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**COMMISSION STAFF WORKING DOCUMENT**

**Annex to the 2006 Report from the Commission on the protection of the European  
Communities' financial interests and the fight against fraud  
STATISTICAL EVALUATION OF IRREGULARITIES- OWN RESOURCES,  
AGRICULTURE, STRUCTURAL MEASURES, PRE-ACCESSION FUNDS -YEAR  
2006**

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## 1. THE SITUATION IN 2006

### 1.1. INTRODUCTION

Community legislation provides for the protection of the Community's financial interests in all areas of activity<sup>1</sup>. Member States are required to notify the Commission of evidence of fraud and other irregularities. This need is particularly evident in those sectors of the Community budget where the main responsibility for management is with the Member States, namely, in the fields of Agriculture and Structural Funds (on the expenditure side) and Own Resources (on the revenue side). In these areas, Member States must inform the Commission of all irregularities involving more than EUR 4,000 for agriculture<sup>2</sup> or more than EUR 10,000 for traditional own resources, structural and cohesion funds. This applies at all stages in the procedure for recovering monies unduly paid or not received.

Regulation No 595/91 specifies the requirement for the agriculture sector, Regulations Nos 1681/94<sup>3</sup> and 1831/94<sup>4</sup> for structural measures, as amended, respectively by Regulations Nos 2035/2005 and 2168/2005, and Regulation No 1150/2000 for own resources. In the case of pre-accession funds the obligation to report irregularities is specified in Community legislation and in the Pre-Accession and Accession Agreements the European Community and the Candidate and Accession states.

The European Parliament and the Council adopted a series of Regulations introducing a new system for the Structural Funds for the new 2007-2013 programming period<sup>5</sup>. The rules on reporting irregularities to the Commission have been retained, but the communication procedure is now part of the implementing Regulations<sup>6</sup> rather than a separate Regulation, as was previously the case. The old

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<sup>1</sup> See in particular Article 3(1) of Council Regulation (EEC) No 595/91 of 4 March 1991 (OJ L 67, 14.3.1997), Commission Regulation (EC) No 1681/94 of 11 July 1994 (OJ L 178 of 12.7.1994), as amended by Regulation (EC) No 2035/2005 of 12 December 2005 (OJ L 328 of 15.12.2005), and No 1831/94 of 26 July 1994 (OJ L 191, 27.7.1994), as amended by Regulation (EC) No 2168/2005 of 23 December 2005 (OJ L 345 of 28.12.2005), for expenditure, and Article 6(5) of Council Regulation (EC, Euratom) No 1150/2000 for traditional own resources.

<sup>2</sup> As of 1<sup>st</sup> January 2007, also the threshold for the agriculture sector has been increased to €10,000 following the provisions contained in article 6(1) of Regulation (EC) 1848/2006 of 14 December 2006 (OJ L 355 of 15.12.2006).

<sup>3</sup> Regulation 1681/94 applies to the Structural Funds, that is to say European Regional Development Fund (ERDF), European Social Fund (ESF), European Agriculture Guidance and Guarantee Fund (EAGGF) – Section Guidance and Financial Instrument for Fishery Guidance (FIFG).

<sup>4</sup> Regulation 1831/94 applies to the Cohesion Fund.

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

<sup>6</sup> Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the

Regulations have been repealed, but will continue to apply with reference to former programming periods.

The provisions to be followed are mostly based on the Commission Regulation (EC) No 1681/1994. Member States are required to report irregularities under Article 3 of this regulation (for own resources the relevant provisions are contained in Article 6, paragraph 5) within two months of the end of each quarter. Under Article 5 (again, Article 6, paragraph 5 for own resources) they have to submit updates of the cases communicated and relevant information about the financial, administrative and judicial follow-up.

The distinction between irregularities and fraud is that fraud is a criminal act that can only be determined by the outcome of judicial proceedings<sup>7</sup>. As such, it is only when the judicial procedure has come to an end that the actual amount of fraud can be determined. While awaiting the results, the Commission works on the basis of the information supplied by Member States concerning cases of irregularities some of which, in the opinion of the reporting Member States, give rise to suspicions of fraud. The Commission's statistical assessment of, and ability to respond to, irregularities is influenced by the accuracy and timeliness of the notifications made by the Member States.

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

The Commission works in close cooperation with the Member States to improve the notification system for irregularities, in particular to clarify the concepts of “fraud” and “irregularity”<sup>8</sup> and as a result, attempts to measure the possible economic impact of fraud in certain sectors have been made. However, for the reasons outlined above, the figures presented below should be interpreted with caution. It would be particularly inappropriate to draw simple conclusions about the geographical distribution of fraud **or on the efficiency of the services which contribute to the protection of financial interests.**

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European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund, OJ L 371, 27.12.2006. This repeals Regulations (EC) No 1681/94 and (EC) No 1831/94. Commission Regulation (EC) No 498/2007 of 26 March 2007 laying down detailed rules for the implementation of Council Regulation (EC) No 1198/2006 on the European Fisheries Fund.

<sup>7</sup> See the definition in Article 1 of the Convention on the protection of the Community's financial interests of 26 July 1995 (OJ C No 316 of 27.11.1995), which entered into force on 17 October 2002.

<sup>8</sup> The Commission opened a dialogue with the representatives of the Member States to clarify basic concepts and to re-assure Member States that the communication of irregularities in no way prejudices the outcome of criminal judicial proceedings. A working document on the practical modalities for the communication of irregularities was established. Discussions are continuing in the Advisory Committee on the Coordination of Fraud Prevention.

## 1.2. Key Facts

Annex 22 gives an overview of all irregularities communicated by Member States under Regulation No. 595/91 for the agriculture sector, Regulations Nos 1681/94 and 1831/94 for structural measures and Regulation No 1150/2000 for own resources.

In general, the number of irregularities notified for the year 2006 has slightly decreased by 0.3%.

The total number of irregularities has increased for agriculture, cohesion and pre-accession funds. It has decreased for own resources and the structural funds.

However, the total amounts affected by irregularities notified for the year 2006 has increased by 11.5%.

The total amounts affected by irregularities have increased for own resources, structural and cohesion funds. It has decreased for agriculture and pre-accession funds.

The following paragraphs will provide an overview concerning the different sectors of the budget analysed in this document.

### 1.2.1. *Traditional Own Resources*

In 2006, the number of cases of irregularities communicated by the Member States decreased from 5,943 to 5,243. However, the amount of TOR increased from EUR 328 million to EUR 353 million.

Communications from the ten new Member States have continued to grow since their accession in 2004. This is a result of increasing familiarity with the requirements of the reporting system.

### 1.2.2. *Agriculture*

In 2006, OLAF processed 15,513 communications under Regulation (EEC) No 595/91. A large number of these communications, i.e. 12,264, were updates of cases that had been reported prior to 2006.

Member States reported 3,249 new irregularities (under Regulation (EEC) No 595/91) compared with 3,193 irregularities in 2005. The total amount affected in 2006 was about EUR 87 million, as against approximately EUR 102 million in 2005.

Irregularities notified in this sector represent only 0.17% of the agricultural budget.

### 1.2.3. *Structural Measures*

In 2006, Member States reported 2,988 irregularities under Regulation (EC) No 1681/94 which covers the four Structural Funds and 228 under Regulation (EC) No 1831/94 on the Cohesion Fund. The total amount affected by irregularities in 2006 was about EUR 703 million, EUR 517 million of which concerned the Structural Funds and EUR 187 million related to the Cohesion Fund. Irregularities reported in

this sector were equivalent to 1.83% of the budget allocated to structural measures in 2006.

Since the establishment of the information system of irregularities (1994), Member States have reported 22,371 irregularities, of which 21,574 related to the Structural Funds and 797 to the Cohesion Fund.

#### *1.2.4. Pre-accession Funds*

In 2006 Member States and Acceding Countries sent to OLAF 1,207 reports, 384 of which first communications and 823 were updates concerning all pre-accession funds. The total amount affected by irregularities reported in 2006 was EUR 12.3 million, of which from PHARE EUR 6.9 million (198 irregularity reports), SAPARD EUR 4.3 million (160) and ISPA EUR 1.2 (26).

In 2006 the number of cases reported (first communications) increased by 14.2% on the previous year.



## PART I - REVENUES

### 2. TRADITIONAL OWN RESOURCES (ANNEXES 1-10)

The Community must have access to Traditional Own Resources ('TOR')<sup>9</sup> under the best possible conditions. In conformity with Regulation (EC, Euratom) No 1150/2000<sup>10</sup> Member States are responsible for making available to the Commission, within the deadlines set, TOR that they have established. The established amounts that relate to recovered or unchallenged guaranteed customs or agricultural duties and which are to be made available are entered into the so called *A-account*. An exception is made for TOR established by a Member State but not yet recovered and for which no security has been provided or where the established amount has been disputed. Member States may enter these TOR amounts in a *B-account* and not make them available until they are actually recovered in accordance with the rules. Most fraud and irregularity cases relate to these B-account entries.

#### *Monitoring of establishment and recovery of TOR*

In order to get the right picture of Member States' activities in recovering TOR, it is important to keep in mind that more than 95% of all amounts of TOR established are subsequently recovered without particular problems. They are entered in the A-account and made available to the Commission. This covers most of the 'normal' import flows where the release for free circulation gives rise to a customs debt. The remaining items are entered in the B-account. These proportions should be borne in mind when evaluating and appreciating Member States' recovery activity. In return for performing this task, and to support sound and efficient management of public finances, Member States may keep 25% of the amounts involved.

In its capacity as Authorising Officer responsible for executing the EU budget in revenues, the Commission (DG Budget as delegated Authorising Officer) monitors Member States' activities concerning establishment and recovery of TOR in several different ways.

The following three methods are used:

1. Overall monitoring of recovery of TOR under the write-off procedure;
2. Regular inspections in Member States of the establishment and recovery of TOR and B-account entries;
3. Specific monitoring, in close cooperation with OLAF, of some individual cases of the follow-up of recovery action by Member States in individual cases of Mutual Assistance with significant financial impact.

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<sup>9</sup> These are mainly customs and agricultural duties.

<sup>10</sup> Regulation 1150/2000 of 22 May 2000.

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

*Procedure for managing Member States' requests for write-off*

Member States must take all requisite measures to ensure that the amounts corresponding to the entitlements established are made available to the Commission. This requirement is shown in Article 17(1) of Regulation No 1150/2000. According to that same article, Member States are only released from this obligation in case of established entitlements which prove irrecoverable either:

- (a) for reasons of *force majeure*; or
- (b) for other reasons which cannot be attributed to them.

Amounts of established entitlements shall be declared irrecoverable by a decision of the Member State finding that they cannot be recovered. Debts may be declared irrecoverable by a Member State decision at any time, or the TOR must be deemed irrecoverable by the Member State at the latest five years from the date on which the amount was established, or in the event of an administrative or judicial appeal, the final decision was given, or the last part-payment of an established amount was made, whichever is the later. However, where the amount of TOR written-off exceeds a threshold of EUR 50,000 the write-off must be reported to the Commission. For amounts under EUR 50,000, Member States do not have to communicate these cases to the Commission on their own initiative. But the Commission can ask for such a communication when it considers it difficult to evaluate a case during an inspection when these cases are regularly scrutinised.

An amendment to Regulation No 1150/2000 in 2004<sup>11</sup> introduced a 5-year timeframe within which a Member State has to provide the Commission with information on amounts of established entitlements of TOR deemed irrecoverable. As a result it is expected that before 2009 there will be a marked increase in requests by Member States for write-off of established but (deemed) irrecoverable TOR amounts. The increase will consist of old cases that have not yet been reported to the Commission, but that meet the 5-year deadline for application of the write-off procedure. DG Budget is prepared to deal with the increase anticipated in the number of cases in the future. A new IT-application called WOMIS<sup>12</sup> is to be introduced in the near future to support Member States and DG Budget in managing the write-off requests.

In 2006 there were 160 write-off requests communicated to the Commission by 9 Member States, amounting to EUR 57,571,144.02. In total, 162 requests were processed in 2006<sup>13</sup> with the following result:<sup>14</sup>

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<sup>11</sup> Regulation No 2028/2004, amending Regulation No 1150/2000.

<sup>12</sup> WOMIS: **W**rite-**O**ff **M**anagement and **I**nformation **S**ystem.

<sup>13</sup> Origin of the cases: 3 cases from Belgium, 2 from Czech Republic, 120 from Germany, 1 from Denmark, 4 from Spain, 1 from Finland, 3 from France, 1 from Ireland, 2 from Italy, 18 from the Netherlands, 2 from Portugal and 5 from the UK.

<sup>14</sup> The breakdown between the amounts for each of the positions is, at this moment, only estimated because sometimes the same case may be partly accepted, not suitable or refused at the same time.

*Table OR 1: Write-off requests treated in 2006 – results*

Commission position	cases	% cases	€	% amount
NON SUITABLE EXEMPTION REQUEST	11	5.60%	2,887,595.06	8.90%
WRITE-OFF ACCEPTED	68	34.90%	10,089,853.73	31.30%
REQUIRED ADDITIONAL INFORMATION	57	29.20%	14,655,135.92	45.50%
WRITE-OFF REFUSED	59	30.30%	4,604,016.59	14.30%
<b>TOTAL</b>	<b>195*</b>	<b>100%</b>	<b>32,236,601.30</b>	<b>100%</b>

\* During 2006, there were 33 cases partially accepted, classified as not suitable, refused or sent back to Member States for additional information. For this reason the 162 cases gave rise to 195 "apparent" positions.

Examination of Member States diligence constitutes a very effective mechanism for gauging their activity in the field of recovery and encourages national administrations to intensify their recovery actions in terms of regularity, efficiency and effectiveness, since a lack of diligence leading to failure to recover will result in Member States having to foot the bill.

#### *Particular cases of failure of recovery of TOR by Member States*

Where TOR are not established because of an administrative error by a Member State the principle of financial responsibility<sup>15</sup> is applied by the Commission. During 2006 EUR 33,412,388.57 was paid by Member States, separate from belated interest, because of this principle.

All together the cases of financial responsibility DG Budget has been dealing with, until end 2006, represent nearly EUR 113 million. This money is transferred back to the Member States in proportion to their contribution to the EU budget; the main objective therefore is to encourage individual Member States to step up the performance of their administrations and to address weaknesses leading to a loss of TOR and national taxes.

## **2.1. Reporting Discipline**

Under Article 6(5) of Regulation No 1150/2000, Member States are required to communicate to the Commission, via the OWNRES system<sup>16</sup>, cases of fraud and

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Additional information from the Member States (in particular on the proportion of guarantee taken) is then needed to provide the final classification and quantification of the amounts concerned.

<sup>15</sup> Case C-392/02 of 15 November 2005. These cases are identified on the basis of Articles 220(2)(b) (administrative errors not detectable by the operator) and 221(3) (time-barring resulting from the inactivity of the customs) of the Community Customs Code, of Articles 869 and 889 of the Provisions for application of the Code or on the basis of non-observance, by the customs administration, of articles of the Community Customs Code giving rise to a situation of legitimate expectations of the operator.

<sup>16</sup> OWNRES is an abbreviation for **O**wn **R**esources.

irregularity where the TOR-amounts exceed EUR 10,000. This reporting activity serves a clear goal: to inform the Budgetary Authority of the state of play relating to fraud and irregularities in TOR. This political objective should motivate all stakeholders to take this activity very seriously. The OWNRES-database is an important tool for providing data for global analyses of fraud and irregularities and presents valuable information to the budgetary authority<sup>17</sup>

Because all TOR-amounts exceeding EUR 10,000 in the B-account represent an irregularity (fraud included) by definition a match between the two from the perspective of the B-account should be 100%<sup>18</sup>. However comparison in 2003 between the B-account and OWNRES did not give this result, so the Commission drew attention to this in ACOR<sup>19</sup> meetings. Since 2003 comparisons have improved from 30% agreement (2003) up to 90% by the end of 2006. Member States' efforts to improve the accuracy and completeness of OWNRES are thus visible. Nonetheless the database can not be considered fully reliable yet using this comparative measure, if the equation is extended to incorporate cases that have not been subject to establishment of a debt, for example smuggled cigarettes that are seized and subsequently confiscated and for which no customs debts arises (otherwise in these circumstances the duties would be transformed into a kind of – extra – penalty). Regarding this last category, the data contained in OWNRES is far from trustworthy. Member States should address this shortcoming urgently<sup>20</sup>.

Moreover, one should be wary of trying to use OWNRES as a source of data on fraud alone isolated from irregularity. This is because (until a Court judgement is obtained) the distinction between fraud and irregularity has usually been made on subjective grounds. This means there are great variations between national administrations and so the results cannot be relied upon.

With these considerations in mind, please find some analyses hereunder.

#### *Year of detection versus year reported*

Cases should be included in OWNRES at the moment of first discovery of the irregularity or fraud case. As a result, the year of registration and the year of discovery of the irregularity or fraud can diverge. Member States continually add new cases and update existing cases. This means the query-information generated by OWNRES is dynamic. For instance, the number of irregularities and fraud in last years report was 4,982 cases whereas the number of cases in 2005 at this moment is 5,943 cases<sup>21</sup>. Such developments are inherent to the system used.

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<sup>17</sup> DG Budget organized a training seminar on OWNRES in 2006 in Bulgaria and Romania because of their accession.

<sup>18</sup> What is registered in OWNRES is not necessarily in the B-account also. In case of payment of the debt or non establishment of the debt (for instance cases of seized and confiscated cigarettes) the amounts should not be entered in the B-account. When there is payment it should be made available via the A-account and when there is no debt it should not be registered in either the A or B-account.

<sup>19</sup> ACOR= Advisory Committee on Own Resources, section Traditional Own Resources.

<sup>20</sup> See annex 8.

<sup>21</sup> The information generated by OWNRES used to produce the figures in this chapter are all queried on the 30<sup>th</sup> of March 2006.

## 2.2. General Trends

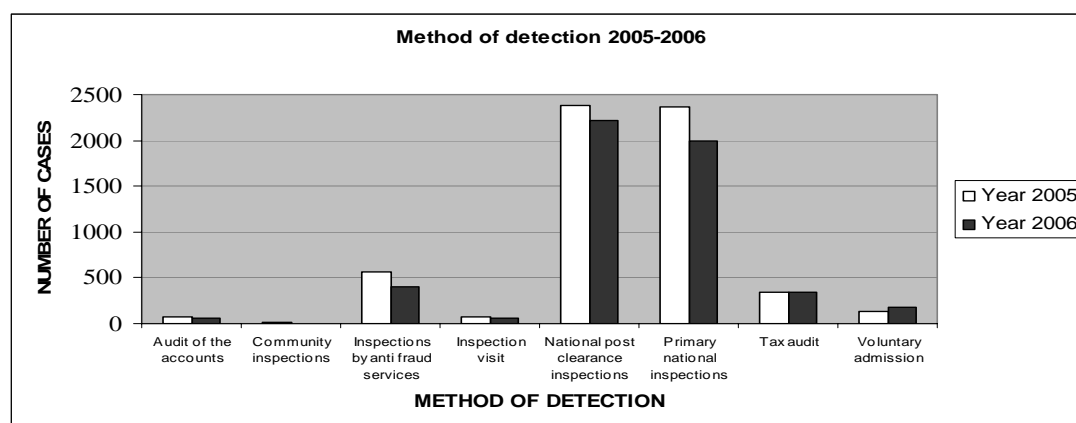
The number of cases communicated to OWNRES decreased in 2006 by 12% when compared to 2005 (from 5,943 to 5,243), but the amount of TOR increased by over 7% (up from EUR 328 million to EUR 353 million)<sup>22</sup>. The higher base-level of the number of cases compared to 2003 can be explained by Member States reporting more of their cases to OWNRES, the entry of cases of belatedly discharged Transit operations and the accession of new Member States. The number and proportion of belatedly discharged Transit operations decreased compared to 2005 (by well over a third<sup>23</sup>). Communications from the ten new Member States have continued to grow since their accession in 2004 (2006 shows a 47% growth compared with 2005 and 326% compared with 2004). If the comparisons are made using amounts of TOR the growth rates are 123% and 313% respectively. This is a result of increasing familiarity with the requirements of the reporting system.

In total, for the period 1989-2006, the OWNRES database contains 38,138 cases<sup>24</sup>. Significant changes in the number of registrations in 2006 compared with 2005 can be seen for Belgium (-44%) and the Netherlands (-25%). Significant changes in amounts can be seen in Germany (-26%), Italy (+122%), Netherlands (+81%) and Spain (-44%).

### 2.2.1. Method of detection

Various methods of detection may have revealed the irregularity or fraud. Judging from the 2006 data the most fruitful methods for are the *primary national inspections* (either physical inspections or inspections of documents – the latter category featuring most frequently) and the *national post-clearance inspections*.

Chart OR 1: Method of detection 2005-2006



Primary national inspections feature in 38% of the discovered cases whereas the post clearance inspections cover 42%. It will be interesting to see whether the shift from

<sup>22</sup> See annex 1 (table) and annex 2 (chart).

<sup>23</sup> In 2005 the number of cases of belatedly discharged Transit was 2,313. In 2006 there were 1,381 cases.

<sup>24</sup> The information generated by OWNRES used to produce the figures in this chapter are all queried on the 30<sup>th</sup> of March 2006.

primary to post-clearance inspections which can be seen in 2006 is the beginning of a trend related to ongoing changes in declaration procedures. The relative importance of inspections by anti-fraud services decreased slightly from 9.4% in 2005 down to 7.6% in 2006.

### 2.2.2. Types of irregularity and fraud

A breakdown of frauds and irregularities by *customs procedure*<sup>25</sup> and by *type* confirms that release for *free circulation* is the customs procedure most commonly affected by fraud. Smuggling, misdescription and false declarations (incorrect value, origin, preferential arrangements) are the most important types of fraud.

The goods (defined by the first two numbers of the CN-code) most affected by fraud and irregularities in 2006, as in previous years, are tobacco products (CN 24) and TVs and parts etc. (CN 85). Sugar (CN 17) decreased in importance compared to 2005 as did fish (CN 03), glass and glassware (CN 70) and optical instruments (CN 90), whereas meat (CN 02), engines and parts (CN 84), inorganic products (CN 28) and oils and fats (CN 15) came up. The textile sector (CN 61 and CN 62) remains relatively stable with CN 62 involving EUR 10.3 million duty in 11<sup>th</sup> place in 2006<sup>26</sup>.

Table OR 2: Top 10 of first two numbers of CN Code most affected by irregularities – 2005-2006<sup>27</sup>

2005			2006		
CN	PRODUCT	MLN €	CN	PRODUCT	MLN €
85	TVs and parts etc.	69	85	TVs and parts etc.	62.3
24	Tobacco / cigarettes	30.9	24	Tobacco / cigarettes	27.6
84	Engines and parts	24.1	15	Oils and fats	22.8
17	Sugar / sugar-products	23.7	61	Clothing	19.8
61	Clothing	22.1	28	Inorganic products	16.1
87	Cars / motors and parts	17.4	10	Cereals	15.1
62	Clothing	8.9	02	Meat	14.8
70	Glass and glassware	8.8	84	Engines and parts	14.7
03	Fish etc.	8.3	87	Cars / motors and parts	12.2
90	Optical instruments etc.	7.5	17	Sugar / sugar-products	11.7

Analysis of the origin of goods subject to fraud and irregularity<sup>28</sup> reveals that just as in 2005 goods originating from China, the USA, Japan, Brazil and South Korea remain very much affected. The number of cases in the origin category non-specified decreased in parallel with the decrease in Transit cases.

### 2.2.3. Amounts involved

Member States have to recover the established amounts that they have also registered in OWNRES. For several reasons it is possible that an established amount cannot be completely recovered, despite Member States' efforts. The established amounts may

<sup>25</sup> See annex 3.

<sup>26</sup> See annex 4: number of cases. See annex 5: specification CN goods up to 8 numbers, period 2004-2006.

<sup>27</sup> The product description in the table is a generic description of the chapters of the Common Customs Tariff.

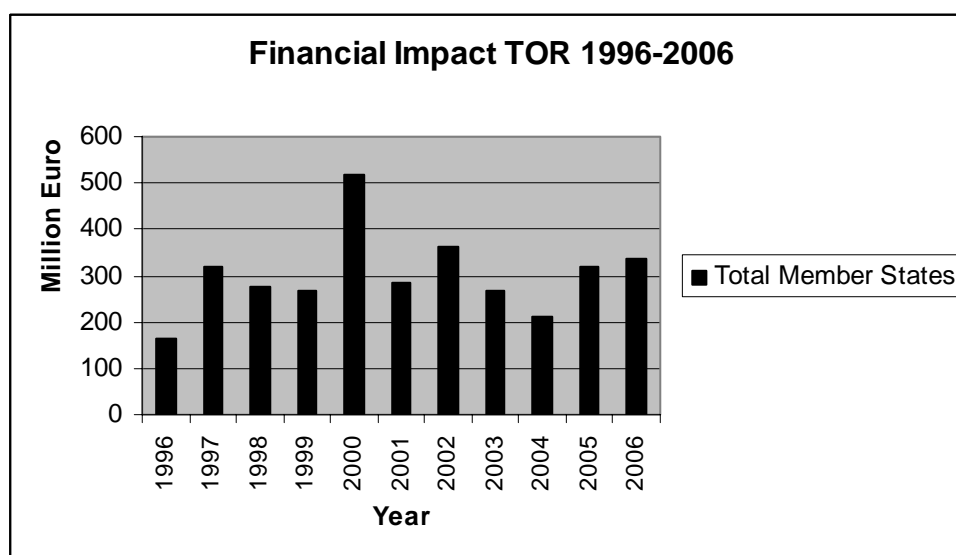
<sup>28</sup> See annex 6.

change because of additional information or judicial procedures, or the debt may be deemed irrecoverable because of the debtors' financial problems. The Recovery Rate ('RR') expresses the percentage of the initially established debt that is actually recovered. It is dynamic, constantly changing, because of the ongoing process of recovery in the Member States. The RR for 2006 is currently 32.13%<sup>29</sup>. The RR differs from Member State to Member State. This may be caused by, for instance, the type of fraud or irregularity, the type of debtor or judicial procedures involved.

#### 2.2.4. *Impact on the budget*

The amounts that BUDG/B3 monitored in 2006 via OWNRES have a financial impact of EUR 352,879,219. Over the last decade the amounts have ranged from EUR 162,380,355 (year 1996) up to EUR 516,655,940 (year 2000).

*Chart OR 2: Financial Impact TOR 1996-2006*



#### 2.2.5. *Data main sectors TOR*

See annex 1-10.

### 2.3. **Specific Analysis**

#### 2.3.1. *Specific facts TOR*

In 2006 there were 63 registered cases of cigarettes (CN code 2402) seized and confiscated (CCC Article 233 d) totalling TOR of EUR 2,100,890<sup>30</sup>. The ten new Member States are responsible for 39 of these cases with an amount of EUR 1,872,439. In 2005 the number of cases registered of seized and confiscated goods was 94 with a total amount of EUR 3,141,679. The ten new Member States were responsible for 35 cases totalling EUR 1,005,489.

<sup>29</sup> See annex 7.

<sup>30</sup> See annex 8: Specific facts for TOR (in particular, separate analyses of cigarettes figure, requested by Member States during the Art. 280 Group meeting of 12 July 2006).

### 2.3.2. *Irregularity vs Suspected Fraud*

#### *Classification of irregularities and fraud by Member States*

OWNRES cases refer to custom operations involving irregularity or fraud. Of all the cases registered in 2006 fraud is specified in 22% (1,155 of 5,243 registered cases) against 20% in 2005 (1,182 of 5,943 registered cases)<sup>31</sup>. Differences in categorisation between Member States are relatively large. For instance in 2006 the United Kingdom had only 1 out of 882 cases categorised as fraud (equivalent to 0.11%) whereas Germany has 9.36% (80 out of 855 cases communicated) and the Netherlands 30.52% (405 out of 1,327 cases notified). For 2005 the figures were respectively 0.58% (4 out of 687), 13.07% (148 out of 1,123) and 20.78% (368 out of 1,771). These figures demonstrate that the categorisation of irregularity and fraud in OWNRES is not yet fully reliable.

#### *Estimated level of fraud*

According to OWNRES the amount of TOR due in fraud cases rose in 2006. As part of the overall amount of registered irregularities and fraud cases the share of fraud was EUR 134,396,443 (equivalent to approximately 0.94% of the total amount of own resources in 2006<sup>32</sup>) compared to EUR 105,308,970 in 2005<sup>33</sup>. The amount recovered in these cases was EUR 21,948,640 in 2005, which gives a recovery rate of 20.8% and EUR 18,227,337 in 2006 which gives a recovery rate of 13.6%. The recovery rate in cases of fraud is clearly much lower than that for irregularities since the overall recovery rate in 2006 is 32.13%.

## 2.4. **Conclusions**

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

Once a debt is established a Member States can only be discharged from the obligation to make TOR available to the Commission in case of *force majeure* or because of reasons which can not be attributed to the Member State concerned. As Member States are responsible for making TOR available to the EU Budget they need to prove that these circumstances have occurred. Where debts are not established although they should have been Member States are held liable for the TOR foregone. In 2006 several payments were received from Member States – this totalled EUR 33 million. Some actions are still ongoing and new cases are being given appropriate follow up.

Member States have a special responsibility to ensure that appropriate statistical information on irregularity and fraud is provided to the Commission. Because of the particular interest the Budgetary Authority has in recovery, reliable information regarding the development of the number of cases of irregularity and fraud must be

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

<sup>32</sup> This percentage is calculated on the basis of an estimate of traditional own resources in the 2006 general budget, and not on the basis of accounts.

<sup>33</sup> See annex 10.



entered in OWNRES. Regarding the comparison between the B-account and OWNRES, DG Budget is appreciative of the attention Member States have given to this. As a result of Member States' efforts reconciliation between OWNRES and the B-account gives 90% agreement now whereas it had been 30%.

Regarding the reliability of the information in OWNRES making a distinction between irregularity and fraud or analysing fraud separately is risky and the output is not very useful. Only Court decisions make it certain whether a case is one of irregularity or fraud, whereas this distinction currently is made by the administrations of the Member States. The figures in OWNRES showing marked differences in cases of fraud and irregularity between Member States point that out clearly. OWNRES can only be used for global analysis and monitoring. For cases where there is no debt (smuggled goods that are seized and confiscated) reporting is very far from being reliable and Member States should address this situation urgently by communicating all such cases according to the Community legislation.

The amounts of TOR at stake according to OWNRES are up to EUR 350 million in 2006 and considering that the average recovery rate is around 30%, and in cases of fraud much lower, one cannot take the view that post-clearance recovery is simple. The irregularities and frauds demanding Member States' attention are very diverse, notably TVs, meat, oils, clothing, cars and of course tobacco. The origin of goods found is equally varied, even though some countries remain continuously present at the top of the rankings. For instance goods coming from some countries in the Far East represent a high risk profile as do goods coming from a particular area in North America. When fraud or irregularity is discovered by a Member State it is mostly in the customs procedure of *free circulation (misdescription, undervaluation or simply smuggling)* as in previous years.

EUR-10 Member States are getting accustomed to OWNRES. Their registrations show marked growth from the moment of accession, although basically the same criticism applies as to the completeness of the database, in particular for non-established amounts (see above).

The Commission encourages Member States to continue their activities in the field of recovery and providing statistical information. In particular to the latter Member States need to step up their involvement to make OWNRES a fully reliable source, also including cases where no establishment was made, smuggling in particular. The Budgetary Authority is entitled to have available the best possible information when monitoring TOR and recovery issues.

## PART II - EXPENDITURE

### 3. AGRICULTURAL EXPENDITURE (ANNEXES 11-13)

The analysis is a descriptive analysis based on the communications forwarded by Member States under Regulation (EEC) No. 595/91 in the budget year 2006 (16 October 2005 – 15 October 2006).

Member States must only inform the Commission of irregularities involving more than EUR 4,000.

In 2006, OLAF processed 15,513 communications under Regulation (EEC) No 595/91. A high percentage of these communications, (12,264), were updates of cases that had been reported prior to 2006.

Member States reported 3,249 new irregularities compared with 3,193 in 2005. The total amount affected in 2006 was about EUR 87 million, as against approximately EUR 102 million in 2005.

Irregularities notified in this sector represent only 0.17% of the agricultural budget.

Annex 12 gives an overview per Member State, indicating the number of irregularities, the amounts involved and the percentage of EAGGF expenditure.

Between 1971 and 2006, Member States reported 41,961 irregularities, involving some EUR 3,334 million. The total amount affected by irregularities detected before payment was approximately EUR 273 million and after payment approximately EUR 3,061 million. At the end of 2006 the total amount affected by irregularities that still needed to be cleared in the AFIS/ECR-database was EUR 1,346.

#### *Task Force Recovery*

The work and the efforts of the Task Force Recovery (TFR) have led to the closure and clearing of a large number of cases in 2006 as well as the revision of a large number of cases.

Commission Decision 2006/678<sup>34</sup> of 3 October 2006 and Commission Decision C(2006)4801<sup>35</sup> of 13 October 2006 can be considered as two of the direct results of the work of the Task Force Recovery. The irregularities listed in the annexes of these decisions are cleared. Approximately EUR 317 million has been charged to the Member States and approximately EUR 183 million has been charged to the Community budget.

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<sup>34</sup> Commission Decision of 3 October 2006 on the financial treatment to be applied, in the context of clearance of expenditure financed by the European Agricultural Guidance and Guarantee Section, in certain cases of irregularity by operators (notified under document number C(2006) 4324).

<sup>35</sup> Commission Decision of 13 October 2006 on the financial treatment to be applied, in the context of the clearance of expenditure financed by the Guarantee section of the European Agricultural Guidance and Guarantee Fund, in certain cases of irregularities by operators.

The following table gives an overview of the situation at the beginning of 2006 and the end of 2006.

Table AG 1: Task Force Recovery effect<sup>36</sup>

BUDGET YEAR 2006									
MS	2006: BEGINNING				2006: END				MS
	cases	total amounts affected in €	amounts cleared in €*)	balance to be cleared in €	cases	total amounts affected in €	amounts cleared in €*)	balance to be cleared in €	
AT	1,086	11,814,575	9,119,091	2,695,484	1,143	12,335,866	9,446,902	2,888,964	AT
BE	769	116,978,889	42,202,806	74,776,083	799	111,539,751	42,522,365	69,017,386	BE
CY	8	49,819	49,819	0	10	96,821	96,821	0	CY
CZ	0	0	0	0	15	299,232	78,233	220,999	CZ
DE	9,063	391,153,149	291,341,313	99,811,836	9,427	377,328,503	298,830,520	78,497,983	DE
DK	1,108	44,915,369	43,089,502	1,825,867	1,126	45,262,505	44,056,478	1,206,028	DK
EE	7	56,384	0	56,384	10	99,319	42,744	56,575	EE
EL	1,316	171,262,970	106,805,173	64,457,797	1,428	164,250,907	107,306,250	56,944,657	EL
ES	6,129	435,457,866	144,846,301	290,611,565	6,582	445,937,971	159,130,102	286,807,870	ES
FI	182	2,775,144	2,470,083	305,061	205	3,060,321	2,710,995	349,326	FI
FR	4,363	203,281,003	121,439,072	81,841,931	4,917	221,196,935	130,385,658	90,811,277	FR
HU	5	40,750	9,246	31,504	6	29,410	29,410	0	HU
IE	1,050	44,552,064	42,812,900	1,739,164	1,129	45,230,046	44,043,331	1,186,715	IE
IT	4,452	1,631,023,453	228,388,238	1,402,635,215	4,556	1,558,461,190	872,775,685	685,685,505	IT
LT	32	422,386	318,572	103,814	58	698,048	570,819	127,229	LT
LU	15	151,698	118,982	32,716	16	154,894	143,181	11,713	LU
LV	1	13,194	13,194	0	1	13,176	13,176	0	LV
MT	0	0	0	0	0	0	0	0	MT
NL	2,323	115,411,281	95,203,707	20,207,574	2,410	119,054,711	103,559,328	15,495,383	NL
PL	76	953,549	733,617	219,932	131	1,614,030	1,321,586	292,444	PL
PT	1,884	66,724,458	33,269,726	33,454,732	2,178	69,498,464	40,099,806	29,398,658	PT
SE	699	8,064,283	7,462,855	601,429	749	9,021,196	8,255,547	765,649	SE
SI	0	0	0	0	10	232,894	0	232,894	SI
SK	0	0	0	0	0	0	0	0	SK
UK	4,863	147,537,998	120,940,412	26,597,586	5,055	148,829,942	123,088,400	25,741,542	UK
<b>total</b>	<b>39,431</b>	<b>3,392,640,282</b>	<b>1,290,634,609</b>	<b>2,102,005,673</b>	<b>41,961</b>	<b>3,334,246,133</b>	<b>1,988,507,335</b>	<b>1,345,738,797</b>	<b>total</b>

\*) "amounts cleared in €" includes also amounts detected before payment and amounts charged to the Commission and/or Member State (Clearance of Accounts procedure)

The left-hand side of the table gives an overview of the situation at the beginning of 2006; the right-hand side gives an overview at the end of 2006. This implies that the figures on the left include the irregularities reported in the period 1971 – 2005 and the figures on the right include the irregularities reported in the period 1971 – 2006.

At the beginning of 2006 the balance to be cleared was EUR 2,102 as at the end of 2006 the balance to be cleared was EUR 1,346 million. The differences can be mainly explained by the above mentioned efforts from the Task Force Recovery: the closure, clearing and revision of a large number of reported irregularities.

The total amount of the column “amounts cleared in €” is EUR 1,989 million and includes the following amounts:

- EUR 466 million - clearance of payment of accounts – charged to Member State
- EUR 352 million - Clearance of accounts – charged to EAGGF-budget
- EUR 273 million - Amount detected before payment
- EUR 898 million - Amount actually recovered by Member States

<sup>36</sup>

The term “amounts cleared in €” includes the following amounts: amounts detected before payment; amounts actually recovered by Member States from the beneficiaries; amounts charged to Member States (Clearance of Accounts procedure); amounts charged to EAGGF-budget (Clearance of Accounts procedure).

### 3.1. Reporting discipline

In the Annual Report 2005, the annex on the statistical evaluation of irregularities noted that the reporting discipline of Member States had improved in 2005, but also that further improvements were still necessary. It also noted that the level of compliance of a Member State seems to decrease as the total amount of support measures increases. This still holds true, even though reporting discipline continued to improve in 2006.

#### *Timely reporting*

Under Regulation (EEC) No. 595/91 Member States are required to report at the latest within 2 months after the end of the quarter in which an irregularity was detected and/or new information about an irregularity that has already been reported becomes known. Almost all Member States complied with this obligation. Only Germany failed to comply with this obligation and did not forward any communications on time.

#### *Electronic format*

The system of electronic reporting of irregularities, AFIS/ECR-module Reg. 595/91, introduced in 2001 for agriculture, has led to an improvement in data quality and in the timeliness of reporting. It has also reduced misunderstandings and misinterpretations and has consequently improved compliance with the regulations.

AFIS/ECR-module Reg. 595/91 is, however, not used by all Member States. At the end of 2006, two Member States (Germany and Spain) were still not using this module. Between them, Germany and Spain account for almost 36% (1,172 cases) of the total number of cases reported (3,249 cases) and for approximately 55% (8,640 communications) of the total number of communications (15,513).

#### *Budget year*

Expenditure is based on the appropriations for a given year. As far as the EAGGF is concerned, the budget year does not coincide with the calendar year. Member States should therefore indicate in their communications the budget year as well as the appropriation so that the support measure (budget line) affected by the irregularity can be identified. The electronic format of AFIS/ECR-module Reg. 595/91 offers this possibility. However, Member States only report the budget year in approximately 35% of cases. Cyprus, Germany, Spain, France and Portugal seldom report the budget year. As long as Member States are using the electronic format, including the pick lists, to report irregularities, it is still possible to identify the support measures affected by the irregularity. If Member States are not using the electronic format to report irregularities, the budget year and the appropriation should be indicated. There are 2 Member States that are not using AFIS/ECR-module Reg. 595/91 to report irregularities. Spain is indicating the budget year and the appropriation in communications which makes it possible to identify the support measure affected by the irregularity. Unfortunately, Germany is not indicating the appropriation which makes it almost impossible to identify the support measure affected by the irregularity.

### *Year of detection vs year reported*

Member States are obliged to report the date, or dates, on which the irregularity was committed and the date of discovery of the irregularity. Table AG2 shows the time gap between the date on which the irregularity took place, the discovery and the reporting of the irregularity. The table shows that although the reporting discipline of Member States has improved, it still needs attention. In 273 cases, Member States did not indicate the date on which the irregularity took place. Greece, France, Ireland and Portugal should pay particular attention to this obligation. In 23 cases Member States indicated an error value.

*Table AG 2: Time gap between irregularity, discovery and reporting*

CASES BUDGET YEAR 2006													
MS	CASES indication of date on which the irregularity took place				AVERAGE TIME GAP BETWEEN IRREGULARITY AND DISCOVERY			AVERAGE TIME GAP BETWEEN DISCOVERY AND REPORTING			AVERAGE TIME GAP	MS	
	Total	blank	error value	date	days	months	years	days	months	years			
AT	93	1		92	1,091	36	3.0	434	14	1.2	4.2	AT	
BE	57	3		54	686	23	1.9	239	8	0.7	2.5	BE	
CY	7			7	186	6	0.5	137	4	0.4	0.9	CY	
CZ	9			9	302	10	0.8	162	5	0.4	1.3	CZ	
DE	489	2	13	474	1,314	43	3.6	267	9	0.7	4.3	DE	
DK	33			33	855	28	2.3	179	6	0.5	2.8	DK	
EE	10			10	401	13	1.1	201	7	0.6	1.6	EE	
EL	111	24		87	1,104	36	3.0	354	12	1.0	4.0	EL	
ES	683			683	831	27	2.3	359	12	1.0	3.3	ES	
FI	33			33	937	31	2.6	158	5	0.4	3.0	FI	
FR	548	68	9	471	753	25	2.1	321	11	0.9	2.9	FR	
HU	3			3	88	3	0.2	133	4	0.4	0.6	HU	
IE	94	27		67	233	8	0.6	363	12	1.0	1.6	IE	
IT	140			140	932	31	2.6	444	15	1.2	3.8	IT	
LT	30			30	220	7	0.6	136	4	0.4	1.0	LT	
LU	3			3	2,872	94	7.9	193	6	0.5	8.4	LU	
LV	1			1	273	9	0.7	219	7	0.6	1.3	LV	
MT												MT	
NL	87	1		86	663	22	1.8	405	13	1.1	2.9	NL	
PL	67			67	436	14	1.2	125	4	0.3	1.5	PL	
PT	359	145	1	213	892	29	2.4	232	8	0.6	3.1	PT	
SE	80			80	926	30	2.5	271	9	0.7	3.3	SE	
SI	1			1	932	31	2.6	185	6	0.5	3.1	SI	
SK												SK	
UK	311	2		309	463	15	1.3	434	14	1.2	2.5	UK	
total	3,249	273	23	2953	847	28	2.3	322	11	0.9	3.2	total	

art. 3 (1) Reg. 595/91 // art. 3 (1) i, k Reg. 1848/2006

The average time gap between an irregularity being committed and its discovery is 2,3 years; the average time gap between the discovery of an irregularity and reporting it to the Commission is almost 1 year. Irregularities should be reported as soon as possible, which means immediately after discovery. An average time gap of almost 1 year is therefore, too high. The system of electronic reporting offers the possibility to report an irregularity as soon as it is discovered.

The average time gap between an irregularity being committed and it being reported to the Commission is 3,2 years. For Austria, Germany, Greece, Luxembourg and Italy this gap is above the average.

Late reporting of an irregularity could imply that a Member State failed to take all necessary actions to limit or to reduce its financial impact. Audits have revealed that some Member States wait until recovery procedures are underway before reporting. Often this has a negative impact on the chances of recovery. Recovery becomes even

more difficult when the authorities have informed the beneficiary of the control results and no immediate recovery action has been undertaken.

One cause for concern is that Member States are reporting a relatively high proportion of cases (approximately 21%) in which the irregularity or fraud took place more than four (4) years ago, i.e. before 2002. Table AG3 gives an overview. This is of particular concern as the chances of recovery decreases with time. Member States were unable to indicate the year(s) in which the irregularity took place in 296 cases (273 (blank) + 23 (error)).

*Table AG 3: Year in which the irregularity started or was committed*

IRREGULARITY REPORTED IN 2006 AND THE YEAR IN WHICH THE IRREGULARITY STARTED														
MS	< 1997	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	blank	error	TOTAL
AT			1	20	12	6	27	4	13	5	4	1		93
BE			1	1	2	1	6	7	28	7	1	3		57
CY										7				7
CZ									3	4	2			9
DE	34	13	10	23	62	61	49	49	46	112	15	2	13	489
DK			1		3	2	5	4	3	11	4			33
EE									3	7				10
EL	1	3			6	12	22	24	11	8		24		111
ES	29	19	21	22	37	59	72	94	91	165	74			683
FI					1	5	6	7	3	10	1			33
FR	19	4	9	9	20	41	57	48	34	161	69	68	9	548
HU										3				3
IE	1							1	2	62	1	27		94
IT	6	9	2	5	6	10	13	16	28	25	20			140
LT									3	24	3			30
LU	1			1				1						3
LV									1					1
NL		1		4	4	4	14	15	24	16	4	1		87
PL									36	20	11			67
PT	1	1		2			3	45	161			145	1	359
SE					2	29	2	7	8	30	2			80
SI									1					1
UK	3		2	1	4	8	58	115	38	52	28	2		311
total	95	50	47	88	159	238	334	437	537	729	239	273	23	3,249

art. 3 (1) Reg. 595/91 // art. 3 (1) i Reg. 1848/2006

In 95 cases Member States reported that the irregularity started or took place before 1997. Germany, Spain and France were responsible for 34, 29 and 19 of these cases respectively.

*Legal/natural persons identification*

Member States are also required to give detailed information on the identity of the natural and legal persons involved. Germany<sup>37</sup> did not report any nominal data, while Finland and the Netherlands only reported nominal data in a limited number of cases. This does not mean however, that all other Member States fully comply with Reg. 595/91. There are still some Member States that do not report the addresses of the

<sup>37</sup> According to the German authorities national legislation restricts the reporting of nominal data.

persons involved in irregularities. Table AG4 provides an overview of the reporting of nominal data.

**Table AG4: nominal data**

MS	NOMINAL DATA		total
	nominal data	no nominal data	
DE		489	489
FI	20	13	33
IE	93	1	94
NL	64	23	87
other MS	2487		
total	2664	585	3249

art. 3 (1) Reg. 595/91 // art. 3 (1) Reg. 1848/2006

### 3.2. General Trends

This analysis is a descriptive analysis, the aim of which is to provide feedback to the Member States on the communications that were received by the Commission in 2006 and to give an overall view for the period 1971 - 2006.

One should bear in mind that Member States must only inform the Commission of irregularities involving more than EUR 4,000.

#### 3.2.1. Method of detection

The common agricultural policy (CAP) was reformed in 1992 based on a system of direct aid for farmers, which significantly increased the number of beneficiaries but also the risk of irregularity and fraud. The integrated administration and control system (IACS) was therefore introduced by Council Regulation (EEC) No 3508/92 to meet those risks. The system consists of five elements:

1. a computerised database
2. an identification system for agricultural land parcels,
3. a system of identification and registration of animals,
4. aid applications,
5. an integrated system for administrative controls and field inspections.

In the EU, all IACS aid applications are processed and checked administratively. These checks are complemented by on-the-spot controls, selected on the basis of risk analysis. In the budget year 2006, more than 68 % of EAGGF-Guarantee expenditure (budget 1A) was processed through IACS.

Member States are also under an obligation to perform certain controls on the basis of Council Regulation (EEC) No 4045/89 and Council Regulation (EEC) No 386/90

Council Regulation (EEC) No 4045/89 relates to the scrutiny of the commercial documents of entities receiving or making payments relating directly or indirectly to the system of financing by the Guarantee Section of the EAGGF in order to ascertain whether transactions forming part of the system of financing by the Guarantee Section of the EAGGF have actually been carried out and have been executed correctly.

Council Regulation (EEC) No 386/90 lays down certain procedures for monitoring whether operations conferring entitlement to the payment of refunds on, and all other amounts in respect of, export transactions have been actually carried out and executed correctly.

Member States detected for a considerable part the irregularities on basis of these (types of) audits, scrutinies and checks.



### 3.2.2. Types of irregularity

Member States are also obliged to report and to describe the practices adopted (modus operandi) of the detected irregularity. Reporting of the modus operandi and the type of irregularity by some Member States improved during 2006.

The Annual Report 2005 noted that “almost all Member States seem to have developed a preference for one or two codes which permit no detailed breakdown”. The latter was a reaction from the Member States to a first attempt by OLAF to estimate the level of (suspected) fraud in the agricultural sector on the basis of the types of irregularity and modus operandi reported. By indicating only one or two (general) codes, it became more difficult to estimate the level of (suspected) fraud.

The impression is that Member States prefer to report a more general description to avoid classification by the Commission as irregularity or (suspected) fraud.

Germany indicates no code at all. OLAF has tried to “translate” the sometimes very basic descriptions in the German communications into codes.

Nevertheless some Member States have improved their reporting of the type of irregularity and the modus operandi. Some other Member States still need to work on this.

Table AG7 gives an overview of Member States that reported the same type of irregularity in more than 40% of their reported irregularities.

*Table AG 7: Member States “preference”*

BUDGET YEAR 2006: MEMBER STATES' PREFERRED CODES			
MS	Code	Description	in % of total
AT	599	other irregularities concerning movements	40%
BE	741	failure to fulfil commitments entered into	42%
CY	302	inexact composition	71%
CZ	499	other irregularities by the operator	56%
EE	699	other irregularities concerning the right to aid	100%
EL	612	failure to respect other regulations/contract conditions	47%
IE	817	incorrect declaration	64%
LT	408	operator/beneficiary not having the required quality	50%
PL	412	declaration of fictitious land	48%
PT	201	missing or incomplete documents	45%
SE	207	incorrect or incomplete request for aid	90%
UK	812	action not carried out in accordance with rules	57%

art. 3(1) Reg. 595/91 // art. 3 (1) e Reg. 184/2006

Member State should also pay some attention to this point where codes such as 499, 599 and 699 are reported. These codes indicate “other irregularities” and do not help to identify the modus operandi. Not only does the reporting by some Member States fail to comply with the Regulations it is also unhelpful in the fight against fraud.

A clear overview of the (most recently used) modus operandi in committing irregularities will support the Member States and the Commission in their fight against fraud and help to reduce the number of irregularities.

Sweden indicated in 90% of the cases “incorrect or incomplete request for aid”. This implies that the irregularity should have been discovered before payment since the request for the subsidy was incorrect and/or incomplete. Sweden indicated in approximately 55% of the cases that the irregularity was detected before payment and that no amount was paid. The overall rate of irregularities detected before payment is 14% which implies that 86% of the irregularities were detected after payment. Table AG8 gives an overview. Germany, Spain, France and Italy detected irregularities after payment in 87%, 100%, 85% and 82% of cases respectively. Together, these 5 Member States reported almost 75% of the amounts affected by irregularities and have therefore a high impact on the overall percentage detected after payment.

**Table AG8: Irregularities detected before/after payment**

BUDGET YEAR 2006: IRREGULARITIES DETECTED BEFORE/AFTER PAYMENT					
MS	cases	detected before payment		detected after payment	
		cases	in % of total	cases	in % of total
AT	93	58	62%	35	38%
BE	57	9	16%	48	84%
CY	7	7	100%		0%
CZ	9	1	11%	8	89%
DE	489	62	13%	427	87%
DK	33	5	15%	28	85%
EE	10		0%	10	100%
EL	111		0%	111	100%
ES	683		0%	683	100%
FI	33	2	6%	31	94%
FR	548	81	15%	467	85%
HU	3	1	33%	2	67%
IE	94	59	63%	35	37%
IT	140	25	18%	115	82%
LT	30	27	90%	3	10%
LU	3		0%	3	100%
LV	1		0%	1	100%
MT	0				
NL	87	5	6%	82	94%
PL	67	45	67%	22	33%
PT	359	1	0%	358	100%
SE	80	44	55%	36	45%
SI	1		0%	1	100%
SK	0				
UK	311	9	3%	302	97%
total	3249	441	14%	2808	86%

*Table AG 9: Irregularities and most frequently used Modus Operandi<sup>38</sup>*

BUDGET YEAR 2006: MOST FREQUENTLY USED MODUS OPERANDI						
Code	Description	alone	shared	total	in % of total	cumulative %
612	failure to respect other regulations/contract conditions	461	84	545	14.88%	14.88%
201	missing or incomplete documents	219	33	252	6.88%	21.76%
812	action not carried out in accordance with rules	230	20	250	6.83%	28.59%
412	declaration of fictitious land	147	33	180	4.92%	33.51%
305	inexact quantity	111	54	165	4.51%	38.01%
601	failure to respect deadlines	119	38	157	4.29%	42.30%
405	"irregular termination, sale or reduction"	140	4	144	3.93%	46.23%
207	incorrect or incomplete request for aid	126	17	143	3.90%	50.14%
811	action not completed	127	8	135	3.69%	53.82%
999	other irregularities (to be specified)	121	8	129	3.52%	57.35%
699	other irregularities concerning the right to aid	75	28	103	2.81%	60.16%
817	incorrect declaration	84	0	84	2.29%	62.45%
741	failure to fulfil commitments entered into	65	6	71	1.94%	64.39%
510	non-arrival at final destination	36	30	66	1.80%	66.19%
810	action not implemented	61	0	61	1.67%	67.86%
407	"failure to respect quotas, thresholds"	57	2	59	1.61%	69.47%
301	inaccurate production declaration	51	6	57	1.56%	71.03%
325	non-eligible expenditure	19	35	54	1.47%	72.50%
302	inexact composition	34	17	51	1.39%	73.89%
210	missing or incomplete supporting documents	45	5	50	1.37%	75.26%
322	product not eligible for aid	21	28	49	1.34%	76.60%
606	incompatible cumulation of aid	38	4	42	1.15%	77.74%
599	other irregularities concerning movements	37	4	41	1.12%	78.86%
306	variation in quality or content	27	13	40	1.09%	79.96%
	rest	485	249	733	20.04%	100.00%
total		2936	726	3661	100.00%	

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<sup>38</sup>

alone: only one type of irregularity (code) was indicated  
shared: more than 1 type of irregularity (code) was indicated

Table AG9 shows the most frequently used modus operandi (MO) for the irregularities reported in 2006.

As in 2005, the most frequent irregularity was “failure to respect other regulations/contract conditions”, followed by “missing or incomplete documents”.

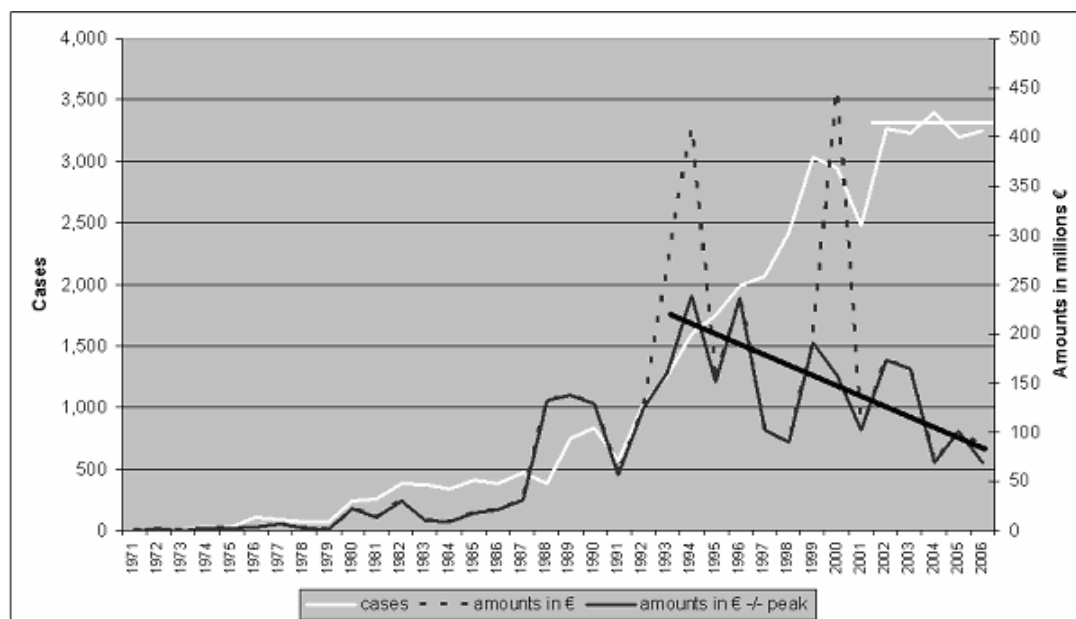
Rather high is also the amount of irregularities in which the modus operandi is described as “declaration of fictitious land”. These irregularities were reported by 5 Member States: Germany, Greece, Spain, Italy and Poland with respectively 121, 8, 3, 15 and 33 cases. Poland classified all cases as “suspected fraud”, Italy and Greece classified their cases as “irregularity” as Germany and Spain did not classify any of the cases.

### 3.2.3. Amounts involved

The total number of cases reported in 2006 was 3,249. These 3,249 cases amount to approximately EUR 87 million. Chart AG1 shows the total number of cases per year and the total amount per year in the period 1971 – 2006.

The steady and significant increase in the number of cases seems to have come to an end. The total number of irregularities reported in 2006 has been more or less stable since 2002 (see the white “trend line” on chart AG1).

Chart AG 1: Irregularities communicated by Member States (1971-2006)



The total amount affected by these irregularities has been decreasing since 1994 but now seems to have stabilized at approximately EUR 100 million per year. Chart AG1 reflects these trends. The “amounts in EUR ” line shows two peaks, one in 1994, the other in 2000. These peaks are the result of three Italian cases in 1994 and two Italian cases in 2000. Leaving aside these exceptional cases, since 1994 there has been a clear steady downward trend in the total amounts affected by irregularities (see the black “trend line” on the chart). This can be explained by the introduction of the direct aid/payment section, the introduction of the integrated administration and

control system (IACS) and the move towards direct aid/payments decoupled from production.

In 2006, the countries which reported the highest number of cases were Spain, France, Germany, Portugal and the United Kingdom with 683, 548, 489, 359 and 311 cases respectively. In monetary terms, Spain reported the highest amounts affected by irregularities, almost EUR 26 million, followed by Italy which reported a total amount of approximately EUR 20 million. Together, Spain and Italy accounted for more than 50% of the total amount affected by irregularities in 2006. Up until now, no reports have been received from Malta and Slovakia.

Annex 12 gives an overview for each Member State.

### 3.2.4. Impact on the budget

Also of interest is the level of irregularities as a percentage of EAGGF-expenditure per Member State. The Netherlands has the highest percentage with 0.47%, followed by Spain, Portugal and Italy with 0.39%, 0.38% and 0.36% respectively. Annex 12 gives an overview of these percentages.

Some Member States report more irregularities than others. It is possible that some Member States are underreporting. Table AG10 shows the relationship in percentages, between the total amount allocated per Member State from the EAGGF budget, the total amount affected by irregularities per Member State and the total number of irregularities per Member State in 2006.

Table AG 10: total EAGGF-expenditure and irregularities in %

BUDGET YEAR 2006: IRREGULARITIES PER MS IN %				
MS	EAGGF - EXPENDITURE		IRREGULARITIES	
	total in €	per MS in % of total expenditure	per MS in % of total amount	per MS in % of total cases
MT	1,709,713	0.00%	0.00%	0.00%
CY	48,279,969	0.10%	0.09%	0.22%
LU	48,573,101	0.10%	0.02%	0.09%
EE	74,256,919	0.15%	0.11%	0.31%
LV	135,843,856	0.27%	0.02%	0.03%
SI	156,250,389	0.31%	0.00%	0.03%
SK	250,001,352	0.50%	0.00%	0.00%
LT	305,810,974	0.61%	0.36%	0.92%
CZ	459,220,511	0.92%	0.19%	0.28%
HU	756,556,440	1.52%	0.01%	0.09%
FI	850,256,009	1.71%	0.52%	1.02%
SE	935,044,883	1.88%	0.99%	2.46%
PT	974,471,557	1.96%	4.31%	11.05%
BE	978,959,642	1.97%	1.45%	1.75%
DK	1,157,352,968	2.33%	1.37%	1.02%
NL	1,217,436,058	2.45%	6.57%	2.68%
AT	1,296,241,898	2.61%	1.20%	2.86%
IE	1,752,819,071	3.52%	0.99%	2.89%
PL	2,112,957,132	4.25%	0.97%	2.06%
EL	3,083,190,916	6.20%	1.50%	3.42%
UK	4,302,338,043	8.65%	4.54%	9.57%
IT	5,499,456,447	11.06%	23.04%	4.31%
DE	6,497,135,317	13.06%	8.43%	15.05%
ES	6,722,903,262	13.52%	29.87%	21.02%
FR	10,125,823,455	20.36%	13.46%	16.87%
total	49,742,889,882	100.00%	100.00%	100.00%

Member States are ranked in order of their budget allocation, starting with the Member State receiving the least. Malta received the lowest amount (EUR 1.7 million) from the EAGGF budget whilst France received the highest amount (EUR 10.1 billion).

Together France, Spain and Germany receive almost 50% of the total EAGGF-budget, i.e. approximately EUR 23.3 billion. In 2006, France received approximately EUR 10.1 billion, Spain more than EUR 6.7 billion and Germany almost EUR 6.5 billion.

A relatively high number of cases and high total amount is reported by Spain and Portugal. Portugal received 1.96% of the total EAGGF-budget and is responsible for 4.31% of the total amounts affected by irregularities and 11.05% of the total number of reported irregularities. Spain received 13.52% of the total EAGGF-budget and reported 29.87% of the total amounts affected by irregularities and 21.02% of the total number of reported irregularities.

A relatively low amount affected by irregularities is reported by Germany and France. For France, the number of reported irregularities is also rather low.

Italy reported a relatively high total amount affected by irregularities but reported a relatively, low number of irregularities.

### 3.3. Specific Analysis

In 2006 Member States reported 3,249 cases of irregularities involving a total amount affected of approximately EUR 87 million. Member States must only inform the Commission of irregularities involving more than EUR 4,000.

Member States must inform the Commission of the measures/budget lines affected by irregularities. Unfortunately, some Member States do not comply fully with this rule. Some Member States do not report any codes, others are still reporting old codes or are using “easy” codes as such as “other”.

#### 3.3.1. Analysis of support measures

Table AG12 gives an overview of the irregularities reported per main category of support measure. The division into the different types of measures is based on the indications given by Member States of the:

- measures affected,
- regulations infringed,
- modus operandi.

Table AG 12: Irregularities per main category of support measure

BUDGET YEAR 2006: IRREGULARITIES PER MEASURE GROUP					
GROUP	DESCRIPTION	CASES	AMOUNTS IN €	AVERAGE AMOUNTS IN €	IN % OF TOTAL
40	rural development	1,263	24,409,108	19,326	28%
21	beef and veal	407	20,571,827	50,545	24%
15	fruit and vegetables	220	13,831,356	62,870	16%
12	olive oil	124	5,676,333	45,777	7%
10	cereals	272	5,056,943	18,592	6%
16	wine	284	4,468,278	15,733	5%
20	milk and milk products	145	4,184,612	28,859	5%
99	other other	79	1,246,624	15,780	1%
36	other measures	96	1,085,977	11,312	1%
11	sugar	14	1,067,329	76,238	1%
70	single payment scheme (SPS)	74	918,575	12,413	1%
13	dried fodder	16	766,574	47,911	1%
30	non-annex I products	41	746,095	18,197	1%
75	single area payment scheme (SAPS)	64	679,625	10,619	1%
50	environment	42	472,622	11,253	1%
23	pigmeat, eggs, poultrymeat, bee-keeping	42	429,557	10,228	0%
22	sheep and goats	27	318,318	11,790	0%
17	tobacco	6	266,372	44,395	0%
32	POSEI	4	246,283	61,571	0%
18	seeds, hops and rice	17	162,257	9,545	0%
38	promotion measures	5	94,171	18,834	0%
26	fish	1	49,220	49,220	0%
14	textile plants	1	34,896	34,896	0%
80	COP - area payments	2	21,626	10,813	0%
31	food programmes	2	10,635	5,318	0%
39	agri-monetary aid	1	9,555	9,555	0%
<b>total</b>		<b>3,249</b>	<b>86,824,768</b>	<b>26,724</b>	<b>100%</b>

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The highest number of irregularities reported related to “rural development”. Member States reported a total of 1,263 cases involving rural development measures (group 40). These cases alone amount to almost EUR 24.4 million, which is approximately 28% of the total amount affected by irregularities. The second most affected sector is “beef and veal” (group 21), where Member States reported 407 cases involving approximately EUR 20.6 million. This implies that the average amount per irregularity is relatively high for cases reported in this group. The last group of particular concern is “fruit and vegetables” (group 15). In this sector 220 cases were reported involving approximately EUR 13.8 million. These three groups together account for almost 60% of the total number of reported irregularities and almost 70% of the total amount affected by irregularities.

### ***Rural development (group 40)***

Member States reported a total of 1,263 cases affecting rural development measures (group 40). These cases alone amount to approximately EUR 24,4 million, which is approximately 28% of the total amount affected by irregularities. Table AG13 shows the measures that were mostly affected by irregularities, indicating the number of cases, the total amounts and average amount per irregularity. The largest number of irregularities related to “agri-environment – new system” (code 4050 A).

*Table AG 13: Rural development: measures affected by irregularities*

BUDGET YEAR 2006: IRREGULARITIES IN RURAL DEVELOPMENT				
code	description	cases	amounts in €	average amounts in €
4072 A	Forestry - Former system	149	5,399,900	36,241
4060 A	Improving the processing and marketing of agricultural products	36	3,997,289	111,036
4050 A	Agrienvironment - New system	415	3,959,765	9,542
4081 A a	Essential services - economy and rural population	34	1,515,888	44,585
4080 A a	Improvement of land	29	1,441,415	49,704
4051 A	Agrienvironment - Former system	140	1,366,255	9,759
4081 A b	Renovation & development of villages - protection and conservation of rural heritage	26	1,089,168	41,891
4040 A	Less favoured areas	140	842,167	6,015
4010 A	Setting-up of young farmers	98	618,661	6,313
4080 A g	Development & improvement - infrastructure connected with development of agriculture	10	586,224	58,622
4030 A	Early retirement - New system	52	523,551	10,068
4081 A c	Encouragement of tourist and craft-based activities	5	469,441	93,888
4080 A f	Management of water resources intended for agriculture	7	469,182	67,026
4000 A	Investments in agricultural holdings	39	410,491	10,525
4081 A d	Environmental protection & improvement of animal welfare	9	325,833	36,204
4080 A d	Marketing - quality agricultural products	9	319,114	35,457
4095 A	Transitional instrument for the new Member States (0000)	10	285,055	28,505
4080 A e	Diversification - agricultural activities	9	243,798	27,089
4031 A	Early retirement - Former system	17	181,016	10,648
4070 A	Forestry - new system, Art.31 - objective 1	7	110,380	15,769
4020 A	Training	6	79,621	13,270
4071 A	Forestry - new system (others) - objective 1	8	78,237	9,780
4081 A g	Implementing demanding standards	3	42,935	14,312
4080 A c	Substitution service & farm management service	3	23,876	7,959
4080 A b	Land consolidation	1	20,943	20,943
4092 A	Transitional measures	1	8,904	8,904
total		1,263	24,409,108	19,326

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The first three measures “forestry – former system” (code 4072 A), “improving the processing and marketing of agricultural products” (code 4060 A) and “agri-environment – new system” (code 4050 A) – together account for 55% of the total amount of irregularities connected to rural development.

Striking are the high amount affected by irregularities for the measure “improving the processing and the marketing and agricultural products” (code 4060 A) and the high number of irregularities relating to the measure “agri-environment – new system” (code 4050 A).

Member States reported 149 irregularities relating to forestry measures (code 4072 A). Table AG14 gives an overview of those irregularities. Spain and Portugal reported the highest number of cases with the highest amount affected. The average amount per case is fairly high in the cases reported by Spain, at about EUR 60,000. The modus operandi in 37% of the cases can be described as “not respecting deadlines”. None of these cases were classified by Member States as “suspected fraud”.

Table AG14: Forestry

BUDGET YEAR 2006: RURAL DEVELOPMENT					
forestry - former system					
MS	cases	in % of total	amounts in €	in % of total	average amounts in €
ES	72	48%	4,282,524	79%	59,480
PT	67	45%	945,247	18%	14,108
EL	4	3%	118,277	2%	29,569
IE	1	1%	18,708	0%	18,708
UK	2	1%	17,415	0%	8,707
DE	2	1%	11,292	0%	5,646
DK	1	1%	6,437	0%	6,437
<b>total</b>	<b>149</b>	<b>100%</b>	<b>5,399,900</b>	<b>100%</b>	<b>36,241</b>

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Table AG15 gives an overview of the irregularities reported relating to the measure “improving the processing and marketing of agricultural products” (code 4060 A). Only five (5) Member States reported a limited number of irregularities relating to this measure. The financial impact, however, is high: almost EUR 4 million, mainly due to the irregularity reported by France which involved more than EUR 3 million. Member States classified 4 cases in this sector as “suspected fraud”. In 3 of these cases, the beneficiary tried to obtain financial support by falsifying documents. 1 case concerned the manipulation of dates.

AG15: agricultural products

BUDGET YEAR 2006: RURAL DEVELOPMENT					
improving the processing and marketing of agricultural products					
MS	cases	in % of total	amounts in €	in % of total	average amounts in €
FR	19	53%	3,008,246	75%	158,329
ES	9	25%	409,707	10%	45,523
UK	4	11%	397,150	10%	99,287
AT	3	8%	134,888	3%	44,963
IT	1	3%	47,298	1%	47,298
<b>total</b>	<b>36</b>	<b>100%</b>	<b>3,997,289</b>	<b>100%</b>	<b>111,036</b>

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Table AG16 gives an overview per Member State of the number of irregularities reported and the amounts affected for “agri-environment” measures (code 4050 A). It is not surprising that Germany, France, and Spain are the Member States reporting most irregularities in this sector: these Member States receive the highest levels of support and there is normally a link between the total amount received and the irregularities reported. It is, however, remarkable that Germany reports so many more irregularities relating to this measure than other Member States. In one case France classified the irregularity as “suspected fraud”.

AG16: Agri-environment

BUDGET YEAR 2006: RURAL DEVELOPMENT					
agrienvironment - new system					
MS	cases	in % of total	amounts in €	in % of total	average amounts in €
DE	194	47%	2,218,915	56%	11,438
FR	85	20%	629,440	16%	7,405
UK	22	5%	277,840	7%	12,629
ES	22	5%	225,547	6%	10,252
PT	39	9%	184,178	5%	4,723
IT	17	4%	164,053	4%	9,650
DK	10	2%	99,571	3%	9,957
IE	18	4%	87,695	2%	4,872
FI	1	0%	30,155	1%	30,155
AT	5	1%	30,139	1%	6,028
EL	1	0%	8,028	0%	8,028
BE	1	0%	4,204	0%	4,204
<b>total</b>	<b>415</b>	<b>100%</b>	<b>3,959,765</b>	<b>100%</b>	<b>9,542</b>

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### *Fruit and vegetables (group 15)*

Member States reported a total of 220 cases affecting measures to support the fruit and vegetables sector (group 15). These cases alone add up to approximately EUR 13.8 million, which is approximately 16% of the total amount affected by irregularities. This is relatively high. Table AG17 shows the measures which were hit by irregularities, indicating the number of cases, the total amounts and the average amount per irregularity.

*Table AG 17: Fruit and vegetables: measures affected by irregularities*

<b>BUDGET YEAR 2006: FRUIT AND VEGETABLES</b>				
code	description	cases	amounts in €	average amounts in €
1515 S	citrus fruits - compensation to encourage processing	95	4,321,635	45,491
1502 S	operational funds for producer organisations	60	4,196,590	69,943
1509 S	fresh fruits and vegetables - other	9	2,557,874	284,208
1590 V	other	12	1,095,729	91,311
1507 S	nuts	8	534,043	66,755
1510 R	processed fruits and vegetables - export refund	3	277,312	92,437
1508 A	bananas - compensation aid	11	245,726	22,339
1501 S	free distribution in OR financial compensation for set-aside	8	167,203	20,900
1504 S	hazelnuts	1	154,296	154,296
1511 S	processed tomato products - production aid	3	118,794	39,598
1512 S	fruit-based products - production aid	3	113,950	37,983
1500 R	export refund	2	26,504	13,252
1513 A / S	dried grapes and figs	2	7,426	7,426
1519 S	processed fruits and vegetables - other	1	5,192	5,192
1516 A	processed raspberries - production aid	1	4,942	4,942
1505 A	area payments	1	4,140	4,140
<b>total</b>		<b>220</b>	<b>13,831,356</b>	<b>62,870</b>
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France and Spain each reported one (1) case in which the total amount affected by the irregularity was more than EUR 1 million.

In recent years, Member States have consistently reported a relatively high number of irregularities relating to citrus fruits (code 1515 S). This trend was confirmed in 2006 when Member States again reported a relatively high number of irregularities involving a relatively high amount in this sector: 95 cases and a total amount affected of more than EUR 4.3 million. These cases were reported by three (3) Member States. Spain reported 83 cases with a total amount affected of EUR 3.5 million. Italy and Portugal together reported the other 12 cases with a total amount affected of EUR 0.8 million.

For the measure “operational funds for producer organisations” (code 1502 S) Member States have also consistently reported a relatively high number of irregularities. 6 Member States reported 60 cases with a total amount affected of almost EUR 4.2 million. Almost 90% of the total amount affected concerned cases reported by France and Spain. One (1) of the French cases involved a total of more than EUR 1.5 million.

As far as the support measure “fresh fruit and vegetables – other”, code 1509 S is concerned, Member States reported rather high amounts affected by irregularities, and a rather low number of cases. Member States reported nine (9) cases of which

three (3) were reported by Italy involving a total amount of more than EUR 2 million. Italy classified all three (3) cases as “suspected fraud”.

### ***Beef and veal (group 21)***

Member States reported a total of 407 cases relating to beef and veal measures (group 21). These add up to approximately EUR 20.6 million, approximately 24% of the total amount affected by irregularities. Table AG18 shows the measures which were worst hit by irregularities, indicating the number of cases, the total amounts and the average amount per irregularity. The highest amounts affected by irregularities and the largest number of irregularities were reported for premiums.

Table AG18: Beef and veal

BUDGET YEAR 2006: IRREGULARITIES IN BEEF AND VEAL			
code	cases	amounts in €	average amounts in €
export refunds	103	4,229,854	41,067
storage	1	4,445	4,445
premiums	298	16,261,877	54,570
other	5	75,651	15,130
<b>total</b>	<b>407</b>	<b>20,571,827</b>	<b>50,545</b>

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The cases with a high financial impact were reported by Italy with five (5) “extensification premium cases”<sup>39</sup>, which all had a financial impact of over EUR 1 million and a total amount affected of more than EUR 13 million.

Table AG19 gives an overview of irregularities relating to export refunds for beef and veal<sup>40</sup> and live animals<sup>41</sup>.

Table AG 19: Beef and veal: export refunds for beef/veal

BUDGET YEAR 2006: IRREGULARITIES IN BEEF AND VEAL							
export refunds							
MS	export beef and veal		export live animals		total		average
	cases	amounts in €	cases	amounts in €	cases	amounts in €	amounts in €
ES	35	3,666,565			35	3,666,565	104,759
AT	4	38,787	32	304,020	36	342,807	9,522
DE	3	48,630	1	8,191	4	56,821	14,205
PL	11	50,100			11	50,100	4,555
NL	4	34,679	2	12,755	6	47,434	7,906
FR	6	29,189			6	29,189	4,865
LT	1	18,576			1	18,576	18,576
IE	2	13,830			2	13,830	6,915
BE	2	4,532			2	4,532	2,266
<b>total</b>	<b>68</b>	<b>3,904,888</b>	<b>35</b>	<b>324,966</b>	<b>103</b>	<b>4,229,854</b>	<b>41,067</b>

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### ***Export refunds***

Table AG20 gives an overview of the irregularities per Member State relating to export refunds. The number of irregularities and the amounts affected by irregularities in this area are decreasing, accounting for approximately 10% of the

<sup>39</sup> DG AGRI–nomenclature: 05 03 02 11 2125

<sup>40</sup> DG AGRI–nomenclature: 05 02 13 01 2100 and 05 03 02 01 2100

<sup>41</sup> DG AGRI–nomenclature: 05 02 13 04 2101 and 05 03 02 13 2101

total number of irregularities reported in 2006. As mentioned earlier, this is one of the consequences of the reforms in the Common Agricultural Policy.

Member States reported 302 cases relating to export refunds and a total amount affected of more than EUR 9 million. In 15 cases, the amounts affected were more than EUR 100,000.

*Table AG 20: Irregularities in export refunds per Member State*

BUDGET YEAR 2006: EXPORT REFUNDS						
MS	cases			amounts in €		
	total 2006	export refunds	in % of total	total 2006	export refunds	in % of total
AT	93	79	85%	1,040,985	762,322	73%
BE	57	8	14%	1,258,191	353,762	28%
CY	7	6	86%	77,582	38,457	50%
CZ	9	1	11%	160,915	7,697	5%
DE	489	58	12%	7,319,843	503,668	7%
DK	33	5	15%	1,186,901	564,776	48%
EE	10			99,319	0	0%
EL	111	1	1%	1,305,913	13,375	1%
ES	683	41	6%	25,937,479	3,748,439	14%
FI	33			454,657	0	0%
FR	548	19	3%	11,689,252	389,029	3%
HU	3			10,387	0	
IE	94	3	3%	857,391	47,430	6%
IT	140	8	6%	20,003,064	302,768	2%
LT	30	2	7%	308,661	27,479	9%
LU	3			13,062	0	0%
LV	1			13,176	0	0%
MT						
NL	87	19	22%	5,701,975	1,801,967	32%
PL	67	24	36%	841,681	153,300	18%
PT	359	1	0%	3,744,628	6,238	0%
SE	80	1	1%	858,560	6,203	1%
SI	1		0%	0	0	0%
SK						
UK	311	26	8%	3,941,146	347,660	9%
<b>total</b>	<b>3,249</b>	<b>302</b>	<b>9%</b>	<b>86,824,768</b>	<b>9,074,569</b>	<b>10%</b>

art. 3 (1) Reg. 595/91 // art. 3 (1) a Reg. 1848/2006

In Austria and Cyprus, irregularities in export refunds account for approximately 86% of the total number of irregularities.

Spain reported the highest total amount affected by irregularities. The total amount affected by irregularities was more than EUR 3.7 million: the number of cases was 41.

The Netherlands reported 19 cases with a total amount affected of more than EUR 1.8 million. Three (3) cases were qualified as “suspected fraud” of which one (1) case had a total amount affected of more than EUR 1 million.

Cyprus, Germany and Spain did not qualify any of the reported irregularities. Only four (4) cases were qualified as “suspected” fraud, by Italy and the Netherlands.

Table AG21 shows the product groups most often involved in export refund irregularities. The highest number of cases reported and the highest amounts affected are for measures concerning beef and veal exports (see also above concerning “beef and veal”).

Austria and Spain reported the highest number of irregularities, 36 and 35 respectively. Spain reported by far the highest amount affected by irregularities, almost EUR 3.7 billion and in 2 cases the amounts affected were more than EUR 800,000. The most frequent modus operandi is “missing (supporting) documents”.

Almost all the irregularities relating to the export of live animals (code 2101 R) were reported by Austria. Germany and the Netherlands reported 1 and 2 irregularities respectively.

The Netherlands contributed significantly to the high amount reported for measure concerning “skimmed milk powder”. An amount of almost EUR 1.5 million relates to a single beneficiary who is under (penal) investigation.

*Table AG 21: Export refund: irregularities per group*

BUDGET YEAR 2006: EXPORT REFUNDS				
Code	Description	cases	amounts in €	average amounts in €
2100 R	beef and veal \ CN 0201 (fresh), CN 0202 (frozen), CN 1602 (tinned)	68	3,904,888	57,425
2001 R	milk and milk products \ skimmed milk powder	20	1,813,821	90,691
30xx R	non-annex 1 products	42	751,654	17,897
1003 R	cereals \ maize, rye, starch and other cereals	5	524,359	104,872
2003 R	milk and milk products \ condensed milk, powder milk with fat content > 1,5%	8	398,596	49,825
2101 R	beef and veal \ CN 0102 - live animals	35	324,966	9,285
2300 R	pigmeat	34	288,117	8,474
1510 R	fruit and vegetables \ processed	3	277,312	92,437
2002 R	milk and milk products \ cheese	26	213,354	8,206
9920 R	other export refunds - product not indicated	32	178,253	5,570
1100 R	sugar \ sugar and isoglucose	11	152,311	13,846
2000 R	milk and milk products \ butter and butter oil	7	130,780	18,683
xxxx R	provisions	2	46,187	23,094
1500 R	fruit and vegetables	2	26,504	13,252
1600 R	wine	3	23,381	7,794
2311 R	poultrymeat	3	20,086	6,695
1700 R	tobacco	1	0	0
<b>total</b>		<b>302</b>	<b>9,074,569</b>	<b>30,048</b>

art. 3 (1) Reg. 595/91 // art. 3 (1) a Reg. 1848/2006

A rather large number of irregularities (32) are classified as “other”, which means that the Member States did not specify the measure involved. These irregularities were reported by Germany and the United Kingdom. In a large number of these cases, the Member States reported the goods involved as “unknown”. This is remarkable, especially when they concern export declarations where the CN (Combined Nomenclature) code is clearly stated.

### 3.3.2. Irregularity versus Suspected fraud

With the introduction of the electronic reporting system in mid-2001, Member States were asked to classify the irregularities reported. To assist them, an extra field was added to the module offering four possibilities: mistake, irregularity, (suspected) fraud and organised crime. The field was modified in 2004 and now offers three possibilities: no irregularity, irregularity and suspected fraud. With the exception of Germany and Spain, all Member States have started to classify irregularities. Germany and Spain are also the only two Member States still not using the AFIS/ECR-module Reg. 595/91 to report irregularities.

### *Classification of irregularities*

Table AG22 gives an overview of the classification of irregularities by Member States and by OLAF. The classification by OLAF is based on the classification by Member States, the types of irregularities (codes) as indicated by Member States, the modus operandi as described by the Member States and additional comments made by Member States. As mentioned earlier, Member States still need to improve their reporting, therefore the figures shown in the table should be treated with caution.

One Member State described that the irregularity was committed by using a false customs stamp which was fabricated by the beneficiary himself. The Member State classified this case as IRQ 2 which stands for “irregularity” and not as IRQ 3 which stands for “suspected fraud”.

As said, table AG 22 should be treated with caution.

*Table AG 22: Classification of irregularities*

BUDGET YEAR 2006: CLASSIFICATION OF IRREGULARITIES										
MS	total	QUALIFICATION BY MEMBER STATES				QUALIFICATION BY OLAF			% IRQ3	
		IRQ0	IRQ2	IRQ3	(blank)	IRQ0	IRQ2	IRQ3	by MS	by OLAF
AT	93	4	88	1		4	87	2	1%	2%
BE	57	2	34		21	2	50	5	0%	9%
CY	7			1	6		6	1	14%	14%
CZ	9	1	8			1	8		0%	0%
DE	489				489		360	129		26%
DK	33		33				33		0%	0%
EE	10		10				10		0%	0%
EL	111		101	9	1		94	17	8%	15%
ES	683				683		647	36		5%
FI	33		31		2		33		0%	0%
FR	548	3	542	3		3	514	31	1%	6%
HU	3	1	2			1	2		0%	0%
IE	94	1	93			1	93		0%	0%
IT	140	1	111	28		1	100	39	20%	28%
LT	30		30				25	5	0%	17%
LU	3		3				1	2	0%	67%
LV	1		1				1		0%	0%
MT										
NL	87		62	4	21		82	5	5%	6%
PL	67	4	21	41	1	4	13	50	61%	75%
PT	359	14	342	3		14	342	3	1%	1%
SE	80		80				80		0%	0%
SI	1		1				1		0%	0%
SK										
UK	311	21	284	6		20	280	11	2%	4%
total	3,249	52	1,877	96	1,224	51	2,862	336	3%	10%

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The codes used in Table AG22 stand for:

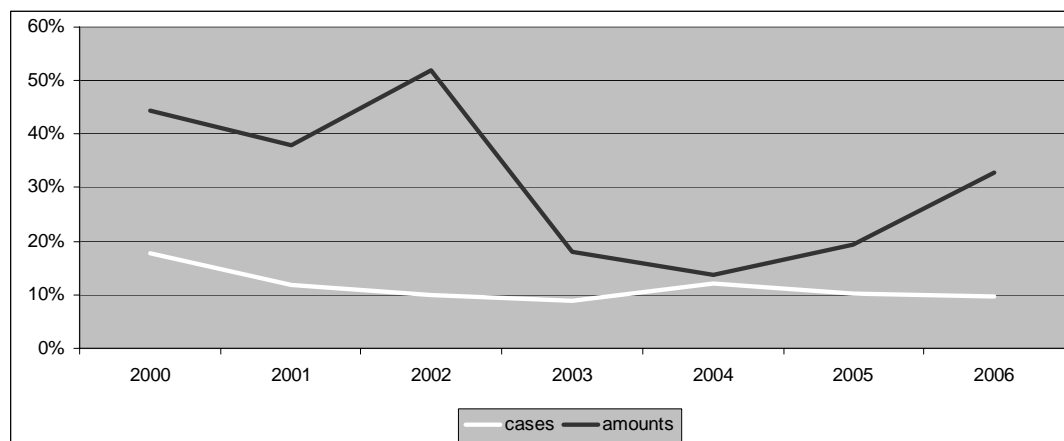
- Blank = no indication by Member State,
- IRQ 0 = no irregularity,
- IRQ 2 = irregularity,
- IRQ 3 = suspected fraud.

### *Estimated level of fraud*

On the basis of the irregularities reported in the period 2000-2006 an attempt has been made to estimate the level of “suspected fraud” in the agricultural sector. Chart AG2 reflects the results of this analysis and shows the percentage of irregularities which can be classified as “suspected fraud” cases, both in terms of the number of cases and the amounts affected by the irregularities.

Given that this was a first attempt to estimate the level of fraud in the agricultural sector, the figures should be interpreted cautiously. Nevertheless, the results of the analysis are in line with the results of those Member States which classify the irregularities.

*Chart AG 2: Irregularities and “suspected fraud”*



One early conclusion is that, as a percentage of the total number of reported irregularities, “suspected fraud” varied between approximately 10% and 13% in the period 2000–2006. The chart shows that the level of “suspected fraud” cases, as a percentage of the total number of irregularities reported, is relatively stable.

“Suspected fraud” as a percentage of the total amounts affected by the irregularities reported varied between approximately 14% and 45% during the period 2000–2006. A greater difference between the percentage of “suspected fraud” cases based on the amounts and the percentage based on the number of “suspected fraud” cases was to be expected; amounts vary more and differ per irregularity reported.

It should be reiterated that some Member States have started to report a rather large number of cases (more than 40%) under the broad category of irregularity which makes it more difficult to estimate the level of (suspected) fraud.

### **3.4. Recovery and penalties**

#### *Recovery*

In general, recovery of unduly paid amounts is more successful if it is started as soon as possible. The earliest possible moment is directly after the detection of an irregularity.

Table AG23 gives an overview of recovery over the period 2000–2006.

The last two columns indicate the average recovery rate per Member State for the period 2000 - 2006. In the column “average % 2000 – 2006 including IRR \*\*)” the amounts declared as irrecoverable have been considered as recovered.

The average recovery rate over the period 2000 – 2006 is 19%. Successful Member States in this respect are Denmark, Finland, Hungary, Ireland, Luxembourg, Latvia and Sweden.

Belgium, Greece, Italy, Lithuania and Poland have a low recovery rate. The rather low recovery rate of Italy, e.g. 6%, has a high impact on the average recovery rate (EU-25). This is even more clear when the irrecoverable cases are considered as recovered: the recovery rate of Italy increases to 35%, the same as the EU-25-average.

Table AG23: Recovery rate (period 2000 – 2006)

BUDGET YEAR 2006: RECOVERY RATES PERIOD 2000 - 2006									
	2000	2001	2002	2003	2004	2005	2006	average % 2000 - 2006	average % 2000 - 2006 including IRR **)
AT	41%	77%	19%	14%	61%	50%	35%	55%	58%
BE	4% / 5% *)	75%	35%	40%	64%	77%	33%	14%	14%
CY									
CZ							32%	32%	32%
DE	40% / 42% *)	38%	25%	62%	26%	48%	39%	38%	42%
DK	93%	98%	95%	49%	97%	99%	91%	85%	96%
EE							43%	43%	43%
EL	2%	24%	3%	6%	23%	14%	11%	6%	6%
ES	35%	28%	41%	13%	27%	15%	13%	22%	34%
FI	96%	89%	91%	95%	59%	46%	70%	83%	83%
FR	41%	23%	30%	24%	32%	18%	13%	26%	30%
HU						100%	100%	100%	100%
IE	78%	82%	93%	76%	71%	85%	26%	81%	83%
IT	0%	9%	9%	18%	34%	64%	57%	6%	35%
LT						0%	0%	0%	0%
LU		100%		98%	100%	46%	32%	92%	92%
LV						100%	100%	100%	100%
MT									
NL	38% / 92% *)	13%	66%	84%	83%	81%	22%	44% / 57% *)	58%
PL						5%	16%	9%	9%
PT	27%	54% / 56% *)	63%	33% / 75% *)	36%	18%	19%	30% / 34% *)	34%
SE	100%	66%	92%	95%	58%	63%	58%	68%	76%
SI								0%	0%
SK									
UK	26%	38%	70%	95%	85%	61%	60%	47%	59%
average	8% / 9% *)	28%	25%	21%	37%	33%	27%	19%	35%

\*) 2nd percentage concerns recovery including clearance of accounts decisions (AC)  
 \*\*) percentage includes AC (clearance of accounts) and IRR (= irrecoverable. Member States have established that recovery will not be possible)  
 art. 3 (1) Reg. 595/91 // art. 3 (1) m, n Reg. 1848/2006

The average recovery rate over the period 1971 – 2006 is 29%. This is the part actually recovered by the Member States from the beneficiaries. For those cases that have been closed via a clearance of accounts procedure, one should add to this figure the amounts charged to the Member States for negligence in pursuing the recovery. This would bring the total figure to 44%. If one only looks to the period covered by the Task Force Recovery (period 1971 – 1998) the average recovery rate is 78%. The latter is including amounts charged to Member States and/or EAGGF-budget.

### Penalties

The agricultural sector is renowned for its severe penalty system. Community legislation provides a mandatory system for imposing penalties..

Over the period 2000–2006, Member States reported 20,956 cases. The total amount affected by these irregularities was approximately EUR 1,126 million. The total amount of penalties imposed over the period 2000-2006, according to the reports received from Member States, is 3%.

One of the reasons for this rather low percentage is the fact that only a limited number of Member States are reporting the penalties applied and, in addition, some

of the Member States which do report the penalties imposed, only do so in a limited number of cases.

Table AG24 gives an overview of penalties and interest over the period 2000–2006.

*Table AG 24: Penalties and interest: period 2000 - 2006*

BUDGET YEAR 2006: INTEREST AND PENALTIES PERIOD 2000 - 2006							
MS	cases	amounts in €	interest in €	penalties			
				amounts in €	% of irregularity	MS-part	EU-part
AT	590	6,313,158	131,033	1,878,652	30%	16,263	449,573
BE	366	61,769,527	351,397	8,524,061	14%	0	0
CY	10	96,821	0	0	0%	0	0
CZ	9	160,915	0	0	0%	0	0
DE	4,504	82,120,880	208,245	690,917	1%	0	0
DK	383	7,814,149	386,657	1,106,823	14%	0	0
EE	10	99,319	34	0	0%	0	0
EL	317	24,560,314	211,718	9,886	0%	0	0
ES	4,732	278,594,170	16,612,642	6,531,148	2%	0	0
FI	168	2,540,301	66,756	45,311	2%	0	0
FR	3,304	80,675,643	190,552	8,883,642	11%	103,897	103,897
HU	6	29,410	286	0	0%	0	0
IE	674	8,440,078	170,819	448,969	5%	0	0
IT	956	461,436,259	144,612,894	82,348	0%	0	0
LT	58	698,048	0	13,739	2%	0	0
LU	13	146,037	16,617	0	0%	0	0
LV	1	13,176	153	0	0%	0	0
MT							
NL	862	26,087,849	3,291,611	4,349,521	17%	3,478	0
PL	131	1,614,030	2,001	7,840	0%	0	0
PT	1,407	30,721,813	227	0	0%	0	0
SE	452	5,678,892	50,265	419,338	7%	553	82,704
SI	10	232,894	0	0	0%	0	0
SK							
UK	1,993	46,437,214	1,679,672	2,599,639	6%	0	0
total	20,956	1,126,280,897	167,983,579	35,591,834	3%	124,191	636,174

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### 3.5. Conclusions

#### *Introduction*

- between 1971 and 2006, Member States reported 41,961 irregularities, involving some EUR 3,334 million;
- the work and the efforts of the Task Force Recovery have led to the closure, the clearing and the revision of a large number of cases;
- the balance to be cleared decreased from EUR 2.102 billion to EUR 1.346 billion;
- Member States reported 3,249 new irregularities in 2006;
- the total amount affected in 2006 was about EUR 87 million;



*Reporting discipline:*

- the reporting discipline of Member States improved in 2006, but further improvements are still necessary;
- new Member States have a better reporting record than some of the former EU-15;
- the level of compliance of a Member State seems to decrease as the total amount of support measures increases;
- the average time between committing an irregularity and reporting the irregularity to the Commission is 3,2 years;
- the average time between the discovery and the reporting of an irregularity is almost 1 year;
- the system of electronic reporting of irregularities (AFIS/ECR-module Reg. 595/91) has led to an improvement in data quality and in the timeliness of reporting;
- Germany and Spain are not using AFIS/ECR-module Reg. 595/91 to forward communications;
- Germany is the only Member State that is not reporting any nominal data<sup>42</sup>;
- Germany completely failed to forward any communication on time.

*General trends:*

- the total number of irregularities reported has been stable since 2002;
- the total amount affected by irregularities has stabilized at approximately EUR 100 million per year;
- the number and amounts of irregularities are not equally spread over all Member States;
- Spain and Portugal report relatively high number of cases and high total amounts affected by irregularities;
- Some Member States report the same type of irregularity for the majority of their cases;

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<sup>42</sup>

According to the German authorities national legislation restricts the reporting of nominal data

*Specific analysis:*

- the three main categories most affected by irregularities are:
  - Rural development : 1,263 cases involving EUR 24.4 million
  - Beef and veal : 407 cases involving EUR 20.6 million
  - Fruit and vegetables : 220 cases involving EUR 13.8 million;

*Irregularity vs suspected fraud:*

- “Suspected fraud” cases, as a percentage of the total number of irregularities reported, vary between 3% (classification by MS) and 10% (classification by OLAF).

*Penalties and recovery:*

- recovery of unduly paid amounts is more successful when recovery commences directly following the detection of the irregularity;
- average recovery rate over the period 2000 – 2006 is 19%;
- average recovery rate over the period 1971 – 2006 is 29%;
- average recovery rate over the “Task Force Recovery period” 1971 – 1998 is 78% (including amounts charged to Member States and EAGGF-budget);
- the total amount of penalties is approximately 3% of the total amount affected by irregularities;

#### 4. STRUCTURAL MEASURES (ANNEXES 14-17)

In 2006, Member States reported 2,988 irregularities under Regulation (EC) No 1681/94 which covers the four Structural Funds<sup>43</sup> and 228 under Regulation (EC) No 1831/94 (on the Cohesion Fund), for a total of 3,216 irregularities. The total amount affected by irregularities in 2006 was about EUR 703 million, EUR 517 million of which was from the Structural Funds and EUR 186 million from the Cohesion Fund. Irregularities reported in this sector were equivalent to 1.83% of the budget allocated to structural measures in 2006.

Since the information system of irregularities was established, Member States have reported 22,371 irregularities, of which 21,574 related to the Structural Funds and 797 to the Cohesion Fund.

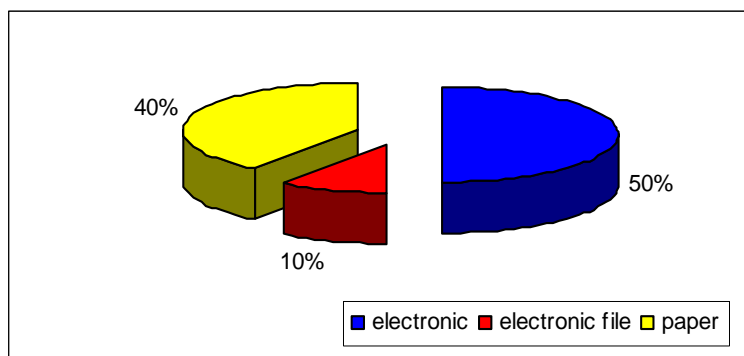
##### 4.1. Reporting Discipline

In 2006, the Commission received 4,074 communications under Regulations (EC) Nos 1681/94<sup>44</sup> and 1831/94<sup>45</sup>, of which 630 were updates of cases that had been previously reported (under Article 5 of the abovementioned regulations).

###### *Electronic reporting*

The number of Member States using the electronic reporting system is steadily increasing. In 2006, 50% of all irregularities were reported electronically through the AFIS/ECR system as showed in chart SF1.

*Chart SF 1: Reporting of irregularities – used formats*



<sup>43</sup> The four Structural Funds are: 1. The European Regional Development Fund (ERDF), supporting primarily productive investment, infrastructure and development of SMEs; 2. The European Social Fund (ESF), supporting measures to promote employment (education systems, vocational training and recruitment aids); 3. The Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance), supporting measures for the adjustment of agricultural structures and rural development; 4. The Financial Instrument for Fishery Guidance (FIFG), supporting measures for the adjustment of the fisheries sector and the 'accompanying measures' of the common fishery policy.

<sup>44</sup> As amended by Regulation (EC) No 2035/2005

<sup>45</sup> As amended by Regulation (EC) No 2168/2005

The increased use of the AFIS/ECR modules 1681 and 1831 is leading to an improvement in data quality and in timeliness of reporting. It also reduces different understanding and interpretations of the reporting system and, therefore, improves the consistence of the information submitted to the Commission.

There are still 9 countries that do not use the AFIS/ECR modules 1681 and 1831: Estonia, France, Germany, Ireland (which has reported no irregularity at all in 2006), Luxembourg, Latvia, Slovenia Slovakia and Spain. Germany sends an electronic file via the AFIS-mail, which still needs some processing. Table SF1 indicates the reporting formats used by Member States and the relative number of irregularities forwarded to the Commission.

*Table SF 1: Reporting formats used by the Member States*

MEMBER STATES	electronic	electronic file	paper	TOTAL
AT	57		2	59
BE	25		6	31
CZ	46			46
DE		321		321
DK	3		16	19
EE			11	11
EL	173			173
ES			428	428
FI	47		1	48
FR			98	98
HU	97			97
IT	380		364	744
LT	26			26
LU			3	3
LV			5	5
MT	2			2
NL	182			182
PL	101		56	157
PT	458			458
SE	1		70	71
SI			7	7
SK			7	7
UK	8		215	223
<b>TOTAL</b>	<b>1,606</b>	<b>321</b>	<b>1,289</b>	<b>3,216</b>

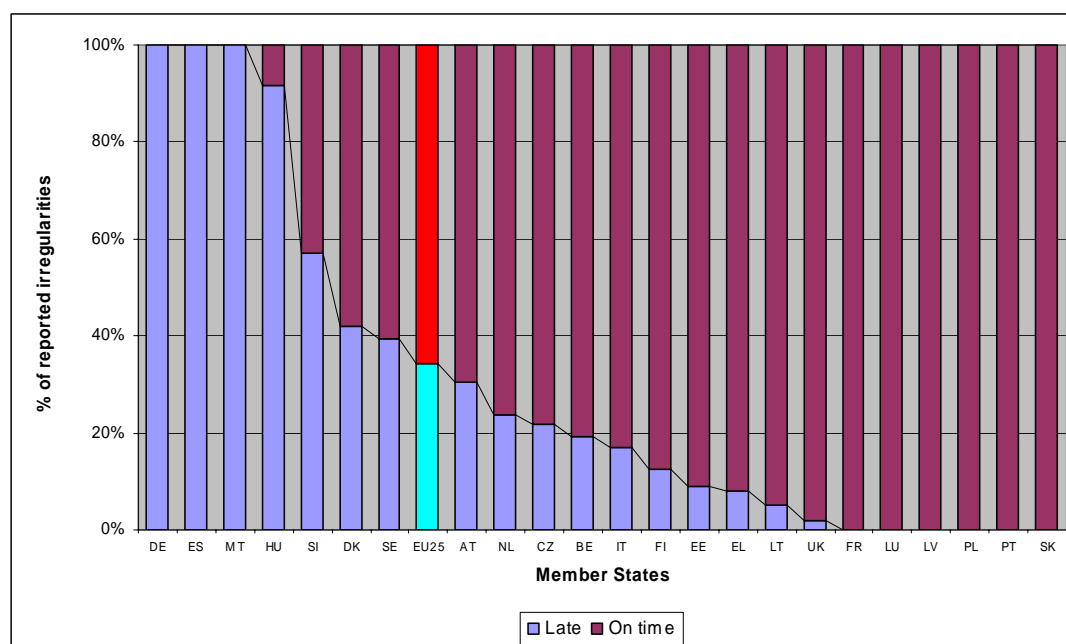
#### *Timely reporting*

As far as the timely reporting of the irregularities is concerned, the situation is improving. Chart SF2 refers to the timely reporting of irregularities as required by the regulations. It shows the proportion of communications that has been reported on time and after the deadline. In general, the situation is improving in comparison to previous years; there is however still a number of countries which send an important part of their communications well after the deadline indicated in the legislation being two months after the end of each quarter.

Member States need to put more attention on this aspect.

The increased use of the electronic reporting system should also support further improvements in the future.

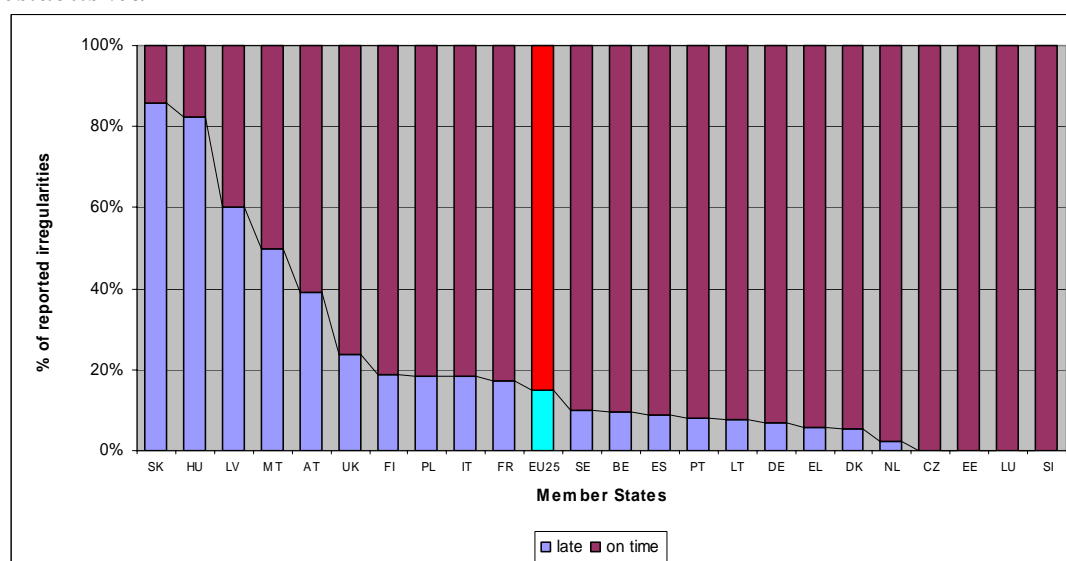
Chart SF 2: Percentage of irregularities reported after the deadlines



Year of detection vs year of reporting

Another indicator to measure ‘time compliance’ is the level of reporting in 2006 of cases detected in 2005 and 2006. In the Structural Measures sector, in which decentralisation can be extremely accentuated, the communication flow may be more complicated than in other sectors. For this reason only irregularities detected before 1<sup>st</sup> January 2005, or for which no date of detection has been communicated, are considered as indicating non compliance.

Chart SF 3: Percentage of irregularities reported within 2 years after being established



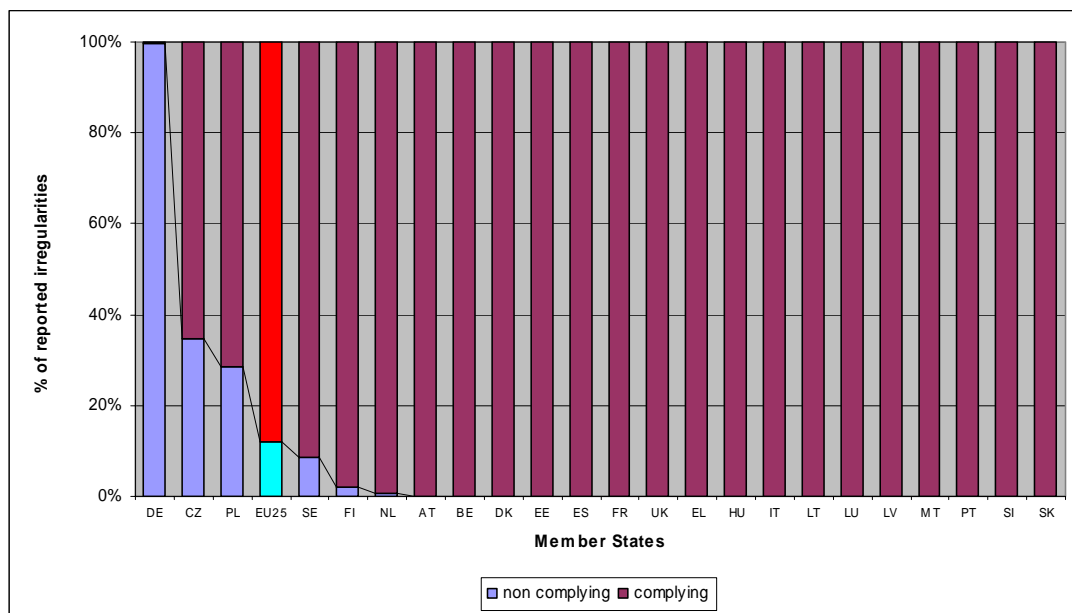
As shown on chart SF3, on average, about 85% of all irregularities reported in 2006 were established after the indicated date. The result is slightly better than in 2005 (84%) and Member States are encouraged to keep on this path.

Reporting on time is indispensable to make it possible for the Commission to use the information contained in the communications correctly. Reporting quickly the detected irregularities also shows that the Member State is taking all appropriate measures in order to recover the unduly paid amounts.

### *Personal data*

Chart SF4 indicates another aspect of the reporting discipline. It shows the percentage of the communications for which personal data have been reported or not.

*Chart SF 4: Percentage of communications containing nominal data*



In around 12% of the communications on irregularities the obligation to provide those information is not fulfilled. The result is greatly influenced by Germany, which did not report at all the identity of the natural or legal persons involved<sup>46</sup>. For other Member States, the situation is very satisfactory and only Czech Republic and Poland need to slightly improve.<sup>47</sup>

### *Qualification of irregularity*

As from 1<sup>st</sup> January 2006, following the amendments introduced by Regulations Nos 2035/2005 and 2168/2005, Member States must indicate whether the reported irregularity can be considered a “suspicion of fraud” or not. The information is of high value and importance in order to establish the impact of “suspected frauds” on

<sup>46</sup>

According to the German authorities national legislation restricts the reporting of nominal data

<sup>47</sup>

However, as provided for by article 3(3) of Regulations (EC) Nos 1681/94 and 1831/94, « If national provisions provide for the confidentiality of investigations, communication of the information shall be subject to the authorization of the competent court of tribunal». Therefore, a part of this missing information may be due to this situation.

the total reported irregularities (for more details, see *infra* paragraph 4.3.2). Table SF5 provides an indication of the Member States' compliance of this aspect.

*Table SF 2: Compliance per Member State in relation to the qualification of irregularities*

MEMBER STATES	N° of qualified irregularities	N° of not qualified irregularities	TOTAL
AT	57	2	59
BE	25	6	31
CZ	46		46
DE	2	319	321
DK	3	16	19
EE	6	5	11
EL	173		173
ES		428	428
FI	47	1	48
FR		98	98
HU	95	2	97
IT	378	366	744
LT	26		26
LU		3	3
LV	3	2	5
MT	2		2
NL	181	1	182
PL	100	57	157
PT	458		458
SE	24	47	71
SI	4	3	7
SK		7	7
UK	9	214	223
<b>TOTAL</b>	<b>1,639</b>	<b>1,577</b>	<b>3,216</b>

Almost 51% of the reported irregularities was qualified by Member States. For the first year of the implementation of the new requirement, it can be considered as a positive result, but Member States need to improve further more in the next years.

### *Conclusion*

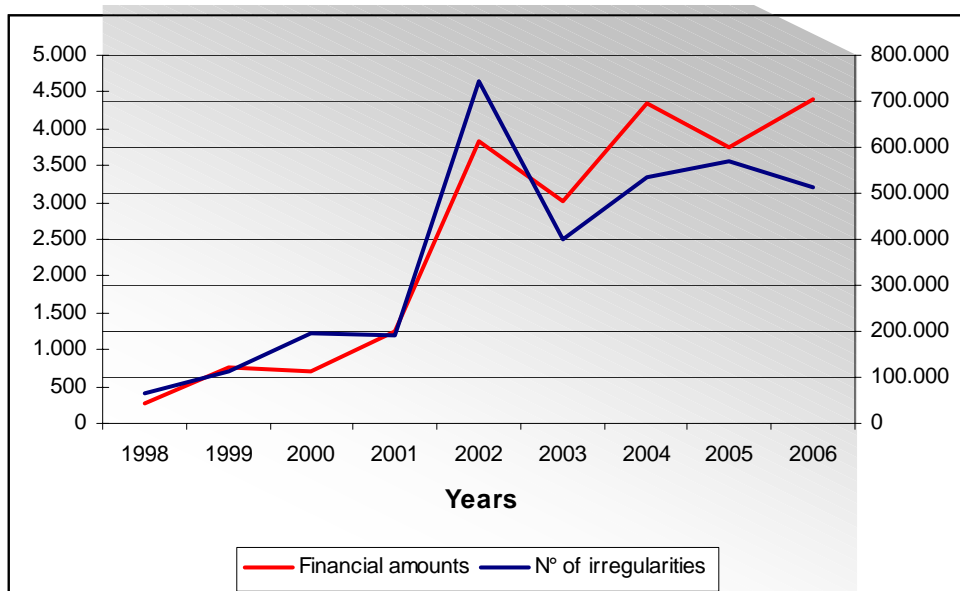
In general, it can be stated that the overall quality of the reports has been improving steadily, thanks to the amendments introduced through the Regulation (EC) No 2035/2005 and 2168/2005 such as the definition of terms "irregularity" or "suspicion of fraud". However, there is a need for a more uniform interpretation of what should be reported and what not. If the data reported are comparable, the feedback to the Member States can be further improved as well as the effectiveness of fraud prevention. A strong cooperation between Member States and the Commission is needed to find appropriate solutions in this respect.

## 4.2. General Trends

### Overall trend

In 2006 the number of irregularities reported decreased by around 10% as compared to the year before. However, an increase in the irregular amounts of about 8% was observed, the irregularities reaching EUR 703 million (including the Cohesion Fund). As far as the number of irregularities communicated is concerned, it has reached its peak in 2002 with more than 4,500 irregularities notified. This situation was due to the closure of the programming period 1994-1999. As shown in chart SF5, since 2002 the number of irregularities has fluctuated between 2,500 and 3,600. In 2006, the number of irregularities reported decreased significantly in comparison to the situation in 2005. That was caused mostly by the change in the legislation. The Regulations Nos 2035/2005 and 2168/2005 amending, respectively, Regulations Nos 1681/94 and 1831/94 raised the reporting threshold from EUR 4,000 to EUR 10,000.

*Chart SF 5: 1998-2006 trend concerning number of reported irregularities and irregular amounts*



Still, even if the number of irregularities decreased, the irregular amounts grew as well as their relative impact of irregularities on the overall Structural Actions budget in the last 9 years (for the detailed data, see Annex 14). The percentage in 2006 (1.83%) is still lower than the peak number for 2002 being 2.01%. It has however increased since 2005 and that increase is even more significant in real numbers if we take into consideration the fact that the total Structural Actions budget has grown as well.

It should be considered, under this respect that the decrease in number of irregularities is lower than could be expected. This is due to the fact that, contrary to previous years, the number of reported irregularities from the new Member States is increasing as could have been easily foreseeable. The increase of irregularities from the New Member States, from Italy and concerning the Cohesion Fund is the likely reason for the increase of the reported irregular financial amounts.



The difficulty in interpreting chart SF5 consists in the fact that projects financed through the Structural Actions budget are implemented over several years and the number of irregularities and related financial impact is only calculated on the reporting year. It can also happen that Member States still report irregularities referred to the Programming Period 1994-1999 and these are included in the chart too (for an analysis per programming period, see *infra* paragraph 4.2.5)

Furthermore, only some of these irregularities have real financial consequences and constitute a specific potential loss to the European budget. In fact, some irregularities are detected before any payment is made and the question of recovery does not arise (for more details see *infra* paragraph 4.3.3).

Moreover, the vast majority of irregularities having a real financial impact are not fraudulent and, once an irregular situation has been identified, corrective measures are adopted and recovery procedures started. These may take some time. In cases of suspected fraud, however, penal or judicial procedures are activated and longer delays can be expected.

#### *Trend related to Member States*

Like in previous years, the irregularities are not distributed equally among Member States.

Taking into consideration how the irregularities are split among Member States, like in previous years the biggest countries and those with the highest overall funding from the Structural Actions report the most irregularities. In 2006, the highest number of irregularities was reported by Italy (744) Portugal (458), Spain (428) and Germany (321). As for Germany, a significant decrease was observed (-73%) as in 2005 this country reported almost 4 times more irregularities (1,208). The numbers increased notably both for Italy (563 in 2005 and 751 in 2006; +32%) and Portugal (220 in 2005 and 458 in 2006; +108%).

In the analysis of the particular funds, the irregularities are split differently between the Member States than in the total number of cases. For example, in the European Social Fund (ESF) irregularities, the Netherlands come second after Portugal. The bulk of the irregularities for the Netherlands originate from this fund<sup>48</sup>. In the European Regional Development Fund (ERDF) the countries reporting the most irregularities are again Italy and Germany with the UK in the third position. In the European Agriculture Guarantee and Guidance Fund – Guidance section (EAGGF-Guidance), the Commission received a relatively high number of communications from Poland<sup>49</sup>. The EAGGF-Guidance irregularities stand up for more than one third of the Polish irregularities.

Finally, concerning the Cohesion Fund, Greece alone reported more than 50% of the total irregularities for this fund. As in 2005 Greece had communicated more than

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<sup>48</sup> This is to be expected as the main fund from which the Netherland benefit is indeed the ESF.

<sup>49</sup> However, data concerning Poland also include 46 irregularities (about 30% of the total, see annexes 15 and 17) that were reported in the fourth quarter of 2005, but that could not be processed on time and therefore were included in the reporting year 2006.

70% of the irregularities related to this Fund, it is positive that also the other Member States benefiting from this fund have started reporting a more “balanced” number of irregularities. In particular, Spain reported 82 irregularities, with an increase of more than 400% in relation to last year (82 irregularities in 2006 and 16 in 2005).

In 2006, only Ireland and Cyprus reported no irregularities. It should be stressed that too few irregularities reported by a given Member State could be a cause for concern.

#### 4.2.1. *Detection methods*

Table SF3 shows the most frequent detection methods and the related detected amounts.

*Table SF 3: detection methods*

Code	Description	Frequency	Detected amounts (in €)	Average detected amounts (in €)
206	Control of documents	970	206,157,012	212,533
999	Other facts	514	116,936,865	227,504
230	On the spot control of achievement of project or action	305	59,023,565	193,520
107	Judicial enquiry	279	114,198,350	409,313
209	Control on the premises of the company	261	44,726,207	171,365
320	Ex post control	192	36,850,280	191,929
101	National administrative or financial control	170	13,710,182	80,648
104	National fiscal control	116	22,773,835	196,326

Two aspects need to be underlined. In the first place the excessive use of a generic description of the detection method used: “other facts”. Secondly, the extremely high average amounts detected through “Judicial enquiries.

#### 4.2.2. *Types of irregularity*

Differences remain among Member States as to the types of irregularities reported and, to a certain extent, these are consistent with last year. The majority of cases involve irregularities of an “administrative” nature that are normally detected in the course of the routine documentary checks which are conducted before any payment of European money is made. To demonstrate this, among the most frequent types of irregularity reported by Member States are the “not eligible expenditure” and “missing or incomplete supporting documents”.

As in previous years, Italy was the country where the most falsifications of documents were detected. Italy was not the only MS to report this kind of situation (similar cases were also reported by Poland, Germany, United Kingdom, Portugal and Latvia).

Table SF4 shows the most frequent types of irregularities together with the amounts involved and the indicative average amount:

Table SF 4: Most frequent types of irregularities reported by Member States

Code	Description	Frequency	Amounts involved (in €)	Indicative average amounts (in €)
A	B	C	D <sup>50</sup>	E = D / C
325	Not eligible expenditure	760	174,250,779	229,277
999	Other irregularities	302	99,512,341	329,511
210	Missing or incomplete supporting documents	209	15,608,261	74,681
614	Infringement of rules concerned with public procurement	196	103,841,401	529,803
612	Failure to respect other regulation/contract condition	189	26,496,392	140,193
213	False or falsified supporting documents	185	75,308,200	407,071
812	Action not carried out in accordance with rules	128	9,855,556	76,997
601	Failure to respect deadlines	115	22,921,005	199,313

It should be noted that due to the reporting method a single case communicated to OLAF may contain more than one type of irregularity. Figures in table S13 are based on how many times the type of irregularity has been communicated alone and how many times it has been reported together with other types of irregularity. The amount involved sums up all the values related to that specified type<sup>51</sup>.

The “real” total amounts reported are those in annex 14 and 15.

It is important to underline that the most frequent types of irregularities are almost the same as in the last four years confirming a certain consistency in patterns and trends relating to structural measures and consistency in reporting by the Member States.

#### 4.2.3. Amounts involved

As far as amounts per country are concerned, they are more or less in line with the number of the reported cases, with Italy, Germany, Spain and Portugal reporting the highest financial amounts. Greece however comes in the second place with EUR 131 million of irregular amounts and this is due mainly to the irregularities in the Cohesion Fund<sup>52</sup>.

On the contrary, the Netherlands have reported relatively lower irregular amounts in relation to the number of irregularities communicated and this is due to the fact that the bulk of their communications are related to the ESF where the average financial amounts involved in irregularities are much lower.

<sup>50</sup> The amounts shown in this column refer to all the instances of the type of irregularities, either when they are reported alone or when they are reported together with other types.

<sup>51</sup> Therefore, as some irregularities have been counted more than once, the total value is distorted and this is why the ‘total’ row has been omitted. The values expressed under “indicative implicated amount” and “indicative average amount” columns are only “virtual”.

<sup>52</sup> The Cohesion Fund finances big infrastructure projects related to transports, energy and environment.

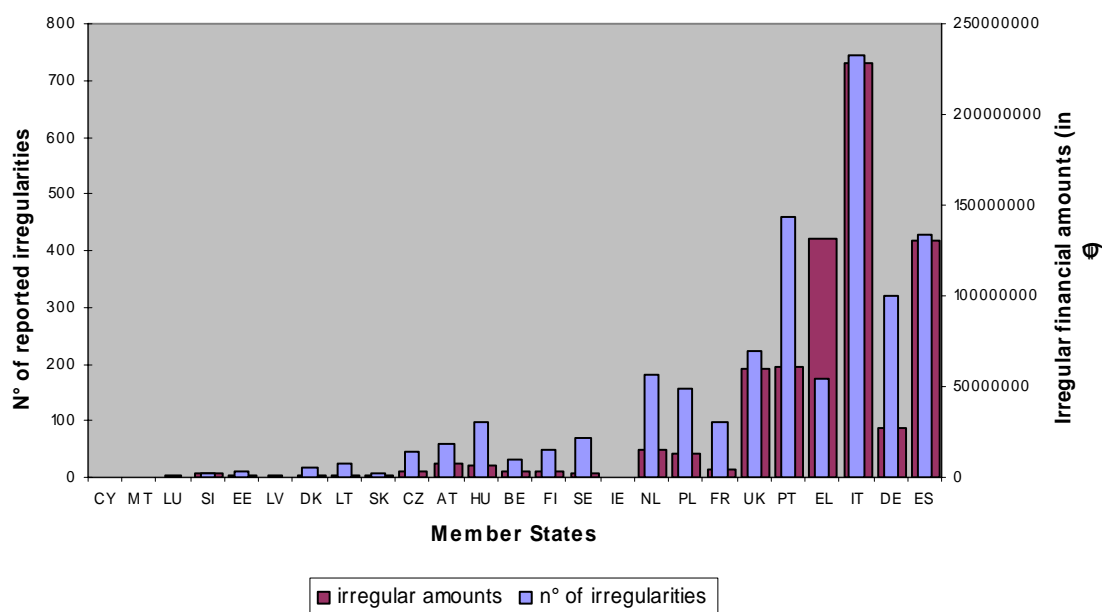
However, the number of reported irregularities and related amounts is linked, to a certain extent, to the budget that is allocated to each Member State, as showed in chart SF6. This trend is in general confirmed, with two important exceptions.

On one extreme, there is an absolute domination of Italy in both the numbers and the amounts indicated. On the other, in relation to the budget allocated, the number of irregularities and related amounts reported by France appear far too low.

Those huge differences between Member States in terms of number of irregularities and amounts affected do not necessarily mean that one country is more fraudulent than another. The reason for the high number of irregularities in the given country could be as well a higher number of controls carried out in the analysed year.

However, strong differences in reporting further stress the need to undertake more efforts in view of an improved uniform application of the reporting obligation.

*Chart SF 6: Number of cases and amounts affected by irregularities per Member State (in the order of increasing SF budget)*



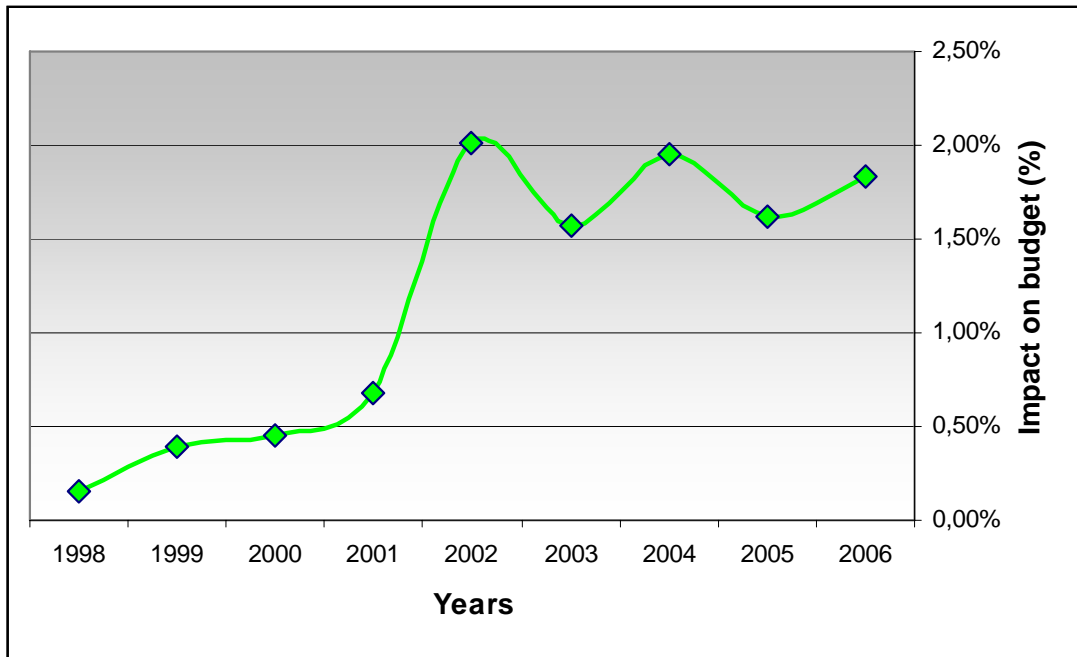
#### 4.2.4. Impact on budget

As from 2002 the impact of reported irregularities has been fluctuating between 2.0% (in 2002) and 1.6% (in 2003), as showed in chart SF7.

This circumstance confirms that a certain consistency has been reached in the reporting mechanisms established by the Member States.

However, there is a great difficulty in correctly analysing this information, as the reported irregularities refer to programmes and projects that are of a multi-annual nature and, furthermore, reported irregularities can refer to different programming periods (for more details see paragraph 4.2.5 below).

Chart SF 7: Impact of irregularities on SF budget



4.2.5. Trends related to the programming period 2000-2006

In 2006, about 91% of the reported irregularities were referred to the programming period 2000-2006, as showed in chart SF8.

This is to be expected as the attention of the controls is naturally focussed on running projects rather than closed operations.

Chart SF 8: Distribution of reported irregularities per programming period

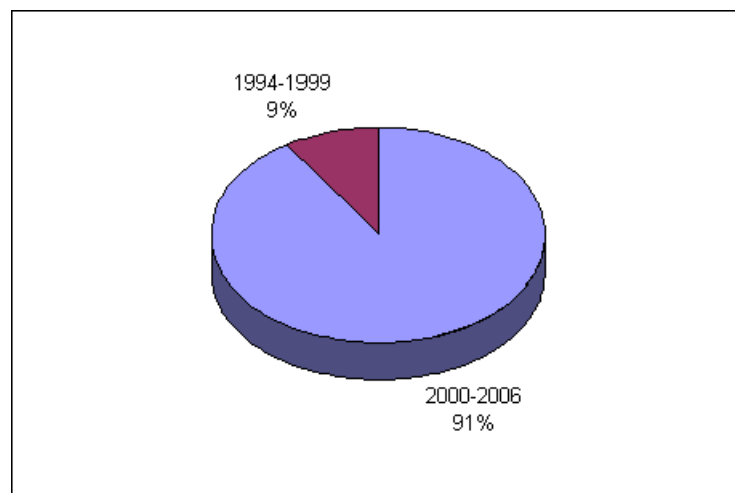


Chart SF9 shows the trend of reported irregularities (both in terms of numbers and financial amounts involved) referred to the 2000-2006 round alone, as from the year 2000.

Irregularities related to the current programming period have been steadily increasing year after year. This is due to the fact that controls on the projects also progressed

with the advancing of the financed operations. It is worth remembering that the projects financed through the Structural funds are implemented over several years.

*Chart SF 9: 1998-2006 trend concerning number of reported irregularities and irregular amounts – Programming Period 2000-2006*

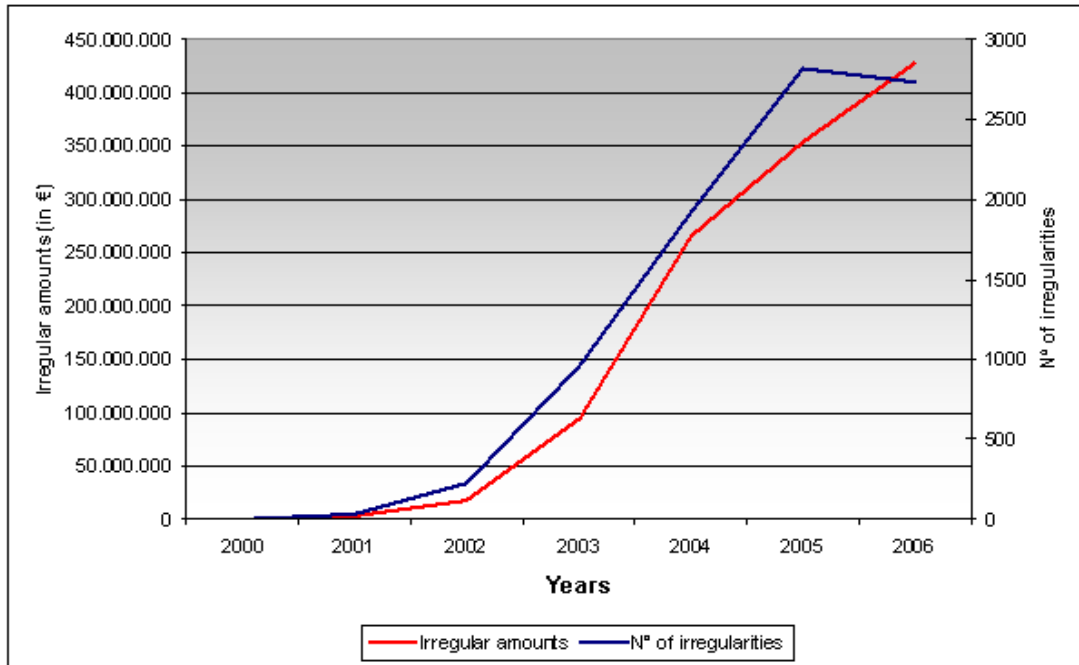


Chart SF10 puts in comparison the trend related to the programming period 2000-2006 with that of the previous round in terms of numbers of reported irregularities.

*Chart SF 10: 1998-2006 trend concerning number of reported irregularities and irregular amounts – Programming Period 2000-2006*

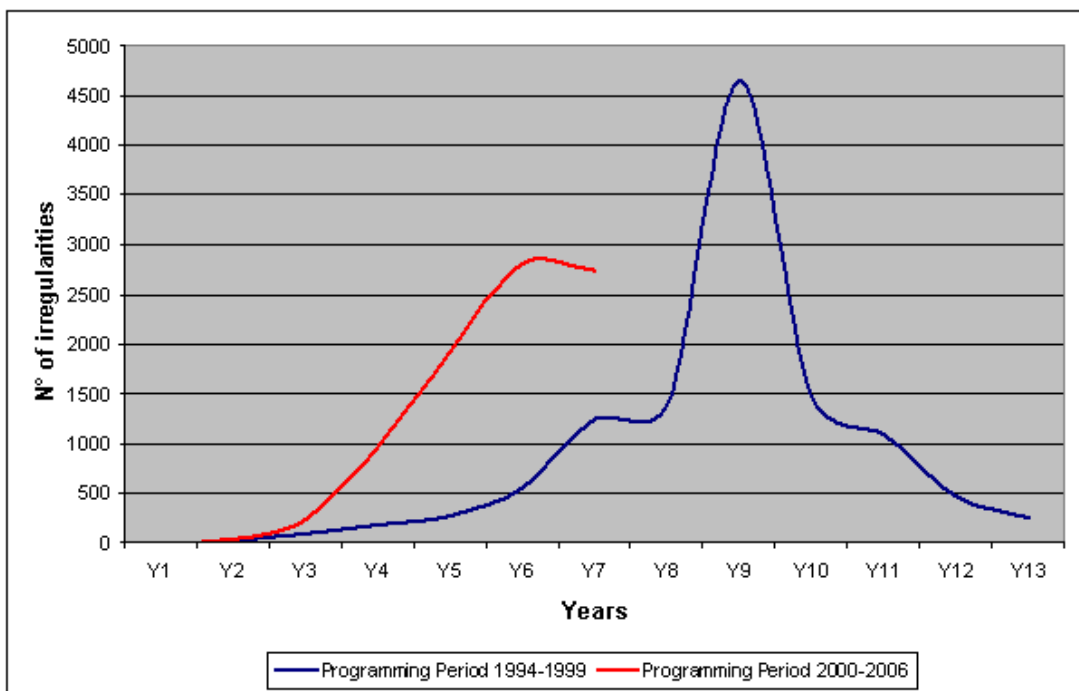
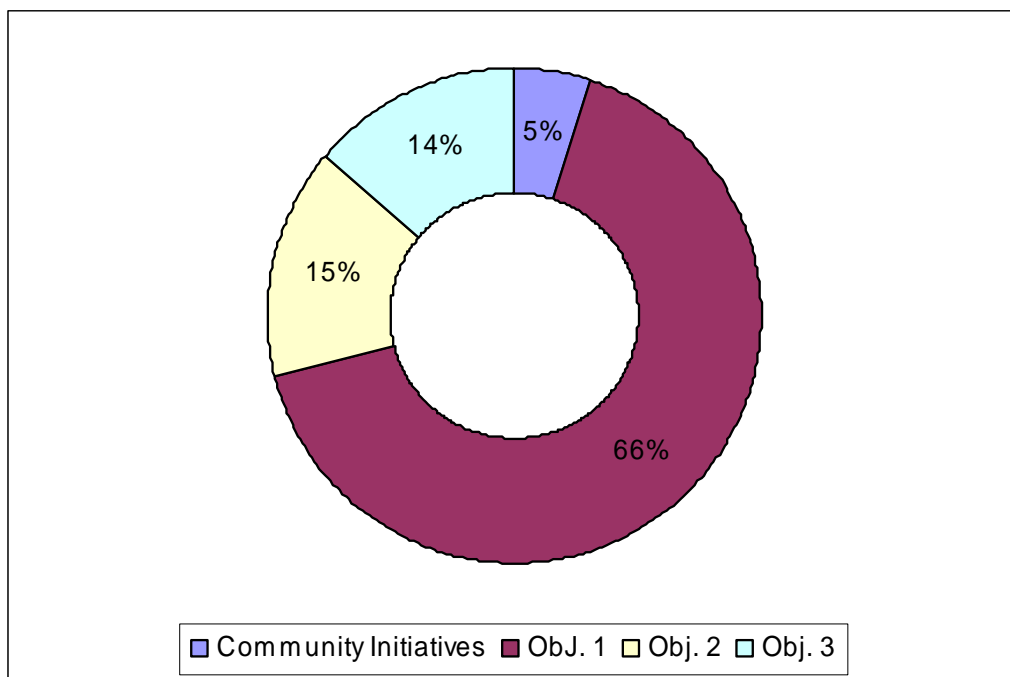


Chart SF11 shows how the irregularities reported in 2006 and related to the programming period 2000-2006 were distributed among the different objectives<sup>53</sup>.

*Chart SF 11: distribution of irregularities related to PP2000-2006 according to objective – 2006*



The distribution of the irregularities is very much in line with the allocation of the financial resources among the different objectives.

<sup>53</sup>

Three general objectives are foreseen for the programming period 2000-2006: Objective 1: promote the development and structural adjustment of regions whose development is lagging behind; Objective 2: supporting the economic and social conversion of areas experiencing structural difficulties; Objective 3: supporting the adaptation and modernisation of education, training and employment policies and systems in regions not eligible under Objective 1. Furthermore, through the Funds are also financed the so called “Community Initiatives”, aimed at intervening on specific aspects such as, for example, stimulating interregional cooperation (INTERREG); promoting the design and implementation of innovative models of development for the economic and social regeneration of troubled urban areas (URBAN).

### 4.3. Specific analysis

#### 4.3.1. Irregularities affecting the different funds

Table SF5 shows the repartition of the irregular amounts reported for 2006 between the different Funds (including the Cohesion Fund).

The numbers have decreased in comparison to last year due to the already mentioned change in the legislation. In 2005 the Member States communicated to OLAF 3,570 irregularities; in 2006 it was 3,216 (- 9.9%).

As in previous years, most irregularities were communicated for the ERDF and ESF. About 75% of the irregularities were reported for those two funds alone. There has been also an important increase in the number of irregularities in the EAGGF-Guidance (+38% as compared to 2005). The share of the irregularities for the Cohesion Fund and the FIFG remained quite stable.

This situation is showed in details in chart SF12 and table SF6 below.

Chart SF 12 Cases of irregularities per Structural Fund (CF included)

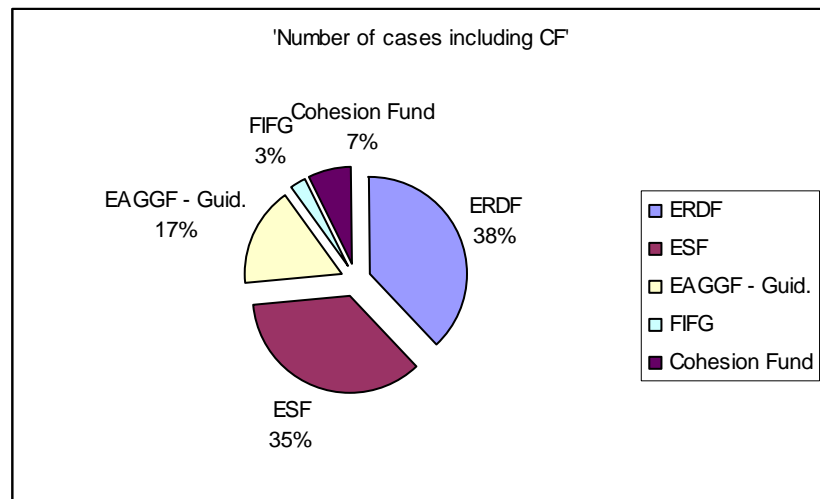


Table SF 5: Number of cases as compared to 2005

	ERDF	EAGGF-Guidance	FIFG	ESF	CF	TOTAL
2006	1225	548	80	1133	228	3216
2005	1724	397	79	1156	214	3570
Difference	-499	151	1	-23	14	-354
Variation %	-28,9	38,0	1,3	-2,0	6,5	-9,9

As far as the amounts are concerned, the total irregular amounts grew by 7.7% as compared to 2005.

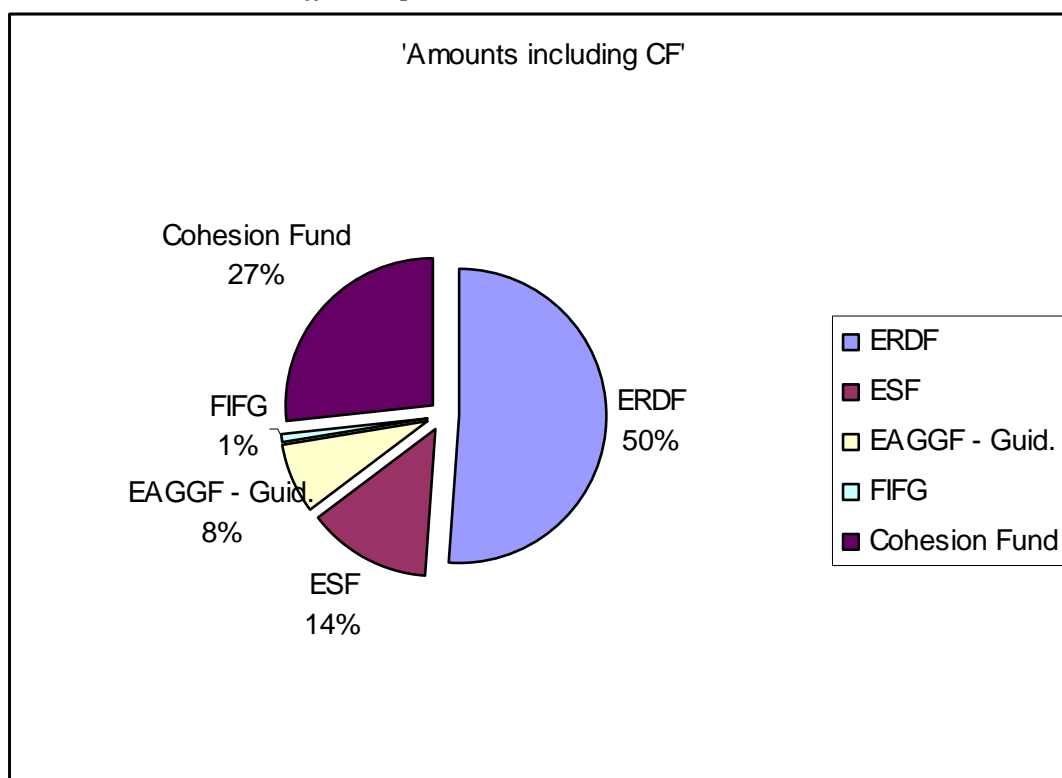
As with the number of cases, the ERDF has also the biggest share in the irregular amounts (50% of the total). However, in contrast to the number of cases, the Cohesion Fund comes second, while the ESF accounts for only 15% of the amounts.



The difference in the share of different funds in the total number of cases and total amounts is due to the fact that the average costs of projects, financed by the different Funds, vary significantly. The projects co-financed by the Cohesion Fund, for instance, can be extremely costly, thus very high values of irregularities.

Chart SF13 represents graphically the described situation.

Chart SF 13: Amounts affected per Structural Funds (CF included)



As compared to 2005, the ERDF accounts for as much as 50% of the amounts and its share has increased by 3.4% in comparison to 2005. Other two funds experienced an increase of the irregular amounts in 2006 in relation to the previous year. In the EAGGF-Guidance a very important growth of 257% was observed. The Cohesion Fund showed a 39% increase in the irregular amounts. Table SF6 provides details concerning all the funds.

Table SF 6: Irregular amounts as compared to 2005 (amounts in EUR 1,000)

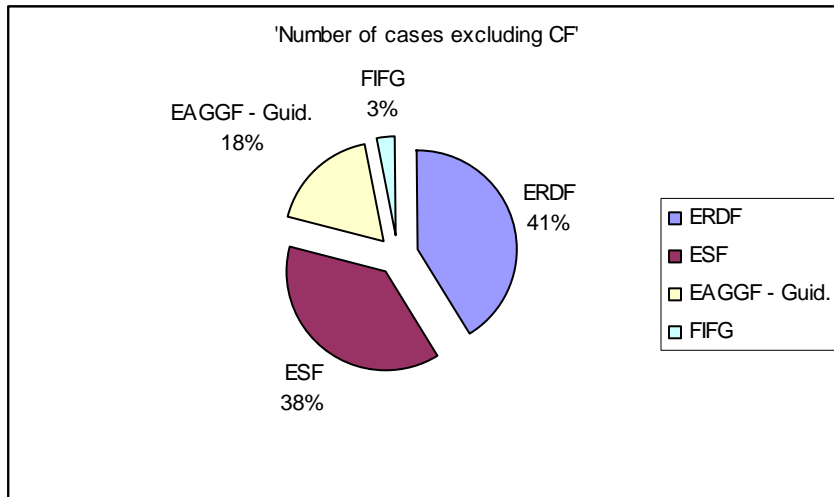
	ERDF	EAGGF-G	FIFG	ESF	CF	TOTAL
2006	360,024	55,317	6,401	94,955	186,605	703,302
2005	348,137	15,505	8,376	94,601	134,198	600,817
Difference	11,887	39,812	-1,975	354	52,407	102,485
Variation %	3.4	256.8	-23.6	0.4	39.1	17.1

When comparing the share of funds in the total irregularities, the most striking conclusion is the difference related to the Cohesion Fund share between the total amounts affected by irregularities and the number of cases (respectively 27% and 7%

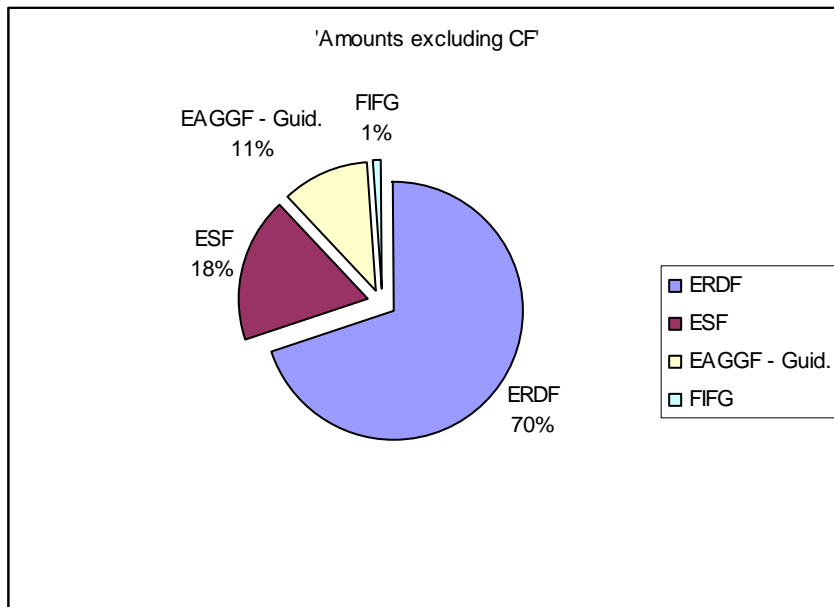
of the total). As already mentioned, this is due, however, to the high value of projects carried out in its framework.

If only the four Structural Funds are taken in consideration, the distribution of the reported irregularities and related involved financial amounts is presented in the following charts SF14 and SF15.

*Chart SF 14: Number of irregularities per Structural Fund (CF excluded)*



*Chart SF 15: Amounts affected per Structural Funds (CF excluded)*



#### 4.3.2. Irregularities vs suspected frauds

In the annual reports 2004 and 2005, first attempts were made to estimate which proportion of the reported irregularities could be defined as “suspected frauds”. These attempts were mainly based on specific analyses of the information reported by the Member States concerning the modus operandi, the type of irregularity, the

administrative state of an irregularity and the additional information given in text fields.

After the modifications introduced by Regulations Nos 2035/2005 and 2168/2005 to the basic Regulations Nos 1681/94 and 1831/94, as of January 1st 2006, Member States have to “qualify” the reported irregularity, indicating whether the reported irregularity is a “suspected fraud” or not. The concept of “suspected fraud” is necessary, because a given situation can be defined as fraud only after a sentence is issued by a competent court.

As already indicated under paragraph 4.1, around 51% of the irregularities (1,639) have been qualified by the Member States. It is an encouraging progress in relation to previous years, but indicates also that there is still need for better compliance.

However, a parallel between OLAF’s analysis and the Member States’ qualification has now more grounds than in the past.

Almost 15% of the 51% of the irregularities for which qualification has been provided by Member States (see above), were qualified as "suspected fraud".

This result is fully in line with last years’ estimations from OLAF.

The sample is still not fully representative as some 10 Member States have still not provided any qualification at all, but it still represents a great improvement in relation to last years.

Furthermore, another limitation of the sample is represented by the fact that the greatest majority of “suspected frauds” has been detected and reported by the Italian authorities. This is a very important element, because, in this respect, the activity of Guardia di finanza, the Italian economic and financial police, is particularly relevant.

Of the 744 communications reported from Italy, in fact, 292 indicate Guardia di finanza as the detecting authority. Almost 90% of them are qualified, or can be, as “suspected fraud”. If these are not taken in consideration, the number of irregularities reported by Italy would be 452 and the related irregular financial amounts would be more than 50% lower.

Despite these constraints inherent in the data set, by applying the same analytical techniques of the previous years, the results obtained on the whole data set are rather consistent with the portion of information received from the Member States as indicated in table SF7 below.

*Table SF 7: Percentage of irregularities qualified as “suspected fraud” and estimation of “suspected frauds” on the reported irregularities per Fund*

DATA SET	ERDF	EAGGF-Guidance	FIFG	ESF	TOTAL
Member State qualification (50.9% of the full dataset)	12.3%	35.2%	62.5%	3.8%	<b>14.7%</b>
OLAF qualification (on the full dataset)	19.4%	21.1%	33.8%	10.1%	<b>16.6%</b>

This consistency is particularly evident on the total of the reported irregularities, while on the different Funds significant differences are present.

However, also following OLAF's analysis, the main patterns are confirmed. That is to say that FIFG remains the fund with the highest relative impact and ESF is, contrary to the year 2005, the fund with the lowest.

Table SF8 presents the same comparison between the qualification provided by Member States and OLAF's analysis in relation to the amounts reported.

*Table SF 8: Percentage of reported amounts qualified as "suspected fraud" and estimation of "suspected fraud" amounts per fund*

DATA SET	ERDF	EAGGF-Guidance	FIFG	ESF	TOTAL
Member State qualification (50.9% of the full dataset)	34.6%	29.2%	40.3%	2.9%	<b>25.1%</b>
OLAF qualification (on the full dataset)	34.6%	19.6%	33.6%	6.1%	<b>24.3%</b>

In this case, the results are even closer than in table SF7 and the only unconfirmed pattern is related to the predominance of ERDF over FIFG.

However, it is still recommended to take a lot of caution in assessing the meaning of these figures. A 100% qualification from the Member States would remove a great deal of this caution, but the similar results are, indeed encouraging.

Chart SF16 presents the trend of the percentage of suspected frauds on the total reported irregularities in the last seven years calculated according to OLAF's estimations.

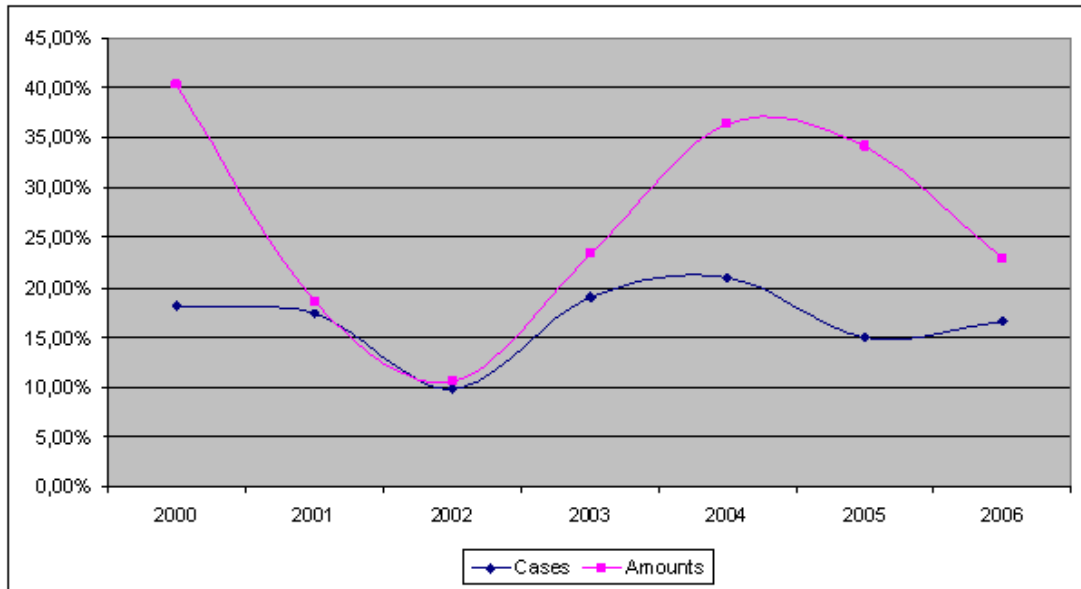
A striking aspect is the relatively stable percentage of irregularities that could be estimated as suspected fraud and that is around 15% of the total reported (darker line on the chart).

The lowest level of suspected fraud as a percentage of total reported irregularities was registered in 2002. This was also the year in which the highest number of cases of irregularities was reported to OLAF, coinciding with the closure of the 1994-1999 round.

On the basis of this estimation, in 2006, reported "suspected frauds" affect about 0.41% of the budget allocation for the structural actions.

However, this does not mean that this amount is effectively defrauded or turns out into a loss for the European budget. In fact, these amounts relate to suspected fraudulent behaviours that have been detected by national authorities and for which recovery procedures are undergoing. Moreover, when these situations were detected in early stages of the process, the "potential" loss is even decreased, because no payments or only interim payments have been granted.

Chart SF 16: Level of “suspected frauds” on total reported irregularities from 2000 to 2006



By examining closely only the cases estimated to be considered as suspected fraud, the amounts still to be recovered related to them have an impact on the EU budget of 0.18%.

#### 4.3.3. Irregularities detected before payment

Therefore, an interesting aspect to examine in the framework of the protection of the communities’ financial interests is what proportion of irregularities is detected before any payment is effectively made to the beneficiaries.

This aspect can provide some concrete elements also concerning Member States’ preventive action.

Table SF9 shows the total number of irregularities reported by each Member State (column A); the number of irregularities detected before any payment is made (column B); what percentage B represents on A (column C); the financial amounts reported as irregular (column D) and those related to the irregularities detected before payment (column E); and finally what percentage of the total irregular financial amounts reported have been identified before payment (column F).

Very high rates of detection before payment emerge especially in some of the new Member States (namely Czech Republic, Hungary, Lithuania, and Poland) and especially in the Scandinavian countries and in the Netherlands.

Very low rates are referred to France, Portugal, Spain, Germany and Greece.

Table SF 9: irregularities detected before payments per Member States - 2006

MS	Reported irregularities	Irregularities detected before payment	% of detected before payment on total	Reported irregular amounts	Amounts related to irregularities detected before payment	% of detected before payment on total	MS
	A	B	C = B / A (in %)	D	E	F = D / E (in %)	
AT	59	7	11.9%	7,851,597	721,630	9.2%	AT
BE	31	4	12.9%	3,680,989	97,635	2.7%	BE
CZ	46	6	13.0%	3,001,399	2,815,537	93.8%	CZ
DE	321	8	2.5%	27,203,888	285,975	1.1%	DE
DK	19	8	42.1%	800,234	204,598	25.6%	DK
EE	11	2	18.2%	1,341,061	162,763	12.1%	EE
EL	173	5	2.9%	131,154,666	1,173,262	0.9%	EL
ES	428	2	0.5%	130,167,747	507,717	0.4%	ES
FI	48	10	20.8%	2,993,100	195,599	6.5%	FI
FR	98	1	1.0%	4,399,692	24,381	0.6%	FR
HU	97	77	79.4%	6,293,322	5,631,554	89.5%	HU
IT	744	88	11.8%	228,218,564	41,150,829	18.0%	IT
LT	26	21	80.8%	1,377,410	1,003,003	72.8%	LT
LU	3		0.0%	131,931		0.0%	LU
LV	5		0.0%	61,795		0.0%	LV
MT	2		0.0%	384,750		0.0%	MT
NL	182	148	81.3%	15,325,821	11,894,038	77.6%	NL
PL	157	81	51.6%	12,503,254	8,264,833	66.1%	PL
PT	458	5	1.1%	60,920,581	178,255	0.3%	PT
SE	71	45	63.4%	2,546,697	1,769,095	69.5%	SE
SI	7	1	14.3%	2,598,183	7,033	0.3%	SI
SK	7		0.0%	555,213		0.0%	SK
UK	223	14	6.3%	59,790,464	1,086,975	1.8%	UK
EU25	3,216	533	16.6%	703,302,358	77,174,710	11.0%	EU25

#### 4.4. Recovery

In 2006, Member States communicated, pursuant to Regulation No 1681/94, 2,988 irregularities for a total financial amount of EUR 516,697,561 (see Annex 15).

The situation as regards recovery in 2006 (see Annex 16) is as follows:

- the sum to be recovered was EUR 266,536,855;
- in the same period, the amount declared irrecoverable pursuant to Article 5, par. 2 of Regulation No 1681/94, and which is awaiting a formal decision is EUR 706,646

The situation has considerably improved in relation to 2005 when the amounts still to be recovered represented about 63% of the amounts affected by irregularities.

Pursuant to Regulation No1831/94, Member States reported 228 irregularities for a total amount of EUR 186,604,797 (see annex 17), of which EUR 57,953,091 remain

to be recovered. The proportion of the balance still to be recovered is in line with that of 2005 (about 31% of the amounts affected by irregularities).

## 4.5. Conclusions

### *Introduction*

- Member States reported 3,216 irregularities in 2006;
- The total financial amount affected in 2006 was about EUR 703 million.

### *Reporting discipline*

- The number of irregularities reported through the Electronic modules AFIS/ECR have been increasing and now represent over 50% of the total;
- Nine Member States still do not use the electronic modules AFIS/ECR: Estonia, France, Germany, Ireland (which has reported no irregularity at all in 2006), Luxembourg, Latvia, Slovenia Slovakia and Spain;
- Germany sends an electronic file via the AFIS-mail, which still needs some processing;
- Member States need to pay more attention to submit the irregularities within deadlines established by regulations;
- The time gap between detection and reporting is very satisfactory;
- Germany is the only country that does not communicate personal data<sup>54</sup>;
- The qualification of the irregularity (indicating whether or not it is a case of “suspected’ fraud) is an element of the reporting that needs to be strengthened. In 2006, the qualification was given in 50.9% of the irregularities;
- Despite the clarifications and simplifications introduced with Regulations Nos 2035/2005 and 2168/2005, there is still need for further harmonisation of reporting between Member States.

### *General trends*

- The total number of irregularities decreased (due to the change in the legislation);
- The total irregular amounts increased, meaning that the average irregularity is higher;
- The impact of irregularities on the total Structural Actions budget increased;

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<sup>54</sup> According to the German authorities national legislation restricts the reporting of nominal data

- The most frequent method for detecting irregularities is the control of documents. Judicial enquiries result in the highest average detected amounts;
- Not eligible expenditure is the most frequently reported type of irregularity. The other typologies reported are in line with previous years;
- Italy, Portugal, Spain, Germany and the United Kingdom are the Member States that reported the highest number of irregularities in 2006;
- Italy, Greece, Spain, United Kingdom and Portugal are the countries that reported the highest amounts;
- Italy is the country that has reported the highest number of irregularities and related amounts. This does not necessarily mean that in Italy more frauds and irregularities occur than in the other countries. The reason could be a higher number of controls;
- The greatest majority of irregularities related to the programming period 2000-2006 relate to Objective 1 regions.

#### *Specific analysis*

- Amounts increased significantly for EAGGF-Guidance;
- The Cohesion Funds amounts influence greatly the analysis;
- Amounts increased for the ESF in spite of decrease in the number of cases;
- ERDF remains the fund to which the highest number of irregularities and the highest amounts are related. This is expected considering that it is the Fund with the largest resources available. However, its share has decreased in relation to last year;
- “Suspected frauds”, as a percentage of the total number of reported irregularities, represent around 15-16% in 2006. This result is in line with previous years;
- The Czech Republic, Denmark, Finland, Hungary, Poland, Lithuania, the Netherlands and Sweden have a very high rate of irregularities detected before payment;
- France, Portugal, Spain, Germany and Greece have a very low rate of irregularities detected before payment.

#### *Recovery*

- Despite higher irregular amounts in 2006, the amounts to be recovered are considerably decreasing in relation to 2005 for the Structural Funds;
- The amounts to be recovered related to the Cohesion Fund have increased in relation to 2005, but, proportionally, they remain stable.



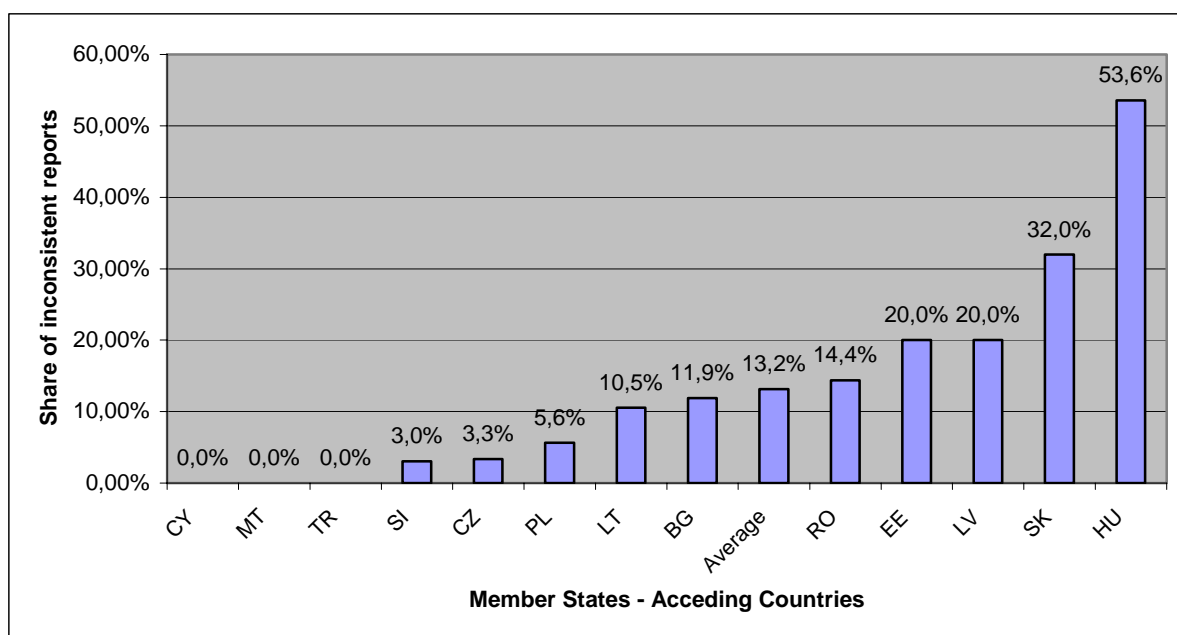
## 5. PRE-ACCESSION FUNDS (ANNEXES 18-21)

In 2006 Member States and Acceding Countries sent to the Commission/OLAF 1,207 reports of which 384 first communications and 823 updates concerning all pre-accession funds. The total amount affected by irregularities reported in 2006 was EUR 12.3 million, of which from PHARE EUR 6.9 million (198 irregularity reports), SAPARD EUR 4.3 million (160) and ISPA EUR 1.2 (26).

### 5.1. Reporting discipline

According to Financing Memoranda signed with beneficiary countries, detected irregularities have to be reported to the European Commission within two months after the end of each quarter. Electronic system of reporting irregularities detected in the pre-accession funds has not yet been operational and irregularity reports have been sent in paper format to both OLAF and respective line DGs. In OLAF they are keyed into a database which allows their further analysis.

Chart PA 1: Share of inconsistent reports in 2006



Timely reporting of irregularities remains one of the problems OLAF has to face when working with analysis on the reports. Out of 14 reporting countries only 5 managed to send all their reports in 2006 on time<sup>55</sup> (Cyprus, Czech Republic, Romania, Slovenia and Slovakia). In comparison to 2005, the group of countries was extended only by one country Slovakia. The Following countries belong to the group of the least compliant: Hungary which has not sent 6 reports on time and Estonia which has sent 5 reports late. Croatia which in 2006 set up reporting system was late with 3 reports. OLAF did not receive one quarterly communication from Malta and Lithuania.

<sup>55</sup> Decides the sending date of the report.

The quality of the reports has been improving but at a very slow pace. Chart PA1 presents the share of inconsistent reports in all reports sent to OLAF in 2006. Inconsistencies between different sections of the same irregularity report are quite numerous on average they constituted 13.3%. The biggest problem is clearly with Hungarian reports – 53.6% contain errors. In absolute numbers Romania has the highest number of reports presenting inconsistencies (78), followed by Bulgaria (17) and Slovakia (16). The irregularity management team try to clarify all the inconsistencies in reports but the exercise is extremely time consuming. Many of the inconsistencies could be eliminated if the reports were verified by national authorities before submission.

Year 2006 was the first year when higher threshold introduced by amendments in the Regulation No 1681/1994 applied in the PHARE reporting obligation. The threshold was increased to EUR 10,000. Despite this fact, many countries continued to report irregularities below that threshold. In the PHARE fund, 93 reports had irregular amount below the threshold. As in the previous years in SAPARD the threshold was EUR 4,000 and 64 reports involved irregular amounts below that. Table PA1 shows the number of irregularities reported below the threshold in 2006 per Country.

*Table PA 1: Irregularity reported in 2006 below the threshold*

Fund €	All funds			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	10	1,353,814	17,314	17,225
Cyprus	0	0	0	0
Czech Republic	0	0	0	0
Estonia	1	2,828	2,828	2,828
Hungary	9	1,162,002	26,593	9,205
Latvia	10	415,790	36,699	12,779
Lithuania	2	314,384	3,480	0
Malta	5	1,147,287	8,600	0
Poland	27	7,411,633	38,910	10,839
Romania	88	38,684,185	137,600	70,489
Slovakia	5	2,667,250	15,373	9,974
Slovenia	0	0	0	0
Turkey	0	0	0	0
<b>Total</b>	<b>157</b>	<b>53,159,173</b>	<b>287,397</b>	<b>133,339</b>

Another problem relates to missing information, as, according to the regulation, certain information must be included in the report. In case of transmission of information concerning legal persons as required by article 3(1)(k) of Regulation No 1681/94. Five States fulfil the obligation in all the reports: Cyprus, Czech Republic, Latvia, Slovenia and Turkey. In 2006 this obligation was on average fulfilled in 85% of reported cases. At the other end of the spectrum are Malta (compliance level 20%), Estonia (50%) and Lithuania (50%). Reporting nominal data concerning natural persons is at a much lower level. On average data was transmitted only in 40% of cases. The best record belongs to Lithuania, the only country that fully complied. Second best, Romania, complied only in 58% of cases. At the bottom of

the scale are Cyprus, Czech Republic, Malta, Slovenia, Turkey with compliance level of 0%.

According to article 3(1)(e) of Regulation No 1681/94 reporting authorities have to qualify suspected fraud cases. As presented on chart PA2, six States out of thirteen did not fulfil that requirement, and only one, Estonia, fully complied.

Chart PA 2: Compliance level in 2006 – qualification of irregularity

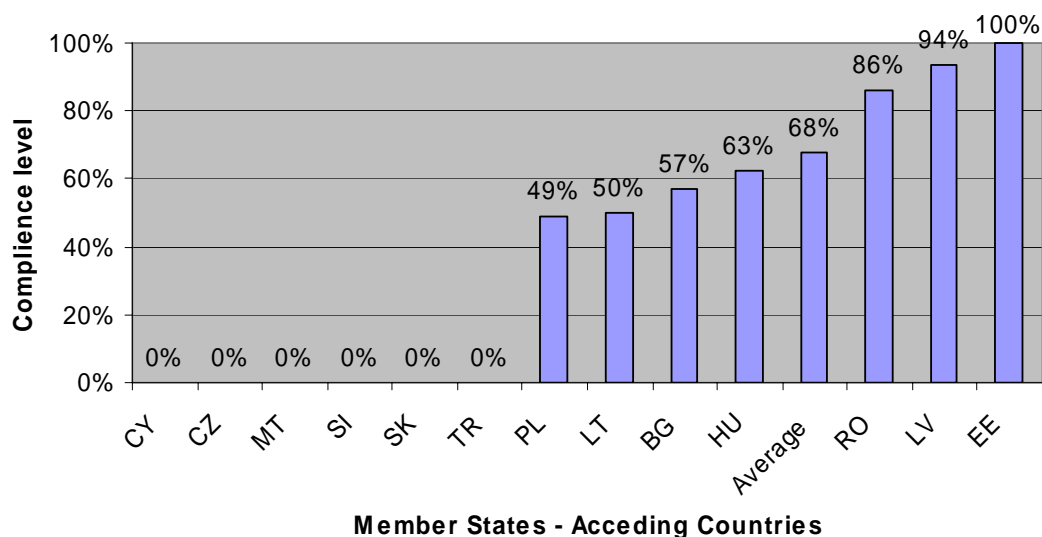


Table PA2 presents the time span that elapses for each country between the occurrence of irregularity and its reporting to the Commission.

Table PA 2: Time delay – all first communications

	Irregularity - Discovery			Discovery-Reporting		
	Missing	Error	Average time gap (in months)	Missing	Error	Average time gap (in months)
BG	26	1	6.05	14	0	6.93
CY	5	0	N/A	5	0	N/A
CZ	11	1	3.48	12	2	15.61
EE	5	1	11.06	6	0	6.06
HU	49	1	7.91	30	0	6.53
LT	13	0	14.12	2	0	6.62
LV	1	1	6.15	0	0	7.96
MT	1	0	8.32	1	0	6.93
PL	47	3	12.90	43	1	10.30
RO	205	20	0.87	74	4	0.43
SI	9	1	2.62	9	0	3.87
SK	26	5	20.25	9	0	7.56
TR	0	1	N/A	0	0	2.83
<b>Total</b>	<b>398</b>	<b>35</b>	<b>11.44</b>	<b>205</b>	<b>7</b>	<b>7.33</b>

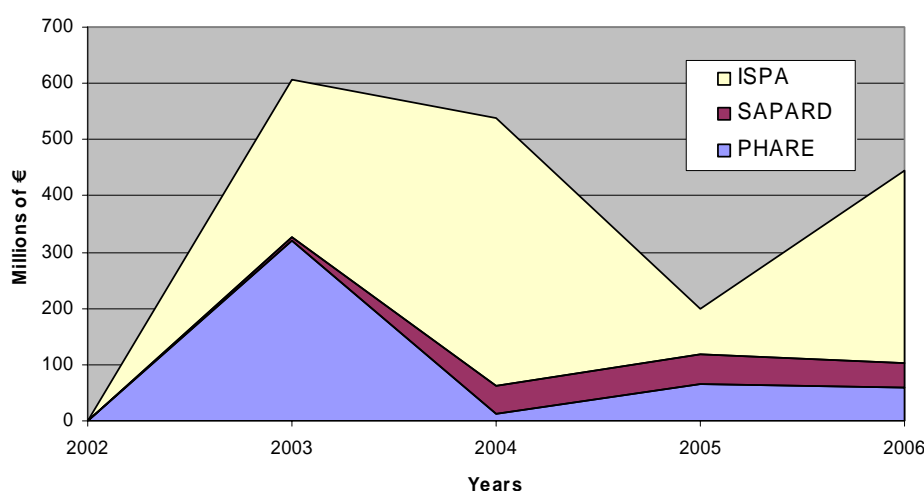
Table PA2 is divided into two parts: the left one presents the calculation for the time span between the occurrence of irregularity and its detection by national authorities; the right section presents the calculation for the time span between the detection of irregularity and its reporting. The column “missing” indicates in how many cases the data for calculation were not provided, the column “error” shows the cases in which data were incoherent.

## 5.2. General Trends

In 2006 the number of cases reported (first communications) further increased by 14.2% in comparison to the previous year. The highest growth in reported irregularities is in PHARE (+31.8%). In ISPA communications remained at rather low level of 26 communications. The disappearance of communications coming from the 10 new Members States (ISPA was transformed into Cohesion Fund and reports are submitted under Regulation No 1831/94) was replaced by increased communication from Romanian of ISPA cases. In SAPARD the number of communications in 2006 was almost at the same level as in 2005. Overall the growth rate of irregularity reports have been steadily decreasing, which reflects the slow phasing out of the pre-accession assistance. This effect is compensated by increased closure controls.

The decline of eligible amount observed in 2004 and 2005 has been reversed. In 2006 the eligible amount increased by 122% in comparison to 2005. This was caused mostly by a more than 3-fold increase in eligible expenditure in ISPA. The decrease in the other two funds could not counterbalance the ISPA increase. In PHARE eligible expenditure declined by 9.0% and in SAPARD dropped by 19.5%.

*Chart PA 3: Eligible amount by fund*



Contrary to eligible expenditures the irregular amount declined in 2006 by 29.9%. The biggest impact was the decline of the ISPA irregular amount (-83.0%). In the case of PHARE, irregular amounts also decreased by 6.6%. Only in SAPARD did the irregular amount increased by 30.6%.

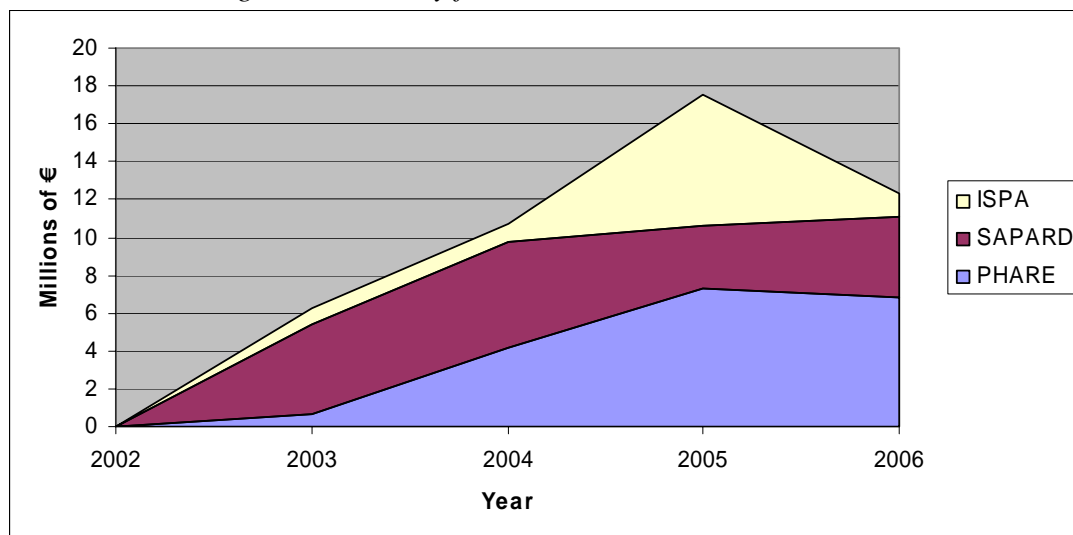
The trend has completely reversed in comparison to 2005, when irregular amount was growing and eligible amount was decreasing. In the previous year the eligible expenditure was increasing and irregular amount was decreasing. There were two phenomena behind this.

Firstly, the almost six fold increase in eligible amount in ISPA communications incoming from Romania, combined at the same time with decrease of 27% of reported irregular amounts. This shows how changes in interpretation of certain

definitions caused changes to the trend, especially if those changes happens in a country with contributes a lot to the dataset.

The second effect was one irregularity reported by Bulgarian authorities in 2005 which was declared completely irregular. The impact of this irregularity over eligible expenditure was rather limited but EUR 5 million irregular amount influenced the overall irregular amount.

Chart PA 4: – Irregular amount by fund



### 5.2.1. Method of detection

When analysing the method of detection it has to be kept in mind that only a very few cases have been assigned a detection method by reporting authority. In all other cases the codes were attributed based on description, (sometimes very vague) provided in the report.

Table PA 3: Method of detection by number of reported irregularities

	All years		2006	
	Share in %	Cumulative share	Share in %	Cumulative share
National administrative or financial control	35.41%	35.41%	17.45%	17.45%
Control of documents	29.18%	64.59%	45.57%	63.02%
On the spot control of achievement of project	12.65%	77.24%	9.64%	72.66%
Ex post control	5.64%	82.88%	1.56%	74.22%
National fiscal control	3.21%	86.09%	4.95%	79.17%
Control by national anti-fraud service	1.85%	87.94%	3.65%	82.82%
Routine	1.36%	89.30%	3.65%	86.47%

In 2006, the most popular method of detection by number of reported irregularities was control of documents. The growing importance of this detection method in comparison to others is evident. In all years this method of detection was second most common and in 2006 it constituted 45% both by number of reported cases and irregular amount. This might be the effect of phasing out of the pre-accession funds

in the new Member States and increased controls in connections to both final payments and to closure controls.

The table PA4 presents the method of detection classified by irregular amount. The main difference is the overall increase in share of the national administrative and financial controls which makes up 44.3%. This shows the importance of national implementation and controls mechanisms in the process of detection.

*Table PA 4: Method of detection by irregular amount*

	All years		2006	
	Share in %	Cumulative share	Share in %	Cumulative share
National administrative or financial control	44.32%	44.32%	16.15%	16.15%
Control of documents	26.78%	71.10%	45.07%	61.22%
On the spot control of achievement of project	13.19%	84.29%	11.54%	72.76%
Ex post control	6.08%	90.37%	1.81%	74.57%
National fiscal control	2.26%	92.64%	7.39%	81.96%
Other controls	1.36%	94.00%	2.25%	84.21%

### 5.2.2. Types of irregularity

The most frequently reported type of irregularity by number of received communications in 2006 was “non-eligible expenditure”: 17% of irregularities had this modus operandi. It was the most common type in all three pre-accession funds, as in ISPA it represented 30.8%, 23.8% in SAPARD and 9.8% in PHARE.

*Table PA 5: Type of irregularity by number of reported irregularities*

	All years		2006	
	Share in %	Cumulative share	Share in %	Cumulative share
Non-eligible expenditure	16.51%	16.51%	17.02%	17.02%
Failure to respect other regulations/contract conditions	8.59%	25.10%	6.28%	23.30%
Other irregularities	7.82%	32.92%	11.78%	35.08%
Falsified supporting documents	6.87%	39.79%	7.07%	42.15%
Failure to fulfil commitments entered into	5.82%	45.61%	7.57%	49.72%
Action not carried out in accordance with rules	4.96%	50.57%	3.14%	52.86%
Infringement of rules concerned with public procurement	4.77%	55.34%	1.57%	54.43%
Missing or incomplete supporting documents	4.77%	60.11%	3.40%	57.83%
Incorrect accounts	4.01%	64.12%	2.88%	60.71%
Falsified accounts	3.53%	67.65%	0.52%	61.23%
Not indicated	3.34%	70.99%	0.00%	61.23%
Failure to respect deadlines	3.05%	74.05%	4.97%	66.20%
Unjustified expenditures	3.05%	77.10%	6.02%	72.22%

In PHARE fund, the second most frequently reported modus operandi was “unjustified expenditure” which had a share of 9.8%. In PHARE the distribution of types of irregularity is more even than in the other funds: irregularities concerning eligibility of expenditures were followed by “failure to respect deadlines” (7.7%) and

“falsified supporting documents” (7.5%). The latter had a similar share also in SAPARD (8.13%).

Comparing the figures from 2006 with the data for all years similar patterns can be observed. The most common type of irregularity remains “non-eligible expenditure” both globally and in all three pre-accession funds separately. It had the highest share in ISPA fund - 23.2%. “Falsified supporting document” type of irregularity was the second most common in SAPARD (9.8%) and in PHARE was next to other potentially fraudulent modus operandi, “falsified accounts” (5.4%), and together they represented 10.5% of all irregularities.

If the comparison is made by affected irregular amount, the share changes. The most common type of irregularity in 2006 was “failure to fulfil commitments entered into” 18,9%. This result was the outcome of high share of this type in SAPARD – 45.9%. This type of comparison made on the base of irregular amount is heavily influenced by few cases involving high share of irregular amount. In ISPA four cases with the type of irregularity “absence or incompatibility of contract” made up 85.9% of irregular amount of all cases. In PHARE the concentration was lower, the most detected modus operandi “infringement with regards to the co-financing system” compose 18.5%.

*Table PA 6: Type of irregularity by irregular amount*

	All years		2006	
	Share in %	Cumulative share	Share in %	Cumulative share
Missing or incomplete documents	12.92%	12.92%	0.30%	0.30%
Failure to respect other regulations/contract conditions	12.43%	25.35%	2.67%	2.97%
Non-eligible expenditure	11.49%	36.85%	7.99%	10.96%
Falsified supporting documents	8.73%	45.57%	3.08%	14.04%
Failure to fulfil commitments entered into	6.57%	52.14%	18.87%	32.91%
Action not completed	5.25%	57.39%	0.22%	33.13%
Other irregularities	4.66%	62.05%	12.08%	45.21%
Action not carried out in accordance with rules	4.22%	66.27%	2.86%	48.07%
Incorrect supporting documents	3.87%	70.14%	3.14%	51.21%
Incorrect accounts	3.79%	73.93%	3.21%	54.42%
Missing or incomplete supporting documents	2.92%	76.85%	1.61%	56.03%
Not indicated	2.84%	79.69%	0.00%	56.03%
Falsified accounts	2.76%	82.45%	2.16%	58.19%

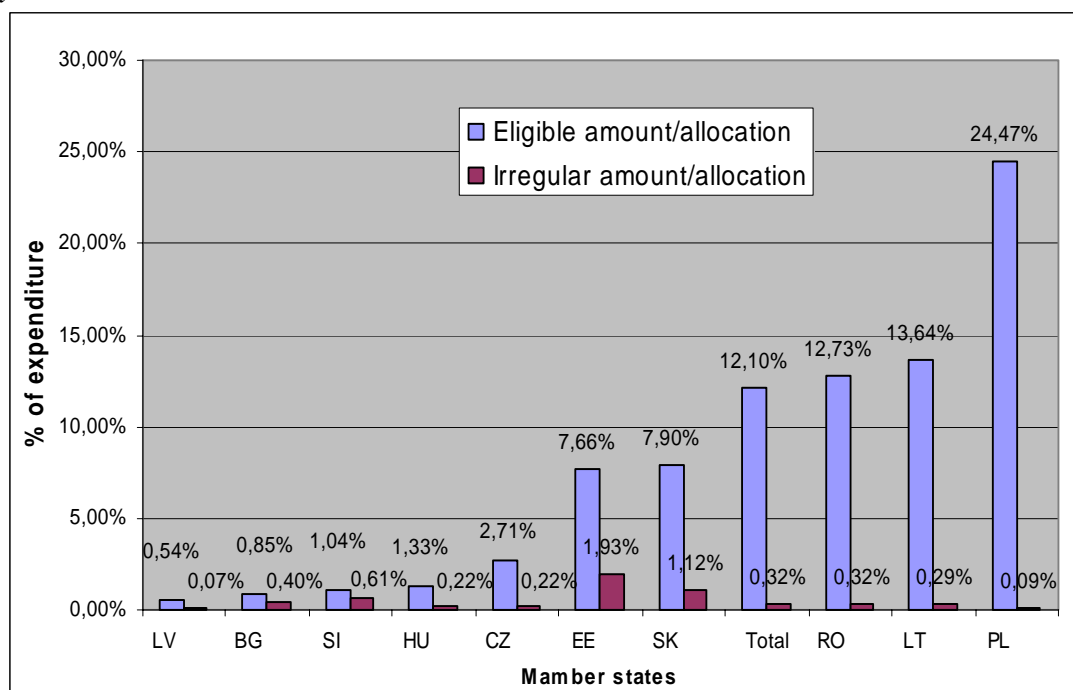
In all communications in all years “missing or incomplete documents” was the most common type of irregularity. Cases with this modus operandi were almost not reported during 2006. However from previous year their share is still considerable. In ISPA they represented 53.6% of all reported irregular amounts. In PHARE the widest spread type of irregularity was “action not completed”- 12.8%. In SAPARD 20.9% of irregular amount was committed by declaring non-eligible expenditure. In SAPARD “falsification of supporting documents” was also common, 18.1%.

### 5.2.3. Impact on the budget

In the pre-accession irregularity reporting form the budget year is not indicated and the data concerning project numbers are very often incomplete which makes it impossible to assess the impact on the budget in the given budget year. Given that the pre-accession funds are being phased out, chart PA5 is an attempt to present already a global picture for all years.

This graph has to be interpreted with caution for two reasons. Firstly, the different attitude of Member States towards detecting and reporting obligations. The countries more efficient in detecting and more willing to report irregularities will have this share at a considerably higher level, while countries reluctant to reporting will look better, even if this does not necessarily mean that they protect the EU financial interests better. The second problem is that data used for the table presents the allocation, which does not reflect actual implementation of the funds. Depending on the efficiency in implementation of the country's authorities the figures might rise.

Chart PA 5: Eligible expenditure and irregular amounts as % of expenditure – all years



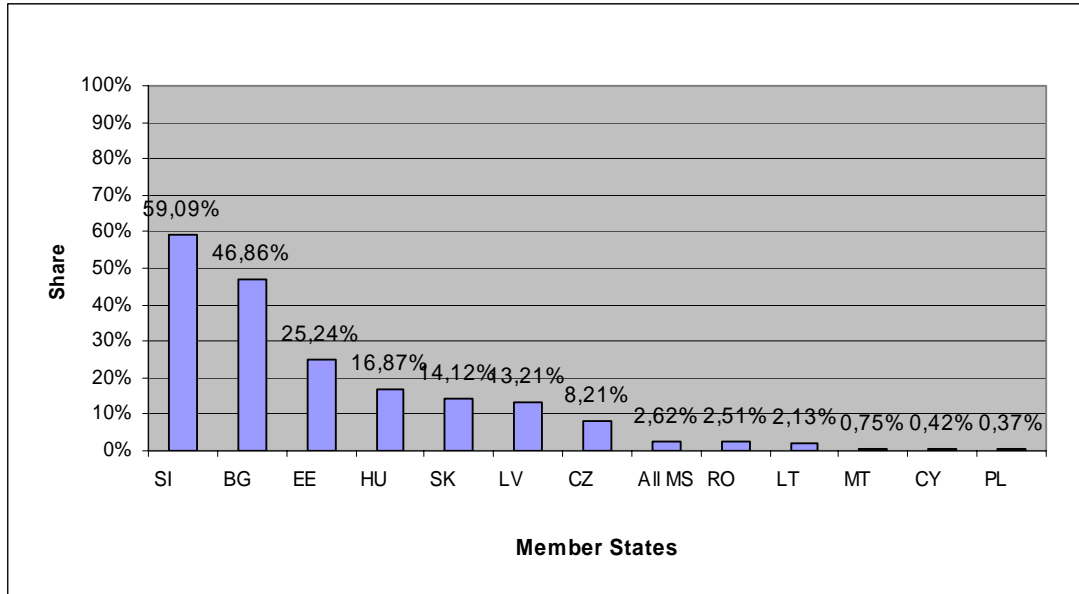
The highest impact of the eligible expenditure is in ISPA with 22.1% and, at the same time, ISPA had the lowest impact of irregular amount on the allocation with 0.19%. This is due to the features connected to implementation of the fund, as in that area big projects dominate – eligible amounts of the project are high. In other two funds where considerable smaller in size projects are implemented, the impact on the budget is lower, 6.7% and 5.8% respectively in PHARE and SAPARD. What differentiates these two funds is the impact of irregular amount on the budget. In PHARE it was considerable lower (0.28%) than in SAPARD (0.67%).

If one compares chart PA5 and chart PA6, two different groups of countries can clearly be distinguished. The first one is those that report a lot of cases: Poland,



Romania and Lithuania; in these countries irregular amounts as a percentage of eligible expenditure is low. At the other extreme is Slovenia and Bulgaria which report projects with high irregular share, which in many cases equals almost 100%. Despite a high share of irregular amounts in eligible expenditure in these countries, the total share of the irregular amounts in allocated expenditure remains at the low level (1%) because these countries report very little.

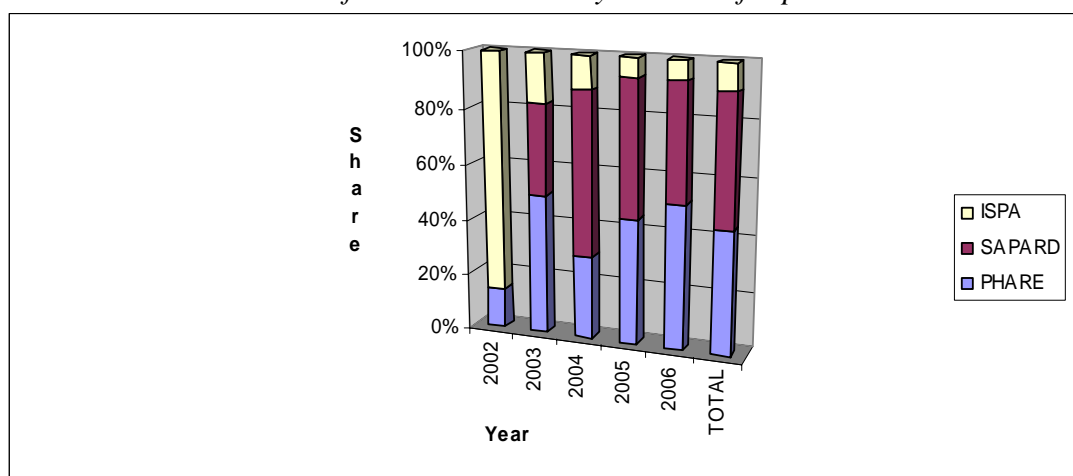
*Chart PA 6: Reported irregular amount as share of reported eligible expenditure*



### 5.3. Specific analysis

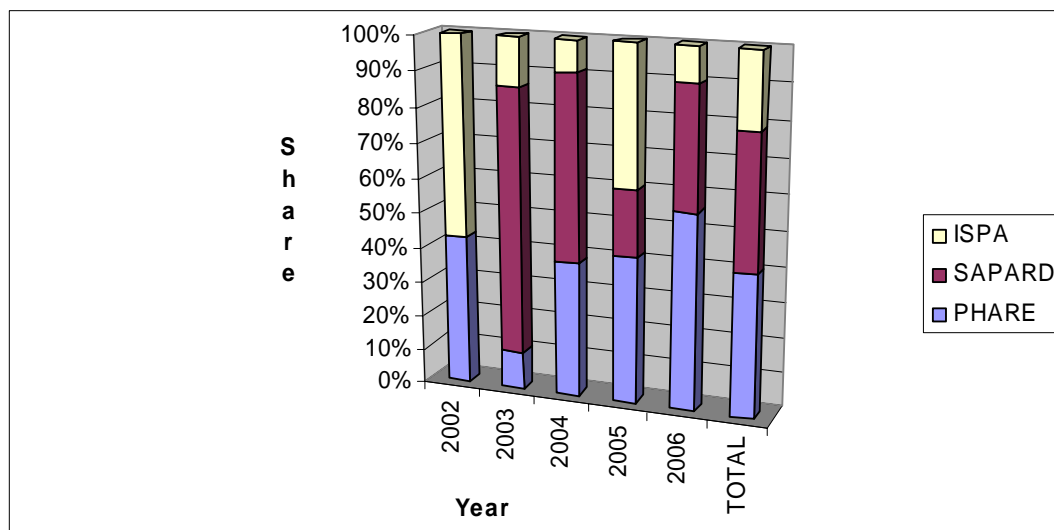
Taking into consideration the fact that the quality of the reports remains far from being fully reliable and comparable between reporting countries, attempt to analyse them should be treated very carefully. The highest number of reported cases in 2006 was in PHARE fund. The trend has been slightly changing, so far dominated SAPARD irregularities, PHARE, with the irregularities reported in 2006, almost reached the level of SAPARD in all years' statistics. Both SAPARD and PHARE funds have more relatively smaller projects in comparison to ISPA fund. In 2006 average total eligible amount in SAPARD and PHARE funds' project was EUR 0.3 million and in ISPA fund this average was EUR 13.1 million. In comparison to 2005 the average eligible amount in PHARE decreased by 30% and in SAPARD the average decreased by 17%. On the other side, in ISPA it increased more than 3 fold.

Chart PA 7: Distribution of communications by number of reports



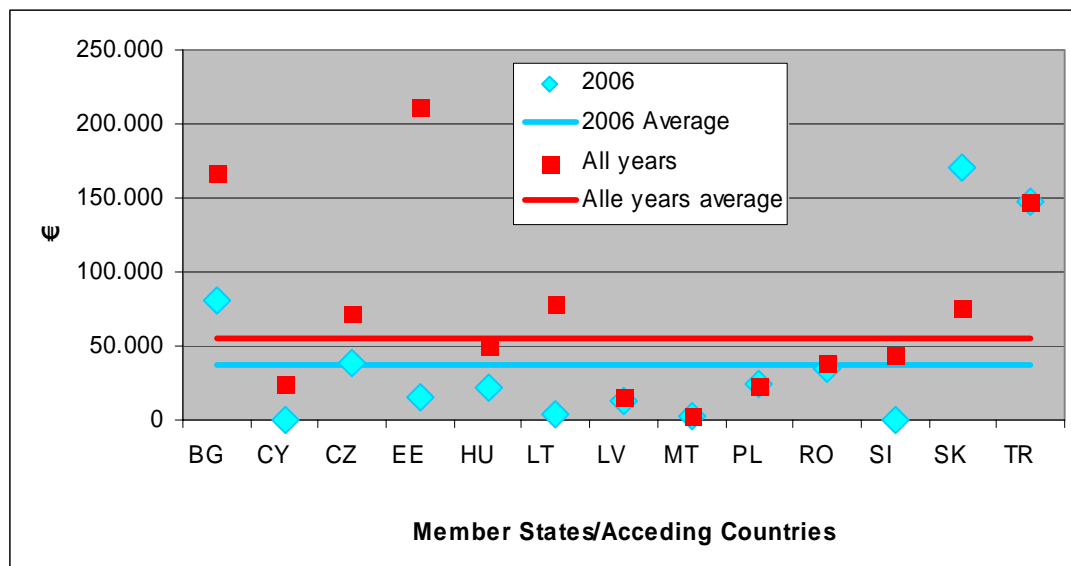
In 2006, the highest average irregular amount (Community financing) per reported project was in ISPA with EUR 61,957, decreasing in comparison to 2005. PHARE and SAPARD had respectively EUR 41,117 and EUR 28,924. Comparing Members States, the highest average amount per project in PHARE and SAPARD funds was reported by Slovakia, with EUR 166,386 and EUR 180,022, respectively, and in ISPA by Romania with EUR 64,875.

Chart PA 8: Distribution of communications by irregular amount



The graph below compares average irregular amount per project in 2006 with all the years. One can observe that in almost all the countries this has either remained stable or dropped, the only exception is Slovakia. What caused this sudden increase remains to be clarified and requires further analysis. In 2006 for all funds and all countries the average amount irregular per case was EUR 36,749 and decreased in comparison to 2005 by 41%.

Chart PA 9: Average irregular amount



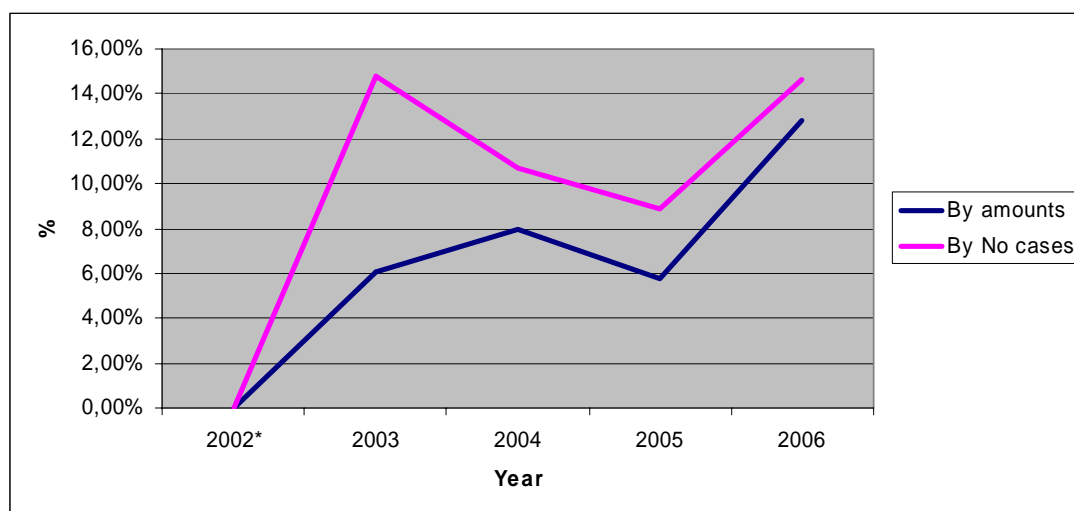
### 5.3.1. Irregularity vs Suspected Fraud

Distinguishing between irregularity and suspected fraud poses certain problems. Reporting authorities very reluctantly qualify case – graph PA2 shows that only 68% of reports qualify the irregularities. This forces OLAF to qualify reports very often based on the incomplete and scarce information in the report. Considering this limitations, estimation of the level of fraud should be interpreted very carefully.

In total across all years, cases of suspected fraud made up 8.3% of irregular amount. This number is slightly higher if calculated by number of reports – 12.6%. The most common modus operandi in fraudulent cases was “falsified supporting documents” which represented 37.3% of cases.

A comparison between the funds shows quite some disproportions. There were no cases of fraud reported in ISPA in any years. In SAPARD cases of fraud by irregular amount constituted 7.9% and 12.8% by number of cases. The highest share of suspected fraud cases was in PHARE, 13.7% by irregular amount and 14.9% by number of cases. Suspected fraud in PHARE composed 62% of the total amount of suspected fraud in all years. It could be interpreted that the immaterial output that dominates in PHARE projects is more prone to fraudulent activities.

Chart PA 10: Share of suspected fraud in reported cases



\* Includes irregularities reported until 2002

In absolute terms suspected fraud in both number of reports and irregular amount has been steadily growing each year. The drop in 2004 and 2005 was primarily caused by increased number of all irregularity reports.

The share of amount of cases classified as suspected fraud in the total eligible amount of reported projects is very low, representing 0.2%, taking into account that the total irregular amount of all reported projects is only 2.5% of the sum of eligible amount. The percentage of the sum of suspected fraud in the total allocated amount is respectively even lower – 0.03%. This number should be higher if the actual amount of eligible expenditure of projects implemented were compared. However, the final share of suspected fraud cases in pre-accession funds remains very low and not in line with what is observed in other European funds.

#### 5.4. Recovery

In 1,061 reported cases 852 involved irregular amount to be recovered. In 437 cases an irregular amount has been fully or partially recovered and in 464 cases irregular amount still need to be recovered. More money has still to be recovered (EUR 14.7 million) than has been recovered (EUR 11.0 million).

Table PA7 presents the recovery situation per country. It also presents the recovery rate, which is the percentage of the amount recovered in the sum of amount recovered and amount to be recovered.

The lowest amount remaining to be recovered is in ISPA - EUR 0.4 million, while in PHARE and SAPARD it is EUR 7.4 and EUR 6.9 million respectively. ISPA has also the highest recovery rate almost 90% of the amounts that is supposed to be recovered has already been recovered. In PHARE the recovery rate is 47.4% and in SAPARD only 16%.

Table PA 7: Recovery by reporting country

	Amount recovered	Amount to be recovered	Recovery rate
BG	176,168	2,808,742	5.90%
CY	0	0	
CZ	260,665	886,673	22.72%
EE	2,636,445	509,096	83.82%
HU	1,354,978	585,081	69.84%
LT	96,388	1,715,801	5.32%
LV	10,979	277,736	3.80%
MT	0	0	
PL	1,473,088	896,996	62.15%
RO	4,211,918	4,306,859	49.44%
SI	0	182,830	
SK	763,303	2,421,359	23.97%
TR	0	147,816	
<b>Total</b>	<b>10,983,931</b>	<b>14,738,990</b>	<b>42.70%</b>

Table PA8 presenting distribution by year, shows two phenomena; first is time delay in recovery process. The highest recovery rate concerns cases reported in 2004 – two years might be the necessary time gap to finish all the procedures required by law. After 2004 the recovery rate drops but we still may expect it to rise in the future. Secondly, cases reported before 2004 where the risk that this amounts will not be recovered is very high, as they have been pending for a long period and usually become prescribed.

Table PA 8: Recovery by reporting year

Year	Amount recovered	Amount to be recovered	Recovery rate
2002 <sup>56</sup>	982	16,440	5.64%
2003	525,676	1,490,063	26.08%
2004	3,287,674	1,731,445	65.50%
2005	4,118,792	4,550,982	47.51%
2006	3,050,807	6,950,060	30.51%
<b>Total</b>	<b>10,983,931</b>	<b>14,738,990</b>	<b>42.70%</b>

<sup>56</sup> Including preceding years.

## 5.5. Conclusions

The irregular amounts decreased by 29.9%, despite the fact that the number of reported cases have increased together with reported eligible amount (by 122%).

There is a clear need for unified interpretation, use of guidelines and working documents to ensure comparability of data between different countries and different funds.

The most common method of detection in 2006 both by irregular amount and number of communications was control of documents – 45% of detected cases.

In 2006 the most frequently reported type by number of irregularity communicated across all the pre-accession funds and in each one was “non-eligible expenditure”. By reported irregular amounts the most detected modus operandi was “failure to fulfil commitments entered into”.

Impact on the budget varies from country to country, but it more reflects the specific country’s willingness to report, than the amount of irregularities and should be interpreted very cautiously. In comparison between the funds the highest impact of irregular amounts on the budget was in SAPARD, 0.67%.

The low impact on the budget of both eligible expenditures and irregular amount in comparison with other funds shows, that new Member States are generally underreporting.

In comparison with other pre-accession funds immaterial output in PHARE projects appears to be more prone to fraudulent attempts.

Recovery is more successful the earlier it is started. There is a very limited chance to recover the irregular amount in cases pending for over 3 years.

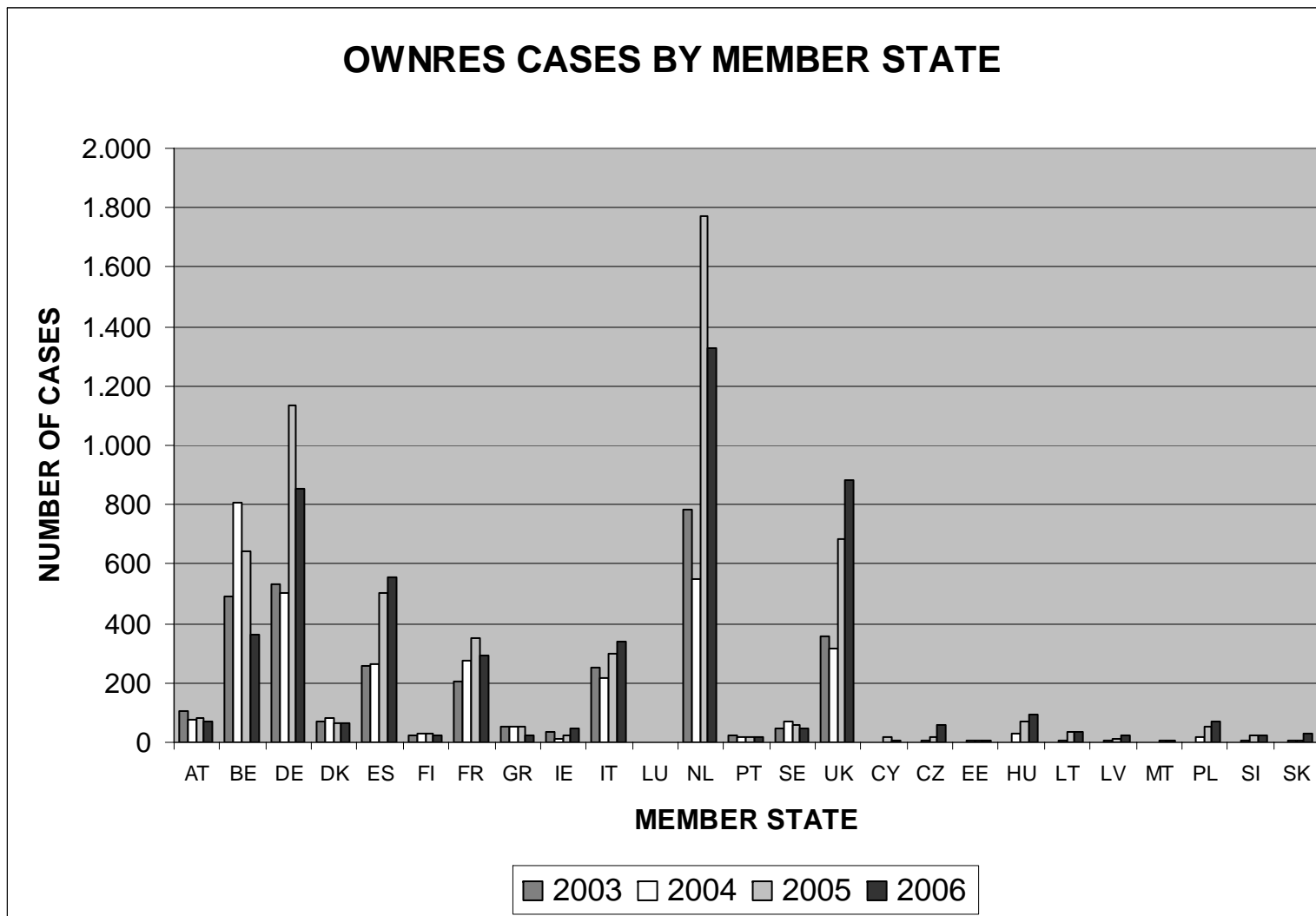
**ANNEXES**

## ANNEX 1 – TRADITIONAL OWN RESOURCES

Number of cases OWNRES and amounts for the period 2003-2006 by Member State										
Member State	2003		2004		2005		2006		% Change	% Change
	Cases	Amount €	Cases	Amount €	Cases	Amount €	Cases	Amount €		
AT	104	16,030,722	74	7,735,468	80	6,069,811	72	6,857,684	-10.00%	12.98%
BE	492	8,905,453	805	18,179,933	641	20,877,076	360	12,387,812	-43.84%	-40.66%
DE	532	66,748,080	502	32,443,031	1,132	62,323,595	855	46,345,172	-24.47%	-25.64%
DK	68	8,033,263	80	6,979,600	64	6,884,753	62	6,067,958	-3.13%	-11.86%
ES	258	22,652,702	266	18,615,582	501	48,906,603	557	27,590,199	11.18%	-43.59%
FI	24	1,030,908	28	1,597,791	30	1,992,413	21	1,464,957	-30.00%	-26.47%
FR	205	15,873,554	275	20,950,337	348	35,038,375	294	33,387,673	-15.52%	-4.71%
GR	51	1,867,288	50	4,099,877	53	8,061,253	21	442,048	-60.38%	-94.52%
IE	33	2,340,846	10	401,444	22	671,846	44	2,604,534	100.00%	287.67%
IT	253	54,921,997	217	25,861,683	296	31,440,898	337	69,882,133	13.85%	122.27%
LU	1	0	0	0	0	0	1	49,291	100.00%	100.00%
NL	783	58,910,415	552	44,444,758	1,771	34,885,355	1,327	63,284,120	-25.07%	81.41%
PT	22	2,197,568	15	630,533	20	1,677,818	17	835,319	-15.00%	-50.21%
SE	48	1,563,258	68	6,028,294	60	3,293,308	44	2,164,111	-26.67%	-34.29%
UK	356	8,125,597	314	25,201,890	687	58,105,332	882	61,250,909	28.38%	5.41%
<b>EUR-15 TOTAL</b>	<b>3,230</b>	<b>269,201,651</b>	<b>3,256</b>	<b>7,735,468</b>	<b>5,705</b>	<b>320,228,436</b>	<b>4,894</b>	<b>334,613,920</b>	<b>-14.22%</b>	<b>4.49%</b>
CY			2	54,136	16	381,027	7	193,604	-56.25%	-49.19%
CZ			4	481,813	19	526,638	61	2,287,699	221.05%	334.40%
EE			3	54,900	3	165,287	5	178,010	66.67%	7.70%
HU			29	1,692,522	70	2,442,533	93	7,428,526	32.86%	204.13%
LT			8	205,209	35	1,518,024	34	1,634,868	-2.86%	7.70%
LV			7	252,392	9	611,663	26	1,422,325	188.89%	132.53%
MT			2	125,735	5	856,231	3	574,945	-40.00%	-32.85%
PL			17	651,587	55	1,369,657	69	2,067,153	25.45%	50.92%
SI			7	586,363	22	233,837	24	950,848	9.09%	306.63%
SK			3	318,119	4	68,348	27	1,527,433	575.00%	2134.79%
<b>EUR-10 TOTAL</b>			<b>82</b>	<b>4,422,776</b>	<b>238</b>	<b>8,173,245</b>	<b>349</b>	<b>18,265,411</b>	<b>46.64%</b>	<b>123.48%</b>
<b>EUR-25 TOTAL</b>	<b>3,230</b>	<b>269,201,651</b>	<b>3,338</b>	<b>12,158,244</b>	<b>5,943</b>	<b>328,401,681</b>	<b>5,243</b>	<b>352,879,331</b>	<b>-11.78%</b>	<b>7.45%</b>



**ANNEX 2 – TRADITIONAL OWN RESOURCES**



**ANNEX 3 – TRADITIONAL OWN RESOURCES**

<b>IMPACT ON CUSTOM PROCEDURE <i>FREE CIRCULATION</i></b>				
<b>YEAR</b>	<b>CASES</b>	<b>IMPACT CASES % OF TOTAL</b>	<b>AMOUNTS ESTABLISHED</b>	<b>IMPACT AMOUNTS ESTABLISHED % OF TOTAL</b>
<b>2002</b>	1,872	71.59%	197,172,984	54.20%
<b>2003</b>	2,152	66.63%	212,132,130	78.80%
<b>2004</b>	2,209	66.18%	180,429,114	82.92%
<b>2005</b>	3,138	52.80%	246,915,054	75.19%
<b>2006</b>	3,302	62.98%	231,911,905	65.72%

**ANNEX 4 – TRADITIONAL OWN RESOURCES**

<b>TOP 10 CHAPTER HEADINGS</b>							
<b>2005</b>				<b>2006</b>			
<b>CN</b>	<b>PRODUCT</b>	<b>AMOUNT €</b>	<b>CASES</b>	<b>CN</b>	<b>PRODUCT</b>	<b>AMOUNT €</b>	<b>CASES</b>
85	TVs and parts etc.	69,030,016	1,091	85	TVs and parts etc.	62,323,956	952
24	Tobacco / cigarettes	30,869,402	361	24	Tobacco / cigarettes	27,648,602	221
84	Engines and parts	24,075,255	441	15	Oils and fats	22,849,582	83
17	Sugar / sugar-products	23,680,810	70	61	Clothing	19,842,704	205
61	Clothing	22,086,102	363	28	Inorganic products	16,051,034	71
87	Cars / motors and parts	17,437,451	258	10	Cereals	15,054,215	48
62	Clothing	8,918,022	682	02	Meat	14,827,056	319
70	Glass and glassware	8,766,127	48	84	Engines and parts	14,726,730	361
03	Fish etc.	8,275,529	159	87	Cars / motors and parts	12,179,468	284
90	Optical instruments etc.	7,467,521	168	17	Sugar / sugar-products	11,682,690	85

## ANNEX 5 – TRADITIONAL OWN RESOURCES

TYPES OF GOODS AFFECTED BY FRAUD AND IRREGULARITY DURING PERIOD 2004-2006								
2004			2005			2006		
TARIFF CODES	CASES	AMOUNTS €	TARIFF CODES	CASES	AMOUNTS €	TARIFF CODES	CASES	AMOUNTS €
24022090	282	24,964,461	24022090	278	22,818,093	24022090	177	19,634,959
85281252	54	14,168,516	17019910	48	21,842,165	85254099	22	16,122,279
85393190	52	10,177,120	85282190	96	12,358,078	28121018	26	13,568,744
02071410	39	9,402,633	84089071	3	8,827,262	15091010	15	11,258,441
85282190	87	5,659,018	85281252	13	8,287,649	61103099	27	8,193,368
28046900	17	5,460,992	70320000	24	7,466,988	07032000	64	7,754,456
85273191	2	4,867,478	85219000	130	7,039,784	85393190	99	7,397,600
15099000	3	4,436,261	61101130	46	6,073,316	10062098	8	7,333,373
28181090	3	3,821,532	84733010	156	5,529,445	73121071	1	6,376,418
15091090	4	3,762,623	61103099	47	5,286,291	15091090	16	6,090,434
24021000	19	3,539,311	07032000	75	5,270,531	17019910	20	5,955,499
95000000	1	3,246,282	85281294	33	5,186,450	10063000	1	5,818,641
85281294	53	3,003,187	85393190	87	4,635,616	85219000	136	5,479,730
73121082	44	2,895,767	03061380	49	3,810,167	17029099	27	5,320,690
87120030	23	2,713,824	61102099	64	3,635,415	24022000	2	5,189,984
85244099	1	2,678,765	83051000	9	3,628,129	02023090	52	5,046,779
07032000	49	2,475,622	21069098	57	3,600,929	02072710	125	4,738,126
02072710	67	2,448,714	85254099	25	3,510,702	08030019	49	4,588,147
02023090	18	2,385,116	24022000	7	3,468,348	02071410	105	4,362,952
17019910	29	2,352,488	87032319	14	3,280,610	96131000	14	4,091,550
85438995	29	2,201,595	02072710	44	2,737,315	62031990	185	3,712,913
85239000	13	2,098,035	81122900	2	2,715,061	36799690	1	3,679,969
85254099	13	2,067,792	74261200	1	2,227,132	85281294	71	3,564,896
62021290	1	2,064,831	08030019	34	2,217,262	84733010	84	3,402,663
84119990	11	1,869,861	84821090	10	2,197,135	83051000	5	2,897,569

**ANNEX 6 – TRADITIONAL OWN RESOURCES**

<b>FRAUD AND IRREGULARITIES: BREAKDOWN BY ORIGIN OF THE GOODS DURING 2004-2006</b>								
<b>2004</b>			<b>2005</b>			<b>2006</b>		
<b>COUNTRY</b>	<b>CASES</b>	<b>€</b>	<b>COUNTRY</b>	<b>CASES</b>	<b>€</b>	<b>COUNTRY</b>	<b>CASES</b>	<b>€</b>
CHINA	531	51,999,923	CHINA	1,217	75,782,726	CHINA	1,326	75,742,768
USA	249	15,514,313	USA	724	31,453,362	NOT SPEC.	781	45,458,100
BRAZIL	112	13,852,977	NOT SPEC.	1,139	27,304,314	JAPAN	281	32,084,547
TURKEY	54	12,680,569	JAPAN	313	23,449,157	USA	655	29,067,751
SOUTH KOREA	134	12,234,293	CANADA	63	13,643,669	BRAZIL	340	20,656,720
THAILAND	129	12,066,387	JAMAICA	164	12,776,220	THAILAND	71	16,877,242
MALAYSIA	54	12,062,416	SOUTH KOREA	117	10,784,308	TUNISIA	48	14,281,872
JAPAN	122	8,389,699	SPAIN	13	9,522,793	GERMANY	37	13,107,572
NOT SPEC.	156	7,922,284	NORTH KOREA	5	8,136,558	SOUTH KOREA	136	10,929,915
POLAND	113	7,390,429	NETHERLANDS	633	7,654,024	TURKEY	84	10,846,496

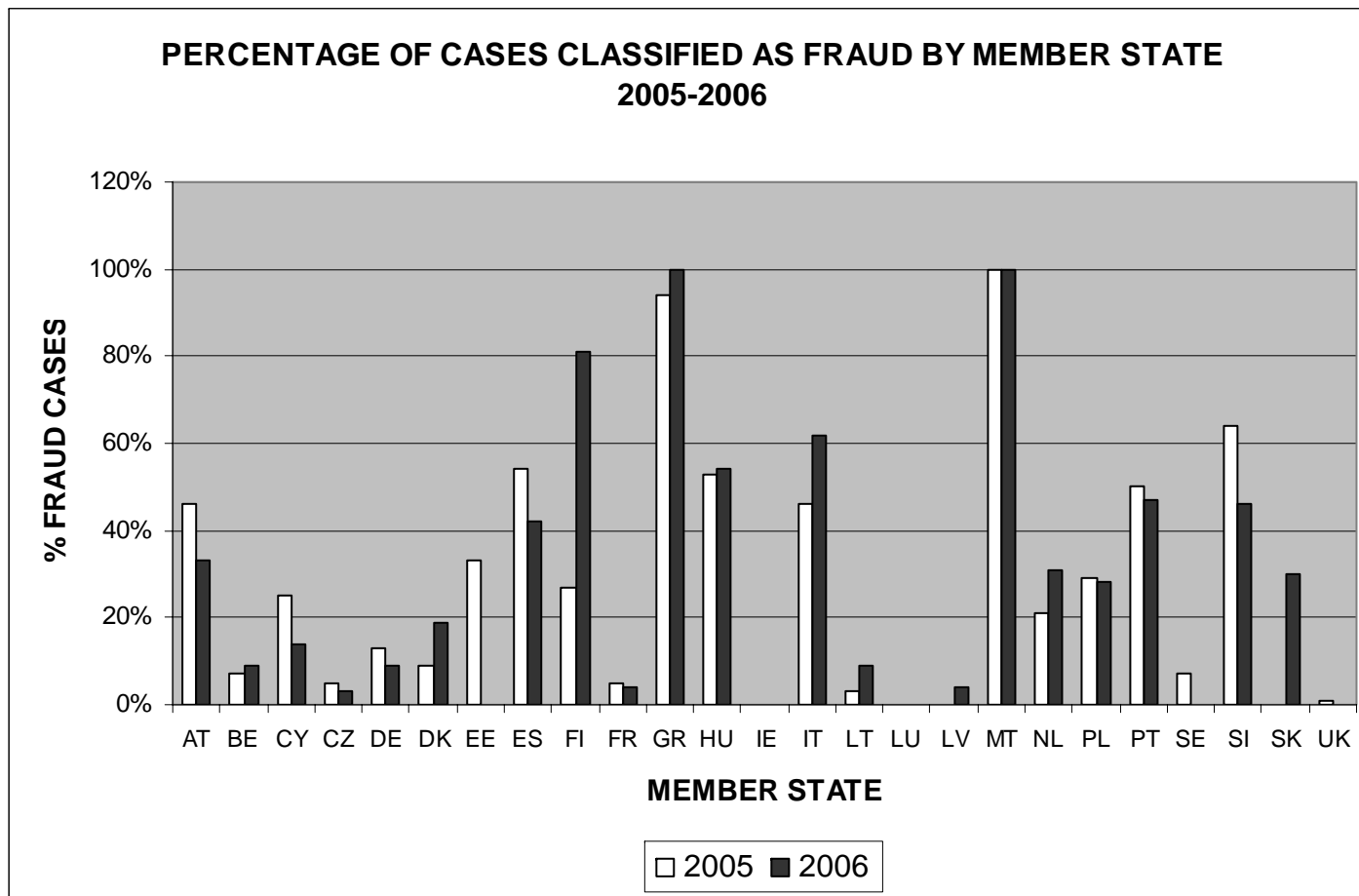
## ANNEX 7 – TRADITIONAL OWN RESOURCES

RECOVERY RATE TOR 2006			
MEMBER STATES	AMOUNT €	RECOVERED €	RECOVERY RATE
AT	6,857,684 €	2,299,000 €	33.52%
BE	12,387,812 €	1,537,940 €	12.41%
CY	193,604 €	91,749 €	47.39%
CZ	2,287,699 €	1,430,251 €	62.52%
DE	46,345,172 €	28,722,922 €	61.98%
DK	6,067,958 €	4,617,533 €	76.10%
EE	178,010 €	32,457 €	18.23%
ES	27,590,199 €	13,535,077 €	49.06%
FI	1,464,957 €	241,489 €	16.48%
FR	33,387,673 €	11,654,263 €	34.91%
GR	442,048 €	342,322 €	77.44%
HU	7,428,526 €	753,265 €	10.14%
IE	2,604,534 €	2,561,438 €	98.35%
IT	69,882,133 €	1,913,057 €	2.74%
LT	1,634,868 €	763,832 €	46.72%
LU	49,291 €	49,291 €	100.00%
LV	1,422,325 €	375,539 €	26.40%
MT	574,945 €	0 €	0.00%
NL	63,284,120 €	6,215,407 €	9.82%
PL	2,067,153 €	1,102,239 €	53.32%
PT	835,319 €	255,621 €	30.60%
SE	2,164,111 €	2,001,858 €	92.50%
SI	950,848 €	304,093 €	31.98%
SK	1,527,433 €	510,713 €	33.44%
UK	61,250,909 €	32,057,182 €	52.34%
<b>EUR-25 TOTAL</b>	<b>352,879,331 €</b>	<b>113,368,538 €</b>	<b>32.13%</b>

**ANNEX 8 – TRADITIONAL OWN RESOURCES**

<b>Smuggling - Seized and confiscated goods (cigarettes)</b>									
<b>Member State</b>	<b>2005</b>				<b>2006</b>				
	<b>Smuggling</b>	<b>Amounts of</b>	<b>Seized and</b>	<b>Amounts of</b>	<b>Smuggling</b>	<b>Amounts of</b>	<b>Seized and</b>	<b>Amounts of</b>	
AT	22	4,085,131	3	371,742	19	2,354,102	4	97,191	
BE	1	12,347	13	456,136	1	104,925	4	78,960	
DE	104	8,747,399	5	91,667	44	2,948,657	1	52,300	
FI	9	377,922	0	0	15	1,225,660	0	0	
FR	2	0	10	983,652	2	0	7	0	
DK	0	0	0	0	1	0	0	0	
GR	7	5,576,120	11	0	5	0	3	0	
IE	0	0	0	0	0	0	0	0	
IT	6	3,433,627	7	0	2	5,189,984	5	0	
LU	0	0	0	0	0	0	0	0	
NL	0	0	6	232,993	0	0	0	0	
PT	0	0	0	0	0	0	0	0	
ES	0	0	0	0	0	0	0	0	
SE	0	0	4	0	0	0	0	0	
UK	0	0	0	0	0	0	0	0	
<b>EUR-15 Total</b>	<b>151</b>	<b>22,232,546</b>	<b>59</b>	<b>2,136,190</b>	<b>89</b>	<b>11,823,328</b>	<b>24</b>	<b>228,451</b>	
CY	0	0	0	0	0	0	0	0	
CZ	0	0	0	0	0	0	0	0	
EE	0	0	1	140,655	0	0	0	0	
HU	4	82,329	8	21,180	1	36,350	6	258,599	
LV	0	0	0	0	0	0	0	0	
LT	2	26,897	3	43,336	2	25,876	3	87,498	
MT	0	0	4	408,996			1	184,351	
PL	0	0	13	365,394	0	0	17	394,217	
SK	0	0	0	0	0	0	3	397,874	
SI	0	0	6	25,928	0	0	9	549,900	
<b>EUR-10 Total</b>	<b>6</b>	<b>109,226</b>	<b>35</b>	<b>1,005,489</b>	<b>3</b>	<b>62,226</b>	<b>39</b>	<b>1,872,439</b>	
<b>EUR-25 Total</b>	<b>157</b>	<b>22,341,772</b>	<b>94</b>	<b>3,141,679</b>	<b>92</b>	<b>11,885,554</b>	<b>63</b>	<b>2,100,890</b>	

**ANNEX 9 – TRADITIONAL OWN RESOURCES**





**ANNEX 10 – TRADITIONAL OWN RESOURCES**

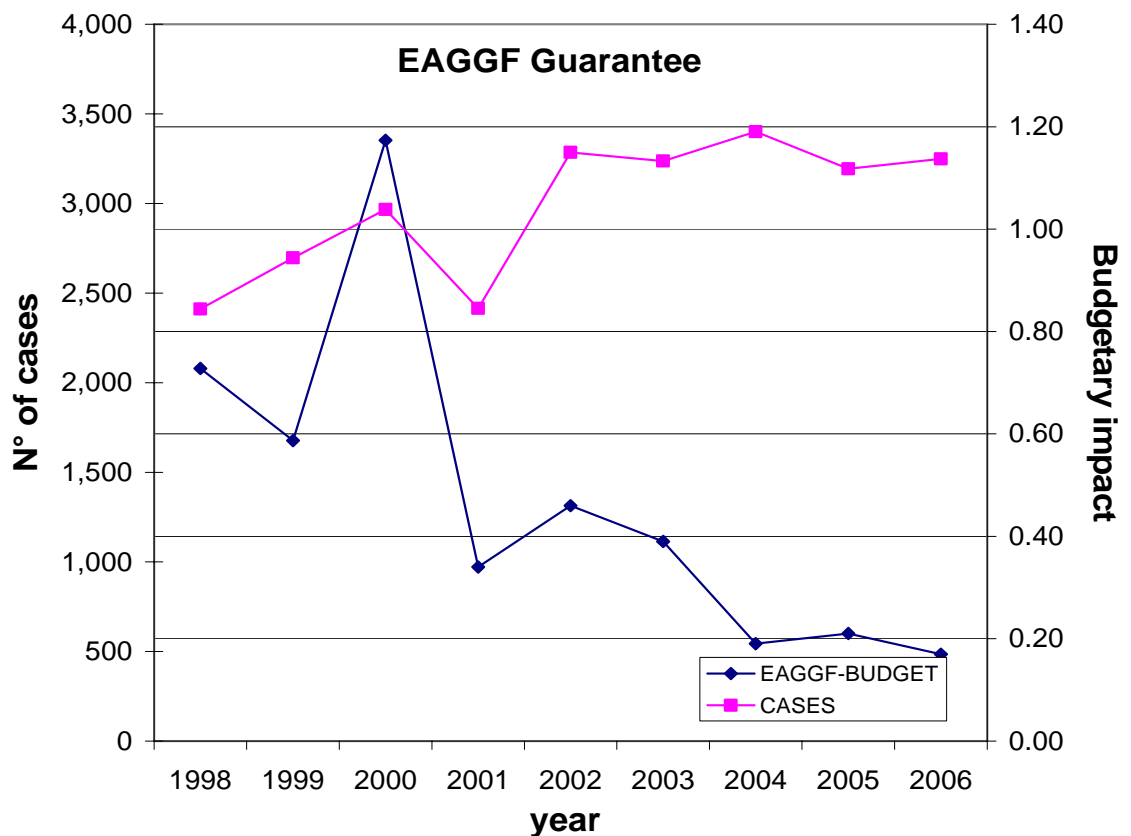
<b>PERCENTAGE OF CASES CLASSIFIED AS FRAUD PER MEMBER STATE PERIOD 2005-2006</b>						
<b>MEMBER STATE</b>	<b>2005</b>			<b>2006</b>		
	<b>CASES</b>	<b>FRAUD</b>	<b>% FRAUD</b>	<b>CASES</b>	<b>FRAUD</b>	<b>% FRAUD</b>
AT	80	37	46%	72	24	33%
BE	641	45	7%	360	32	9%
CY	16	4	25%	7	1	14%
CZ	19	1	5%	61	2	3%
DE	1,132	148	13%	855	80	9%
DK	64	6	9%	62	12	19%
EE	3	1	33%	5	0	0%
ES	501	272	54%	557	236	42%
FI	30	8	27%	21	17	81%
FR	348	16	5%	294	12	4%
GR	53	50	94%	21	21	100%
HU	70	37	53%	93	50	54%
IE	22	0	0%	44	0	0%
IT	296	135	46%	337	208	62%
LT	35	1	3%	34	3	9%
LU	0	0	0%	1	1	0%
LV	9	0	0%	26	1	4%
MT	5	5	100%	3	3	100%
NL	1,771	368	21%	1,327	405	31%
PL	55	16	29%	69	19	28%
PT	20	10	50%	17	8	47%
SE	60	4	7%	44	0	0%
SI	22	14	64%	24	11	46%
SK	4	0	0%	27	8	30%
UK	687	4	1%	882	1	0%
<b>EUR-25</b>	<b>5,943</b>	<b>1,182</b>	<b>20%</b>	<b>5,243</b>	<b>1,155</b>	<b>22%</b>

## EAGGF GUARANTEE

IRREGULARITIES COMMUNICATED BY THE MEMBER STATES  
YEARS 1998 - 2006

(amounts in € 1,000)

YEAR	CASES	AMOUNT	% OF BUDGET	EAGGF-BUDGET
2006	3,249	86,825	0.17	49,742,890
2005	3,193	102,112	0.21	47,819,509
2004	3,401	82,064	0.19	42,934,711
2003	3,237	169,724	0.39	43,606,858
2002	3,285	198,079	0.46	42,781,898
2001	2,415	140,685	0.34	41,866,940
2000	2,967	474,562	1.17	40,437,400
1999	2,697	232,154	0.59	39,540,800
1998	2,412	284,841	0.73	39,132,500



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

## ANNEX 12

update 14/03/2007

## EAGGF GUARANTEE

IRREGULARITIES COMMUNICATED BY THE MEMBER STATES UNDER  
REGULATION N° 595/91

2006

(amounts in € 1,000)

<i>Member States</i>	<i>Number of cases</i>	<i>Amounts</i>	<i>% of EAGGF expenditure</i>
AT	93	1,041	0.08
BE	57	1,258	0.13
CY	7	78	0.16
CZ	9	161	0.04
DE	489	7,320	0.11
DK	33	1,187	0.10
EE	10	99	0.13
EL	111	1,306	0.04
ES	683	25,937	0.39
FI	33	455	0.05
FR	548	11,689	0.12
HU	3	10	0.00
IE	94	857	0.05
IT	140	20,003	0.36
LT	30	309	0.10
LU	3	13	0.03
LV	1	13	0.01
MT	0	0	0.00
NL	87	5,702	0.47
PL	67	842	0.04
PT	359	3,745	0.38
SE	80	859	0.09
SI	1	0	0.00
SK	0	0	0.00
UK	311	3,941	0.09
<b>TOTAL</b>	<b>3,249</b>	<b>86,825</b>	<b>0.17</b>

## EAGGF GUARANTEE

SITUATION OF RECOVERY IN CASES COMMUNICATED UNDER  
REGULATION N° 595/91

(amounts in €1,000)

<i>Member States</i>	<i>To be recovered cases communicated before 2006</i>	<i>To be recovered cases communicated in 2006</i>	<i>In Justice *) before 2006</i>	<i>Amounts declared "irrecoverable" by Member States before 2006</i>
AT	2,529	360	374	579
BE	68,232	785	64,134	639
CY	0	0	0	0
CZ	132	89	0	0
DE	74,818	3,680	32,906	11,057
DK	1,108	98	23	890
EE	0	57	0	0
EL	55,780	1,164	27,138	2,343
ES	264,420	22,387	121,227	83,075
FI	247	102	22	3
FR	81,520	9,291	43,311	7,191
HU	0	0	0	0
IE	916	271	90	87
IT	682,224	3,461	165,872	136,792
LT	104	23	104	0
LU	3	9	0	0
LV	0	0	0	0
MT	0	0	0	0
NL	12,355	3,140	3,237	770
PL	176	116	182	3,458
PT	26,358	3,041	19,373	0
SE	574	192	0	186
SI	233	0	0	0
SK	0	0	0	0
UK	24,289	1,453	2,634	6,537
<b>TOTAL</b>	<b>1,296,018</b>	<b>49,721</b>	<b>480,627</b>	<b>253,608</b>

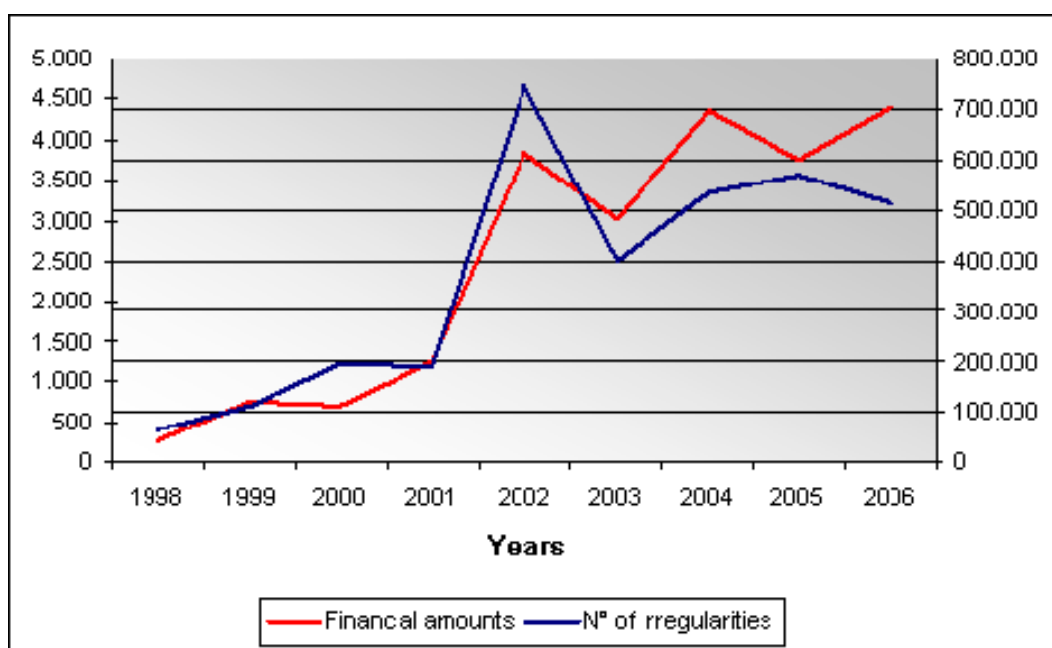
\*) In justice: awaiting outcome of judicial proceedings in national courts

## ANNEX 14

### STRUCTURAL MEASURES

#### IRREGULARITIES\* COMMUNICATED BY MEMBER STATES 1998-2006

Year	N° of irregularities	Financial amounts (x €1,000)	Total budget (x €1,000,000)	Impact on budget
2006	3,216	703,302	38,430	1.83%
2005	3,570	600,816	37,192	1.62%
2004	3,339	695,611	35,665	1.95%
2003	2,487	482,215	30,764	1.57%
2002	4,656	614,094	30,556	2.01%
2001	1,194	201,549	29,823	0.68%
2000	1,217	114,227	25,556	0.45%
1999	698	120,633	30,654	0.39%
1998	407	42,838	28,366	0.15%



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

**ANNEX 15**  
**PART 1**  
**STRUCTURAL FUNDS**  
**IRREGULARITIES REPORTED BY MEMBER STATES - 2006**  
**REGULATION N. 1681/94**  
**N° OF IRREGULARITIES**

MEMBER STATES	ERDF	ESF	EAGGF -	FIFG	TOTAL
AT	40	18	1		59
BE	15	10		6	31
CY					0
CZ	32	8			40
DE	190	98	32	1	321
DK	16			3	19
EE	8	2	1		11
EL	30	22	16	2	70
ES	128	137	66	15	346
FI	17	18	12	1	48
FR	66	20	12		98
HU	24	17	50		91
IE					0
IT	371	138	200	35	744
LT	7	1	17		25
LU		3			3
LV	1		2		3
MT	1			1	2
NL	16	161	5		182
PL*	24*	56*	65*	2*	147*
PT	89	297	50	4	440
SE	36	23	7	5	71
SI	3	4			7
SK	1	6			7
UK	110	94	12	7	223
<b>TOTAL</b>	<b>1,225</b>	<b>1,133</b>	<b>548</b>	<b>82</b>	<b>2,988</b>

\*This figures include 39 irregularities communicated in relation to the year 2005 but that could not be processed in time for the annual report 2005. If these are added to the year 2005, the number of reported irregularities from Poland remained stable from 2005 to 2006 (106 in 2005 and 108 in 2006).

**ANNEX 15  
PART 2**

**STRUCTURAL FUNDS**

**IRREGULARITIES REPORTED BY MEMBER STATES - 2006  
REGULATION N. 1681/94**

**FINANCIAL AMOUNTS INVOLVED IN IRREGULARITIES**

<b>MEMBER STATES</b>	<b>ERDF</b>	<b>ESF</b>	<b>EAGGF - Guid.</b>	<b>FIFG</b>	<b>TOTAL</b>
AT	6,377,317	1,455,574	18,706		7,851,597
BE	2,939,477	273,430		468,082	3,680,989
CY					0
CZ	2,886,483	114,916			3,001,399
DE	21,107,853	5,210,479	839,865	45,691	27,203,888
DK	750,103			50,131	800,234
EE	1,009,093	30,245	301,723		1,341,061
EL	8,385,036	876,880	3,714,627	321,199	13,297,742
ES	69,715,238	8,451,387	5,993,174	1,535,101	85,694,900
FI	667,718	2,006,963	290,800	27,619	2,993,100
FR	3,134,088	687,011	578,593		4,399,692
HU	1,786,104	428,634	3,902,796		6,117,534
IE					0
IT	169,776,855	26,858,293	28,912,133	2,671,283	228,218,564
LT	260,475	16,640	1,016,915		1,294,029
LU		131,931			131,931
LV	15,714		27,230		42,944
MT	384,750			0	384,750
NL	4,466,030	10,680,857	178,934		15,325,821
PL*	9,582,382*	1,069,955*	1,449,467*	152,348*	12,254,152*
PT	16,465,889	13,170,634	7,243,107	293,047	37,172,677
SE	1,468,822	671,861	160,303	245,711	2,546,697
SI	2,533,955	64,227			2,598,183
SK	85,629	469,584			555,213
UK	36,225,033	22,285,603	688,792	591,035	59,790,464
<b>TOTAL</b>	<b>360,024,045</b>	<b>94,955,104</b>	<b>55,317,165</b>	<b>6,401,247</b>	<b>516,697,561</b>

\*This figures include 39 irregularities communicated in relation to the year 2005 that could not be processed in time for the annual report 2005. If these are added to the year 2005, the number of reported irregularities from Poland remained stable from 2005 to 2006 (106 in 2005 and 108 in 2006).

ANNEX 16

STRUCTURAL FUNDS

IRREGULARITIES COMMUNICATED BY MEMBER STATES UNDER  
REGULATION N. 1681/94

SITUATION OF RECOVERY

MEMBER STATES	To be recovered before 2006	To be recovered communicated in 2006	In justice before 2006 (*)	Amounts declared 'irrecoverable'(**) by Member States before 2005
AT	6,893,472	5,168,883	1,815,891	1,000,768
BE	12,507,191	1,578,077	828,207	11,504,913
CZ	14,155	243,624		
DE	243,850,697	16,116,789	35,401,878	45,438,671
DK	14,239,973	378,409	0	13,658,894
EE	27,957	335,187		
EL	20,823,291	7,907,453	1,787,351	
ES	58,050,709	21,250,413	5,195,066	1,154,085
FI	2,469,741	642,399	585,448	569,883
FR	7,784,240	393,614	493,765	159,249
HU	3,426	142,985	0	
IE	1,543,879		282,390	
IT	292,028,973	143,886,672	248,101,909	
LT	94,126	65,751		151,604
LU	0	40,891		
LV	90,991	42,944	51,056	
MT	0	384,750		
NL	4,581,559	446,993	684,270	
PL***	14,735	752,200***		
PT	7,911,608	24,720,820	1,835,497	432,938
SE	661,119	496,545	43,747	
SI		1,159,042		
SK		174,513		
UK	88,806,426	40,207,902	187,146	1,778,124
<b>TOTAL</b>	<b>762,398,267</b>	<b>266,536,855</b>	<b>297,293,619</b>	<b>75,849,129</b>

\* In justice: awaiting outcome of judicial procedures in national courts.

\*\*Amounts irrecoverable: awaiting formal decision according to the procedure set out in art. 5§2 of Regulation No. 1681/94.

\*\*\* These figures include 39 irregularities communicated in relation to the year 2005 that could not be processed in time for the annual report 2005. If these are added to the year 2005, the number of reported irregularities from Poland remained stable from 2005 to 2006 (106 in 2005 and 108 in 2006).



ANNEX 17

COHESION FUND - 2006

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

MEMBER STATES	N° OF IRREGULARITIES	FINANCIAL AMOUNTS INVOLVED	FIN. AMOUNTS TO BE RECOVERED
CZ	6	0	0
EL	103	117,856,924	12,698,144
ES	82	44,472,847	30,179,534
HU	6	175,788	77,469
LT	1	83,381	0
LV	2	18,851	18,851
PL*	10*	249,102*	128,787*
PT	18	23,747,904	14,850,306
<b>TOTAL</b>	<b>228</b>	<b>186,604,797</b>	<b>57,953,091</b>

\*These figures include 7 irregularities communicated in relation to the year 2005 that could not be processed in time for the annual report 2005. If these are added to the year 2005, the number of reported irregularities from Poland decreased from 2005 to 2006 (10 in 2005 and 3 in 2006).

**ANNEX 18**  
**PRE-ACCESSION FUNDS**  
**Irregularities reported in 2006**

**Table**

Fund	All funds				
	€	No Reports	Eligible amount <sup>57</sup>	Irregular amount	Amount to be recovered
Bulgaria		27	10,061,863	1,693,780	1,654,406
Cyprus		1	1,530,000	0	0
Czech Republic		4	155,650	155,650	155,650
Estonia		4	106,366	62,166	45,813
Hungary		16	1,437,832	268,245	9,205
Latvia		16	730,774	211,242	178,483
Lithuania		2	314,384	3,480	0
Malta		5	1,147,287	8,600	0
Poland		106	17,664,751	2,414,251	729,497
Romania		188	405,067,200	5,471,695	3,310,006
Slovakia		13	5,038,759	1,871,154	719,184
Slovenia		1	129,935	0	0
Turkey		1	147,816	147,816	147,816
<b>Total</b>		<b>384</b>	<b>443,532,616</b>	<b>12,308,078</b>	<b>6,950,060</b>

<sup>57</sup> If the amount was reported in national currency the Commission monthly exchange rate was used.

Table 2

Fund €	PHARE			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	7	6,414,324	295,412	279,556
Cyprus	1	1,530,000	0	0
Hungary	8	1,212,979	206,079	9,205
Latvia	13	527,854	91,308	58,549
Lithuania	1	44,550	3,480	0
Malta	5	1,147,287	8,600	0
Poland	55	13,182,533	1,948,782	489,426
Romania	97	30,397,056	2,817,451	2,194,851
Slovakia	10	4,498,693	1,331,088	179,118
Slovenia	1	129,935	0	0
Turkey	1	147,816	147,816	147,816
<b>Total</b>	<b>199</b>	<b>59,233,027</b>	<b>6,850,016</b>	<b>3,358,521</b>

Table 3

Fund €	SAPARD			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	18	2,762,292	1,388,956	1,374,850
Czech Republic	4	155,650	155,650	155,650
Estonia	4	106,366	62,166	45,813
Hungary	8	224,853	62,166	0
Latvia	3	202,920	119,934	119,934
Lithuania	1	269,834	0	0
Poland	51	4,482,218	465,469	240,071
Romania	68	34,711,777	1,486,480	1,023,042
Slovakia	3	540,066	540,066	540,066
<b>Total</b>	<b>160</b>	<b>43,455,975</b>	<b>4,280,887</b>	<b>3,499,425</b>

Table 4

Fund €	ISPA			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	2	885,247	9,412	0
Romania	23	339,958,367	1,167,764	92,113
<b>Total</b>	<b>25</b>	<b>340,843,614</b>	<b>1,177,176</b>	<b>92,113</b>

## ANNEX 19

### PRE-ACCESSION FUNDS

#### Irregularities reported below the threshold in 2006

**Table 1**

Fund €	PHARE			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	3	42,900	13,757	13,757
Hungary	5	1,033,493	26,593	9,205
Lithuania	1	44,550	3,480	0
Latvia	10	415,790	36,699	12,779
Malta	5	1,147,287	8,600	0
Poland	10	6,955,482	35,788	10,839
Romania	54	23,020,991	94,494	49,645
Slovakia	5	2,667,250	15,373	9,974
<b>Total</b>	<b>93</b>	<b>35,327,743</b>	<b>234,784</b>	<b>106,199</b>

**Table 2**

Fund €	SAPARD			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	7	1,310,914	3,557	3,468
Estonia	1	2,828	2,828	2,828
Hungary	4	128,509	0	0
Lithuania	1	269,834	0	0
Poland	17	456,151	3,122	0
Romania	34	15,663,194	43,106	20,844
<b>Total</b>	<b>64</b>	<b>17,831,430</b>	<b>52,613</b>	<b>27,140</b>

NB: Tables present detailed division by fund of the table on page 63. Threshold applied €10 000 in PHARE and €4 000 in SAPARD.

## ANNEX 20

### PRE-ACCESSION FUNDS

#### Irregularities reported – all years

Table 1

Fund €	All founds			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	62	17,808,953	8,344,733	2,808,742
Cyprus	5	5,624,616	23,807	
Czech Republic	28	21,073,573	1,731,151	886,673
Estonia	28	23,479,841	5,927,074	509,096
Hungary	90	13,223,427	2,230,815	585,081
Lithuania	38	102,256,833	2,179,392	1,715,801
Latvia	31	2,385,596	315,062	277,736
Malta	5	1,147,287	8,600	0
Poland	208	971,503,356	3,636,022	896,996
Romania	437	580,655,836	14,548,953	4,306,859
Slovenia	36	2,448,506	1,446,941	182,830
Slovakia	89	44,907,690	6,339,712	2,421,359
Turkey	1	147,816	147,816	147,816
<b>Total</b>	<b>1058</b>	<b>1,786,663,331</b>	<b>46,880,079</b>	<b>14,738,990</b>

**Table 2**

Fund €	PHARE			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	23	6,991,629	558,025	480,915
Cyprus	5	5,624,616	23,807	
Czech Republic	15	1,828,695	457,037	442,506
Estonia	14	6,842,982	2,876,832	1,680
Hungary	42	10,577,626	2,145,024	585,081
Latvia	17	807,656	95,875	58,549
Lithuania	20	962,533	607,049	486,214
Malta	5	1,147,287	8,600	0
Poland	91	342,176,055	2,049,906	489,426
Romania	150	62,135,113	4,217,935	2,724,791
Slovakia	82	17,015,931	5,666,591	1,832,239
Slovenia	6	950,053	158,890	178,045
Turkey	1	147,816	147,816	147,816
<b>Total</b>	<b>471</b>	<b>457,207,992</b>	<b>19,013,388</b>	<b>7,427,263</b>

**Table 3**

Fund €	SAPARD			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	36	4,609,447	2,454,626	2,327,827
Czech Republic	12	495,664	482,753	444,167
Estonia	10	3,413,367	2,879,465	338,102
Hungary	48	2,645,801	85,791	
Latvia	14	1,577,940	219,187	219,187
Lithuania	11	4,445,720	1,570,011	1,229,111
Poland	96	7,430,681	819,310	305,133
Romania	226	127,250,434	7,511,621	1,484,246
Slovakia	6	742,559	624,067	540,066
Slovenia	30	1,498,453	1,288,050	4,786
<b>Total</b>	<b>489</b>	<b>154,110,066</b>	<b>17,934,882</b>	<b>6,892,624</b>

**Table 4**

Fund €	ISPA			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered
Bulgaria	3	6,207,877	5,332,082	
Czech Republic	1	18,749,214	791,361	0
Estonia	4	13,223,492	170,777	169,314
Lithuania	7	96,848,580	2,332	476
Poland	21	621,896,620	766,806	102,437
Romania	61	391,270,289	2,819,397	97,822
Slovakia	1	27,149,200	49,054	49,054
<b>Total</b>	<b>98</b>	<b>1,175,345,273</b>	<b>9,931,809</b>	<b>419,103</b>

## ANNEX 21

### PRE-ACCESSION FUNDS

#### Irregularities communicated by Member States and Acceding Countries

Fund €	PHARE				SAPARD				ISPA			
	No Reports	Eligible amount	Irregular amount	Amount to be recovered	No Reports	Eligible amount	Irregular amount	Amount to be recovered	No Reports	Eligible amount	Irregular amount	Amount to be recovered
2002	1	22,600	11,300	11,300	0	0	0	0	6	131,861	14,890	5,140
2003	52	320,212,636	672,467	377,025	33	6,164,264	4,742,336	1,095,324	18	280,145,353	850,802	17,714
2004	68	12,671,249	4,144,810	985,628	132	50,484,608	5,624,391	442,164	26	474,367,843	949,050	303,654
2005	151	65,068,480	7,334,795	2,694,788	164	54,005,218	3,287,268	1,855,711	23	79,856,601	6,939,891	482
2006	199	59,233,027	6,850,016	3,358,521	160	43,455,975	4,280,887	3,499,425	25	340,843,614	1,177,176	92,113
<b>Total</b>	<b>471</b>	<b>457,207,992</b>	<b>19,013,388</b>	<b>7,427,263</b>	<b>489</b>	<b>154,110,066</b>	<b>17,934,882</b>	<b>6,892,624</b>	<b>98</b>	<b>1,175,345,273</b>	<b>9,931,809</b>	<b>419,103</b>



ANNEX 22

IRREGULARITIES REPORTED BY MEMBER STATES IN 2006 – EAGGF, STRUCTURAL AND COHESION FUNDS, OWN RESOURCES

	EAGGF		Structural Actions		Cohesion Fund		Own Resources		TOTAL	
	CASES	TOTAL AMOUNT	CASES	TOTAL AMOUNT	CASES	TOTAL AMOUNT	CASES	TOTAL AMOUNT	CASES	TOTAL AMOUNT
AT	93	1,041	59	7,852	0	0	72	6,858	224	15,750
BE	57	1,258	31	3,681	0	0	360	12,388	448	17,327
CY	7	78	0	0	0	0	7	194	14	272
CZ	9	161	40	3,001	6	0	61	2,288	116	5,450
DE	489	7,320	321	27,204	0	0	855	46,345	1,665	80,869
DK	33	1,187	19	800	0	0	62	6,068	114	8,055
EE	10	99	11	1,341	0	0	5	178	26	1,618
EL	111	1,306	70	13,298	103	117,857	21	442	305	132,903
ES	683	25,937	346	85,695	82	44,473	557	27,590	1,668	183,695
FI	33	455	48	2,993	0	0	21	1,465	102	4,913
FR	548	11,689	98	4,400	0	0	294	33,388	940	49,476
HU	3	10	91	6,118	6	176	93	7,429	193	13,732
IE	94	857	0	0	0	0	44	2,605	138	3,462
IT	140	20,003	744	228,219	0	0	337	69,882	1,221	318,104
LT	30	309	25	1,294	1	83	34	1,635	90	3,321
LU	3	13	3	132	0	0	1	49	7	194
LV	1	13	3	43	2	19	26	1,422	32	1,497
MT	0	0	2	38	0	0	3	575	5	613
NL	87	5,702	182	15,326	0	0	1,327	63,284	1,596	84,312
PL*	67	842	147	12,254	10	249	69	2,067	293	15,412
PT	359	3,745	440	37,173	18	23,748	17	835	834	65,501
SE	80	859	71	2,547	0	0	44	2,164	195	5,570
SI	1	0	7	2,598	0	0	24	951	32	3,549
SK	0	0	7	555	0	0	27	1,527	34	2,083
UK	311	3,941	223	59,790	0	0	882	61,251	1,416	124,982
<b>TOTAL</b>	<b>3,249</b>	<b>86,825</b>	<b>2,988</b>	<b>516,698</b>	<b>228</b>	<b>186,605</b>	<b>5,243</b>	<b>352,879</b>	<b>11,708</b>	<b>1,143,007</b>

\*These figures include 39 irregularities for the Structural Funds and 7 for the Cohesion Fund, communicated in relation to the year 2005 that could not be processed in time for the annual report 2005.