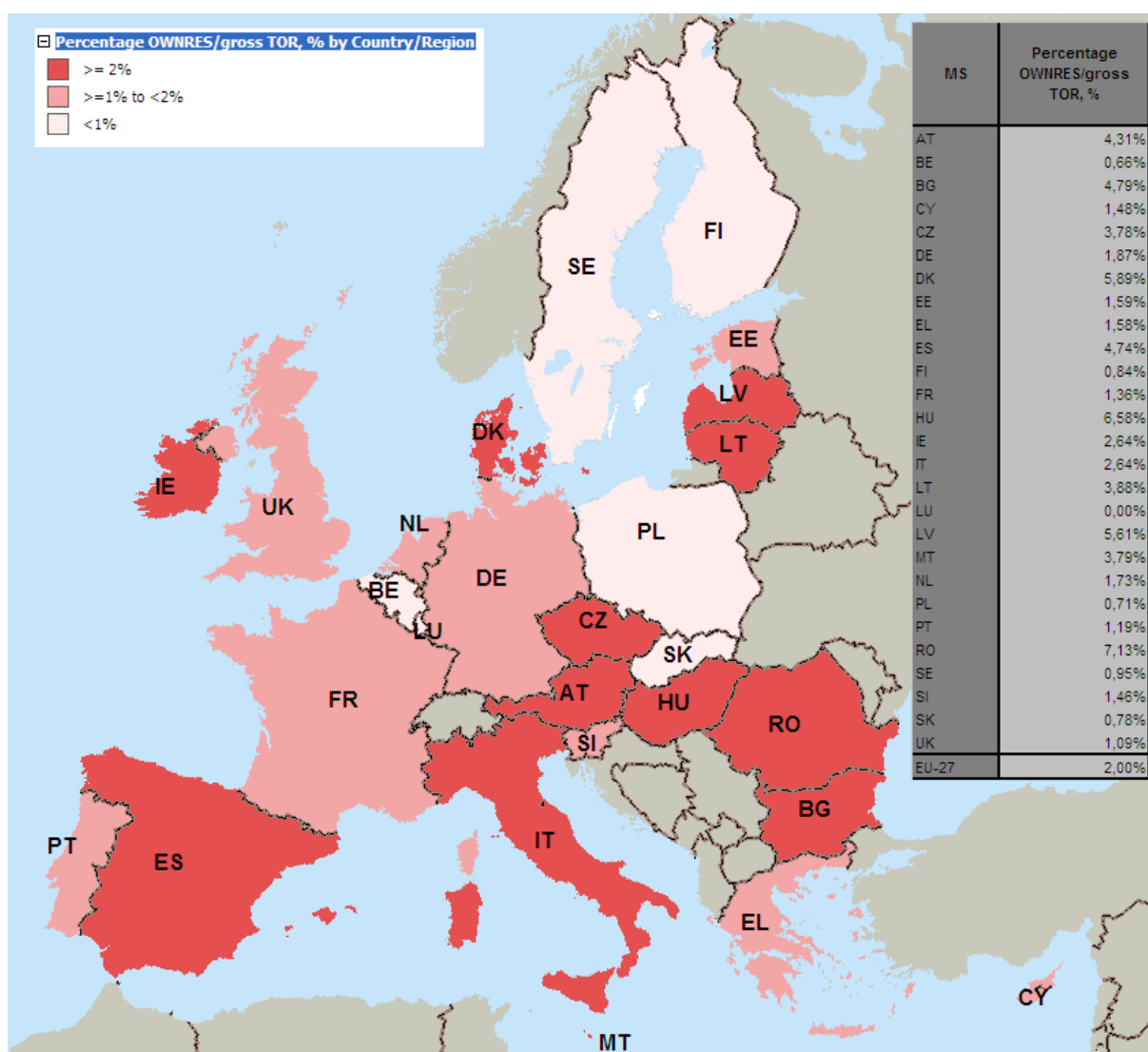
On the basis of the information in OWNRES it is not possible to provide an explanation for the variations between the Member States. It should also be noted that the figures can vary a lot from year to year. Especially in Member States with a smaller share of TOR collection, individual bigger fraud cases detected in a certain year may affect importantly the annual percentage. Several factors influence this percentage, e.g. the type of traffic and trade, the level of compliance of the economic operators, and, the location of a Member State. Under these variable factors the percentage is also affected on the way how the Member State's customs control strategy is set up to target risky imports and to detect TOR related fraud and irregularity.

In recent years the Commission has in its TOR inspections put a special emphasis on Member States' customs control strategies and is monitoring closely Member States' action in relation to the observations made during its inspections⁵⁰.

⁴⁹ See annex 12.

⁵⁰ A thematic report on Member States' customs control strategy synthesizing the results on the inspections carried out in 2009 and 2010 in all Member States will be presented in the Advisory Committee of Own Resources of July 2011.

MAP OR 3: visualising the percentage of established or estimated amounts in OWNRES to collected TOR



6.5. Recovery

- Member States have to recover all established amounts including those they register in OWNRES. For a variety of reasons an established amount may not be completely recovered, despite Member States' efforts. The proportion varies from Member State to Member State.
- Amounts established may change because of additional information or judicial procedures when, for instance, revision shows that there was no customs debt after all or the value or origin of the goods is different than initially thought.

OWNRES shows that approximately 45% of the initially established amount is corrected (cancelled). For closed cases related to transit this may reach up to 90%. As a consequence, Belgium and the Netherlands show more corrections than average, because establishments related to transit occur more frequently. This is due to the ports of Antwerp and Rotterdam.

6.5.1. Recovery rate

Differences in recovery results arise from factors such as the type of fraud or irregularity or the type of debtor involved. The recovery rate for all years (1989-2010) is 47%⁵¹.

The overall recovery rate for 2009 recorded in last year's report was 44%, although it has since then climbed to 50%. At present the recovery rate for 2010 is 46%⁵². In other words, of every EUR 10 000 of duties established in 2010 in OWNRES, approximately EUR 4 600 is actually paid. Because recovery is ongoing, the recovery rate is constantly changing (payments are obtained, new establishments are made and corrections are taken into account).

There are big differences of the above short term recovery rate within the Member States. The highest recovery rate was in Sweden with 88%, whereas in Malta the recovery rate was zero %. In six Member States was the recovery rate above 70 %.⁵³ As explained before, Member States' recovery action is closely monitored by the Commission and they are financially liable for the losses of TOR occurred because of the weaknesses observed in their recovery action.

6.6. Conclusions

In its capacity as Authorising Officer, the Commission (DG Budget is the delegated Authorising Officer) monitors the establishment and recovery of TOR by Member States in various ways. The monitoring is carried out in partnership with different Commission departments, including OLAF.

- (1) Because of the particular interest the Budgetary Authority has in recovery, reliable information regarding the number of cases of irregularity and fraud and their development must be entered in OWNRES. Member States have a special responsibility to ensure that appropriate statistical information on irregularity and fraud is provided to the Commission. Regarding the reliability of information in OWNRES, making a distinction between irregularity and fraud or analysing fraud separately is risky and the outcome is not very useful. Only court decisions make it certain whether a case is one of irregularity or fraud, whereas within OWNRES this distinction is usually based on a prognostication made by Member States' administrations. The figures in OWNRES showing marked differences in the proportions of cases denoted as frauds or irregularities between Member States point this out clearly. OWNRES can only be used for global analysis and monitoring.
- (2) The goods involved in irregularities and frauds demanding Member States' attention are very diverse. TVs, machines and monitors keep their relevance in 2010 and are like in previous years the most important goods involved in registered cases of irregularity or fraud. Vegetables and sugar gained

⁵¹ This calculation is based on 62 743 cases, an established amount of EUR 4.67 billion (after corrections) and a recovered amount of EUR 2.2 billion.

⁵² See annex 13.

⁵³ Belgium (71%), Germany (73%), Finland (80%), Portugal (75%), Sweden (88%) and Slovakia (84%).

significance. The origin of the goods concerned is likewise varied, although some countries remain continuously at the top of the rankings (such as China and the USA). Some Central and South American countries (e.g. Brazil, Ecuador and Mexico) were of more importance in 2010.

- (3) The established amounts of TOR at stake in irregularity and fraud are, according to OWNRES, up to EUR 393 million in 2010. Of the amounts initially established, approximately 44% is later cancelled and in the case of establishments related to transit up to 90% of the established amount may be cancelled later. Payment is then required only for the part which is not cancelled. The initial recovery figures for 2010 are comparable to those of previous years.
- (4) The methods of detection vary between Member States, however, in 2010 post-clearance inspections and primary controls (during the clearance) are creating 75 % of all OWNRES cases. Thereof, the shift from primary to post-clearance inspections continued in 2010.
- (5) The customs procedure *release for free circulation* was like in the previous years the most affected to fraud and irregularities. 81% of all amounts reported in OWNRES have been detected under the release for free circulation. However, there are differences between the Member States. In some Member States most cases have been detected during the transit procedure, customs warehousing, inward processing, free zone or destruction (of cigarettes).
- (6) For EU-27 the established and estimated amounts in OWNRES represent 2.00% of the collected TOR (before deduction of 25% collection costs) for 2010. The percentage varies between the Member States and between the years.
- (7) The Commission encourages Member States to continue their activities in the field of recovery and to provide required statistical information. The Budgetary Authority is entitled to have available the best possible information when monitoring TOR and recovery issues.

PART III - EXPENDITURE

7. AGRICULTURAL EXPENDITURE (ANNEXES 13-14)

7.1. Introduction

The Common Agricultural Policy (CAP) has been one of the most important common policies over the years, as a large part⁵⁴ of the European Union's (EU) budget is spent in the agricultural sector.

The agricultural expenditure is financed by 2 funds:

- EAGF
- EAFRD

The European Agricultural Guarantee Fund (EAGF) finances direct payments to farmers and measures to regulate agricultural markets such as intervention and export refunds, while the European Agricultural Fund for Rural Development (EAFRD) co-finances the rural development programmes of Member States.

The EU-budget for the year 2010 was about EUR 123 billion. More than EUR 53 billion was spent in the agricultural sector, of which EAFRD expenditure accounts for about EUR 10.5 billion. Annex 13A provides a detailed overview of the agricultural expenditure concerning the financial years 2006-2010.

The basic rules for the financial management of the Common Agricultural Policy (CAP) can be found in Council Regulation (EC) No 1290/2005.

The Commission retains overall responsibility for the management of EAGF and EAFRD but does not make payments to the beneficiaries. Member States make the payments to the beneficiaries. This takes place under the principle of shared management. Member States are not only responsible for making payments to the beneficiaries. Member States are also obliged to prevent and deal with irregularities and to recover amounts unduly paid. Granting subsidies, setting up audit strategies, performing audits, reporting irregularities and recovery of unduly paid amounts go hand in hand.

Commission Regulation (EC) No 1848/2006 obliges Member States to report irregularities to OLAF. Member States report irregularities via Module 1848.

Module 1848 was introduced in 2008 and was directly used by all Member States. It is a web based application that can be accessed via internet. Access via internet led to an enormous increase of the number of users of Module 1848. The total number of users increased from less than 50 in 2008 to more than 1,000 in 2010.

⁵⁴ Approximately 43% of the total 2010-budget was spent in the agricultural sector.

The data provided by Member States via Module 1848 is used for performing risk analysis as described in article 10 of Regulation No 1848/2006⁵⁵ and to inform the Advisory Committee for the Coordination of Fraud Prevention (COCOLAF) as described in article 9 of Regulation No 1848/2006⁵⁶.

The agricultural section of this report contains three parts: financial year 2010, financial years 2006-2010 and financial years 2004-2005. The first part contains an overview of new cases reported during 2010, Member States compliance with the reporting obligations and the recovery of unduly paid amounts. In the second part are the trends and developments in the agricultural sector described on basis of the data concerning the financial years 2006-2010. The third part contains definitive figures, based on the analysis of the financial years 2004-2005 which years, from an irregularity reporting point of view, are considered to be finalised.

Four preliminary remarks need to be made concerning the outcomes of the analysis:

1. A higher number of cases reported does not necessarily mean that more irregularities are committed or that a Member State is more vulnerable for irregularities. A more developed audit strategy, tailor made audits, higher number of performed audits, better trained or instructed auditors and so forth will normally lead to a higher number of detected irregularities. In other words, it is possible that Member States with a higher irregularity rate perform far better than Member States with a lower irregularity rate;
2. Audit plans and programmes are still running for the period 2006-2010. This means that cases of irregularities still can be detected and reported, which could have a direct impact on the figures. The figures concerning the financial years 2006-2010, therefore, need to be seen as a half-time-result⁵⁷.
3. Not all irregularities have to be reported. Member States must only inform OLAF of irregularities involving more than EUR 10 000. It is also good to bear in mind that 87% of the number of payments, representing 21% of the total expenditure, concern amounts below EUR 10 000 which implies that for these payments normally no irregularities will be reported⁵⁸.
4. Analyses are based on data provided by Member States and are nothing more as descriptive analysis as they illustrate the main features of a collection of data in quantitative terms.

⁵⁵ Art. 10 Reg. 1848/2006: Without prejudice to Article 11, the Commission may use any information of a general or operational nature communicated by Member States in accordance with this Regulation to perform risk analyses, using information technology support, and may, on the basis of the information obtained, produce reports and develop systems serving to identify risks more effectively.

⁵⁶ Art. 9 Reg. 1848/2006: The Commission shall every year inform the Cocolaf, of the order of magnitude of the sums involved in the irregularities which have been discovered and of the various categories of irregularity, broken down by type and with a statement of the number of irregularities in each category.

⁵⁷ Checks on aid applications are being performed pre-payment. However, irregularities can also be detected ex-post and, in that case, recovery procedures can be launched for at least four years after the irregularity was committed (art. 3 Reg. 2988/95).

⁵⁸ In the context of the clearance mechanism (see also point 7.2.3.) Member States are reporting all irregular payments to be recovered to DG AGRI, without any de minimis threshold.

7.2. Financial Year 2010

7.2.1. Financial Year 2010: cases reported

Table AG1 provides an overview per Member State of the number of cases reported, the amounts affected and the classification of the irregularities into "irregularity", "suspected fraud" or "established fraud"⁵⁹.

Table AG1: cases reported during Financial Year 2010

MS	total		no qualification		irregularity		suspected fraud		established fraud	
	cases	amounts in €	cases	amounts in €	cases	amounts in €	cases	amounts in €	cases	amounts in €
AT	31	452 705	1	19 628	26	383 216	4	49 861		
BE	24	4 233 255			18	478 846	6	3 754 409		
BG	94	4 439 991			1	13 968	87	4 231 587	6	194 437
CY	4	477 448			3	210 650	1	266 798		
CZ	38	1 177 815			37	1 161 575	1	16 240		
DE	81	3 769 191	1	17 381	73	3 032 592	7	719 218		
DK	10	141 053			9	128 866	1	12 187		
EE	12	829 027			7	105 061	5	723 966		
EL	42	1 388 370	1	46 230	40	1 330 337	1	11 803		
ES	413	17 166 788			412	17 091 301	1	75 487		
FI	2	43 309			2	43 309				
FR	119	10 438 611	1	15 989	118	10 422 622				
HU	116	26 163 772			46	5 029 293	69	13 752 851	1	7 381 628
IE	64	1 596 823			64	1 596 823				
IT	342	39 748 896			174	6 576 846	168	33 172 050		
LT	53	1 748 398			50	1 350 963	3	397 435		
LU	2	51 221			2	51 221				
LV	7	113 903			7	113 903				
MT										
NL	38	3 032 925	1	12 318	36	1 380 237	1	1 640 370		
PL	106	3 687 786			65	1 692 470	41	1 995 316		
PT	138	4 170 688			137	4 133 918	1	36 770		
RO	22	1 160 145			21	1 136 783	1	23 362		
SE	1	11 253			1	11 253				
SI	20	674 685			13	224 873	7	449 812		
SK	13	785 697			13	785 697				
UK	33	3 011 241			31	2 950 273	2	60 968		
TOTAL	1 825	130 514 995	5	111 546	1 406	61 436 893	407	61 390 490	7	7 576 065

financial year 2010: 16 October 2009 - 15 October 2010
IMS Module 1848 download: 24 January 2011

Member States reported 1 825 new cases of irregularities with a total amount affected of about EUR 131 million. These cases concern expenditures for the financial years 1990-2010. Like last year, Spain reported the highest number of cases (413) as Italy reported again the highest amounts affected (EUR 39.7 million).

The number of cases that have been classified as "suspected fraud" or "established fraud" is rather high: 414. This is 23% of the total number of cases reported and 47% of the total amounts affected. The "fraud cases" are mainly reported by Italy and young Member States, especially Bulgaria, Hungary, Poland and Slovenia.

France reported "no fraud" which is remarkable now France spends approximately 20% of the total agricultural budget.

Eye-catching are the high amounts affected by irregularities reported by Hungary. The Hungarian authorities informed the Commission that the high irregularity rate is

⁵⁹

Established fraud means that it has been proven in Court that it was fraud while suspected fraud implies that a penal court still has to rule or that investigations are still on going.

caused by a special situation in the Hungarian cereal market during the financial years 2006-2010⁶⁰.

Only five cases were not classified as irregularity, suspected or established fraud. This is less than 1% and a big step forward in comparison with previous years.

7.2.2. Financial Year 2010: reporting discipline

The main purpose of submitting irregularity reports is to enable the Commission to perform risk analyses. For that purpose, OLAF needs to receive reliable, consistent and complete data and as early as possible (timely!).

Table AG2 provides an overview of the compliance rate per reporting obligation. Member States are ranked in order of their overall 2010 compliance rate, which can be found in the fourth column of the right hand side.

Table AG2: compliance per Member State

MS	COMPLIANCE RATE							compliance rate			
	timely reporting	personal data	measure affected	date committed	practices employed	financial impact	sanctions				
	who	what	when	how	why			2010	2009	2008	2007
	art. 3(1)l	art. 3(1)a	art. 3(1)k	art. 3(1)e,f	art. 3(1)m,n	art. 5					
MT									85%	100%	
SK	92%	100%	100%	100%	100%	100%	100%	99%	90%	74%	83%
EE	100%	100%	100%	100%	100%	100%	92%	99%	99%	95%	81%
BE	96%	100%	96%	100%	99%	98%	100%	98%	93%	96%	74%
CY	100%	100%	88%	100%	100%	100%	100%	98%	92%		97%
FR	87%	100%	99%	99%	99%	100%	100%	98%	93%	96%	90%
CZ	84%	100%	98%	100%	100%	100%	100%	97%	98%	94%	90%
RO	82%	100%	100%	100%	100%	100%	100%	97%	94%		
LT	92%	100%	90%	100%	100%	100%	94%	97%	99%	87%	81%
SE	100%	100%	75%	100%	100%	100%	100%	96%	91%	84%	83%
EL	86%	98%	90%	100%	99%	100%	100%	96%	93%	86%	73%
IT	61%	100%	99%	100%	100%	100%	100%	94%	93%	92%	77%
ES	55%	100%	97%	100%	84%	100%	99%	91%	98%	96%	49%
IE	36%	100%	99%	100%	100%	100%	100%	91%	97%	98%	64%
AT	48%	100%	84%	100%	99%	100%	97%	90%	81%	84%	85%
PT	29%	100%	98%	100%	100%	100%	100%	90%	99%	97%	72%
LV	71%	100%	75%	93%	100%	100%	86%	89%	100%	100%	85%
BG	26%	100%	100%	100%	100%	100%	100%	89%	99%	94%	
HU	6%	100%	100%	100%	100%	100%	100%	87%	93%	81%	85%
SI	30%	98%	71%	100%	98%	98%	95%	84%		100%	96%
LU	100%	100%	79%	100%	100%	100%	0%	83%		83%	
DE	51%	98%	70%	98%	98%	85%	79%	83%	93%	79%	39%
PL	39%	26%	98%	100%	100%	100%	99%	80%	85%	97%	83%
DK	20%	83%	87%	85%	93%	100%	70%	77%	94%	92%	85%
UK	6%	100%	82%	100%	100%	100%	9%	71%	79%	94%	88%
NL	39%	93%	50%	97%	96%	100%	0%	68%	87%	86%	63%
FI	50%	13%	50%	100%	100%	100%	0%	59%	70%	78%	67%
TOTAL	52%	95%	94%	100%	96%	99%	94%	90%	95%	92%	78%

legal basis: art. 3(1)a-p and art. 5 Reg. 1848/2006. Per column is indicated on which article the obligation is based.
table contains only key elements for (performing) risk analysis.
IMS Module 1848 download: 24 January 2011

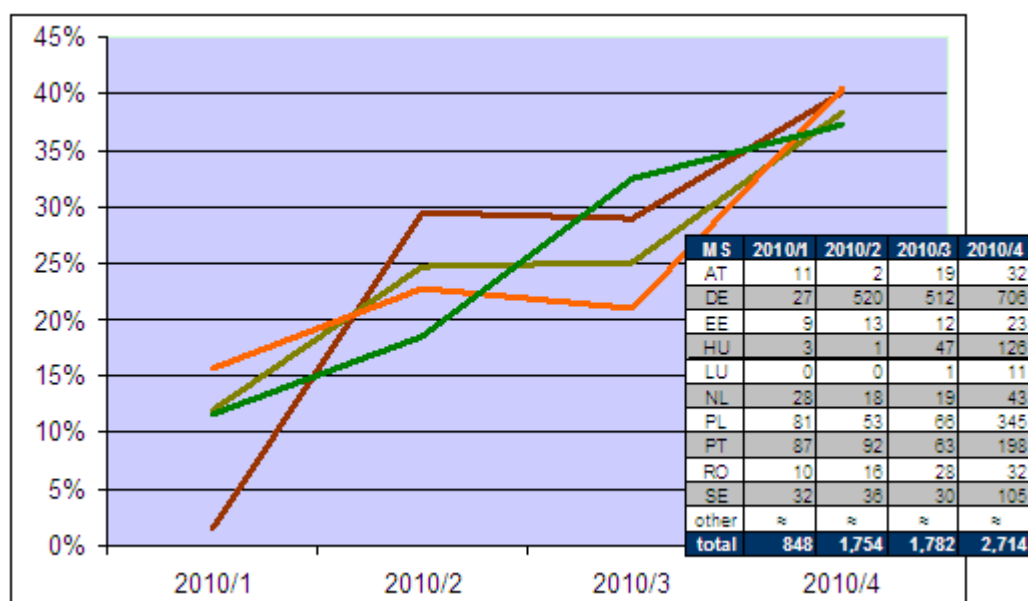
The compliance rate has been determined on basis of the reporting obligations as stipulated in article 3, paragraph 1, letters a - p of Reg. 1848/2006. The focus is on those obligations that are crucial for strategic analysis and can be summarised with the typical questions that are used in every (fraud) investigation: who, what, when, where, why and how.

⁶⁰

See for a more in dept explanation paragraph 7.3.1.

In 2010, the overall compliance rate⁶¹ decreased from 95% to 90%. 15 Member States have a compliance rate above 90%. These Member States stabilized their compliance rate during 2010 or even improved it. 11 Member States had a downfall. Especially the downfall of the Dutch and Finnish compliance rate is remarkable. The Netherlands went down from 87% to 68% as Finland went down from 70% to 59%. For both count that extra attention should be given to timely reporting, the reporting of the measures affected and the sanctions imposed. For Finland counts that also the reporting of personal data should get more attention. Almost no information is provided concerning the persons that committed the irregularities. Poland scores also low on the reporting of personal data. The Polish compliance rate for the reporting of personal data is only 26%.

Chart AG3: communications reported in 2010 by quarter



As mentioned, timely reporting is still a problem for vast majority of Member States. Striking is that some Member States submit at the beginning of the year a small number of communications while at the end of the year a relatively high number is submitted. This could indicate that communications are not submitted at the earliest possible moment but that they are collected, processed and sent in one go at the end of the reporting year with the consequence of late reporting. Chart AG3 provides an overview of this end-year-rush. It gives an overview of the increase of the number of communications sent during 2010. The total numbers at the bottom of the table demonstrate best how the number of communications increases towards the end of the year. 848 communications were sent during the first quarter of 2010. This number increased during the second and third quarter to approximately 1 770. During the last quarter, Member States submitted more than 2,700 communications which is an increase of more than 220% in comparison to the number of communications sent in the first quarter.

⁶¹

The compliance rate is based on a quantitative analysis of data provided by Member States. A Member State is being considered as compliant as soon as information has been provided. The quality of the information is not relevant.

7.2.3. *Financial Year 2010: financial follow up of irregularity cases*⁶²

Article 32 of Council Regulation (EC) No 1290/2005 provides for an automatic clearance mechanism for unsuccessful recoveries of unduly paid amounts. If a Member State fails to recover an unduly paid amount from the beneficiary within four years of the primary administrative or judicial finding (or, in the case of proceedings before national courts, within eight years), 50% of the non-recovered amount is charged to the budget of the Member State concerned within the framework of the annual financial clearance of the EAGF and EAFRD accounts. Even after the application of this mechanism, Member States are obliged to pursue their recovery procedures and to credit 50% of the amounts effectively recovered to the EU budget. If they fail to do so with the necessary diligence, the Commission may decide to charge the entire outstanding amounts to the Member State concerned. Moreover, since 2008, Member States are required to off-set any outstanding debts against future payments to the debtor (compulsory compensation).

Undue payments that are the result of administrative errors committed by the national authorities have to be deducted from the annual accounts of the paying agencies concerned and, thus, excluded from EU financing.

In the year 2010, the 50/50 mechanism was applied by the financial clearance decision for the financial year 2009⁶³ on all pending non-recovered cases dating from 2005 or 2001 (cases that were four or eight years old respectively). EUR 22.8 million was charged to the Member States in this way and EUR 20.3 million was borne by the EU budget for reasons of irrecoverability (out of the EUR 63.8 million declared irrecoverable by the Member States, EUR 43.5 EUR million had already been cleared under the 50/50 and, therefore, the loss is shared between the EU and the Member States). A further EUR 11.9 million has been charged to the Member States by subsequent decisions that cleared⁶⁴ the accounts for financial year 2009 of those paying agencies that were disjoined in April 2010.

During financial year 2010 Member States recovered EUR 175.2 million and the outstanding amount still to be recovered from the beneficiaries at the end of that financial year was EUR 1 193.3 million. Table AG4 provides an overview of the recovered, irrecoverable and outstanding amounts at the level of beneficiaries at the end of financial year 2010.

⁶² The text, analysis and tables of this paragraph are provided by DG AGRI.

⁶³ Commission Decision 2010/258/EU (OJ L 112, 5.5.2010).

⁶⁴ Commission Decision 2010/730/EU (OJ L 315, 1.12.2010) and Commission Decision 2011/105/EU (OJ L 42, 16.2.2011).

Table AG4: financial information on recovery cases

MS	during FY2010		at the end of FY2010	
	recovered	declared	outstanding	in %
		irrecoverable		of total
	EUR	EUR	EUR	EUR
AT	9 762 718	52 493	5 294 217	0.4%
BE	2 028 446	81 603	75 477 538	6.3%
BG	331 121	0	220 885	0.0%
CY	1 001 392	0	273 727	0.0%
CZ	1 545 449	0	657 586	0.1%
DE	12 469 014	379 897	60 059 615	5.0%
DK	2 055 688	550	13 696 557	1.1%
EE	574 497	16	475 217	0.0%
EL	1 218 146	0	59 948 625	5.0%
ES	32 294 305	26 805 357	126 207 566	10.6%
FI	1 142 090	0	864 656	0.1%
FR	37 466 053	8 035 181	135 035 051	11.3%
HU	4 075 008	486 179	10 817 400	0.9%
IE	6 510 939	269 266	11 608 713	1.0%
IT	31 057 076	10 822 112	580 386 673	48.6%
LT	746 795	370	2 984 623	0.3%
LU	27 184	263	117 717	0.0%
LV	899 394	15 312	1 117 420	0.1%
MT	482 638	221 544	237 064	0.0%
NL	4 035 184	557 817	14 003 865	1.2%
PL	8 677 511	63 875	9 473 058	0.8%
PT	7 910 271	503 558	58 809 957	4.9%
RO	1 043 340	0	6 613 532	0.6%
SE	1 545 774	23 474	1 823 110	0.2%
SI	1 817 430	89	1 049 943	0.1%
SK	819 482	0	6 828 605	0.6%
UK	3 676 417	2 382 371	9 241 699	0.8%
TOTAL	175 213 363	50 701 327	1 193 324 618	100.0%

The financial consequences of non recovery for cases dating from 2006 or 2002 was determined in accordance with the 50/50 rule mentioned above by charging EUR 27.8 million to the Member States concerned⁶⁵ and a further EUR 0.6 million will be charged subsequently. Moreover, EUR 29.2 million was borne by the EU budget for cases reported irrecoverable during financial year 2010.

Due the application of the 50/50 mechanism since its introduction in 2006 important non-recovered sums have already been charged to the Member States for EAGF expenditure (EUR 446 million). Consequently, out of the EUR 1 193.3 million to be recovered from the final beneficiaries at the end of financial year 2010 the amount outstanding towards the EU budget is limited to EUR 888.8 million. As regards the recovery of undue payments financed by the EAFRD, it has to be noted that the 50/50 rule will only commence being applied after the closure of the rural development programmes.

⁶⁵

Commission Implementing Decision 2011/272/EU (OJ L 119, 7.5.2011).

The new clearance mechanism (50/50 rule) referred to above provides a strong incentive for Member States to recover undue payments from the beneficiaries as quickly as possible. As a result, by the end of financial year 2010, 42% of the new EAGF debts from 2007 and thereafter had already been recovered, which is a significant improvement compared to the past (see table AG5).

Table AG5: recoveries for cases detected since 2007

MS	new cases	adjustments	recoveries	recovery
	since 2007			rate
	EUR	EUR	EUR	EUR
AT	17 366 133	-2 178 544	-14 783 530	97.3%
BE	70 891 949	-1 851 453	-11 237 000	16.3%
BG	120 942	11 665	-30 541	23.0%
CY	1 021 797	-18 861	-729 203	72.7%
CZ	1 185 916	-156 101	-986 465	95.8%
DE	47 748 638	8 793 331	-42 388 565	75.0%
DK	25 708 238	6 061 853	-17 456 826	54.9%
EE	2 141 947	-1 056 059	-1 049 965	96.7%
EL	24 824 666	-1 752 468	-4 408 720	19.1%
ES	164 723 601	-13 171 086	-78 198 627	51.6%
FI	5 080 018	71 455	-4 543 744	88.2%
FR	130 801 590	-4 445 151	-45 170 654	35.7%
HU	5 088 032	10 201 402	-6 306 407	41.2%
IE	16 218 148	-1 550 528	-11 674 083	79.6%
IT	154 845 871	75 192 968	-48 255 563	21.0%
LT	5 026 705	-934 170	-2 446 887	59.8%
LU	642 645	-374 512	-178 598	66.6%
LV	760 971	-29 821	-673 840	92.2%
MT	215 314	2 274	-103 417	47.5%
NL	18 988 578	-1 556 062	-16 913 855	97.0%
PL	5 555 253	1 001 842	-5 034 022	76.8%
PT	45 631 526	-4 677 400	-16 338 660	39.9%
RO	4 469 727	903 863	-1 337 969	24.9%
SE	8 124 763	-663 564	-6 591 084	88.3%
SI	2 771 726	21 824	-2 427 080	86.9%
SK	1 938 198	-809 337	-301 612	26.7%
UK	30 691 454	-5 158 159	-15 936 755	62.4%
TOTAL	792 584 347	61 879 201	-355 503 670	41.6%

During the years 2008-2010 the Commission was auditing the correct application of the new clearance mechanism through 15 on the spot controls covering 16 paying agencies in 12 Member States covering 89% of the total outstanding debt at the end of financial year 2010. In general, the Member States' authorities have adequate procedures in place to protect the financial interest of the European Union. Deficiencies found during these on the spot controls are being followed up in the context of conformity clearance procedures. The diligence of the Member States' authorities in the recovery of the most significant irregularity cases is assessed in the context of further 9 conformity clearance procedures.

7.3. General trends

This paragraph provides an overview of trends and developments concerning the financial years 2006-2010. The outcomes of the descriptive analysis should be seen as a half-time-result.

Important to reiterate is that a higher number of cases reported not necessarily means that more irregularities are committed. It is even possible that Member States with a higher irregularity rate perform better than Member States with a lower irregularity rate.

7.3.1. Financial Years 2006-2010: impact on the budget

Table AG6 provides an overview of the total expenditure for the financial years 2006–2010 and cases of irregularities and fraud related to this expenditure.

Table AG6: expenditure, irregularity and fraud rates financial years 2006-2010⁶⁶

MS	expenditure ¹⁾	share of total expenditure	cases of irregularities reported					
			irregularities		IrR	of which suspected fraud ²⁾		FrR
	EUR	%	N	EUR		N	EUR	
HU	5 064 363 778	2.03%	148	28 989 384	0.57%	70	21 134 479	0.42%
BG	1 138 611 399	0.46%	147	5 904 924	0.52%	139	5 653 863	0.50%
BE	4 154 289 447	1.67%	64	15 670 589	0.38%	8	1 161 105	0.03%
SK	2 046 049 984	0.82%	66	7 668 900	0.37%	0	0	0.00%
MT	46 918 765	0.02%	8	163 981	0.35%	0	0	0.00%
CY	271 379 756	0.11%	13	834 383	0.31%	2	305 923	0.11%
EE	549 984 431	0.22%	28	1 457 834	0.27%	7	1 217 853	0.22%
LT	1 902 295 709	0.76%	127	3 099 744	0.16%	3	397 435	0.02%
PT	4 902 048 754	1.97%	251	6 533 620	0.13%	3	219 153	0.00%
RO	3 051 868 572	1.22%	104	3 322 855	0.11%	76	2 090 888	0.07%
IT	27 235 740 367	10.93%	355	27 853 681	0.10%	72	9 985 044	0.04%
SI	918 284 024	0.37%	22	824 562	0.09%	7	449 812	0.05%
ES	31 657 845 912	12.70%	728	28 210 577	0.09%	5	144 482	0.00%
CZ	3 519 245 588	1.41%	97	2 537 234	0.07%	2	79 331	0.00%
LV	970 156 673	0.39%	35	648 937	0.07%	2	33 168	0.00%
PL	13 085 492 818	5.25%	289	8 112 559	0.06%	180	5 448 144	0.04%
NL	5 383 780 563	2.16%	99	3 168 873	0.06%	1	12 479	0.00%
IE	8 492 933 457	3.41%	184	3 728 661	0.04%	0	0	0.00%
FR	49 199 970 808	19.74%	345	15 732 408	0.03%	14	3 581 867	0.01%
EL	14 357 002 909	5.76%	49	3 874 047	0.03%	2	67 794	0.00%
DE	31 740 578 991	12.74%	289	8 019 681	0.03%	13	826 785	0.00%
UK	19 167 293 488	7.69%	89	3 678 277	0.02%	1	14 140	0.00%
SE	4 664 974 219	1.87%	25	628 029	0.01%	1	32 605	0.00%
DK	5 593 347 683	2.24%	28	554 729	0.01%	1	12 187	0.00%
FI	4 078 122 804	1.64%	18	349 002	0.01%	0	0	0.00%
AT	5 808 182 103	2.33%	35	496 616	0.01%	2	28 558	0.00%
LU	237 161 690	0.10%	1	14 132	0.01%	0	0	0.00%
TOTAL	249 237 924 695	100.00%	3 644	182 078 219	0.07%	611	52 897 096	0.02%

¹⁾ expenditures are based on CATS-data
²⁾ Bulgaria, Hungary and Poland reported respectively 6, 1 and 3 cases of "established fraud"
IMS Module 1848 download: 24 January 2011

Member States are ranked on basis of their irregularity rate (IrR). The irregularity rate is the relation between irregular amount and total expenditure⁶⁷. The irregularity rate can be found in the fourth column of the right hand side.

⁶⁶ Table AG6 shows irregularities notified for the financial years 2006-2010 only, whereas table AG1 provides an overview of irregularities reported in 2010 but concerning financial years 1990-2010.

⁶⁷ See equation 4-1 in paragraph 4.2.1.

The total expenditure in the period 2006-2010 was approximately EUR 249 billion. France had the highest expenditure. It spent about EUR 49 billion which is almost 20% of the total agricultural budget.

Member States reported 3 644 cases with a total amount affected of more than EUR 182 million, which implies an EU-27 irregularity rate of 0.07%. Spain reported with 728 cases the highest number of irregularities, followed by Italy and France with respectively 355 and 345 cases.

Hungary reported the highest amount affected by irregularities. Almost EUR 29 million was affected by irregularities which concern the sector cereals⁶⁸. As already indicated, these cases should be considered separately. Leaving aside the Hungarian cases, this would mean that Spain and Italy have the highest amounts affected by irregularities with about EUR 28 million, which is in line with figures of previous years.

Hungary has the highest irregularity rate (0.57%) now it reported the highest amounts affected by irregularities (EUR 29 million) and has a relatively low expenditure. Bulgaria has the second highest irregularity rate: 0.52%. Luxembourg has the lowest IrR (0.01%), thus, can be found at the bottom of the list.

Big spenders as France, Germany, United Kingdom, Greece and Poland have an irregularity rate that is below the EU-27 average of 0.07%. The other two big spenders, Spain and Italy, have an irregularity rate above the EU-27 average, respectively 0.09% and 0.10%.

The 3 Scandinavian countries (Denmark, Finland and Sweden) have a comparable and low irregularity rate: 0.01%. The expenditure in these 3 Member States is in amounts more or less comparable with the Portuguese expenditure. The Portuguese irregularity rate differs however strongly: 0.14%. Portugal reported 251 cases and a total amount affected of about EUR 6.5 million as the 3 Scandinavian countries together reported 61 cases with a total amount affected of about EUR 1.5 million.

Remarkable is that the majority of the younger Member States can be found on top of the table and that the majority of older Member States can be found in the tail.

Remarkable is also that Member States with a relatively low expenditure have a rather high irregularity rate. This could indicate a higher audit rate, more tailor-made audit strategies and plans, better functioning irregularity reporting system and so

⁶⁸

The irregularity concerns "intervention measures in the form of public storage" as described in Reg. 884/2006. Cereals were stored on date A. On date B appeared that x tonnes were missing due to theft and deterioration. The average market price for the standard quality in Hungary was on date B significantly higher than the basic intervention price. In such cases, Reg. 884/2006 requires that the market price has to be reimbursed, increased by 5%. The differences between the amounts collected by applying the market price and the amounts booked to the EAGF by applying the intervention price has then to be credited to the EAGF at the end of the accounting year among the other elements of credit. Hungary included the costs of intervention, which also had to be paid back, in the amount to recover. The total amount to recover (EUR 25 million), therefore, is substantially higher than the total EAGF-expenditure and led to a different calculation of the Hungarian irregularity rate. The latter explains the rather high Hungarian irregularity rate which cannot be compared with the rates of the other Member States.

forth. A similar trend can be seen within Member States. Provinces, regions or departments with a relatively low expenditure have in general a higher irregularity rate than the regions with a higher expenditure.

Chart AG7: expenditure and irregularity rate

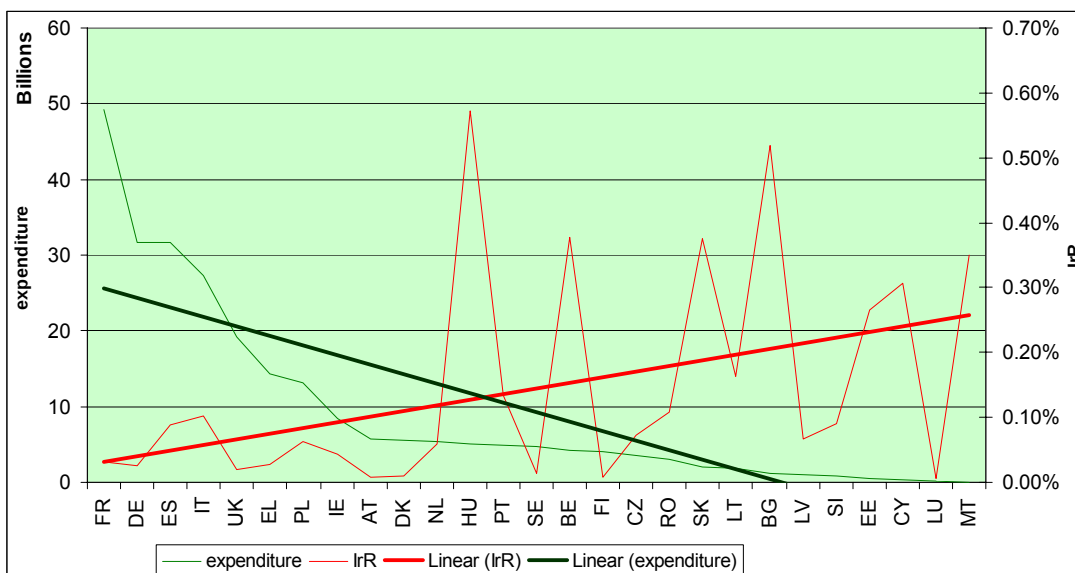


Chart AG7 brings per Member State together the expenditures and irregularity rates. The green lines concern the expenditures as the red lines concern the irregularity rates.

Member States are ranked on basis of the total expenditure. France, the Member State with the highest expenditure, can be found on the left hand side while Malta, as the smallest spender, can be found on the right hand side. The precise figures can be found in table AG6.

The thin red line indicates the irregularity rate. The thick red line is a linear trend line which shows an increase of the irregularity rate from left to right. Member States with a higher expenditure have, in general, a lower irregularity rate than Member States with a lower expenditure. In last years Art. 325 Report was already mentioned that this trend can also be spotted in Member States. Regions that have a relatively low expenditure report more cases than regions with a higher expenditure. Last years' report contained examples for Austria, Spain and France.

It is however good to recall that the above shown figures should be seen as half-time-result. Audits are still ongoing, therefore, more irregularities will be reported which could turn the figures completely.

7.3.2. Financial Years 2006-2010: cases classified as suspected fraud

Table AG8 is an extract from table AG6 and contains only the figures concerning suspected fraud. Member States are ranked on basis of the fraud rate⁶⁹. Bulgaria has the highest fraud rate, therefore, can be found on top of the table.

Table AG8: fraud rates

MS	Expenditure	of which suspected fraud		FrR
	EUR	N	EUR	%
BG	1 138 611 399	139	5 653 863	0.50%
HU	5 064 363 778	70	21 134 479	0.42%
EE	549 984 431	7	1 217 853	0.22%
CY	271 379 756	2	305 923	0.11%
RO	3 051 868 572	76	2 090 888	0.07%
SI	918 284 024	7	449 812	0.05%
PL	13 085 492 818	180	5 448 144	0.04%
IT	27 235 740 367	72	9 985 044	0.04%
BE	4 154 289 447	8	1 161 105	0.03%
LT	1 902 295 709	3	397 435	0.02%
FR	49 199 970 808	14	3 581 867	0.01%
PT	4 902 048 754	3	219 153	0.00%
LV	970 156 673	2	33 168	0.00%
DE	31 740 578 991	13	826 785	0.00%
CZ	3 519 245 588	2	79 331	0.00%
SE	4 664 974 219	1	32 605	0.00%
AT	5 808 182 103	2	28 558	0.00%
EL	14 357 002 909	2	67 794	0.00%
ES	31 657 845 912	5	144 482	0.00%
NL	5 383 780 563	1	12 479	0.00%
DK	5 593 347 683	1	12 187	0.00%
UK	19 167 293 488	1	14 140	0.00%
IE	8 492 933 457	0	0	0.00%
FI	4 078 122 804	0	0	0.00%
SK	2 046 049 984	0	0	0.00%
LU	237 161 690	0	0	0.00%
MT	46 918 765	0	0	0.00%
TOTAL	249 237 924 695	611	52 897 096	0.02%

¹⁾ expenditures are based on CATS-data.

³⁾ BG, HU and PL reported respectively 6, 1 and 3 cases of "established fraud"

IMS Module 1848 download: 24 January 2011

Member States classified 611 cases (out of 3 644 cases) as "suspected fraud". The total financial impact of these cases is about EUR 53 million which leads to an EU-27 fraud rate of 0.02%.

Eye-catching is that the vast majority of the cases is reported by young Member States. Almost 80% (488 cases) of the suspected fraud cases is reported by them. If also is taken into account that Italy is responsible for another 12% of the cases (72

⁶⁹

The Fraud Rate (FrR) is defined by equation 4-2 in paragraph 4.2.2.

cases), then one can only conclude that almost no fraud is reported by old Member States. The United Kingdom, for instance, reported for a period of 5 years, with a total expenditure of more than EUR 19 billion, 1 suspected fraud case with a total amount affected of about EUR 14 140. Other big spenders that have an extremely low fraud rate are Greece, Spain, Germany and France. Table AG9 provides a more simple and clear view on the number of suspected fraud cases reported, the expenditure, the amount affected by the suspected fraud cases and the fraud rate. Bear in mind that it concerns a period of 5 years: 2006-2010.

Table AG9: fraud cases big spenders

	UK	EL	ES	DE	FR
fraud cases	1	2	5	13	14
expenditure	19 167 293 488	14 357 002 909	31 657 845 912	31 740 578 991	49 199 970 808
fraudulent amount	14 140	67 794	144 485	826 785	3 581 867
fraud rate (6 digits)	0.000074%	0.000472%	0.000456%	0.002605%	0.007280%
fraud rate (1 digit)	0.0%	0.0%	0.0%	0.0%	0.0%

The number of fraud cases and the amounts affected are so low that the fraud rate needs to be indicated in 6 digits behind the dot. However, a level of 3, 4 or more digits behind the dot is not desirable now it would give the false impression of a very high level of precision. Presenting the fraud rates with only 1 digit would mean that the fraud rates for all these Member States would be zero.

7.3.3. Financial Years 2006-2010: overview per budget post

Table AG10 provides an overview per budget post of the expenditures, irregularities and suspected frauds cases. The totals are the same as in table AG6.

Table AG10: irregularity and fraud rates

budget post	description	expenditure	cases of irregularities reported					
			irregular		IrR	of which suspected fraud ²⁾		FrR
			N	Eur	%	N	EUR	%
B-050201	Cereals	419 316 004	124	25 939 210	6.19%	68	20 861 401	4.98%
B-050304	Ancillary direct aids	3 438 816	3	43 320	1.26%	0	0	0.00%
B-110203	Fisheries programme for the outermost regions	13 184 824	3	123 889	0.94%	0	0	0.00%
B-050205	Sugar	2 601 941 881	35	19 290 320	0.74%	3	397 435	0.02%
B-050215	Pigmeat, eggs and poultry, bee-keeping and other	849 960 032	103	4 549 367	0.54%	3	139 571	0.02%
B-050401	Rural development - period 2000-2006 (EAGF)	6 102 696 333	669	29 085 618	0.48%	49	9 518 014	0.16%
B-050208	Fruit and vegetables	5 342 841 406	250	22 531 405	0.42%	8	1 765 241	0.03%
B-050211	Other plant products/measures	1 758 711 434	61	5 423 831	0.31%	3	880 418	0.05%
B-050210	Promotion	224 412 795	24	681 821	0.30%	1	80 176	0.04%
B-050404	Rural development - transitional instrument new MS	4 998 889 741	356	11 216 844	0.22%	147	3 743 218	0.07%
B-050203	Non-Annex 1 products	718 562 284	26	981 859	0.14%	0	0	0.00%
B-050209	Products of the wine-growing sector	6 334 333 616	230	7 899 097	0.12%	10	449 896	0.01%
B-050213	Beef and veal	484 328 884	29	573 276	0.12%	1	10 712	0.00%
B-050212	Milk and milk products	2 534 045 877	81	2 977 124	0.12%	2	560 383	0.02%
B-050405	Rural development - period 2007-2013 (EAFRD)	27 142 306 205	480	21 028 058	0.08%	193	9 411 859	0.03%
B-050206	Olive oil	235 345 250	6	117 875	0.05%	0	0	0.00%
B-050303	Additional amounts of aid	1 798 058 470	29	796 941	0.04%	1	16 976	0.00%
B-050301	Decoupled direct aids	142 473 560 126	1 140	28 721 449	0.02%	246	8 490 649	0.01%
B-050302	Other direct aid	40 938 294 479	234	7 429 572	0.02%	16	1 663 315	0.00%
B-050204	Food programmes	1 215 482 698	7	189 317	0.02%	0	0	0.00%
B-050207	Textile plants	1 025 965 715	3	93 267	0.01%	0	0	0.00%
B-050216	Sugar restructuring fund	5 174 545 677	1	19 822	0.00%	1	19 822	0.00%
B-170405	Food safety, animal health/welfare and plant health - other ³⁾		1	87 775		0	0	0.00%
B-110201	Intervention in fishery products	11 950 824			0.00%			0.00%
other		?	?	?	?	?	?	?
TOTAL		249 237 924 695	3 644	182 078 219	0.07%	611	52 897 096	0.02%

¹⁾ expenditures are based on CATS-data
²⁾ Bulgaria, Hungary and Poland reported respectively 6, 1 and 3 cases of "established fraud"
³⁾ Ireland reported 1 case for budget post B-170405 although no expenditure was made for this post
IMS Module 1848 download: 24 January 2011

The budget posts are ranked on basis of the irregularity rate (IrR). The budget post with the highest irregularity rate can be found on the top of the list, which is budget post B-050201 for cereals. The high rates for cereals are mainly caused by Hungary. Hungary reported 104 cases, of which 67 cases were classified as suspected fraud and 1 case as established fraud. It was already mentioned in paragraph 7.2.2. that the Hungarian cases concern a special situation and should be considered separately to avoid that these cases would distort the general picture.

The two budget posts with the highest expenditures, e.g. decoupled direct aids (B-050301) and other direct aid (B-050302), can be found at the tail of the list now they have an irregularity rate of 0.02% and a fraud rate smaller than 0.01%. These two sectors together cover more than 70% of the total expenditure which implies that these rates have a high and decreasing impact on the overall rates.

Table AG11 provides a simple overview how often a budget post occurred in an irregularity and what the financial impact was. Only the budget posts with a relatively high number and/or amounts affected are displayed.

Table AG11: irregularities per budget post

budget post	description	irregularities	
		N	EUR
B-050301	Decoupled direct aids	1 140	28 721 449
B-050401	Rural development - period 2000 - 2006 (EAGF)	669	29 085 618
B-050405	Rural development - period 2007 - 2013 (EAFRD)	480	21 028 058
B-050404	Rural development - transitional instrument new MS	356	11 216 844
B-050208	Fruits and vegetables	250	22 531 405
B-050302	Other direct aids	234	7 429 572
B-050209	Products of the wine-growing sector	230	7 899 097
B-050201	Cereals	124	25 939 210
B-050215	Pigmeat, eggs and poultry, bee-keeping and other	103	4 549 367
B-050212	Milk and milk products	81	2 977 124
B-050211	Other plant products/measures	61	5 423 831
B-050205	Sugar	35	19 290 320

Clear is that a rather high number of cases (1 505) is reported for expenditures concerning rural development measures in case the 3 budget posts for rural development are taken together (B-050401, B-050404 and B-050405).

The following types of irregularities occurred most frequently in the sector rural development:

- actions not carried out, not implemented or not finalised 511 cases
- overdeclaration 186 cases
- documents missing or not provided 158 cases
- documents false or falsified 98 cases

Beneficiaries seem to have problems with carrying out all necessary actions to fulfil the conditions under which the support is granted. By not handing over documents or handing over of false or falsified documents, beneficiaries try to cover the irregularity of not carrying out of all necessary actions.

The number of cases and the amounts affected for the sector decoupled direct aids (050301) is also high but that is not surprising since more than 55% of the total agricultural expenditure concerns decoupled direct aids. The types of irregularities that occur most frequently for decoupled direct aids (050301) are:

- incorrect or incomplete request for aid 311 cases
- overdeclaration 268 cases
- other, to be specified by Member States 81 cases

Member States did not indicate the type of irregularity or applied modus operandi for 81 cases.

For decoupled direct aids as well as rural development counts that Member States classify the majority of "overdeclaration-cases" as "suspected fraud". However, it should be noted that the fraud rates for these sectors are low with respectively 0.01% and 0.06% (see table AG10).

7.3.3.1. Financial Years 2006-2010: decoupled direct aids (B-050301)

A sector that "consumed" more than 57% of the total agricultural budget for the financial years 2006-2010, deserves some special attention. Table AG12 provides per Member State an overview of the expenditure and the cases of irregularities and suspected fraud.

Table AG12: decoupled direct aids – irregularity and fraud rates

MS	expenditure	cases of irregularities reported					
		irregular		IrR	of which suspected fraud ¹⁾		FrR
	EUR	N	EUR	%	N	EUR	%
DE	25 538 990 730	127	3 153 332	0.01%	8	475 898	0.00%
FR	22 933 597 122	1	22 133	0.00%			
UK	16 568 014 087	20	212 812	0.00%			
IT	15 434 900 595	146	4 665 828	0.03%	10	1 284 212	0.01%
ES	13 067 266 659	268	6 107 950	0.05%			
EL	7 974 123 624	3	78 422	0.00%			
PL	6 418 336 075	91	2 590 670	0.04%	82	2 350 538	0.04%
IE	6 199 076 815	148	3 076 016	0.05%			
DK	4 558 261 429	13	219 428	0.00%			
SE	3 151 633 474	3	83 034	0.00%			
HU	2 857 301 029	13	263 468	0.01%			
AT	2 826 025 651	25	378 476	0.01%	1	17 770	0.00%
NL	2 329 228 720	41	1 190 946	0.05%	1	12 479	0.00%
BE	2 134 198 908	14	265 704	0.01%	1	12 654	0.00%
CZ	1 997 753 251	3	45 807	0.00%	1	9 705	0.00%
FI	1 971 098 575	5	93 715	0.00%			
PT	1 669 428 504	10	186 127	0.01%			
RO	1 566 190 838	82	2 145 659	0.14%	64	1 823 277	0.12%
SK	831 630 308	6	528 159	0.06%			
LT	808 751 847	38	734 451	0.09%			
BG	646 851 219	74	2 355 074	0.36%	74	2 355 074	0.36%
LV	313 115 876	1	12 467	0.00%			
EE	214 669 459						
SI	182 043 553	8	311 771	0.17%	4	149 042	0.08%
LU	169 800 451						
CY	103 578 293						
MT	7 693 036						
total	142 473 560 126	1 140	28 721 449	0.02%	246	8 490 649	0.01%

1) Bulgaria, Hungary and Poland reported respectively 6, 1 and 3 cases of "established fraud"

IMS Module 1848 download: 24 January 2011

Member States reported 1 140 cases of irregularities with a total amount affected of almost EUR 29 million. The EU-27 irregularity rate is approximately 0.02%.

Spain reported the highest number and the highest amounts: 268 cases and a total amount affected of more than EUR 6.1 million.

As already mentioned, the irregularity rate for the sector decoupled direct aids is rather low. It differs however strongly per Member State. A comparison between the

top five spenders makes that clear. France reported 1 case as Spain reported 268 cases. Remarkable is also that only 2 of the 5 big spenders reported suspected fraud. A comparison between big spenders and small spenders is also interesting. Take for instance France and Bulgaria. The following table gives an interesting overview.

	France	Bulgaria
expenditure in EUR	22 933 957 122	646 851 219
irregular in EUR	22 133	2 355 074
Irregularity Rate (IrR)	0.00%	0.36%

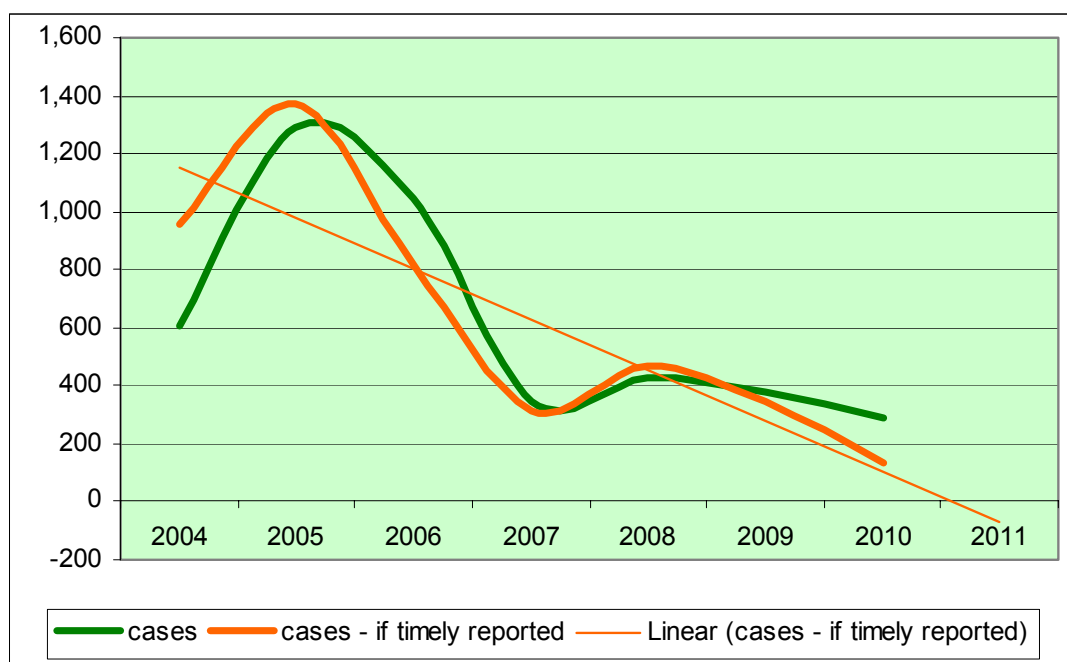
7.4. Specific analysis

Last year's Commission Staff Working Paper “Statistical Evaluation of Irregularities” introduced key-figures as Irregularity Rate (IrR), Fraud Rate (FrR), Fraud Amount Level and Fraud Frequency Level (FFL)⁷⁰.

To present reliable rates and levels, a time frame should be used that can be considered, from an irregularity reporting point of view, as "finalised". The financial year 2010 cannot yet be used to calculate rates and levels as a large number of irregularities concerning the financial year 2010 will be reported in the coming years. The same counts for the period 2006-2010.

The financial years 2004-2005 can be considered as finalised⁷¹. Member States had set up audit strategies and audit plans and performed audits on basis of these strategies and plans. Audit findings have become definitive and irregularities have been reported. The course of the number of cases of irregularities reported concerning the expenditures of the financial years 2004-2005 enforces the assumption that all or almost all cases have been reported for the financial years 2004-2005. Chart AG13⁷² demonstrates the course of the reported cases for the expenditure of the financial years 2004-2005.

Chart AG13: course of irregularities – FY2004-2005



The green line indicates the real course of the number of cases reported. Timely reporting is still a problem for a rather large number of Member States, this counts especially for the past such as the financial years 2004-2005. The orange line

⁷⁰ IrR, FrR, FAL and FLL are explained in paragraphs 4.2.1 and 4.2.2.

⁷¹ In next years report, the financial year 2006 will be used to determine the different rates and levels.

⁷² Annex 14 contains similar charts for 6 specific sectors.

indicates the course in case all cases were reported timely. Both lines show a clear peak in the number of cases reported for the year 2005 and then a decrease for the period 2006-2007. The rather strong downfall for 2007 can be explained by the introduction of a new threshold under which no irregularities have to be reported. Reg. 1848/2006 introduced a new threshold of EUR 10,000. The old threshold was EUR 4 000. A revival can be spotted for the years 2008-2009. This revival can be explained by the coming operational of Module 1848. The new reporting module made it far more easier to process communications by a far larger number of users which led to an increase of the number of cases reported. From 2008 onwards, a decrease can be seen from 11% via 8% to 3%. It can be expected that the number of cases will decrease to zero or almost zero in 2011. The thin orange line is a linear trend line and indicates the downfall to zero. In other words, it can be assumed that almost all cases of irregularities have been reported for the financial years 2004-2005.

7.4.1. Financial Years 2004-2005: expenditures and cases reported per Member State

Table AG15 provides per Member State an overview of the expenditures, cases of irregularities and amounts affected by irregularities. The Member State with the highest expenditure has been put on top of the table.

Table AG15: irregularity and fraud rates

MS	expenditure ¹⁾	share of total expenditure	cases of irregularities reported					
			irregularities		IrR	of which suspected fraud ²⁾		FrR
			N	EUR		N	EUR	
FR	19 640 472 904	21.60%	736	14 350 179	0.07%	6	1 237 975	0.01%
ES	12 951 237 879	14.24%	942	43 739 857	0.34%	8	1 091 715	0.01%
DE	12 104 623 812	13.31%	399	7 295 887	0.06%	2	57 725	0.00%
IT	11 103 761 410	12.21%	480	86 258 218	0.78%	164	54 342 356	0.49%
UK	8 312 656 177	9.14%	246	6 968 243	0.08%	1	68 140	0.00%
EL	5 537 481 907	6.09%	123	3 556 837	0.06%	11	1 221 746	0.02%
IE	3 631 871 464	3.99%	129	1 276 319	0.04%			
NL	2 508 105 731	2.76%	188	6 805 152	0.27%	3	59 607	0.00%
DK	2 437 065 641	2.68%	71	15 418 705	0.63%			
AT	2 367 167 168	2.60%	62	697 245	0.03%	1	33 050	0.00%
BE	2 031 972 022	2.23%	81	4 097 473	0.20%	3	2 679 031	0.13%
SE	1 812 513 725	1.99%	119	1 289 529	0.07%			
FI	1 774 505 513	1.95%	23	336 453	0.02%			
PT	1 752 265 206	1.93%	439	7 777 051	0.44%	3	59 740	0.00%
PL	1 352 716 064	1.49%	161	3 800 765	0.28%	137	2 782 815	0.21%
HU	410 897 913	0.45%	8	264 103	0.06%			
CZ	384 116 076	0.42%	20	562 835	0.15%	1	16 240	0.00%
LT	230 564 121	0.25%	58	858 223	0.37%			
SK	197 900 243	0.22%	45	3 882 073	1.96%			
SI	106 734 616	0.12%	10	3 115 959	2.92%			
LV	96 223 202	0.11%	11	152 710	0.16%	5	54 601	0.06%
LU	82 875 684	0.09%	2	17 571	0.02%			
EE	66 126 002	0.07%	39	1 000 280	1.51%	2	632 920	0.96%
CY	38 853 010	0.04%	10	324 494	0.84%	2	274 675	0.71%
MT	5 893 827	0.01%						
total	90 938 601 314	100.00%	4 402	213 846 159	0.24%	349	64 426 662	0.07%

¹⁾ expenditures 2004 - 2005 are based on CATS-data.

²⁾ Germany, Italy and Poland reported respectively 1, 2 and 5 cases of "established fraud" with a total amount affected of about €185,000

IMS Module 1848 download: 24 January 2011

The total expenditure for the financial years 2004-2005 was almost EUR 91 billion. France was the Member State with the highest expenditure. France spent about EUR 19.6 billion which was almost 22% of the total agricultural expenditure (EU-25).

Member States reported 4 402 cases of irregularities. The total amount affected by these irregularities is almost EUR 214 million, which implies an irregularity rate of 0.24% (IrR).

Member States classified 349 cases out of 4 402 as suspected fraud. The total amount affected by these suspected fraud cases is almost EUR 65 million. The fraud rate is 0.07% (FrR).

Striking are the sometimes huge differences between Member States. Spain and Germany, for instance, have in amounts a comparable expenditure, EUR 12.9 billion and EUR 12.1 billion respectively. Spain reported 942 cases as Germany reported 399. A same difference can be seen for the amounts affected. Spain reported a total amount affected by irregularities of about EUR 43.7 million as Germany reported EUR 7.3 million.

A similar comparison can be made between Finland and Portugal. Both spent approximately 1.9% of the total agricultural budget. Portugal reported 439 cases with a total amount affected of almost EUR 7.8 million as Finland reported 23 cases with a total amount affected of about EUR 0.3 million. As stated, the differences are huge. One could argue that Portugal and Finland have different types of expenditures due to, for instance, their natural location. However, a huge difference can also be spotted between Finland and Sweden. Sweden spent approximately 2.0% of the budget and reported 119 cases with a total amount affected of about EUR 1.3 million. Table AG16 provides an overview of these 3 Member States.

Table AG16: detailed overview of Sweden, Finland and Portugal

Member State	expenditure	irregular		IrR
	EUR	N	EUR	%
SE	1 812 513 725	119	1 289 529	0.07%
FI	1 774 505 513	23	336 453	0.02%
PT	1 752 265 206	439	7 777 051	0.44%

Eye-catching are also the figures of the top three (France, Spain and Germany) especially where it concerns the number of suspected fraud cases and fraud rates. These three Member States are together responsible for almost 50% of the total agricultural expenditure. The number of suspected fraud cases and the amounts affected by these cases are remarkably low.

Table AG17: fraud rates top 3 spenders (France, Spain and Germany)

	FR	ES	DE
fraud cases	6	8	2
expenditure	19 640 472 904	12 951 237 879	12 104 623 812
fraudulent amount	1 237 975	1 091 715	57 725
fraud rate	0.01%	0.01%	0.00%

France had an expenditure of almost EUR 20 billion and reported 6 cases of suspected fraud with a total amount affected of EUR 1.2 million. This means a fraud rate of 0.0063% which is almost zero. The same can be seen for Germany. The total

German expenditure was a bit more than EUR 12 billion. Germany reported 2 cases of suspected fraud with a total amount affected of EUR 57,725 which leads to a fraud rate of 0.0005% which is also almost zero. Spain had an expenditure of almost EUR 13 billion and reported 8 cases of suspected fraud. The amounts affected by these suspected fraud cases were almost EUR 1.1 million which implies a fraud rate of 0.0084% which is again almost zero.

In addition has to be mentioned that the French and German suspected fraud cases were reported for only one sector: B-050401 rural development. As already mentioned, a level of detail of 3, 4 or more digits behind the dot is not desirable. It gives the false impression of a very high level of precision. The rates should be indicated with only 1 digit behind the dot. This would mean that the fraud rates for these Member States are zero. A fraud rate of zero means that none of the irregularities was committed intentionally or deliberately.

Some other eye-catching facts in bullet points:

- Spain reported the highest number of cases: 942 cases;
- Italy reported the highest amounts affected by irregularities: EUR 86 million;
- Italy reported the highest number of suspected fraud cases: 164 cases;
- Slovenia has the highest irregularity rate: 2.92%;
- Estonia has the highest fraud rate: 0.96%;
- no suspicion of fraud in 10 Member States;
- 5 Member States have a fraud rate of 0.1% or higher;
- EU-25 irregularity rate (IrR) = 0.24%;
- EU-25 fraud rate (FrR) = 0.07%.

7.4.2. Financial Years 2004-2005: expenditures and cases reported per budget post

Table AG18 provides per budget post an overview of the expenditures, irregularities and suspected frauds. The budget posts are ranked on basis of the expenditure. The budget post with the highest expenditure can be found on the top of the list. It concerns budget post B-050203 direct payments for arable crops.

Table AG18: irregularity and fraud rates

budget post	description	expenditure ¹⁾	share of total	cases of irregularities reported					
				irregular		IrR	f which suspected fraud		FrR
		EUR	%	N	EUR		N	EUR	
B-050203	direct payments for arable crops	34 140 762 401	38%	454	16 381 553	0.05%	37	11 930 736	0.03%
B-050302	beef and veal	15 936 024 995	18%	402	23 224 672	0.15%	29	8 756 371	0.05%
B-050401	rural development - EAGF	9 684 830 249	11%	1 687	45 587 559	0.47%	74	7 362 426	0.08%
B-050301	milk and milk products	5 574 260 654	6%	234	6 583 427	0.12%	8	708 521	0.01%
B-050206	olive oil	4 682 317 951	5%	97	5 559 354	0.12%	3	863 710	0.02%
B-050208	fruits and vegetables	3 325 249 841	4%	297	69 289 950	2.08%	26	28 195 312	0.85%
B-050303	sheepmeat and goatmeat	3 315 963 834	4%	86	1 792 984	0.05%	21	521 154	0.02%
B-050205	sugar	2 981 376 843	3%	89	19 408 055	0.65%	1	2 670 914	0.09%
B-050209	products of the wine-growing sector	2 219 244 751	2%	637	12 064 559	0.54%	8	374 386	0.02%
B-050210	tobacco	1 848 927 988	2%	12	191 650	0.01%	0	0	0.00%
B-050207	textile plants	1 823 986 897	2%	11	229 727	0.01%	0	0	0.00%
B-050212	direct aids of a horizontal nature	1 455 925 971	2%	117	2 010 801	0.14%	108	1 869 171	0.13%
B-050211	other plant products/measures	1 316 620 234	1%	73	3 990 131	0.30%	1	312 177	0.02%
B-050404	transitional instrument new MS	1 090 794 089	1%	255	7 454 030	0.68%	133	2 726 940	0.25%
B-050202	rice	615 907 062	1%	2	21 182	0.00%	0	0	0.00%
B-050201	cereals	466 634 876	1%	72	1 769 064	0.38%	0	0	0.00%
B-050304	pigmeat, eggs and poultry, etc.	322 884 324	0%	74	1 085 870	0.34%	3	46 949	0.01%
B-050204	food programmes	262 056 413	0%	6	409 876	0.16%	4	42 042	0.02%
B-050399	recoveries	-21 156 824	0%	0	0	0.00%	0	0	0.00%
blank	no information provided by Member States			21	702 019		1	200 000	
other		~	~	~	~	~	~	~	~
total		90 938 601 314		4 402	213 846 159	0.24%	349	64 612 337	0.07%

¹⁾ expenditures 2004 - 2005 are based on CATS-data.
²⁾ Germany, Italy and Poland reported respectively 1, 2 and 5 cases of "established fraud" with a total amount affected of about €185,000
IMS Module 1848 download: 24 January 2011

The budget posts with a rather low amount and no irregularities have been left out to avoid that the table would become less readable. These budget posts are summarized by "other". The column budget post contains also the term blank. As indicated by the description, it concerns 21 cases of irregularities for which Member States did not indicate the budget post affected by the irregularity. These cases were reported by Cyprus (1x), Germany (11x), Greece (1x), Italy (1x), Slovakia (2x) and the United Kingdom (5x). The Italian case was classified as suspected fraud.

The total expenditure for post B-050203 was more than EUR 34 billion, which is about 38% of the total expenditure. Member States reported in 454 cases that the irregularity concerned post B-050203. In 37 cases, the irregularity was classified as suspected fraud. The irregularity rate and fraud rate are 0.05% and 0.03% respectively.

Sectors with a rather high irregularity and/or fraud rate are:

budget post	description	expenditure	IrR	FrR
B-050208	fruits and vegetables	EUR 3.3 billion	2.08%	0.85%
B-050404	transitional instrument new MS	EUR 1.1 billion	0.68%	0.25%
B-050205	sugar	EUR 3.0 billion	0.65%	0.09%
B-050209	products of the wine growing sector	EUR 2.2 billion	0.54%	0.02%

Especially sector B-050208 has a rather high irregularity and fraud rate. The next paragraph will have the focus on this sector. After that, the focus will be on the top five budget posts. The total expenditure for these five budget posts covers more than 75% of the budget while the total expenditure per post is more than EUR 4 billion. It concerns:

budget post	description	expenditure	IrR	FrR
B-050203	direct payment for arable crops	EUR 34.1 billion	0.05%	0.03%
B-050302	beef and veal	EUR 15.9 billion	0.15%	0.05%
B-0504xx	rural development	EUR 9.7 billion	0.47%	0.08%
B-050301	milk and milk products	EUR 5.6 billion	0.12%	0.01%
B-050206	olive oil	EUR 4.7 billion	0.12%	0.02%

Starting point will be a table in which elements as expenditure, irregular amount, irregularity rate, cases of irregularity, fraudulent amount, fraud rate, cases of suspected fraud and years in which the cases of irregularities were reported can be found.

Per budget post will be indicated if the reporting of irregularities can be considered as finalised in order to use the different rates as definitive figures. This indication will be on basis of the course of the number of reported cases taking also into account the non-timely reporting by some Member States. This course will be visualised by a chart that is indicating the course of the cases over the years on basis of the reporting by Member States (green line) and the course in case Member States would have reported timely (orange line). These charts can be found in annex 15 except the chart for the sector B050208 fruits and vegetables. That chart is directly discussed in paragraph 7.4.2. in order to explain that chart more in depth.

All charts will show a strong decrease of the number of cases in 2007 and an increase in 2008. This phenomenon can be explained by:

- Reg. 1848/2006 introduced in 2007 a higher threshold under which no cases of irregularities have to be reported. The threshold increased from EUR 4 000 to EUR 10 000;
- Module 1848 became operational in 2008. Module 1848 is a web based application with a cascaded reporting structure which led to an increase of the number of users of the irregularity reporting system from less than 50 to more than 1 000 in the period 2008-2010.

In last years Art. 325 report, values as IFL (Irregularity Frequency Level), FAL (Fraud Amount Level) and FFL (Fraud Frequency Level) were introduced. These values will not be displayed now the added value will be rather low: only Italy and every now and then one or two other Member States reported suspected fraud cases.

7.4.2.1. Financial Years 2004-2005: fruits and vegetables (B-050208)

The total expenditure for budget post B-050208 was about EUR 3.3 billion. Member States reported 297 cases of irregularities with a total amount affected of about EUR 69 million. 4 Member States classified 26 cases as suspected fraud.

Table AG19: irregularity and fraud rates

Member State	expenditure ¹⁾	cases of irregularities reported												
		irregular		IrR	of which suspected fraud		FrR	cases of irregularity reported in year						
	EUR	N	EUR	%	N	EUR	%	2004	2005	2006	2007	2008	2009	2010
AT	6 758 429	2	67 817	1.00%					1				1	
BE	77 130 369	2	139 578	0.18%									1	
CY	1 868 512	1	266 798	14.28%	1	266 798	14.28%							
CZ	1 458 426	0	0	0.00%										
DE	48 601 023	5	125 681	0.26%					1	2	1			1
DK	4 903 692	2	227 910	4.65%						1			1	
EE														
EL	413 297 071	4	1 140 020	0.28%	1	1 108 875	0.27%		1		1			1
ES	948 584 962	172	13 772 532	1.45%				2	12	35	17	16	89	1
FI	360 696	0	0	0.00%										
FR	532 109 745	16	2 612 684	0.49%						1	2	11	2	
HU	4 948 386	2	162 107	3.28%					1			1		
IE	11 230 415	0	0	0.00%										
IT	957 050 643	41	45 266 867	4.73%	23	26 803 757	2.80%		6		11	4	5	15
LT														
LU	722	0	0	0.00%										
LV														
MT	340 416	0	0	0.00%										
NL	132 795 421	6	602 569	0.45%					2	1	2	1		
PL	6 925 736	0	0	0.00%										
PT	103 880 779	14	272 482	0.26%	1	15 881	0.02%	1	2	6	2	1	1	
SE	6 549 131	0	0	0.00%										
SI	115 112	0	0	0.00%										
SK	1 058 648	0	0	0.00%										
UK	65 281 508	30	4 632 904	7.10%				7	7	11	3	2		
total	3 325 249 841	297	69 289 950	2.08%	26	28 195 312	0.85%	10	33	57	39	39	98	21

¹⁾ expenditures 2004 - 2005 are based on CATS-data.
IMS Module 1848 download: 24 January 2011

¹⁾ expenditures 2004 - 2005 are based on CATS-data.
IMS Module 1848 download: 24 January 2011

The right hand part of the table "cases of irregularities reported in year" provides an overview of the years in which the irregularities have been reported.

Chart AG20: course of cases

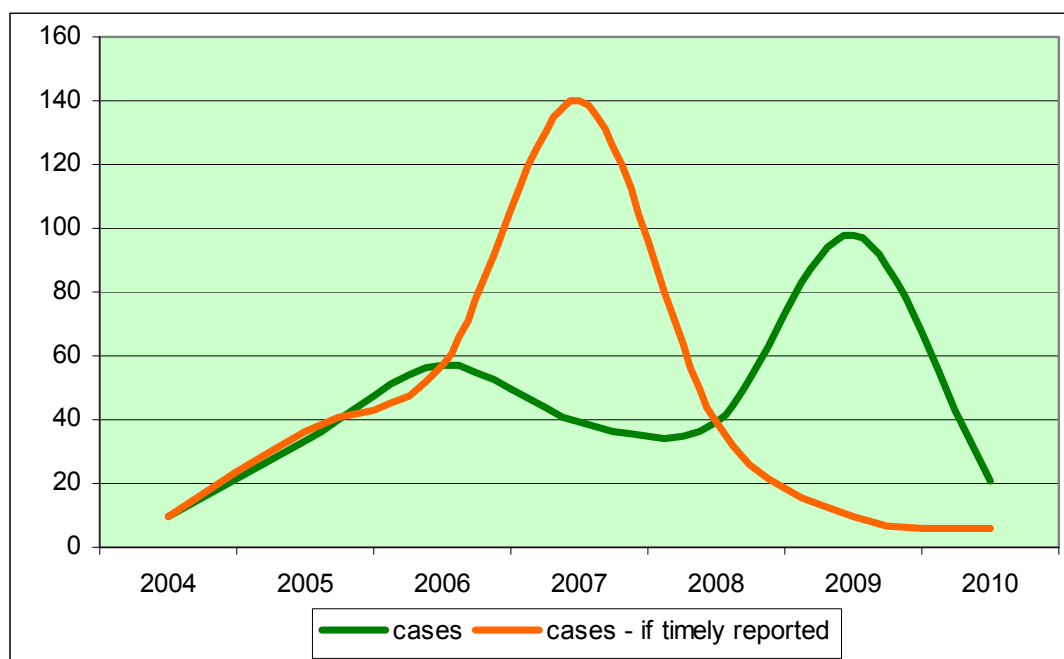


Table AG19 has been visualised in chart AG20. The chart contains two lines. The green line is based on the figures indicated in the right hand side part of table AG19 and reflects reality. The orange line indicates the number of cases per year in case Spain and Italy would have reported their cases timely. The green line shows a peak for 2009. That peak is caused by Spain that reported 89 cases in 2009. 50 of these cases concern FY2004 as 39 cases concern FY2005. The information that led to the discovery of the irregularity was in most cases already available in 2007, therefore, these cases should have been reported in 2007 or 2008. In other words, late reporting caused a peak in 2009 and a trough in 2007 and 2008. Spain reported 1 case in 2010 which should also have been reported in 2007 or 2008. In other words, if Spain would have reported all cases timely, a more normal course of the line would have been the result with a peak in 2007 (see orange line). The same can be said for the 15 Italian cases that were reported in 2010. Almost all these irregularities started and ended in 2004. Only one case started in 2005 and ended in 2007. Based on the PACA⁷³, most of these cases should have been reported in 2005 and 2008. Italy classified all these cases as "suspected fraud" and started penal procedures. The latter explains most likely the late reporting: waiting for a Court (re)action. The chart supports the assumption that the financial years 2004-2005 can be considered as finalised. The orange line makes clear that a timely reporting by Spain and Italy would have meant that the financial years 2004-2005 could have been considered as "finalised" at the end of 2009.

Spain reported the highest number of cases of irregularities: 172. Unfortunately, it described the applied modus operandi in the vast majority of the cases vaguely or in very general terms. For the 89 cases reported in 2009 counts that in 91% of the cases the modus operandi was described as "incumplimiento Art. 15 R(CE) 2111/2003". This implies that the producer organisations did not sent the competent authorities the information as requested by art. 15 Reg. 2111/2003. Spain did not provide any further information which makes it rather difficult to determine what exactly went wrong in these cases.

45 Spanish provinces benefitted from the support measures of budget post B-050208. Irregularities were detected in 18 provinces. Table AG21 provides an overview per province of the expenditure, the irregular amount and the irregularity rate (IrR). Only provinces with an expenditure of EUR 1 million and more are displayed. Provinces are ranked on basis of the expenditure. Province Santa Cruz de Tenerife had with almost EUR 155 million the highest expenditure and can be found on top of the table.

The irregularity rates vary enormously. Allicante had the highest with 11.34% followed by Navarra (5.64%) and Castellon (5.15%).

Eye-catching is that not in all provinces with a high expenditure irregularities occurred. No cases have been reported for provinces as Badajoz and Las Palmas which had an expenditure of EUR 92 million and EUR 43 million respectively.

⁷³

PACA = premier acte de constat administrative ou judiciaire (see art. 2(3) Reg. 1848/2006)

Table AG21: Spain – irregularity and fraud rates by province

Province	expenditure	irregular	IrR	fraudulent	FrR
	EUR	EUR	%	EUR	%
Santa Cruz de Tenerife	154 223 637	537 433	0.35%	0	0.00%
Murcia	124 718 462	1 728 503	1.39%	0	0.00%
Valencia	100 720 825	1 757 219	1.74%	0	0.00%
Badajoz	92 294 253	0	0.00%	0	0.00%
Almeria	67 482 743	408 674	0.61%	0	0.00%
Taaragona	60 481 593	519 277	0.86%	0	0.00%
Alicante	48 291 901	5 478 260	11.34%	0	0.00%
Las Palmas	43 148 646	0	0.00%	0	0.00%
Castellon	42 220 193	2 173 173	5.15%	0	0.00%
Sevilla	41 631 693	194 814	0.47%	0	0.00%
Lleida	34 775 397	31 787	0.09%	0	0.00%
Huelva	23 930 845	232 419	0.97%	0	0.00%
Zaragoza	22 679 727	2 137	0.01%	0	0.00%
Cordoba	11 487 678	0	0.00%	0	0.00%
Malaga	10 639 246	23 194	0.22%	0	0.00%
Navarra	8 816 277	497 057	5.64%	0	0.00%
Caceres	8 723 875	0	0.00%	0	0.00%
Albacete	7 968 887	0	0.00%	0	0.00%
Balearic Islands	7 847 030	124 485	1.59%	0	0.00%
Huesca	6 666 148	42 573	0.64%	0	0.00%
Teruel	5 211 592	0	0.00%	0	0.00%
La Rioja	4 805 562	4 140	0.09%	0	0.00%
Granada	4 556 554	4 866	0.11%	0	0.00%
Cádiz	3 205 027	0	0.00%	0	0.00%
Girona	2 163 430	12 521	0.58%	0	0.00%
Toledo	1 944 199	0	0.00%	0	0.00%
other	7 949 542	0	0.00%	0	0.00%
total	948 584 962	13 772 532	1.45%	0	0.00%

Member States classified 26 cases as suspected fraud, of which Italy was responsible for the vast majority of these cases: 23. Cyprus, Greece and Portugal classified each one case as suspected fraud. For all other Member States counts that none of the cases was classified as suspected fraud. In other words, none of the other cases was committed intentionally. These figures make once again clear that it is not wise to speak about an EU-25 fraud rate. The fraud rate needs to be determined at Member States' level or at an even lower level as for instance regions or provinces.

Italy had expenditures in 92 out of 109 provinces. Irregularities were discovered in 11 provinces. The 23 cases of suspected fraud were discovered in 6 provinces of which 16 in the province Reggio di Calabria. The other suspected fraud cases were discovered in Palermo (3), Messina (1), Cantazaro (1), Crotone (1) and Milano (1).

Above was already mentioned that the Spanish irregularity rates differ rather strongly per province. The same can be said for Italy. The irregularity and fraud rates differ also here rather strongly per province. Table AG22 provides an overview. Only provinces with expenditures above EUR 5.5 million are displayed. The table makes once again clear that it is better to speak about rates of the different provinces than about a national rate now the rates differ rather strongly per province.

Table AG22: Italy – irregularity and fraud rate by province

Province	expenditure	irregular	IrR	fraudulent	FrR
	EUR	EUR	%	EUR	%
Reggio Calabria	118 243 333	17 647 929	14.93%	14 987 951	12.68%
Parma	95 825 142	0	0.00%	0	0.00%
Bologna	95 011 966	0	0.00%	0	0.00%
Salerno	93 189 175	0	0.00%	0	0.00%
Foggia	65 608 025	634 476	0.97%	0	0.00%
Bolzano/Bozen	35 503 411	0	0.00%	0	0.00%
Messina	33 792 612	1 521 766	4.50%	543 034	1.61%
Palermo	31 372 668	13 996 384	44.61%	2 037 975	6.50%
Catania	30 921 905	649 643	2.10%	0	0.00%
Forlì-Cesena	28 131 275	0	0.00%	0	0.00%
Ferrara	26 054 483	4 142	0.02%	0	0.00%
Trento	21 747 905	0	0.00%	0	0.00%
Catanzaro	18 226 397	1 566 680	8.60%	886 143	4.86%
Sondrio	17 739 118	0	0.00%	0	0.00%
Napoli	16 847 857	0	0.00%	0	0.00%
Cosenza	16 846 018	144 284	0.86%	0	0.00%
Viterbo	15 423 051	0	0.00%	0	0.00%
Caserta	15 093 577	0	0.00%	0	0.00%
Piacenza	14 271 192	0	0.00%	0	0.00%
Campobasso	14 222 665	0	0.00%	0	0.00%
Siracusa	13 731 441	752 909	5.48%	0	0.00%
Cuneo	11 347 856	0	0.00%	0	0.00%
Crotone	10 831 639	6 808 425	62.86%	6 808 425	62.86%
Cremona	10 092 697	0	0.00%	0	0.00%
Grosseto	9 020 704	0	0.00%	0	0.00%
Matera	8 897 394	0	0.00%	0	0.00%
Potenza	8 226 856	0	0.00%	0	0.00%
Treviso	7 995 450	0	0.00%	0	0.00%
Verona	6 945 673	0	0.00%	0	0.00%
Latina	6 788 095	0	0.00%	0	0.00%
Livorno	6 424 559	0	0.00%	0	0.00%
Ragusa	6 369 053	0	0.00%	0	0.00%
Brindisi	5 697 695	0	0.00%	0	0.00%
Milano	5 531 145	1 540 229	27.85%	1 540 229	27.85%
other	35 078 611	0	0.00%	0	0.00%
total	957 050 643	45 266 867	4.73%	26 803 757	2.80%

Remarkable is that also here no irregularities have been reported for provinces with rather high expenditures such as Parma, Bologna and Salerno.

7.4.2.2. Financial Years 2004-2005: direct payment for arable crops (B-050203)

The total expenditure for the sector B-050203 is about EUR 34.1 billion, which is about 38% of the total expenditure for the financial years 2004-2005. The EU-25

irregularity rate is 0.05% (IrR) as the fraud rate is 0.03% (FrR). Table AG23 provides an overview.

Table AG23: irregularity and fraud rates

Member State	expenditure ¹⁾	cases of irregularities reported														
		irregular		IrR	of which suspected fraud		FrR	cases of irregularity reported in year								
		N	EUR	%	N	EUR	FrR	2003	2004	2005	2006	2007	2008	2009	2010	
AT	728 525 753	0		0.00%												
BE	337 427 671	7	64 804	0.02%							7					
CY		0														
CZ		0														
DE	7 156 754 511	50	960 494	0.01%						28	16	6				
DK	1 341 586 117	2	26 767	0.00%									2			
EE		0														
EL	1 002 763 677	22	150 737	0.02%	8	52 089	0.01%				14	7			1	
ES	3 654 872 475	4	153 903	0.00%										4		
FI	706 959 773	8	67 593	0.01%						1		6	1			
FR	10 317 107 152	129	1 283 598	0.01%							69	60				
HU		0														
IE	263 166 335	37	284 586	0.11%						1	36					
IT	3 744 981 302	33	12 033 026	0.32%	29	11 877 927	0.32%				1	3	3	1	1	24
LT		20	224 395								8	8	4			
LU	21 633 584	0	0	0.00%												
LV		0														
MT	135 485	0	0	0.00%												
NL	388 170 737	77	463 400	0.12%					1	56	19	1				
PL		0														
PT	359 952 368	18	160 157	0.04%						1		16	1			
SE	891 752 833	26	268 972	0.03%						9	10	6			1	
SI	9 851 808	0	0	0.00%												
SK		0														
UK	3 215 120 823	21	239 121	0.01%						10	10		1			
total	34 140 762 401	454	16 381 553	0.05%	37	11 930 016	0.03%		1	106	190	113	12	5	2	25

¹⁾ expenditures 2004 - 2005 are based on CATS-data.
IMS Module 1848 download; 24 January 2011

⁹⁾ expenditures 2004 - 2005 are based on CATS-data.

IMS Module 1848 download: 24 January 2011

The financial years 2004-2005 can be considered as finalised now 90% of the irregularities were reported before 2007. A large number of Member States reported only a limited number of cases after 2006. Only Italy reported 24 new cases in 2010 but for all these cases count that the PACA⁷⁴ was in 2006. If these cases would have been reported timely, they would all have been reported in 2006. Chart AG24 (see annex 14) visualises that the number of new cases is neglectable from 2007 onwards. In other words, the financial years 2004-2005 can be considered as finalised.

France is the Member State with the highest expenditure. It spent about EUR 10.3 billion which is more than 30% of the total expenditure for this sector. The number of payments was about 2.2 million. France reported 129 cases of irregularities (IFL<0.01%) which were all reported in the period 2005-2006. No new cases were reported after 2006.

Germany had the second highest expenditure. It spent about EUR 7.1 billion which is more than 20% of the total expenditure for this sector. Germany reported 50 cases of irregularities in the period 2004-2006. The total number of payments was more than 1.3 million (IFL<0.01%).

France and Germany were together responsible for more than 50% of the total expenditure for this budget post. For both Member States counts, that none of the cases was classified as suspected fraud.

⁷⁴

PACA = premier acte de constat administrative ou judiciaire (see art. 2(3) Reg. 1848/2006)

Remarkable is that Lithuania reported 20 cases of irregularities with a total amount affected of EUR 224 395. Remarkable now Lithuania had no expenditure for this sector concerning financial years 2004-2005: Lithuania indicated a wrong year in Module 1848. Such mistakes occur more often and are not only made by Lithuania but also by other Member States.

Mistakes as mentioned above make the figures less reliable and imply that the figures need to be read with the necessary caution.

Important to know is the answer on the question how the irregularities were committed. What was the applied *modus operandi*? France is the Member State with the highest expenditure (EUR 10.3 billion) and reported the highest number of cases (129), therefore, a closer look at the French cases could serve the interest of all Member States. Unfortunately, France did not provide any information on the *modus operandi* applied. It only indicated the type of irregularity by selecting a code of the drop down list. France selected in more than half of the cases the code 1500: over- or underproduction. It also did not indicate if it concerned overproduction or underproduction. For almost all other cases selected France the code 1610: other actions not carried out in accordance with Regulation. Also for these cases count that no further explanation was given. Not providing any information on the applied *modus operandi* makes the reporting of the irregularity almost redundant. The data cannot be used for any in depth analysis. The data can only be used for basic statistics as for instance the most frequently occurring types of irregularity as displayed in the table on the right hand side. Table AG25 concerns all 454 cases and not only the French cases.

Table AG25: most frequently occurring MO

type	description	irregular	
		N	EUR
1610	actions not carried out in accordance with regulations, rules, contract conditions, etc.	150	6 593 096
1100	incorrect or incomplete request for aid	94	680 343
1400	documents missing and/or not provided	69	499 098
1500	over or under production	69	640 272
1514	overdeclaration and/or declaration of fictitious product, species and/or land	47	7 400 158

Table AG23 indicates per Member State irregularity and fraud rates. As already mentioned above, these rates need to be interpreted cautiously. France for instance had expenditures in all 96 metropolitan departments. France detected in 54 departments 129 cases of irregularities which implies that no irregularities were detected in 42 departments. The number of cases per department is also rather low. 29 Departments reported 1 case and 11 departments reported 2 cases which makes again clear that only a limited number of departments reported a substantial number of cases. Only 2 departments reported more than 10 cases: Nord and Hérault reported both 12 cases.

In general can be said, that the departments with a relatively low expenditure have a relatively high irregularity rate. Take for instance the departments Hérault and Eure et Loir. Hérault, with a total expenditure of about EUR 19.5 million, reported the highest number (12) and highest amount affected (EUR 135 000) while Eure et Loir, with an expenditure of almost EUR 330 million, reported 1 case with a total amount affected of about EUR 10 000.

Table AG26: irregularity and fraud rates by department

Departements	expenditure	cases of irregularities		IrR	of which fraud		FrR
	EUR	N	EUR	%	N	EUR	%
Eure et Loir	328 813 340	1	10 211	0.00%	0	0	0.00%
Marne	322 216 618	3	28 193	0.01%	0	0	0.00%
Somme	280 471 283	1	5 129	0.00%	0	0	0.00%
Aisne	271 150 003	1	63 009	0.02%	0	0	0.00%
Gers	260 575 734	4	31 871	0.01%	0	0	0.00%
Vienne	252 346 198	2	34 421	0.01%	0	0	0.00%
Yonne	249 884 433	0	0	0.00%	0	0	0.00%
Pas de Calais	241 951 552	2	12 881	0.01%	0	0	0.00%
Aube	240 902 205	1	4 480	0.00%	0	0	0.00%
Seine et Marne	238 606 438	2	10 110	0.00%	0	0	0.00%
Loiret	234 694 677	1	10 354	0.00%	0	0	0.00%
Charente Maritime	231 012 172	4	33 912	0.01%	0	0	0.00%
Oise	230 712 858	0	0	0.00%	0	0	0.00%
Eure	224 248 617	1	9 680	0.00%	0	0	0.00%
Cher	215 442 311	0	0	0.00%	0	0	0.00%
Indre	199 406 550	2	9 474	0.00%	0	0	0.00%
Cote d'Or	196 088 452	0	0	0.00%	0	0	0.00%
Haute Garonne	195 589 432	6	52 860	0.03%	0	0	0.00%
Indre et Loire	190 086 522	1	12 947	0.01%	0	0	0.00%
Cotes d'Armor	188 246 934	4	83 987	0.04%	0	0	0.00%
Seine Maritime	185 856 085	2	19 447	0.01%	0	0	0.00%
Loire et Cher	183 240 624	0	0	0.00%	0	0	0.00%
Deux Sèvres	182 146 796	0	0	0.00%	0	0	0.00%
Vendée	181 647 062	8	79 551	0.04%	0	0	0.00%
Ille et Vilaine	171 459 840	1	15 039	0.01%	0	0	0.00%
Landes	171 412 275	1	6 032	0.00%	0	0	0.00%
Sarthe	160 367 014	0	0	0.00%	0	0	0.00%
Maine et Loire	157 137 161	0	0	0.00%	0	0	0.00%
Nord	155 834 849	12	94 433	0.06%	0	0	0.00%
Charente	154 831 213	4	40 360	0.03%	0	0	0.00%
Gironde	48 481 376	6	34 013	0.07%	0	0	0.00%
Hérault	19 448 161	12	134 366	0.69%	0	0	0.00%
other	3 752 798 371	47	446 838	0.01%	0	0	0.00%
total	10 317 107 152	129	1 283 598	0.01%	0	0	0.00%

Table AG26 provides per department an overview of the expenditure, irregular amount, irregularity rate, fraud rate and number of cases. The departments are ranked on basis of the expenditure. The département Eure et Loir had with almost EUR 330 million the highest expenditure and can be found on top of the table. Only departments with an expenditure above EUR 150 million and the departments Gironde and Hérault are displayed in the table. All other departments are summarised

under "other". The departments with a higher irregularity rate can be found in the south of France.

Map AG27: irregularity rates by department



The map is based on the irregularity rate (IrR) from Table AG26. The higher the irregularity rate, the darker the colour. Departments in which no irregularities were detected are coloured grey/beige. The names of these departments are also not displayed. It concerns 42 departments (44%).

The overall number of (suspected) fraud cases for the sector B-05023 direct payments for arable crops is low. Only 2 Member States reported such cases: Greece and Italy. No suspected fraud occurred in all other 23 Member States. On a total expenditure of more than EUR 34 billion, only 37 cases of irregularities were committed intentionally in 2 Member States. The modus operandi of these cases can be summarised with the keywords "overdeclaration" and "falsified documents". By handing over falsified documents, beneficiaries made it look as if they had more land.

7.4.2.3. Financial Years 2004-2005: beef and veal (B-050302)

The total expenditure for sector B-050302 was almost EUR 16 billion. Member States reported 402 cases of irregularities with a total amount affected of about EUR 23.2 million, which implies an irregularity rate of 0.15% as detailed in Table AG28.

Table AG28: irregularity and fraud rates

Member State	expenditure ¹⁾	cases of irregularities reported				cases of irregularity reported in year							
		irregular	IrR	of which suspected fraud	FrR	2003	2004	2005	2006	2007	2008	2009	2010
	EUR	N	EUR	%	N	EUR	%	N	N	N	N	N	N
AT	489 320 846	22	197 230	0.04%				12	9	1			
BE	484 757 633	35	319 774	0.07%					25	10			
CY	104 304	0											
CZ	514 238	0											
DE	1 984 892 681	62	474 965	0.02%				2	17	41	2		
DK	296 147 495	6	80 875	0.03%					1	4	1		
EE													
EL	188 335 374	0											
ES	1 660 058 567	35	6 652 224	0.40%	1	845 286	0.05%		10	10	7	5	2
FI	181 999 713	3	20 385	0.01%						1	1		1
FR	3 661 915 092	5	79 964	0.00%						1	1	1	1
HU	877 860	0											
IE	1 882 090 680	3	50 369	0.00%					1	2			
IT	1 100 883 717	84	11 012 939	1.00%	28	7 911 085	0.72%			6	5	42	14
LT	7 382 637	0											
LU	25 910 390	0											
LV	8 933	0											
MT	196 916	0											
NL	349 308 102	18	324 552	0.09%					6	6	3	2	1
PL	12 378 016	7	68 539	0.55%						4	3		
PT	370 222 108	13	215 251	0.06%				2	1	2	5	3	
SE	330 813 436	34	316 462	0.10%						29	5		
SI	12 770 562	1	2 839 372	22.23%						1			
SK													
UK	2 895 135 696	74	571 770	0.02%					32	25	17		
total	15 936 024 995	402	23 224 672	0.15%	29	8 756 371	0.05%	4	74	159	66	17	47

¹⁾ expenditures 2004 - 2005 are based on CATS-data.

IMS Module 1848 download: 24 January 2011

The financial years 2004-2005 can be considered as finalised. For most Member States counts, that there is a strong downfall of cases after 2006. Only Italy reported a rather high number in the period 2008-2010. Some of the 2009 and 2010 cases should, on basis of the PACA, already have been reported in 2007. The vast majority concerns "suspected fraud cases" and the impression is that Italy waited with reporting till there was a Court (re-)action. Chart AG29 (see annex 14) visualises the downfall of the number of reported cases over the years.

France had with almost EUR 3.7 billion the highest expenditure. It reported in 5 consecutive years 5 cases of irregularities with a total amount affected of almost EUR 80 000.

Germany had also here the second highest expenditure. It spent almost EUR 2 billion and reported 62 cases with a total amount affected of almost EUR 475 000. Germany reported its cases in the period 2003-2006. The German irregularity rate is 0.02%.

Member States with a rather high irregularity rate are Italy, Poland and Spain with respectively 1.00%, 0.55% and 0.40%.

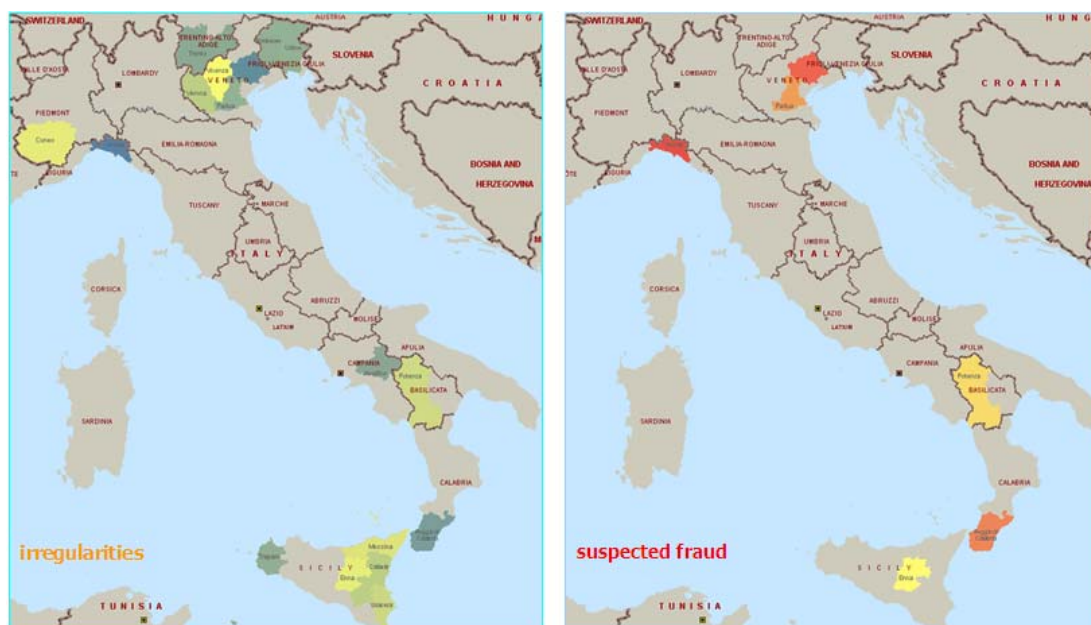
The Slovenian irregularity rate is extremely high (22%) but it should be taken into account that the total Slovenian expenditure is relatively low which implies that one case with a rather high financial impact immediately leads to a high irregularity rate. In other words, this rate needs to be put in perspective.

Member States reported 29 cases of suspected fraud. Almost all cases were reported by Italy. Spain completed the list of suspected fraud cases by reporting 1 case. This

makes once again clear that it is difficult to talk about an EU-25 fraud rate. Only 2 Member States reported suspected fraud cases, therefore, the fraud rate needs to be determined on Member States' level or, even better, lower level such as regions or provinces.

Italy consists out of 109 provinces. Expenditure took place in all provinces. Irregularities were reported for 17 provinces. Remarkable is that no cases have been reported for provinces with a rather high expenditure such as Modena, Brescia, Torino and Mantua. The 28 Italian suspected fraud cases were discovered in 6 Italian provinces. 14 cases were discovered in Treviso, 9 in Reggio di Calabria, 2 in Padova and 1 in the provinces Enna, Genova and Potenza. The modus operandi can be summarised with submitting a request for aid by handing over false or falsified documents in which fictitious products are declared.

Map AG30: Italy – cases of irregularities and suspected fraud



Map AG30 provides an overview for which provinces cases of irregularities and suspected fraud were reported. The left map indicates the cases of irregularities as the right map indicates the suspected fraud cases. The maps are based on the irregularity and fraud rates displayed in Table AG31.

As already mentioned above, expenditure took place in all provinces. Both maps show that only for a limited number of provinces cases were reported. The maps show also clearly that irregularity and fraud rates differ strongly per province.

Table AG31 provides a more detailed overview of the irregularity and fraud rates per province. Only the provinces with a total expenditure above EUR 15 million are displayed.

Table AG31: Italy - irregularities and fraud rates by province

Province	expenditure	irregular	IrR	of which fraud	FrR
	EUR	EUR	%	EUR	%
Treviso	58 228 521	7 949 798	13.65%	6 202 213	10.65%
Padova	68 495 047	1 327 993	1.94%	1 268 143	1.85%
Calabria	6 183 484	306 402	4.96%	232 641	3.76%
Genova	704 942	162 842	23.10%	162 842	23.10%
Potenza	12 600 418	29 552	0.23%	29 552	0.23%
Enna	18 682 807	15 694	0.08%	15 694	0.08%
Verona	69 997 773	315 197	0.45%	0	0.00%
Avellino	6 855 532	254 638	3.71%	0	0.00%
Trento	6 234 450	173 925	2.79%	0	0.00%
Udine	7 326 167	143 254	1.96%	0	0.00%
Cuneo	113 458 175	114 852	0.10%	0	0.00%
Pordenone	2 590 668	64 281	2.48%	0	0.00%
Messina	35 835 623	51 060	0.14%	0	0.00%
Catania	9 211 266	39 173	0.43%	0	0.00%
Trapani	1 287 180	28 926	2.25%	0	0.00%
Siracusa	7 900 612	23 559	0.30%	0	0.00%
Vicenza	25 743 740	11 793	0.05%	0	0.00%
Modena	68 649 029	0	0.00%	0	0.00%
Brescia	53 233 457	0	0.00%	0	0.00%
Torino	52 176 275	0	0.00%	0	0.00%
Mantova	50 817 810	0	0.00%	0	0.00%
Asti	18 139 127	0	0.00%	0	0.00%
Palermo	15 201 602	0	0.00%	0	0.00%
Rovigo	15 076 659	0	0.00%	0	0.00%
other	376 253 354	0	0.00%	0	0.00%
total	1 100 883 717	11 012 939	1.00%	7 911 085	0.72%

7.4.2.4. Financial Years 2004-2005: rural development (B-0504xx)

Table AG32 combines budget posts B-050401 and B-050404. Both concern rural development but B-050401 was meant for EU-15 as B-050404 was meant for new Member States. Combining these two budget posts makes it possible to provide one overview for the sector rural development. The description B-0504xx is used to indicate that it concerns the combination B-050401 and B-050404.

Table AG32: irregularity and fraud rate

Member State	expenditure ¹⁾	cases of irregularities reported						cases of irregularity reported in year									
		irregular		IrR	of which suspected fraud		FrR	2003	2004	2005	2006	2007	2008	2009	2010		
		N	EUR	%	N	amounts in €	%	N	N	N	N	N	N	N	N		
AT	947 238 027	9	230 221	0.02%	1	33 050	0.00%				4	4		1			
BE	105 090 818	3	134 193	0.13%							1			1	1		
CY	5 135 770	0	0	0.00%													
CZ	130 689 558	19	546 595	0.42%							2			5	9		
DE	1 621 135 460	161	2 821 532	0.17%	2	57 725	0.00%		20	55	55	14	7	6	4		
DK	85 770 655	47	605 937	0.71%					23	11	6	2	2	1	2		
EE	40 256 476	37	367 360	0.91%						7	9	5	10	5	1		
EL	282 858 504	83	1 991 968	0.70%	2	60 062	0.02%			6	35	1	7	10	24		
ES	1 048 181 353	125	8 929 267	0.85%					10	22	16	4	38	24	11		
FI	667 053 795	9	178 966	0.03%						3		2		4			
FR	1 719 336 612	495	7 828 516	0.46%	6	1 237 975	0.07%		163	125	110	35	25	24	13		
HU	38 376 945	1	3 980	0.01%						1							
IE	710 221 299	75	728 477	0.10%						25	9	4	15	16	6		
IT	1 315 069 242	220	11 579 285	0.88%	62	5 905 474	0.45%		5	33	50	17	24	19	72		
LT	108 795 237	37	625 221	0.57%						20	1	2	6	2	6		
LU	32 287 411	1	13 375	0.04%										1			
LV	70 040 684	7	110 668	0.16%	1	12 559	0.02%			1	1	2	1	2			
MT	4 849 893	0	0	0.00%													
NL	137 371 040	43	4 322 848	3.15%					4	5	18	12	1	2	1		
PL	524 530 621	137	2 845 325	0.54%	132	2 714 381	0.52%		4	65	19	11	14	15	9		
PT	372 022 415	270	4 144 579	1.11%					7	78	101	5	42	15	22		
SE	335 951 727	56	652 532	0.19%													
SI	73 721 615	0	0	0.00%					4	17	29	4	1	1			
SK	94 397 289	43	3 575 501	3.79%							11	3	2	23	4		
UK	305 241 891	64	805 245	0.26%	1	68 140	0.02%		17	19	18	7	1	1	1		
total	10 775 624 338	1 942	53 041 589	0.49%	207	10 089 366	0.09%	0	257	493	495	134	204	179	180		

¹⁾ expenditures 2004 - 2005 are based on CATS-data.

IMS Module 1848 download: 24 January 2011

¹⁾ expenditures 2004 - 2005 are based on CATS-data.
IMS Module 1848 download: 24 January 2011

The total expenditure for rural development was almost EUR 10.8 billion. This sector has with 1 942 irregularities the highest number of reported cases. Member States as France, Portugal, Italy and Germany reported a relatively high number of cases for this sector. The total amount affected is about EUR 53 million, which implies an irregularity rate of 0.49%.

Chart AG33 (see annex 14) visualises the right hand side part of the table. The green line reflects the course of the number of cases reported per year. The orange line reflects the situation in case Member States would have reported all cases timely. The course of the two lines is more or less the same. The orange line is only quicker at its peaks and troughs than the green line. If Member States would have reported all cases timely, the number of cases reported in 2010 would be 92 and not 180. This explains also why the orange line bends in 2010 stronger down than the green line. It can be expected that still some cases will be reported during 2011. It will not be that many now the almost traditional final sprint of some Member States already can be spotted in the table. The vast majority of the Italian 2010-cases concern suspected fraud cases of which already has been concluded that Italy report such cases at the end of the cycle.

The biggest amounts were spent in France: EUR 1.7 billion. France reported 495 cases with a total amount affected of about EUR 7.8 million which implies an irregularity rate of 0.46%. The course of the French cases is almost by the book: the

highest number of cases reported in the years of expenditure and a gradually decreasing number of cases in the years afterwards. The French irregularity rate is just below the EU-25 of 0.49%.

Germany had the second highest expenditure: EUR 1.6 billion. The German expenditure is in amounts comparable with the French expenditure. That cannot be said about the number of cases reported and the amounts affected. Germany reported 161 cases with a total amount affected of about EUR 2.8 million which is far smaller than the French figures. France reported 495 cases with a total amount affected of about €7.8 million. The German irregularity rate is 0.17% whereas the French irregularity rate is 0.46%.

Portugal reported the highest number of cases: 270. That is rather remarkable considering the fact that the Portuguese expenditure is relatively small in comparison with the expenditures of for instance France and Germany. The Portuguese expenditure was EUR 372 million for which 270 cases of irregularities were reported with a total amount affected of about EUR 4.1 million. The irregularity rate for Portugal is 1.11%.

Italy reported the highest amounts affected by irregularities: EUR 11.6 million. It concerns 220 cases of which 62 cases were classified as suspected fraud with a total amount affected of EUR 5.9 million. The Italian irregularity and fraud rate are 0.88% and 0.45% respectively.

The Netherlands and Slovakia have both an irregularity rate above 3% which is far above the EU-25 average of 0.49%. The Dutch expenditure was about EUR 137 million as the Slovakian expenditure was about EUR 94 million. Both reported 43 cases with a total amount affected of EUR 4.3 million and EUR 3.6 million respectively.

8 Member States reported together 207 suspected fraud cases. This is remarkable. The general picture is that Italy reports the vast majority of suspected fraud cases and that one, two or three other Member States complete that by submitting one or two suspected fraud cases. That is different for the sector rural development: 8 Member States reported suspected fraud cases and Poland reported the highest number.

Poland reported 132 cases with a total amount affected of EUR 2.7 million on an expenditure of EUR 524.5 million. The Polish fraud rate is 0.52%.

Although 8 Member States reported suspected fraud cases, it is still not wise to talk about an EU-25 fraud rate.

7.4.2.5. Financial Years 2004-2005: milk and milk products (B-050301)

The total expenditure for this sector is about EUR 5.6 billion. Member States reported 234 cases of irregularities with a total amount affected of almost EUR 6.6 million. 4 Member States classified 8 cases as suspected fraud. The fraudulent amount is about EUR 700 000 as detailed in Table AG34.

Table AG34: irregularity and fraud rate

Member State	expenditure ¹⁾	cases of irregularities reported						cases of irregularity reported in year							
		irregular		IrR	of which suspected fraud		FrR	2003	2004	2005	2006	2007	2008	2009	2010
		N	EUR		N	amounts in €		N	N	N	N	N	N	N	N
AT	11 975 555	4	76 153	0.64%					1	1	2				
BE	526 807 921	28	649 233	0.12%	2	8 117	0.00%		1	7	10	4	2	3	1
CY	259 745	8	50 791	19.55%	1	7 877	3.03%			7	1				
CZ	31 487 272	0	0	0.00%											
DE	593 751 761	70	1 531 434	0.26%					9	18	30	6	6	1	
DK	358 309 363	11	242 368	0.07%					1	5	2	3			
EE	4 602 321	2	632 920	13.75%	2	632 920	13.75%						1	1	
EL	4 942 030	0	0	0.00%											
ES	168 525 396	1	8 400	0.00%						1					
FI	147 643 641	0	0	0.00%											
FR	1 143 150 051	33	1 388 874	0.12%					1	2	10	5	8	7	
HU	9 131 735	0	0	0.00%											
IE	515 769 031	4	123 106	0.02%					1	1		2			
IT	255 781 184	6	526 572	0.21%					2		1			3	
LT	12 831 120	0	0	0.00%											
LU	2 266 036	0	0	0.00%											
LV	509 098	0	0	0.00%											
MT															
NL	1 107 480 001	34	778 140	0.07%	3	59 607	0.01%		3	1	18	9	3		
PL	38 443 004	3	33 512	0.09%						1	1			1	
PT	48 787 095	2	96 932	0.20%						1					1
SE	132 958 853	4	69 110	0.05%						1	1			2	
SI	5 040 655	1	139 682	2.77%										1	
SK	1 180 762	0	0	0.00%											
UK	452 627 023	23	236 199	0.05%					2	10	9	2			
total	5 574 260 654	234	6 583 427	0.12%	8	708 521	0.01%	0	21	56	85	31	20	19	2

¹⁾ expenditures 2004 - 2005 are based on CATS-data.
IMS Module 1848 download: 24 January 2011

The financial years 2004-2005 can be considered as finalised. Table AG34 and Chart AG35 (see annex 14) make clear that the reporting peak was in 2006 and that from 2006 onwards the number of new cases decreased to almost zero in 2010.

France was again the Member State with the highest expenditure. It spent EUR 1.1 billion and reported 33 cases with a total amount affected of about EUR 1.4 million. The irregularity rate is 0.12%. None of the French cases was classified as suspected fraud.

Germany reported the highest number of cases and the highest amounts affected by irregularities: 70 cases and a total amount affected of about EUR 1.5 million. The German expenditure was EUR 0.6 billion. The German irregularity rate is 0.26%.

7.4.2.6. Financial Years 2004-2005: olive oil (B-050206)

The sector B-050206 is the sector with the fifth highest expenditure: EUR 4.7 billion. This is already a relatively small amount considering the fact that the total expenditure was almost EUR 91 billion. Also important to know is that only 7 Member States had expenditures for this budget post as detailed in table AG36.

Table AG36: irregularity and fraud rate

Member State	expenditure ¹⁾	cases of irregularities reported						cases of irregularity reported in year									
		irregular		IrR	of which suspected fraud		FrR	2003	2004	2005	2006	2007	2008	2009	2010		
		N	EUR	%	N	amounts in €	%	N	N	N	N	N	N	N	N		
AT																	
BE																	
CY																	
CZ																	
DE	-23 593	0	0	0.00%													
DK	155 557	0	0	0.00%													
EE																	
EL	1 022 470 939	6	77 195	0.01%							5	1					
ES	2 049 145 756	85	2 942 161	0.14%							41	6	11	24	2	1	
FI																	
FR	10 596 142	0	0	0.00%													
HU																	
IE																	
IT	1 514 312 517	6	2 539 998	0.17%	3	863 710	0.06%								2	1	3
LT																	
LU																	
LV																	
MT																	
NL																	
PL																	
PT	85 660 634	0	0	0.00%													
SE																	
SI																	
SK																	
UK																	
total	4 682 317 951	97	5 559 354	0.12%	3	863 710	0.02%	0	0	46	7	11	26	3	4		

¹⁾ expenditures 2004 - 2005 are based on CATS-data.
IMS Module 1848 download: 24 January 2011

¹⁾ expenditures 2004 - 2005 are based on CATS-data.
IMS Module 1848 download: 24 January 2011

The Member States with the highest expenditures were Spain, Italy and Greece with EUR 2,0 billion, EUR 1,5 billion and EUR 1,0 billion respectively. It were also only these 3 Member States that reported irregularities. The financial years 2004-2005 can be considered as finalised. Table AG36 as well as chart AG37 (see annex 14) make clear that the reporting of cases had a peak in 2005, a strong downfall in 2006, again a peak in 2008 and then a gradual downfall to almost zero in 2010. The reasons for this wave have already been mentioned: the introduction of a higher threshold, the introduction of Module 1848 and the late reporting of 3 Italian suspected fraud cases.

The most frequently occurring modus operandi can be summarized with incorrect reporting of produced quantities which was done by mistake or intentionally by handing over falsified documents.

Remarkable is that Spain used in 27 cases words as "daclaraciones falsas", "falsificación" and "fals" to describe the modus operandi. None of these cases was classified as suspected fraud although these descriptions give the impression that the irregularities were committed intentionally.

7.5. Conclusions

- (1) A higher number of cases of irregularities reported does not necessarily mean that more irregularities are committed or that a Member State is more vulnerable for irregularities. A more developed audit strategy, tailor made audits, higher number of performed audits will normally lead to a higher number of detected irregularities. Therefore, it is possible that Member States with a higher irregularity rate perform better, either in substance or in their reporting, than Member States with a lower irregularity rate.
- (2) The number of cases of irregularities and the amounts affected are not equally spread over and within Member States.

7.5.1. Financial Year 2010

- (3) The EU-27-compliance-rate-2010 decreased from 95% to 90%. Member States that should pay extra attention to issues as timely reporting, personal data and measures affected are Finland, the Netherlands and Poland. Slovakia has the highest compliance rate as Finland has the lowest.
- (4) During financial year 2010, Member States reported 1 825 new cases with a total amount affected of about EUR 131 million. These cases concern expenditures for the financial years 1990-2010. Spain reported the highest number of cases (413) as Italy reported the highest amounts affected (EUR 40 million). 18 cases had a total amount affected of more than EUR 1 million.
- (5) Member States classified 414 out of 1 825 cases as suspected fraud or established fraud, which is 23% of the total number of reported cases and 47% of the total amounts affected. These cases are mainly reported by Italy and young Member States as Bulgaria, Hungary, Poland and Slovenia. France did not classify any of its 119 cases as suspected fraud.
- (6) Member States recovered during the financial year 2010 about EUR 175 million and declared irrecoverable about EUR 51 million. The overall outstanding amount at the end of Financial Year 2010 is about EUR 1.2 billion.
- (7) The new clearance mechanism (50/50 rule) provides a strong incentive for Member States to recover undue payments from the beneficiaries as quickly as possible. As a result, by the end of financial year 2010, 42% of the new EAGF debts from 2007 and thereafter had already been recovered, which is a significant improvement compared to the past.

7.5.2. *Financial Years 2006-2010*

- (8) The figures concerning the financial years 2006-2010 can be used to identify trends. These figures should be considered as half-time-result now still cases of irregularities will be reported. Definitive figures can only be determined of financial years that can be considered, from an irregularity reporting point of view, as "finalised".
- (9) The total expenditure for the financial years 2006-2010 was about EUR 249 billion. The highest expenditure was made by France (20%) and the lowest by Malta (< 0.1%). Member States reported for these financial years 3 644 cases with a total amount affected of about EUR 182 million which means a provisional irregularity rate of 0.07%. The highest number of cases was reported by Spain (728) as the highest amounts affected by irregularities were reported by Hungary (EUR 29 million).
- (10) 57% of the total 2006-2010 expenditure concerns the sector "decoupled direct aids". Member States reported for this sector 1 140 cases with a total amount affected of almost EUR 29 million. The provisional irregularity rate for this sector is 0.02%. Sectors with a rather high irregularity rate are cereals (6.19%, essentially due to the situation in Hungary), ancillary direct aids (1.26%), fisheries outermost regions (0.94%), sugar (0.74%) and pigmeat (0.54%).
- (11) 80% of suspected fraud cases concerning the financial years 2006-2010 is reported by young Member States. Italy is responsible for another 12% of the reported suspected fraud cases. Almost no fraud is reported by other old Member States.

7.5.3. *Financial Years 2004-2005*

- (12) The financial years 2004-2005 can be considered as finalised now audit plans have been executed, recovery procedures have been started and irregularities have been reported.
- (13) The total expenditure for the financial years 2004-2005 was about EUR 91 billion. Member States reported in total 4 402 cases with a total amount affected of about EUR 214 million, which implies an EU-25 irregularity rate of 0.24%.
- (14) Member States classified 349 of the 4 402 cases as suspected-fraud. 301 cases (86%) were reported by 2 Member States: Italy and Poland. The other 48 cases were reported by 13 Member States. 9 Member States did not classify any of their cases as fraud or suspected-fraud. Malta did not report any irregularities.
- (15) An EU-25 fraud rate (FrR) cannot be determined for the financial years 2004-2005 now only a limited number of suspected-fraud-cases were reported by a limited number (of regions) of Member States. Almost no fraud was reported by Member States as France, Spain and Germany.

8. EUROPEAN FISHERIES FUND

Commission Regulation (EC) No 498/2007 of 26 March 2007⁷⁵ lays down detailed rules for the implementation of Council Regulation (EC) No 1198/2006 which establishes the European Fisheries Fund (EFF) and defines the framework for EU support for the sustainable development of the fisheries sector, fisheries areas and inland fishing.

Chapter VIII of Regulation (EC) No 498/2007 contains the relevant provisions for the reporting of irregularities to the Commission, establishing a set of rules that are very similar to those foreseen for the Structural Funds.

As indicated in Chapter 5 of this document, the reporting module for the EFF irregularities is currently under development and will be released at the end of September 2011. Member States were asked to withhold the irregularity reports until then.

⁷⁵ OJ L120, 10.05.2007.

9. COHESION POLICY (ANNEXES 15-20)

In line with the approach followed for the Annual Report for 2009, the focus on yearly developments is further diminished and the analysis concentrates more on the Programming Period developments in order to reflect the real functioning and implementation of the Cohesion Policy measures.

The legal provisions setting the reporting obligation for the Cohesion Policy are contained in three different regulations. Regulation (EC) No 1681/94 which covers the four Structural Funds⁷⁶ for all programming periods until 2000-2006 included; Regulation (EC) No 1831/94 on the Cohesion Fund, with the exception of the period 2007-2013); and Regulation No 1828/2006, which covers the programming period 2007-2013. Annexes 17 to 19 provide details about the irregularities reported under the different regulations.

While Regulations Nos 1681/94 and 1831/94 are almost identical in content, rules have changed for the programming period 2007-2013, for which derogations have been widened and reporting requirements simplified, in particular in relation to the updates of the information concerning recovery.

In the following paragraphs, when referring to irregularities reported in 2010, it should be kept in mind that, conformly to the reporting obligations, Member States shall notify irregularities within two months following the end of each quarter. Therefore the “reporting period” goes, in fact, from 1st March 2010 until 28 February 2011.

9.1. Reporting Discipline

During 2010 the deployment and implementation of IMS progressed. During the year, almost all Member States completed or integrated their reporting organisation and reporting workflow. Table 5-1 in paragraph 5.1 gives an idea of the effort performed by Member States and OLAF for this task.

In relation to the problematic situations reported in 2009, progresses have been achieved in particular in relation to the Czech Republic, which is now fully operational and Spain, whose organisation has been set up in the beginning of May 2011. France has proposed a direct link between its national system PRESAGE and IMS, but this technical solution has not been finalised yet.

⁷⁶

The four Structural Funds are:

- a) The European Regional Development Fund (ERDF), supporting primarily productive investment, infrastructure and development of SMEs;
- b) The European Social Fund (ESF), supporting measures to promote employment (education systems, vocational training and recruitment aids);
- c) The Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance), supporting measures for the adjustment of agricultural structures and rural development;
- d) The Financial Instrument for Fisheries Guidance (FIFG), supporting measures for the adjustment of the fisheries sector and the ‘accompanying measures’ of the common fishery policy.

The only country which has showed a worsening situation is Ireland, for which identified users are active exclusively for the ESF. Also in relation to this fund, however, the use of IMS has been decreased during 2010.

As long as module 1828 is not deployed⁷⁷, module 1681 has been designed to temporarily accept irregularities concerning the programming period 2007-2013.

In terms of reporting discipline, all Member States having adopted IMS are showing remarkable progresses both in the use of the system and in compliance with the reporting obligations, which is facilitated by the tool. Without diminishing the achievements of other Member States, whose spirit of constructive cooperation needs to be stressed, the efforts of one country are worth being mentioned in this context: the Czech Republic, which has managed to complete the reporting and successful migration of all new and previously reported irregularities in a very limited period, following the delays (due exclusively to technical reasons) of last year.

Despite progresses, some inconsistencies are still noticed in the qualification of the irregularities, as already explained in paragraph 5.2, and in the use of dates. It still happens, for instance, that the date of establishment of the irregularity is indicated as happening before the dates related to the committing of the irregularity; or that an irregularity, whose described *modus operandi* is 'false or falsified supporting documents' is qualified as 'irregularity' instead of 'suspected fraud'.

From a quantitative point of view, however, these inconsistencies involve no more than 3% of the reported irregularities.

Lastly, still a significant number of irregularities (also those reported in previous years), lacks the indication of the period in which the irregularity took place and the date of establishment of the irregularity. All Member States are requested to pay more attention to these elements.

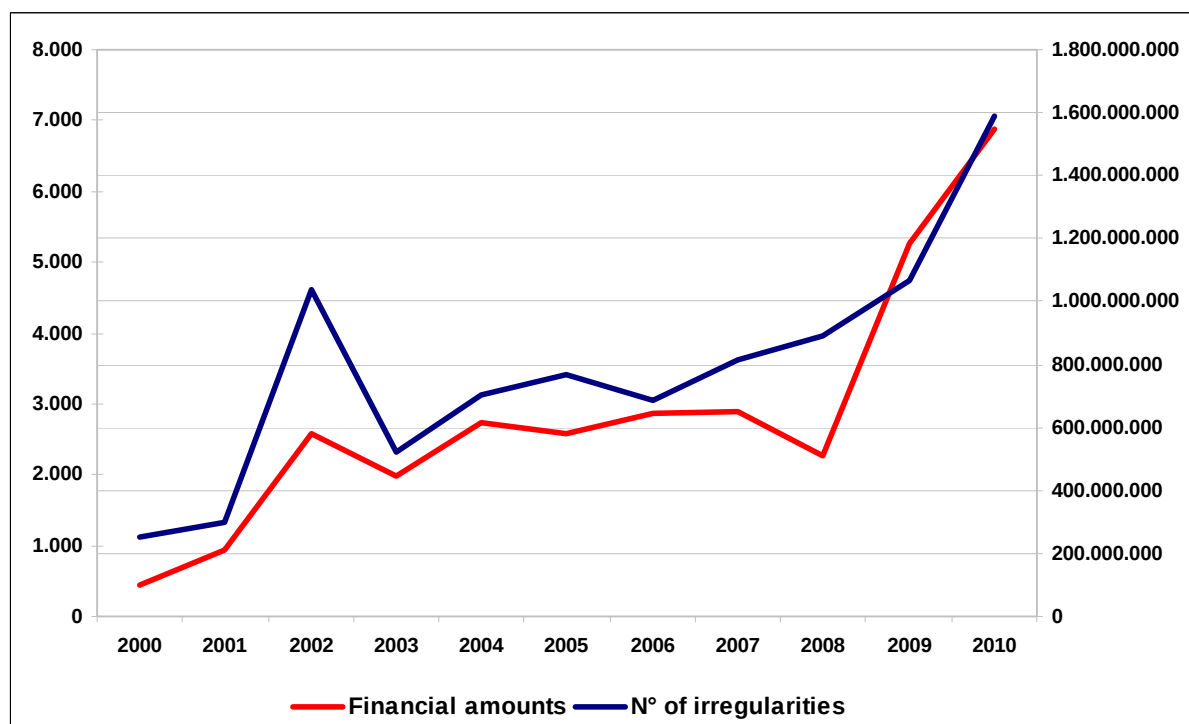
9.2. General Trends

9.2.1. Yearly trends

Annex 15 shows the overall trend of the reported irregularities by year. In 2010 the number of reported irregularities and related financial amounts involved increased in relation to 2009 and represent the highest peak registered so far in the Cohesion Policy. 7 062 irregularities were received throughout the year, involving an overall amount of EUR 1.55 billion, the highest ever. The number of irregularities increased by 49%, while the irregular amounts increased by 31%.

⁷⁷ The finalisation and deployment of module 1828 are foreseen for the end of September 2011.

Chart SF 1: 1994-2009 trend concerning number of reported irregularities for the Cohesion Policy



Some concurring elements contribute to explain this further increase:

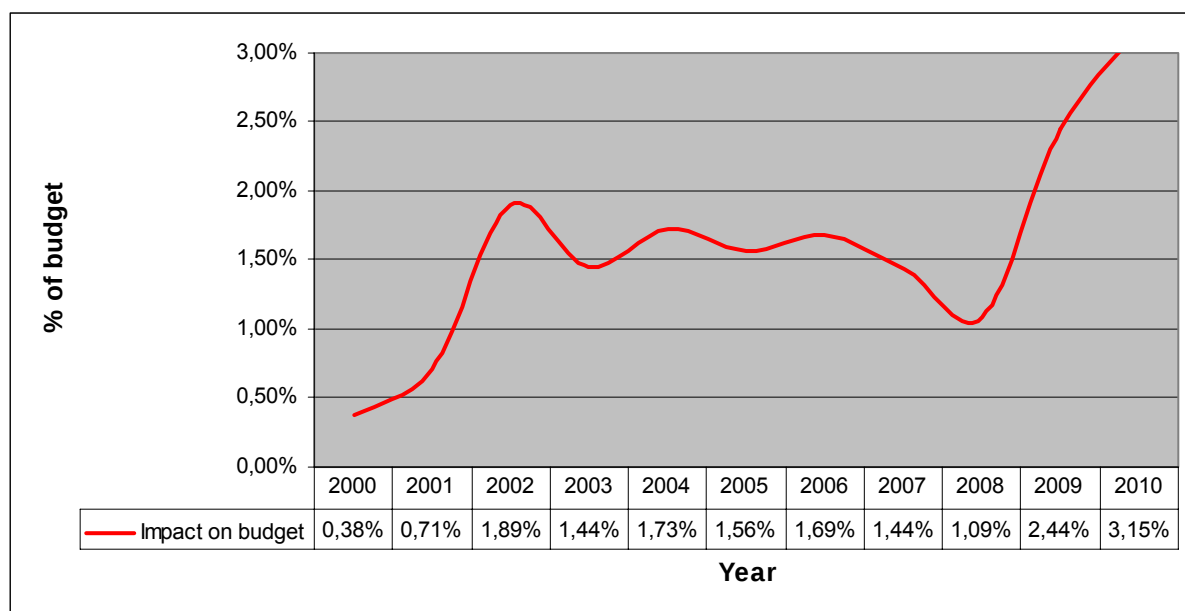
- (1) The number of irregularities reported for the programming period 2007-2013 has now reached a significant level and it also implies that 27 Member States are now reporting irregularities rather than 25;
- (2) The increasing number of irregularities linked to the programming period 2000-2006 is probably still due to the closure of these programmes;
- (3) The introduction and growing use of IMS has accelerated the whole reporting procedure resulting in more irregularities reported in the same period of time (for more explanations see paragraph 5.1.2).

Since 1998, the impact of reported irregularities on the Cohesion Policy budget has showed two important increases, the first in 2002 and the second in 2009-2010, as showed in Chart SF 2. The increase across time is due to a number of factors, of which the most significant seem:

- (4) The increase of the financial resources allocated to this policy;
- (5) A better overall understanding and implementation of the reporting obligation, also resulting from the different simplifications occurred in recent years;
- (6) Improved tools put at disposal of Member States to comply with the reporting obligation;

- (7) Increased attention and improved controls also following the remarks of the European Court of Auditors and the audit activity performed by the Commission services.

Chart SF 2: Impact of irregularities on the Cohesion Policy budget – 2000-2010

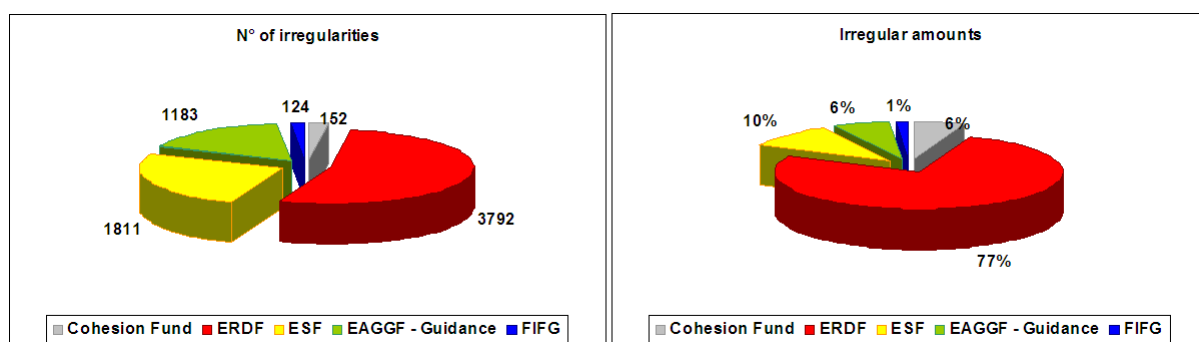


However, it should be kept in mind that reported irregularities refer to programmes and projects that are of a multi-annual nature and they refer to three different programming periods. Furthermore, the budget for the year 2010, on which the impact of irregularities reported by the Member States has been calculated, is indicating the resources allocated to the fourth year of the programming period 2007-2013, while only a part of the reported irregularities is referred to it.

This implies that a correct estimation of the impact of irregularities and suspected frauds on the part of the European budget dedicated to the Cohesion policy is possible only by analysing irregularities by programming period. Paragraph 9.3 deals with these specific issues.

The distribution among the Funds of the irregularities reported in 2010 confirms the patterns emerged in previous years, with the ERDF showing the highest number of irregularities and related irregular amounts, as showed in Chart SF 3 below.

Chart SF 3: Distribution of irregularities by Fund - 2010



The countries having reported the highest number of irregularities in 2010 were the United Kingdom, Italy, Portugal, Spain, Greece and Ireland (all having reported more than 600 irregularities). The highest irregular amounts were reported by the Czech Republic, Italy, Greece, the United Kingdom, Spain, Slovakia and Ireland (all above EUR 100 million). Annexes 17.1, 17.2, 18 and 19 detail the number of irregularities and related amounts reported by Member State under the different programming periods and funds.

9.2.2. Detection of irregularities

In 2010 the detection of irregularities resulted from checks and controls which are in line with previous years. ‘National administrative or financial controls’ remain the most frequently reported (in more than 27% of the cases), while other relevant shares refer to ‘Control of documents’ (15%) and ‘On-the-spot checks’ (12%). Table SF1 shows how the different types of controls that resulted the most “effective” in 2009 performed in 2010.

Table SF1: detection methods – comparison 2009-2010

CODE	DESCRIPTION	FREQUENCY 2009	SHARE OF TOTAL 2009	FREQUENCY 2010	SHARE OF TOTAL 2010	VARIATION
		N	%	N	%	%
101	National administrative or financial control	1 031	20.9%	1 928	27.3%	87%
208	Documentary check	602	12.2%	235	3.3%	-61%
999	Other facts	563	11.4%	587	8.3%	4%
230	On the spot checks	463	9.4%	853	12.1%	84%
206	Control of documents	363	7.4%	1 033	14.6%	185%
199	Other controls	230	4.7%	505	7.2%	120%
209	Control on the premises of the company	137	2.8%	226	3.2%	65%
307	Routine	129	2.6%	456	6.5%	253%
320	Ex post control	123	2.5%	147	2.1%	20%
302	Informant	96	1.9%	31	0.4%	-68%
Sub-Total TOP 10		3 737	75.8%	6 001	85.0%	61%
TOTAL		4 931	100.0%	7 062	100.0%	43%

The same methods showed an increase by 61% with decreases only for ‘Documentary check’ and ‘Informant’.

The most “productive” method of detection (meaning the method which has contributed to identify the highest irregular amounts) was in 2010 ‘Control by police’

through which more than EUR 250 million of irregular amounts were identified (representing about 18% of the total).

9.2.3. Types of irregularity

The vast majority of cases involve irregularities of an “administrative” nature that are normally detected in the course of the routine documentary checks which are conducted before any payment of European money is made. As a result, among the most frequent types of irregularity reported by Member States are the “not eligible expenditure” and “missing or incomplete supporting documents”.

However, the second most important “source” of irregularities is ‘Infringement of Rules concerned with Public Procurement’, which is also resulting in the most “costly” typology, as it involves the highest involved irregular amounts.

This element would suggest that provisions related to Public Procurement require a review and a fine tuning to decrease the impact of resulting irregularities.

Table SF2 shows the most frequent types of irregularities together with the amounts involved and the indicative average amount:

Table SF2: Most frequent types of irregularities reported by Member States

CODE	DESCRIPTION	FREQUENCY	SHARE OF TOTAL	INVOLVED AMOUNTS	SHARE OF TOTAL	AVERAGE AMOUNTS
		N	%	EUR	%	EUR
325	Not eligible expenditure	1.745	24,7%	244.766.736	20,0%	140.267
614	Infringement of rules concerned with public procurement	1.005	14,2%	262.973.678	21,5%	261.665
210	Missing or incomplete supporting documents	554	7,8%	67.103.855	5,5%	121.126
999	Other irregularities	484	6,9%	266.573.504	21,8%	550.772
741	Failure to fulfill commitments entered into	451	6,4%	23.714.167	1,9%	52.581
201	Missing or incomplete documents	446	6,3%	23.963.212	2,0%	53.729
612	Failure to respect other regulations / contracts provisions	281	4,0%	25.306.377	2,1%	90.058
324	Expenditure not legitimate	211	3,0%	44.200.982	3,6%	209.483
812	Action not carried out in accordance with rules	167	2,4%	20.205.732	1,7%	120.992
601	Failure to respect deadlines	162	2,3%	20.121.055	1,6%	124.204
Sub-Total TOP 10		5.506	78,0%	998.929.297	81,6%	181.426
TOTAL		7.062	100,0%	1.550.157.698	100,0%	219.507

The “nature” of the detected and reported irregularities points at the fact that detected irregularities mainly are related to the “Implementation stage” of the project life cycle, while a smaller part refers to the “Selection / Procurement Stage”.

9.2.4. Suspected frauds

First estimations of which proportion of the reported irregularities could be defined as “suspected fraud” were presented in the Annual Reports since 2004. These

attempts were mainly based on specific analyses of the information reported by the Member States concerning the *modus operandi*, the type of irregularity, the administrative status of an irregularity..

Since January 1st 2006, Member States have to “qualify” the reported irregularity, indicating whether it is a “suspected fraud” or not. The concept of “suspected fraud” is necessary, because a given situation can be defined as fraudulent only after a sentence is issued by a competent court⁷⁸.

Thanks to the introduction of the new reporting system IMS, Member States have classified (that is to say that they indicated whether the reported situation was evaluated as an administrative irregularity or a suspected fraud) 87% of the reported irregularities. It is a further encouraging progress in relation to the previous year, when 85% of the reported cases provided for this indication. France, Spain and partially Ireland are the only Member States that still do not comply with this obligation and are the only countries which do not use IMS yet.

By applying the method explained in paragraph 5.1.2, to the entire data set, some minor inconsistencies appear which bring OLAF to consider the proposed classification of Member States somehow questionable. These inconsistencies concern only 2% of the cases. All these differences are related to cases that according to the analysis by the Commission should have been classified as cases of suspected frauds.

It should also be highlighted that from a very detailed analysis of the cases where differences exist, elements provided by the Member States induce to consider correct the re-classification operated by the Commission⁷⁹.

Chart SF4⁸⁰ presents the trend of FFL⁸¹ and FAL⁸² in the last ten years calculated according to the Commission’s estimations.

⁷⁸ The definition of **suspected fraud** is explained in Paragraph 4.1.3.

⁷⁹ The descriptions provided by the Member States of the *modus operandi* linked to these communications of irregularity show that falsified documents or false declarations of certificates were used. Under these circumstances, the Commission believes that those communications of irregularities should have been classified as “suspicion of fraud”.

⁸⁰ As data referred to the Cohesion fund are considered not entirely reliable for this type of estimation, they have been excluded from this chart. See also footnotes 69 and 70 for more details about data showed on this chart.

⁸¹ FFL is defined in paragraph 4.2.2.

⁸² FAL is defined in paragraph 4.2.2.

Chart SF 4: FFL and FAL from 2000 to 2009

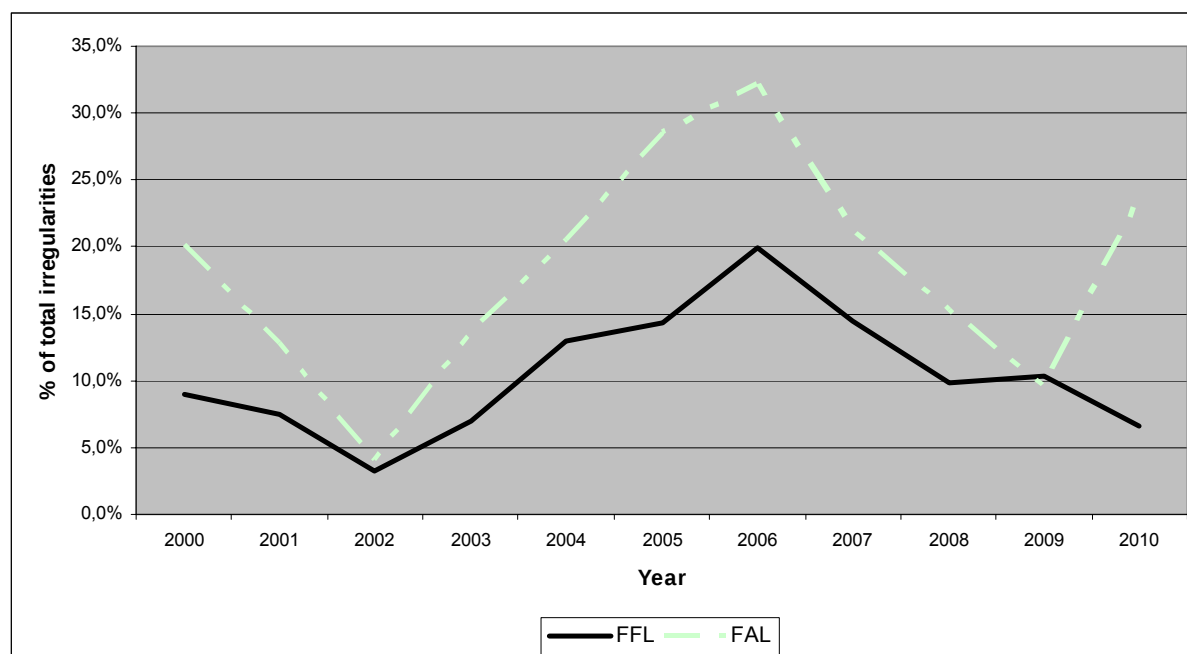


Table SF3: FFL and FAL from 2000 to 2009

INDICATOR	YEAR										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fraud Frequency Level (FFL)	8,9%	7,5%	3,2%	7,0%	12,9%	14,3%	19,9%	14,5%	9,8%	10,4%	6,6%
Fraud Amount Level (FAL)	20,1%	12,8%	4,1%	13,6%	20,5%	28,5%	32,2%	21,3%	15,3%	9,6%	23,5%

FFL has reached the lowest point since 2002, while FAL presents the first increase after three years of continuous decrease. The decrease of FFL may be linked to the closure of the programming period 2000-2006 which would reveal a growing tendency of reporting of administrative irregularities in order to align the reporting obligation with the expenditure claims. The increase of the FAL, instead, is linked to a very limited number of cases with an extremely high estimated financial impact. This “outliers” need to be taken into account for a correct assessment of the figures⁸³.

On the basis of this estimation, the FrR⁸⁴ for the annual budget 2010 of the Cohesion Policy is 0.74%.

However, this projection on the EU budget does not imply that these amounts turn out into a loss. In fact, these amounts relate to suspected fraudulent behaviours that have been detected by national authorities and for which recovery procedures are ongoing. Moreover, when these situations were detected in early stages of the process, the “potential” loss is even decreased, because no payments or only interim payments have been granted. The amounts still to be recovered linked to cases of

⁸³ It is worth underlying that the two lowest points in the FFL (2002 and 2010) coincide with the closure of two programming periods.

⁸⁴ The definition of FrR is in paragraph 4.2.1.

“suspected fraud” concern payments which impact on 0.31% of the EU budget for 2010.

9.3. Specific analysis – Analysis by Programming Period: 2000-2006 and 2007-2013

9.3.1. Irregularities related to the programming period 2000-2006 – Structural Funds

The specific analysis focuses on the programming period 2000-2006; the data set is composed of all the irregularities related to it reported until the fourth quarter 2010. In order to improve the comparability among the different Member States, the irregularities referred to the Cohesion Fund are not included and a specific paragraph is dedicated to it (see par. 9.3.3).

Table SF4 summarises the main figures and indicators related to irregularities and suspected and established fraud cases in relation to projects and operations financed under the programming period 2000-2006.

Table SF 4: Programming Period 2000-2006 – overall situation and main indicators

	N° of irregularities	of which suspected fraud	FFL	Irregular amounts	of which related to suspected fraud	FAL	Payments	IrR	FrR
	A	B	C=B/A	D	E	F=E/D	G	H=D/G	I=E/G
	N	N	%	EUR	EUR	%	EUR	%	%
TOTAL	25 518	2 539	9.9%	4 026 110 377	541 586 545	13.5%	210 048 325 392	1.9%	0.26%

The more information become available, the clearer the overall picture becomes, with Irregularity and Fraud rates that are more realistic. The indicators presented suggest that:

- (1) in general, every 10 irregularities detected, one is seemingly a potential case of fraud;
- (2) for every EUR 100 detected as irregular, about 13 are linked to cases of suspected fraud;
- (3) detections of irregularities concern a financial volume that corresponds to almost 2% of the overall payments.

Table SF5 summarises, in relation to each of the Structural Funds, the same information presented in Table SF 4.

Table SF5: Programming Period 2000-2006 – overall situation and main indicators by Fund

FUND	N° of irregularities	of which suspected fraud	FFL	Irregular amounts	of which related to suspected fraud	FAL	Payments	IrR	FrR
	A	B	C=B/A	D	E	F=E/D	G	H=D/G	I=E/G
	N	N	%	EUR	EUR	%	EUR	%	%
ERDF	12 955	934	7.2%	3 015 564 930	334 142 083	11.1%	121 443 076 413	2.5%	0.28%
ESF	8 761	1 063	12.1%	690 588 414	149 872 571	21.7%	63 795 358 611	1.1%	0.23%
EAGGF-G	3 398	475	14.0%	261 121 008	47 111 820	18.0%	21 180 473 978	1.2%	0.22%
FIFG	404	67	16.6%	58 836 026	10 460 070	17.8%	3 629 416 390	1.6%	0.29%
TOTAL	25 518	2 539	9.9%	4 026 110 377	541 586 545	13.5%	210 048 325 392	1.9%	0.26%

FIFG is the fund for which the FrR is the highest, followed by the ERDF and it is also the fund with the highest FFL. However, ESF is the fund for which the highest number of cases of suspected fraud were detected and reported.

The Cohesion Policy aims at supporting the economy of regions lagging behind or in a difficult contingent economic situation. The European support, which is always accompanied by a national support, varies according to the fact that a region falls within the area of a given objective⁸⁵.

Table SF6 summarises, in relation to each of the Objective, the same information presented in Tables SF 4 and SF 5. The Initiative “PEACE”⁸⁶ has been grouped together with the INTERREG programmes.

Table SF6: Programming Period 2000-2006 – overall situation and main indicators by Objective

OBJECTIVE	N° of irregularities	of which suspected fraud	FFL	Irregular amounts	of which related to suspected fraud	FAL	Payments	IrR	FrR
	A	B	C=B/A	D	E	F=E/D	G	H=D/G	I=E/G
	N	N	%	EUR	EUR	%	EUR	%	%
OBJECTIVE 1	16 054	1 727	10.8%	2 956 915 544	461 270 047	15.6%	151 369 020 388	2.0%	0.30%
OBJECTIVE 2	4 254	245	5.8%	636 674 341	26 941 870	4.2%	22 743 788 486	2.8%	0.12%
OBJECTIVE 3	3 334	431	12.9%	269 447 318	42 849 649	15.9%	24 247 005 059	1.1%	0.18%
INTERREG	972	48	4.9%	111 172 134	3 686 112	3.3%	5 208 992 564	2.1%	0.07%
EQUAL	294	36	12.2%	24 194 010	3 381 260	14.0%	2 910 119 486	0.8%	0.12%
LEADER	283	37	13.1%	10 572 049	1 167 685	11.0%	1 948 917 861	0.5%	0.06%
FISHERIES out Obj. 1	127	11	8.7%	6 584 017	2 081 503	31.6%	934 706 075	0.7%	0.22%
URBAN	175	4	2.3%	9 319 524	208 419	2.2%	685 775 471	1.4%	0.03%
OTHER	25	0	0.0%	1 231 439	0	0.0%	N/A	N/A	N/A
TOTAL	25 518	2 539	9.9%	4 026 110 377	541 586 545	13.5%	210 048 325 390	1.9%	0.26%

The distribution of the irregularities is to a certain extent in line with the allocation of the financial resources among the different objectives, with an over representation of irregularities related to objective 2 programmes and an under representation of irregularities affecting objective 3 programmes.

Furthermore, the IrR for the Objective 2 programmes is the highest (2.8% of the payments). The IrR for the Objective 1 equals the overall IrR (1.9%), while that for Objective 3 programmes, the Equal initiative, Fisheries out of Objective 1 regions, and Leader+ are lower or significantly lower (respectively 1.1%, 0.8%, 0.7% and 0.5%).

These elements may imply some under-reporting in relation to programmes / initiatives presenting a very low IrR. The interpretation of the irregularity rate of

⁸⁵

Three general objectives are foreseen for the programming period 2000-2006:

- Objective 1: promote the development and structural adjustment of regions whose development is lagging behind;
- Objective 2: supporting the economic and social conversion of areas experiencing structural difficulties;
- Objective 3: supporting the adaptation and modernisation of education, training and employment policies and systems in regions not eligible under Objective 1.

Furthermore, through the Funds are also financed the so called “Community Initiatives” , aimed at intervening on specific aspects such as, for example, stimulating interregional cooperation (INTERREG); promoting the design and implementation of innovative models of development for the economic and social regeneration of troubled urban areas (URBAN).

⁸⁶

The PEACE II programme is designed to consolidate the peace process in Northern Ireland by channelling finance under Objective 1 of the Structural Funds in the 2000-06 period. Like its forerunner, PEACE I (1995-99), the programme seeks to encourage progress towards a peaceful, stable society and promote reconciliation in the region. The beneficiary areas are Northern Ireland and the border regions of Ireland.

Objective 2 programmes is more difficult as it may indicate a greater effectiveness of the control systems of these programmes in detecting the irregularities or denote some problematic aspects in their implementation. Information currently available does not allow solving this dilemma.

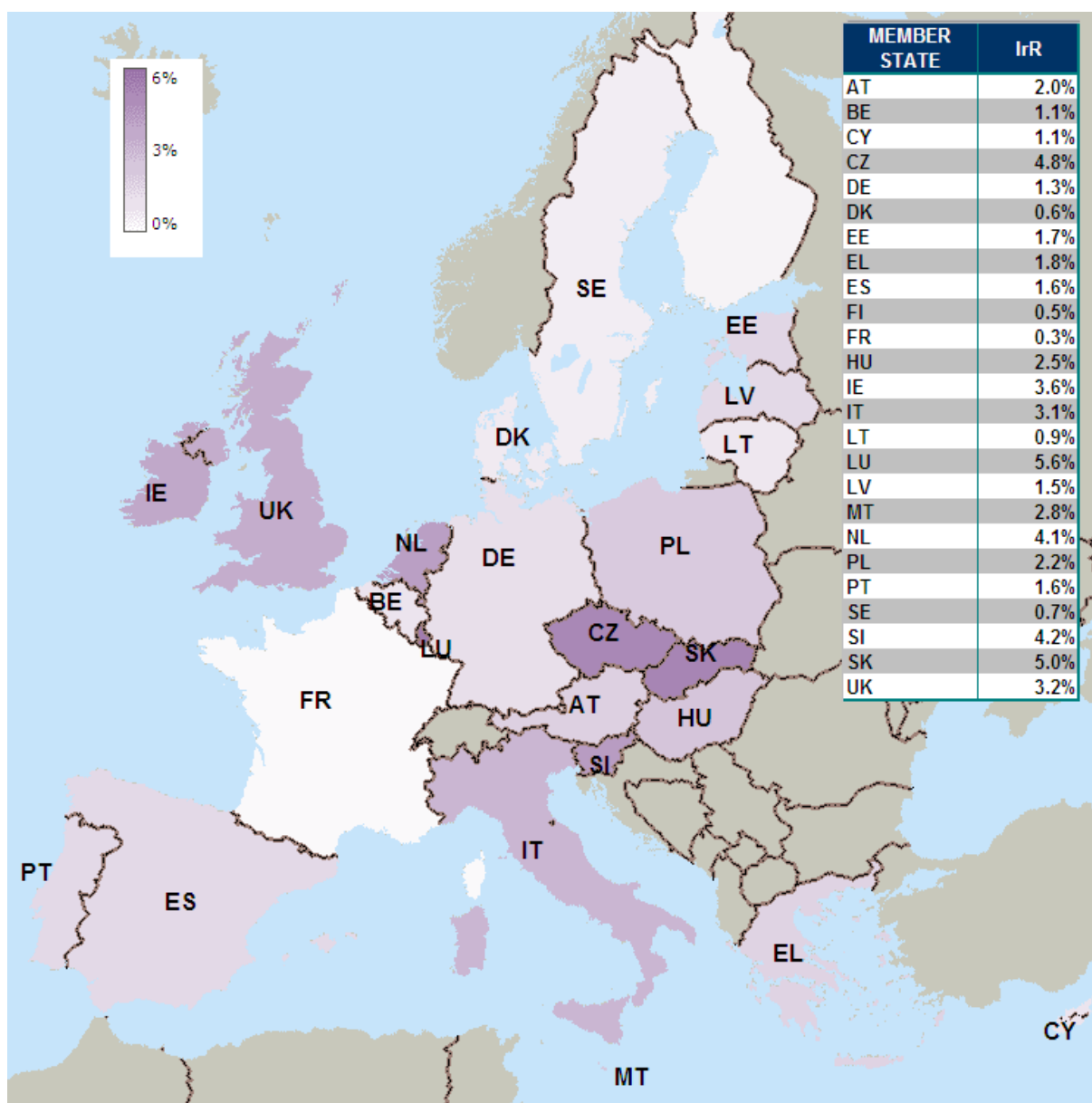
Table SF7 summarises, in relation to each Member State, the same information presented in Tables SF4, SF5 and SF6. For convenience, irregularities related to INTERREG programmes have been grouped together and have not been related to a specific country. The Initiative “PEACE” has been grouped together with the INTERREG programmes.

Table SF7: Programming Period 2000-2006 – overall situation and main indicators by Member State

MEMBER STATE	N° of irregularities	of which suspected fraud	FFL	Irregular amounts	of which related to suspected fraud	FAL	Payments	IrR	FrR
	A	B	C=B/A	D	E	F=E/D	G	H=D/G	I=E/G
	N	N	%	EUR	EUR	%	EUR	%	%
AT	264	10	3.8%	33 673 522	596 686	1.8%	1 702 661 450	2.0%	0.04%
BE	272	4	1.5%	21 887 437	171 000	0.8%	1 933 684 111	1.1%	0.01%
CY	11	3	27.3%	590 906	18 986	3.2%	52 436 077	1.1%	0.04%
CZ	302	19	6.3%	73 978 226	4 618 144	6.2%	1 535 632 697	4.8%	0.30%
DE	4 050	402	9.9%	385 524 451	57 317 486	14.9%	29 604 565 775	1.3%	0.19%
DK	82	2	2.4%	4 358 738	242 206	5.6%	706 191 858	0.6%	0.03%
EE	118	24	20.3%	6 110 724	850 508	13.9%	356 488 895	1.7%	0.24%
EL	1 032	33	3.2%	389 316 692	10 417 520	2.7%	21 834 733 635	1.8%	0.05%
ES	3 088	132	4.3%	697 764 418	8 838 552	1.3%	44 738 634 478	1.6%	0.02%
FI	235	19	8.1%	10 058 987	941 806	9.4%	2 011 004 334	0.5%	0.05%
FR	853	13	1.5%	41 423 138	378 073	0.9%	15 487 658 548	0.3%	0.00%
HU	344	26	7.6%	47 369 805	1 895 526	4.0%	1 907 061 151	2.5%	0.10%
IE	573	2	0.3%	109 823 633	0	0.0%	3 090 675 422	3.6%	0.00%
IT	4 014	1 172	29.2%	879 729 327	347 619 458	39.5%	28 217 042 730	3.1%	1.23%
LT	84	11	13.1%	8 066 477	1 225 832	15.2%	861 687 124	0.9%	0.14%
LU	29	8	27.6%	4 113 714	292 071	7.1%	73 332 652	5.6%	0.40%
LV	89	16	18.0%	9 276 007	3 725 223	40.2%	601 914 879	1.5%	0.62%
MT	11	0	0.0%	1 728 514	0	0.0%	61 212 112	2.8%	0.00%
NL	840	4	0.5%	104 459 959	104 858	0.1%	2 571 095 397	4.1%	0.00%
PL	1 216	269	22.1%	177 417 475	62 047 584	35.0%	7 975 310 919	2.2%	0.78%
PT	3 147	150	4.8%	314 542 775	19 419 387	6.2%	19 675 703 749	1.6%	0.10%
SE	622	10	1.6%	14 403 677	250 705	1.7%	2 062 489 376	0.7%	0.01%
SI	25	4	16.0%	9 651 449	50 801	0.5%	230 630 890	4.2%	0.02%
SK	187	8	4.3%	53 987 779	2 366 322	4.4%	1 077 631 944	5.0%	0.22%
UK	3 058	150	4.9%	515 680 411	14 511 700	2.8%	15 875 026 600	3.2%	0.09%
INTERREG	972	48	4.9%	111 172 134	3 686 112	3.3%	5 208 992 564	2.1%	0.07%
TOTAL	25 518	2 421	9.5%	4 026 110 377	529 878 561	13.2%	210 048 325 391	1.9%	0.25%

Map SF1 displays the IrR by Member State highlighting the high values of Luxembourg, Slovakia, the Czech Republic, Slovenia and the Netherlands, with a value above 4%. Low values are displayed for France, Finland, Sweden, Denmark and Lithuania. These countries may represent examples of very best practises or may indicate, on the contrary, under-reporting or low irregularity detection capability.

Map SF1: IR by Member State

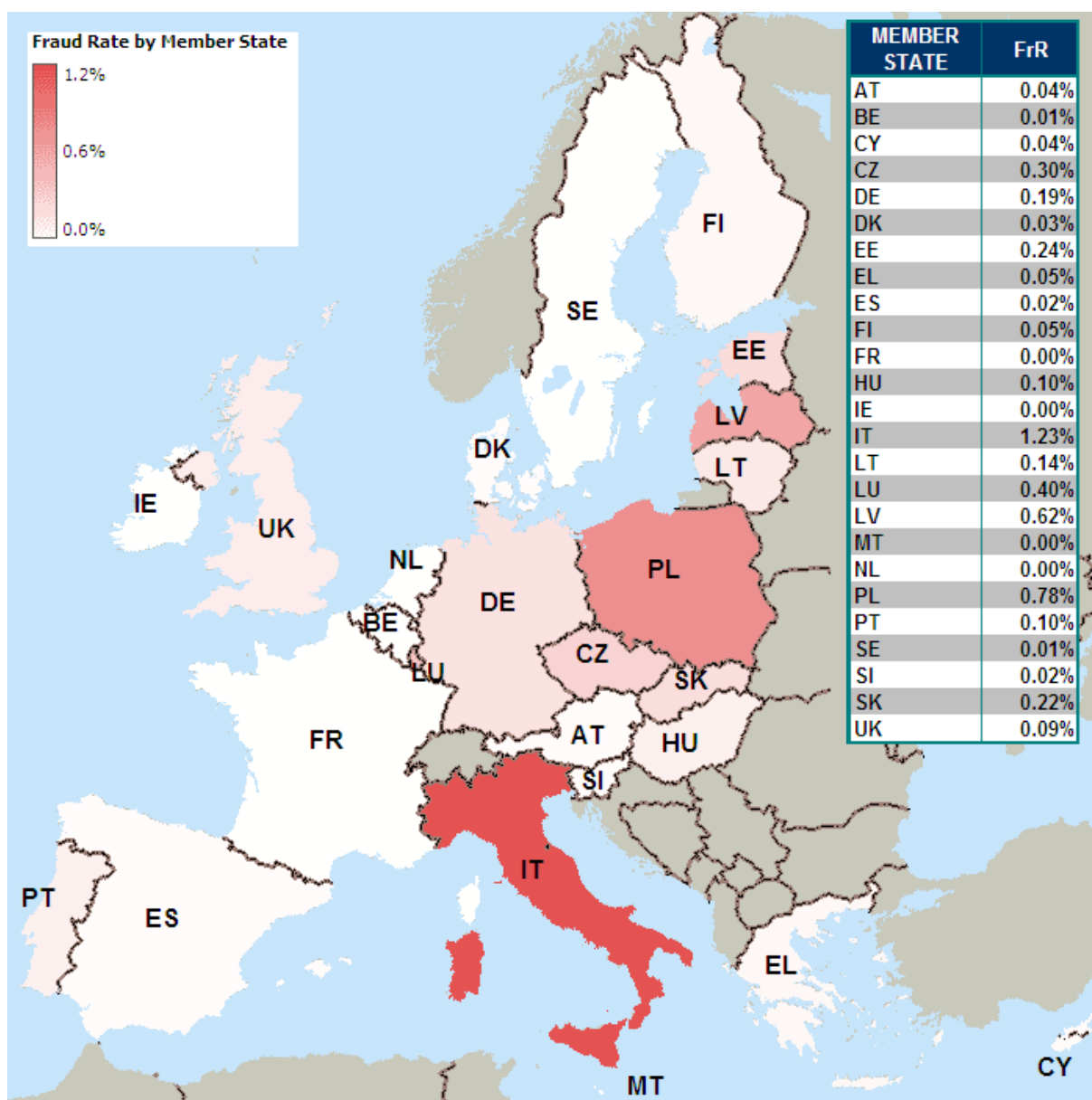


The high IrR of the mentioned countries could also have its explanation in a higher percentage of the expenditure audited in these countries. At the moment of closing this document, data about audited expenditure were not available for all Member States and therefore did not allow for this type of analysis to be conducted.

Map SF2 displays the FrR by Member State as displayed in the last column of Table SF7, highlighting the high values, in particular, of Italy, Poland, Latvia and Luxembourg. The high FrR of these two countries should be interpreted in a positive way, rather than negative.

Good anti-fraud systems show, inevitably, bad figures. By good anti-fraud system it is meant a system that does not only detect fraud, putting in place adequate means and resources; but also duly reports it according to the existing rules.

Map SF2: FrR by Member State



Looking at the low values, among these are Malta, Ireland, France and the Netherlands (0%); Belgium and Sweden (0.01%), Slovenia (0.02%); Spain and Denmark (0.03%). If very low values are explainable especially in small countries like Malta, they seem less realistic in larger Member States like, in particular, France and Spain. Their result could indicate either a lower detection capability or the non-reporting of a part of eventually detected fraud. In the case of these two countries, it should also be emphasised that values displayed on the table are entirely the result of Commission estimation, as they failed to provide any qualification (see par. 9.2.5).

An interesting aspect to examine in the framework of the protection of the EU financial interests is how effective the preventive action of national authorities is and, when not prevented, what proportion of the detected irregular amounts is effectively recovered from the beneficiaries.

Table SF8 shows the irregular amounts reported by each Member State on the whole programming period 2000-2006 (column A); the part of these irregular amounts which has been decommitted (column B) and that for which payments were made to beneficiary (column C); the balance that still remains to be recovered⁸⁷ (column D); the percentage of the irregular amounts which was not paid to beneficiary (column E – prevention rate); and the percentage of the paid irregular amounts that has been recovered (column F – recovery rate).

Table SF 8: Irregular amounts, prevention rate and recovery rate by Member State – Programming Period 2000-2006

MEMBER STATE	IRREGULAR AMOUNTS	IRREGULAR EXCLUDING DECOMMITTED	OF WHICH PAID	BALANCE TO BE RECOVERED	PREVENTION RATE	RECOVERY RATE
	A	B	C	D	$E=(B-C)/A$	$F=(C-D)/D$
	EUR	EUR	EUR	EUR	%	%
AT	39 238 609	33 654 816	29 849 556	15 853 357	9.7%	46.9%
BE	22 425 634	20 653 730	17 804 247	4 509 423	12.7%	74.7%
CY	590 906	273	0	0	0.0%	#DIV/0!
CZ	74 036 929	65 615 778	56 495 559	48 670 247	12.3%	13.9%
DE	401 807 477	360 154 447	292 696 605	226 522 191	16.8%	22.6%
DK	5 397 991	4 327 187	3 976 343	1 886 403	6.5%	52.6%
EE	6 196 520	6 110 724	4 548 310	2 597 571	25.2%	42.9%
EL	424 808 661	338 891 320	315 687 663	1 612 056	5.5%	99.5%
ES	711 303 778	697 764 418	692 642 768	164 922 325	0.7%	76.2%
FI	10 386 200	5 895 403	3 851 634	491 959	19.7%	87.2%
FR	42 398 760	41 423 138	36 715 161	19 094 036	11.1%	48.0%
HU	47 913 383	46 207 002	11 720 129	9 725 634	72.0%	17.0%
IE	112 617 456	109 823 633	103 697 166	2 295 445	5.4%	97.8%
IT	881 066 761	730 939 048	495 050 099	226 450 450	26.8%	54.3%
LT	8 078 553	8 066 477	4 102 642	2 205 347	49.1%	46.2%
LU	4 113 714	4 113 714	4 113 714	0	0.0%	100.0%
LV	9 295 705	9 276 007	7 790 564	3 980 640	16.0%	48.9%
MT	1 748 285	1 728 514	1 728 514	0	0.0%	100.0%
NL	105 495 326	104 459 959	17 669 642	7 580 105	82.3%	57.1%
PL	180 070 259	177 417 475	99 282 467	17 965 795	43.4%	81.9%
PT	315 232 297	312 426 748	264 197 470	48 431 984	15.3%	81.7%
SE	15 666 129	14 355 506	4 838 834	1 580 124	60.7%	67.3%
SI	10 206 023	7 637 412	7 630 379	7 454 965	0.1%	2.3%
SK	54 528 712	53 987 779	53 741 170	7 771 944	0.5%	85.5%
UK	541 486 308	440 104 839	405 939 449	140 817 187	6.3%	65.3%
TOTAL	4 026 110 377	3 595 035 349	2 935 770 086	962 419 187	16.4%	67.2%

Looking at column E, very high prevention rates emerge especially in the Netherlands, Hungary, Sweden, Lithuania and Poland (all between 82 and 43%). Some caution is needed on these data, because some Member States may have not reported the irregularities they detected before payment.

Looking at column F, very high recovery rates are those of Luxembourg and Cyprus (100%), Ireland, Finland, Belgium, Spain, Poland, Portugal and Greece. Also in this case some caution is due. In many Member States is a common practise to exclude

⁸⁷

Member States continue to report the amounts recovered also after (partial) programme closure and must return the recovered amounts to the Commission. The Commission monitors the correctness of the financial follow-up given by the Member States to pending recoveries.

projects found as irregular from the expenditure declaration to the Commission⁸⁸. This implies that EU resources are somehow protected and those resources can be re-used to finance other eligible projects, but the full burden of recovery is shifted on national budgets. When this decision is taken, the Commission does not receive anymore data about recovery of those sums and therefore the picture presented here is only partial.

As a general conclusion, anyhow, recovery has showed important progresses since 2009, as now more than 67% of the paid amounts have been recovered or deducted. Recovery remains low for Hungary, the Czech Republic and Slovenia (below 20%), which should put more attention to this aspect.

9.3.2. Established fraud – Structural Funds

The prosecution and adequate sanctioning of fraudsters is one of the cornerstones of fraud prevention, without which no deterrence can be exercised against those who are guilty of such crime.

In relation to the programming period 2000-2006, Member States communicated the establishment of fraud in 162 cases.

Table SF9 shows the number of cases of established fraud per Member State and per fund.

Table SF9: N° of cases of established fraud by Member State and Fund – Programming Period 2000-2006

MEMBER STATE	FUNDS			TOTAL
	ERDF	ESF	EAGGF - Guid.	
	N	N	N	
CY		1		1
DE	12	88		100
EE		2		2
ES	1			1
FR	1			1
HU		1		1
IT	4	9	1	14
PL	9	6	20	35
UK	1	6		7
TOTAL	28	113	21	162

The highest number of cases of established fraud concerns the ESF, and Germany has been the State the most successful in completing the related procedures (100 decisions), followed by Poland (35) and Italy (14).

⁸⁸

In fact, in order to correct detected irregularities, Member States have two choices: they can choose to either immediately withdraw irregular expenditure by deducting it from the next payment claim or they can choose to deduct the irregular expenditure from a future payment claim only once recovery has been affected from the final beneficiary. This is a choice left to the Member States' discretion.

Case study SF1: Established fraud against the ESF

Five photocopies of the original attendance register for a particular training course were made and the date, topic and trainer's name were modified in order to match the details of five other training courses that took place. The registers were submitted from the participating partner to the leading partner as supporting documentation and subsequently included in the expenditure report submitted.

The falsification was detected in the course of routine checks of monthly expenditure reports carried out by the Intermediate Body, in order to proceed to approval and payment of the eligible amounts.

The sanction imposed was the loss of European subsidies.

In 113 cases penal sanctions were imposed, of which 75 were specified as 'Imprisonment'.

Case study SF2: established fraud against the ERDF

The beneficiary company included in the accounts costs for acquisition of materials and of services for an amount of about EUR 500 thousand. Through a check at the premises of the company and on third parties involved it was established that part of those costs were in fact fictitious, resulting from their overstatement in the related invoice.

Further checks led to discover that other claimed costs were introduced for realised works, which were not pertinent to the co-financed project.

The sanction imposed was the loss of subsidies.

In the greatest majority of cases, the use of falsified supporting documents was the *modus operandi* adopted for committing fraud.

The average amount affected by established fraud cases is about EUR 250 000 for the cases related to ERDF, about EUR 50 000 for ESF and EUR 25 000 for EAGGF – Guidance.

9.3.3. Irregularities related to the programming period 2000-2006 – Cohesion Fund

A total of 541 cases were reported since 2003, concerning the Cohesion Fund for the programming period 2000-2006. A total amount of EUR 297 million was reported of which EUR 65 million remain to be recovered.

Table SF10 details the information by Member State benefitting from this Fund.

Table SF10: N° of irregularities, related irregular amounts and amounts to be recovered – Cohesion Fund 2000-2006

MEMBER STATE	N° of irregularities	Irregular financial amounts	Balance to be recovered
	N	EUR	EUR
CZ	32	11 979 126	1 373 248
EE	6	843 326	32 040
ES	193	92 655 071	41 337 726
EL	68	53 881 135	8 203 639
HU	26	22 285 536	3 094 686
IE	15	32 993 203	0
LT	18	12 061 305	664 123
LV	14	268 095	5 469
MT	1	39 133	0
PL	65	5 004 336	165 866
PT	95	60 726 802	7 867 544
SI	1	2 552 398	0
SK	7	2 348 875	2 296 427
TOTAL	541	297 638 342	65 040 768

The table presents great disparities that do not allow comparing the different Member States.

More interesting are the results of the analysis focusing on the typology of projects financed by the Cohesion Fund affected by irregularities.

As showed in Table SF11, the majority of irregularities and related irregular amounts affect Environmental projects. However, the irregularities affecting Transport Projects are of a higher average value (more than double of the Environmental Projects).

Table SF11: Programming Period 2000-2006 – overall situation and main indicators by type of project – Cohesion Fund 2000-2006

TYPE OF PROJECTS	N° of irregularities	of which suspected fraud	FFL	Irregular amounts	of which related to suspected fraud	FAL	Payments	IrR	FrR
	A	B	C=B/A	D	E	F=E/D	G	H=D/G	I=E/G
	N	N	%	EUR	EUR	%	EUR	%	%
Environment	412	9	2.2%	169 084 028	1 760 526	1.0%	12 862 733 004	1.3%	0.01%
Transport	109		0.0%	124 993 307		0.0%	14 112 656 840	0.9%	0.00%
Technical Assistance	19		0.0%	2 440 011		0.0%	180 504 555	1.4%	0.00%
Mixed	1		0.0%	1 120 996		0.0%	243 746 086	0.5%	0.00%
TOTAL	541	9	1.7%	297 638 342	1 760 526	0.6%	27 399 640 485	1.1%	0.01%

Table SF 11 shows irregularities and cases of suspected fraud per typology of project. The table also presents the relevant indicators used throughout the document. While it is difficult to make any assessment of the FrR, due to the very limited number of cases, which affect exclusively the 'Environment' projects, the IrR provides more information. Reporting about the Cohesion Fund remains at levels that are lower than the other funds, but 'Environment' projects (also in relation to the disbursed amounts) seem to present more problems than 'Transport' projects.

9.3.4. Irregularities related to the programming period 2007-2013

For the first time, a descriptive analysis of irregularities and suspected fraud cases related to the programming period 2007-2013 is presented.

In general, the quality of the received information is higher than for the previous periods and, for instance, the “requalification” of the irregularities interested only 10 cases on 1 281 (less than 1%).

Interestingly, the reporting trend is following almost exactly that of the programming period 2000-2006 as showed in Chart SF 4, despite the wider derogations⁸⁹ but including a higher number of reporting countries.

Chart SF4: Comparison of reporting trends between the programming period 2000-2006 and 2007-2013

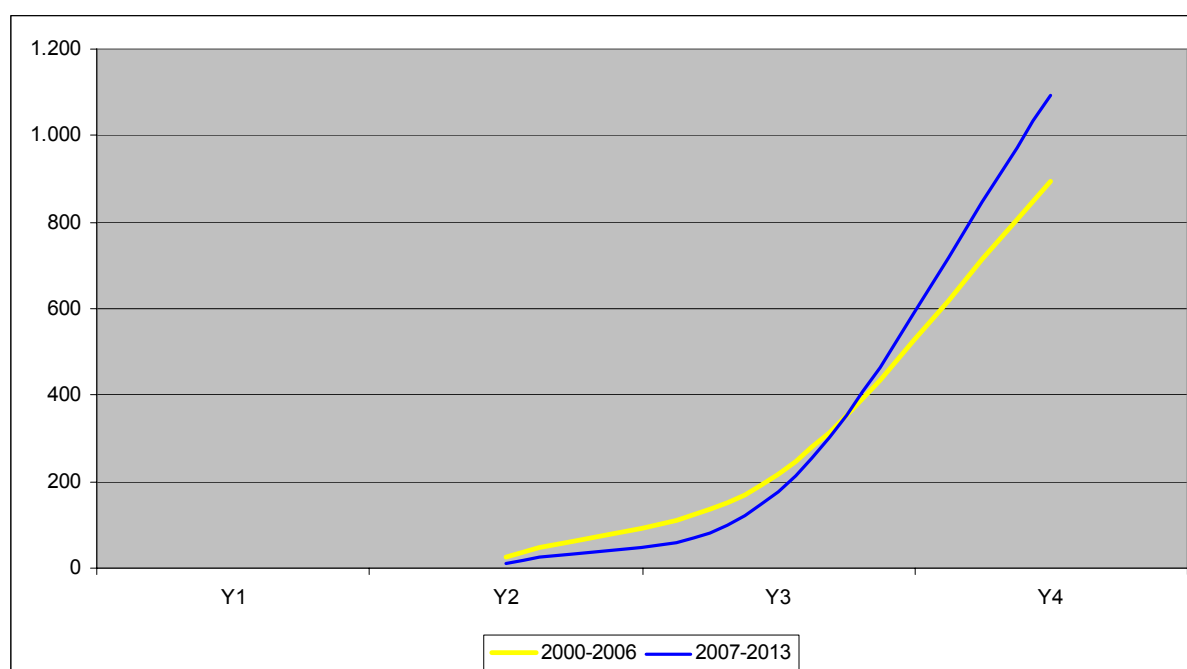


Table SF 12 shows the reported irregularities by Fund, together with the general indicators used throughout the document.

Table SF12: Programming Period 2007-2013 – overall situation and main indicators by Fund

FUND	N° of irregularities	of which suspected fraud	FFL	Irregular amounts	of which related to suspected fraud	FAL	Payments	IrR	FrR
	A	B	C=B/A	D	E	F=E/D	G	H=D/G	I=E/G
	N	N	%	EUR	EUR	%	EUR	%	%
ERDF	814	74	9.1%	555 777 579	423 692 448	76.2%	49 089 728 394	1.1%	0.86%
ESF	375	68	18.1%	22 692 039	3 628 124	16.0%	18 546 599 742	0.1%	0.02%
COHESION FUND	94	5	5.3%	60 027 957	10 025 084	16.7%	14 925 359 667	0.4%	0.07%
TOTAL	1 283	147	11.5%	638 497 575	437 345 655	68.5%	210 048 325 392	0.3%	0.21%

⁸⁹

See paragraph 3.1.2.

The overall irregularity and fraud rates are, at this stage of implementation of the programming period rather high. This situation is, however, explained with two suspected fraud cases reported from the Czech Republic and related to the ERDF, which display huge involved amounts. This explains the high values for the overall FAL, IrR and FrR and for the same indicators related to the ERDF.

Besides this, the other indicators prove a certain consistency with those showed for the programming period 2000-2006.

9.4. Conclusions

9.4.1. Structural Actions

- (1) The completeness and accuracy of irregularity reporting keep on improving and the introduction of IMS is playing an important role both on the quality and quantity of the reported irregularities. The Commission is grateful to all countries having successfully implemented the system and recommends to those, which have so far failed to do so (France and Ireland), to speed up their access to IMS.
- (2) In 2010, Member States have detected and reported 7 062 irregularities, involving an overall amount of EUR 1.55 billion. Reported irregularities and related financial amounts have been increasing in relation to 2009 with significantly (49% by number of cases and 31% in financial volume). Three main reasons could explain these increases: the closure of the programming period 2000-2006; the advanced phase of implementation of the programming period 2007-2013; the wide implementation of the new reporting system IMS, which has expanded the number of users submitting irregularity reports and reduced the time necessary to transmit these reports.
- (3) Given the multi-annual nature of the programmes run under the Cohesion Policy, the analysis by Programming Period provides more interesting elements than an analysis based on yearly budgets.
- (4) Checks and controls seem to become more effective, as the same detection methods showed the capability of detecting more irregularities of higher financial volume.

9.4.2. Programming Period 2000-2006

- (5) Throughout the Programming Period 2000-2006, for which closure procedures have been initiated in 2010, the overall Irregularity Rate is about 1.9%, while the Fraud Rate is about 0.26%. These rates exclusively represent the impact on the payments from the Commission to the Member States of, respectively, irregularities (including suspected and established fraud) and suspected and established fraud cases (alone). In both cases, therefore, these rates do fail to indicate what the real dimension of irregularities and fraud is. These rates represent the results of the checks and audits of national competent authorities and no extrapolation is allowed unless the size of the audited and checked sample would be known.

- (6) The highest Irregularity Rates concern the ERDF (2.5%) and Objective 2 programmes (2.8%). For the ERDF the most plausible explanation is that this Fund finances projects of a higher value and therefore irregularities tend also to be of greater amount.
- (7) In terms of Fraud Rate, looking at the funds, FIFG shows the highest rate of suspected fraud (0.29%), followed by the ERDF (0.28%); from the objectives perspective, Objective 1 programmes present the highest rate (0.30%), followed by the Fisheries out of Objective 1 programmes (0.22%) and Objective 3 (0.18%).
- (8) Italy, Poland, Latvia and Luxembourg present the highest Fraud Rates among Member States. A higher number of reported cases of irregularities or suspected fraud does not necessarily mean that more irregularities or fraud are committed or that a Member State is more vulnerable to them. A more developed audit or anti-fraud strategy, tailor made audits, higher number of performed audits or investigations will normally lead to a higher number of detected irregularities and fraud. Therefore, it is possible that Member States with a higher irregularity or fraud rate perform better than Member States with a lower irregularity or fraud rate.
- (9) Among the Member States with very low fraud rates emerge Spain and France (especially in relation to their size and to the financial support received) in particular, whose results could indicate either a lower fraud detection capability or the fact that a part of detected fraud may remain unreported.
- (10) Germany is the most successful Member State in completing procedures for the establishment of fraud in relation to the programming period 2000-2006, followed by Poland and Italy.
- (11) Recovery rates throughout the Programming Period 2000-2006 are good (almost 70%), though they may be influenced by the practise of excluding projects found to be irregular from the expenditure declaration to the Commission.

9.4.3. Cohesion Fund

- (12) Data related to the Cohesion Fund remain too fragmented to provide a reliable picture, but highlight that Environmental projects present an irregularity rate higher than the others. The introduction of IMS has already played a positive impact on the quality and reliability for the Cohesion Fund, showing for the first time also cases of suspected fraud. All these cases are related to Environmental projects.

10. PRE-ACCESSION FUNDS (ANNEXES 21-22)

The descriptive statistical analysis presented hereinafter relates to the developments in the area of enlargement and assistance provided to enhance administrative capacities during the pre-accession period for candidate countries and to assist in the fulfilment of the Copenhagen criteria for EU membership.

The forthcoming analysis is limited to the programmes implemented under decentralised management subject to irregularity reporting obligation established by Financing Agreements and other relevant EU legislation. It mainly covers the programming period 2000-2006, though some information is also referred to the financial perspectives 2007-2013.

Agenda 2000⁹⁰ set up two financial mechanisms, ISPA⁹¹ and SAPARD⁹², to complement the actions of the PHARE⁹³ programme, which has been the EU aid programme for the EU-12⁹⁴ since 1990. The 10 Member States that joined the EU in 2004 received a Transition Facility in 2004-2006. Bulgaria and Romania received a Transition Facility in 2007 which is regarded as post-accession assistance.

Croatia benefits from several types of pre-accession assistance like Community Assistance for Reconstruction, Development and Stabilisation (CARDS) (2001-2004), PHARE and ISPA (2005-2006) as well as SAPARD (2006). It is the only country subject to reporting CARDS⁹⁵ irregularities since 2006⁹⁶.

Turkey has been receiving pre-accession assistance since 2002⁹⁷. The financial support provided falls under two periods: 2002-2006 - Turkish Pre-accession assistance (TPA) with a total allocation of EUR 1 249 million and 164 projects and 2007-2013 – Instrument for Pre-accession Assistance (five components) with a total allocation of EUR 4 873 million.

⁹⁰ On 26 March 1999, at the Berlin European Council, the Heads of Government or States concluded a political agreement on Agenda 2000

⁹¹ ISPA programme dealt with large-scale environment and transport investment support in candidate countries.

⁹² SAPARD programme has supported agricultural and rural development in candidate countries.

⁹³ PHARE programme applied to candidate countries, principally involving institution building measures (and associated investment) as well as measures designed to promote economic and social cohesion, including cross-border co-operation.

⁹⁴ The following abbreviations are used to describe groups of countries:

a) EU-12 designates all Member States having acceded the EU since 2004;

b) EU-10 indicates Member States having acceded in 2004;

c) EU-2 refers to Member States having acceded in 2007;

d) CAND identifies candidate countries.

⁹⁵ Community Assistance for Reconstruction, Development and Stabilisation applied to Western Balkan countries

⁹⁶ Commission Decision PE/2006/148 of 07/02/2006 conferring management of aid provided under PHARE and CARDS to an Implementing Agency in Croatia

⁹⁷ European financial contribution in the framework of pre-accession strategy was first granted to Turkey under Council Regulation 2500/2001.

Since 1 January 2007 EU pre-accession assistance has been channeled through a single Instrument for Pre-accession Assistance (IPA)⁹⁸ designed to deliver support for candidate and potential candidate countries. The preliminary allocation for IPA country programmes in the period 2007-2013 is EUR 8.4 billion (in 2010 – EUR 1.6 billion).

In the following paragraphs, when referring to irregularities reported in 2010, it should be kept in mind that, conformly to the reporting obligations, Member States shall notify irregularities within two months following the end of each quarter. Therefore the “reporting period” goes, in fact, from 1st March 2010 until 28 February 2011.

10.1. Reporting discipline

As specified in paragraph 5.1, specific modules for Pre-Accession Assistance (PAA Module) and for the Instrument for Pre-Accession Assistance (IPA module) irregularity reporting have been developed.

In general, reporting countries have showed further progress in reporting compliance. The introduction of IMS has produced improvements in terms of data quality and, especially, completeness and the process is expected to result in further improvements with the full implementation of the two modules (see par 5.1.2).

In general the communications are very complete. Some mistakes can be still encountered in relation to the financial aspects of the reports, but the level of completeness of the reported information is close to 100% for all countries. In terms of timeliness of the reporting of the newly detected irregularities, 73% are reported within the deadlines set in the regulation. Another 22% are reported within 12 months from detection leaving only 5% of the irregularities reported later than 1 year from detection, which is a positive result. In this context, special attention should be paid by Croatia (50% of irregularities are reported later than 12 months after detection) and Poland (35%). Some improvements may still be achieved by Hungary and Turkey (8%).

The improved completeness of the information allows now for some assessment of the data quality. Here some inconsistencies are still detected, as, for instance, in 44 cases on 424 some beneficiary countries indicate a date of first information leading to the detection of the irregularity which is posterior to the date of the primary administrative or judicial finding⁹⁹. In a limited number of cases (11 on 424) the qualification of the irregularity is in contradiction with other information provided in the communication, as explained in paragraph 5.2.

⁹⁸ Council Regulation (EC) No 1085/2006

⁹⁹ According to article 27(b) of Regulation (EC) No 1828/2006, ‘primary administrative or judicial finding’ means a first written assessment by a competent authority, either administrative or judicial, concluding on the basis of specific facts that an irregularity has been committed, without prejudice to the possibility that this conclusion may subsequently have to be revised or withdrawn as a result of developments in the course of the administrative or judicial procedure.

10.2. General Trends

The following analysis intends to provide an overview of the reported irregularities in 2010 and to compare the reporting trends observed during the period 2002 -2010.

In 2010 European Anti-Fraud Office (OLAF) received 1 362 reports on pre-accession funds (PHARE, SAPARD, ISPA, Transition Facility (TF), CARDS, Turkish pre-accession instrument - TPA) from the Member states and Candidate countries. The received information consists of 424 new cases detected by the national authorities in 2010 and 939 follow-up reports on the previously reported cases.

The total European contribution amount affected by irregularities in 2010 (programming period 2000-2006) was EUR 83 741 577. For the 2007-2013 period, in 2010 2 irregularities were reported involving EUR 1 002 475.

Annex 21 provides more details about the information above, distinguishing also by Fund.

10.2.1. Overall trend

A word of caution before presenting the general trends is necessary, considering that a wider variety of pre-accession instruments is covered due to different programming periods; that the ongoing enlargement process now addresses different beneficiary countries; and that Member states and Candidate countries do not necessarily have the same approach towards reporting.

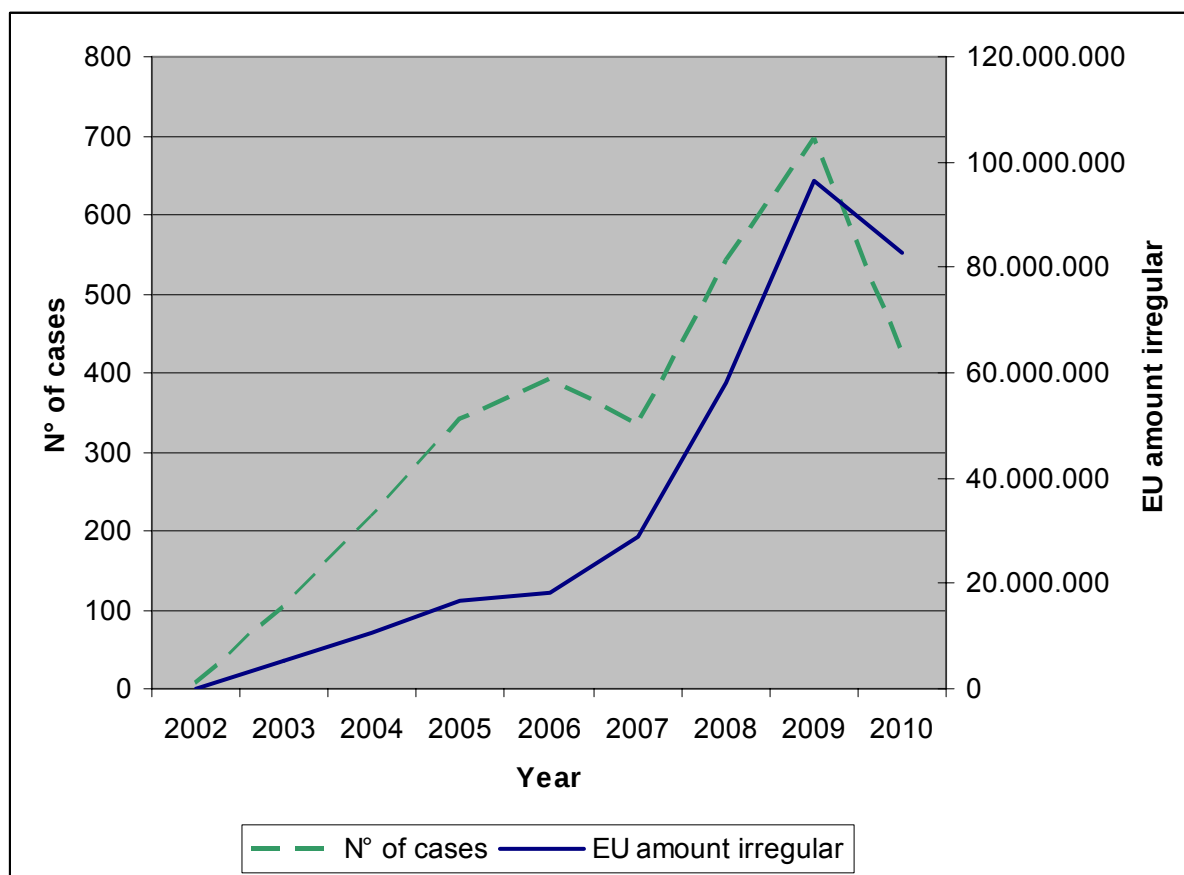
In fact, reporting countries happen to be at different stages of the project cycle. The EU-10 group has finalized the projects and reports very few new cases, the focus, however, remains on administrative and judicial follow-up. The EU-2 group reports a significant number of newly detected cases which certainly affect the overall tendency. Croatia and Turkey have become more active in reporting, though, in comparison to 2009 they show a decrease of newly detected and reported cases; increasing tendencies are, however, expected in the coming years¹⁰⁰.

The number of new cases received on pre-accession assistance has decreased by 40%, while the total number of communications has decreased by 48% comparing to 2009 figures.

Chart PA1 shows an important decrease of the reported number of cases of irregularities and suspected fraud and the related EU irregular amounts. It seems to be the first significant signal of the “phasing-out” effect of the EU-2 group and confirms the decreasing trend of EU-10.

¹⁰⁰ Similarly to the Cohesion Policy, however, derogations to the reporting obligations have also been widened.

Chart PA 1: Irregularities communicated by reporting countries (2002-2010)



Irregularities are not distributed equally among the reporting countries due to different periods of eligibility of expenditure, implementation phases, as well as varying types of support instruments.

In 2010 EU-10 account for 15%, Bulgaria and Romania for 81%, Croatia and Turkey for 4% of the total number of cases. Talking about the total EU affected amount as reported, EU-10 make 4%, Bulgaria and Romania 89%, Croatia and Turkey 7%.

Chart PA 2: Distribution of reported cases in 2010 by groups of countries - number of cases (left) and related irregular amounts (right)

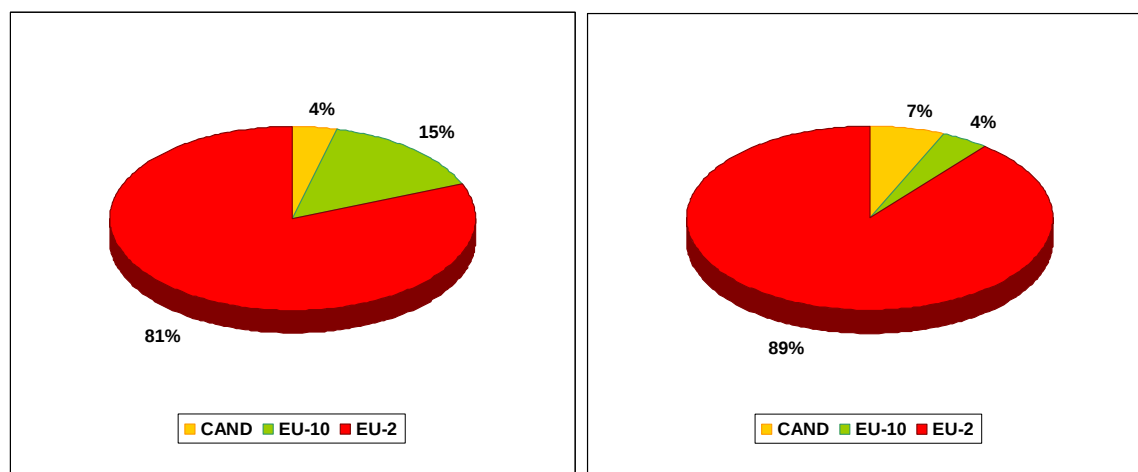


Chart PA2 shows that the greater part of the analysed data set (irregularity reports received in 2010) still originates from Romania and Bulgaria. Consequently, the trends are highly influenced by their reporting patterns.

Comparing 2009 and 2010 only Hungary shows an increase in the number of reported irregularities (18%). For the reported EU affected amounts increases are evident for Croatia (956%), Latvia (1 037%) and Romania (59%). The remaining countries all disclose a falling tendency.

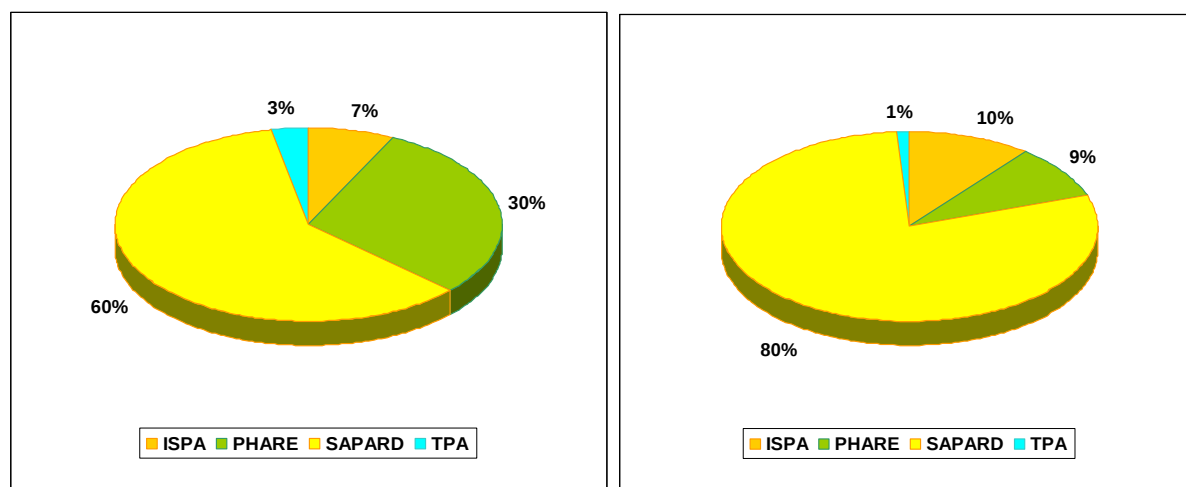
Summary details for all irregularities received since 2002 are presented in Annex 22.

10.2.2. Irregularities affecting different funds

All funds concerned show important decreases, with the only exception of PHARE, for which the reported number of cases has remained stable, while the related irregular EU amounts have also decreased (by 42%). The biggest and most remarkable change concerns the funds specifically related to the Candidate Countries group, with the Pre-Accession Assistance for Turkey decreasing by 50% for the number of irregularities reported and by 65% for the related irregular EU amounts and for CARDS (the assistance to HR for reconstruction and development) for which no irregularities have been reported. Important decreases were also observed for SAPARD and ISPA (around 45% in the number of reported cases and 26% for the related financial volume).

As demonstrated by Chart PA 3 SAPARD maintains the first place for both the cases reported in numbers (60%) and amounts (80%).

Chart PA 3: Distribution of communications per fund in 2010 - number of cases (left) and related irregular amounts (right)



10.2.3. Amounts involved and impact on budget

The irregularity rate on the budget for 2010 is 5.75% (down from 9.75% of the previous year) if calculated on the payment appropriations (EUR 93 million irregular, including prevented irregularities, on EUR 1.6 billion of payment appropriations). However, this figure should be taken with great caution as irregularities are not necessarily related to that financial year. In most cases irregularities have occurred earlier, but were only traced (or reported) in 2010.

It would be more precise to calculate the impact of irregularities (irregularity rate) on the whole programming period (2002-2006) and the 'actual' beneficiary countries. Thus the result is 1.6% (EUR 305 million total irregular amount reported so far on the overall budget of roughly EUR 19 billion). Data are still preliminary to provide a similar rate for the period 2007-2013.

10.2.4. Detection of irregularities

Most of the irregularities in 2010 were detected by means of 'Control of documents'. The second most frequent method is 'Ex-post controls'. Control of documents and audit make key responsibilities of the national authorities implementing EU funds under decentralised and shared management modes. In general, the most frequent methods of detection imply both ex-ante and ex-post controls. It is a natural outcome since the data set involves projects under different stages of implementation.

The most "productive" method of detection is the 'Control by Commission services', which was particularly significant in relation to Romania and appeared, though in a limited number of cases, also in Bulgaria and Hungary. Through these controls, in conjunction also with associated controls with national services, more than 42% of the total reported irregular amounts were detected. This finding is once more underlining the importance of audits performed by responsible Commission services and investigations run by OLAF.

On the spot controls account for 7% of the detected irregular amount and were effectively used in Bulgaria, Czech Republic, Poland and Romania.

In average, it takes about 34 months to detect an irregularity, with Croatia and Turkey showing the shortest delay (respectively 5 and 14 months) and Poland and Slovakia the longest (47 and 49 months respectively). This analysis is possible for the first time, considering the completeness of the reported information.

10.2.5. Detected types of irregularities / modus operandi

The most common type of irregularity by the number of received cases and amounts affected in 2010 was 'Failure to respect other regulations/contract conditions' (20% of amounts), followed by 'Falsified supporting documents' (17%) and 'Failure to respect deadlines' (12%).

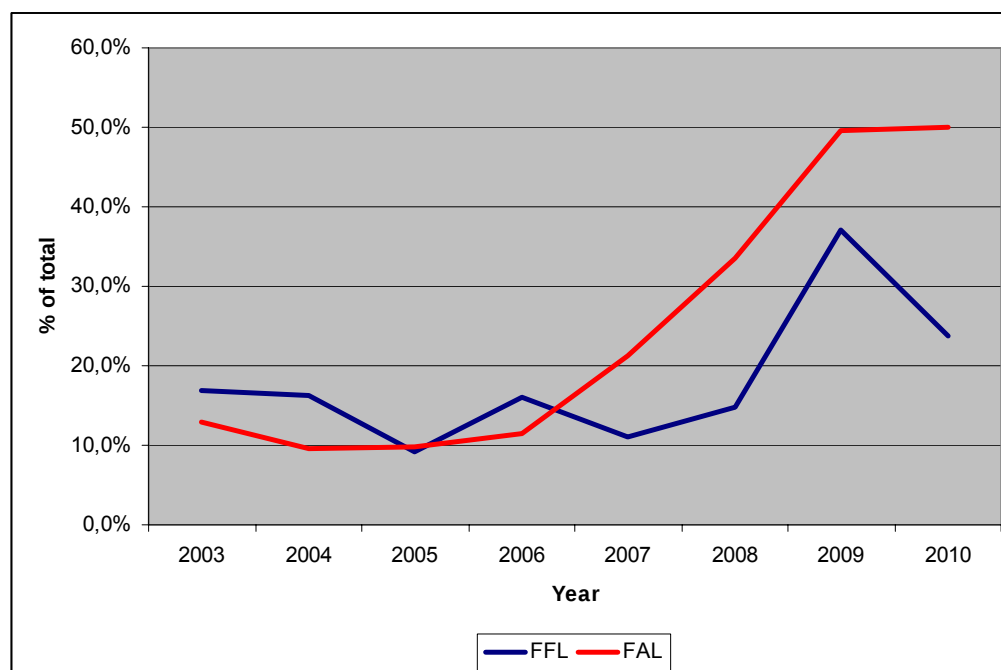
The use of 'Falsified supporting documents' clearly refers to cases of suspected fraud and consequently will be dealt with more in detail in paragraph 10.3. It is however important to highlight that, consistently with their 'nature' they represent the greatest threat to the EU financial interests, as cases implying such *modus operandi* cover 40% of the total irregular amounts reported. 19% of the total irregular amounts were interested by 'Failure to respect other regulations/contract conditions'.

10.3. Specific analysis

10.3.1. Suspected and established fraud

In 2010 cases classified as suspected fraud (FFL) made 24% (101) of irregularities and 50% of the EU affected amount (FAL) (EUR 117 million). For the sake of transparency it is worth mentioning that OLAF reclassified 2.6% of cases into 'suspected fraud' according to the method and conditions explained in paragraph 5.2. These figures are quite stable in relation to 2009 as showed in Chart PA 5.

Chart PA 5: *Share of suspected fraud and established fraud in reported cases*



Meanwhile, it is important to note that the analysed cases are just 'suspected fraud' and are undergoing investigation by the relevant national authorities. The final precise figures can only be presented on 'established fraud' cases, when the court rulings are made. In 2010 only one case of established fraud was reported by Hungary in relation to PHARE. Up to now, only other three cases in total were defined as established fraud: one by Poland (SAPARD) and 2 by Romania (PHARE).

80% of the cases of suspected fraud were detected in relation to SAPARD and 17% in relation to PHARE.

Case study: multiple funding of costs - SAPARD

During the on-spot-check it has been found that the same premises were used together with other beneficiaries of financial support from SAPARD for other projects. Administrative costs are supported only in the implementation of one project, but are presented as eligible costs also in all other projects, and those claims are supported with falsified documents.

6 out of the 10 countries, which reported irregularities in 2010, notified cases of suspected or established fraud. Romania communicated the highest number of cases (56, representing 56% of the total cases of suspected fraud) followed by Bulgaria (35, representing 35%). Clearly these figures are influenced by the fact that EU2 is still the group of countries that reports the highest number of irregularities.

What needs to be pointed out is that the greatest share of the cases reported by Bulgaria has been the result of detection by national authorities, which is a signal of discontinuity with the past, when most cases were detected on initiative or on request by European bodies or institutions. In the case of Romania, on the contrary, the

trigger for detection of cases of suspected fraud is ‘controls by European services’ alone or in association with national services.

As it could be expected, cases of suspected fraud take longer in average to be detected than administrative irregularities: 53 months is the average gap between the beginning of the possible fraud and detection (the minimum value is 21 months for Turkey and the maximum is 60 months for Latvia and Romania).

As already pointed out, the most recurrent *modus operandi* is the use of ‘Falsified supporting documents’.

Case study PA 2: fictitious purchase – PHARE

A fictitious purchase of equipment was fraudulently registered in the accounts of a company benefitting from PHARE support. In reality, the equipment stayed in the same premises, because the seller and buyer of the equipment have the same ownership.

10.3.2. Cases of suspected fraud related to the programming period 2002-2006

In order to establish a meaningful fraud rate it is necessary to abandon the approach of the reported cases per year and analyse a financial period as a whole. This can be done in relation to the three funds SAPARD, PHARE and ISPA implemented in the period 2002-2006.

The first observation looking at these cases is that their distribution across the funds is not balanced. The numbers of cases received since 2002 manifest predominance of SAPARD with 436 cases out of which 80 for 2010. PHARE counts 174 for all years of which 17 in 2010, while ISPA only 8.

10.3.3. Fraud rates related to SAPARD – programming period 2002-2006

Being SAPARD the fund presenting the most important exposure to cases of suspected fraud, it seems interesting to update the analysis already conducted for the reporting year 2009.

The total fraud rate for the whole programming period of SAPARD is at the level of 3.5%. However, looking at the individual reporting countries in Table PA 1, it becomes obvious that the rate is highly affected by a particular situation in Bulgaria. Bulgarian fraud rate for SAPARD is 15.2%, which is the highest rate seen in all the funds analyzed (see chapters 8 and 9). Meanwhile, the Czech Republic, Latvia, and Slovakia have zero fraud rate. Taking into account the fact that SAPARD programme was prone to particular irregularities, and the same *modus operandi* for suspected fraud were identified in several countries, there are some doubts whether all the detected cases of suspected fraud were reported to the Commission. However, as already indicated in the paragraph dedicated to general trends, reporting of new cases is highly unlikely, due to the phasing-out from pre-accession assistance.

Map PA 1. Fraud rate for SAPARD by reporting country

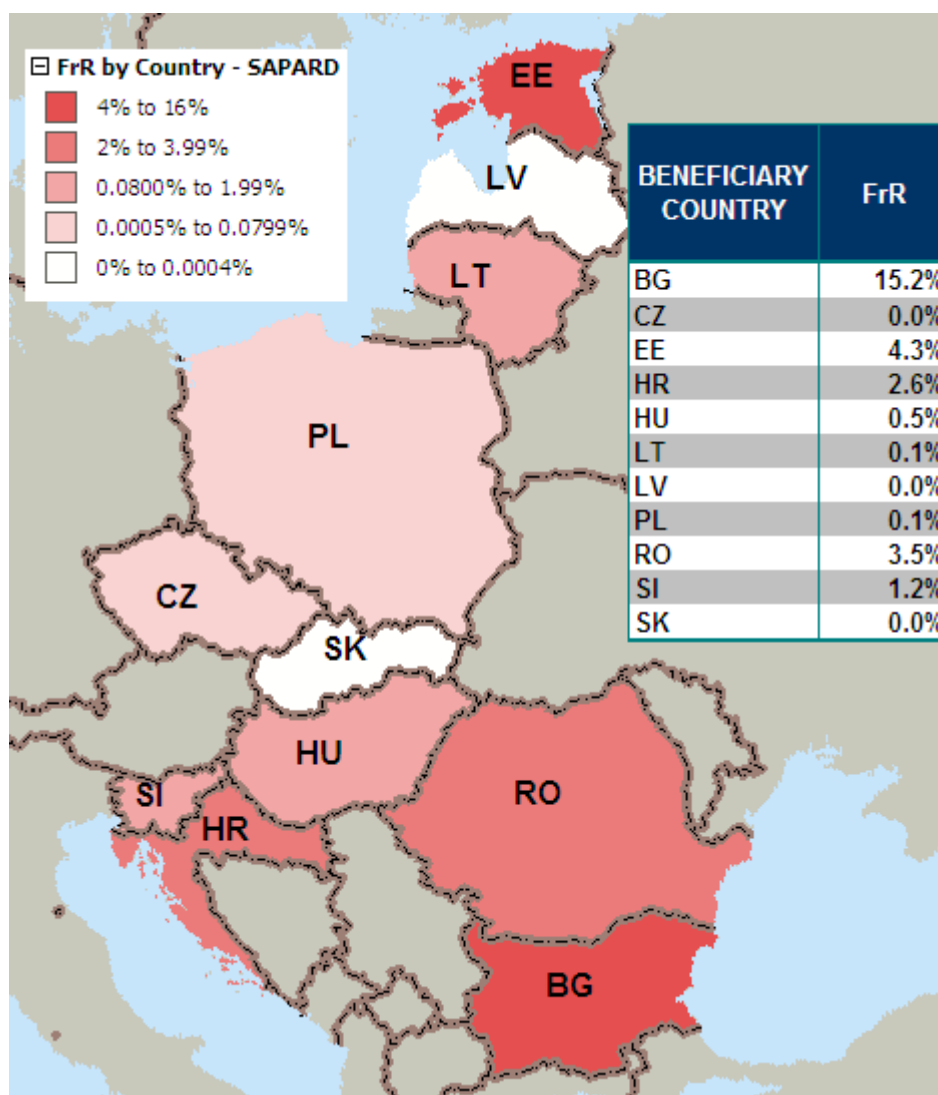


Table PA 1: Fraud rates by reporting country – period 2002-2006 SAPARD

Beneficiary Country	Committments AFA	N° of suspected fraud cases	EU amount affected by suspected fraud	FrR
	EUR	N	EUR	%
BG	371 409 686	274	56 476 832	15.2%
CZ	92 787 704	1	807	0.0%
EE	51 043 119	2	2 206 970	4.3%
HR	25 000 000	2	659 549	2.6%
HU	160 039 127	7	835 359	0.5%
LT	125 448 234	6	120 049	0.1%
LV	91 883 502	6	0	0.0%
PL	709 409 786	36	471 963	0.1%
RO	1 159 785 692	97	40 701 728	3.5%
SI	26 650 758	6	331 000	1.2%
SK	76 915 845	0	0	0.0%
TOTAL	2 890 373 453	437	101 804 256	3.5%

Almost 25% of SAPARD projects affected by suspected fraud present a public contribution (national and EU support) between EUR 100 000 and 250 000. However, also project with a value up to EUR 5 million are interested by cases of suspected fraud. The tendency for projects with higher value to be affected by suspected fraud has increased with the reports received in 2010 especially due to the cases received from Romania.

10.3.4. Estimated Fraud Rate for the Programming Period 2002-2006 – all funds

The percentage of the sum of suspected fraud in the total allocated amount (FrR) for period 2002-2006 is 0.65%. It represents the highest rate among all the policies examined in this document and for this reason stresses the need for continuous monitoring of beneficiary countries of pre-accession assistance, which are faced with challenges and risks that they learn to manage only through experience and confrontation with these problems.

10.3.5. Recovery

Recovery becomes a topical issue when the project cycle is about to close. Administrative procedures (recoveries and sanctions) together with effective prosecution are the cornerstones of fraud prevention.

Once more, it is interesting to analyse the reporting issue in relation to a whole programming period rather than on yearly basis, as more recent years will always present recovery rates which are far lower.

Table PA 4 demonstrates the recovery situation per country. The table provides an overview for all the years and all the funds. It presents the recovery rate which is the percentage of the total amount recovered on the irregular amounts effectively disbursed. Malta has the highest recovery rate, followed by Estonia and Poland. Apart from these three countries, which show a recovery rate above 50%, the others present a situation that raises some elements of concern. The average of the beneficiary countries is 30% and the situation appears particularly serious in Bulgaria, Turkey, Lithuania, Latvia and Slovenia (with a recovery rate from 8.2 to 17.4%).

The recovery rate is much lower for the cases of suspected fraud and is around 14% (increasing from 2009 when it was just 4.6%). It seemingly suggests that recovery process in cases undergoing prosecution is even more difficult. Frequently recoveries are not even initiated when the case is under pre-trial investigation or they are stopped waiting for the court ruling. Administrative procedures and criminal investigation in most countries do not go hand in hand, therefore recovery rates are influenced.

Table PA 2 also shows the ‘prevention rate’, which represents the part of the irregular amounts for which detection has prevented a part of the undue payment to happen. Prevention rate is low in Lithuania, Romania and Turkey (ranging from 3.5% to 23%) and high in Croatia, Slovenia and Cyprus (all above 90%). Latvia and Bulgaria present prevention rates above 60%.

Table PA 2: Recovery by reporting country

BENEFICIARY COUNTRY	Irregular amounts	Recovered Amounts	Amounts to be recovered	Recovery rate	Prevention Rate
	A	B	C	$D=B/(B+C)$	$E=[A-(B+C)]/A$
	€	€	€	%	%
BG	114 745 230	3 516 723	39 116 221	8.2%	62.8%
CY	23 807	0	0	#DIV/0!	100.0%
CZ	2 918 167	743 912	1 424 438	34.3%	25.7%
EE	6 649 147	3 084 469	639 654	82.8%	44.0%
HR	10 226 714	562 611	314 618	64.1%	91.4%
HU	8 820 491	1 777 803	3 435 775	34.1%	40.9%
LT	4 871 083	512 508	4 185 695	10.9%	3.5%
LV	2 700 897	173 805	900 122	16.2%	60.2%
MT	112 620	112 620	0	100.0%	0.0%
PL	7 607 360	2 217 780	1 897 786	53.9%	45.9%
RO	146 133 104	45 127 476	82 487 033	35.4%	12.7%
SI	1 598 263	13 473	64 011	17.4%	95.2%
SK	8 343 845	1 792 898	3 249 330	35.6%	39.6%
TR	2 974 289	245 039	2 044 414	10.7%	23.0%
TOTAL	317 725 016	59 881 116	139 759 097	30.0%	37.2%

However, these figures reflect only the information provided in the irregularity reports, but do not take into account the recoveries and financial corrections made by the Commission.

10.4. Conclusions

- (1) In 2010 reported irregularities and related irregular amounts showed for the first time an important decrease. This could be a clear signal of the impact of the phasing out of EU-10 and EU-2 from the pre-accession assistance phase.
- (2) This decrease is not compensated, until now, by a significant increase of reported irregularities from Candidate countries. Next years will indicate if the experience acquired in managing the great enlargements of 2004 and 2007 has paid off in correcting the problems encountered in the previous phase of the pre-accession assistance.
- (3) The decrease is visible for all funds and almost for all countries. The majority of the new detected and reported cases are still related to the SAPARD fund in Romania and Bulgaria.
- (4) An important development is confirmed in Bulgaria, where irregularities and suspected fraud cases are now mainly detected by national services rather than on request or on action by European institutions and bodies. On the contrary, the situation in Romania appears the opposite, with an increasing “weight” of irregularities and suspected fraud cases detected following a control by European services or on their request.
- (5) The total fraud rate for the whole programming period of SAPARD is at the level of 3.5%. Bulgarian fraud rate for SAPARD is around 15%, which is the highest rate seen in all analysed funds (Cohesion Policy and Agriculture). Meanwhile the Czech Republic, Latvia, and Slovakia have zero fraud rate which puts in question the reliability of the reported information or the fraud detection capability in this specific sector. Considering the advanced stage of

phasing-out from pre-accession assistance for these countries, it is very unlikely to see any variation for their fraud rate in the future.

- (6) The issue of more performing recovery procedures still needs to be addressed. The overall recovery rate is about 30% and is the lowest among all policy areas examined in this document. Action is recommended especially for Bulgaria, Turkey, Lithuania, Latvia and Slovenia. In presence of cases of suspected fraud, the recovery rate is even lower and is around 14% for the whole programming period. The recovery process in cases undergoing prosecution is complex and lengthy. Administrative procedures and criminal investigation in most countries do not go hand in hand, therefore recovery rates are influenced. Safeguarding/conservation measures should be put in place for suspected fraud cases to make sure that after final court ruling recovery can still take place (in the form of seizure of assets, suspension of payments, bank guarantees, *et cetera*) or recovery procedures should be carried out regardless of the finalisation of the judiciary proceedings.
- (7) The high Fraud Rate showed by this policy underlines the importance of continuous monitoring and attention by the implementing services in relation to the new Beneficiary Countries which are likely to reproduce some of the problems encountered in the management of the first and, so far, most important pre-accession assistance.

11. DIRECT EXPENDITURE – CENTRALISED DIRECT MANAGEMENT

11.1. Methodology and scope

This chapter contains a descriptive analysis of the data on recovery orders issued by Commission services in relation to expenditures managed under ‘centralised direct management’¹⁰¹, which is one of the four implementation modes the Commission can use to implement the budget. This chapter is based on data retrieved from the ABAC system, as described in paragraph 5.1.3. Because of the limitations explained therein, the analysis presented in the following paragraphs should be treated extremely cautiously.

For the financial analyses in this chapter, the following data were used from ABAC:

- The number and corresponding financial amounts of recovery orders, which were registered **after validation** by the authorising officer, including information on the place of residence of the contract partner of the Commission and the budget line concerned; the method of detection; the type of irregularity identified and the time span between the approval of a budget commitment, the notification of a recovery order and the return payment of the undue funds to the Commission;
- The amount of a **commitment** to which a recovery order is linked and for which a payment has been made to a beneficiary.
- In the remainder of this chapter, the term recovery refers to the recovery order and the financial amount involved, whereas the term qualification refers to the qualification of the recovery order: irregularity or suspected fraud.

11.2. General analysis

In 2010, the Commission services registered 1021 recovery orders in ABAC that were qualified as irregularities or suspected fraud. The committed budget for these 1 021 recoveries was EUR 6.6 billion, of which EUR 43.1 million was identified as irregular¹⁰².

11.2.1. Financial amounts involved

The financial impact of the 1 021 recoveries registered in 2010 was EUR 43.1 million, which includes an amount of EUR 3.6 million for the 21 recoveries qualified as suspected fraud and notified to OLAF. Table DE1 gives an overview of the aggregated financial commitments by policy domain as well as the number and financial amounts of recoveries. The classification into policy domain is provided for ‘internal policies’ and ‘external actions’. Table DE2 gives a more detailed

¹⁰¹ In accordance with Article 53a of the Council Regulation (EC, Euratom) No 1605/2002 (‘Financial Regulation’) and Commission Regulation (EC, Euratom) No 2342/2002 (‘Implementing Rules’).

¹⁰² The financial impact of a case of suspected fraud can only be determined following the conclusion of an OLAF investigation. It is only at the end of judicial proceedings (‘*res judicata*’) that a case can be qualified as fraud and that the actual amount of fraud can be established.

classification of the policy area to which the recovery orders relate. The recovery orders have been issued for commitments that relate to several budget exercises, some even dating back to the 1990s, during which different budget headings were used. The budget structure of 2008 was used for the table DE2. In cases where the budget title of a commitment from an earlier budget exercise does no longer exist, the most resembling budget title from the 2008 budget was used. In both tables the column 'commitments' contains the aggregate of all the commitments made during previous budget exercises for which recovery orders were issued in 2010. In the table DE1 the last column indicates the amount to be recovered (including suspected fraud) as percentage of the aggregated commitments.

Table DE 1: Commitments for which recoveries were issued in 2010 (number and amounts) by policy domain.

Area	Commitments			Recoveries					Recoveries as % of commitments
	€ 1,000	%	Average € 1 000	N	%	€ 1,000	%	Average € 1 000	
Internal policies	6,261,174	95.5	6,850	914	89.5	34,510	80.0	37.8	0.6%
External actions	295,639	4.5	2,763	107	10.5	8,610	20.0	80.5	2.9%
Total	6,556,813		6,422	1,021		43,120		42.2	0.7%

The table shows that the irregular amounts only represent 0.7% of the value of the commitments *for which recovery orders were issued*. More recovery orders were issued for commitments made under the internal policies domain than the external assistance actions, but the relative share of recoveries in commitments is higher in the external actions area.

Table DE2 further specifies the recoveries by budget title. It should be observed that there is not always a direct link between the budget title or budget line and the Directorate General dealing with its implementation, as several DGs can share the appropriations on a budget line. The information in this table **does not** refer to the number of irregularities or suspected fraud per Directorate General. In five cases recovery orders were linked to commitments from more than one budget line; in order to calculate the number of recoveries per budget title, a recovery order was assigned to the budget title to which the highest irregular amount was linked. Therefore the budget title "Regional Policy" refers to an irregular amount for which there is no link to a specific recovery order.

Table DE 2: Recoveries (number and amounts) by qualification and budget title, 2010.

Budget Title	Commitments €1 000	Recoveries					
		Irregularity				Suspected Fraud	
		N	%	€1 000	%	N	€1 000
Economic and financial affairs	660	3	0.3	11	0.03		
Enterprise	683 916	59	5.9	918	0.2	1	462
Employment and social affairs	25 016	7	0.7	175	0.5		
Agriculture and rural development	381	1	0.1	8	0.02		
Energy and transport	436 598	65	6.5	4 196	10.9		
Environment	32 696	21	2.1	1 705	4.4		
Research	2 479 649	226	22.6	7 269	18.8	5	313
Information society and media	2 493 859	319	31.9	12 152	31.4	5	82
Fisheries and maritime affairs	650	1	0.1	21	0.1		
Regional policy	721	0	0.0	5	0.01		
Education and culture	43 528	134	13.4	3 779	9.8		
Communication	68	2	0.2	5	0.01		
Health and consumer protection	200	1	0.1	90	0.2		
Area of freedom, security and justice	57 071	59	5.9	2 573	6.7		
External relations	188 049	49	4.9	3 439	8.9	6	2 514
Trade	214	4	0.4	1	0.0		
Development and relations with African, Caribbean and Pacific (ACP) States	91 668	26	2.6	1 798	4.7	3	262
Enlargement	14 070	17	1.7	590	1.5	1	5
Humanitarian aid	1 637	1	0.1	0.2	0.0		
Commission's administration	5 549	3	0.3	671	1.7		
Statistics	611	2	0.2	72	0.2		
TOTAL	6 556 813	1000	100	39 482	100	21	3 638

11.2.2. Financial amounts involved by geographical area and Member State

Table DE3 summarizes the recoveries per geographical area, where the beneficiary of the EU funding resided. The column 'average' indicates the average amount (in EUR 1 000) per recovery.

Table DE 3: Recoveries (number and amounts) by region of residence and qualification, 2010.

Contractor place of residence	Commitments	Recoveries								
		Irregularity					Suspected Fraud			
	€1 000	N	%	€1 000	%	Average	N	€1 000	%	Average
ACP	314 472	6	0.6	58	0.1	9.7	2	523	14.4	261
Africa	22 711	2	0.2	48	0.1	23.9	1	8	0.5	8
America	26 584	8	0.8	452	1.1	56.5	2	2 235	61.4	1 118
Asia & Pacific	80 317	11	1.1	1 493	3.8	135.7	1	166	4.6	166
EFTA	162 207	22	2.2	1 299	3.3	59.1				
EU	5 875 452	917	91.7	34 998	88.6	38.2	16	715	19.6	45
NEP & PA	75 069	34	3.4	1 133	2.9	33.3				
TOTAL	6 556 813	1 000	100.0	39 482	100.0	39.5	21	3 638	100.0	106

Most of the legal entities concerned have their residence in the European Union: 933 recovery orders (91.4% of 1 021) were issued for an amount of EUR 35.7 million (82.8% of EUR 43.1 million). 88 recovery orders (8.6%) were issued to entities residing outside the EU, for a total amount of EUR 7.4 million (17.2%). In the latter category, 36% of the amount of recoveries relates to entities residing on the American continent; with total value of irregular amount EUR 2.6 million, followed by beneficiaries residing in the Asian and Pacific region (EUR 1.7 million).

There were five cases qualified as suspected fraud involving beneficiaries residing outside the EU. The biggest one concerned beneficiary registered in Paraguay, for which a recovery order was issued amounting to EUR 2.2 million.

Table DE4 gives an overview of the recoveries per Member State of residence of the entities in the European Union and the qualification of the recovery. This table details the findings for the European Union reported in table DE3. The 'average' column is the average amount, in EUR 1 000, per recovery.

Table DE 4: Recoveries (number and amounts) by Member State and qualification, 2010.

Contractor place of origin	Commitments € 1 000	Recoveries						
		Irregularity					Suspected Fraud	
		N	%	€ 1 000	%	Average	N	€ 1 000
AT	160 463	39	4.3	831	2.4	21.3		
BE	219 538	72	7.9	3 418	9.8	47.5	1	8
BU	33	1	0.1	14	0.0	14.4		
CY	6 014	3	0.3	334	1.0	111.5	1	5
CZ	40 944	16	1.7	747	2.1	46.7		
DE	899 950	84	9.2	2 449	7.0	29.2	1	225
DK	79 284	11	1.2	663	1.9	60.3	5	82
EE	7 669	4	0.4	20	0.1	5.0		
EL	224 625.3	45	4.9	1 030	2.9	22.9		
ES	625 551.7	80	8.7	1 936	5.5	24.2	2	82
FI	20 733.7	14	1.5	631	1.8	45.0		
FR	1 154 097.1	131	14.3	4 889	14.0	37.3		
HU	132 249.1	23	2.5	525	1.5	22.8		
IR	42 128.4	8	0.9	1 004	2.9	125.6	4	276
IT	709 395.3	135	14.7	5 377	15.4	39.8	1	12
LT	43 956.5	5	0.5	665	1.9	133.1		
LU	24 343.1	9	1.0	195	0.6	21.7		
LV	30.2	1	0.1	3	0.0	2.8		
MT	12 912.3	5	0.5	253	0.7	50.6		
NL	366 265.6	55	6.0	2 467	7.1	44.9		
PL	70 825.8	11	1.2	162	0.5	14.7		
PT	97 882.9	16	1.7	518	1.5	32.4		
RO	4 235.2	3	0.3	156	0.4	52.0		
SK	1 727.1	3	0.3	75	0.2	25.2		
SL	108 578	7	0.8	671	1.9	95.9		
SV	39 320.4	19	2.1	681	1.9	35.9		
UK	782 699.3	117	12.8	5 283	15.1	45.2	1	25
TOTAL EU	5 875 452	917	100.0	34 998	100.0	38.2	16	715

Most of the recoveries (for irregularities and fraud) were made from beneficiaries residing in 5 Member States: Italy (14.6%), France (14.0%), the United Kingdom (12.6%), Germany (9.1%) and Spain (8.8%). Entities from which the highest aggregated amounts have to be recovered are residing in Italy (15.1%, EUR 5.4 million), the United Kingdom (14.9%, EUR 5.3 million), France (13.7%, EUR 4.9 million), Belgium (9.6%, EUR 3.4 million) and Germany (7.5%, EUR 2.7 million). These five Member States account for 60% of the amounts of recoveries. The high rates of Belgium can be explained by the fact that most of the European Institutions have their seats in this Member State: this leads to the conclusion of a relative higher number of contracts and grant agreements with entities residing in this country.

In 2010 three quarters of recovery orders involving cases of suspected fraud were reported to involve beneficiaries residing in the EU. However the biggest amount was linked to one fraud case perpetrated by a beneficiary residing in Paraguay, this single case involved EUR 2.2 million defrauded in a development project. The full amount has been already recovered. This one recovery represents 60% of all

recovered amounts qualified as suspected fraud. The highest number of recoveries with suspected fraud qualifications concerned beneficiaries registered in Denmark (5 recoveries) and Ireland (4 recoveries). The highest amounts involved per project in cases qualified as suspected fraud were recorded for a Tanzanian beneficiary (EUR 462 404) and a German one (EUR 225 260). In each of the two countries there was only one case of suspected fraud but of a considerable amount.

11.2.3. Method of detection

For each recovery order, the Commission service that issues the order has to indicate how the irregularity or suspected fraud has been detected. Six different categories have been pre-defined, two of which fall under the direct responsibility of the European Commission: On-the-spot checks and the verification of documents by desk officers and financial officers responsible for the implementation of the commitment. Table DE5 gives a breakdown of the recoveries by method of detection.

Table DE 5: Recoveries (number and amounts) by method of detection, 2010.

Method of detection	N	%	€ 1 000	%	Average € 1000
Community control ¹⁰³ / Check on the spot	525	51.4	15 504	36.0	29.5
Community control / Desk check documents	258	25.3	11 220	26.0	43.5
Control by national authorities	6	0.6	780	1.8	130.0
European Court of Auditors	7	0.7	204	0.5	29.2
Independent control (supervising engineers, auditors)	189	18.5	11 906	27.6	63.0
OLAF	5	0.5	617	1.4	123.4
Other	31	3.0	2 889	6.7	93.2
Total	1 021	100	43 120	100.0	42.2

Most of the irregularities or suspected fraud for which a recovery order was issued, were detected on the basis of ‘Community controls’: 783 recoveries (77.0%) accounting for EUR 26.7 million (63.1%). Within the ‘Community controls’ category, on-the-spot checks generated twice as many recoveries as document checks. The average amount for recoveries is EUR 42 233. Recoveries detected by OLAF and National authorities have a substantially higher average. Recoveries issued on the basis of OLAF activities had the value per recovery equal to EUR 123 379 but only account for 1.4% of the total amount to be recovered.

Table DE6 gives a further breakdown of the recoveries by method of detection and by qualification. The last column is the average amount per recovery.

¹⁰³ The term “Community control” represents one of the options foreseen in the ‘Recovery context’ of the ABAC system and for this reason it has been reproduced here and in the following pages literally.

Table DE 6: Recoveries (number and amount) by method of detection and by qualification, 2010.

Qualification	Method of detection	N	%	€ 1 000	%	Av. € 1000
Irregularity	Community control / Check on the spot	524	52.4	15 467	39.2	29.5
	Community control / Desk check documents	255	25.5	10 982	27.8	43.1
	Control by national authorities	6	0.6	780	2.0	130.0
	European Court of Auditors	7	0.7	204	0.5	29.2
	Independent control (supervising engineers, auditors)	187	18.7	9 542	24.2	51.0
	Other	21	2.1	2 507	6.3	119.4
Total of Irregularity		1 000	100	39 482	100	39.5
Suspected fraud	Community control / Check on the spot	1	4.8	37	1.0	37.3
	Community control / Desk check documents	3	14.3	238	6.5	79.4
	Independent control (supervising engineers, auditors)	2	9.5	2 364	65.0	1181.9
	OLAF	5	23.8	617	17.0	123.4
	Other	10	47.6	382	10.5	38.2
Total of Suspected fraud		21	100.0	3 638	100.0	173.3
Total		1 021		43 120		42.2

Table DE6 shows the differences in the method of detection between irregularities and suspected fraud. 'Checks on the spot' are the most common method of detection of recoveries classified as irregularity for both the number of recoveries and the associated amounts, it constituted half of all the recoveries and almost 40% of the amounts. The 'Community controls' (both on-the-spot checks as well as document controls) are the most important method of detection for recoveries classified as irregularity; they account for almost 80% of the recoveries and 67% of the amounts involved. The other important detection method is 'Independent control' which leads to detection of quarter of irregularities by amounts involved.

'Community controls' only account for a modest percentage of the recoveries where fraud was suspected. . The biggest category however consists of the "Other" controls, which does not provide a satisfactory explanation for the method of detection. A further analysis of the method of detection assigned by the financial officer has been carried out by examining the information gathered during OLAF's investigation, opened on the basis of the information provided by the financial officer. This examination revealed that 'Independent control' account for 6 (29%) recoveries where fraud is suspected. 'Independent controls' remained the most effective method of detection as they detected 67.4% of the amounts in suspected fraud recoveries with the highest averages per recovery. This was mostly due to one big case worth EUR 2.2 million in which this method of detection was declared. As in the previous year 'Independent control' seems to be the best way to identify big cases involving fraudulent actions.

11.2.4. Types of irregularity

The Commission services also have to indicate **the type** of irregularity that was detected when the recovery order was issued. The number of categories is relatively high compared to e.g. the method of detection, and the interpretation of these findings must be done with care as interpretation problems easily occur with the identification of the correct type of irregularity. It can not be excluded that the same irregularity is scored differently by different financial officers or that some of the categories used in this classification have a small overlap.

Table DE7 presents recoveries by main types of irregularities.

Table DE 7: Recoveries (number and amount) by type of irregularity, 2010

Type of irregularity	N	%	€ 1 000	%	Average €1 000
Action not implemented	28	2.7	2 518	5.8	89.9
Action not in accordance with the rules	389	38.1	13 703	31.8	35.2
Action not used for intended purposes	1	0.1	91	0.2	90.7
Advances not correctly reflected	1	0.1	901	2.1	900.7
Beneficiary ineligible	6	0.6	175	0.4	29.2
Calculation error	71	7.0	1 669	3.9	23.5
Deadline not respected	26	2.5	317	0.7	12.2
Expenditure declared not related to the action	44	4.3	901	2.1	20.5
Expenditure not covered by legal base	168	16.5	5 212	12.1	31.0
Falsified documents	8	0.8	1 278	3.0	159.8
Inappropriate accumulation of aid	3	0.3	111	0.3	36.9
Incomplete documents	24	2.4	536	1.2	22.3
Incorrect rates used in calculating the claim	87	8.5	3 657	8.5	42.0
Lack of necessary co-financing	3	0.3	63	0.1	21.2
Missing documents	102	10.0	7 259	16.8	71.2
Not Applicable	15	1.5	412	1.0	27.5
Public procurement procedures not respected	8	0.8	193	0.4	24.1
Quality of action inadequate	20	2.0	3 854	8.9	192.7
Recoverable VAT, interest received not correctly reflected	17	1.7	269	0.6	15.8
Total	1 021	100	43 120	100	42.2

The most common type of recoveries qualified as irregularities is 'Action not in accordance with the rules' (389 recoveries or 38.1%). The qualification 'Expenditure not covered by legal base' follows with 168 recoveries (16.5%). The third most common type is 'Missing documents' (102 recoveries or 10.0%). The fourth most common type of irregularity is 'Incorrect rates used in calculating the claim' (87 recoveries or 8.5%). The four most frequent types of irregularity amount to around 70% both by number and irregular amount.

For 155 recoveries, more than one type of irregularity was indicated. The most frequent pair of identified irregularities was 'Recoverable VAT, interest received not correctly reflected' combined with 'Incorrect rates used in calculating the claim'. This pair of irregularities occurred in 37 recoveries. The second pair consisted of 'Calculation error' and 'Incorrect rates used in calculating the claim', which occurred in 28 recoveries. The pair 'Recoverable VAT, interest received not correctly reflected' and 'Calculation error' occurred in 20 recoveries. The following table

presents the four types of irregularity which most frequently appeared in cases involving more than one type of irregularity.

Table DE 8: The most frequently indicated pairs of irregularity types, 2010

Type of irregularity	Missing Documents	Incorrect rates used in calculating the claim	Calculation error	Recoverable VAT, interest received not correctly reflected
Action not implemented	4	0	0	0
Action not in accordance with the rules	16	9	3	4
Calculation error	8	28	N/A	20
Copy documents rather than originals	9	2	3	1
Deadline not respected	5	0	2	1
Expenditure declared not related to the action	16	5	8	3
Expenditure not covered by legal base	14	18	4	7
Inappropriate accumulation of aid	2	1	1	1
Incomplete Documents	23	5	4	3
Incorrect rates used in calculating the claim	18	N/A	28	37
Missing Documents	N/A	18	8	11
Public procurement procedures not respected	5	3	1	1
Recoverable VAT, interest received not correctly reflected	11	37	20	N/A

The most common *modus operandi* identified in parallel with other *modus operandi* is 'Missing documents'. It is indicated in 136 recoveries, which represent 74.6% of recoveries with more than one type of irregularity indicated. The second most frequent *modus operandi* is 'Incorrect rates used in calculating the claim', which occurred in 126 recoveries.

Table DE9 provides an overview of the recoveries by type of irregularity, broken down by qualification of the recovery. For recoveries qualified as suspected fraud, only the categories were reported where the cells were not empty.

Table DE 9: Recoveries (number and amount) by type of irregularity and by qualification, 2010

Qualification	Type of irregularity	N	%	€ 1 000	%	Average
Irregularity	Action not implemented	388	38.8	13 688	34.7	35.3
	Action not in accordance with the rules	1	0.1	91	0.2	90.7
	Action not used for intended purposes	1	0.1	901	2.3	900.7
	Advances not correctly reflected	6	0.6	175	0.4	29.2
	Beneficiary ineligible	71	7.1	1 669	4.2	23.5
	Calculation error	26	2.6	317	0.8	12.2
	Deadline not respected	44	4.4	901	2.3	20.5
	Expenditure declared not related to the action	167	16.7	5 208	13.2	31.2
	Expenditure not covered by legal base	5	0.5	642	1.6	128.4
	Falsified documents	3	0.3	111	0.3	36.9
	Inappropriate accumulation of aid	24	2.4	536	1.4	22.3
	Incomplete Documents	87	8.7	3 657	9.3	42.0
	Incorrect rates used in calculating the claim	3	0.3	63	0.2	21.2
	Lack of necessary co-financing	94	9.4	6 795	17.2	72.3
	Missing Documents	10	1.0	330	0.8	33.0
	Not Applicable	7	0.7	180	0.5	25.7
	Public procurement procedures not respected	19	1.9	1 656	4.2	87.2
	Quality of action inadequate	17	1.7	269	0.7	15.8
	Recoverable VAT, interest received not correctly reflected	388	38.8	13 688	34.7	35.3
	Total of Irregularity	1 000	100.0	39 482	100.0	39.5
Suspected fraud	Action not implemented	1	4.8	225.3	6.2	225.3
	Action not in accordance with the rules	1	4.8	15.5	0.4	15.5
	Expenditure not covered by legal base	1	4.8	4.9	0.1	4.9
	Falsified documents	3	14.3	636.4	17.5	212.1
	Missing Documents	8	38.1	464.1	12.8	58.0
	Not Applicable	5	23.8	82.2	2.3	16.4
	Public procurement procedures not respected	1	4.8	12.5	0.3	12.5
	Quality of action inadequate	1	4.8	2 197.7	60.4	2,197.7
	Total of Suspected fraud	21	100.0	3 638	100.0	173.3
Total		1 021		43 120		42.2

Among the recoveries qualified as irregularities ‘Action not in accordance with the rules’ was the most frequent identified category (388 recoveries). The next category was ‘Expenditure not covered by legal base’ (167 recoveries). The four most frequent categories account for 73.6% of the recoveries qualified as irregularity, which shows rather limited variety in *modus operandi* used in irregular transactions. It should be observed that the share of these categories is very similar (74.3%) if the amounts involved in the recovery are taken into account.

Among the recoveries qualified as suspected fraud, ‘Missing documents’ is the most frequent types of irregularity (8 recoveries or 38.1%). Second most frequent type of irregularity was qualified as ‘Not applicable’, however if one reclassifies the cases depending on the outcome of the OLAF investigation, the equally frequent *modus operandi* will be ‘Falsified documents’ (8 recoveries or 38.1%). In such a case *modus*

operandi involving documents constitute 76.2% of all modus operandi by number of irregularities.

11.3. Specific analysis

11.3.1. Irregularity versus Suspected Fraud

Only 2.1% of the 1021 issued recovery orders were qualified by the Commission services as suspected fraud, but they account for 8.4% of the amounts involved in the recoveries. Table DE10 provides an overview of these findings.

Table DE 10: Recoveries (number and amounts) by qualification, 2010

Qualification	Commitments			Recoveries				
	€ 1 000	%	Average	N	%	€1 000	%	Average
Irregularity	6 187 321	94.4	6 187	1000	97.9	39 482	91.6	39.5
Suspected fraud	369 492	5.6	17 595	21	2.1	3 638	8.4	173.3
Total	6 556 813	100.0	6 422	1021	100.0	43 120	100.0	42.2

The average irregular amount per recovery is almost four and a half times higher in suspected fraud recoveries than in recoveries qualified as irregularity. The average for recoveries qualified as irregularity is EUR 39 482 compared to EUR 173 258 for recoveries qualified as suspected fraud. The commitments in which irregularities qualified as suspected fraud were identified were substantially higher as well. It should be noted that the financial impact of suspected fraud cases could be revised following OLAF's investigations.

11.3.2. Time delay

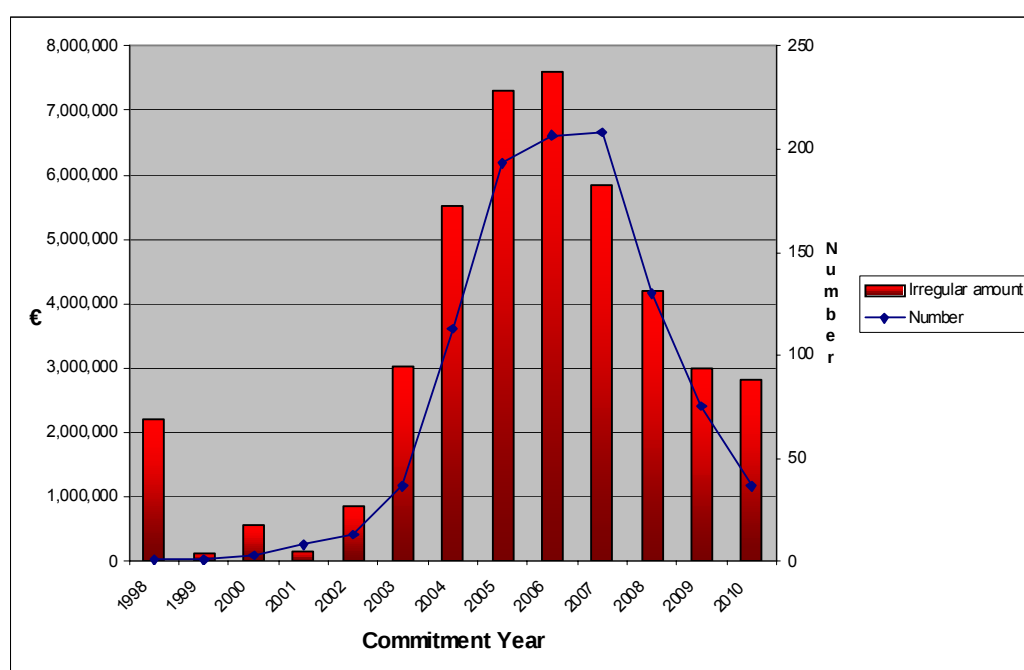
Almost half of the irregularities for which a recovery order was issued in 2010 occurred within one year after the first payment was made by the Commission. More than 80% of all irregularities are perpetrated within the first three years from the first payment. The average time delay between payment and committing an irregularity is 15 months. The contract value does not play an important role: irregularities in both big and small contracts appear within the first year from payment. The average delay between first payment and occurrence of the irregularity, taking account of the amounts involved, is one year.

For the recovery orders issued in 2010, the average delay between the irregularity and its detection is 3 years and 2 months. There are a limited number of irregularities that are detected almost immediately: 6.1% of the irregularities for which a recovery orders were issued, were detected during the first year after the irregularity was perpetrated. The percentage of detected irregularities does not change substantially for the period between 2 and 6 years after the irregularity was committed. This clearly reflects the project management cycle in the Commission and shows the systematic way in which the Commission implements its controls. There is no relationship between the amount of the irregularity and its duration at the moment of

its detection. Taking account of the amounts involved in the weighted average of time delay it takes 2 years and 10 months, from the moment an irregularity starts to the moment it is detected.

The chart below presents the recoveries registered in 2010 by number (line) and amounts (bars) of commitments by a year in which the commitment was made (e.g.: in 2010, 207 recoveries were registered in ABAC that were made in 2006. The corresponding amount to be recovered is EUR 7.6 million). For recovery orders issued in 2010 for direct expenditures commitments, most commitments were made in 2006. During a period between 2004 and 2008 more than 100 commitments were made annually for which a recovery order was issued in 2010. More than 90% of the recovery orders concerned commitments which were made between 2003 and 2009. The corresponding amounts account for almost 85%.

Chart DE 1: Recoveries in 2010 (number and amounts) by year of commitment



11.3.3. Trends

Following the decrease in number of recoveries and amounts to be recovered observed in last year's report, recoveries in 2010 came back to the level of 2008. The total number of recorded recoveries increased in 2010 in comparison to 2009 by 44.8%. The number of recoveries qualified as suspected fraud rose by 40%. The irregular amounts increased by 56.6%. The main reason for such a sharp increase both in the **number of recoveries** and **amounts to be recovered** is the fact that a backlog of data encoding and data entry into the ABAC system has been removed. Half of the recovery orders **detected in 2009** were only introduced in 2010. This has distorted the reporting: If at least half of these recoveries had been introduced in ABAC in the year of detection, the trend line would have displayed a smoother slope and a comparable number of recoveries in three consecutive years could have been observed.

The distribution of irregularities between internal and external policies follows the share of the amounts committed in the two policy areas. Internal policies account for 80% of the commitments, which is reflected in its share of recoveries and corresponding amounts. The recoveries tend to follow the same pattern as in the previous year. However, the number of irregularities in the area of external actions slightly decreased in 2010 while the corresponding amounts increased, bringing both numbers in line with the shares of 2008. The ratio between an average amount of an irregularity in external actions and internal policies went back to the 2008 level where irregularities in the external action sector were two times higher than the one in internal policies.

In line with the previous years, the most frequent method of detection remains 'Community controls', which account for more than 70% of the number of recoveries. However, the corresponding amounts decreased in 2010 to 60% of the total. Within the 'Community controls' category, the 'on-the-spot' checks became more important: in detecting irregularities: 51% of recovery orders were generated by this type of controls and 36% of amount to be recovered. 'Independent controls' became more important and turned out to be an efficient method of irregularity detection, especially among cases qualified as suspected fraud.

The average delay between the first payment to a beneficiary and the detection of an irregularity for recovery orders issued in 2010 remained at the same level as in 2009. The average duration for the detection of an irregularity was 4 years and 1 month after the irregularity occurred. The weighted average duration, which takes accounts of the corresponding amounts, was with a period of 2 years and 4 months substantially lower.

11.4. Recovery

This paragraph describes the *payments made to the Commission* further to the issuing of the recovery orders. Once a recovery order is issued, the beneficiary has to pay back the undue payment or the amount is offset from remaining payments. For the recovery orders issued in 2010, full or partial recovery was recorded in 791 cases (77.5% of the 1 021 recovery orders), which represents an amount of almost EUR 25.2 million (58.5% of the amounts to be recovered). In 784 recovery orders (76.8%) the full amount has already been recovered. However there are still 237 (23.2%) outstanding recovery orders which account for EUR 17.1 million (39.6%).

Table DE 11: Recoveries in 2010 (number and amount) by payment status and qualification.

Qualification	Recovered		To be Recovered	
	N	Cashed Amount € 1 000	N	Open Amount (€ 1 000)
Irregularity	780	22 242	226	16 453
Suspected fraud	11	2 997	11	642
Total	791	25 239	237	17 095

The recovery rate for recoveries qualified as irregularity is 56.3% and is lower than for cases qualified as suspected fraud (82.4%). The high rate of the recovery among cases qualified as suspected fraud is due to the possibility to offset the irregular amount in the biggest case qualified as suspected fraud. In that case EUR 2.2 million was deducted from the payments due to the beneficiary.

11.5. Conclusions

The analysis of the irregularities detected in the expenditure managed by the Commission on a centralised direct basis, as registered in the recovery context of the Commission's financial system ABAC, is only at its beginning. Taking into consideration its limitations described in the methodological section as well as the relatively short time the recovery context functions, the findings in this chapter must be interpreted with care.

Following the rates presented in previous chapters the respective figures for expenditures managed directly by the Commission are presented in the table below.

Table DE 12: Summary table for 2010

Rates in %	2010	2009	2008	Total 2008-10
Irregularity rate - IrR	0.27	0.17	0.17	0.20
Fraud rate – FrR	0.02	0.01	0.02	0.02
Fraud frequency level - FFL	2.06	2.13	2.04	2.07
Fraud amounts level - FAL	8.44	5.39	9.31	7.93

- (1) Only a small part of the Commission expenditures is concerned by irregularities. The recovery orders issued in 2010 relate to 0.27% of the overall amounts paid by the Commission, despite the increase of this rate in comparison to 2009, the rate remains low. The recovery orders classified as suspected fraud are lower and affect 0.02% of those payments. The aggregated amount of the recovery orders issued in 2010 represents 0.6% of the commitments made by the Commission for internal policies and external actions.
- (2) The number of recovery orders issued in 2010 increased by 44.8% in comparison to the previous year. The increase is sharp but it could be explained by the delayed input of the recovery orders detected in 2009. Without this backlog, the results for 2010 would hardly differ from those for 2009. The number of cases qualified as suspected fraud increased from 15 in 2009 (2.1% of all recovery orders) to 21 in 2010 (2.1%). The corresponding amounts increased more rapidly: from EUR 1.5 million in 2009 to EUR 3.6 million in 2010, but can be explained by an outlier value of EUR 2.2 million for one suspected fraud recovery.
- (3) The majority of the irregularities were committed by a beneficiary residing in one of the Member States. The beneficiaries registered in the EU committed

91.7% of irregularities, which corresponds to 88.6% of the irregular amounts. For recovery orders qualified as suspected fraud in 2010, the share of beneficiaries residing in the EU is smaller: 16 out of 21 beneficiaries had one of the Member States as their place of residence.

- (4) The most successful method of detection is 'Communities controls': almost 76% of the irregularities by numbers and 62% by corresponding amounts were identified on the basis of 'On-the-spot checks' and 'Desk checks of documents'. 'Independent controls' carried out by e.g. engineers and external auditors detected 18.5% of the cases but they involved higher amounts and constitute 27.6% of the amounts to be recovered. This underlines the need to increase such controls of EU financed projects.
- (5) The types of irregularity show a large variance. In recovery orders qualified as irregularity, 'Action not in accordance with the rules' and 'Expenditures not covered by the legal basis' are the most frequent categories, whereas the type of irregularity most frequently observed in recovery orders qualified as suspected fraud is 'Missing documents'. However if the irregular amounts are compared the most frequent type of irregularity among suspected fraud cases is 'Quality of action inadequate' (60.4%).
- (6) The Commission has already recovered or offset 58.5% of value of the recovery orders issued in 2010. 76.8% recovery orders issued in 2010 have already been fully recovered.

ANNEXES

ANNEX 1 – SUMMARY OF FINANCING OF THE GENERAL BUDGET BY CLASS OF OWN RESOURCE AND BY MEMBER STATE, IN MILLION EUR

	VAT own resource	GNI own resource	UK correction	Reduction in GNI for NL and SE	Total 'national contributions'
BE	431.8	2 621.1	168.4	23.6	3 244.9
BG	47.3	147.2	14.7	2.2	311.4
CZ	185.6	983.9	64.3	8.9	1 242.7
DK	279.6	1 768.7	95.3	15.9	2 159.5
DE	1 591.4	18 636.9	249.6	167.8	20 645.8
EE	19.4	98.3	5.6	0.9	124.2
IE	192.1	958.9	56.1	8.6	1 215.7
EL	324.6	1 731.9	168.5	15.6	2 240.7
ES	1 171.4	7 710.5	496.2	69.4	9447.5
FR	2 601.8	14 810.2	897.6	133.4	18 443.1
IT	1 813.8	11 451.2	615.7	103.1	13 983.8
CY	25.2	125.7	7.7	1.1	159.8
LV	20.3	130.2	9.5	1.2	161.2
LT	39.4	196.8	10.2	1.8	248.3
LU	41.3	206.0	10.7	1.8	259.8
HU	123.5	697.4	34.9	6.3	862.1
MT	8.2	41.2	2.6	0.4	52.4
NL	257.1	4 358.4	54.9	-612.1	4 058.2
AT	286.4	2 095.2	22.7	18.9	2 423.2
PL	498.1	2 486.5	164.5	22.4	3 171.5
PT	239.9	1 197.6	77.2	10.8	1 525.6
RO	134.1	877.9	51.4	7.9	1 071.3
SI	51.7	258.1	16.6	2.3	328.7
SK	75.8	485.6	31.7	4.4	597.6
FI	232.2	1 315.1	80.6	11.8	1 639.8
SE	138.9	2 352.0	34.5	-140.3	2 385.1
UK	2 446.2	12 430.6	-3 442.0	111.9	11 546.8
EU-27	13 277.3	90 273.5	0		0 103 550.8
Sugar levies					123.4
Customs duties					14 079.7
Surplus from previous year					2 253.6
Surplus aid guarantee fund					0.0
Other revenue					1 432.3
Total revenue					122 955.9

Note 1: For simplicity of the presentation, the GNI-based own resource includes the JHA adjustment
Note 2: Dup-to-date data based on amending budgets 2010.

ANNEX 2 - EVOLUTION OF BUDGET PAYMENT APPROPRIATIONS BY HEADING IN 2010 (IN MILLION EUR)

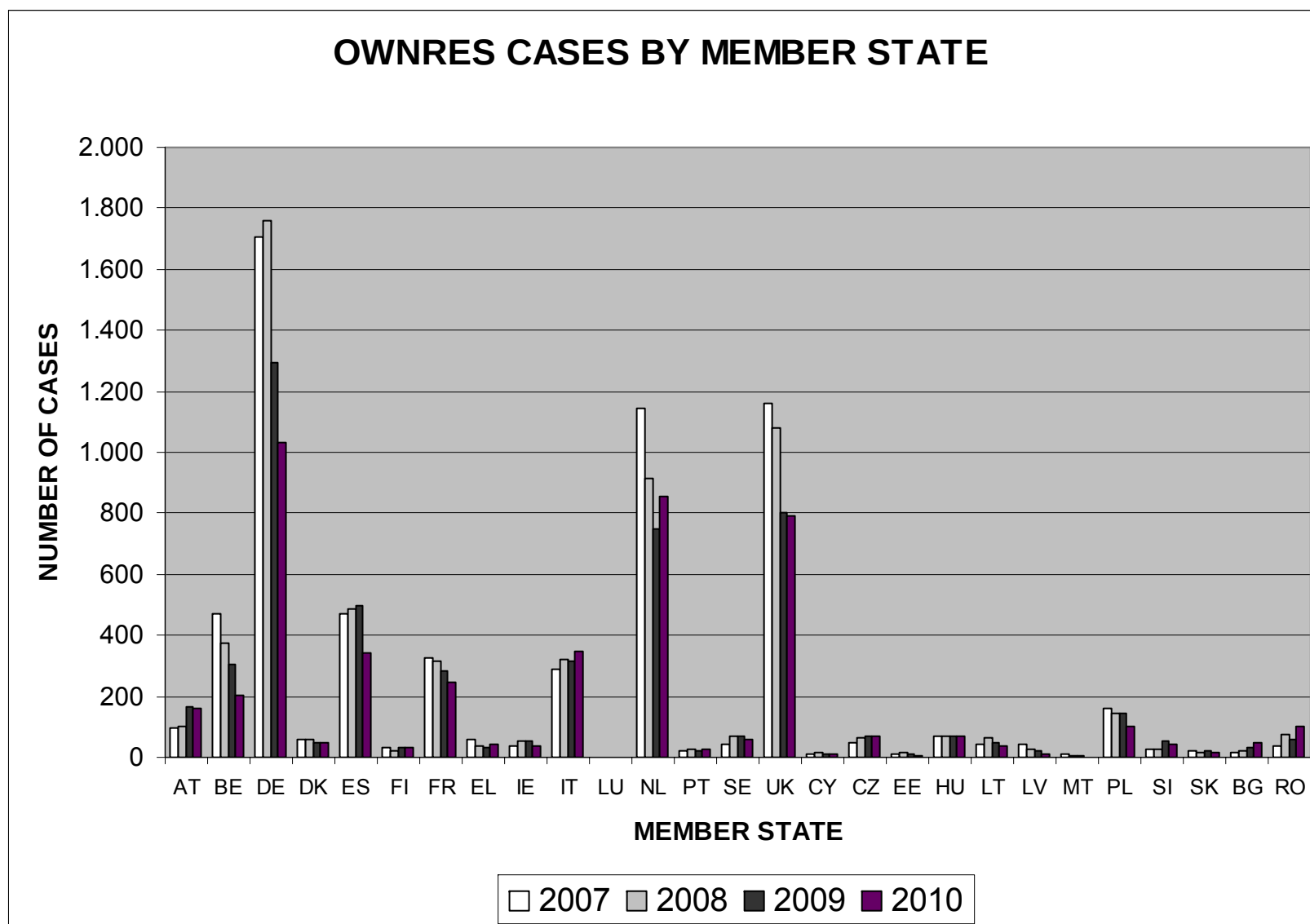
Heading	Initial budget voted		Final budget voted	
	CA	PA	CA	PA
1a.Comptetitiveness	14 862	11 342	14 862	11 275
1b.Cohesion	49 388	36 385	49 388	36 372
2.Preservation and Management of Natural Resources	59 499	58 136	59 499	58 136
3a.Freedom, security, justice	1 006	739	1 006	736
3b.Citizenship	668	659	748	739
4.The EU as a global player	8 141	7 788	8 141	7 788
5.Administration	7 889	7 889	7 908	7 907
6.Compensation	0	0	0	0
Total	141 453	122 937	141 552	122 956

Note: budget without margins

ANNEX 3 – NUMBER OF CASES OWNRES AND AMOUNTS – PERIOD 2007-2010 PER MEMBER STATE

Member State	2007		2008		2009		2010		Change cases	Change amount
	Cases	Amount €	Cases	Amount €	Cases	Amount €	Cases	Amount €	2009- 2010	2009-2010
	N	EUR	N	EUR	N	EUR	N	EUR	%	%
AT	94	36 532 901	104	15 462 527	168	21 516 412	161	9 583 091	-4.17%	-55.46%
BE	468	9 418 956	374	13 662 799	305	7 831 344	201	13 018 547	-34.10%	66.24%
DE	1 707	104 350 043	1 759	92 239 683	1 292	87 082 809	1 031	76 450 386	-20.20%	-12.21%
DK	57	7 249 418	59	4 379 957	48	9 345 292	50	24 092 404	4.17%	157.80%
ES	468	20 772 636	487	23 650 089	496	27 234 138	340	73 239 617	-31.45%	168.93%
FI	34	1 820 185	21	1 035 615	30	1 710 974	32	1 419 298	6.67%	-17.05%
FR	327	28 808 080	316	15 442 282	284	19 747 828	248	24 455 970	-12.68%	23.84%
EL	59	3 023 508	38	1 774 415	34	1 966 378	43	2 528 574	26.47%	28.59%
IE	35	2 482 972	54	1 908 762	55	3 622 352	37	1 880 921	-32.73%	-48.07%
IT	289	23 007 859	321	32 787 207	315	39 848 248	350	45 458 660	11.11%	14.08%
LU	0	0	1	109 902	0	0	0	0	0.00%	0.00%
NL	1 145	26 804 672	913	45 116 885	746	29 558 254	858	39 575 864	15.01%	33.89%
PT	23	1 562 049	29	1 901 045	23	910.02	25	736 154	8.70%	-19.11%
SE	44	2 620 160	71	6 056 584	67	5 433 255	57	4 911 511	-14.93%	-9.60%
UK	1 161	108 740 301	1 079	90 022 310	801	65 737 214	790	36 580 488	-1.37%	-44.35%
EUR-15 TOTAL	5 911	377 193 740	5 626	345 550 062	4 664	321 544 518	4 223	353 931 485	-9.46%	10.07%
CY	11	750 964	14	787 523	11	718 211	11	521 143	0.00%	-27.44%
CZ	50	2 217 848	65	4 925 847	68	4 350 877	72	9 538 150	5.88%	119.22%
EE	12	362 193	17	700 607	11	235 755	5	366 076	-54.55%	55.28%
HU	69	6 268 717	71	6 045 083	67	6 622 381	68	8 123 679	1.49%	22.67%
LT	41	1 071 857	64	1 486 188	47	1 820 206	39	2 020 355	-17.02%	11.00%
LV	41	2 256 847	25	916 787	19	1 006 416	12	1 252 926	-36.84%	24.49%
MT	10	404 949	3	279 533	7	1 762 703	2	495 717	-71.43%	-71.88%
PL	159	8 407 284	142	5 294 443	144	5 345 748	103	3 026 036	-28.47%	-43.39%
SI	27	1 577 642	26	883 519	51	2 665 857	44	1 297 962	-13.73%	-51.31%
SK	21	462 927	17	434 217	22	1 955 201	14	1 121 908	-36.36%	-42.62%
EUR-10 TOTAL	441	23 781 228	444	21 753 747	447	26 483 355	370	27 763 952	-17.23%	4.84%
BG	15	308 192	19	380.84	34	1 171 645	50	1 477 979	47.06%	26.15%
RO	37	3 578 749	75	7 145 840	59	8 270 039	101	9 588 424	71.19%	15.94%
EUR-2 TOTAL	52	3 886 941	94	7 526 680	93	9 441 684	151	11 066 403	62.37%	17.21%
EUR-27 TOTAL	6 404	404 861 909	6 164	374 830 489	5 204	357 469 557	4 744	392 761 840	-8.84%	9.87%

ANNEX 4 – OWNRES CASES PER MEMBER STATE



ANNEX 5 – IMPACT ON CUSTOM PROCEDURE FREE CIRCULATION

YEAR	CASES	IMPACT CASES % OF TOTAL	AMOUNTS ESTABLISHED	IMPACT AMOUNTS ESTABLISHED % OF TOTAL
2006	3945	64,15%	248.396.645	70,04%
2007	4235	66,13%	338.898.382	83,71%
2008	4223	68,51%	310.764.932	82,91%
2009	3860	74,17%	299.238.143	83,71%
2010	3338	70,36%	316.216.749	80,51%

ANNEX 6 – TOP 10 CHAPTER HEADINGS

2008				2009				2010			
CN	PRODUCT	Amount EUR	Cases	CN	PRODUCT	Amount EUR	Cases	CN	PRODUCT	Amount EUR	Cases
85	TVs and parts etc.	104.817.207	988	85	TVs and parts etc.	75.990.712	802	85	TVs and parts etc.	80.346.014	731
24	Tobacco / cigarettes	32.818.790	462	61	Clothing	36.164.933	286	84	Machines	40.311.988	315
61	Clothing	30.943.594	424	87	(Parts of) cars / motors	23.648.795	295	17	Sugar	35.053.914	44
62	Clothing	17.705.596	464	24	Tobacco / cigarettes	23.514.707	384	87	(Parts of) cars / motors	19.953.600	323
87	(Parts of) cars / motors	16.342.994	389	84	Machines	15.909.393	366	08	Vegetables	18.351.359	48
84	Machines	15.381.951	418	62	Clothing	15.835.027	347	24	Tobacco / cigarettes	17.645.856	331
64	Footwear	12.579.298	260	73	Articles of iron and steel	14.616.492	252	64	Footwear	15.064.661	188
02	Meat	11.842.608	149	29	Organic chemicals	14.490.783	174	61	Clothing	13.761.873	238
39	Plastics	10.540.617	255	64	Footwear	13.409.429	192	73	Articles of iron and steel	12.901.328	170
07	Vegetables	9.449.676	158	16	Food	12.028.580	79	32	Paints, lacks etc.	10.258.646	35

ANNEX 7 – GOOD AFFECTED BY FRAUD AND IRREGULARITY – PERIOD 2008-2010

2008			2009			2010		
TARIFF CODES	CASES	AMOUNTS EUR	TARIFF CODES	CASES	AMOUNTS EUR	TARIFF CODES	CASES	AMOUNTS EUR
85219000	125	30.517.558	85219000	94	21.491.555	17019910	11	28.551.379
24022090	397	28.340.776	24022090	309	20.242.796	85219000	105	27.246.826
85282190	26	18.318.566	61091000	48	12.599.243	84148022	41	24.231.414
85393190	101	10.605.694	16041416	28	9.677.039	08030019	26	17.935.013
61046300	3	9.674.750	61046300	1	9.500.000	24022090	244	12.269.099
02071410	60	7.520.984	07032000	80	9.454.102	85393190	47	9.634.096
07032000	116	7.411.816	87032410	20	8.558.340	85287119	79	9.320.466
85366990	22	6.156.652	85393190	44	8.214.566	18061090	12	8.829.524
28046900	6	5.565.548	85365080	4	5.427.349	85285990	50	8.687.023
96131000	21	4.803.557	85287119	41	5.067.445	16041416	7	8.242.276
61103099	60	4.428.704	85285990	64	4.264.182	21069098	24	6.832.415
24012010	11	3.766.811	29310095	3	3.962.877	32159080	10	6.476.899
85287220	6	3.613.262	38249091	3	3.918.718	85258019	15	5.069.401
61101190	12	3.512.930	04021019	4	3.914.753	87120030	82	4.901.804
39232100	69	3.040.146	84279000	38	3.610.700	17019100	10	4.747.327
85285990	49	3.016.322	55032000	17	3.591.001	07032000	115	4.705.225
83112000	1	2.765.919	87032319	16	3.567.730	64029996	5	3.518.319
87031018	20	2.564.623	87120030	37	3.421.543	64039113	6	3.283.434
17019999	2	2.376.061	29371200	1	3.356.160	02071410	18	3.003.694
02023090	22	2.216.134	63022100	8	2.920.612	32041100	10	2.680.551
84099100	5	2.214.657	61159399	2	2.860.760	87032210	4	2.609.780
85269120	20	2.137.754	39232100	79	2.649.569	19059055	12	2.399.480
15119019	3	2.130.303	64041990	16	2.549.098	61091000	46	2.318.260
85281294	18	2.089.484	08030019	5	2.495.501	73079990	7	2.216.282
62046231	27	2.027.343	85299092	31	2.202.341	10061094	1	2.187.300

ANNEX 8 – FRAUD AND IRREGULARITIES: BREAKDOWN BY ORIGIN OF GOODS

2008			2009			2010		
COUNTRY	EUR	CASES	COUNTRY	EUR	CASES	COUNTRY	EUR	CASES
China	157.814.570	1.963	China	147.435.783	1.923	China	155.359.915	1.779
USA	39.556.170	707	USA	36.717.222	550	USA	40.069.576	537
Japan	19.648.993	262	Japan	18.505.673	223	Spain	27.607.308	4
South Korea	14.943.633	110	Hong Kong	17.293.266	80	Ecuador	17.020.920	26
Brazil	14.943.626	169	Vietnam	10.720.948	40	Ceuta	15.409.302	31
Bangladesh	14.383.113	187	Bangladesh	10.610.987	132	Brazil	14.775.460	72
Not specified	9.730.756	608	Argentina	9.742.266	39	Not specified	9.024.754	466
Switzerland	7.691.009	102	Not specified	9.574.139	454	Japan	8.686.977	150
Malaysia	7.218.153	65	Seychelles and dependencies	8.255.834	2	South Korea	8.601.164	115
Russia	6.833.471	133	South Korea	7.073.751	94	El Salvador	7.000.732	12

ANNEX 8.1: RECOVERY RATE (RR) BREAKDOWN BY ORIGIN OF GOODS 2008-2010

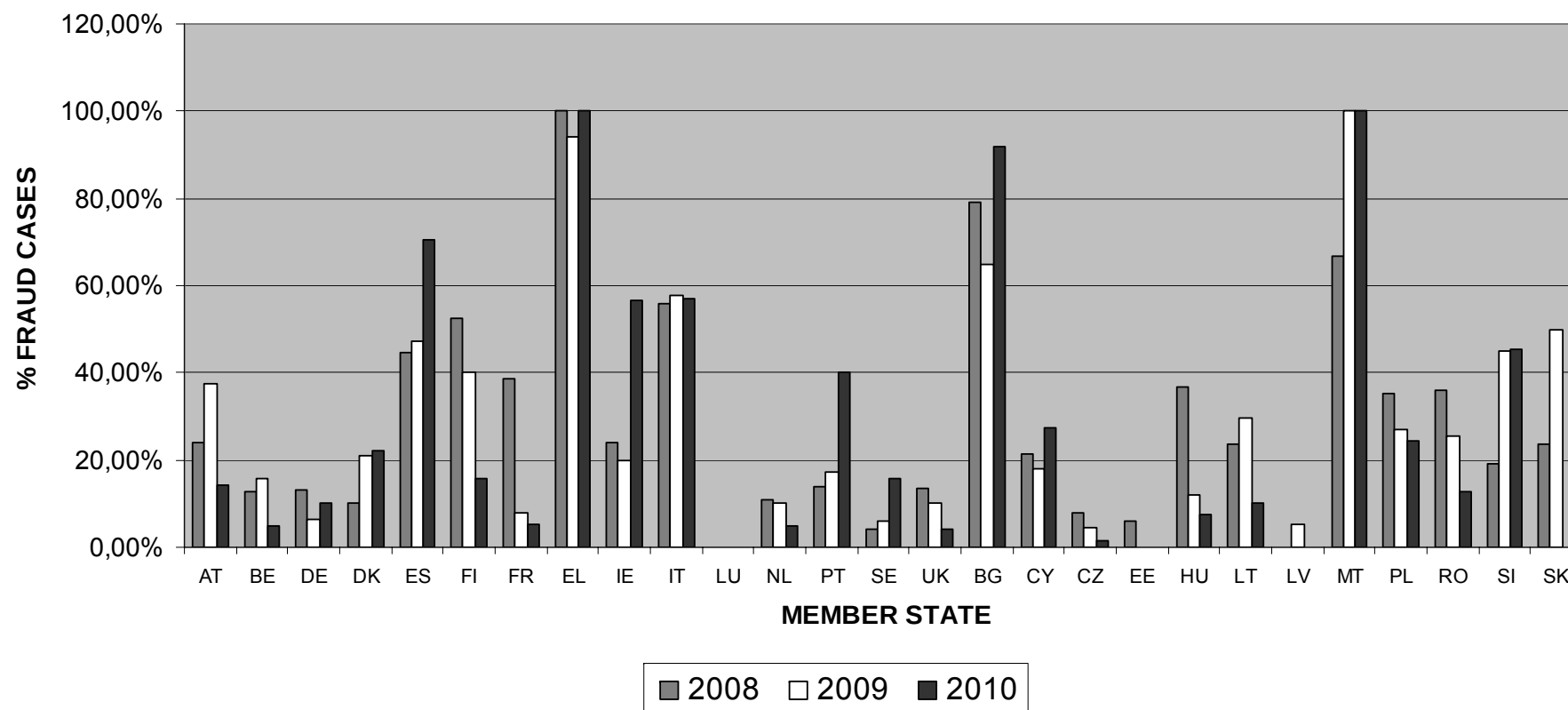
2008			2009			2010		
Country	Recovered EUR	RR	Country	Recovered EUR	RR	Country	Recovered EUR	RR
China	75.751.332	48%	China	66.813.255	45%	China	53.480.287	34%
USA	28.992.951	73%	USA	27.286.860	74%	USA	30.440.824	76%
Japan	18.683.440	95%	Japan	17.145.471	93%	Spain	27.677.131	100%
South Korea	10.748.763	72%	Hong Kong	2.944.101	17%	Ecuador	19.687	0%
Brazil	6.681.465	45%	Vietnam	1.851.307	17%	Ceuta	69.823	1%
Bangladesh	9.360.750	65%	Bangladesh	3.007.036	28%	Brazil	4.633.567	31%
Not specified	2.720.644	28%	Argentina	9.577.499	98%	Not specified	5.572.569	62%
Switzerland	1.248.901	16%	Not specified	5.048.257	53%	Japan	6.530.660	75%
Malaysia	2.104.157	29%	Seychelles and dependencies	0	0%	South Korea	4.425.565	51%
Russia	1.920.521	28%	South Korea	6.497.550	92%	El Salvador	137.427	2%

ANNEX 9 – SEIZED AND CONFISCATED GOODS (cigarette CN 2402 2090)

MEMBER STATES	2008		2009		2010	
	CASES	ESTIMATED OR ESTABLISHED AMOUNT OF TOR EUR	CASES	ESTIMATED OR ESTABLISHED AMOUNT OF TOR EUR	CASES	ESTIMATED OR ESTABLISHED AMOUNT OF TOR EUR
AT	2	48.255 €	1	20.227 €	1	72.756 €
BE	5	550.656 €	4	534.665 €	2	44.014 €
DE	6	286.010 €	5	91.420 €	1	257.634 €
DK	0	0 €	0	0 €	0	0 €
ES	0	0 €	0	0 €	0	0 €
EL	10	1.206.270 €	11	2.007.421 €	16	2.693.790 €
FI	6	236.367 €	4	88.151 €	1	63.244 €
FR	33	2.304.549 €	20	989.920 €	13	1.118.612 €
IE	13	2.540.368 €	11	6.822.040 €	21	5.642.987 €
IT	13	1.694.276 €	16	2.426.867 €	23	4.287.095 €
LU	0	0 €	0	0 €		0 €
NL	0	0 €	0	0 €	10	741.601 €
PT	0	0 €	0	0 €	2	61.062 €
SE	3	116.014 €	3	80.105 €	5	611.337 €
UK	153	13.140.803 €	82	5.846.358 €	32	1.563.384 €
EU-15	244	22.123.568 €	157	18.907.174 €	127	17.157.516 €
BG	2	52.543 €	0	0 €	17	1.557.571 €
CY	0	0 €	0	0 €	0	0 €
CZ	1	204.578 €	0	0 €	0	0 €
EE	0	0 €	0	0 €	0	0 €
HU	4	860.456 €	4	416.536 €	1	138.743 €
LT	3	78.624 €	2	115.057 €	8	320.617 €
LV	4	365.572 €	9	490.369 €	6	499.166 €
MT	0	0 €	1	60.912 €	0	0 €
PL	37	1.116.197 €	31	859.859 €	22	1.025.753 €
RO	16	1.134.311 €	11	4.807.318 €	8	2.673.233 €
SI	4	261.035 €	2	96.818 €	1	96.297 €
SK	0	0 €	0	0 €	0	0 €
EU-12	71	4.073.316 €	60	6.846.869 €	63	6.311.380 €
EU-27	315	26.196.884 €	217	25.754.043 €	190	23.468.896 €

ANNEX 10 – PERCENTAGE CLASSIFICATION FRAUD PER MEMBER STATE

PERCENTAGE CLASSIFICATION OF FRAUD PER MEMBER STATE 2008-2010



ANNEX 11 – AMOUNTS INVOLVED IN FRAUD PER MEMBER STATE PERIOD 2008-2010

Member State	2008				2009				2010		
	CASES	FRAUD CASES	FRAUD IN EUR		CASES	FRAUD CASES	FRAUD IN EUR		CASES	FRAUD CASES	FRAUD IN EUR
AT	104	25	11.300.245		168	63	13.548.224		161	23	4.721.588
BE	374	47	3.143.778		305	48	2.256.765		201	10	6.248.081
DE	1.759	230	21.214.111		1.292	84	14.540.766		1.031	103	11.693.786
DK	59	6	671.103		48	10	2.895.392		50	11	20.134.048
ES	487	218	14.900.293		496	234	17.618.297		340	240	64.397.917
FI	21	11	651.465		30	12	441.108		32	5	183.111
FR	316	122	4.173.648		284	22	23.659		248	13	139.330
GR	38	38	1.774.415		34	32	1.966.378		43	43	2.528.574
IE	54	13	0		55	11	0		37	21	995.680
IT	321	179	18.701.048		315	182	21.806.962		350	199	15.179.075
LU	1	0	0		0	0	0		0	0	0
NL	913	101	2.455.234		746	76	6.566.523		858	43	2.450.873
PT	29	4	1.388.431		23	4	0		25	10	33.600
SE	71	3	0		67	4	51.724		57	9	571.904
UK	1.079	145	12.728.307		801	80	6.001.044		790	34	1.674.684
EU-15	5.626	1.142	93.102.078		4.664	862	87.716.842		4.223	764	130.952.251
BG	19	15	326.188		34	22	838.087		50	46	1.452.171
CY	14	3	378.947		11	2	237.313		11	3	183.816
CZ	65	5	79.088		68	3	771.746		72	1	13.042
EE	17	1	100.592		11	0	0		5	0	0
HU	71	26	2.425.654		67	8	1.710.502		68	5	211.087
LT	64	15	468.648		47	14	549.890		39	4	214.829
LV	25	0	0		19	1	170.476		12	0	0
MT	3	2	259.214		7	7	1.762.703		2	2	495.717
PL	142	50	1.835.965		144	39	962.973		103	25	1.117.366
RO	75	27	1.500.753		59	15	6.324.604		101	13	3.327.675
SI	26	5	277.754		51	23	1.201.407		44	20	563.520
SK	17	4	126.413		22	11	851.270		14	0	0
EU-12	538	153	7.779.216		540	145	15.380.971		521	119	7.579.223
EU-27	6.164	1.295	100.881.294		5.204	1.007	103.097.813		4.744	883	138.531.474

Annex 12-Methods of detection of OWNRES cases – Year 2010

Member State	Recovery Rate	%		
		Primary inspections	Ex-post controls	Voluntary admission
AT	16,05 %	1,44%	94,56%	3,99%
BE	71,27 %	4,41%	95,47%	0,12%
DE	73,00 %	8,64%	76,70%	14,67%
DK	13,36 %	6,32%	92,49%	1,19%
ES	54,55 %	19,56%	79,20%	1,24%
FI	80,27 %	49,93%	24,12%	25,96%
FR	48,28 %	49,54%	50,46%	0,00%
EL	3,08 %	35,31%	64,69%	0,00%
IE	26,37 %	0,00%	88,35%	11,65%
IT	11,38 %	27,23%	72,57%	0,20%
NL	34,25 %	27,35%	72,65%	0,00%
PT	74,80 %	7,67%	88,95%	3,38%
SE	88,36 %	11,64%	84,42%	3,94%
UK	58,12 %	4,83%	94,67%	0,50%
CY	59,89 %	3,57%	96,43%	0,00%
CZ	27,40 %	0,46%	87,21%	12,32%
EE	44,04 %	16,84%	83,16%	0,00%
HU	39,51 %	7,78%	92,22%	0,00%
LT	32,79 %	20,84%	79,16%	0,00%
LV	1,74 %	39,84%	59,23%	0,93%
MT	0,00 %	63,61%	36,39%	0,00%
PL	37,46 %	52,36%	47,64%	0,00%
SI	31,46 %	40,46%	59,54%	0,00%
SK	83,95 %	0,00%	100,00%	0,00%
BG	37,33 %	69,44%	30,56%	0,00%
RO	17,88 %	28,66%	71,34%	0,00%
EU-27	45,81 %	17,91%	78,25%	3,84%

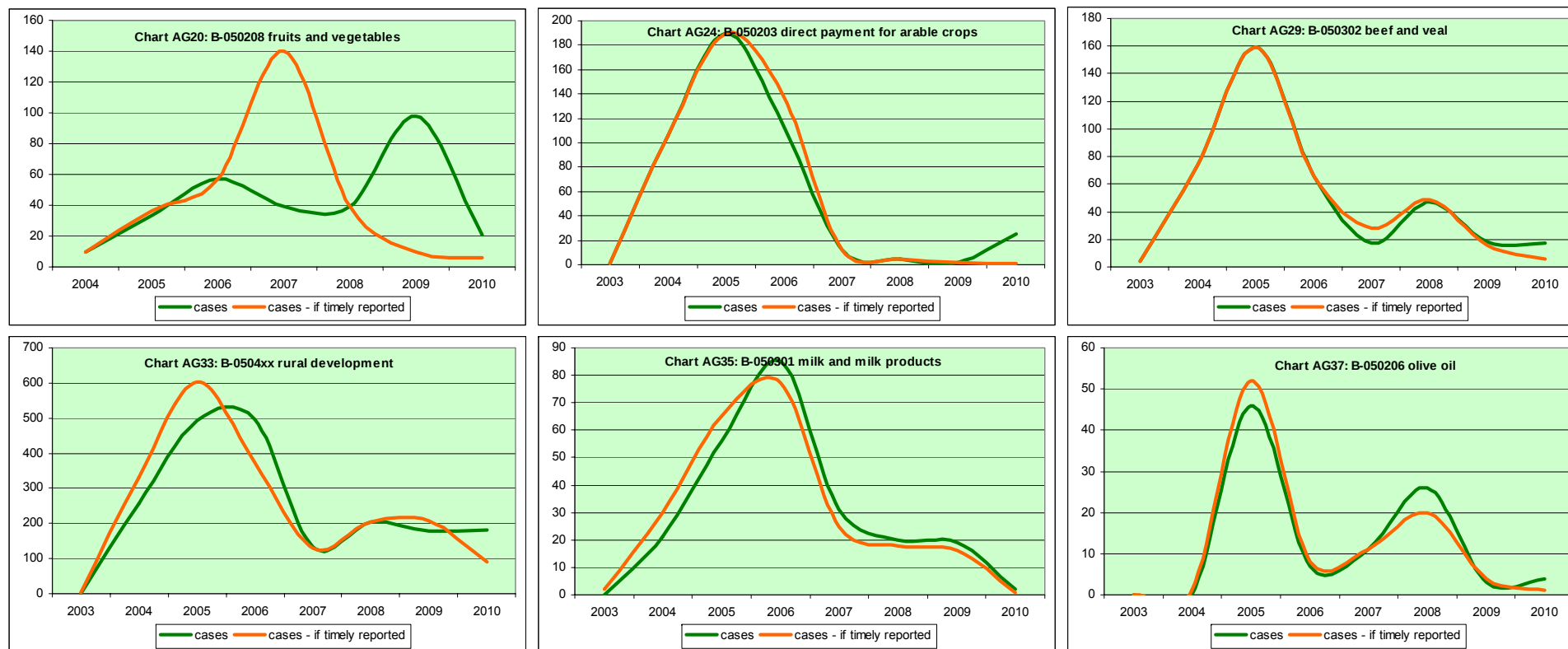
ANNEX 13A: AGRICULTURAL EXPENDITURE FINANCIAL YEARS 2006-2010

EAGF & EAFRD							
EXPENDITURE FINANCIAL YEARS 2006-2010							
amounts in €							
MS	FY2010	FY2009	FY2008	FY2007	FY2006	total expenditure amounts in €	in % of total
FR	9,417,935,621	10,205,032,985	9,715,529,160	9,735,649,588	10,125,823,455	49,199,970,808	19.7%
DE	6,687,226,139	6,237,069,241	6,344,224,320	5,974,923,975	6,497,135,317	31,740,578,991	12.7%
ES	6,838,110,436	5,916,667,073	6,261,663,422	5,918,501,718	6,722,903,262	31,657,845,912	12.7%
IT	5,491,190,339	5,418,841,139	5,603,988,857	5,222,263,584	5,499,456,447	27,235,740,367	10.9%
UK	3,822,523,521	3,135,425,010	3,565,614,301	4,341,392,612	4,302,338,043	19,167,293,488	7.7%
EL	2,900,594,263	2,806,663,687	2,687,254,393	2,879,299,650	3,083,190,916	14,357,002,909	5.8%
PL	3,354,794,964	2,905,593,827	2,414,751,681	2,297,395,215	2,112,957,132	13,085,492,818	5.3%
IE	1,595,848,060	1,634,318,812	1,786,625,512	1,723,322,002	1,752,819,071	8,492,933,457	3.4%
AT	1,294,985,511	1,275,685,883	1,114,613,971	826,654,840	1,296,241,898	5,808,182,103	2.3%
DK	1,054,127,689	1,171,902,741	1,123,719,453	1,086,244,832	1,157,352,968	5,593,347,683	2.2%
NL	960,766,053	1,026,199,569	1,035,364,976	1,144,013,906	1,217,436,058	5,383,780,563	2.2%
HU	1,334,879,387	1,421,778,737	900,016,606	651,132,609	756,556,440	5,064,363,778	2.0%
PT	1,181,703,040	949,575,760	974,366,033	821,932,364	974,471,557	4,902,048,754	2.0%
SE	995,695,846	841,580,077	941,831,232	950,822,180	935,044,883	4,664,974,219	1.9%
BE	711,352,369	853,390,412	756,952,211	853,634,814	978,959,642	4,154,289,447	1.7%
FI	844,086,272	788,159,582	787,088,826	808,532,115	850,256,009	4,078,122,804	1.6%
CZ	995,421,429	836,205,381	688,544,920	539,853,347	459,220,511	3,519,245,588	1.4%
RO	1,422,139,312	1,148,045,800	474,789,773	6,893,688		3,051,868,572	1.2%
SK	625,349,090	536,035,947	332,392,068	302,271,528	250,001,352	2,046,049,984	0.8%
LT	486,448,913	471,893,782	313,730,455	324,411,585	305,810,974	1,902,295,709	0.8%
BG	559,188,979	347,797,566	231,447,678	177,176		1,138,611,399	0.5%
LV	252,069,148	218,813,174	197,702,985	165,727,510	135,843,856	970,156,673	0.4%
SI	206,116,497	205,276,934	182,119,725	168,520,479	156,250,389	918,284,024	0.4%
EE	155,835,691	150,964,270	89,853,642	79,073,910	74,256,919	549,984,431	0.2%
CY	59,266,997	62,782,374	55,603,003	45,447,412	48,279,969	271,379,756	0.1%
LU	50,688,281	47,312,681	43,844,738	46,742,889	48,573,101	237,161,690	0.1%
MT	21,759,716	12,340,166	4,973,044	6,136,125	1,709,713	46,918,765	0.0%
total	53,320,103,562	50,625,352,610	48,628,606,986	46,920,971,655	49,742,889,882	249,237,924,695	100.0%

ANNEX 13B: IRREGULARITIES REPORTED DURING FINANCIAL YEARS 2006-2010

EAGF & EAFRD										
FINANCIAL YEARS 2006 - 2010										
irregularities reported during financial years 2006 - 2010 and concerning expenditure financial years 1990 - 2010										
MS	amounts in €					cases				
	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
AT	452,705	87,322	311,608	401,511	1,040,985	31	3	20	27	93
BE	4,233,255	858,665	1,605,690	13,866,333	1,258,191	24	27	31	34	57
BG	4,439,991	1,848,338	119,470			94	23	2	0	0
CY	477,448	234,476		83,362	77,582	4	2	0	6	7
CZ	1,177,815	793,364	764,680	103,168	160,915	38	35	22	10	9
DE	3,769,191	2,797,903	3,816,771	2,854,876	7,319,843	81	68	111	94	489
DK	141,053	202,892	445,241	15,257,984	1,186,901	10	9	10	20	33
EE	829,027	736,057	278,131	83,985	99,319	12	12	13	16	10
EL	1,388,370	1,817,050	4,010,046	4,185,084	1,305,913	42	44	39	86	111
ES	17,166,788	27,834,613	14,924,635	23,609,346	25,937,479	413	404	245	335	683
FI	43,309	941,541	983,842	338,508	454,657	2	19	8	20	33
FR	10,438,611	9,142,421	11,763,441	32,637,233	11,689,252	119	127	129	147	548
HU	26,163,772	2,082,316	747,522	233,052	10,387	116	19	6	12	3
IE	1,596,823	1,793,216	397,497	490,043	857,391	64	72	22	26	94
IT	39,748,896	54,480,766	53,969,740	43,063,210	20,003,064	342	288	211	237	140
LT	1,748,398	897,251	803,754	232,242	308,661	53	45	24	10	30
LU	51,221	0	13,375		13,062	2		1		3
LV	113,903	297,150	208,144	141,835	13,176	7	13	13	11	1
MT		139,439	37,814				8	1	0	0
NL	3,032,925	1,978,235	1,183,639	4,349,283	5,701,975	38	37	30	64	87
PL	3,687,786	2,374,202	1,126,137	1,099,347	841,681	106	87	46	62	67
PT	4,170,688	3,440,974	3,629,928	5,570,368	3,744,628	138	121	120	190	359
RO	1,160,145	2,235,958				22	82			
SE	11,253	449,519	214,065	284,714	858,560	1	16	10	14	80
SI	674,685	0	38,808	232,894		20		1	9	1
SK	785,697	7,541,131	639,613	1,707,309		13	58	11	23	0
UK	3,011,241	21,153	225,775	4,167,640	3,941,146	33	2	7	95	311
total	130,514,995	125,025,951	102,259,365	154,993,326	86,824,768	1,825	1,621	1,133	1,548	3,249

ANNEX 14: COURSE OF CASES IRREGULARITIES REPORTED CONCERNING FINANCIAL YEARS 2004-2005



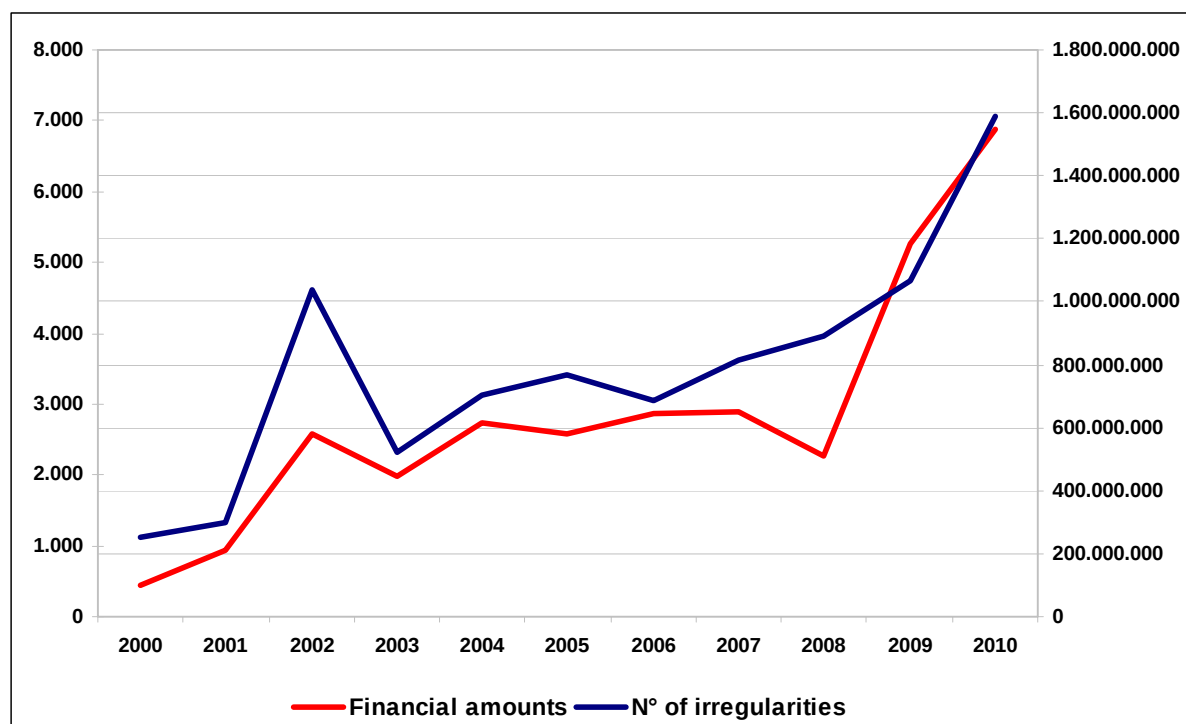
The green line reflects reality. It indicates in which year Member States reported the cases of irregularities concerning the financial years 2004-2005. The orange line indicates per year the number of cases of irregularities in case Member States would have reported their cases timely.

ANNEX 15

COHESION POLICY*

IRREGULARITIES** COMMUNICATED BY MEMBER STATES 2000-2010***

YEAR	N° OF IRREGULARITIES	FINANCIAL AMOUNTS	TOTAL BUDGET	IMPACT ON BUDGET
	N°	EUR	Million EUR	%
2010	7 062	1 550 157 698	49 144	3.15%
2009	4 737	1 183 127 610	48 400	2.44%
2008	3 961	512 871 553	46 889	1.09%
2007	3 619	652 092 147	45 327	1.44%
2006	3 047	647 773 952	38 430	1.69%
2005	3 417	581 214 090	37 192	1.56%
2004	3 123	617 099 163	35 665	1.73%
2003	2 323	444 278 642	30 764	1.44%
2002	4 607	579 010 650	30 556	1.89%
2001	1 337	210 329 680	29 823	0.71%
2000	1 109	97 160 006	25 556	0.38%



* The table includes also irregularities affecting the Cohesion Fund

**The concept of irregularity includes also cases of suspected and established fraud. The qualification as fraud, meaning criminal behaviour, can only be made following a penal procedure.

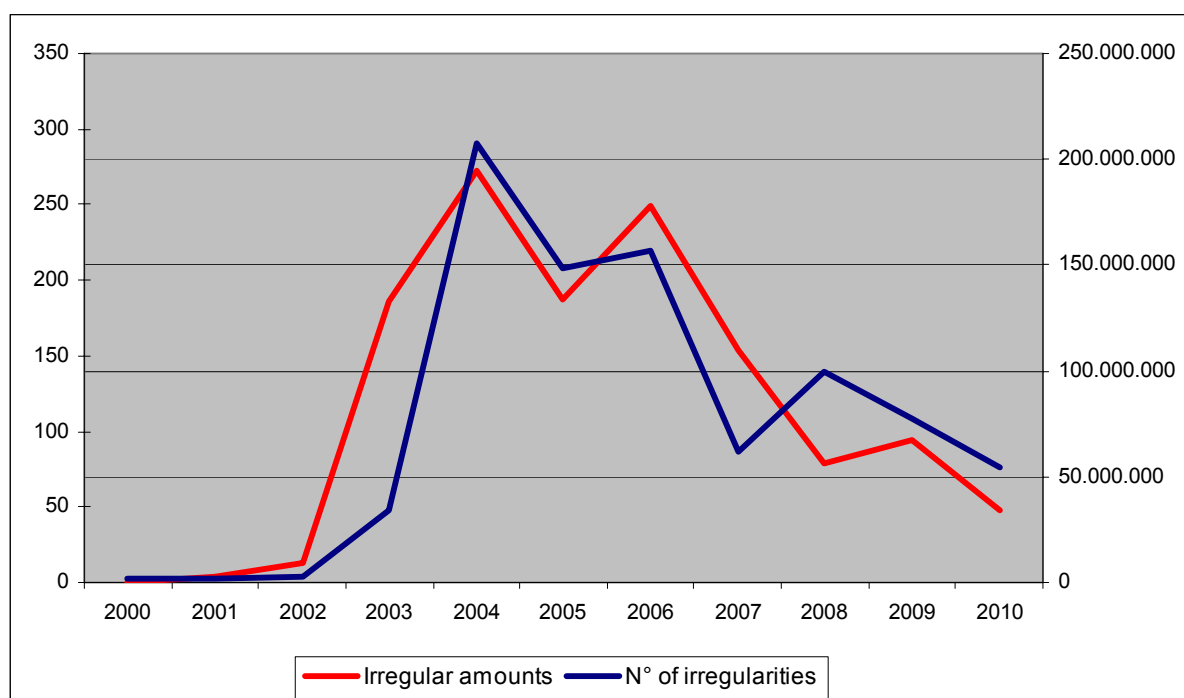
** Data have been updated in relation to those published in the 2009 report in order to take into account the updates sent by Member States during the reporting year 2010. Modified values concern the Years 2007-2009.

ANNEX 16

COHESION FUND*

IRREGULARITIES** COMMUNICATED BY MEMBER STATES 2000-2010

YEAR	N° OF IRREGULARITIES	IRREGULAR AMOUNTS
	N	EUR
2010	76	34 564 487
2009	109	67 304 951
2008	140	56 328 911
2007	86	109 739 219
2006	219	178 487 134
2005	208	133 653 731
2004	291	194 285 278
2003	48	132 914 324
2002	4	9 627 540
2001	3	2 534 032
2000	2	36 278



* The table does not include irregularities related to the programming period 2007-2013

**The concept of irregularity includes fraud. The qualification as fraud, meaning criminal behaviour, can only be made following a penal procedure.

ANNEX 17.1

STRUCTURAL FUNDS

REGULATION No 1681/94

IRREGULARITIES RELATED TO THE PROGRAMMING PERIOD 1994-1999 REPORTED IN 2010

a) N° OF IRREGULARITIES BY FUND AND BY MEMBER STATE

MEMBER STATE	ERDF	EAGGF - Guid.	TOTAL
	N	N	N
DE		1	1
EL	1		1
FI		2	2
IT	2		2
PT	1		1
UK	1		1
TOTAL	5	3	8

b) FINANCIAL VOLUME OF IRREGULARITIES BY FUND AND BY MEMBER STATES

MEMBER STATE	ERDF	EAGGF - Guid.	TOTAL
	EUR	EUR	EUR
DE		48 152	48 152
EL	1 114 521		1 114 521
FI		24 786	24 786
IT	31 202		31 202
PT	1 674 339		1 674 339
UK	325 771		325 771
TOTAL	3 145 833	72 938	3 218 771

ANNEX 17.2
STRUCTURAL FUNDS
REGULATION No 1681/1994
IRREGULARITIES RELATED TO THE PROGRAMMING PERIOD 2000-2006
REPORTED IN 2010

a) N° OF IRREGULARITIES BY FUND AND BY MEMBER STATE

MEMBER STATE	ERDF	ESF	EAGGF-G	FIFG	TOTAL
	N	N	N	N	N
AT	62	1	1		64
BE	52	57	3	1	113
CY		5			5
CZ	55	23	2	4	84
DE	183	94	13	1	291
DK	4				4
EE	16	2	3		21
EL	344	52	51	5	452
ES	314	257	133	24	728
FI	8	5	9	3	25
FR	76	84	5	1	166
HU	30	29	25		84
IE	405	129	26		560
IT	346	326	274	54	1 000
LT	6	5	8		19
LU					0
LV	9		3	1	13
MT	2			1	3
NL	65				65
PL	56	27	30	1	114
PT	135	257	494	4	890
SE				2	2
SI	2		3		5
SK	53	40	11		104
UK	829	134	86	22	1 071
TOTAL	3 052	1 527	1 180	124	5 883

b) FINANCIAL VOLUME OF IRREGULARITIES BY FUND AND BY MEMBER STATES

MEMBER STATE	ERDF EUR	ESF EUR	EAGGF-G EUR	FIFG EUR	TOTAL EUR
AT	8 034 619	22 110	19 500		8 076 229
BE	5 364 330	6 524 357	75 170	12 825	11 976 683
CY		324 852			324 852
CZ	25 566 667	6 243 376	218 468	4 757 027	36 785 539
DE	47 016 154	3 646 010	1 012 859	67 380	51 742 402
DK	274 869				274 869
EE	741 519	44 405	165 556		951 480
EL	146 029 735	2 750 174	5 891 888	429 290	155 101 087
ES	67 854 629	28 356 504	21 446 984	6 559 096	124 217 213
FI	915 045	66 573	252 208	109 549	1 343 375
FR	5 633 030	3 292 188	128 086	71 870	9 125 174
HU	27 620 536	1 582 251	1 643 757		30 846 544
IE	92 400 237	9 349 879	830 784		102 580 900
IT	125 302 660	29 296 524	26 876 413	8 719 933	190 195 530
LT	142 230	185 054	1 191 047		1 518 331
LU					0
LV	1 461 438		299 367	391 861	2 152 666
MT	31 009			10 706	41 715
NL	6 607 087				6 607 087
PL	14 466 983	6 285 374	932 888	16 197	21 701 442
PT	18 645 241	20 844 785	17 952 327	194 917	57 637 270
SE				51 366	51 366
SI	1 078 735		98 637		1 177 372
SK	45 815 124	1 552 364	981 288		48 348 776
UK	134 685 702	21 205 681	19 493 585	1 425 959	176 810 927
TOTAL	775 687 578	141 572 461	99 510 813	22 817 977	1 039 588 829

ANNEX 18
STRUCTURAL FUNDS

REGULATION No 1828/2006

**IRREGULARITIES RELATED TO THE PROGRAMMING PERIOD 2007-2013
REPORTED IN 2010**

a) N° OF IRREGULARITIES BY FUND AND BY MEMBER STATE

MEMBER STATE	ERDF	ESF	COHESION FUND	TOTAL
	N	N	N	N
BE	5	5		10
BG	26	18	22	66
CZ	73	38	8	119
DE	44	18		62
EE	25	3	1	29
EL	207		4	211
ES		2		2
FI	7	3		10
HU	5	20	7	32
IE		58		58
IT	7	5		12
LT	7	1	18	26
LU		3		3
LV	18	2		20
NL	9	1		10
PL	217	53		270
PT	16	5	2	23
RO	1	15	4	20
SE	9	2		11
SI	6	8		14
SK	29	16	10	55
UK	24	8		32
TOTAL	735	284	76	1 095

b) FINANCIAL VOLUME OF IRREGULARITIES BY FUND AND BY MEMBER STATES

MEMBER STATE	ERDF	ESF	COHESION FUND	TOTAL
	EUR	EUR	EUR	EUR
BE	148 229	255 177		403 406
BG	6 235 882	1 611 621	13 514 112	21 361 615
CZ	282 700 424	2 649 744	10 017 718	295 367 886
DE	6 548 614	549 587		7 098 201
EE	2 517 289	38 294	107 401	2 662 984
EL	6 712 608		9 003 097	15 715 705
ES		146 967		146 967
FI	106 437	33 790		140 226
HU	317 766	1 702 291	956 732	2 976 789
IE		1 703 665		1 703 665
IT	1 676 327	562 564		2 238 891
LT	2 112 420	12 225	3 706 653	5 831 298
LU		121 720		121 720
LV	1 070 323	39 793		1 110 116
NL	311 633	105 819		417 452
PL	47 091 709	1 756 942		48 848 652
PT	1 252 076	185 486	237 255	1 674 817
RO	75 279	1 007 224	1 380 786	2 463 289
SE	957 682	70 669		1 028 352
SI	1 733 169	205 193		1 938 362
SK	36 624 757	4 155 147	17 354 429	58 134 333
UK	1 189 004	211 884		1 400 888
TOTAL	399 381 627	17 125 801	56 278 182	472 785 611

ANNEX 19

COHESION FUND

IRREGULARITIES COMMUNICATED BY MEMBER STATES UNDER REGULATION N. 1831/94 IN 2010

MEMBER STATE	N° OF IRREGULARITIES	IRREGULAR AMOUNTS	AMOUNTS TO BE RECOVERED
	N	EUR	EUR
CZ	10	5 900 612	467 210
EL	16	8 011 028	18 046
ES	8	6 661 294	5 779 950
HU	3	1 748 494	1 748 494
IE	3	1 627 701	0
LT	7	5 055 374	626 036
LV	2	120 155	0
PL	15	939 617	0
PT	11	4 372 226	321 775
SK	1	127 985	127 985
TOTAL	76	34 564 486	9 089 496

ANNEX 20

CORRECTIONS¹⁰⁴ TO ANNEXES 18.2, 19 AND 20 OF COMMISSION STAFF WORKING PAPER “STATISTICAL EVALUATION OF IRREGULARITIES” TO THE PIF REPORT 2009

(1) CORRECTIONS TO ANNEX 18.2

(a) N° OF IRREGULARITIES BY FUND AND BY MEMBER STATE¹⁰⁵

MEMBER STATE	ERDF	ESF	EAGGF-G	FIFG	TOTAL
	N	N	N	N	N
AT	78	1			79
BE	63	12	1	1	77
CY		1			1
CZ	46	33	1		80
DE	215	315	11	5	546
DK	10				10
EE	11	5	3	3	22
EL	38	17	20		75
ES	167	132	127	23	449
FI	10	5			15
FR	139	34			173
HU	9	53	28		90
IE	1	15			16
IT	519	146	215	4	884
LT	11	4	12	1	28
LU	4	8			12
LV	10	25	2	1	38
MT	2	1		1	4
NL	26	102			128
PL	256	31	41	2	330
PT	263	247	95	7	612
SE	2	7		3	12
SI	12	1			13
SK	33	48	1		82
UK	549	287	18	3	857
TOTAL	2 474	1 530	575	54	4 633

¹⁰⁴ Modified values are showed in yellow or red and are related to the Czech Republic (and consequently to the Totals)

¹⁰⁵ Modified values concern ERDF and TOTAL on the rows ‘CZ’ and ‘TOTAL’

(b) FINANCIAL VOLUME OF IRREGULARITIES BY FUND AND BY MEMBER STATES¹⁰⁶

MEMBER STATE	ERDF	ESF	EAGGF-G	FIFG	TOTAL
	EUR	EUR	EUR	EUR	EUR
AT	9 917 733	22 110			9 939 843
BE	4 252 993	893 887	21 393	19 609	5 187 882
CY		63 594			63 594
CZ	2 635 410	3 573 431	104 883		6 313 724
DE	29 013 886	13 870 084	550 789	993 270	44 428 029
DK	605 634				605 634
EE	989 680	107 228	119 086	173 864	1 389 858
EL	39 742 531	3 212 171	3 967 140		46 921 842
ES	124 216 835	5 750 803	8 294 430	8 690 736	146 952 804
FI	238 573	66 573			305 146
FR	10 611 538	853 197			11 464 735
HU	234 424	1 947 006	1 908 577		4 090 007
IE	61 543	866 612			928 155
IT	290 713 648	14 007 223	21 836 267	1 809 939	328 367 077
LT	1 774 905	152 732	1 247 076	1 226 192	4 400 905
LU	1 748 257	1 582 781			3 331 038
LV	963 724	1 902 853	193 958	9 763	3 070 298
MT	568 769	10 441		10 706	589 916
NL	2 345 613	16 973 070			19 318 683
PL	43 549 842	3 006 174	1 598 658	205 362	48 360 036
PT	82 888 629	23 220 053	3 477 375	671 986	110 258 042
SE	31 782	567 166		115 264	714 212
SI	5 103 131	26 967			5 130 098
SK	21 670 887	1 894 879	17 656		23 583 422
UK	239 552 129	39 254 625	687 993	117 021	279 611 768
TOTAL	913 432 097	133 825 660	44 025 281	14 043 712	1 105 326 749

(2) CORRECTIONS TO ANNEX 19

(a) N° OF IRREGULARITIES BY FUND AND BY MEMBER STATE¹⁰⁷

MEMBER STATE	CF	ERDF	ESF	TOTAL
	N	N	N	N
BG	17	13	9	39
CZ		8	5	13
DE		7	35	42
EE		3	1	4
FI		1		1
FR			1	1
HU		10	24	34
IE			6	6
LV		1	1	2
PL		24	11	35
RO			2	2
SI		8		8
SK		10	1	11
UK		1		1
TOTAL	17	86	96	199

¹⁰⁶ Modified values concern columns ERDF, ESF and TOTAL on the rows CZ and TOTAL.

¹⁰⁷ Modified values concern columns ERDF, ESF and TOTAL on the rows CZ and TOTAL.

(b) FINANCIAL VOLUME OF IRREGULARITIES BY FUND AND BY MEMBER STATES¹⁰⁸

MEMBER STATE	CF	ERDF	ESF	TOTAL
	EUR	EUR	EUR	EUR
BG	3 578 740	0	0	3 578 740
CZ		926 514	961 442	1 887 956
DE		759 655	959 148	1 718 803
EE		248 828	10 737	259 565
FI		17 741		17 741
FR			53 680	53 680
HU		22 399 400	1 399 243	23 798 643
IE			232 860	232 860
LV		29 134	72 396	101 530
PL		3 087 294	1 256 280	4 343 574
RO			45 806	45 806
SI		2 978 489		2 978 489
SK		7 332 464	10 569	7 343 033
UK		12 699		12 699
TOTAL	3 578 740	37 792 218	5 002 161	46 373 119

(3) CORRECTIONS TO ANNEX 20¹⁰⁹

MS	N° OF IRREGULARITIES	FINANCIAL AMOUNTS	AMOUNTS TO BE RECOVERED
	N	EUR	EUR
CZ	9	7 276 760	0
EL	14	4 780 520	1 684 211
ES	20	4 351 765	3 622 443
HU	4	18 449 851	40 387
LT	2	4 491 703	0
MT	1	39 133	39 133
PL	19	2 275 178	49 542
PT	27	24 575 760	1 332 009
SI	1	2 552 398	0
SK	1	284 983	284 983
TOTAL	98	69 078 051	7 052 708

¹⁰⁸ Modified values concern columns ERDF, ESF and TOTAL on the rows CZ and TOTAL.

¹⁰⁹ Modified values concern columns N° OF IRREGULARITIES and FINANCIAL AMOUNTS on rows CZ and TOTAL.

ANNEX 21

PRE-ACCESSION ASSISTANCE

IRREGULARITIES REPORTED IN 2010

ALL PROGRAMMES

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	139	29 453 513	20 189 128	2 115 686	17 463 481
CZ	1	67 490	67 490	50 618	67 490
HR	4	4 776 541	4 707 606	103 403	103 403
HU	13	15 267 468	882 053	295 071	481 052
LV	2	2 024 537	1 600 366	0	0
PL	43	1 480 266	1 076 840	0	784 224
RO	205	336 608 918	54 380 767	4 676 279	46 620 213
SI	1	10 637	10 637	2 547 539	10 637
SK	3	53 637	4 094	5 643	0
TR	13	4 429 618	822 595	252 822	603 105
TOTAL	424	394 172 625	83 741 577	10 047 059	66 133 605

a) PHARE

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	66	8 005 265	2 174 064	144 761	1 556 923
CZ	1	67 490	67 490	50 618	67 490
HR	2	172 338	103 403	103 403	103 403
HU	1	13 600 000	515 955	295 071	154 685
LV	1	1 999 641	1 576 011	0	0
PL	1	10 565	10 565	0	10 565
RO	50	7 863 995	3 314 857	2 675 374	1 647 316
SK	3	53 637	4 094	5 643	0
TOTAL	125	31 772 932	7 766 439	3 274 868	3 540 383

b) SAPARD

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	72	19 739 179	18 015 064	1 712 775	15 906 558
HU	12	1 667 468	366 098	0	326 367
LV	1	24 895	24 356	0	0
PL	42	1 469 701	1 066 275	0	773 659
RO	126	62 147 211	46 058 011	0	41 973 037
SI	1	10 637	10 637	2 547 539	10 637
TOTAL	254	85 059 091	65 540 441	4 260 314	58 990 257

c) ISPA

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	1	1 709 069	0	258 150	0
HR	1	3 613 203	3 613 203	0	0
RO	29	266 597 712	5 007 899	2 000 905	2 999 860
TOTAL	31	271 919 984	8 621 102	2 259 055	2 999 860

d) PRE-ACCESSION ASSISTANCE TO TURKEY

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
TR	13	4 429 618	822 595	252 822	603 105
TOTAL	13	4 429 618	822 595	252 822	603 105

e) INSTRUMENT FOR PRE-ACCESSION

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR
	N	EUR	EUR
HR	1	991 000	991 000
TR	1	216 245	11 475
TOTAL	2	1 207 245	1 002 475

ANNEX 22

PRE-ACCESSION ASSISTANCE

IRREGULARITIES REPORTED – 2002-2010

ALL PROGRAMMES

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	798	192 102 705	114 745 230	53 431 434	39 116 221
CY	5	5 624 616	23 807	177 633	0
CZ	55	24 515 109	2 918 167	2 373 342	1 424 438
EE	42	28 360 519	6 649 147	2 865 384	639 654
HR	52	72 738 907	10 281 464	4 261 095	314 618
HU	130	32 972 486	8 820 491	670 946 982	3 435 775
LT	48	107 189 620	4 871 083	7 164 482	4 185 695
LV	42	5 477 128	2 700 897	1 470 304	900 122
MT	8	4 913 491	112 620	0	0
PL	391	794 566 356	7 645 746	2 310 715	1 897 786
RO	1 257	4 874 419 751	146 133 104	12 493 268 746	82 487 033
SI	40	4 078 275	1 598 263	312 598 560	64 011
SK	121	52 124 742	8 343 845	5 996 239	3 249 330
TR	73	27 443 170	2 974 289	1 126 678	2 044 414
TOTAL	3 062	6 226 526 875	317 818 152	13 557 991 594	139 759 097

a) PHARE

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	272	67 732 093	28 713 722	15 325 867	8 934 250
CY	5	5 624 616	23 807	177 633	0
CZ	36	3 185 324	1 143 505	520 121	659 946
EE	17	11 069 315	3 212 191	340 567	0
HR	20	5 891 590	2 424 059	2 205 943	182 341
HU	46	26 160 823	4 642 733	2 316 816	803 732
LT	21	1 581 361	811 458	967 201	614 335
LV	20	3 157 230	1 790 093	226 065	41 294
MT	8	4 913 491	112 620	0	0
PL	115	353 200 373	3 266 638	835 269	199 642
RO	336	346 974 118	32 644 056	12 469 952 307	10 959 127
SI	6	2 116 279	189 009	1 355 375	36 079
SK	105	22 479 151	6 240 836	5 913 828	2 108 928
TOTAL	1 007	854 085 763	85 214 727	12 500 136 992	24 539 674

b) SAPARD

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	494	101 212 371	80 168 337	33 784 155	30 181 971
CZ	18	1 107 597	921 130	0	764 493
EE	21	4 067 712	3 266 179	2 524 817	639 654
HR	4	1 222 218	932 569	467 558	0
HU	84	6 811 663	4 177 758	668 630 166	2 632 043
LT	18	7 604 845	2 902 459	5 154 417	2 622 184
LV	21	2 230 150	871 117	1 204 553	819 141
PL	262	14 763 448	4 250 235	1 415 782	1 660 628
RO	616	295 941 371	84 184 444	9 838 216	62 248 677
SI	33	1 581 996	1 349 253	311 190 162	27 932
SK	15	2 496 391	2 053 955	33 356	1 140 402
TOTAL	1 586	439 039 761	185 077 436	1 034 243 183	102 737 125

c) ISPA

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	31	22 918 242	5 623 171	4 081 412	0
CZ	1	20 222 189	853 532	1 853 221	0
EE	4	13 223 492	170 777	0	0
HR	5	13 789 146	5 051 294	1 438 091	0
LT	7	96 848 580	2 332	94 164	476
PL	12	426 556 734	83 073	53 124	5 456
RO	305	4 231 504 263	29 304 604	13 478 223	9 279 229
SK	1	27 149 200	49 054	49 054	0
TOTAL	366	4 852 211 845	41 137 837	21 047 290	9 285 161

d) TRANSITION FACILITY

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
BG	1	240 000	240 000	240 000	0
LT	2	1 154 834	1 154 834	948 699	948 699
LV	1	89 748	39 687	39 687	39 687
PL	2	45 800	45 800	6 540	32 060
SI	1	380 000	60 000	53 023	0
TOTAL	7	1 910 382	1 540 321	1 287 949	1 020 446

e) CARDS

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
HR	22	50 844 953	882 542	149 502	132 277
TOTAL	22	50 844 953	882 542	149 502	132 277

f) PRE-ACCESSION ASSISTANCE TO TURKEY

BENEFICIARY COUNTRY	N° OF CASES	EU AMOUNT ELIGIBLE	EU AMOUNT IRREGULAR	EU AMOUNT IRREG. PREVENTED	EU AMOUNT TO BE RECOVERED
	N	EUR	EUR	EUR	EUR
TR	73	27 443 170	2 974 289	1 126 678	2 044 414
TOTAL	73	27 443 170	2 974 289	1 126 678	2 044 414

ANNEX 23

IRREGULARITIES REPORTED BY MEMBER STATES IN 2010 – AGRICULTURE, COHESION POLICY, OWN RESOURCES

MEMBER STATES	AGRICULTURE		COHESION POLICY		OWN RESOURCES		TOTAL	
	Irregularities	Irregular amounts	Irregularities	Irregular amounts	Irregularities	Irregular amounts	Irregularities	Irregular amounts
	N	EUR	N	EUR	N	EUR	N	EUR
AT	31	452 705	64	8 076 229	161	9 583 091	256	18 112 025
BE	24	4 233 255	123	12 380 089	201	13 018 547	348	29 631 891
BG	94	4 439 991	66	21 361 615	50	1 477 979	210	27 279 585
CY	4	477 448	5	324 852	11	521 143	20	1 323 443
CZ	38	1 177 815	213	338 054 037	72	9 538 150	323	348 770 002
DE	81	3 769 191	354	58 888 755	1 031	76 450 386	1 466	139 108 332
DK	10	141 053	4	274 869	50	24 092 404	64	24 508 327
EE	12	829 027	50	3 614 464	5	366 076	67	4 809 567
EL	42	1 388 370	680	179 942 341	43	2 528 574	765	183 859 285
ES	413	17 166 788	738	131 025 474	340	73 239 617	1 491	221 431 879
FI	2	43 309	37	1 508 388	32	1 419 298	71	2 970 994
FR	119	10 438 611	166	9 125 174	248	24 455 970	533	44 019 755
HU	116	26 163 772	119	35 571 827	68	8 123 679	303	69 859 278
IE	64	1 596 823	621	105 912 266	37	1 880 921	722	109 390 010
IT	342	39 748 896	1 014	192 465 623	350	45 458 660	1 706	277 673 179
LT	53	1 748 398	52	12 405 003	39	2 020 355	144	16 173 756
LU	2	51 221	3	121 720	0	0	5	172 940
LV	7	113 903	35	3 382 938	12	1 252 926	54	4 749 766
MT	0	0	3	41 715	2	495 717	5	537 432
NL	38	3 032 925	75	7 024 539	858	39 575 864	971	49 633 328
PL	106	3 687 786	399	71 489 710	103	3 026 036	608	78 203 532
PT	138	4 170 688	925	65 358 652	25	736 154	1 088	70 265 494
RO	22	1 160 145	20	2 463 289	101	9 588 424	143	13 211 858
SE	1	11 253	13	1 079 718	57	4 911 511	71	6 002 481
SI	20	674 685	19	3 115 734	44	1 297 962	83	5 088 381
SK	13	785 697	160	106 611 093	14	1 121 908	187	108 518 698
UK	33	3 011 241	1 104	178 537 587	790	36 580 488	1 927	218 129 315
TOTAL	1 825	130 514 995	7 062	1 550 157 697	4 744	392 761 840	13 631	2 073 434 532