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**COMMISSION STAFF WORKING DOCUMENT**

**Statistical evaluation of irregularities reported for 2017: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure**

*Accompanying the document*

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**29th Annual Report on the Protection of the European Union's financial interests - Fight  
against fraud - 2017**

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# Statistical evaluation of irregularities reported for 2017 Own Resources, Natural Resources, Cohesion Policy, Pre-accession and Direct Expenditure

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## 1. INTRODUCTION

### 1.1. Scope of the document

The present document<sup>1</sup> 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 accompanies the Annual Report adopted on the basis of article 325(5) 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 as an analysis of the achievements of Member States.

The methodology (including the definition of terms and indicators), the data sources and the data capture systems are explained in detail in the *Commission Staff Working Document – Methodology for the Statistical Evaluation of Irregularities* accompanying the Annual Report on the Protection of the EU financial interests for the year 2015<sup>2</sup>.

### 1.2. Structure of the document

The present document is divided in two parts.

The first part is dedicated to the analysis of irregularities reported in the area of the Traditional Own Resources (Revenue).

The second part, concerning the expenditure part of the budget, is composed of three sections, dedicated, respectively, to shared, decentralised and centralised management modes.

The section dedicated to shared management, covers agriculture, cohesion policy and fisheries and other internal policies. Decentralised management refers to the pre-accession policy, while the centralised management section mainly deals with internal and external policies for which the Commission directly manages the implementation.

The document is completed by 28 country factsheets, which summarise, for each Member State, the main indicators and information that have been recorded throughout the analyses.

16 Annexes complement the information and data of this document, providing a global overview of the irregularities reported according to the relevant sector regulations. Annexes 1 to 10 concern Traditional Own Resources, Annexes 11 to 15 complement information on the methodology for the analysis of irregularities concerning expenditure, Annex 16 covers all the expenditure sectors for which Member States and beneficiary countries have a reporting obligation.

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<sup>1</sup> This document does not represent an official position of the Commission.

<sup>2</sup> SWD(2016)237final, [http://ec.europa.eu/anti-fraud/sites/antifraud/files/methodology\\_statistical\\_evaluation\\_2015\\_en.pdf](http://ec.europa.eu/anti-fraud/sites/antifraud/files/methodology_statistical_evaluation_2015_en.pdf)

## Part I - REVENUE

### 2. TRADITIONAL OWN RESOURCES

#### 2.1. Introduction

The technical explanations and the statistical approach are explained in the accompanying document 'Methodology regarding the statistical evaluation of reported irregularities for 2015'.

The following analysis is based on the data available on the cut-off date (15 March 2018) and aims to provide an overview of the reported cases of fraud and irregularities reported for 2017 together with their financial impact.

#### 2.2. General analysis – Trend analysis

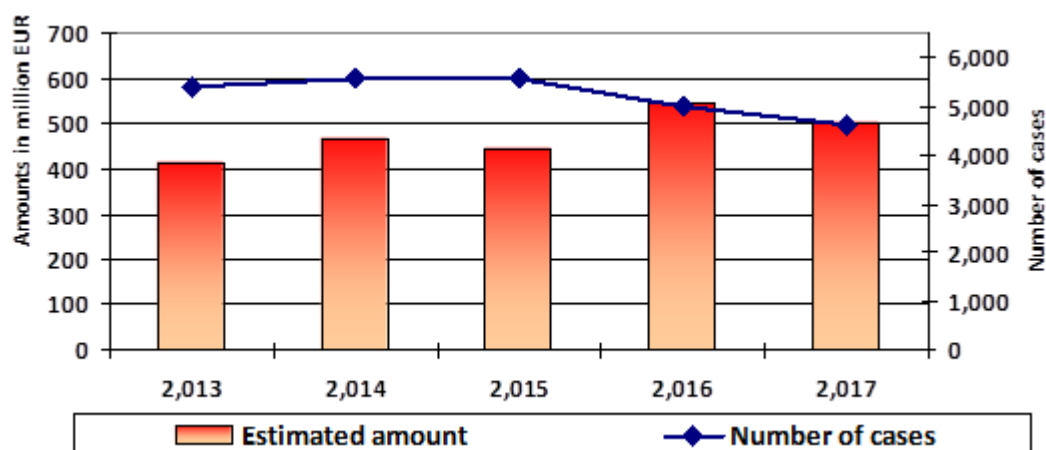
##### 2.2.1. Reporting Years 2013-2017

The number of cases reported via OWNRES for 2017 (4 636) is about 11% lower than the average number of irregular cases reported for the 2013-2017 period (5 222).

The total estimated and established amount of TOR involved (EUR 502 million) is about 6 % higher than the average estimated and established amount for years 2013-2017 (EUR 475 million).

In 2017, 3 big<sup>3</sup> cases for a total amount of about EUR 41 million<sup>4</sup> were reported compared to 2016, when 5 big cases with a total amount of about EUR 115 million affected the total estimated and established amount. Luxemburg did not communicate any case exceeding an amount of EUR 10 000.

CHART TOR1: Total number of OWNRES cases and the related estimated and established amount (2013-2017)



Annex 1 of the summary tables shows the situation on the cut-off date (15 March 2018) for the years 2013-2017.

##### 2.2.1.1. Irregularities reported as fraudulent

The number of cases reported as fraudulent registered in OWNRES for 2017 (441) is currently 33% lower than the average number of cases reported for the 2013-2017 period (658).

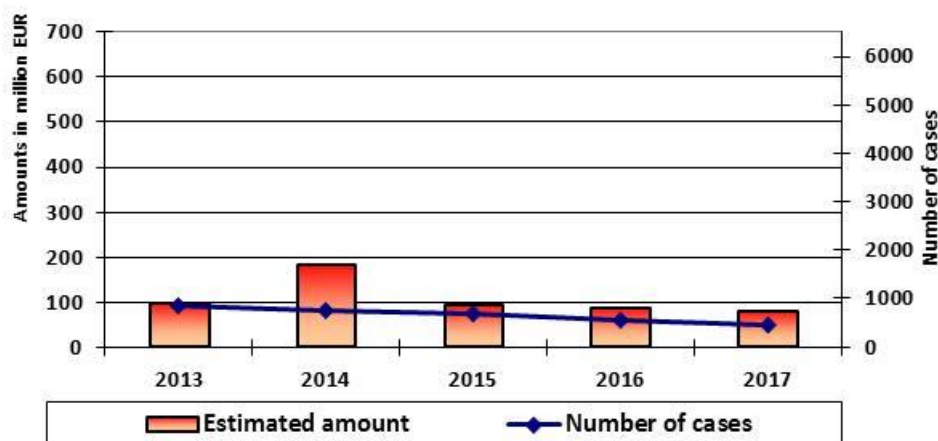
<sup>3</sup> Cases with an amount of TOR exceeding EUR 10 million.

<sup>4</sup> NL (2 cases – EUR 30.5 million) and the UK (1 case – EUR 10.4 million).

The total estimated and established amount of TOR involved (EUR 76 million) represents a decrease of 28% of the average estimated and established amount for the years 2013-2017 (EUR 106 million).

For 2017, Luxemburg, Czech Republic and Slovakia did not communicate any fraudulent case exceeding an amount of EUR 10 000.

*CHART TOR2: OWNRES cases reported as fraudulent and the related estimated and established amount (2013-2017)*



On the cut-off date (15 March 2018), 9.5 % of all cases detected in 2017 were classified as fraudulent. The percentage decreased slightly in comparison to 2016 (11 %).

Annex 2 of the summary tables shows the situation on the cut-off date for years 2013-2017.

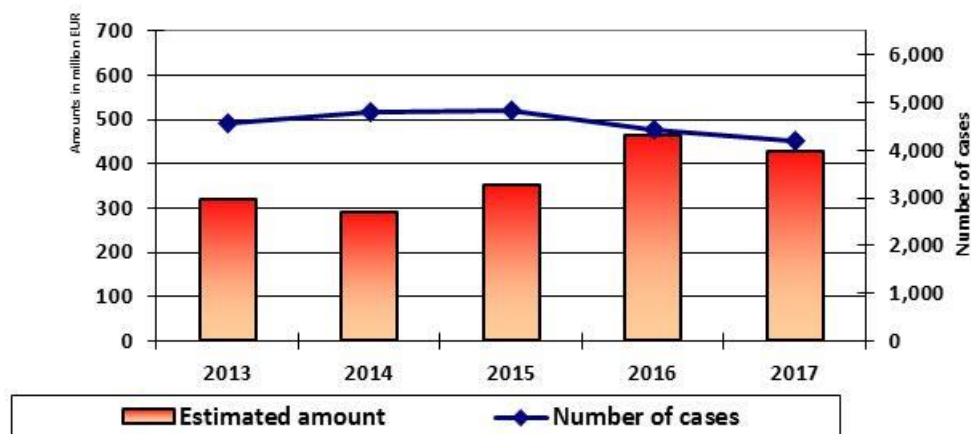
#### 2.2.1.2. Irregularities not reported as fraudulent

At the same time, the number of cases not reported as fraudulent communicated via OWNRES for 2017 (4 195) was 8% lower than the average number reported for 2013-2017 (4 564).

The total estimated and established amount of TOR (EUR 425 million) was 15 % higher than the average estimated and established amount for the years 2013-2017 (EUR 369 million).

Luxemburg and Malta did not report any case of irregularity exceeding an amount of EUR 10 000 for 2017.

*CHART TOR3: OWNRES cases not reported as fraudulent and the related estimated and established amount (2013-2017)*



Annex 3 of the summary tables shows the situation on the cut-off date for years 2013-2017.

### 2.2.2. *OWNRES data vs TOR collection*

In 2017, the total established amount of TOR (gross) was EUR 25.6 billion and more than 98% was duly recovered and made available to the Commission via the A-account. According to the OWNRES data, around EUR 502 million has been established or estimated by the Member States in connection with cases reported as fraudulent/non fraudulent where the amount at stake exceeds EUR 10 000.

The total estimated and established amount reported in OWNRES represent 1.96 % of the total collected TOR (gross) amount in 2017<sup>5</sup>. This proportion has decreased compared with 2016 when it was 2.14 %<sup>6</sup>. A percentage of 1.96 % indicates that of every EUR 100 of TOR (gross) established, an amount of EUR 1.96 is registered as irregular (fraudulent or non-fraudulent) in OWNRES.

TOR Map1 shows the estimated and established amount reported in OWNRES as a percentage of the collected TOR (gross) amount, by Member State. Further details can be found in Annex 4. There are differences among the Member States. In 11 Member States<sup>7</sup>, the percentage is above the average of 1.96 %. The highest percentage for 2017 can be seen in Greece, Spain and Hungary with 7.17 %, 4.31 % and 3.35 %.

For the seven<sup>8</sup> Member States which established and made available most of the TOR amounts, the average percentage of the estimated and established OWNRES amounts to established TOR for 2017 was equal to 2.02 %. In comparison with the previous year (2.13%), this represents a decrease of 0.11%. For Belgium, the proportion of estimated and established OWNRES amounts to established TOR increased in 2017 (1.14%) compared to the previous year (0.62%), while for Germany it has increased from 1.39% to 1.80%. For the other five Member States, the average proportion of estimated and established OWNRES amounts to established TOR declined in 2017 (2.28%) compared to the previous year (2.66%).

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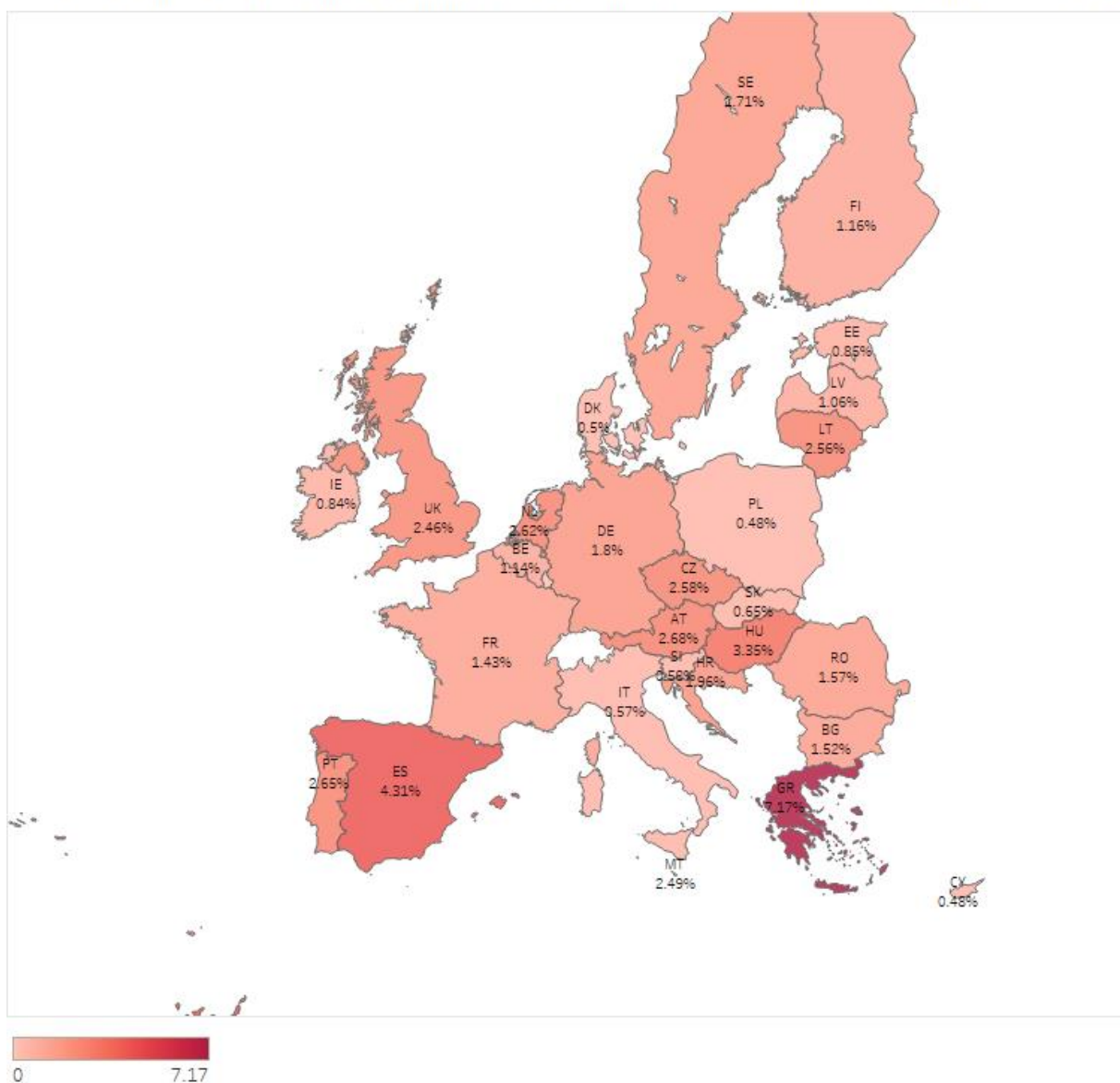
<sup>5</sup> See Annex 4.

<sup>6</sup> On the cut-off date for last year report.

<sup>7</sup> Greece, Czech Republic, Spain, Malta, Lithuania, Hungary, the Netherlands, Austria, Portugal, Croatia and the UK.

<sup>8</sup> Germany, UK, the Netherlands, Belgium, Italy, France and Spain.

TOR MAP1: Showing the percentage of estimated and established amount in OWNRES of established TOR for 2017



### 2.2.3. Recovery

The fraud and irregularity cases detected in 2017 correspond to an established amount of EUR 483 million<sup>9</sup>. Nearly EUR 212 million<sup>10</sup> of this was recovered in cases where an irregularity was at stake and EUR 15 million<sup>11</sup> in fraudulent cases. In total EUR 227 million was recovered by all Member States for all cases which were detected in 2017. In absolute figures, Germany recovered the highest amount in 2017 (EUR 76 million) followed by the UK (EUR 55 million). This is a starting point for the recovery. Analysis shows that lengthy recovery procedures spread over several years are usually required due to administrative and judicial procedures in complex cases or cases with huge financial impact.

In addition, Member States continued their recovery actions related to the detected cases of previous years.

<sup>9</sup> The estimated amounts are excluded.

<sup>10</sup> See Annex 9.

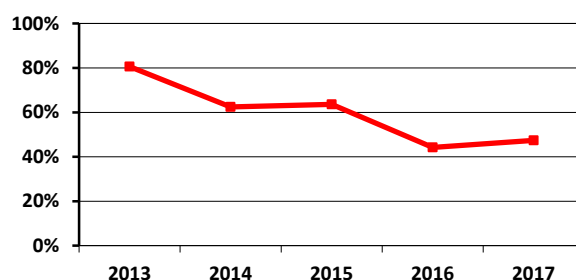
<sup>11</sup> See Annex 9.



### 2.2.3.1. Recovery rates

Over the past five years the annual recovery rate has varied between 44 % and 80 % (see Chart TOR4). The recovery rate for cases reported in 2017 is currently 47 %<sup>12</sup>. In other words, out of every amount over EUR 10 000 of duties established and reported for 2017 in OWNRES as irregular/fraudulent, approximately EUR 4 700 has already been paid.

CHART TOR4: Annual recovery rates (2013-2017)



The overall recovery rate is a correlation between the detection, the established amount and the current recovery stage of individual cases (high additional duty claims are more frequently associated with long lasting administrative and criminal procedures).

Recovery rates vary among the Member States. The highest recovery rates for 2017 are in Slovenia (100%), Slovakia (98%), Ireland (97%), Finland (88 %), Hungary (87 %), Austria (83%) and Germany (82%). Differences in recovery results may arise from factors such as the type of fraud or irregularity, or the type of debtor involved. It can be expected that the recovery rate for 2017 will also go up in the future.

On the cut-off date (15 March 2018), the overall recovery rate for all years 1989-2017 was 62%.

## 2.3. Specific analysis

### 2.3.1. Irregularities reported as fraudulent

#### 2.3.1.1. Modus operandi

A breakdown by types of fraud reveals that incorrect origin or country of dispatching, smuggling of goods, incorrect value or incorrect classification/misdescription are frequently mentioned in 2017 for cases reported as fraudulent.

In 2017, the customs procedure 'release for free circulation' remained the procedure most vulnerable to fraud (71 % of the number of cases and 67 % of the estimated and established amount). A total of 19 % of all cases reported as fraudulent and 11% of all estimated and established amounts in OWNRES cases registered as fraudulent for 2017 fall under the category "Other"<sup>13</sup>. A total of 7 % of all cases reported as fraudulent and 20 % of all estimated and established amounts in OWNRES cases registered as fraudulent for 2017 involve the transit procedure.

<sup>12</sup> See Annex 5.

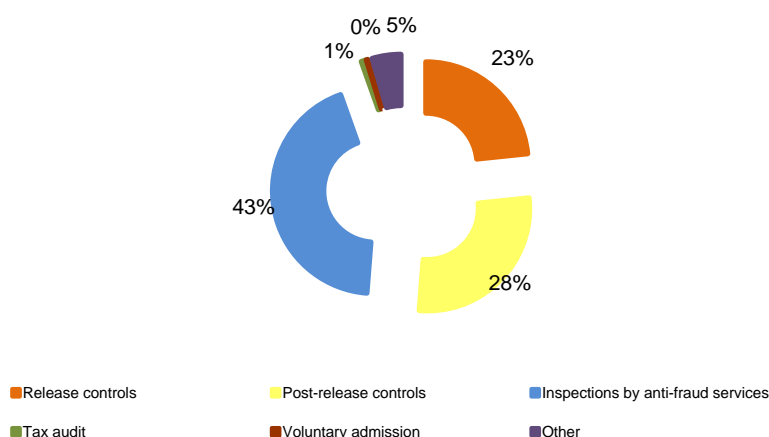
<sup>13</sup> The category "Other" combines, among others, the following procedures or treatments: Processing under customs control, temporary admission, outward processing and standard exchange system, exportation, free zone or free warehousing, re-exportation, destruction and abandonment to the Exchequer.

Of all cases reported as fraudulent about 74 % concern such goods as tobacco, electrical machinery and equipment, preparation of foodstuffs, vehicles, textiles and articles of iron and steel. In monetary terms those groups of goods represent about 78 % of all amounts estimated and established for cases reported as fraudulent. China, United States, Ukraine, Switzerland, Turkey and Singapore are the most important - in monetary terms - countries of origin of goods affected by fraud.

### 2.3.1.2. Method of detection of fraudulent cases

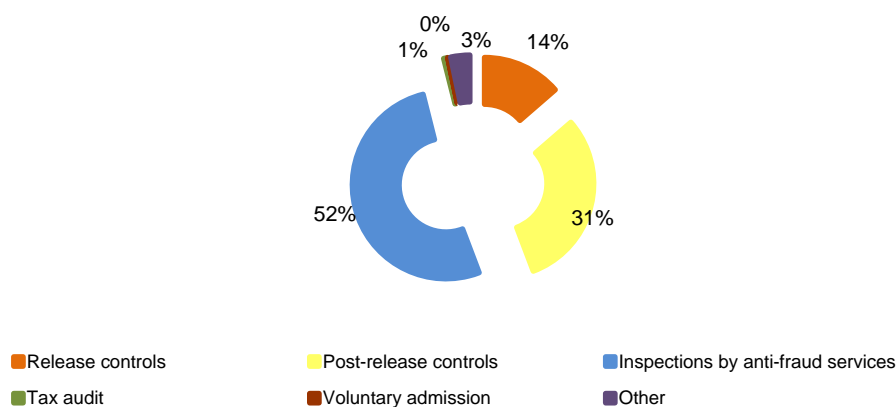
In 2017<sup>14</sup>, inspections by anti-fraud services (43 %) was the most successful method of detecting fraudulent cases followed by customs controls carried out at the time of clearance of goods (23 %) and post-clearance controls (28 %).

CHART TOR5: Method of detection 2017 – Cases reported as fraudulent – by number of cases



In monetary terms, of the EUR 76 million estimated or established in fraudulent cases registered for 2017, around 52 % were discovered during an inspection by anti-fraud services, 31% during a post-clearance control, 14 % during a control at the time of clearance of goods.

CHART TOR6: Method of detection 2017 – Cases reported as fraudulent – by estimated and established amount



<sup>14</sup> See Annexes 7 and 8.

In 11 Member States more than 50 % of all estimated and established amount in fraudulent cases were detected by anti-fraud services<sup>15</sup>. As regards amounts, controls at the time of clearance of goods were the most important method for detecting fraudulent instances in Estonia, Croatia, Latvia, Malta, Portugal, Finland and the United Kingdom whereas post-clearance controls were in Denmark, Hungary, The Netherlands, Austria, Poland and Sweden.

In Belgium, Ireland, Romania and Slovenia the 100% of all estimated and established amounts in fraudulent cases were detected by an inspection by services or bodies other than customs.

### 2.3.1.3. Smuggled cigarettes

In 2017, there were 173 cases of smuggled cigarettes registered (CN code<sup>16</sup> 24 02 20 90) involving estimated TOR of around EUR 25 million. In 2016 the number of cases of smuggled cigarettes was 147, totalling around EUR 25 million.

The highest number of cases was reported by Lithuania (32), Greece (25) and Spain (23). The highest amount was reported by Belgium (EUR 8.3 million). No cases were reported by 8 Member States<sup>17</sup>.

Table TOR1: Cases of smuggled cigarettes in 2017

TOR: Cases of smuggled cigarettes* in 2017		
MS	Cases	Established and estimated amount
	N	EUR
BE	6	8,398,356
BG	13	932,741
DE	8	2,077,388
EE	4	310,930
IE	1	33,992
EL	25	6,035,357
ES	23	1,641,917
FR	14	1,061,769
HR	1	26,973
LV	5	242,464
LT	32	1,249,008
HU	2	285,790
MT	2	366,319
AT	2	140,113
PL	11	772,368
PT	2	269,552
RO	7	370,351
FI	3	53,375
SE	2	26,971
UK	10	685,939
<b>Total</b>	<b>173</b>	<b>24,981,673</b>

\* CN code 2402 2090

<sup>15</sup> Belgium, Bulgaria, Germany, Ireland, Greece, Spain, Italy, Cyprus, Lithuania, Romania and Slovenia.

<sup>16</sup> Combined nomenclature or CN –nomenclature of the Common Customs Tariff.

<sup>17</sup> Czech Republic, Denmark, Italy, Cyprus, Luxembourg, the Netherlands, Slovenia and Slovakia.

#### 2.3.1.4. Cases reported as fraudulent by amount

In 2017, the estimated and established amount was below EUR 50 000 in 303 cases reported as fraudulent (69 % of all fraud cases), whereas it was above EUR 50 000 in 138 cases (31%).

The total estimated and established amount in cases reported as fraudulent, where the amount at stake was above EUR 50 000, amounted to EUR 54 million (70 % of the total estimated and established amount for cases reported as fraudulent).

Table TOR2: Cases reported as fraudulent by amount category in 2017

Amount, EUR	N	Estimated and established amount, EUR
< 50 000	303	22,639,569
>= 50 000	138	53,747,139
<b>Total</b>	<b>441</b>	<b>76,386,708</b>

#### 2.3.2. Irregularities not reported as fraudulent

##### 2.3.2.1. Modus operandi

A breakdown of irregularities by type of fraud shows that most cases of irregularity related to incorrect declarations (incorrect classification, customs value or country of origin or dispatch) and formal shortcomings (removal of goods from customs supervision, incorrect use of preferential arrangements or failure to fulfil obligations or commitments).

Not all customs procedures are equally susceptible to irregularities; their vulnerability may change in the course of time as certain economic sectors are briefly targeted. The customs procedure ‘release for free circulation’ is the customs procedure mostly affected by irregularities since at the time of release for free circulation the non-compliance in the customs declaration may relate to a large number of irregularities, e.g. to the tariff, CN code, (preferential) origin, incorrect value, etc. On the other hand, in customs suspension regimes (like warehousing, transit, inward processing, etc. - where the payment of duties is suspended) the sole irregularity that might occur is the subtraction of the goods from customs supervision. Thus, it is normal, and indeed to be expected, that most fraud and irregularities be reported in connection with the procedure ‘release for free circulation’.

In 2017 most of the estimated and established amounts in OWNRES in the EU-28 (83 %) for cases reported as non-fraudulent related to the customs procedure ‘release for free circulation’.<sup>18</sup> 4% of all amounts estimated or established in cases not reported as fraudulent in 2017 involved customs warehousing, 11 % of all amounts estimated or established related to inward processing. Other customs procedures are only marginally affected in 2017.

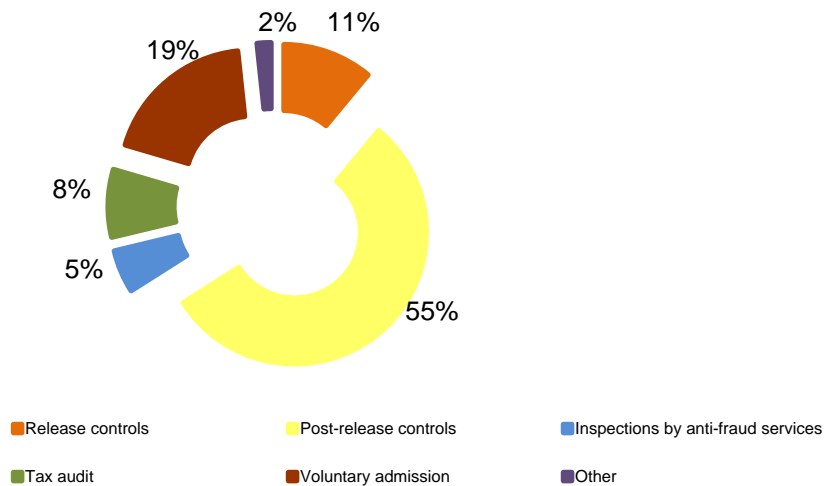
Of all cases reported as non-fraudulent about 49 % concern electrical and mechanical machinery, vehicles, mechanical appliances, plastics, articles of iron and steel, glass and glassware and textiles. In monetary terms those groups of goods represent about 53 % of all amounts estimated or established for cases reported as non-fraudulent. China, United States, Argentina, Sri-Lanka, Thailand, Japan are - in monetary terms – the most important countries of origin of goods affected by irregularities.

<sup>18</sup> See Annex 6.

### 2.3.2.2. Method of detection of non-fraudulent cases

In 2017, most non-fraudulent cases (55 %) were revealed during post-clearance customs controls. Other methods of detection for non-fraudulent cases that featured frequently were voluntary admission (19 %), clearance controls (11 %), tax audits (8 %), followed by anti-fraud services (5 %) <sup>19</sup>.

CHART TOR7: Method of detection 2017 – Cases not reported as fraudulent – by number of cases

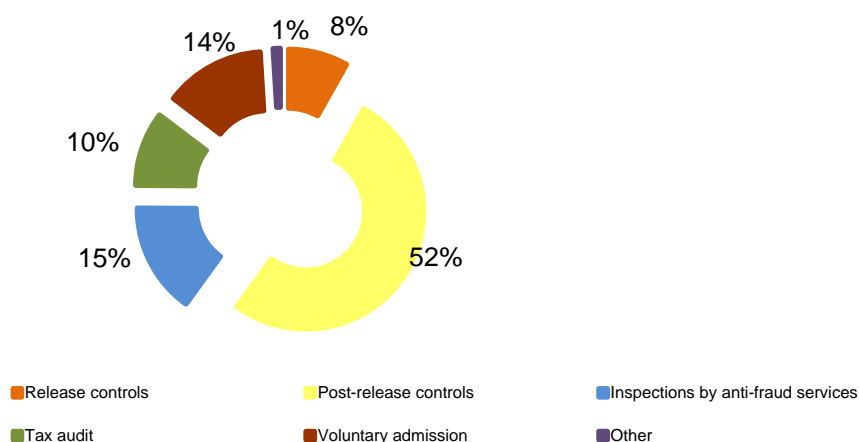


Considering the estimated or established amounts, around 52 % of all irregularity cases registered for 2017 were discovered during a post-clearance control, 14 % were related to voluntary admission, 15 % to an inspection by anti-fraud services, whereas 10 % related to a tax audit and 8 % were found during a control at the time of clearance of goods.

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<sup>19</sup> See Annex 7 and 8.

CHART TOR8: Method of detection 2017 – Cases not reported as fraudulent – by established amounts



In 13 Member States, more than 50 % of all non-fraudulent cases — in amounts — were detected by post-release controls<sup>20</sup>. In Greece, Spain, France, Portugal and Romania more than 50 % of the amounts relating to non-fraudulent cases were detected by anti-fraud services. Significant amounts were reported as non-fraudulent following voluntary admission by the United Kingdom (EUR 28 million) and Germany (EUR 22 million). In 14 Member States voluntary admission was keyed in as a method of detection of cases reported as non-fraudulent.

### 2.3.2.3. Solar panels vulnerable to irregularities – mutual assistance

In 2017, solar panels<sup>21</sup> originating in China were especially vulnerable to non-fraudulent irregularities in monetary terms. About 12 % (EUR 49 million) of the total amount that was established in non-fraudulent irregularities concerned this type of goods. Incorrect classification/misdescription and incorrect country of origin or dispatching country were the main pattern of the infringement reported. The United Kingdom, the Netherlands and Germany were particularly affected by this type of goods and infringement. Other 10 Member States reported also cases related to solar panels to a smaller extent<sup>22</sup>. Most of the cases reported were detected following Mutual Assistance notices issued by OLAF. This underlines the importance of investigations conducted by OLAF in this particular field.

### 2.3.2.4. Cases not reported as fraudulent by amount

In 2017, the established amount was below EUR 50 000 in 3 159 non-fraudulent cases (76 % of all irregularity cases), whereas it was above EUR 50 000 in 1 036 cases (24 %).

The total estimated and established amount in non-fraudulent cases where the amount at stake was above EUR 50 000 amounted to EUR 366 million (86 % of the total estimated and established amount for non-fraudulent cases).

<sup>20</sup> Czech Republic, Denmark, Germany, Estonia, Croatia, Cyprus, Lithuania, Hungary, the Netherlands, Austria, Poland, Sweden and the UK.

<sup>21</sup> CN codes 85 01 31 00, 85 01 64 00 and 85 41 40 90.

<sup>22</sup> France, Austria, Italy, Belgium, Sweden, Czech Republic, Denmark, Estonia, Greece and Spain.

Table TOR3: Cases not reported as fraudulent by amount category in 2017

Amount, EUR	N	Estimated and established amount, EUR
< 50 000	3,159	59,661,516
>= 50 000	1,036	365,595,455
<b>Total</b>	<b>4,195</b>	<b>425,256,971</b>

## 2.4. Member States' activities

### 2.4.1. Classification of cases as fraudulent and non-fraudulent and related rates

For 2017, Member States reported 441 cases as fraudulent out a total of 4 636 cases reported via OWNRES, which indicates a Fraud Frequency Level (FFL) of 10 %. The differences between Member States are relatively large. In 2017, nine Member States categorised between 10-50 % of all cases reported as fraudulent. However, Czech Republic and Slovakia did not categorise any cases reported as fraudulent<sup>23</sup>. Seven Member States categorised less than 10 % of cases as fraudulent<sup>24</sup>. Nine Member States registered more than 50 %<sup>25</sup> of cases as fraudulent.

In 2017, the total estimated and established amount affected by fraud in the EU was EUR 76 million and the overall incidence of fraud<sup>26</sup> was 0.30 %. For 2017, the highest percentages can be seen in Greece (7.03 %), Malta (2.49 %) and Austria (2.05 %)<sup>27</sup>.

The total estimated and established amount affected by cases not reported as fraudulent was more than EUR 425 million which indicates an irregularity incidence<sup>28</sup> of 1.66 %. The highest percentages can be seen in Spain (4.11 %), Hungary (3.17 %) and Czech Republic (2.58 %)<sup>29</sup>.

There are large differences between Member States' classifications, which may partly depend on their classification practices. This can influence the comparison of the amounts involved in cases reported as fraudulent and as non-fraudulent by Member States. Moreover, individual bigger cases detected in a specific year may affect annual rates significantly. Factors such as the type of traffic, type of trade, the level of compliance of the economic operators, the location of a Member State can influence the rates significantly. Bearing in mind these variable factors, the rates of incidence can also be affected by the way a Member State's customs control strategy is set up to target risky imports and to detect TOR-related fraud and irregularities.

<sup>23</sup> Luxembourg did not report any irregular case in 2017.

<sup>24</sup> Denmark (2%), Germany (3 %), Ireland (3%), the Netherlands (2 %), Portugal (6%), Sweden (2 %) and the UK (1 %).

<sup>25</sup> Bulgaria (95 %), Estonia (80%), Greece (76 %), Croatia (53%), Cyprus (80%), Latvia (60%), Lithuania (67%), Malta (100 %) and Poland (53 %).

<sup>26</sup> The percentage that the total established and estimated amounts related to fraudulent cases represent on the total TOR collected by Member States.

<sup>27</sup> See Annex 4.

<sup>28</sup> The percentage that the total established and estimated amounts related to non-fraudulent cases represent on the total TOR collected by Member States.

<sup>29</sup> See Annex 4.

## 2.4.2. Recovery rates

### 2.4.2.1. Cases reported as fraudulent

Over the 1989-2017 period, OWNRES shows that, on average, 22 % of the initially established amount was corrected (cancelled). The recovery rate (RR) for all years (1989-2017) is 37 %<sup>30</sup>. The RR for cases reported as fraudulent and detected in 2017 was 26 %<sup>31</sup> which is below the average rate of 36% for fraudulent cases for the 2013-2017 period<sup>32</sup>. In general, the RR in cases reported as fraudulent is clearly much lower than that for cases not reported as fraudulent.

### 2.4.2.2. Cases not reported as fraudulent

OWNRES shows that on the cut-off date, on average 37 % (1989-2017) of the initially established amount in relation to cases not reported as fraudulent has been corrected (cancelled) since 1989. The RR for non-fraudulent cases reported for 2017 is 50%<sup>33</sup>. On the cut-off date, the annual RR for the last five years has varied between 47% and 85%. The overall RR for all years (1989-2017) for all cases not reported as fraudulent is 71 %<sup>34</sup>.

### 2.4.2.3. Historical recovery rate (HRR)

The HRR confirms that in the long term recovery in cases reported as fraudulent is generally much less successful than in cases not reported as fraudulent (see table TOR4). Classification of a case as fraudulent is thus a strong indicator for forecasting short- and long-term recovery results.

Table TOR4: Historical recovery rate (HRR)

<b>Iregularities</b>	<b>HRR 1989 – 2017</b>
Reported as fraudulent	65.60%
Reported as non-fraudulent	92.59%
<b>Total</b>	<b>87.06%</b>

## 2.4.3. Commission's monitoring

### 2.4.3.1. Examination of the write-off reports

In 2017, 12 Member States submitted 50 new write-off reports to the Commission. In 2017, the Commission assessed 169 cases totalling EUR 74 million. In 34 of these cases amounting to EUR 11 million<sup>35</sup>, the Commission's view was that the Member States did not demonstrate satisfactorily that the TOR was lost for reasons not imputable to them so they were considered financially responsible for the loss.

<sup>30</sup> This calculation is based on 18 474 cases, an established amount of EUR 2.13 billion (after already processed corrections) and a recovered amount of EUR 0.78 billion.

<sup>31</sup> See Annex 9.

<sup>32</sup> On the cut-off date, for years 2013-2017, the annual RR for fraud cases varied between 26 % and 63 %.

<sup>33</sup> See Annex 9.

<sup>34</sup> This calculation is based on 82 606 cases, an established amount of EUR 5.3 billion (after already processed corrections) and a recovered amount of EUR 3.77 billion.

<sup>35</sup> See Annex 10



Examination of Member States' diligence in write-off 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.

#### *2.4.3.2. Commission's inspections*

In its TOR inspections, the Commission has put a special emphasis on Member States' customs control strategies and closely monitors their actions and follow-up in relation to the observations made during the inspections. Member States generally show their willingness to adapt their control strategies and to progressively implement systems that provide for efficient and effective risk analysis to protect the EU's financial interests. However, budgetary constraints and the increase of tasks related to security have led to cuts in the number of customs officials in charge of duty collection control in many Member States. This may undermine the control efficiency and thus pose risks to the protection of the EU financial interest.

In 2017, the general subject of inspection was the keeping of the separate account and the corrections of the normal account, with a specific emphasis on the written-off amounts between EUR 50.000 and EUR 100.000. "Management of the normal and separate accounts in smaller offices"<sup>36</sup>, "Management of tariff suspensions and quotas"<sup>37</sup>, "External EU transit and the TIR procedures"<sup>38</sup> and "Control strategy of large business units"<sup>39</sup> were the main inspection themes of the on-the-spot customs inspections by the Commission services in Member States.

One general conclusion drawn by the Commission from its inspections in Member States in recent years is that their control strategies are increasingly shifting from customs controls at the time of clearance of goods to post-clearance customs controls. The customs controls before or at the time of clearance of goods remain however indispensable for addressing undervaluation and the detection of new types or patterns of fraud or irregularities. Therefore, the customs controls strategy should be frequently reviewed taking into account recent detections or new risks.

Considering the fraud diversion and spreading of specific fraud mechanism, EU-wide and international cooperation in detection of irregular cases is more and more required.

#### *2.4.3.3. 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 liability<sup>40</sup>. Member States have been held financially liable in 2017 for over EUR 29 million<sup>41</sup>, and new cases are being given appropriate follow-up.

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<sup>36</sup> Germany and France.

<sup>37</sup> Lithuania and Luxembourg.

<sup>38</sup> Belgium, Bulgaria, Czech Republic, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Latvia, Hungary, the Netherlands, Poland, Portugal, Slovenia, Slovakia, Finland, Sweden and the United Kingdom.

<sup>39</sup> The United Kingdom.

<sup>40</sup> Case C-392/02 of 15/11/2005. These cases are typically identified on the basis of Articles 220(2)(b) (administrative errors which could not reasonably have been detected by the person liable for payment) and 221(3) (time-barring resulting from Customs' inactivity) of the 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 Customs Code giving rise to legitimate expectations on the part of an operator.

<sup>41</sup> It includes customs duties (EUR 9.8 million) and interest (EUR 19.1 million).

## PART II - EXPENDITURE

### Sustainable growth: natural resources

The emphasis of the EU policy in this field is on increasing farms' profitability, diversifying the rural economy and protecting the natural environment. There is a direct management component but the majority of expenditure is disbursed by Member States under shared management funds.

For the purpose of this analysis, the Common Agricultural Policy (CAP) is split in two main parts:

- Direct support to agriculture (SA), through direct payments to farmers and measures to respond to market disturbances, such as private or public storage and export refunds, which are financed by the European Agricultural Guarantee Fund;
- Rural development programmes of the Member States (RD), which are mainly financed through the European Agricultural Fund for Rural Development.

The European Maritime and Fisheries Fund (EMFF) provides funding and technical support for initiatives that can make the fishery industry more sustainable. The EMFF is the successor of the European Fisheries Fund (EFF), for which the full resources have been committed by the end of 2014. Table NR1 shows also the financial resources available for this policy area. However, in light of their belonging to the European Structural and Investment Funds (ESIF) family, EFF and EMFF will be treated together with the other structural funds. EAFRD and the EMFF are among the five ESIF which complement each other and seek to promote a growth and job based recovery in Europe.

*Table NR1: Financial year 2017*

Type of expenditure <sup>(1)</sup>	Management mode	Year 2017	
		Payments	% of total budget
		EUR million	%
Support to agriculture (SA)	Shared	44,505	33.1
Rural development (RD)	Shared	11,095	8.2
EMFF + EFF	Shared	244	0.2
<b>TOTAL</b>		<b>55,844</b>	<b>41.5</b>

(1) 'Support to agriculture' includes budget chapters 05.02 and 05.03. 'Rural development' includes budget chapter 05.04

### 3. COMMON AGRICULTURAL POLICY (CAP)

#### 3.1. Introduction

For the last 50 years the Common Agricultural Policy (CAP) has been the European Union's (EU) most important common policy. This explains why traditionally it has taken a large part of the EU's budget, although the percentage has steadily declined over recent years.

The CAP is financed by two funds, EAGF and EAFRD, which form part of the EU's general budget.

Under the basic rules for the financial management of the CAP, the European Commission is responsible for the management of the EAGF and the EAFRD. However, the European Commission itself does not make payments to beneficiaries. According to the principle of shared management, this task is delegated to the Member States, who themselves work through national or regional paying agencies. Before these paying agencies can claim any expenditure from the EU-budget, they must be accredited on the basis of a set of criteria laid down by the European Commission.

The paying agencies are, however, not only responsible for making payments to the beneficiaries. Prior to doing so, they must, either themselves or through delegated bodies, satisfy themselves of the eligibility of the aid applications. The exact checks to be carried out are laid down in the different sectorial regulations of the CAP and vary from one sector to another.

The expenditure made by the paying agencies is then reimbursed by the European Commission to the Member States, in the case of the EAGF on a monthly basis and in the case of EAFRD on a quarterly basis. Those reimbursements are, however, subject to possible financial corrections which the European Commission may make under the clearance of accounts procedures.

Apart from a difference in scope and objectives, the two funds also function differently. While entitlements and measures supported under the EAGF follow a yearly flow, those under the EAFRD are implemented through multi-annual programmes, very much like the interventions financed through the other ESI funds.

Table NR2 shows the financial resources available for the CAP.

Type of expenditure <sup>(1)</sup>	Management mode	Year 2017	
		Payments EUR million	% of total budget %
SA: Intervention in agricultural markets	Shared	2,949	2.2
SA: Direct payments	Shared	41,556	30.9
RD: Rural development	Shared	11,095	8.2
<b>TOTAL</b>		<b>55,600</b>	<b>41.3</b>

(1) 'Intervention in agricultural markets' includes budget chapter 05.02. 'Direct payments' includes Budget chapter 05.03

### 3.2. General analysis

#### 3.2.1. Irregularities reported 2013-2017

Table NR3 shows the number of irregularities (fraudulent and non-fraudulent) reported by the Member States for the period 2013-17 in relation to 'rural development' (RD) and direct 'support to agriculture' (SA). Cases are classified as:

- RD, where they concern only expenditure for rural development;
- SA, where they do not concern rural development expenditure. SA includes expenditure in relation to intervention in agricultural markets and direct payments to farmers;
- 'SA/RD', where they concern both types of expenditure (rural development and direct support to agriculture) or there is no enough information to assign the case to RD or SA.

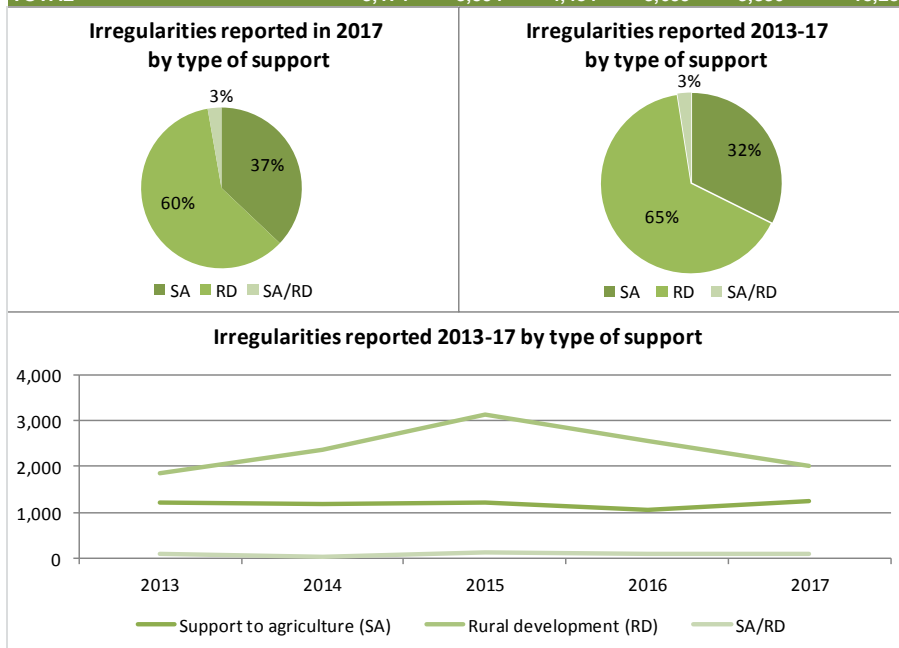
Annex 11 provides a detailed explanation about the classification of cases. When inputting a case, the contributor is requested to specify the currency in which the amounts are expressed. Where the value of this field is 'EUR' or the field has been left blank, no transformation is applied. Where this field has been filled with another currency, the financial amounts involved in the irregularity are transformed on the basis of the exchange rates published by the ECB at the beginning of 2018.

The number of irregularities decreased by 10% in 2017 (in comparison with 2016) and this brought the overall increase during the period 2013-2017 down to 5%. However, while the irregularities affecting SA have been relatively stable over time, those related to RD have noticeably increased until 2015 and then declined at a similar pace during 2016-2017, as showed by the chart associated to Table NR3 (in 2017, -21.4% in comparison with 2016 and -36.2% in comparison with 2015).

This difference in stability is reflected in the average year-on-year (yoy) absolute variation, which for SA was just 8%, while for RD it reached 25%.

Table NR3: Number of irregularities by type of support - 2013-17 for the CAP

Type of support	REPORTING YEAR					TOTAL PERIOD
	2013	2014	2015	2016	2017	
	N	N	N	N	N	N
Support to agriculture (SA)	1,207	1,189	1,222	1,061	1,234	5,913
Rural development (RD)	1,868	2,361	3,132	2,549	2,004	11,914
SA/RD	99	44	130	89	92	454
<b>TOTAL</b>	<b>3,174</b>	<b>3,594</b>	<b>4,484</b>	<b>3,699</b>	<b>3,330</b>	<b>18,281</b>



It should be considered that the two types of support are provided following two different modes. SA follows an annual implementation, while RD finances programmes in a multiannual context, which resembles that of the ESI Funds. In fact, the trends of irregularities detected and reported in relation to RD and ESI Funds are similar and are influenced by the implementation modes.

The irregularities notified by a minority of Member States (Italy, Romania, Portugal, Spain, Hungary, Poland and France) nearly represented 75% of the total number of reported irregularities in 2017.

Table NR4 provides information about the financial amounts involved in the cases considered in Table NR3. In 2017, the financial amounts<sup>42</sup> have increased by 10% in comparison with 2016. After a decreasing trend during 2013-2016, in 2017 the SA financial amounts bounced back, pushed by strong increases both in numbers and average financial amount (see also below for an explanation). On the contrary, in 2017 the RD financial amounts continued on the decreasing path that had started after the 2015 peak, due to declining numbers and a stable average financial amount. As a result, in 2017 the financial amounts involved in irregularities are nearly equally shared between RD and SA. However, one has to bear in mind that, in 2017, RD represented about 20% of the total resources devoted to the CAP, while the financial value of the irregularities reported in relation to RD accounted for 50% of the total amount of all irregularities related to CAP expenditure in 2017.

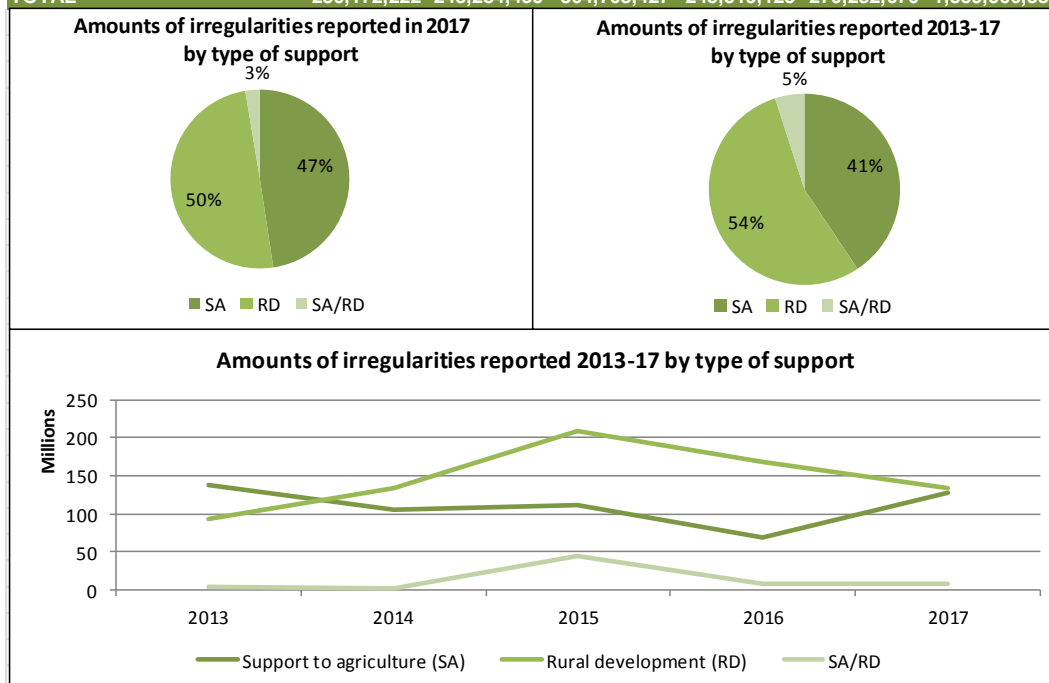
<sup>42</sup> In this report, whenever financial amounts are mentioned with reference to reported cases, they refer to the financial amount of the irregularity and not of the overall related expenditure.

In fact, the weight of the financial amounts involved in irregularities on payments<sup>43</sup> is very different between the two types of support, as it is 0.1% for SA and 1.3% for RD (0.5% on the overall 2017 CAP expenditure).

Considering the overall period 2013-2017, the average financial amount involved in SA cases is higher than in RD cases (+50%). This is mainly due to irregularities concerning market measures, where cases with exceptional financial amounts happened to be reported.<sup>44</sup> In fact, in 2016 such exceptional cases did not emerge and the average financial amounts of RD and SA cases were broadly aligned. In general, when SA is considered net of cases concerning market measures, the average financial amount is lower than for RD cases. Also in 2016 the average financial amount of cases concerning market measures was 41% higher than that for RD cases.

Table NR4: Financial amounts involved in reported irregularities by type of support - 2013-17 for the CAP

Type of support	REPORTING YEAR					TOTAL PERIOD
	2013	2014	2015	2016	2017	
	EUR	EUR	EUR	EUR	EUR	EUR
Support to agriculture (SA)	137,762,397	105,803,196	111,662,850	68,722,225	128,653,696	552,604,364
Rural development (RD)	93,374,216	134,635,963	208,735,956	168,433,561	134,525,870	739,705,566
SA/RD	5,035,610	2,845,280	44,309,621	8,363,340	7,103,104	67,656,955
<b>TOTAL</b>	<b>236,172,222</b>	<b>243,284,439</b>	<b>364,708,427</b>	<b>245,519,125</b>	<b>270,282,670</b>	<b>1,359,966,885</b>



The trend of the financial amounts must be assessed while bearing in mind that it can be strongly influenced by single observations of significant value. The continuous growth of the financial value of irregularities related to RD until 2015 is, however, in line with the general trend of irregularities showed in Table NR3.

During 2013-2017, cases which involved financial amounts over 1 million represented less than 1% in terms of numbers, but 33% in terms of amounts.<sup>45</sup> 60% of these 'over 1 mln' cases concerned RD, while 29% concerned market measures. In such a context, where such a

<sup>43</sup> For example, for RD this is calculated as (financial amounts of irregularities in RD)/(payments related to all RD projects during the same period of reference).

<sup>44</sup> In this context, a financial amount is considered 'exceptional' where it exceeds EUR 10 million.

<sup>45</sup> Furthermore, it can be noticed that there were just 24 cases over 3 million accounting for 21% of the financial amounts.

significant portion of the financial amounts is linked to a relatively low number of cases, fluctuations are more likely and should not be misinterpreted.

This contributes to explain the steep increase in 2017 of the financial amounts related to SA irregularities. During 2013-2015 and 2017, each year there were one or two cases concerning market measures which involved exceptional financial amounts (globally adding on average more than EUR 40 mln per year).<sup>46</sup> From this point of view, 2016 was an unusual year, because there were no such exceptional cases. The return to the previous pattern in 2017 contributed to the noticeable upward jump in the financial amounts involved in irregularities concerning SA, which includes market measures.

Section 3.3.4 will deal later with the reasons why controls that led to discover irregularities were performed. That analysis will bring to a number of findings about the frequency and potential of different detection methods. Here a different perspective is taken. When focusing on the '*over 1 mln*' cases, it can be noticed that some of these reasons for performing the control were more present than in the overall set of cases. Reference is made to 'Information published by the media', 'Tip from informant, whistle-blower, etc.' and 'Irregularity detected by EU body'.<sup>47</sup> Even if this is based on a relatively low number of cases, it may be seen as corroborating the hypothesis that these targeted controls have the potential to lead to better results.

### 3.2.2. *Irregularities reported as fraudulent*

For the period 2013-17, Table NR5 provides an overview of the number of irregularities reported as fraudulent by Member States in relation to the type of support concerned. This shows a significant decrease in comparison to 2016 (-31.5%), which is due to a drop in the number of relevant RD irregularities (-51.1%) that could not be compensated by the increase recorded for the SA type of support.

After three consecutive years during which the number of irregularities reported as fraudulent in relation to RD had largely exceeded the number of those reported for SA, in 2017 the SA share matched the RD one. As a result, over the period 2013-2017, the number of RD irregularities reported as fraudulent is still higher than the number of SA ones, but the share of the total was just 56%.

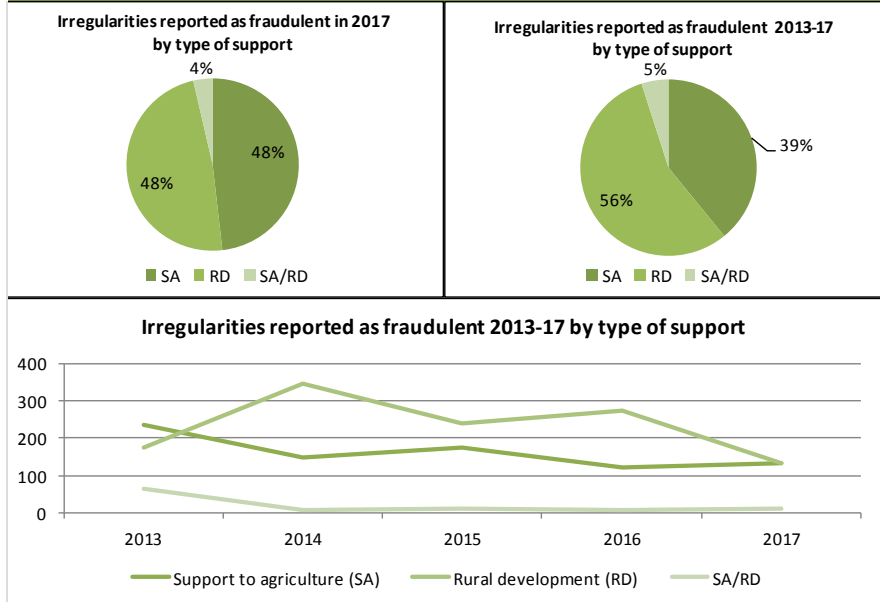
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<sup>46</sup> In this context, a financial amount is considered 'exceptional' where it exceeds EUR 10 million.

<sup>47</sup> (1) 'Irregularity detected by EU body' is reported in 4.1% of the '*over 1 mln*' cases (in RD), against 1.3% of all RD cases; (2) 'Information published by the media': 1.4% in the '*over 1 mln*' subset (in RD), against 0.4% in the all RD set; (3) 'Tip from informant, whistle-blower, etc.': 3.3% in the '*over 1 mln*' subset, against 1.6% in the all set (difference is even bigger when focusing on market measures: 5.7% against 0.7%). Only cases where the amount of the reported irregularity is greater than zero have been considered.

Table NR5: Number of irregularities reported as fraudulent by type of support - 2013-17 for the CAP

Type of support	REPORTING YEAR					TOTAL PERIOD
	2013	2014	2015	2016	2017	N
Support to agriculture (SA)	236	148	175	122	133	814
Rural development (RD)	174	345	240	272	133	1,164
SA/RD	65	9	10	9	10	103
<b>TOTAL</b>	<b>475</b>	<b>502</b>	<b>425</b>	<b>403</b>	<b>276</b>	<b>2,081</b>



In 2017, the irregularities notified by the first three Member States (Poland, Romania and Italy) represented about 65% of the total number of irregularities reported as fraudulent. This concentration was higher than in 2016 (about 63%) and in 2013 (about 58%).

The first ten countries taken together reported 246 cases as fraudulent, which represented about 89% of the total (in 2016 the first ten countries accounted for about 92% and in 2013 about 93% of the total irregularities reported as fraudulent).

Estonia, Germany, Ireland, Italy, Luxembourg, the Netherlands, Slovakia and Slovenia accounted for an increasing number of cases reported as fraudulent.

Table NR6 provides information about the financial amounts involved in the cases considered in Table NR5. In 2017, the overall financial amounts were stable, but this was the result of different patterns in RD and SA. After the peak recorded in 2016 for financial amounts related to RD, the largest share in 2017 was represented again by the SA, which was pushed by increases both in the number of SA cases (+9%) and their average financial amount (+227%).<sup>48</sup> Financial amounts involved in SA cases were predominant also if one takes into account the whole 2013-17 period (58% of the total amount). However, the share of the RD on the total (40%) was well above the share of the resources allocated to RD on the total of the CAP resources over the same period.

Considering the overall period 2013-2017, the average financial amount involved in SA cases was higher than that for RD cases (+104%). This is mainly due to irregularities concerning market measures, where potential frauds with exceptional financial amounts happened to be reported.<sup>49</sup> In fact, in 2016 such exceptional cases did not emerge and the average financial

<sup>48</sup> See above, for an explanation of the role of exceptional cases in the 2017 steep increase in financial amounts involved in SA cases. RD cases instead decreased both in terms of numbers (-51%) and average financial amount (-14%).

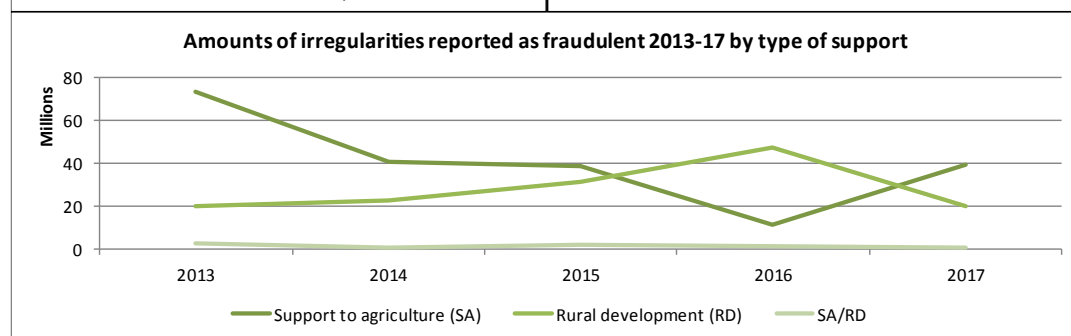
<sup>49</sup> In this context, a financial amount is considered 'exceptional' where it exceeds EUR 10 million.

amount of SA fell below that of RD cases. Also net of these exceptional cases, the average financial amount of potential frauds in market measures is still higher than that of RD cases over the period 2013-2017 (+135%). On the contrary, when SA is considered net of cases concerning market measures, the average financial amount is far lower than for RD cases over the period 2013-2017 and is decreasing in 2017.

During 2013-2017, 103 cases concerned both RD and SA. In most of these cases, violations concerning RD were combined with violations concerning direct payments.

Table NR6: Financial amounts involved in irregularities reported as fraudulent by type of support - 2013-17 for the CAP

Type of support	REPORTING YEAR					TOTAL PERIOD
	2013	2014	2015	2016	2017	
	EUR	EUR	EUR	EUR	EUR	EUR
Support to agriculture (SA)	73,161,867	40,298,182	38,315,592	11,060,840	39,392,652	202,229,133
Rural development (RD)	19,954,961	22,837,041	31,219,123	47,430,989	20,055,109	141,497,223
SA/RD	2,886,533	438,737	1,888,577	1,539,519	432,928	7,186,295
<b>TOTAL</b>	<b>96,003,361</b>	<b>63,573,960</b>	<b>71,423,292</b>	<b>60,031,349</b>	<b>59,880,690</b>	<b>350,912,651</b>



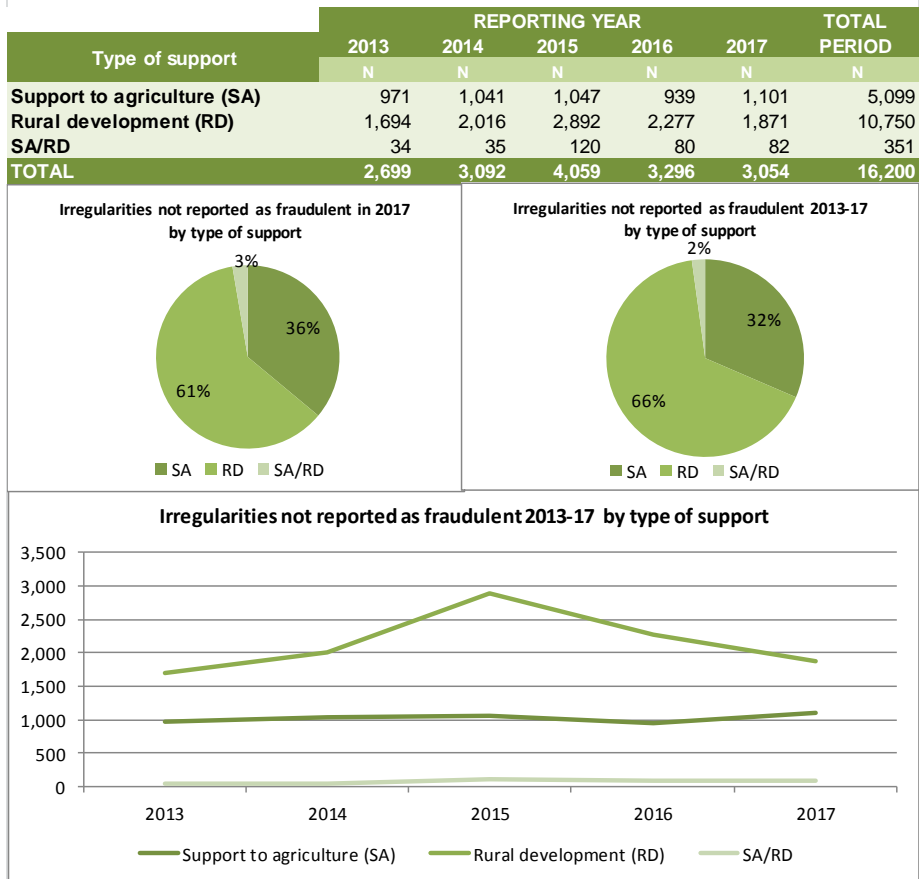
The trend of the financial amounts must be assessed while bearing in mind that it can be strongly influenced by single observations of significant value. For instance, the 'distance' observed in 2013 between the two types of support, finds explanation in very few cases involving high amounts linked to the SA.

### 3.2.3. Irregularities not reported as fraudulent

Regarding irregularities not reported as fraudulent, the number of those reported in relation to RD has been constantly increasing until 2015, while that related to SA remained stable or recorded minor variations (see Table NR7). Consistently, also the irregular financial amounts linked to RD have been constantly increasing until 2015 (as highlighted in Table NR8). In 2017, the irregular financial amounts linked to SA recorded an unusual increase (+55%), beyond what could be expected due to the related increase in the number of such irregularities (+17%).



Table NR7: Number of irregularities not reported as fraudulent by type of support - 2013-17 for the CAP



In terms of number of irregularities (Table NR7), RD has regularly and significantly exceeded SA across the whole 2013-2017 period, with the result that the number of irregularities linked to RD have been more than double those affecting SA.

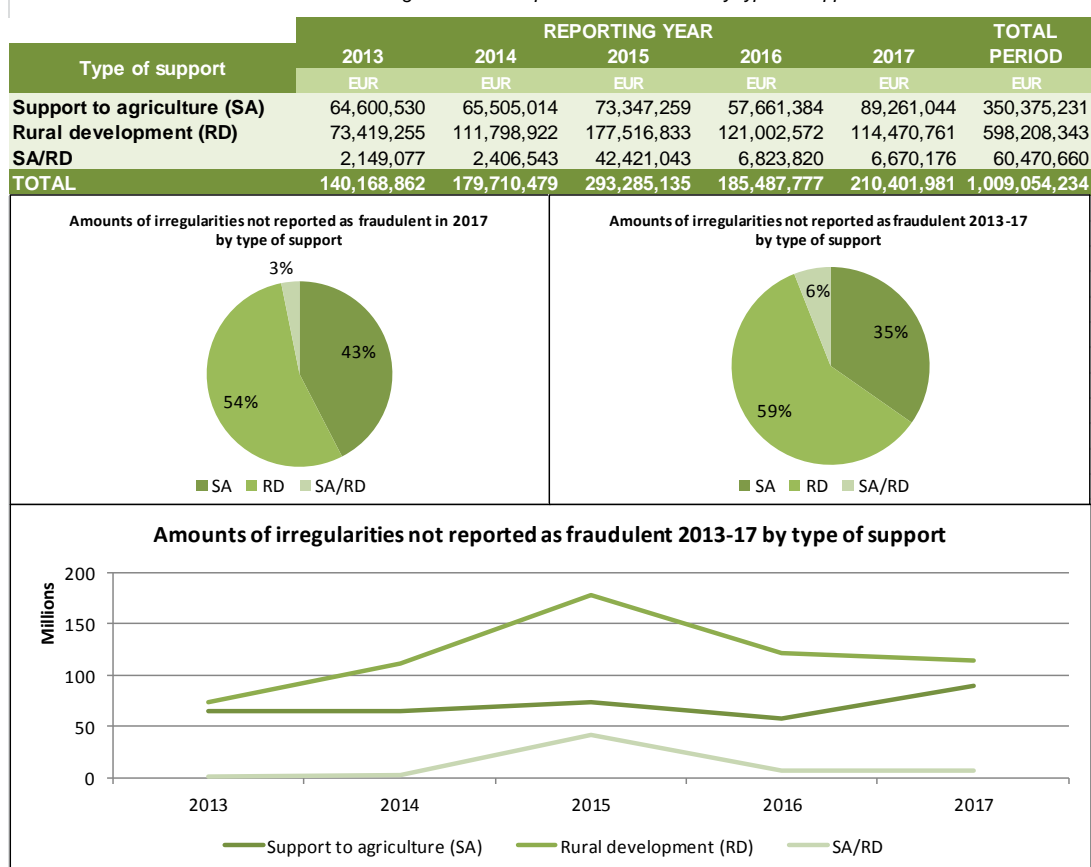
In terms of financial amounts (Table NR8), after the peak in 2015, irregularities related to RD gradually decreased, while irregularities related to SA recorded in 2017 a steep raise, after a flat trend.<sup>50</sup> As a result, the gap between RD and SA financial amounts experienced a peak in 2015 and nearly closed in 2017.

In 2017, the average financial amounts increased for both RD cases (+15%) and SA cases (+32%). This supported the increase of financial amounts despite the decrease in the number of cases. Considering the overall period 2013-2017, the average financial amount involved in SA cases is higher than in RD cases (+23.5%). This is mainly due to irregularities concerning market measures, where cases with exceptional financial amounts happened to be reported.<sup>51</sup> However, also net of these exceptional cases, the average financial amount of non fraudulent irregularities in market measures is still higher than that of RD cases over the period 2013-2017 (+75%) and is increasing in 2017. On the contrary, when SA is considered net of cases concerning market measures, the average financial amount is lower than for RD cases over the period 2013-2017 and is decreasing in 2017.

<sup>50</sup> See above, for an explanation of the role of exceptional cases in the 2017 steep increase in financial amounts involved in SA cases.

<sup>51</sup> In this context, a financial amount is considered 'exceptional' where it exceeds EUR 10 million.

Table NR8: Financial amounts involved in irregularities not reported as fraudulent by type of support - 2013-17 for the CAP



### 3.3. Specific analysis

#### 3.3.1. Modus operandi

##### 3.3.1.1. Support to agriculture (SA)

Table NR9 provides an overview of the most frequent categories (or combinations of categories) of irregularities linked to cases reported as fraudulent in relation to SA in 2017 and the financial amounts involved. It also presents how these most recurrent categories (or combinations of categories) featured from 2013 to 2017 (included).<sup>52</sup>

The most recurrent *modi operandi* are related to 'documentary proof' or to the 'request' (not combined with other categories of irregularity). Each category is articulated in different types of violations (see Annex 12). With reference to these two categories, the most recurrent types concerned 'false or falsified documents' or 'false or falsified request for aid', both in 2017 and in the overall period 2013-2017.

Irregularities concerning 'Product, species and/or land' (not combined with other categories of irregularity) were also quite recurrent. More specifically, most of these infringements concerned the types 'overdeclaration and/or declaration of fictitious product, species and/or land' (both in 2017 and in the overall period 2013-2017) and 'quantities outside permitted limits, quotas, thresholds' (considering the overall period 2013-2017).

In 2017, 10 irregularities were reported as pertaining to the category 'Ethics and integrity' (not combined with other categories of irregularity). In the previous years, other 41 cases of

<sup>52</sup> For the full description of the categories of irregularities and the related types of violations, please see Annex 12.

the sort had been reported. All of these violations were communicated by Poland and were not reported under the types '*conflict of interest*', '*bribery*' or '*corruption*', but as '*other irregularities concernig ethics and integrity*'. Most of these violations concerned the creation of artificial conditions for receiving financial support. Other Member States may have reported this type of infringement under other categories of irregularity.

Table NR9: Categories of irregularities reported as fraudulent in relation to support to agriculture

Code	Category of irregularity	irregularities reported as fraudulent in 2017		Irregularities reported as fraudulent 2013-17	
		N	EUR	N	EUR
T14	Documentary proof	38	1,417,074	254	17,035,790
T11	Request	31	1,121,879	160	18,371,550
T15	Product, species and/or land	20	1,843,946	142	12,854,062
T16	(Non-)action	12	2,554,791	30	32,441,152
T19	Ethics and integrity	10	28,183,868	51	31,152,655
T13	Accounts and records	8	221,734	13	1,757,079
T11   T16	Request/(non-)action	2	287,288	8	953,018
T12	Beneficiary	2	165,873	15	48,410,719
T11   T13   T14	Request / Accounts and records / Documentary proof	2	249,795	2	249,795
T14   T15	Documentary proof / Product, species and/or land	2	26,502	5	149,316
	ALL OTHER	6	3,319,902	134	38,853,997
<b>TOTAL</b>		<b>133</b>	<b>39,392,652</b>	<b>814</b>	<b>202,229,133</b>

Table NR10 provides an overview of the most frequent categories (or combinations of categories) of irregularities linked to cases not reported as fraudulent in relation to SA in 2017 and the financial amounts involved. It also presents how these most recurrent categories (or combinations of categories) featured from 2013 to 2017 (included).

When looking at these irregularities, violations concerning the '*request*' are the most recurrent category (by far, in 2017). More specifically, while during the period 2013-2017 most of these infringements were almost equally split between the types '*incorrect or incomplete request for aid*' and '*false or falsified request for aid*', in 2017 the latter type of violation was clearly predominant. Violations concerning the other category '*documentary proof*' were also quite frequent and often related to the type of violation '*false or falsified documents*' (202 cases in 2013-2017).<sup>53</sup>

Another prevalent category of irregularity not reported as fraudulent is related to '*(non)action*'. In this area, the three most reported types pertained to the action itself ('*not implemented or completed*'), and '*refusal to repay not spent or unduly paid amounts*'.

In relative terms, infringements related to '*Ethics and integrity*' were less frequent than for the irregularities reported as fraudulent. Apart from one case of conflict of interest, all of these violations were reported as '*other irregularities concernig ethics and integrity*'.

<sup>53</sup> Italy reported most of these non fraudulent cases where the type of violation refers to 'false or falsified request for aid' or 'false or falsified documents'.

Table NR10: Categories of irregularities not reported as fraudulent in relation to support to agriculture

Code	Category of irregularity	irregularities not reported as fraudulent in 2017		Irregularities not reported as fraudulent 2013-17	
		N	EUR	N	EUR
T11	Request	451	22,744,425	1,216	71,670,266
T16	(Non-)action	187	42,810,403	786	84,556,847
T15	Product, species and/or land	161	5,234,359	1,112	39,924,249
T12	Beneficiary	78	4,255,410	271	11,387,616
T14	Documentary proof	76	5,702,877	685	50,518,369
T12   T16	Beneficiary / (Non-)action	31	2,783,694	54	3,794,698
T90	Other	21	1,213,493	228	12,472,826
T19	Ethics and integrity	17	771,858	90	2,700,038
T13	Accounts and records	13	1,077,420	74	3,088,714
T11   T14   T15	Request/documentary proof / Product, species and/or land	11	498,838	20	1,460,431
	ALL OTHER	55	2,168,269	563	68,801,176
<b>TOTAL</b>		<b>1,101</b>	<b>89,261,044</b>	<b>5,099</b>	<b>350,375,231</b>

### 3.3.1.2. Rural development (RD)

Table NR11 provides an overview of the most frequent categories of irregularities reported as fraudulent in RD in 2017 and the related financial amounts. It also presents how these most recurrent categories have featured from 2013 to 2017 (included).

In 2017 and in 2013-2017, the category '*documentary proof*' ranked first, with '*false or falsified documents*' as the most reported type of violation. Also with reference to the '*request*', which is another frequent category, the false-related type of irregularity ('*false or falsified request of aid*') is the most reported.

Within the CAP, '*RD cases reported as fraudulent*' is the domain where the category *Ethics and integrity* ranks higher, with 22 irregularities in 2017 and 137 in 2013-2017. Similarly to SA cases, most of these violations were communicated by Poland and were not reported under the types '*conflict of interest*', '*bribery*' or '*corruption*', but as '*other irregularities concerning ethics and integrity*'. Most of these violations concerned the creation of artificial conditions for receiving financial support. Other Member States may have reported this type of infringement under other categories of irregularity.

Table NR11: Categories of irregularities reported as fraudulent in relation to rural development

Code	Category of irregularity	irregularities reported as fraudulent in 2017		Irregularities reported as fraudulent 2013-17	
		N	EUR	N	EUR
T14	Documentary proof	39	5,688,554	235	28,981,319
T19	Ethics and integrity	22	2,195,446	137	11,112,065
T16	(Non-)action	16	3,789,589	151	23,858,904
T11	Request	6	793,328	99	13,477,988
T12	Beneficiary	6	594,928	94	9,296,214
T14   T16	Documentary proof / (Non-)action	6	553,265	17	2,320,202
T15	Product, species and/or land	6	162,077	48	1,244,401
T90	Other	8	4,630,356	44	21,917,068
T11   T14   T16	Request / Documentary proof/(non-)action	5	486,330	9	984,606
T12   T14   T16	Beneficiary / Documentary proof/(non-)action	3	110,922	157	8,545,740
	ALL OTHER	16	1,050,313	173	19,758,716
<b>TOTAL</b>		<b>133</b>	<b>20,055,109</b>	<b>1,164</b>	<b>141,497,223</b>

Table NR12 provides an overview of the most frequent categories of irregularities not reported as fraudulent in RD in 2017 and the related financial amounts. It also presents how these most recurrent categories have featured from 2013 to 2017 (included).

When looking at these irregularities, the most frequently detected category is related to '*non-action*' (including '*action not completed*', '*action not implemented*' or '*failure to respect deadlines*' among the most reported types of violation). This category ranked very high also in relation to irregularities reported as fraudulent (see Table NR11).

'(Non-)action' was followed by 'documentary proof' representing 11% of the non-fraudulent cases in 2017 (including 'Documents missing and/or not provided' as the most reported type of violation). During 2013-2017, a number of 'documentary proof' cases (45) concerned the 'false and/or falsified documents' type of violation. The same applies to the category 'request', where a number of cases (17) were related to the 'false or falsified request of aid' type of violation.<sup>54</sup>

In relative terms, the category *Beneficiary* is more frequent among RD cases not reported as fraudulent than in other CAP areas (about 10% of cases in 2017). Within this category, 'Operator/beneficiary not having the required quality' is the most reported type of violation.

Code	Category of irregularity	Irregularities not reported as fraudulent in 2017		Irregularities not reported as fraudulent 2013-17	
		N	EUR	N	EUR
T16	(Non-)action	814	44,126,431	3,654	189,587,234
T14	Documentary proof	210	12,685,493	1,332	64,428,728
T12	Beneficiary	194	17,857,218	969	59,750,002
T15	Product, species and/or land	150	4,131,291	1,051	31,774,588
T12   T16	Beneficiary/(non-)action	117	3,402,703	404	17,474,937
T11	Request	114	12,106,282	1,009	63,214,264
T90	Other	68	3,397,057	623	38,252,310
T13	Accounts and records	32	1,128,975	143	4,850,600
T18	Bankruptcy	29	4,808,319	73	10,347,887
T40	Public procurement (see annex Commission Decision C(2013)9527)	27	1,873,828	72	7,633,427
	OTHER	116	8,953,163	1,420	110,894,367
<b>TOTAL</b>		<b>1,871</b>	<b>114,470,761</b>	<b>10,750</b>	<b>598,208,343</b>

### 3.3.2. Fraud and Irregularity Detection Rates by CAP components

Via its two funds (EAGF and EAFRD) the CAP supports agriculture and rural development across Europe. The

EAGF itself has two components with different aims: measures regulating or supporting agricultural markets (insoforth, referred to as 'intervention in agricultural markets' or 'market measures') and direct payments to farmers. Annex 11 provides a detailed explanation about the classification in these two categories of the cases reported by the Member States.

Table NR13 shows the Fraud Detection Rate (FDR) and the Irregularity Detection Rate (IDR) per type of policy measure.

Type of expenditure (1)	Irregularities detected and reported 2013-2017 / Payments 2013-2017		
	FDR	IDR	Total
Direct payments	0.02%	0.07%	0.1%
Intervention in agricultural markets	1.17%	1.39%	2.6%
Rural development	0.25%	1.05%	1.3%
<b>Total</b>	<b>0.13%</b>	<b>0.36%</b>	<b>0.5%</b>

(1) See Annex 13, for an analysis of the impact of 'mixed' case

The same case may cover several budget posts referring to different types of expenditure. In Annex 13, a detailed explanation of this issue and how it has been handled in estimating these FDR/IDR can be found.

<sup>54</sup> Italy reported many of these non fraudulent cases where the type of violation refers to 'false or falsified request for aid' or 'false or falsified documents'.

As mentioned in section 3.2.2, the financial amounts involved in irregularities reported as fraudulent concerning market measures are heavily influenced by few (4) exceptional cases.<sup>55</sup> Net of these cases, the FDR for market measures would be 0.31% rather than 1.17%. Similarly, excluding the few (3) 'exceptional' non fraudulent irregularities, the IDR would be 1.08% rather than 1.39%.

### 3.3.3. Market measures – fraudulent and non-fraudulent irregularities

As showed in Table NR13, market measures feature high FDR and IDR. Table NR14 shows the frequency and financial amounts of irregularities reported as fraudulent in relation to market measures for the period 2013-2017, while Table NR15 shows the same data with reference to irregularities not reported as fraudulent.

*Table NR14: Number of irregularities reported as fraudulent in relation to market measures*

Market measure	Irregularities reported as fraudulent 2013-17	
	N	EUR
Products of the wine-growing sector	66	9,005,768
Fruit and vegetables	54	93,572,518
Sugar Restructuring Fund	19	6,211,261
Milk & milk products	9	332,272
Promotion	4	202,832
Other plant products/measures	2	8,377,798
Food programmes	1	268,090
Pigmeat, eggs and poultry, bee-keeping and other animal products	1	21,189,379
<i>blank</i>	6	30,826,677
<b>TOTAL</b>	<b>162</b>	<b>169,986,594</b>

*Table NR15: Number of irregularities not reported as fraudulent in relation to market measures*

Market measure	Irregularities not reported as fraudulent 2013-17	
	N	EUR
Products of the wine-growing sector	858	52,812,109
Fruit and vegetables	434	52,056,340
Other plant products/measures	78	7,892,216
Sugar Restructuring Fund	71	10,809,629
Pigmeat, eggs and poultry, bee-keeping and other animal products	23	28,218,463
Promotion	22	2,035,797
Milk & milk products	21	759,089
Sugar	16	8,818,761
Olive oil	14	374,505
Beef and veal	13	301,080
Food programmes	9	2,792,394
Refunds on non-Annex 1 products	2	89,389
Sheepmeat and goatmeat	2	30,623
Textile plants	2	30,952
<i>blank</i>	46	34,152,549
<b>TOTAL</b>	<b>1,611</b>	<b>201,173,895</b>

The category '*products of the wine-growing sector*' is the most recurrent, but '*fruit and vegetables*' is the one with the highest financial amounts, in particular due to the exceptional average amount of cases reported as fraudulent. Another category with an exceptional

<sup>55</sup> In this context, a financial amount is considered 'exceptional' where it exceeds EUR 10 million.

average financial amount is '*Pigmeat, eggs and poultry, bee-keeping and other animal products*'.

### 3.3.4. Reasons for performing control

#### 3.3.4.1 Irregularities in relation to rural development

In the context of the antifraud cycle, the detection capability is a key feature, which contributes to the effectiveness and efficiency of the system for the protection of the EU budget.

Table NR16 provides an overview of the reasons why controls were performed with reference to rural development during 2013-2017, with a focus on controls that led to discover irregularities reported as fraudulent.<sup>56</sup> The description of the 'reason for performing control' has been shortened to simplify the Table and associated Graphs, but the full description can be consulted in Annex 14.

The straight lines in the graphs associated to Table NR16 represent the border between 'reasons' that led to identify irregularities with an average amount above or below the global average (that takes into account all potential frauds affecting RD). The vertical distance between a point representing a specific reason and the straight line is an indicator of how higher or lower was the yield of these controls started for that specific reason, in comparison with the hypothetical situation where these controls involved financial amounts in line with the global average<sup>57</sup>.

Map NR1 provides an overview by Member State of the number of irregularities reported as fraudulent with reference to rural development during 2013-2017. The most active Member States in detecting and reporting potentially fraudulent irregularities in RD were Poland, Romania and Hungary, which represented more than 60% of these irregularities.

The most frequent reasons for starting a control were '*Routine*', '*Administrative enquire*' and '*Judicial enquiry*'. The average financial amounts involved in these three reasons are broadly in line with the global average, with a better performance of '*Routine*' and '*Judicial enquiry*'.

'*Judicial enquiry*' was mentioned as reason mostly in Romania (86% of cases), while '*Administrative enquire*' was relatively more widespread, with Hungary as the main Member State (56% of cases). The majority of cases where the control was started because of '*Routine*' were reported by Poland (55% of cases).

Poland was also the Member State with the highest number of irregularities detected because of a '*Tip*' (followed by the Czech Republic and Slovakia). This reason for starting a control showed above-the-average financial amount involved.

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<sup>56</sup> For the analysis of the reasons for performing controls, only cases where the amount of the reported irregularity is greater than zero have been considered. Within the same case, reference can be made to more than one reason for performing the control. This case has been counted in each 'reason' mentioned in the notification by the Member State. As a consequence, the sum of irregularities in Table NR16 (and similar Tables in this section) is higher than the actual number of relevant cases. This is why the row of totals is not included in the Table. Whenever reference is made to a 'global average', this must be understood as the average financial amount of the relevant cases (potential frauds affecting RD, for comments related to Table NR16, or non fraudulent irregularities affecting RD, for comments related to Table NR17). It is calculated on the basis of data in Table NR16 (or NR17) so it implies some double counting.

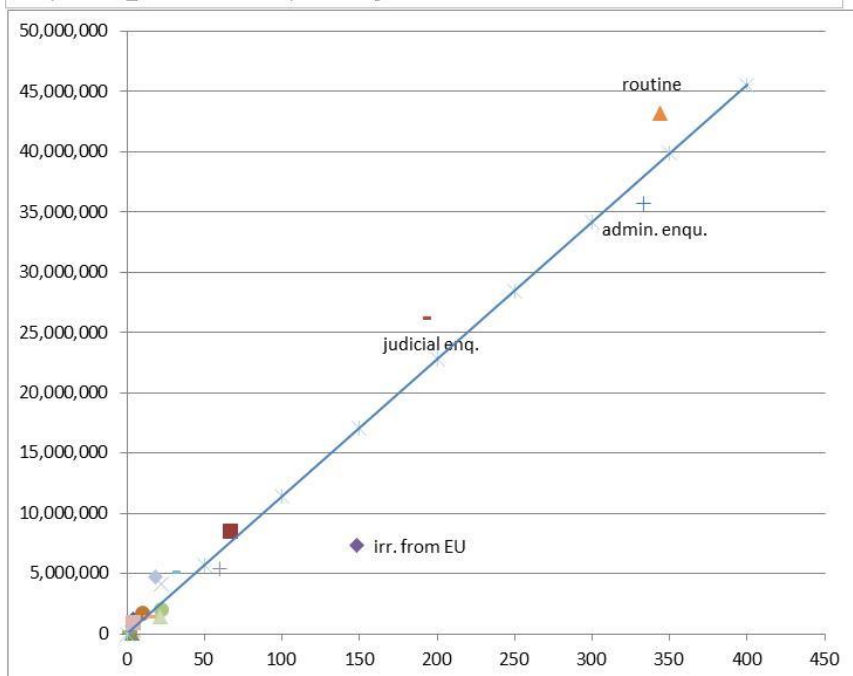
<sup>57</sup> This comparison takes into consideration both the number of positive controls started for a specific reason and the difference between average financial amount associated to that specific reason and the global average.

'Risk analysis' was reported only a few times as reason for starting a control, while it showed a good average financial amount. These cases were basically reported only by Lithuania and Bulgaria.

Table NR16: Reasons for performing controls leading to irregularities reported as fraudulent in rural development

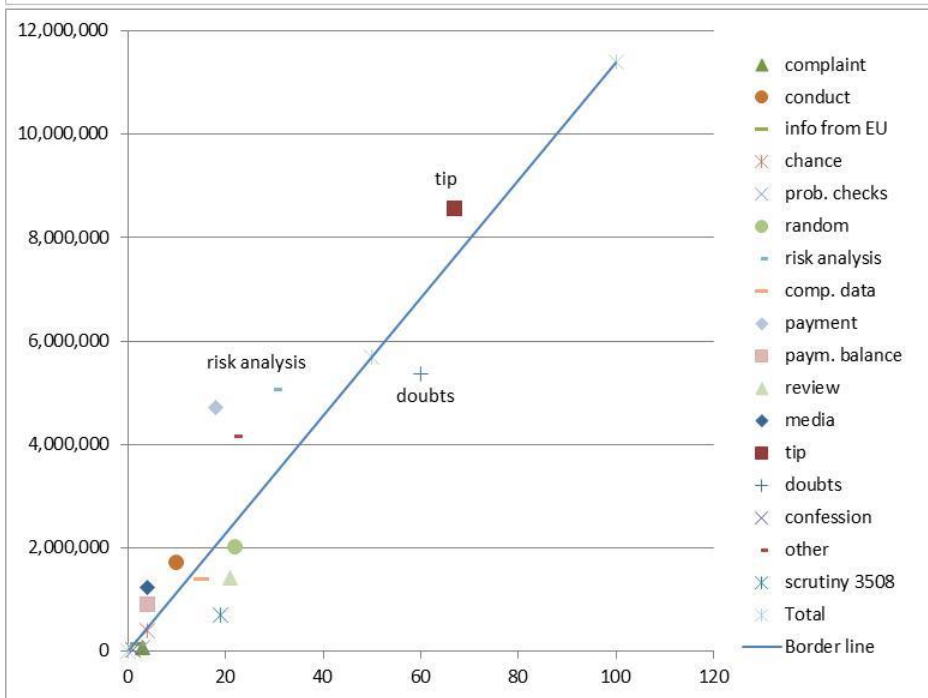
Reason for performing control	Irregularities reported as fraudulent - Rural development - 2013-2017		
	Reported N	Involved amounts EUR	Average amounts EUR
media	4	1,245,903	311,476
tip	67	8,561,367	127,782
complaint	3	82,817	27,606
confession	1	24,019	24,019
conduct	10	1,724,373	172,437
admin. enq.	333	35,746,008	107,345
judicial enq.	191	26,202,530	137,186
info from EU	2	154,047	77,024
irr. from EU	148	7,306,650	49,369
scrutiny 3508	19	694,869	36,572
routine	344	43,241,033	125,701
prob. checks	3	63,977	21,326
chance	4	405,455	101,364
random	22	2,027,301	92,150
doubts	60	5,368,565	89,476
risk analysis	30	5,074,315	169,144
comp. data	15	1,387,616	92,508
payment	18	4,716,376	262,021
paym. balance	4	915,111	228,778
review	21	1,423,101	67,767
other	22	4,152,153	188,734

Graph NR16\_a: All reasons for performing controls - Numbers and financial amounts involved





Graph NR16\_b: Zoom on less frequent reasons for performing controls - Numbers and financial amounts involved



Map NR1: Number of irregularities reported as fraudulent by Member State - Rural development- 2013-2017

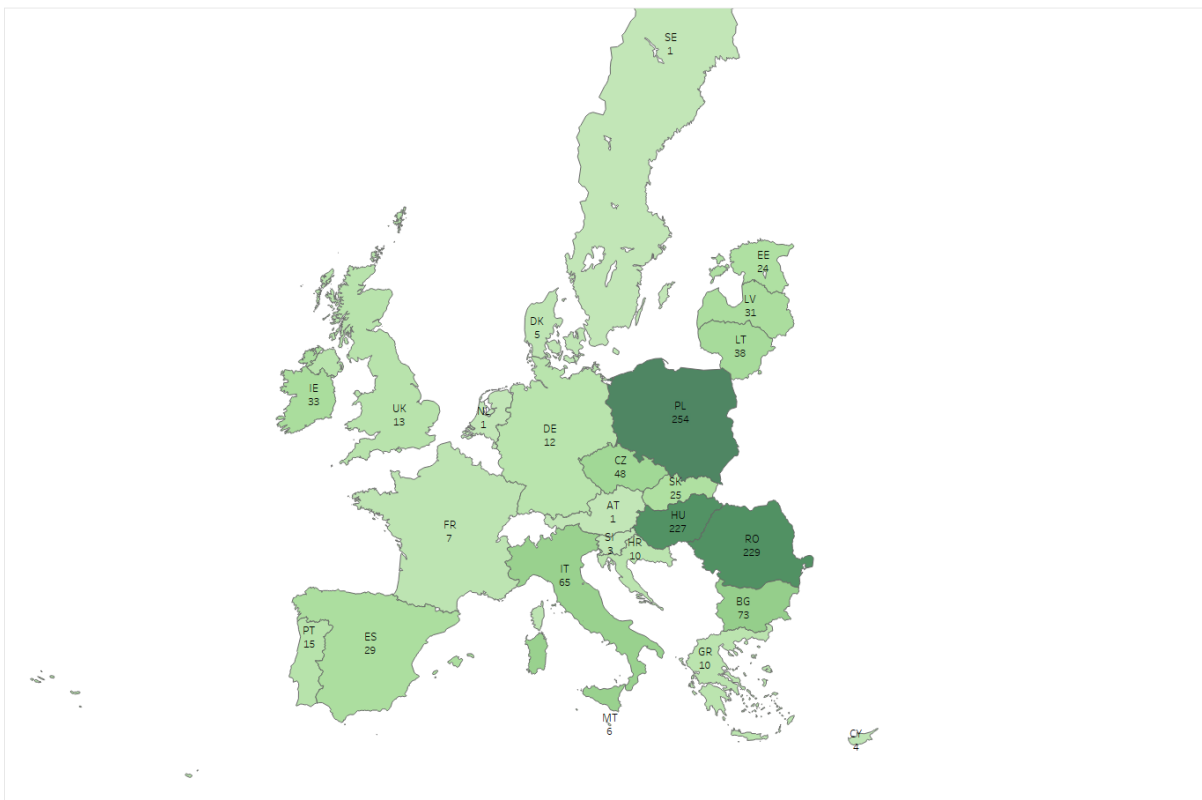


Table NR17 provides an overview of the reasons why controls were performed with reference to rural development during 2013-2017, with a focus on controls that led to discover irregularities not reported as fraudulent.

Map NR2 provides an overview by Member State of the number of irregularities not reported as fraudulent with reference to rural development during 2013-2017. Besides ranking as the most active Member States in detecting potential frauds in RD, Romania, Poland and Hungary were among the most active also for irregularities not reported as fraudulent. For non fraudulent irregularities, also Portugal, Spain and Italy must be mentioned among the Member States with the highest frequency, while they did not report a significant amount of potential frauds. The comparison is striking, in particular for Portugal and Spain, where the ratio (fraud)/(non fraud) was 0.012 and 0.03, respectively.

'*Administrative enquiry*' and '*Routine*' were by far the most frequent reasons for starting a control. The average financial amounts were broadly in line with the global average. '*Administrative enquiry*' was mostly reported by Romania and Hungary, while '*Routine*' by Portugal and Poland.

Controls that started because of a '*Judicial enquiry*' were relatively rare, but they were the ones with the second highest average financial amount. These cases are concentrated in Romania and Italy. The highest average financial amount is for the few cases triggered by an irregularity detected and reported by an EU body.

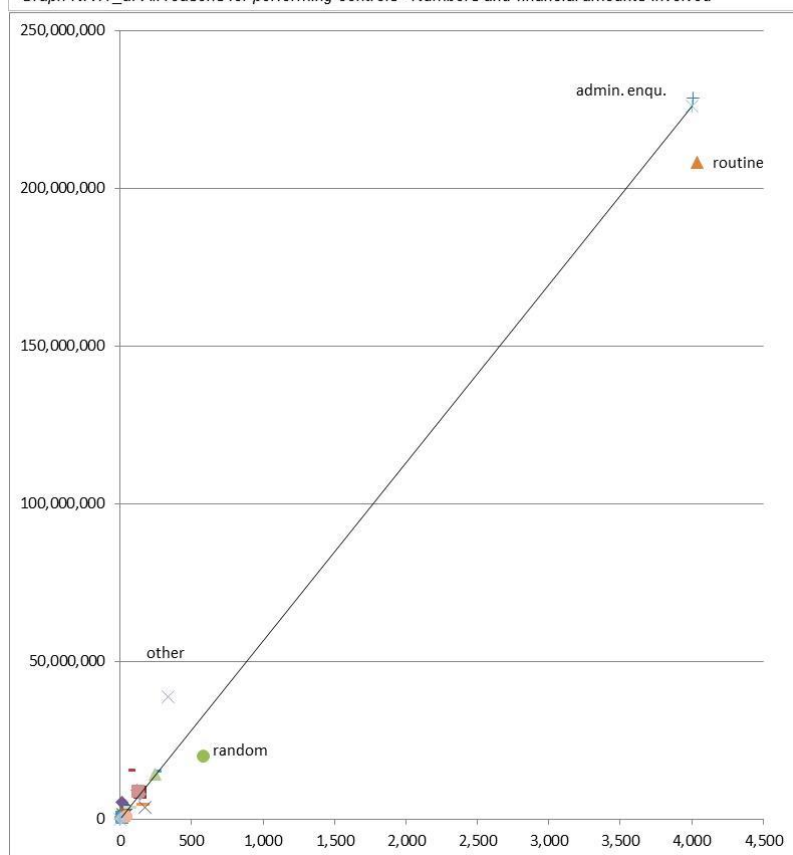
Another reason that is less frequently reported – but shows a good 'productivity' – is '*risk analysis*'. Most cases were concentrated in Hungary, Spain, Germany and Lithuania (in the latter Member State, risk analysis led also to detect a relatively high number of potential frauds – see above).

Also '*Tip*' and '*Media*' showed good average financial amounts, but these reasons are not often at the basis of controls, especially '*Media*'. Lithuania was the Member State where more cases were started because of information provided by the media. Cases that started because of a '*Tip*' were more widespread, with Poland ranking high (similarly to what could be found in relation to irregularities reported as fraud). Nevertheless, the highest ranking is for the United Kingdom, where '*Tip*' had instead a negligible role in detecting irregularities reported as fraudulent.

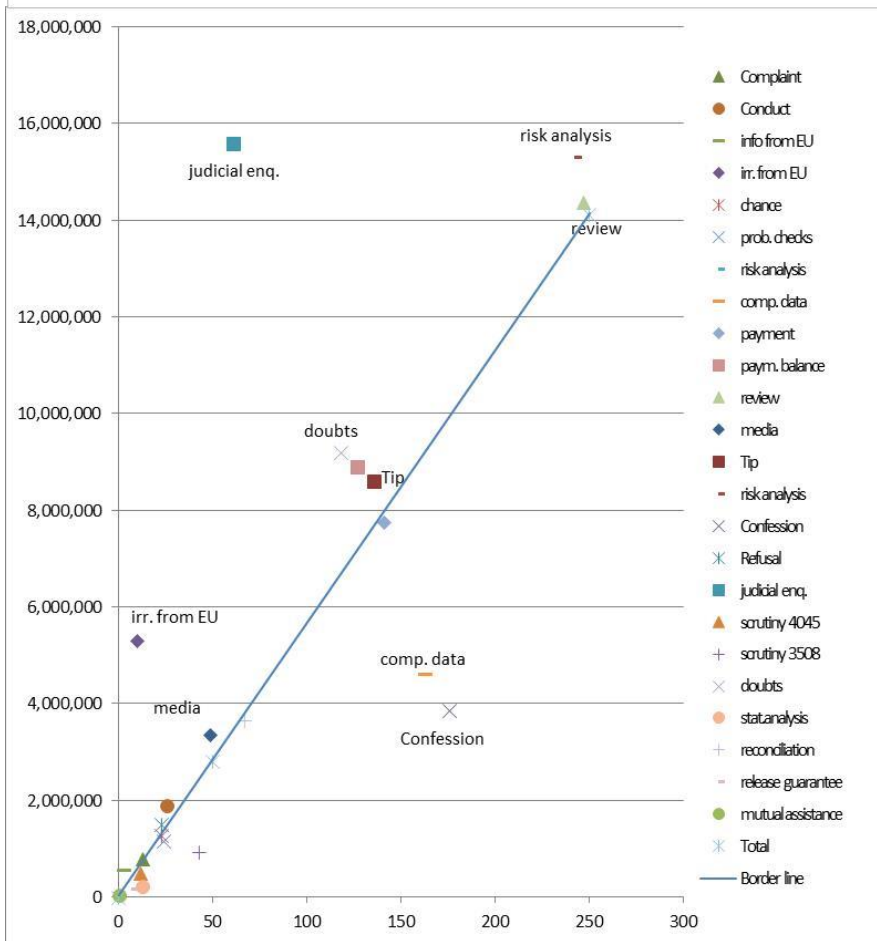
Table NR17: Reasons for performing controls leading to irregularities not reported as fraudulent in rural development

Reason for performing control	Irregularities not reported as fraudulent - Rural development - 2013-2017		
	Reported	Involved amounts	Average amounts
	N	EUR	EUR
media	49	3,367,063	68,716
Tip	136	8,576,429	63,062
Complaint	13	794,268	61,098
Confession	176	3,869,306	21,985
Refusal	23	1,516,119	65,918
Conduct	26	1,874,508	72,096
admin. enqu.	4,011	228,548,937	56,981
judicial enq.	61	15,564,204	255,151
mutual assistance	1	16,129	16,129
info from EU	3	550,098	183,366
irr. from EU	10	5,323,753	532,375
scrutiny 4045	12	494,404	41,200
scrutiny 3508	43	930,443	21,638
routine	4,040	208,257,306	51,549
prob. checks	24	1,160,478	48,353
chance	23	1,290,695	56,117
random	582	19,996,113	34,358
doubts	118	9,213,327	78,079
risk analysis	242	15,290,896	63,186
stat.analysis	13	200,316	15,409
comp. data	163	4,594,967	28,190
reconciliation	67	3,660,530	54,635
payment	141	7,752,690	54,984
paym. balance	127	8,879,126	69,914
release guarantee	7	151,872	21,696
review	247	14,381,656	58,225
other	337	38,670,832	114,750

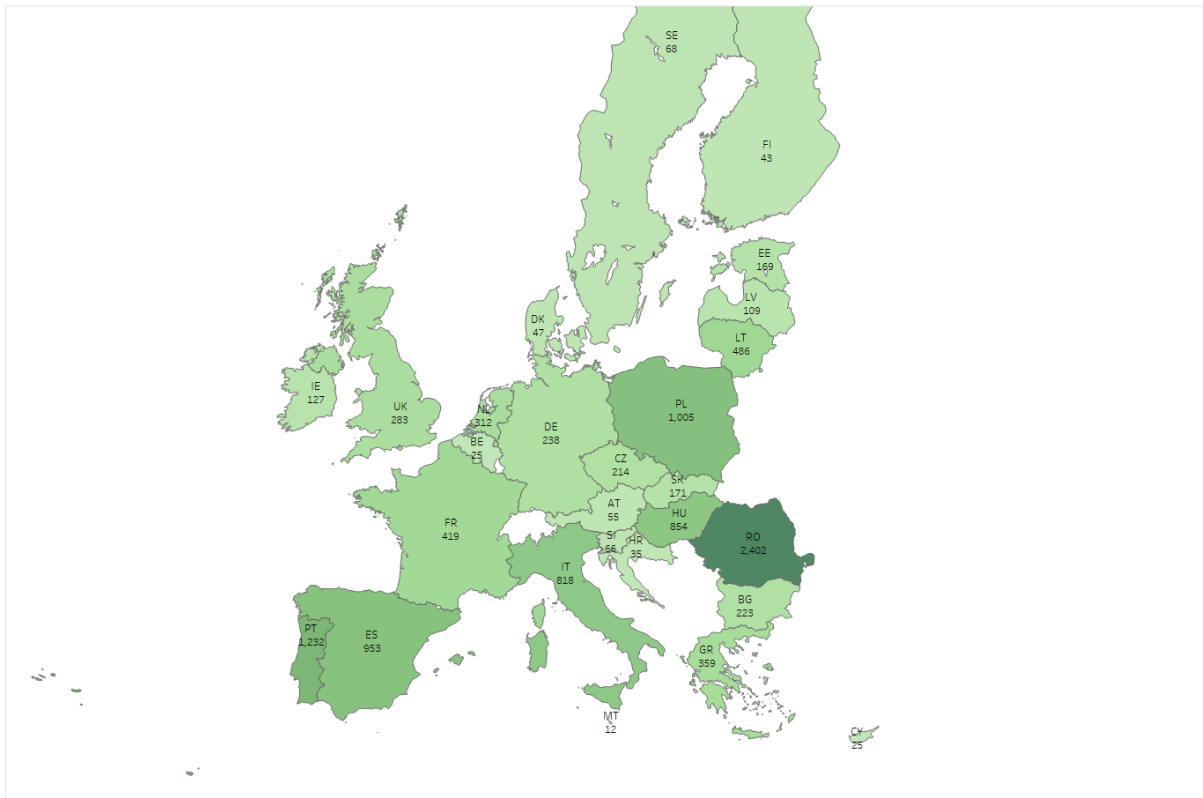
Graph NR17\_a: All reasons for performing controls - Numbers and financial amounts involved



Graph NR17\_b: Zoom on less frequent reasons for performing controls - Numbers and financial amounts involved



Map NR2: Number of irregularities not reported as fraudulent by Member State - Rural development- 2013-2017



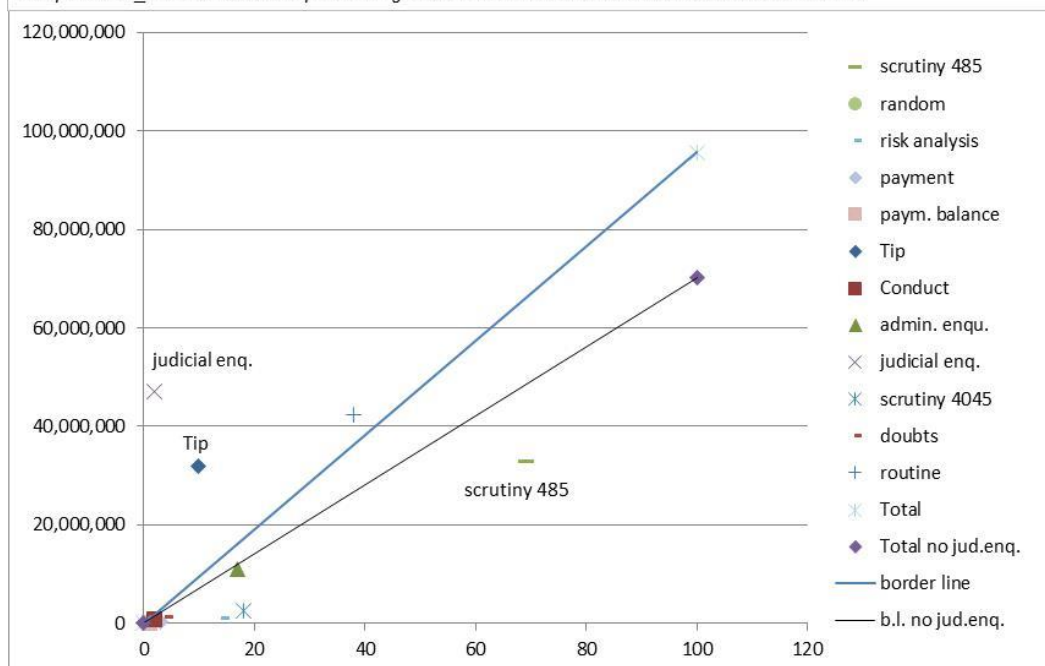
### 3.3.4.2 Irregularities in relation to market measures

Table NR18 provides an overview of the reasons why controls were performed with reference to market measures during 2013-2017, with a focus on controls that led to discover irregularities reported as fraudulent.<sup>58</sup> The description of the 'reason for performing control' has been shortened to simplify the Table and associated Graphs<sup>59</sup>, but the full description can be consulted in Annex 14.

Table NR18: Reasons for performing controls leading to irregularities reported as fraudulent in market measures

Reason for performing control	Irregularities reported as fraudulent - Market measures - 2013-2017		
	Reported	Involved amounts	Average amounts
	N	EUR	EUR
Tip	10	31,976,692	3,197,669
Conduct	2	766,780	383,390
admin. enq.	17	10,934,193	643,188
judicial enq.	2	47,056,841	23,528,421
scrutiny 4045	18	2,561,264	142,292
scrutiny 485	69	32,841,045	475,957
routine	38	42,437,464	1,116,775
random	1	63,708	63,708
doubts	4	1,215,793	303,948
risk analysis	14	1,180,082	84,292
payment	3	285,088	95,029
paym. balance	1	18,980	18,980

Graph NR18\_a: All reasons for performing controls - Numbers and financial amounts involved

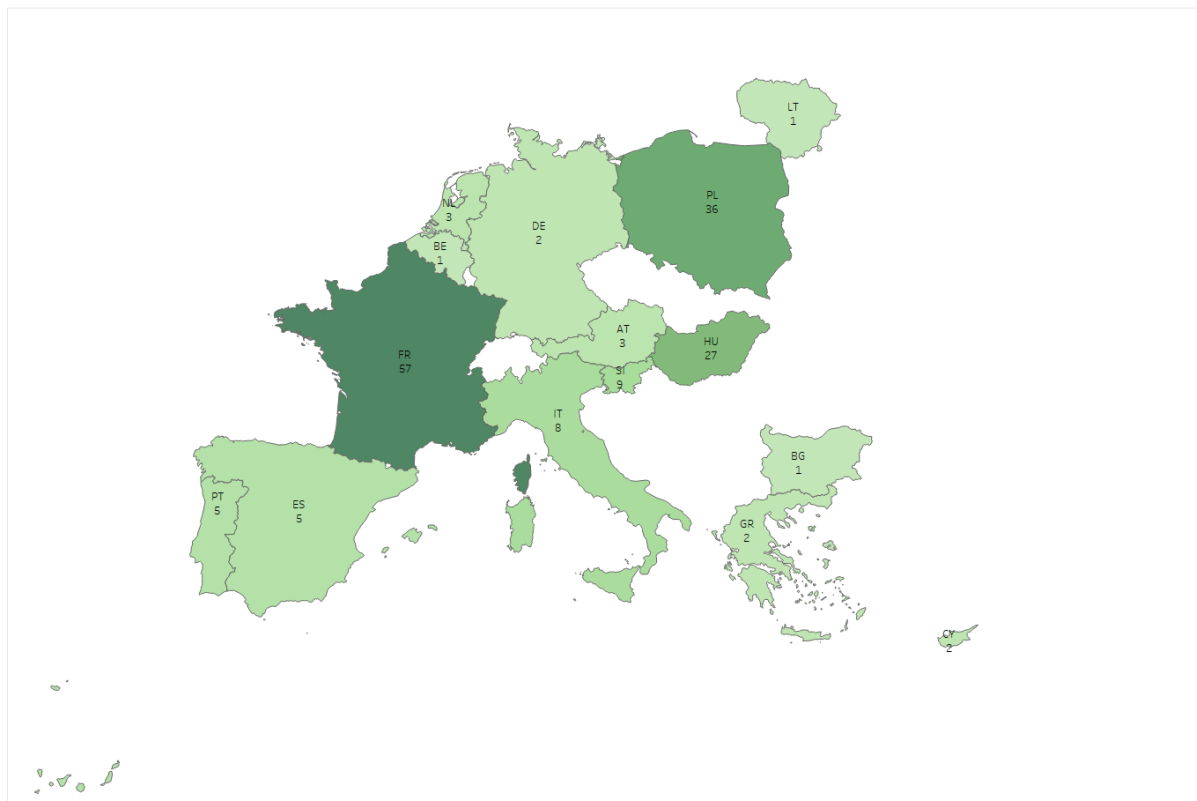


<sup>58</sup> For the analysis of the reasons for performing controls, only cases where the amount of the reported irregularity is greater than zero have been considered. Within the same case, reference can be made to more than one reason for performing the control. This case has been counted in each 'reason' mentioned in the notification by the Member State. As a consequence, the sum of irregularities in Table NR18 (and similar Tables in this section) is higher than the actual number of relevant cases. This is why the row of totals is not included in the Table. Whenever reference is made to a 'global average', this must be understood as the average financial amount of the relevant cases (potential frauds affecting market measures, for comments related to Table NR18, or non fraudulent irregularities affecting market measures, for comments related to Table NR19). It is calculated on the basis of data in Table NR18 (or NR19) so it implies some double counting.

<sup>59</sup> In the graph associated to Table NR18, the upper straight line takes into consideration all cases, while the lower straight line is the result of not considering the 'judicial enquiry' outlier.

Map NR3 provides an overview by Member State of the number of irregularities reported as fraudulent with reference to market measures during 2013-2017.

Map NR3: Number of irregularities reported as fraudulent by Member State - Market measures - 2013-2017



The most active Member States in detecting potential fraud in relation to market measures were France, Poland and Hungary, which reported 74% of these cases.

The most recurrent reason for starting these controls was the scrutiny provided for by Regulation 485/2008.

This Regulation provides that the Member States shall carry out systematic scrutiny of the commercial documents of undertakings. Member States shall select the undertaking on the basis of risk analysis. The Regulation provides for a high number of controls<sup>60</sup>, but the ones that led to discover irregularities were concentrated in just two Member States (France and Hungary) and resulted in a below-the-average financial amount<sup>61</sup>. It is possible that some cases were reported in other categories, such as '*Routine*' or '*administrative enquiry*'. '*Risk analysis*' is explicitly mentioned in 14 cases.

'*Tip*' was rarely the reason for controls that led to detect potential fraud, but these cases were very '*productive*'. Most of these cases were in Poland and Spain. With 10 out of 162 cases (6.2%), this is the field (irregularities reported as fraudulent in relation to market measures) where this reason was relatively more frequent (within the CAP context). In general, it can be

<sup>60</sup> This scrutiny applies, for each period, to a number of undertakings which may not be less than half the undertakings whose receipts or payments, or the sum thereof, under the system of financing by the EAGF, amounted to more than EUR 150,000 for the previous financial year.

<sup>61</sup> Nevertheless, concerning the average financial amount of the detected potential frauds, it should be considered that it is about EUR 476,000, based on the highest number of cases (69 – which should make the average more '*solid*' than other '*reasons*' where the average is based on less cases).

noticed that the reason '*tip*' is more recurrent in relation to fraudulent cases than in cases not reported as fraudulent (within CAP).<sup>62</sup>

'*Judicial enquiry*' was mentioned only in two cases, with an exceptional average financial amount.

Table NR19 provides an overview of the reasons why controls were performed with reference to market measures during 2013-2017, with a focus on controls that led to discover irregularities not reported as fraudulent.

There are three reasons that cover most of the cases: '*Routine*', '*Administrative enquiry*' and '*Scrutiny 4045*'. '*Administrative enquiry*' stands out in terms of average financial amount.<sup>63</sup>

The reason '*Scrutiny 4045*' should be interpreted taking into consideration also the cases where '*Scrutiny 485*' is mentioned: both Regulation 4045/1989 and Regulation 485/2008 deal with the scrutiny of commercial documents of those entities receiving payments from the Guarantee section of the EAGGF (Reg. 4045/1989) or from the EAGF (Reg. 485/2008)<sup>64</sup>. While Reg. 485/2008 explicitly introduced the concept of risk analysis (see above), Reg. 4045 already required consideration for risk factors and concentration on sectors or undertakings where the risk of fraud is high. The average financial amount involved in irregularities discovered on the basis on '*scrutiny 485*' was significantly higher than the average financial amount related to the previous '*scrutiny 4045*'. It is possible that some cases were reported in other categories, such as '*Routine*' or '*administrative enquiry*'. '*Risk analysis*' is explicitly mentioned in 25 cases.

Map NR4 provides an overview by Member State of the number of irregularities not reported as fraudulent with reference to market measures during 2013-2017. The most active Member States in detecting non fraudulent irregularities in relation to market measures were Spain, France and Italy, which reported 63% of these cases.

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<sup>62</sup> In relation to irregularities reported as fraudulent: '*rural development*' = 5.8% and '*direct payments*' = 4.5%. In relation to irregularities not reported as fraudulent: '*rural development*' = 1.1%; '*market measures*' = 0; '*direct payments*' = 1.4%

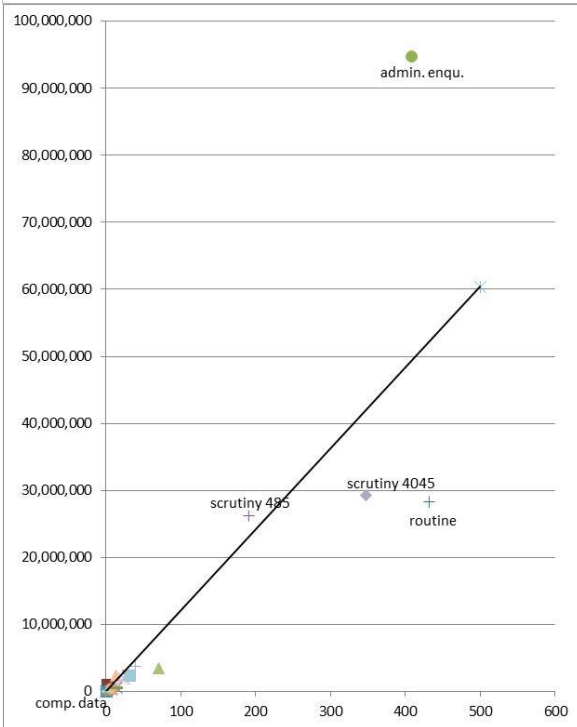
<sup>63</sup> In the graph associated to Table NR19, the upper straight line takes into consideration all cases, while the lower trend line is the result of not considering the '*administrative enquiry*' outlier.

<sup>64</sup> Reg. 485/2008 repealed Reg. 4045/1989.

Table NR19: Reasons for performing controls leading to irregularities not reported as fraudulent in market measures

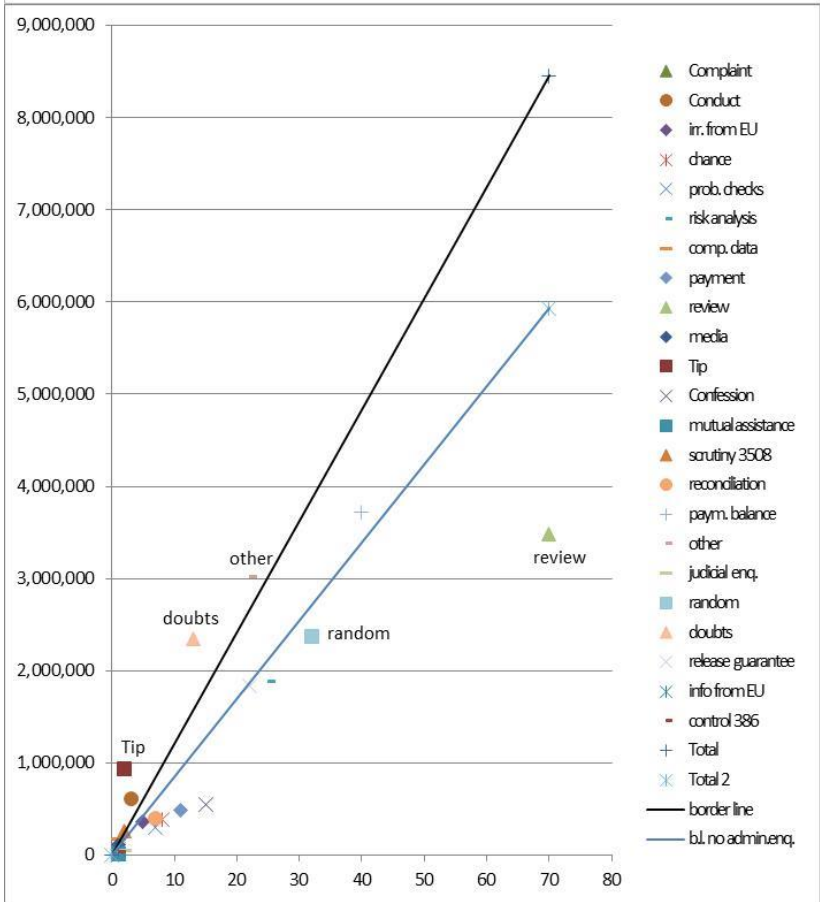
Reason for performing control	Irregularities not reported as fraudulent - Market measures 2013-2017		
	Reported	Involved amounts	Average amounts
	N	EUR	EUR
media	1	109,217	109,217
Tip	2	933,196	466,598
Complaint	1	11,619	11,619
Confession	15	554,662	36,977
Conduct	3	617,315	205,772
admin. enq.	408	94,669,740	232,034
judicial enq.	2	48,027	24,014
mutual assistance	1	13,759	13,759
info from EU	1	64,709	64,709
irr. from EU	5	365,073	73,015
scrutiny 4045	348	29,229,208	83,992
scrutiny 3508	2	266,230	133,115
scrutiny 485	191	26,178,674	137,061
control 386	1	38,150	38,150
routine	432	28,233,240	65,355
prob. checks	7	298,169	42,596
chance	8	388,365	48,546
random	32	2,374,381	74,199
doubts	13	2,344,087	180,314
risk analysis	25	1,883,545	75,342
comp. data	1	170,794	170,794
reconciliation	7	403,765	57,681
payment	11	482,715	43,883
paym. balance	40	3,714,287	92,857
release guarantee	22	1,839,782	83,626
review	70	3,488,800	49,840
other	22	3,024,434	137,474

Graph NR19\_a: All reasons for performing controls - Numbers and financial amounts involved

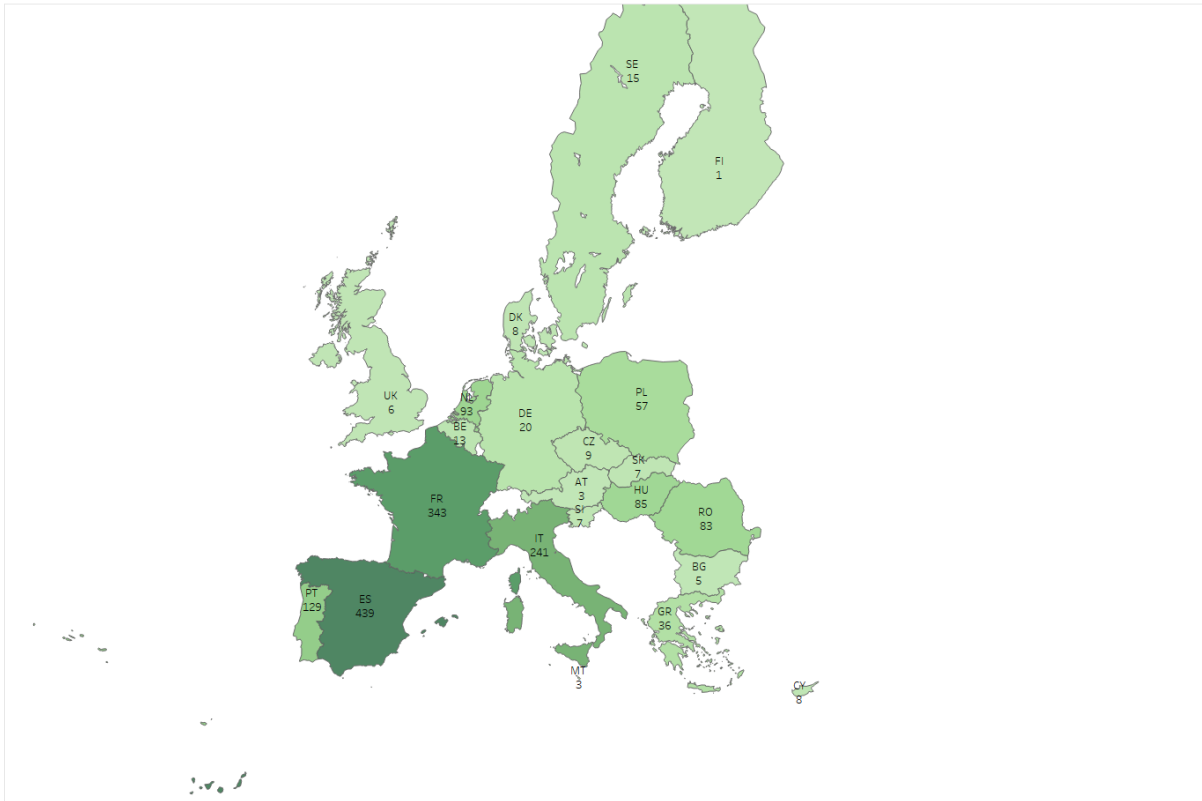




Graph NR19\_b: Zoom on less frequent reasons for performing controls - Numbers and financial amounts involved



Map NR4: Number of irregularities not reported as fraudulent by Member State - Market measures - 2013-2017



### 3.3.4.3 Irregularities in relation to direct payments

Table NR20 provides an overview of the reasons why controls were performed with reference to direct payments to farmers during 2013-2017, with a focus on controls that led to discover irregularities reported as fraudulent.<sup>65</sup> The description of the 'reason for performing control' has been shortened to simplify the Table and associated Graphs, but the full description can be consulted in Annex 14.

'Judicial enquiry' and 'routine' were the most recurrent reasons for starting controls that then led to irregularities reported as fraudulent. The average financial amount involved in irregularities discovered because of 'judicial enquiry' was lower than the global average, while the contrary was recorded in relation to 'routine'.

In the direct payments field, Regulation 3508/1992 applies. This Regulation requires the Member State to set up an integrated administration and control system. 'Scrutiny 3508' appears in a limited number of cases. It is possible that some cases were reported in other categories, such as 'Routine' or 'administrative enquiry'. 'Risk analysis' was explicitly mentioned in 54 cases.

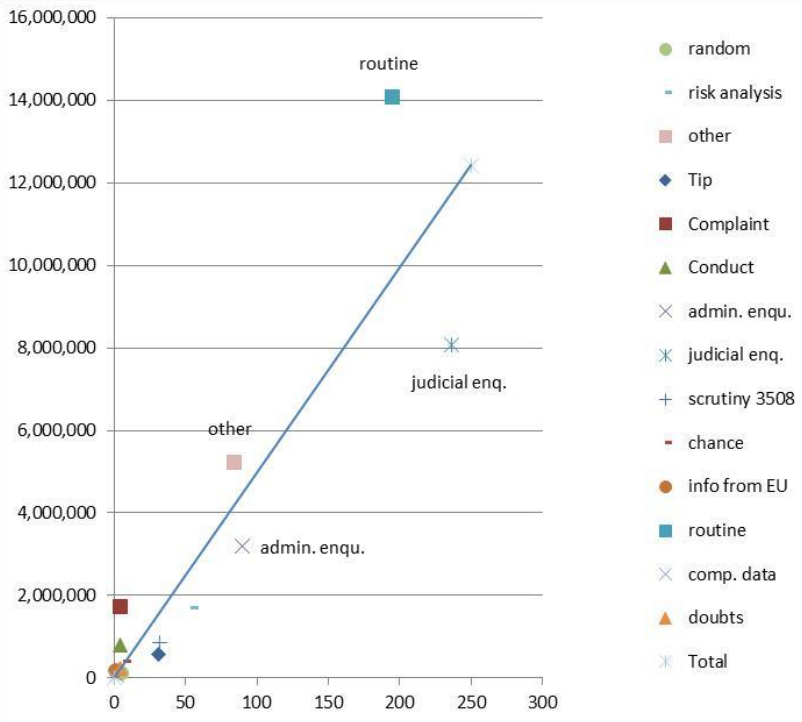
Map NR5 provides an overview by Member State of the number of irregularities reported as fraudulent with reference to direct payments during 2013-2017. The most active Member States in detecting irregularities reported as fraudulent in relation to direct payments were Romania, Italy and Poland, which reported 67% of these cases.

Table NR20: Reasons for performing controls leading to irregularities reported as fraudulent in direct payments

Reason for performing control	Irregularities reported as fraudulent - Direct payments - 2013-2017		
	Reported	Involved amounts	Average amounts
	N	EUR	EUR
Tip	31	567,293	18,300
Complaint	4	1,741,207	435,302
Conduct	4	804,913	201,228
admin. enq.	90	3,188,068	35,423
judicial enq.	236	8,060,969	34,157
info from EU	1	187,819	187,819
scrutiny 3508	32	858,300	26,822
routine	195	14,090,416	72,259
chance	7	405,262	57,895
random	5	106,508	21,302
doubts	4	239,536	59,884
risk analysis	54	1,691,891	31,331
comp. data	2	52,802	26,401
other	84	5,232,615	62,293

<sup>65</sup> For the analysis of the reasons for performing controls, only cases where the amount of the reported irregularity is greater than zero have been considered. Within the same case, reference can be made to more than one reason for performing the control. This case has been counted in each 'reason' mentioned in the notification by the Member State. As a consequence, the sum of irregularities in Table NR20 (and similar Tables in this section) is higher than the actual number of relevant cases. This is why the row of totals is not included in the Table. Whenever reference is made to a 'global average', this must be understood as the average financial amount of the relevant cases (potential frauds affecting direct payments, for comments related to Table NR20, or non fraudulent irregularities affecting direct payments, for comments related to Table NR21). It is calculated on the basis of data in Table NR20 (or NR21) so it implies some double counting.

Graph NR20\_a: All reasons for performing controls - Numbers and financial amounts involved



Map NR5: Number of irregularities reported as fraudulent by Member State - Direct payments - 2013-2017

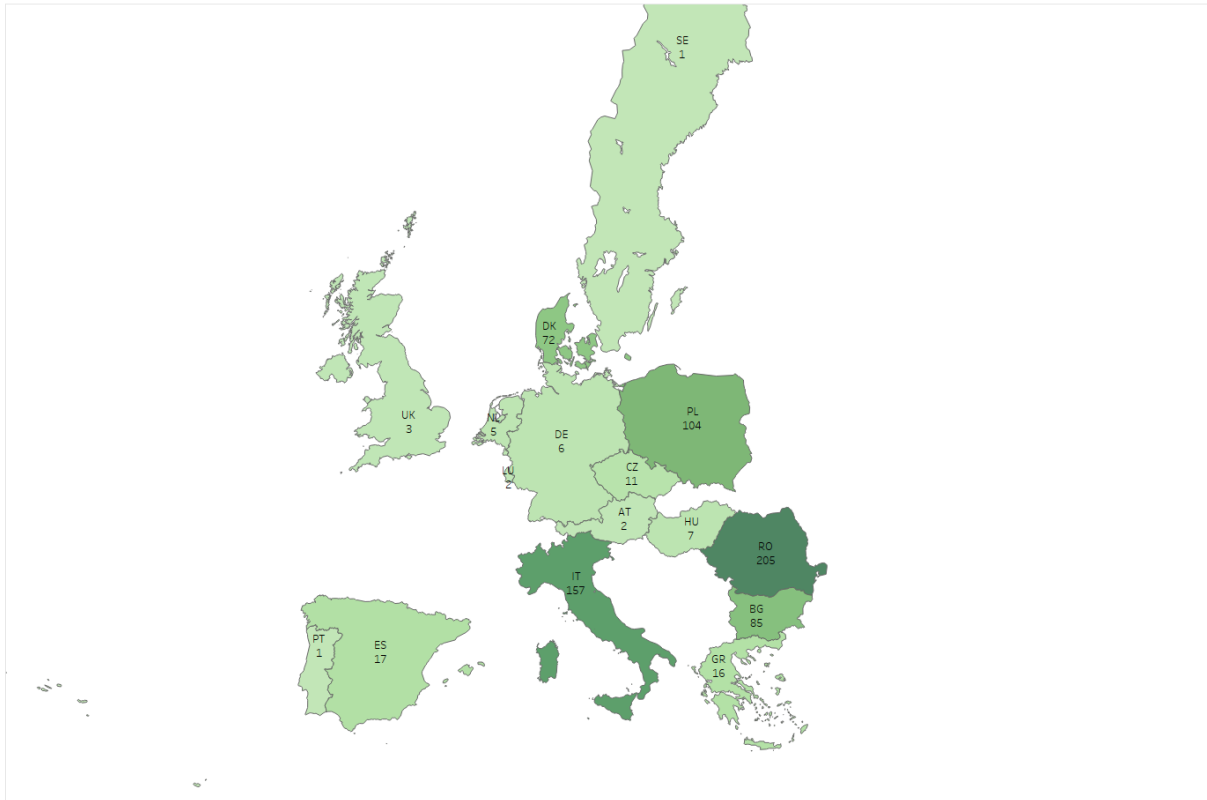


Table NR21 provides an overview of the reasons why controls were performed with reference to direct payments to farmers during 2013-2017, with a focus on controls that led to discover irregularities not reported as fraudulent.

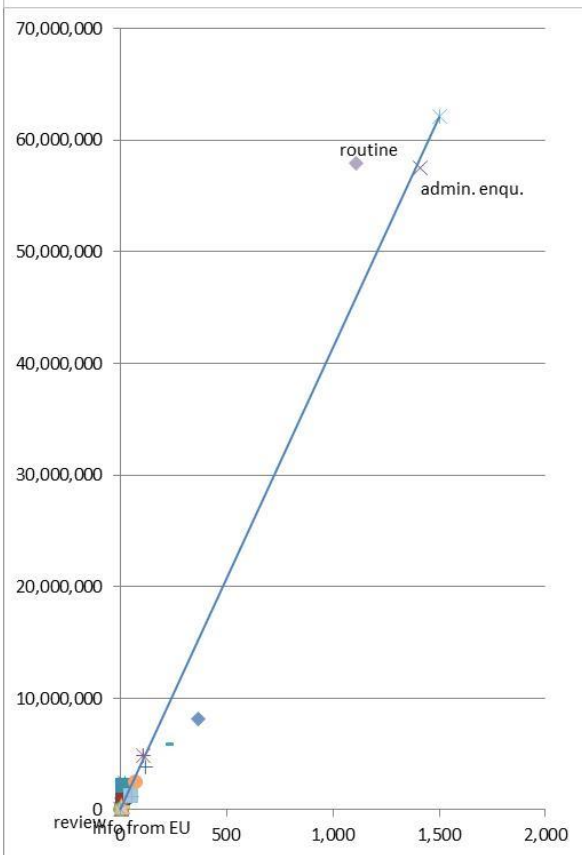
'Administrative enquiry' and 'routine' were the most recurrent reasons for starting controls that then led to irregularities not reported as fraudulent. The average financial amount involved in irregularities discovered because of 'administrative enquiry' was in line with the global average, while 'routine' was above such average.

'Scrutiny 3508' appears in a significant number of cases, with a low average financial amount. It is possible that some cases were reported in other categories, such as 'Routine' or 'administrative enquiry'. 'Risk analysis' was explicitly mentioned in 218 cases, with an average financial amount lower than the global average.

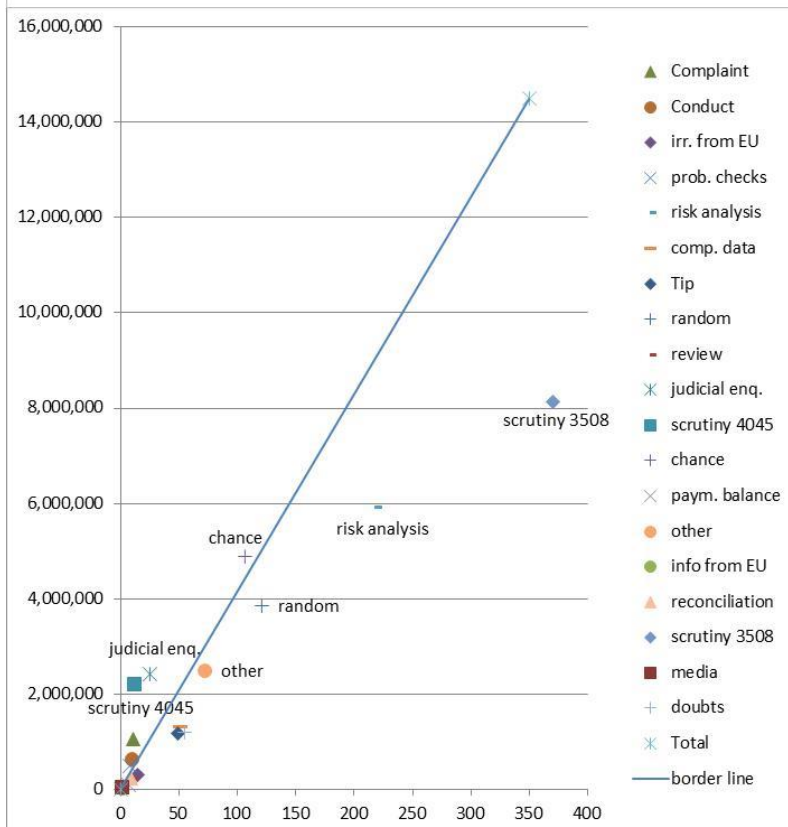
Table NR21: Reasons for performing controls leading to irregularities not reported as fraudulent in direct payments

Reason for performing control	Irregularities not reported as fraudulent - Direct payments 2013-2017		
	Reported	Involved amounts	Average amounts
	N	EUR	EUR
Tip	49	1,184,995	24,184
media	1	48,181	48,181
Complaint	11	1,068,001	97,091
Conduct	10	631,635	63,164
admin. enqu.	1,412	57,526,200	40,741
judicial enq.	25	2,422,873	96,915
info from EU	1	14,711	14,711
irr. from EU	15	299,795	19,986
scrutiny 4045	12	2,197,974	183,165
scrutiny 3508	370	8,132,506	21,980
routine	1,111	57,869,178	52,087
prob. checks	8	498,657	62,332
chance	107	4,895,044	45,748
random	121	3,842,800	31,759
doubts	55	1,195,931	21,744
risk analysis	218	5,916,212	27,139
comp. data	51	1,322,930	25,940
reconciliation	9	230,517	25,613
paym. balance	7	98,345	14,049
review	10	227,902	22,790
other	72	2,492,870	34,623

Graph NR21\_a: All reasons for performing controls - Numbers and financial amounts involved

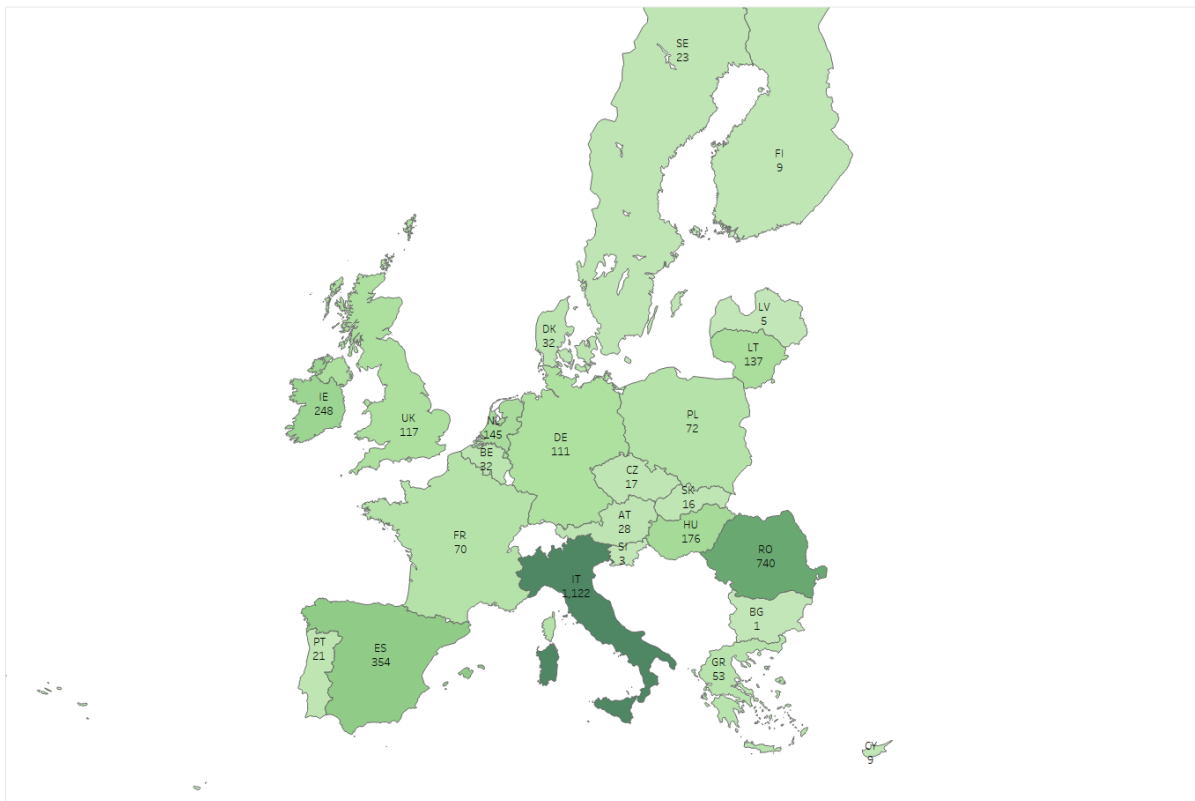


Graph NR21\_b: Zoom on less frequent reasons for performing controls - Numbers and financial amounts involved



Map NR6 provides an overview by Member State of the number of irregularities not reported as fraudulent with reference to direct payments during 2013-2017. The most active Member States in detecting non fraudulent irregularities in relation to direct payments were Italy and Romania, which reported 53% of these cases.

Map NR6: Number of irregularities not reported as fraudulent by Member State - Direct payments - 2013-2017



### 3.4. Anti-fraud activities of Member States

Previous sections have examined the trend and main features and characteristics of the irregularities reported as fraudulent.

The present section digs into some aspects linked to the anti-fraud activities and results of Member States. Four elements are analysed:

- (1) duration of irregularities (fraudulent and non-fraudulent). No analysis by Member State is presented in this section;
- (2) the number of irregularities reported as fraudulent by each Member State (in 2017 and over the last five years);
- (3) the fraud detection rate (FDR - the ratio between the amounts involved in cases reported as fraudulent and the payments occurred in the same period) and the irregularity detection rate (IDR - the ratio between the amounts involved in cases not reported as fraudulent and the payments occurred in the same period) over the last five years<sup>66</sup>;
- (4) the ratio of cases of established fraud on the total number of irregularities reported as fraudulent.

<sup>66</sup> The Member States have the obligation to report only irregularities for which payment and certification to the European Commission occurred. As a consequence, the IDR focuses on the 'repressive' side of the anti-fraud cycle and does not include the results of 'prevention' activities. This does not apply to the FDR, as fraudulent cases must be reported regardless.

### *3.4.1. Duration of irregularities*

Of the 18,281 irregularities (fraudulent and non-fraudulent) reported by Member States in 2013-2017 in relation to CAP, 10,580 (58% of the total) involved infringements that have been protracted during a span of time. For the 2,081 irregularities reported as fraudulent, this percentage is higher at about 61%. The remaining part of the dataset refers to irregularities which consisted of a single act identifiable on a precise date (about 34% of the whole dataset and 37% of that including exclusively the fraudulent irregularities) or for which no reliable information has been provided<sup>67</sup> (8% of the whole dataset, but only 2% of the irregularities reported as fraudulent).

The average duration of the irregularities which have been protracted over time was 26 months (*i.e.* 2 years and 2 months). For the irregularities reported as fraudulent, this average was 4 months more: 30 months.

### *3.4.2. Detection of irregularities reported as fraudulent by Member State*

#### *3.4.2.1. Reported in 2017*

Table NR22 offers an overview of the irregularities reported as fraudulent by Member States in 2017. It also shows the related amounts, overall payments for the agricultural policy and the FDR.

Belgium, Cyprus, Finland, Malta, Sweden and the United Kingdom have notified no irregularities as fraudulent; other nineteen (19) Member States reported less than 30 potentially fraudulent irregularities; one (1) country reported between 30 and 60; two (2) Member States more than 60.

Poland, Romania and Italy are the three countries which have reported the highest numbers, while Poland, Romania and Bulgaria reported the highest amounts. Estonia and Poland's FDRs approached 1%, more than double the third highest FDR, which is Bulgaria's.

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<sup>67</sup> This includes cases where start date and end date were not filled in (1,532 cases, of which 49 cases reported as fraudulent) and one irregularity dated 1905.

Table NR22: Irregularities reported as fraudulent by Member State in 2017

Member State	Irregularities reported as fraudulent 2017		Payments in 2017 (1)		FDR 2017 (1)
	N	EUR	N		%
AT	1	122,538	1,200,262,705		0.01
BG	16	3,852,238	1,007,738,707		0.38
CZ	8	494,087	1,124,630,786		0.04
DE	6	981,201	5,999,063,083		0.02
DK	3	8,119	965,360,952		0.00
EE	8	2,199,728	223,685,124		0.98
ES	5	298,302	6,322,394,462		0.00
FR	9	1,326,255	9,761,449,298		0.01
EL	2	26,628	2,800,133,214		0.00
HR	2	358,047	359,488,873		0.10
HU	14	1,075,823	1,509,319,633		0.07
IE	2	15,242	1,485,734,733		0.00
IT	36	1,370,571	5,234,555,105		0.03
LT	6	1,246,395	699,862,633		0.18
LU	1	15,857	43,375,243		0.04
LV	1	4,353	380,764,646		0.00
NL	6	183,866	879,459,391		0.02
PL	79	37,954,297	4,047,415,734		0.94
PT	4	176,918	1,293,500,630		0.01
RO	64	7,973,885	3,338,629,247		0.24
SI	1	46,897	224,624,111		0.02
SK	2	149,444	611,661,676		0.02
<b>TOTAL</b>	<b>276</b>	<b>59,880,690</b>	<b>55,599,736,092</b>		<b>0.11</b>

#### 3.4.2.2. Reported during the period 2013-17

Table NR23 offers an overview of the irregularities reported as fraudulent by Member States between 2013 and 2017. It also shows the related amounts, overall payments for the agricultural policy and the FDR.

Only Finland notified no irregularities as fraudulent; the majority of Member States (22, excluding Finland) reported less than 100 potentially fraudulent irregularities; one (1) Member State reported between 100 and 200; two (2) Member States notified between 201 and 300 and other two (2) more than 300.

Romania, Poland, Italy and Hungary are the Member States which have reported the highest numbers, while Poland, Romania, the Netherlands and Italy reported the highest amounts. Netherland and Estonia's FDRs are around 1%, more than double the third highest FDR, which is Poland's.



Table NR23: Irregularities reported as fraudulent by Member State in 2013-17

Member State	Irregularities reported as fraudulent in 2013-17		Payments in 2013-17	FDR 2013-17
	N	EUR	N	%
AT	7	191,264	5,885,560,687	0.00
BE	1	390,000	3,295,149,656	0.01
BG	159	18,252,662	5,016,656,621	0.36
CY	6	252,222	376,622,297	0.07
CZ	59	4,574,114	5,802,205,501	0.08
DE	20	1,915,535	30,848,092,835	0.01
DK	78	2,582,698	4,976,307,936	0.05
EE	24	9,308,040	951,478,539	0.98
ES	55	2,868,158	32,894,462,521	0.01
FR	64	30,358,135	45,610,690,110	0.07
EL	31	2,230,325	13,709,306,374	0.02
HR	11	2,329,059	797,292,268	0.29
HU	261	20,035,408	8,541,304,987	0.23
IE	34	388,679	7,487,836,908	0.01
IT	271	38,378,094	28,051,951,780	0.14
LT	39	9,333,145	3,127,272,351	0.30
LU	2	267,908	214,266,669	0.13
LV	31	2,299,285	1,501,333,338	0.15
MT	6	175,628	65,876,171	0.27
NL	9	47,084,469	4,620,857,209	1.02
PL	399	92,304,736	23,574,093,590	0.39
PT	21	6,854,597	6,658,095,873	0.10
RO	435	49,308,878	13,347,161,223	0.37
SE	4	36,723	4,390,598,209	0.00
SI	12	1,167,250	1,201,978,977	0.10
SK	26	7,135,160	2,873,368,789	0.25
UK	16	890,477	19,356,328,761	0.00
<b>TOTAL</b>	<b>2,081</b>	<b>350,912,649</b>	<b>279,379,058,098</b>	<b>0.13</b>

### 3.4.3. Fraud and Irregularity Detection Rates by Member State

#### 3.4.3.1. Market measures

Table NR24 focuses on market measures and shows the Member States which have reported potentially fraudulent irregularities in the period 2013-2017. Detections are measured against the expenditure over the same period to calculate the FDR.

15 Member States have reported potentially fraudulent cases in this area. France, Poland and Hungary reported the highest numbers. The highest financial amounts were communicated by Poland, the Netherlands, France and Italy. The Netherlands and Poland show the highest FDRs, while the FDRs of Hungary, Slovenia and France range between about 2% and 1%.

Table NR24: Market measures: number of irregularities reported as fraudulent 2013-2017, amounts involved and fraud detection rate by Member State

Member State	Irregularities reported as fraudulent 2013-17		Payments 2013-2017	FDR 2013-2017	
	N	EUR	N	%	
AT	3	142,163	134,848,872	0.11	
BE	1	390,000	374,412,462	0.10	
BG	1	49,295	172,020,338	0.03	
CY	2	81,332	35,126,056	0.23	
DE	2	356,279	768,924,095	0.05	
ES	5	811,226	2,755,084,666	0.03	
FR	57	29,342,550	2,978,321,099	0.99	
EL	2	965,115	325,806,112	0.30	
HU	27	5,774,150	281,401,622	2.05	
IT	8	12,170,425	3,244,762,487	0.38	
LT	1	42,299	74,297,941	0.06	
NL	3	46,900,603	352,796,957	13.29	
PL	36	72,157,380	1,242,699,800	5.81	
PT	5	139,608	557,845,908	0.03	
SI	9	664,170	39,642,710	1.68	
<b>TOTAL</b>	<b>162</b>	<b>169,986,595</b>	<b>14,515,153,337</b>	<b>1.17</b>	

Individual cases involving significantly high amounts can produce a distortive effect on the overall analysis. This was particularly the case for the Netherlands, which show the highest FDR despite the low number of detections. The main case reported by the Netherlands refers to events dating back almost ten years.

Table NR25 shows the IDR per Member State, which therefore, refers to irregularities reported as non fraudulent.

22 Member States have reported non fraudulent cases with reference to market measures. Spain, France and Italy reported the highest numbers. The highest financial amounts were communicated by France, Romania and Spain. Malta, Romania and Denmark show the highest FDRs, while the FDRs of the Netherlands, Sweden, Hungary and Cyprus are above 2%.

Table NR25: Market measures: number of irregularities not reported as fraudulent 2013-2017, amounts involved and irregularity detection rate by Member State

Member State	Irregularities not reported as fraudulent in 2013-17		Payments in 2013-17	IDR 2013-17 (1)
	N	EUR	N	%
AT	3	133,390	134,848,872	0.10
BE	13	431,430	374,412,462	0.12
BG	5	1,430,215	172,020,338	0.83
CY	8	813,050	35,126,056	2.31
CZ	9	1,177,953	99,569,094	1.18
DE	20	1,206,756	768,924,095	0.16
DK	8	7,841,577	73,554,012	10.66
ES	439	27,273,762	2,755,084,666	0.99
FI	1	12,649	63,183,920	0.02
FR	343	53,080,487	2,978,321,099	1.78
EL	36	2,079,526	325,806,112	0.64
HU	85	6,984,571	281,401,622	2.48
IT	241	17,583,221	3,244,762,487	0.54
MT	3	372,454	2,534,435	14.70
NL	93	16,304,775	352,796,957	4.62
PL	57	10,000,894	1,242,699,800	0.80
PT	129	5,412,344	557,845,908	0.97
RO	83	44,670,715	329,449,091	13.56
SE	15	3,527,269	83,540,436	4.22
SI	7	260,709	39,642,710	0.66
SK	7	244,782	47,626,665	0.51
UK	6	331,367	296,818,869	0.11
<b>TOTAL</b>	<b>1,611</b>	<b>201,173,896</b>	<b>14,515,153,337</b>	<b>1.39</b>

A part of these irregularities (reported as fraudulent or not) are not exclusively referred to market measures, but the reporting authority may have also included budget posts referring to other measures, including direct payments or rural development. These irregularities have been included in their full value in Tables NR24 and NR25 (see also Annex 13).

### 3.4.3.2. Rural development

25 Member States have reported potentially fraudulent cases in relation to RD during the period 2013-2017, as showed in Table NR26. Detections are measured against the expenditure over the same period to calculate the FDR.

Poland, Romania and Hungary reported the highest numbers. The highest financial amounts were communicated by Romania, Poland, Bulgaria and Hungary. Estonia show the highest FDR, above 2%, while the FDR of Bulgaria approaches 1%.

Table NR26: Rural development: number of irregularities reported as fraudulent 2013-2017, amounts involved and fraud detection rate by Member State

Member State	Irregularities reported as fraudulent 2013-17		Payments 2013-2017	FDR 2013-2017 (1)
	N	EUR	N	%
AT	1	14,444	2,265,800,842	0.00
BG	73	15,437,404	1,648,391,670	0.94
CY	4	170,890	95,301,799	0.18
CZ	48	4,350,401	1,445,819,422	0.30
DE	12	1,449,487	4,862,173,322	0.03
DK	5	64,909	425,659,442	0.02
EE	24	9,308,040	389,671,573	2.39
ES	29	1,485,982	4,571,831,177	0.03
FR	7	1,015,585	4,822,089,502	0.02
EL	10	369,247	2,598,419,510	0.01
HR	10	2,193,907	301,479,863	0.73
HU	227	13,626,554	1,960,397,463	0.70
IE	33	376,187	1,302,271,163	0.03
IT	65	5,214,339	5,391,583,116	0.10
LT	38	9,290,847	1,090,774,238	0.85
LV	31	2,299,285	629,474,787	0.37
MT	6	175,628	37,884,839	0.46
NL	1	33,289	379,419,256	0.01
PL	254	16,270,662	6,532,010,580	0.25
PT	15	6,677,760	2,870,669,346	0.23
RO	229	43,514,124	6,041,149,538	0.72
SE	1	13,753	896,217,824	0.00
SI	3	503,080	482,558,131	0.10
SK	25	7,133,677	811,122,801	0.88
UK	13	507,742	3,347,963,307	0.02
<b>TOTAL</b>	<b>1,164</b>	<b>141,497,223</b>	<b>56,981,631,352</b>	<b>0.25</b>

These irregularities are exclusively referred to rural development. A number of additional cases concern both rural development and support to agriculture, including market measures or direct payments (see Table NR5 and Annex 13).

Table NR27 shows the IDR per Member State, which therefore, refers to irregularities reported as non-fraudulent. Romania, Portugal, Poland, Spain, Hungary and Italy reported the highest numbers. The highest financial amounts were communicated by Romania, Spain and Portugal. Lithuania show the highest FDR, above 3%, while the FDR of Romania, the Netherlands, Portugal, Hungary and Slovakia range between 3% and 2%.

Table NR27: Rural development: number of irregularities not reported as fraudulent 2013-2017, amounts involved and irregularity detection rate by Member State

Member State	Irregularities not reported as fraudulent in 2013-17		Payments in 2013-17	IDR 2013-17
	N	EUR	N	%
AT	55	1,259,952	2,265,800,842	0.06
BE	25	541,378	219,499,436	0.25
BG	223	22,513,707	1,648,391,670	1.37
CY	25	719,607	95,301,799	0.76
CZ	214	11,605,552	1,445,819,422	0.80
DE	238	10,202,322	4,862,173,322	0.21
DK	47	3,090,719	425,659,442	0.73
EE	169	6,057,824	389,671,573	1.55
ES	953	69,998,620	4,571,831,177	1.53
FI	43	804,996	1,517,901,462	0.05
FR	419	8,205,302	4,822,089,502	0.17
EL	359	6,444,815	2,598,419,510	0.25
HR	35	1,282,344	301,479,863	0.43
HU	854	42,100,943	1,960,397,463	2.15
IE	127	4,865,168	1,302,271,163	0.37
IT	818	49,530,222	5,391,583,116	0.92
LT	486	41,163,587	1,090,774,238	3.77
LV	109	3,970,283	629,474,787	0.63
MT	12	617,532	37,884,839	1.63
NL	312	9,310,093	379,419,256	2.45
PL	1,005	37,415,236	6,532,010,580	0.57
PT	1,232	64,856,854	2,870,669,346	2.26
RO	2,402	174,118,818	6,041,149,538	2.88
SE	68	2,776,143	896,217,824	0.31
SI	66	1,748,932	482,558,131	0.36
SK	171	16,598,023	811,122,801	2.05
UK	283	6,409,374	3,347,963,307	0.19
<b>TOTAL</b>	<b>10,750</b>	<b>598,208,343</b>	<b>56,981,631,352</b>	<b>1.05</b>

These irregularities are exclusively referred to rural development. A number of additional cases concern both rural development and support to agriculture, including market measures or direct payments (see Table NR7 and Annex 13).

#### 3.4.4. Ratio of established fraud / Dismissal ratio

Since the PIF Report 2014, the analysis has also tried to focus on the rate of irregularities reported as fraudulent by Member States for which a final decision was taken, establishing that fraud really occurred. By comparing updated data with those published in 2014, it is also possible to identify how many cases have been dismissed (initially reported as fraudulent and then "declassified" or cancelled).

Table NR28, therefore, updates the table already published in the last three Reports indicating that the '*ratio of established fraud*' has slightly increased in comparison to last year (from 11% to 12%). Likewise, the '*dismissal ratio*' increased from 14% to 17%.

Table NR28: Number of cases of suspected and established fraud and ratio of established fraud - cases reported between 2009-13 in the CAP

Member State	Suspected fraud	Established fraud	TOTAL	Ratio established fraud	TOTAL 2013	Dismissal ratio
	N	N	N	%	N	%
AT	9	1	10	10%	10	0%
BE	10	1	11	9%	12	-8%
BG	162	59	221	27%	233	-5%
CZ	23	1	24	4%	20	20%
DE	12	4	16	25%	24	-33%
DK	118	0	118	0%	118	0%
EE	17	6	23	26%	22	5%
ES	21	1	22	5%	29	-24%
FI					1	-100%
FR	13	0	13	0%	27	-52%
GR	26	1	27	4%	34	-21%
HU	63	7	70	10%	89	-21%
IE	4	0	4	0%	4	0%
IT	280	10	290	3%	409	-29%
LT	5	0	5	0%	1	400%
LU	1	0	1	0%	1	0%
LV	5	2	7	29%	8	-13%
MT	5	0	5	0%	5	0%
NL	5	0	5	0%	4	25%
PL	141	30	171	18%	194	-12%
PT	2	1	3	33%	2	50%
RO	101	9	110	8%	147	-25%
SE	6	0	6	0%	6	0%
SI	9	4	13	31%	16	-19%
SK	4	1	5	20%	2	150%
UK	8	2	10	20%	8	25%
<b>TOTAL</b>	<b>1,050</b>	<b>140</b>	<b>1,190</b>	<b>12%</b>	<b>1,426</b>	<b>-17%</b>

### 3.5. Recovery cases

For an in-depth analysis of recovery and financial corrections in the CAP, see section 2.1.1.3 of the Annual Activity Report of DG AGRI and the 2017 Annual Management and Performance Report for the EU Budget<sup>68</sup>.

<sup>68</sup> COM (2018)457 on 6/6/2018. See also the Communication from the Commission to the Parliament, the Council and the Court of Auditors on the Protection of the EU budget – COM(2016)486 on 18/7/2016.