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

**Protection of the financial interests of the Communities – Fight against fraud – Annual  
report 2006**

**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

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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.

Regulations<sup>6</sup> rather than a separate Regulation, as was previously the case. The old 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

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<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 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.

distribution of fraud **or on the efficiency of the services which contribute to the protection of financial interests.**

## **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. 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.

*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 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

<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 **Own Resources**.

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

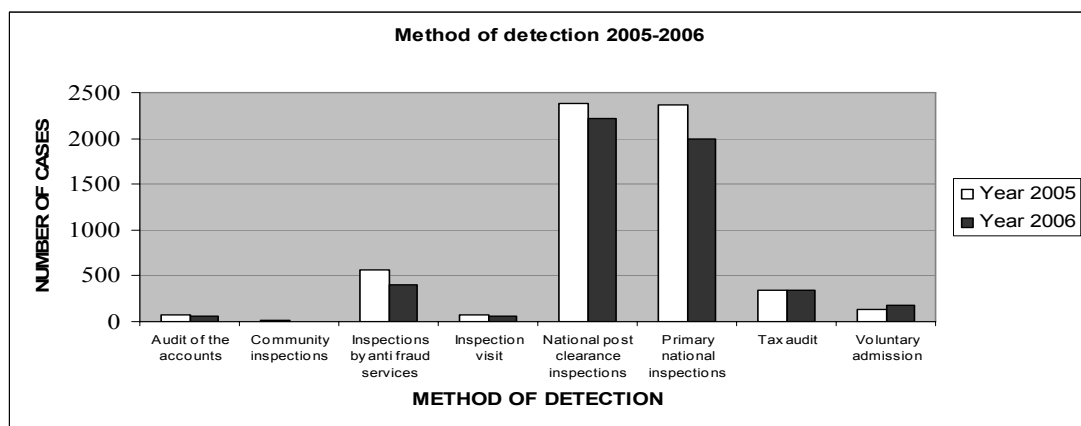
The number of cases communicated to OWNRES decreased in 2006 by 12% when compared to 2005 (from 5,943 to 5,243), but the amount of TOR increased by over 7% (up from EUR 328 million to EUR 353 million)<sup>22</sup>. The higher base-level of the number of cases compared to 2003 can be explained by Member 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.

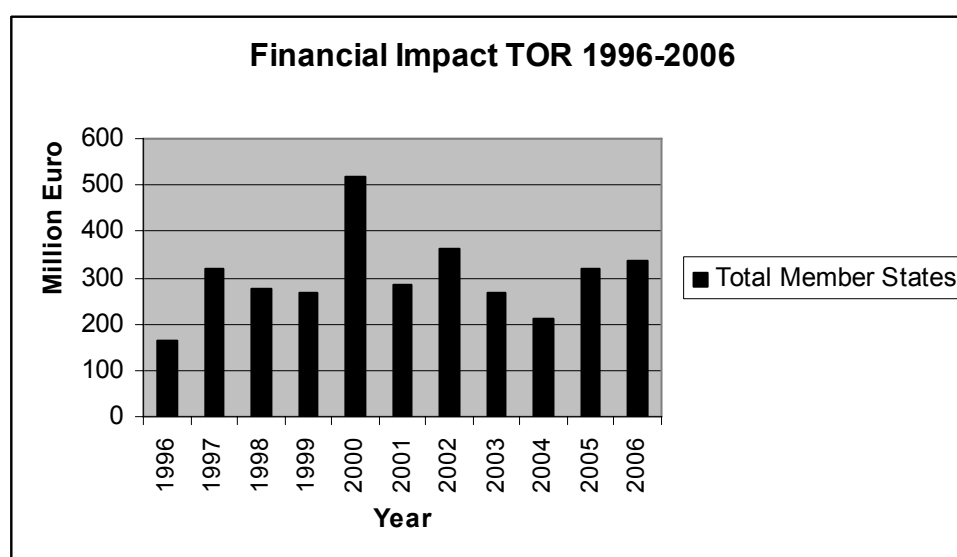
<sup>28</sup> See annex 6.

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<br>indication of date<br>on which the irregularity took place |       |             |      | AVERAGE TIME GAP<br>BETWEEN<br>IRREGULARITY AND DISCOVERY |        |       | AVERAGE TIME GAP<br>BETWEEN<br>DISCOVERY AND REPORTING |        |       | AVERAGE<br>TIME<br>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 |  |

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.

### 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”*

| <b>BUDGET YEAR 2006: MEMBER STATES' PREFERRED CODES</b> |             |  |                      |
|---|-------------|--|----------------------|
| <b>MS</b>   | <b>Code</b> | <b>Description</b>                                       | <b>in % of total</b> |
| 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%                  |

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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”.

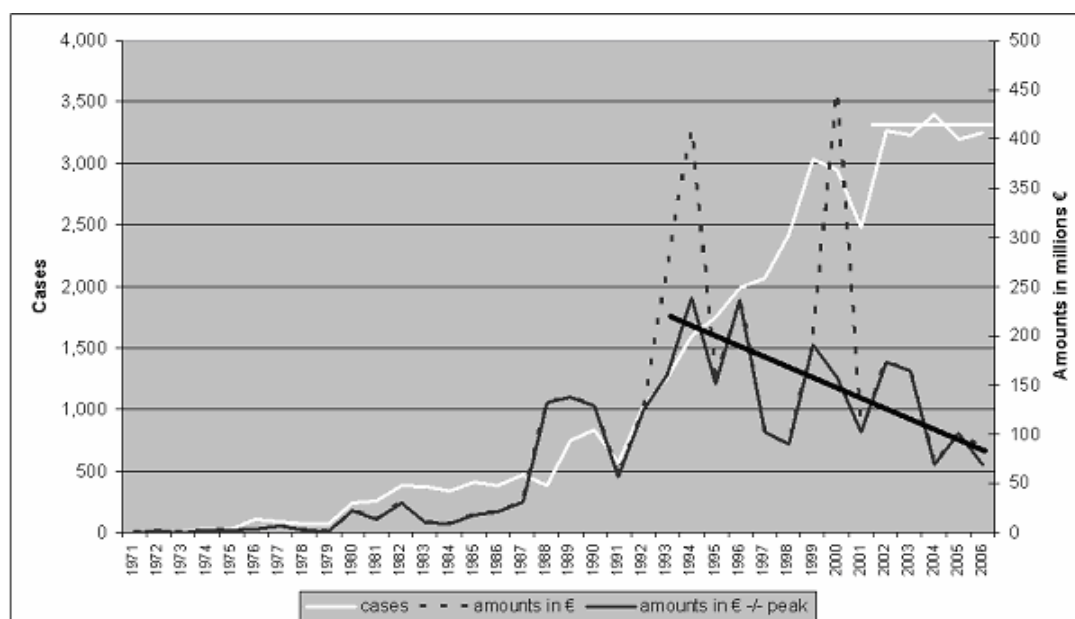
Rather high is also the amount of irregularities in which the modus operandi is described as “declaration of fictitious land”. These irregularities were reported by 5 Member States: Germany, Greece, Spain, Italy and Poland with respectively 121, 8, 3, 15 and 33 cases. Poland classified all cases as “suspected 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<br>in % of total expenditure | per MS in<br>% of total amount | per MS in<br>% 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*

| <b>BUDGET YEAR 2006: IRREGULARITIES IN RURAL DEVELOPMENT</b> |  |              |                     |                             |
|--|--|--------------|---------------------|-----------------------------|
| <b>code</b>  | <b>description</b>   | <b>cases</b> | <b>amounts in €</b> | <b>average amounts in €</b> |
| 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                       |
| <b>total</b>   |  | <b>1,263</b> | <b>24,409,108</b>   | <b>19,326</b>               |

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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>3,959,785</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>20,571,627</b> | <b>50,546</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%            |
| total                            | 3,249      | 302            | 9%            | 86,824,768   | 9,074,569      | 10%           |

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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>        |

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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:

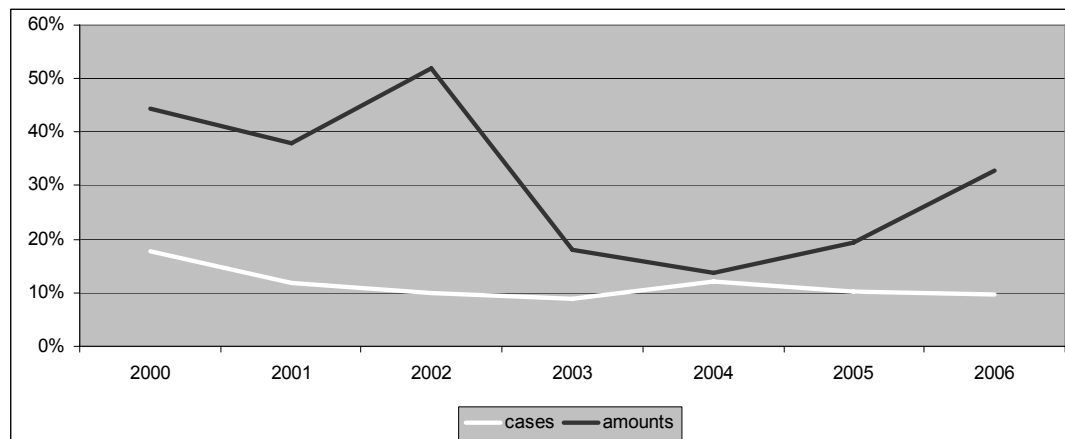
- Blank = no indication by Member State,
- IRQ 0 = no irregularity,
- IRQ 2 = irregularity,
- IRQ 3 = suspected fraud.

### 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 %<br>2000 - 2006 | average %<br>2000 - 2006<br>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%          | 15%  | 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. 1849/2006

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 |

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

### 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.

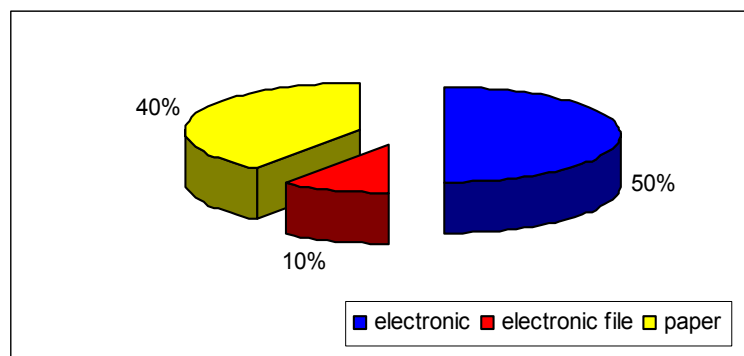
##### 4.1. Reporting Discipline

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> |

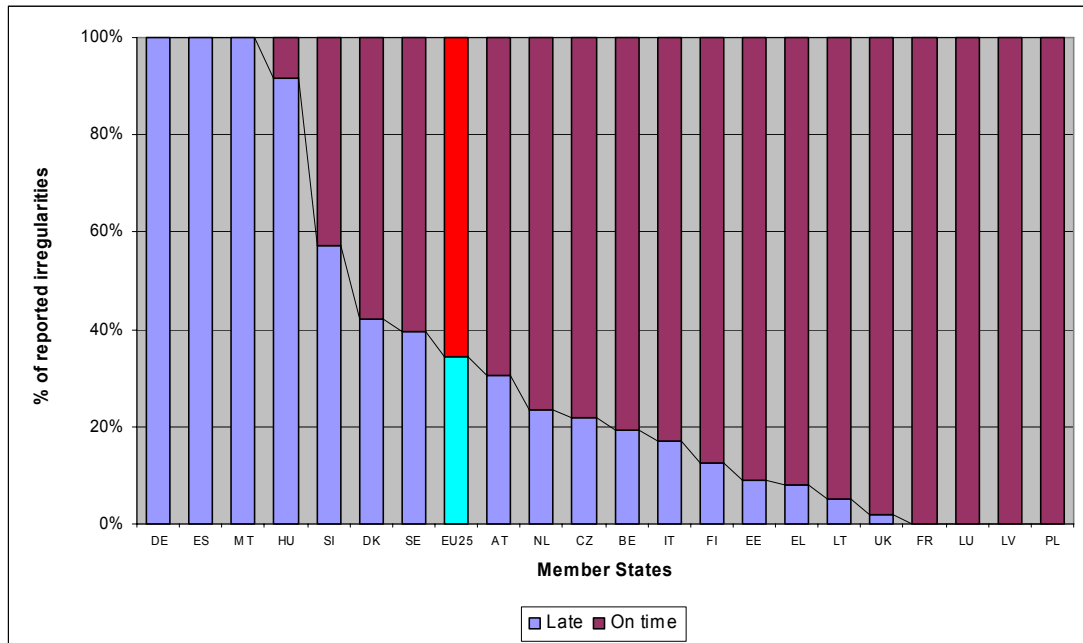
*Timely reporting*

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.

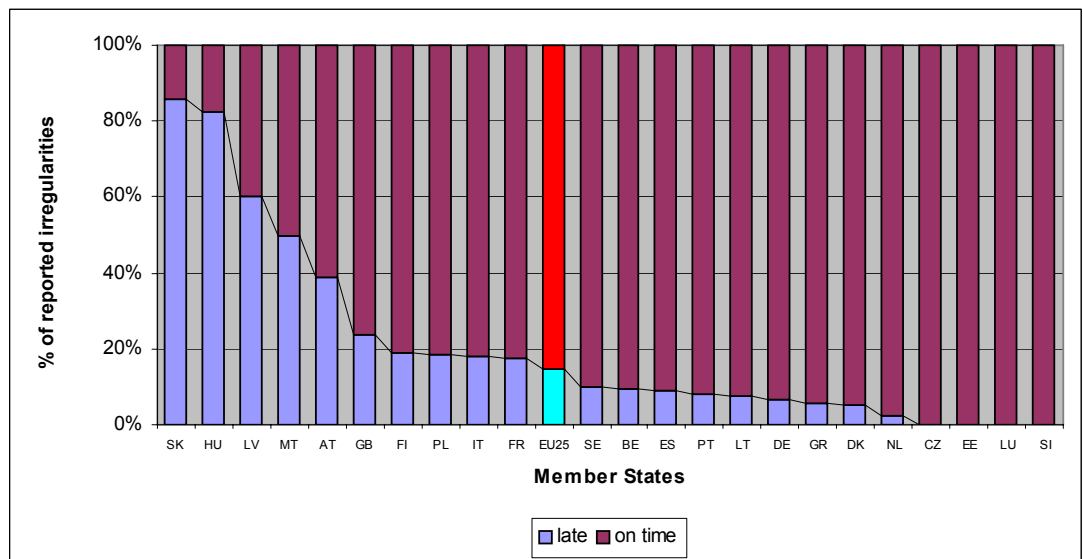
Chart SF 2: Percentage of irregularities reported after the deadlines



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



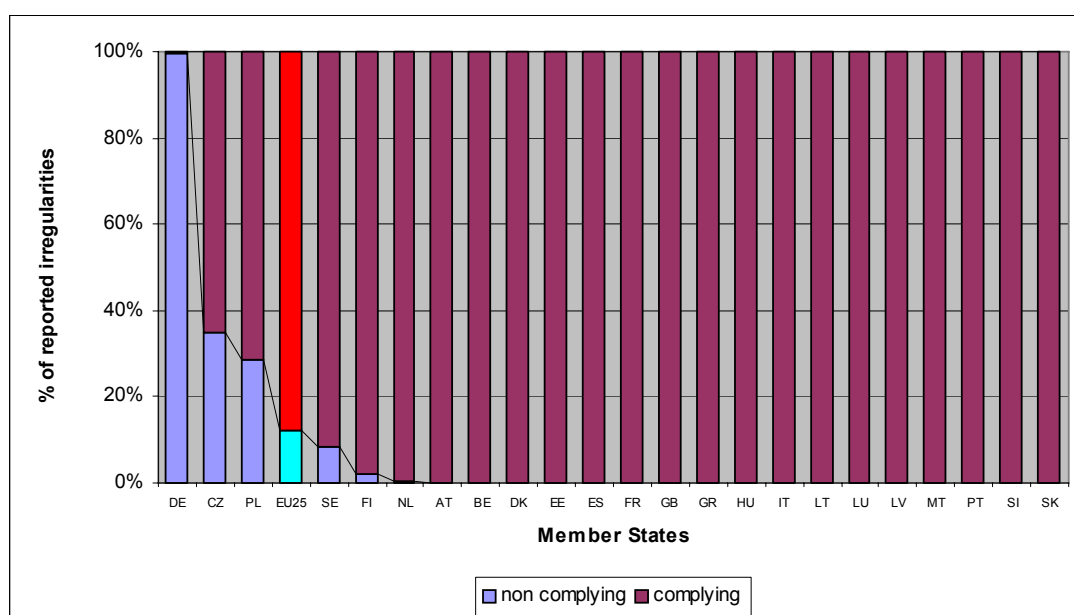
As shown on chart SF3, on average, about 85% of all irregularities reported in 2006 were established after the indicated date. The result is slightly better than in 2005 (84%) and Member States are encouraged to keep on this path.

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

<sup>46</sup>  
<sup>47</sup>

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

high value and importance in order to establish the impact of “suspected frauds” on 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*

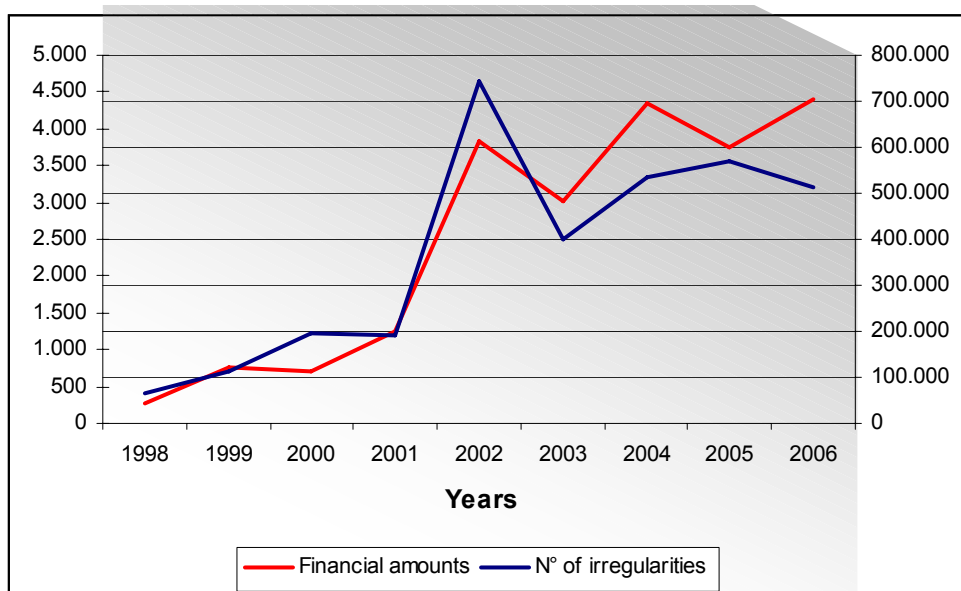
In general, it can be stated that the overall quality of the reports has been improving steadily, thanks to the amendments introduced through the Regulation (EC) No 2035/2005 and 2168/2005 such as the definition of terms “irregularity” or “suspicion of fraud”. However, there is a need for a more uniform 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.

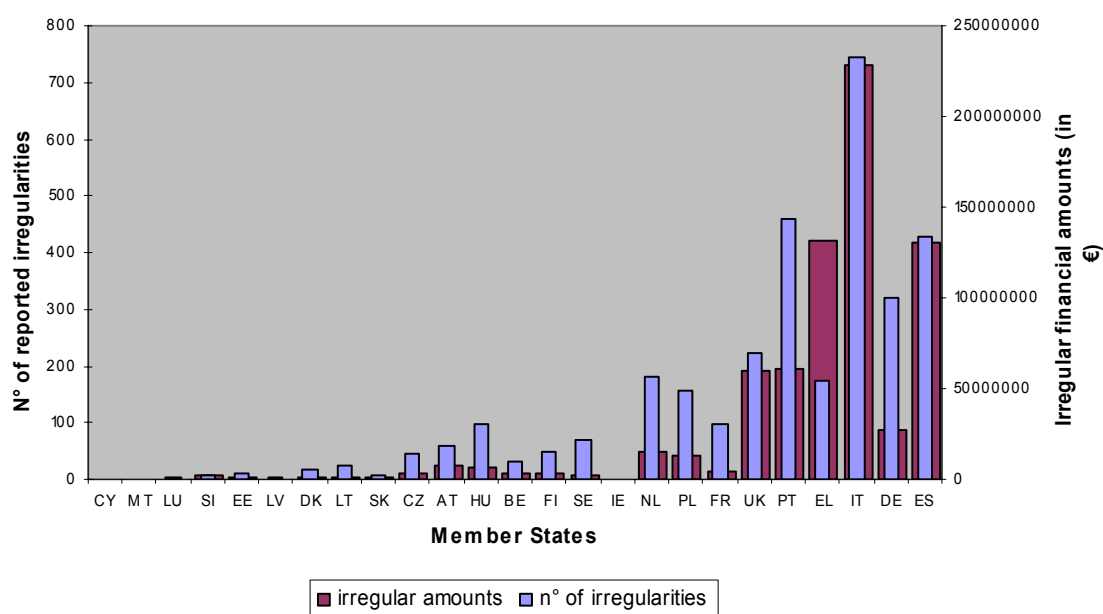
However, the number of reported irregularities and related amounts is linked, to a certain extent, to the budget that is allocated to each Member State, as showed in chart SF6. This trend is in general confirmed, with two important exceptions.

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)*



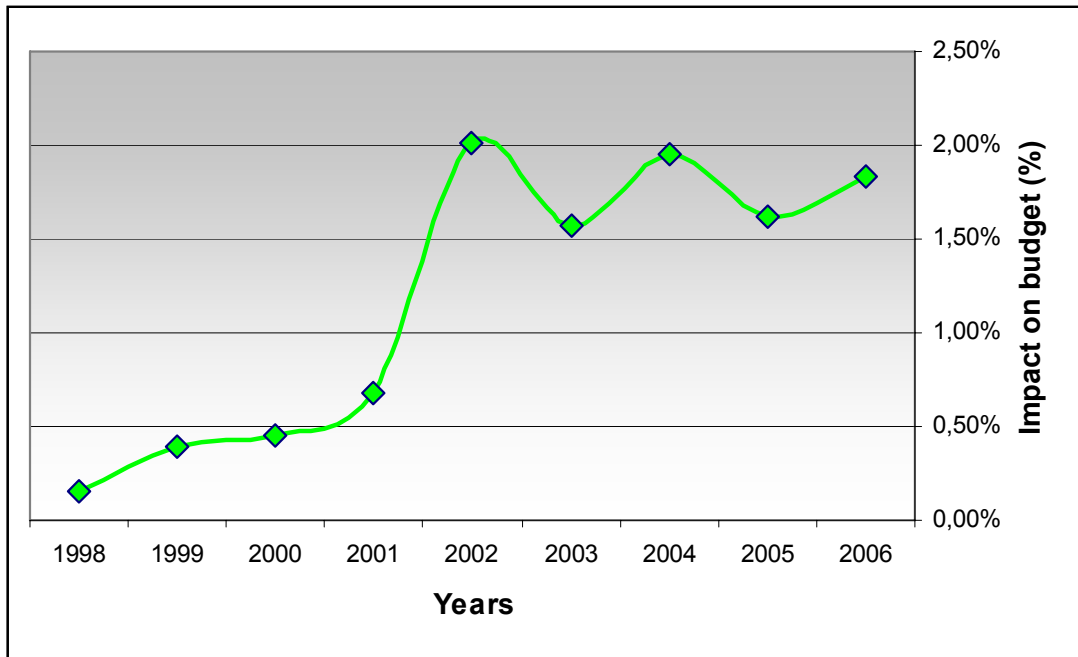
#### 4.2.4. Impact on budget

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

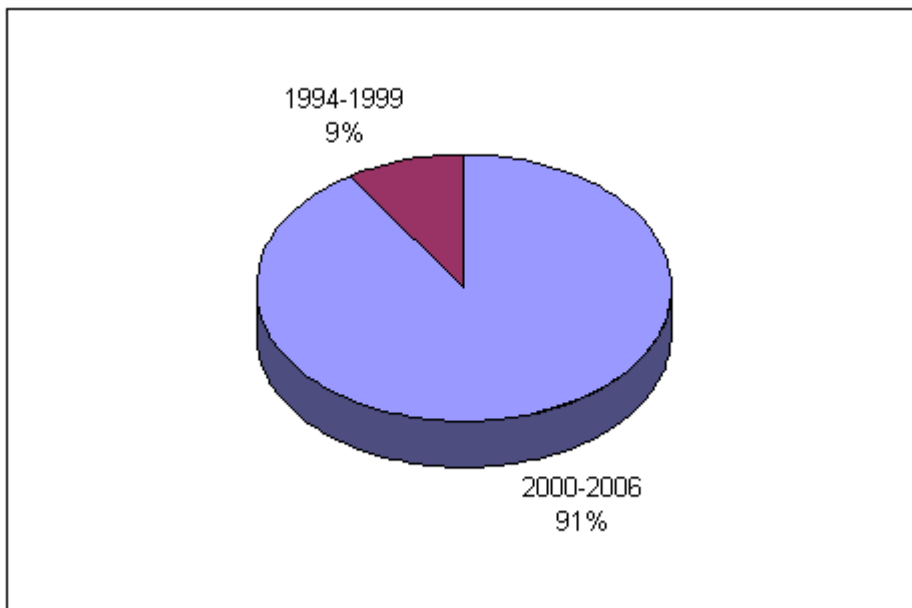


Chart SF9 shows the trend of reported irregularities (both in terms of numbers and financial amounts involved) referred to the 2000-2006 round alone, as from the year 2000.

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*

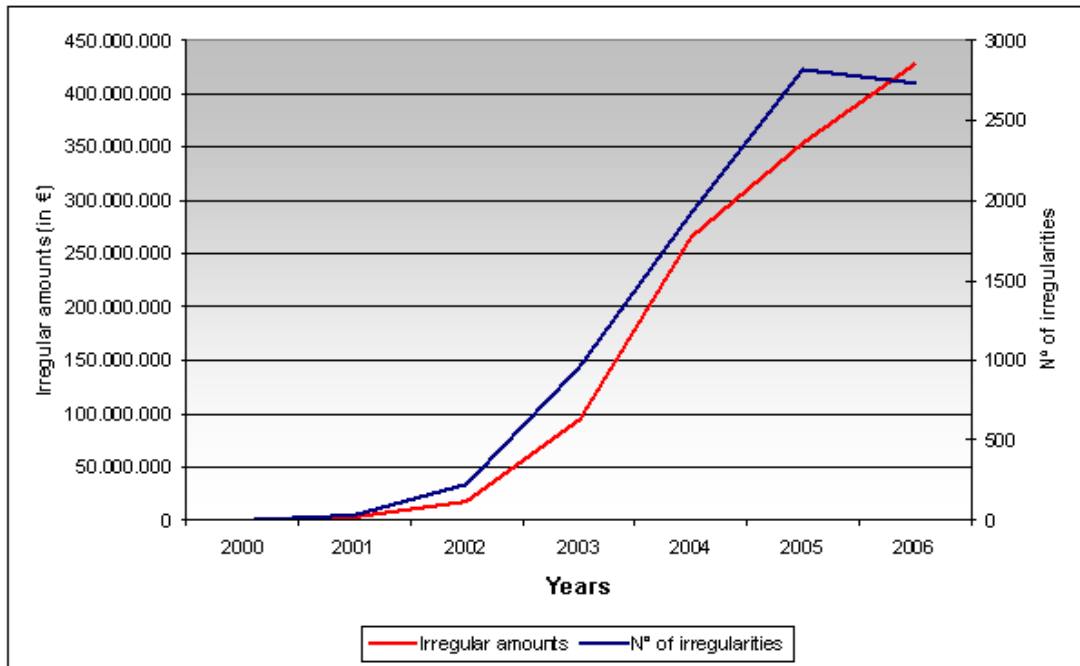


Chart SF10 puts in comparison the trend related to the programming period 2000-2006 with that of the previous round in terms of numbers of reported irregularities.

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

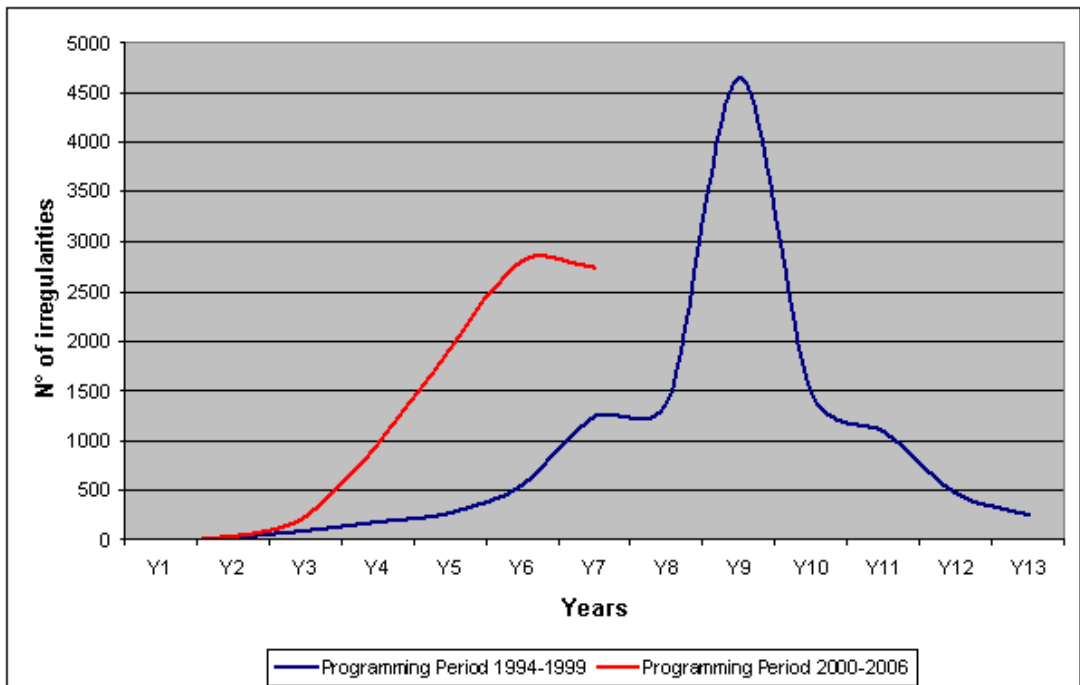
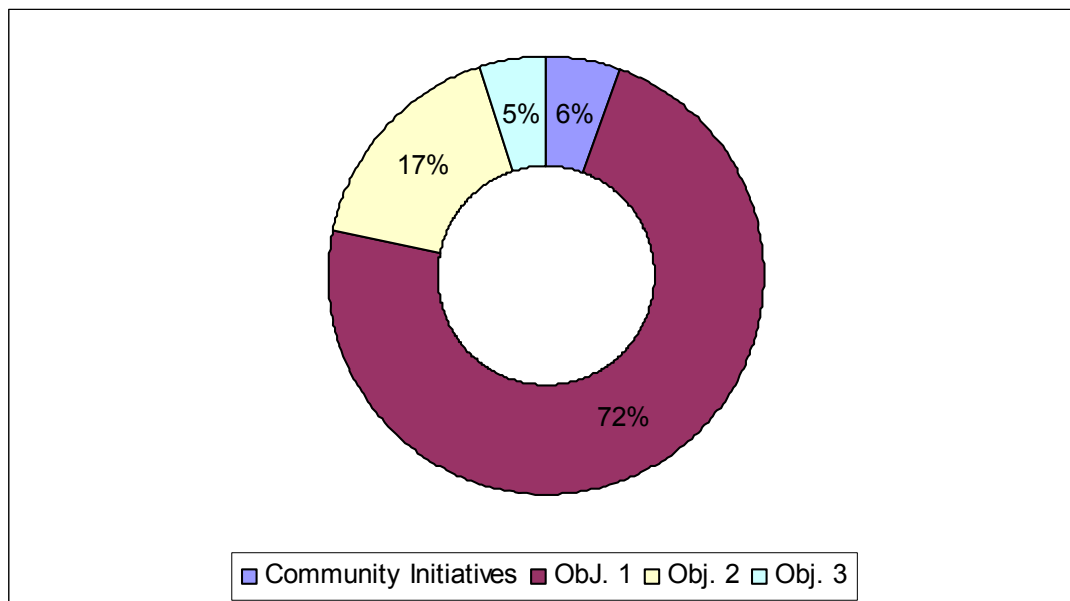


Chart SF11 shows how the irregularities reported in 2006 and related to the programming period 2000-2006 were distributed among the different objectives<sup>53</sup>.

*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)

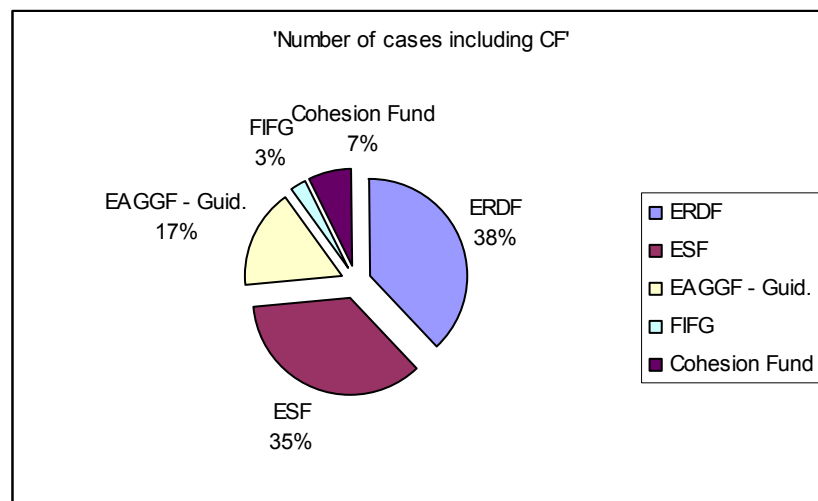


Table SF 5: Number of cases as compared to 2005

|             | 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  |

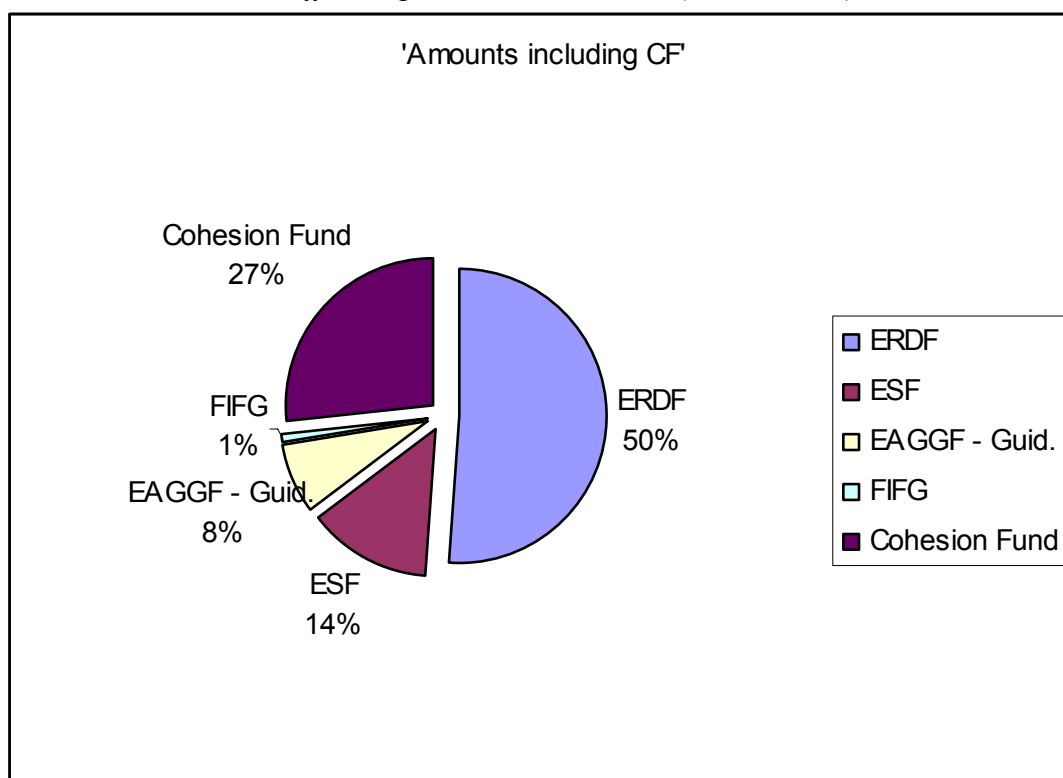
As far as the amounts are concerned, the total irregular amounts grew by 7.7% as compared to 2005.

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, even if the ERDF accounts for as much as 50% of the amounts, its share has decreased by 11% in comparison to 2005. 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        | 309,997 | 55,317  | 82     | 94,955 | 186,605 | 646,956 |
| 2005        | 348,137 | 15,505  | 8,376  | 94,601 | 134,198 | 600,817 |
| Difference  | -38,140 | 39,812  | -8,294 | 354    | 52,407  | 46,139  |
| Variation % | -11.0   | 256.8   | -99.0  | 0.4    | 39.1    | 7.7     |

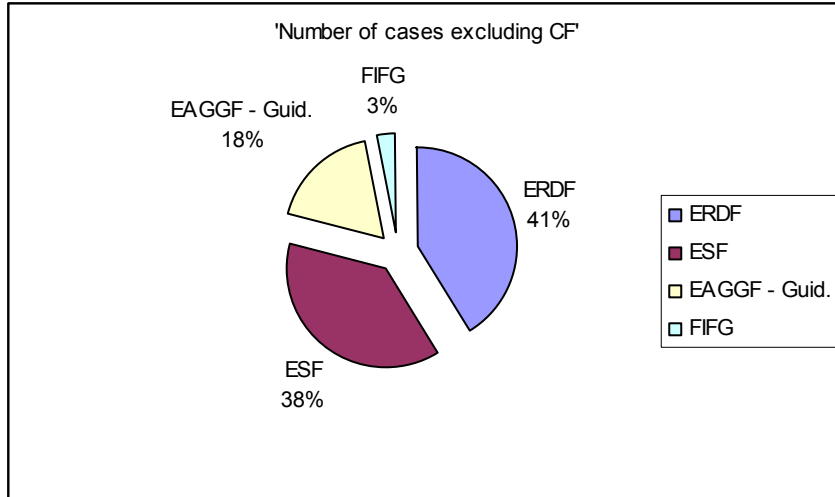
When comparing the share of funds in the total irregularities, the most striking conclusion is the difference related to the Cohesion Fund share between the total amounts affected by irregularities and the number of cases (respectively 27% and 7%



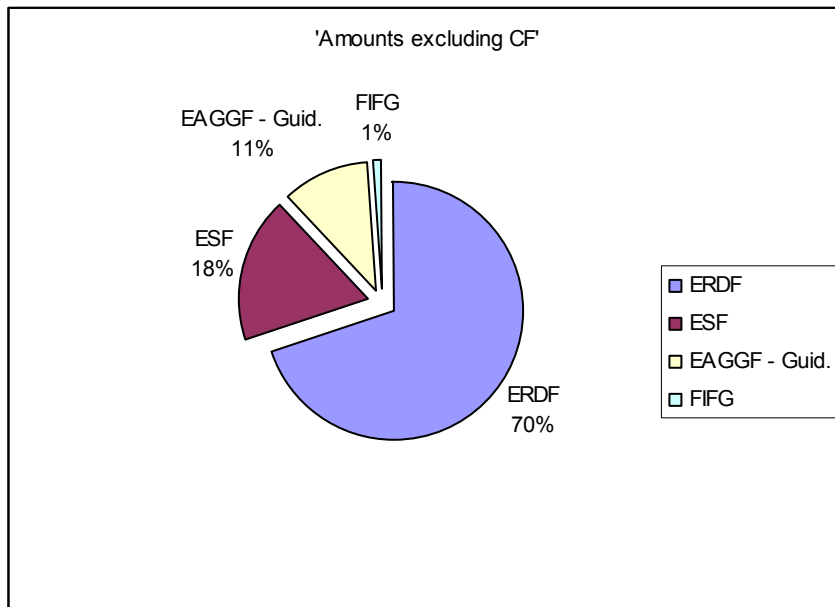
of the total). As already mentioned, this is due, however, to the high value of projects carried out in its framework.

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.

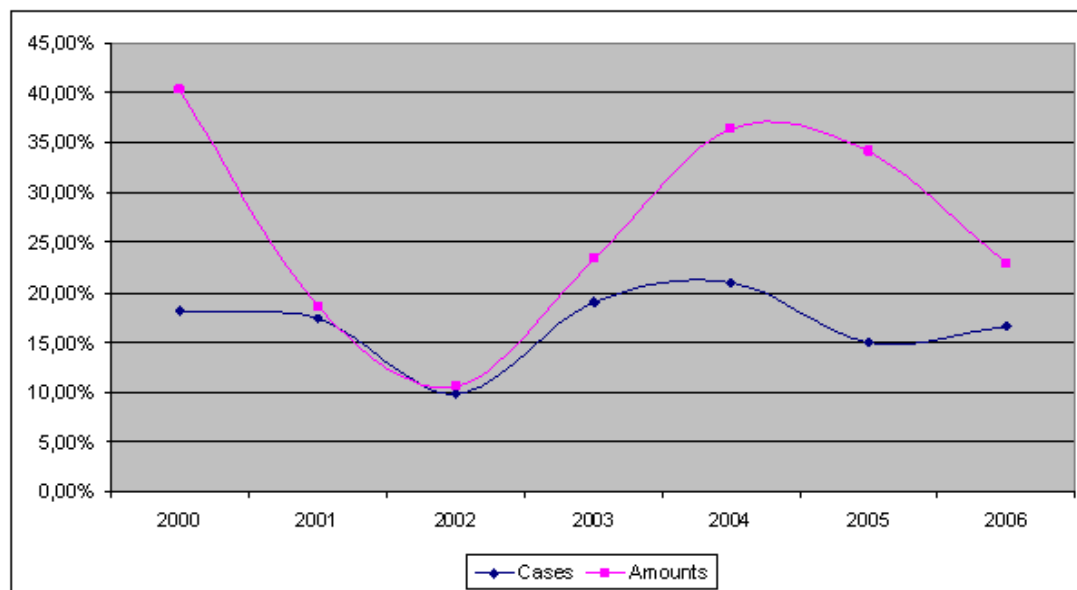
A striking aspect is the relatively stable percentage of irregularities that could be estimated as suspected fraud and that is around 15% of the total reported (darker line on the chart).

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 No 1831/94, 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.

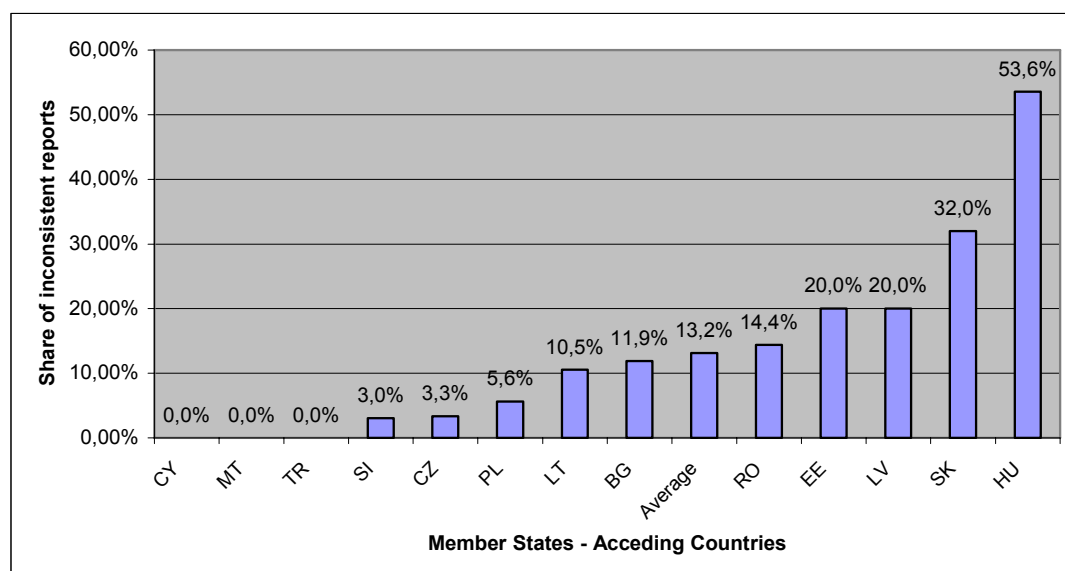
## 5. PRE-ACCESSION FUNDS (ANNEXES 18-21)

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 any irregularity report 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<br>€      | 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

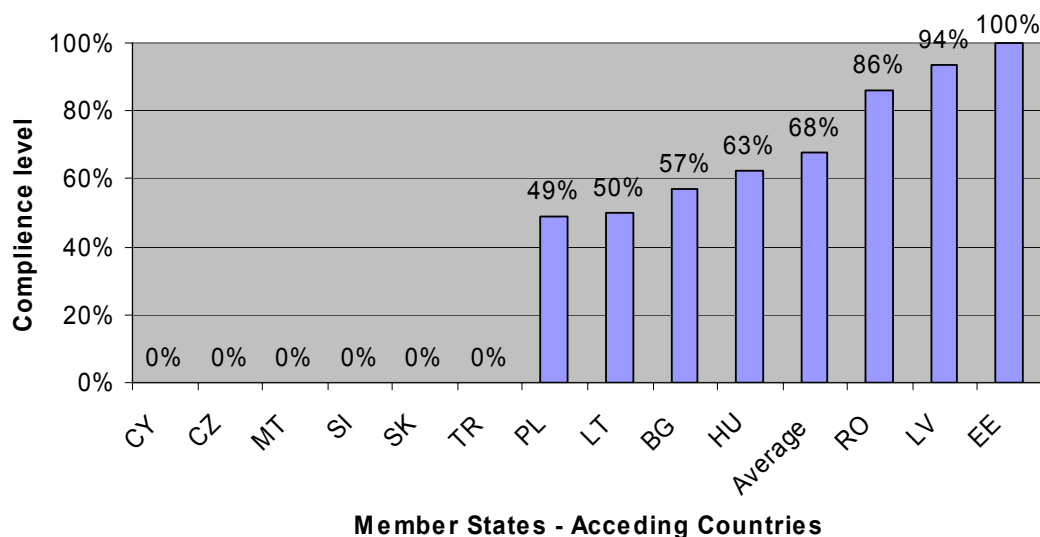


Table PA2 presents the time span that elapses for each country between the occurrence of irregularity and its reporting to the Commission.

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>                  |

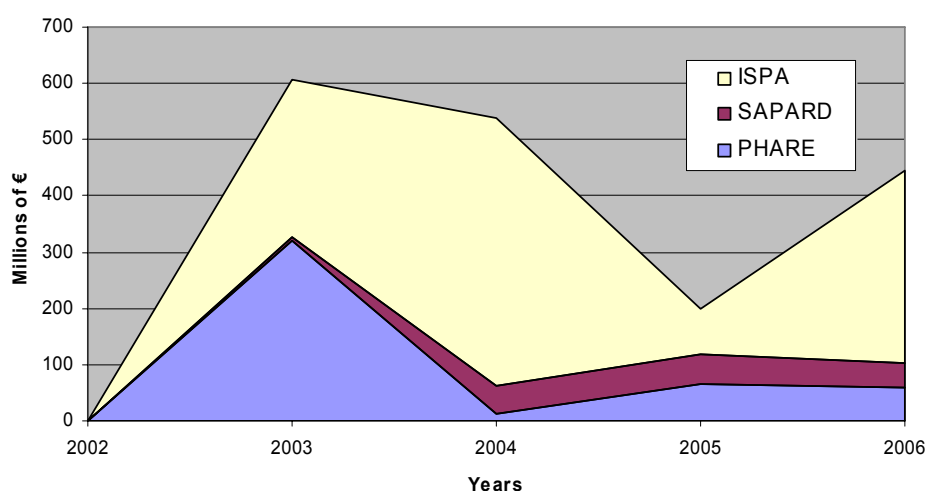
Table PA2 is divided into two parts: the left one presents the calculation for the time span between the occurrence of irregularity and its detection by national authorities; the right section presents the calculation for the time span between the detection of irregularity and its reporting. The column “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%.

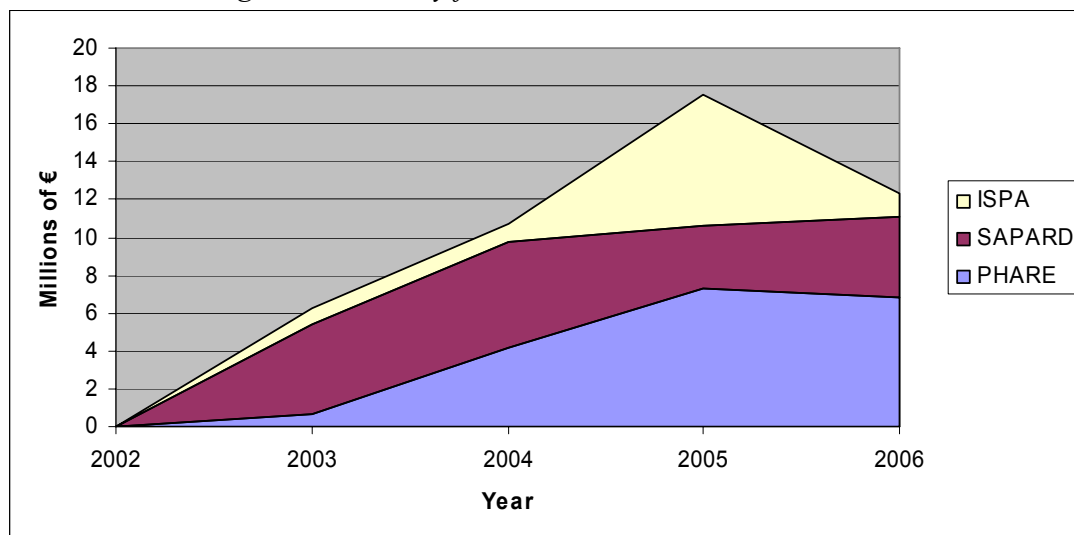
The trend has completely reversed in comparison to 2005, when irregular amount was growing and eligible amount was decreasing. In the previous year the eligible expenditure was increasing and irregular amount was decreasing. There were two phenomena behind this.

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%           |

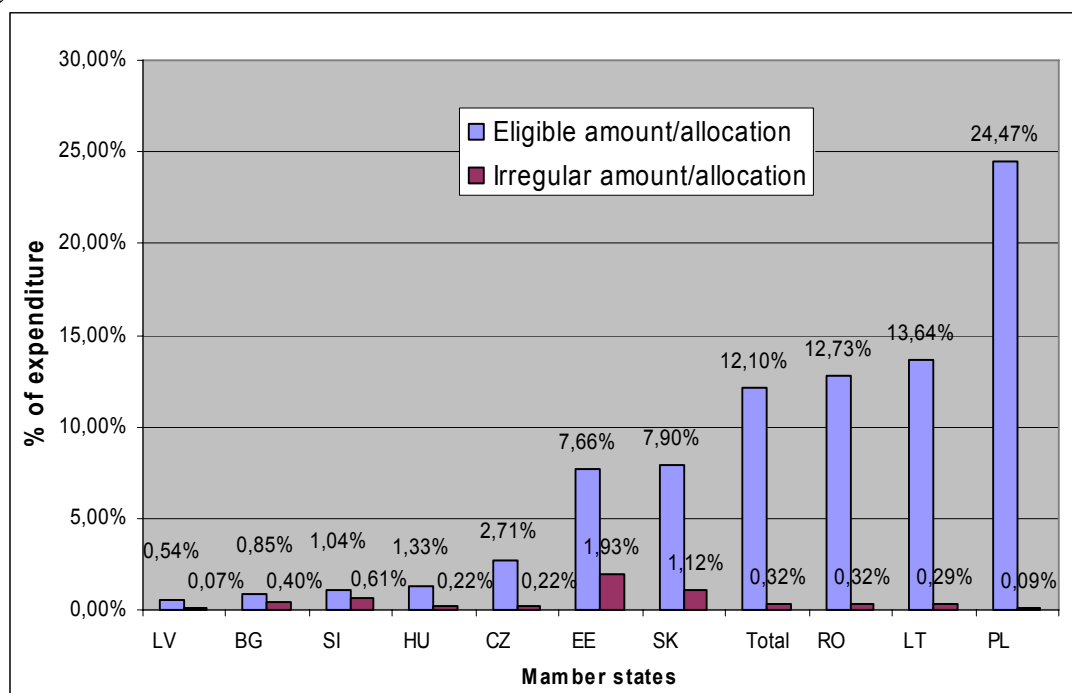
In all communications in all years “missing or incomplete documents” was the most common type of irregularity. Cases with this modus operandi were almost not reported during 2006. However from previous year their share is still considerable. In ISPA they represented 53.6% of all reported irregular amounts. 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

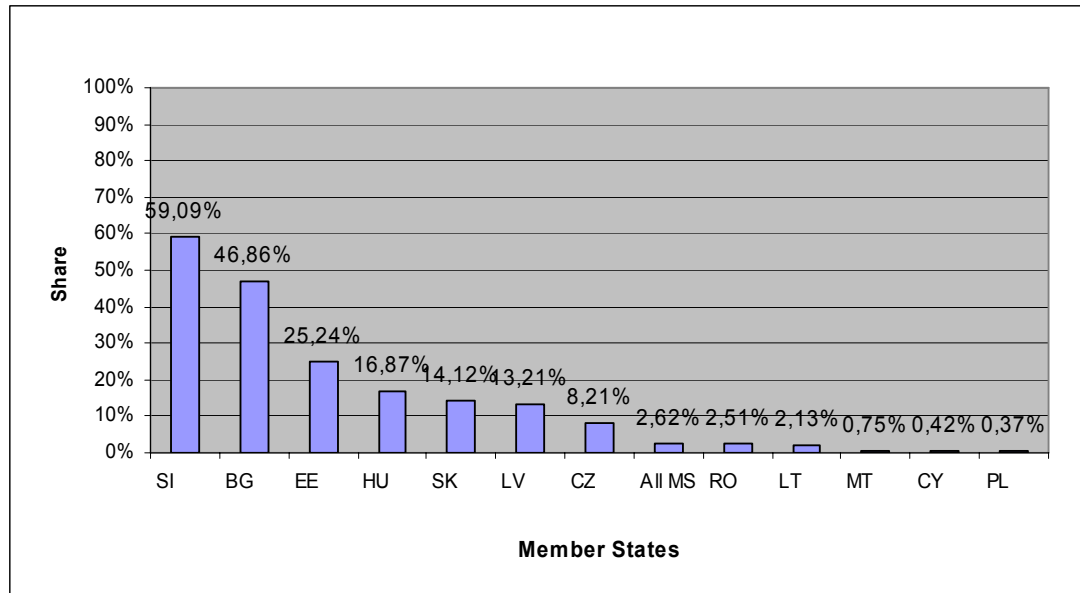


The highest impact of the eligible expenditure is in ISPA with 22.1% and, at the same time, ISPA had the lowest impact of irregular amount on the allocation with 0.19%. This is due to the features connected to implementation of the fund, as in that area big projects dominate – eligible amounts of the 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*

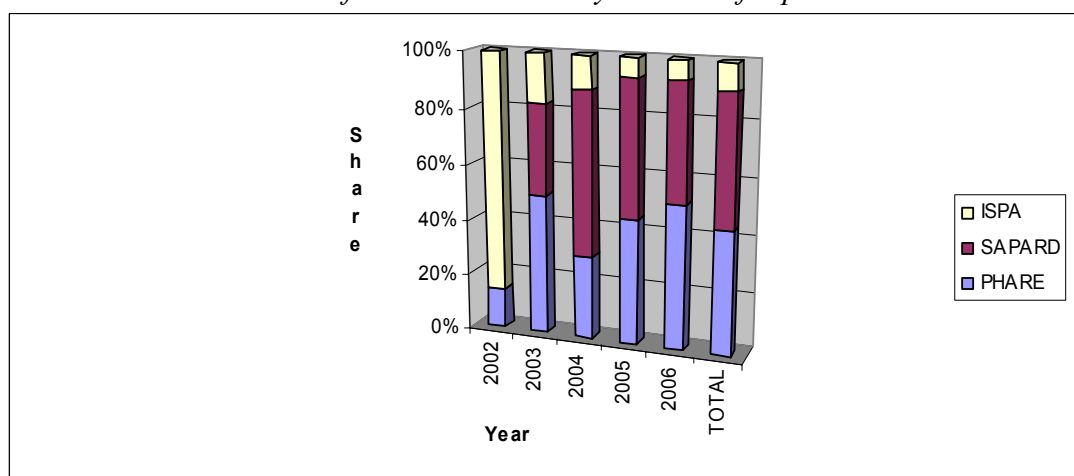




### 5.3. Specific analysis

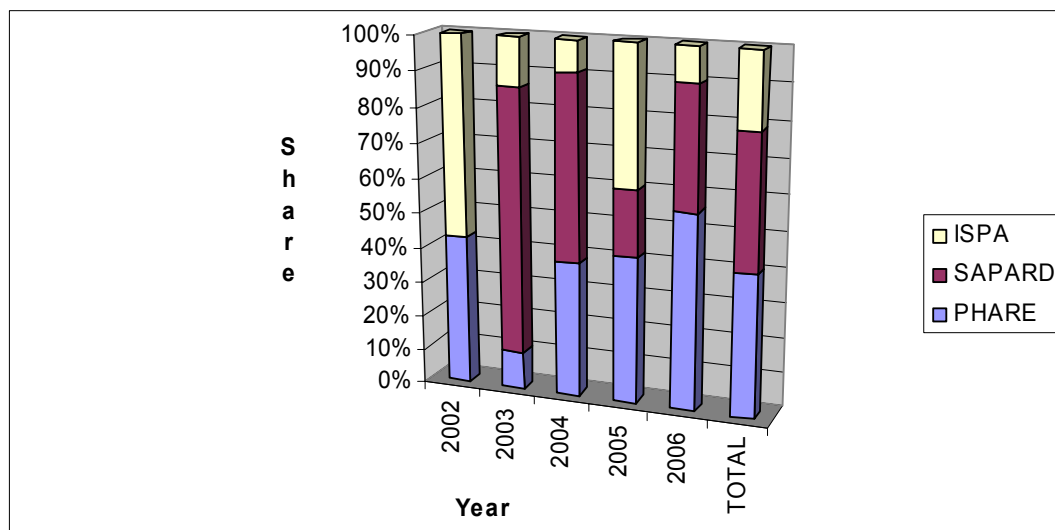
Taking into consideration the fact that the quality of the reports remains far from being fully reliable and comparable between reporting countries, attempt to analyse them should be treated very carefully. The highest number of reported cases in 2006 was in PHARE fund. The trend has been slightly changing, 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



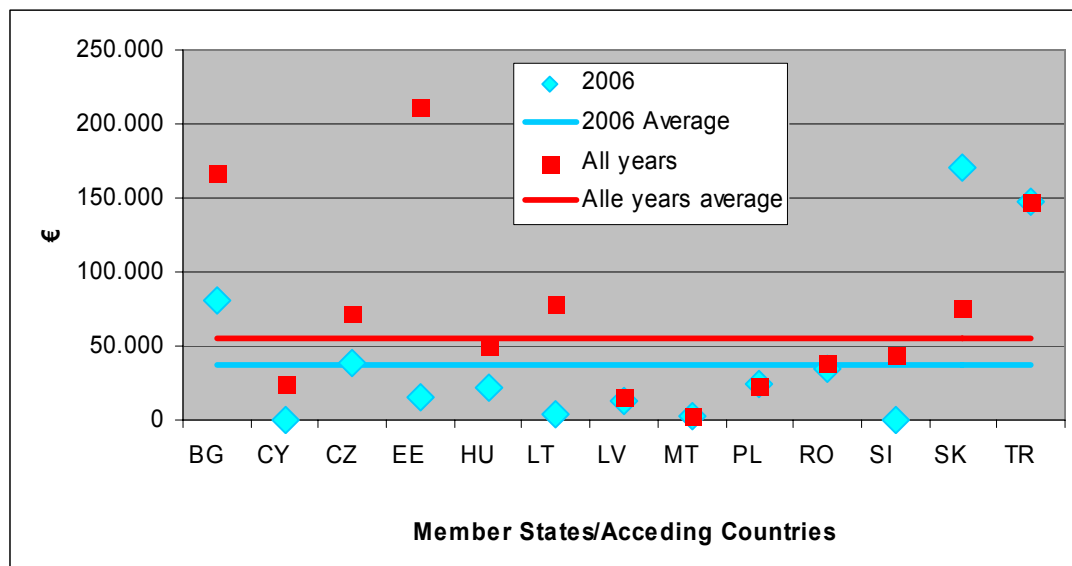
In 2006, the highest average irregular amount (Community financing) per reported project was in ISPA with EUR 61,957, decreasing in comparison to 2005. PHARE and SAPARD had respectively EUR 41,117 and EUR 28,924. Comparing Members States, the highest average amount per project in PHARE and SAPARD funds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



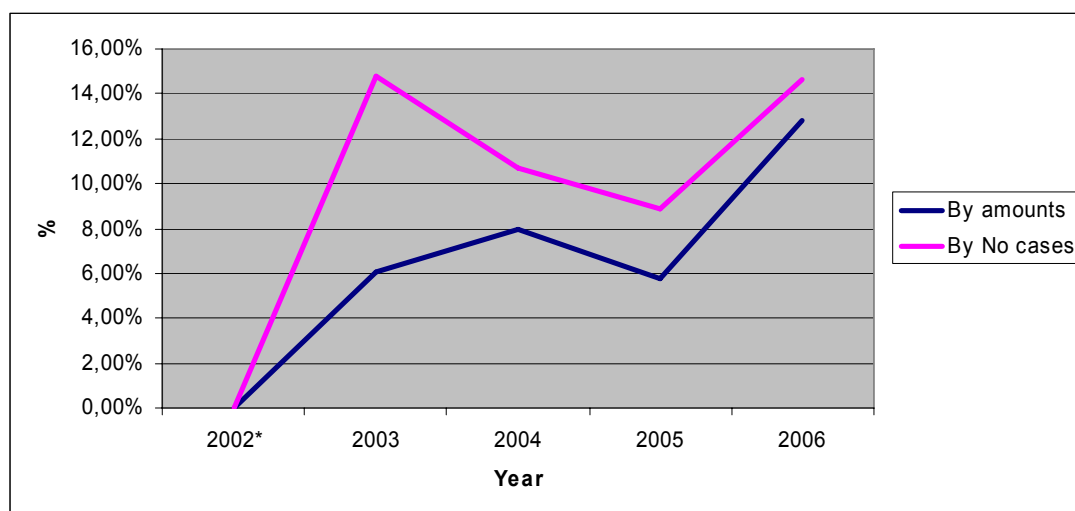
### 5.3.1. Irregularity vs Suspected Fraud

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.

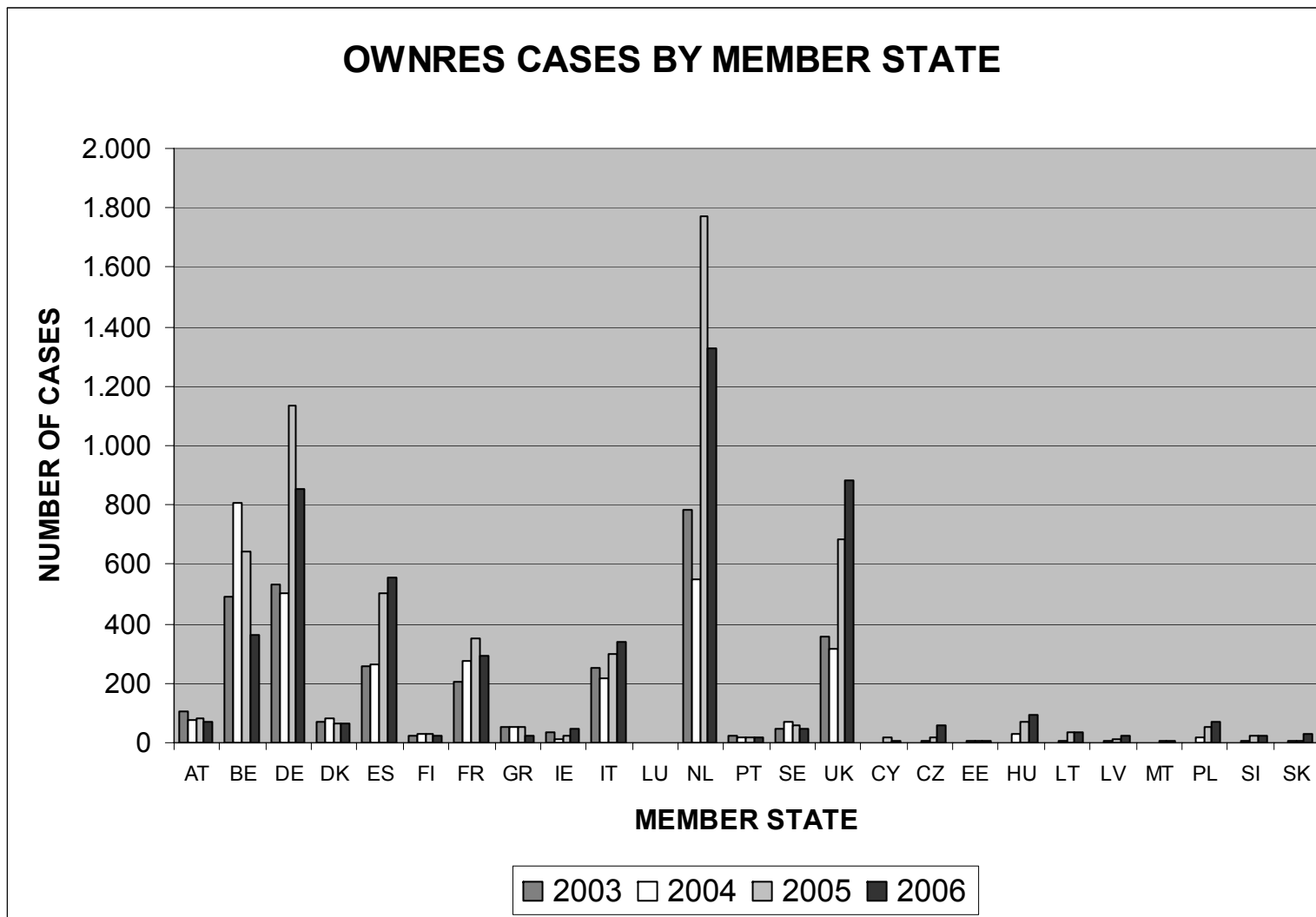
Recovery is more successful the earlier it is started. There is a very limited chance to recover the irregular amount in cases pending for over 3 years.

**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 %<br/>OF TOTAL</b> | <b>AMOUNTS<br/>ESTABLISHED</b> | <b>IMPACT AMOUNTS<br/>ESTABLISHED % OF<br/>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<br/>€</b> | <b>CASES</b> | <b>CN</b>   | <b>PRODUCT</b>          | <b>AMOUNT<br/>€</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 |

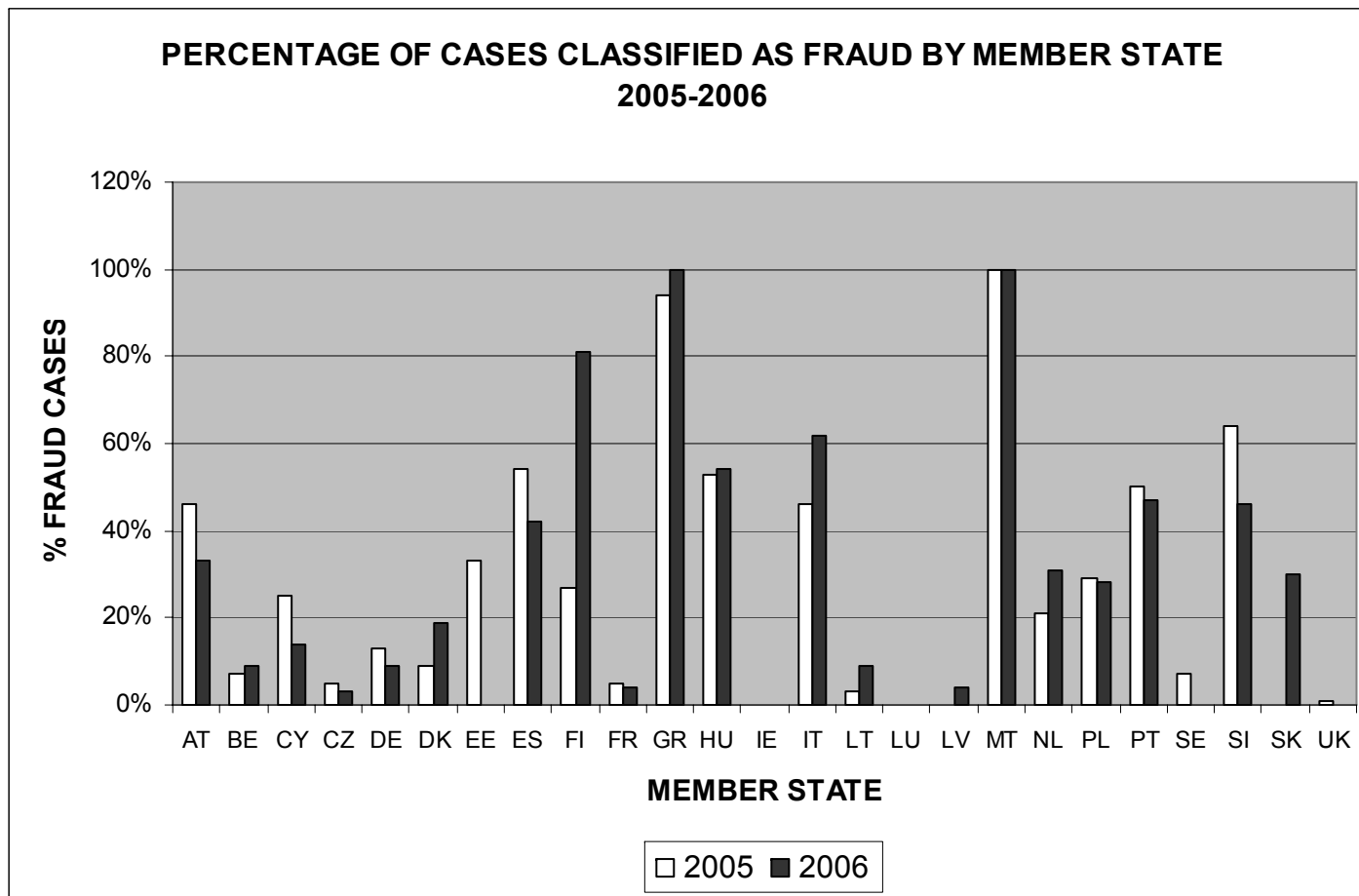
## ANNEX 7 – TRADITIONAL OWN RESOURCES

| 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>  | 151              | 22,232,546        | 59                | 2,136,190         | 89               | 11,823,328        | 24                | 228,451           |
| 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>  | 6                | 109,226           | 35                | 1,005,489         | 3                | 62,226            | 39                | 1,872,439         |
| <b>EUR-25 Total</b>  | 157              | 22,341,772        | 94                | 3,141,679         | 92               | 11,885,554        | 63                | 2,100,890         |

**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>     |

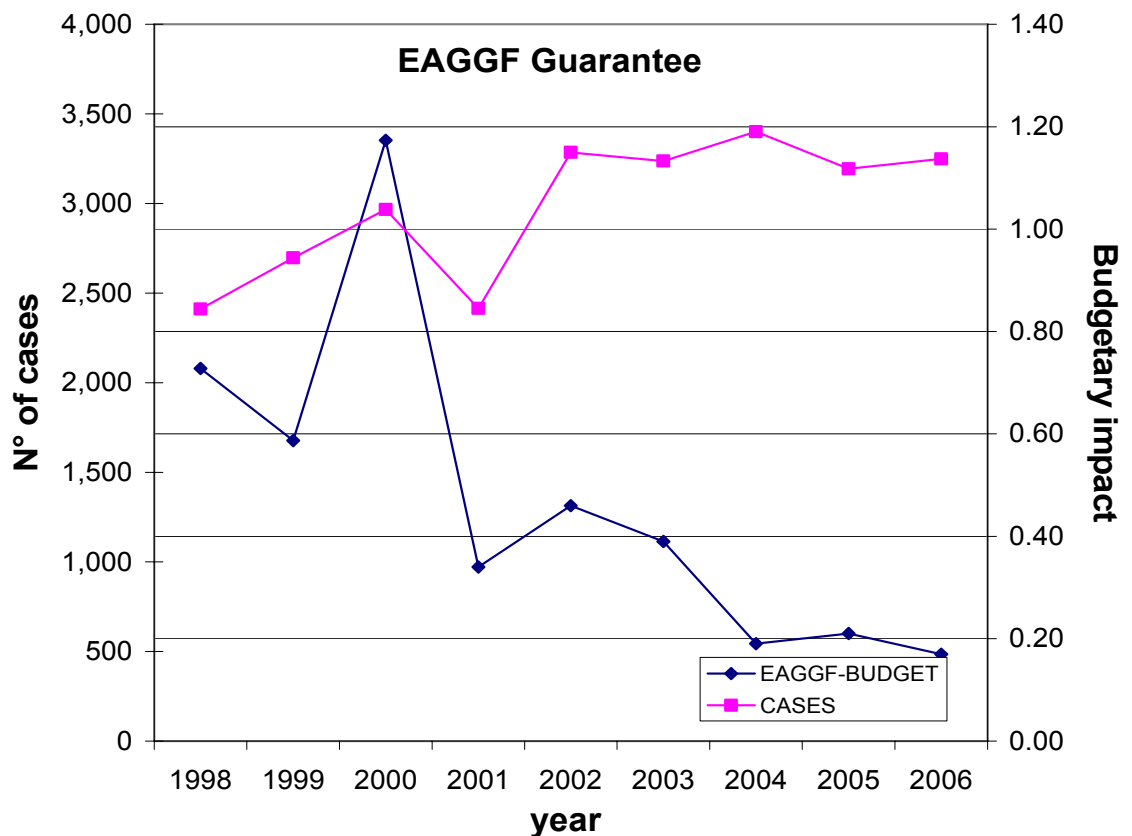


## EAGGF GUARANTEE

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.

**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>   |

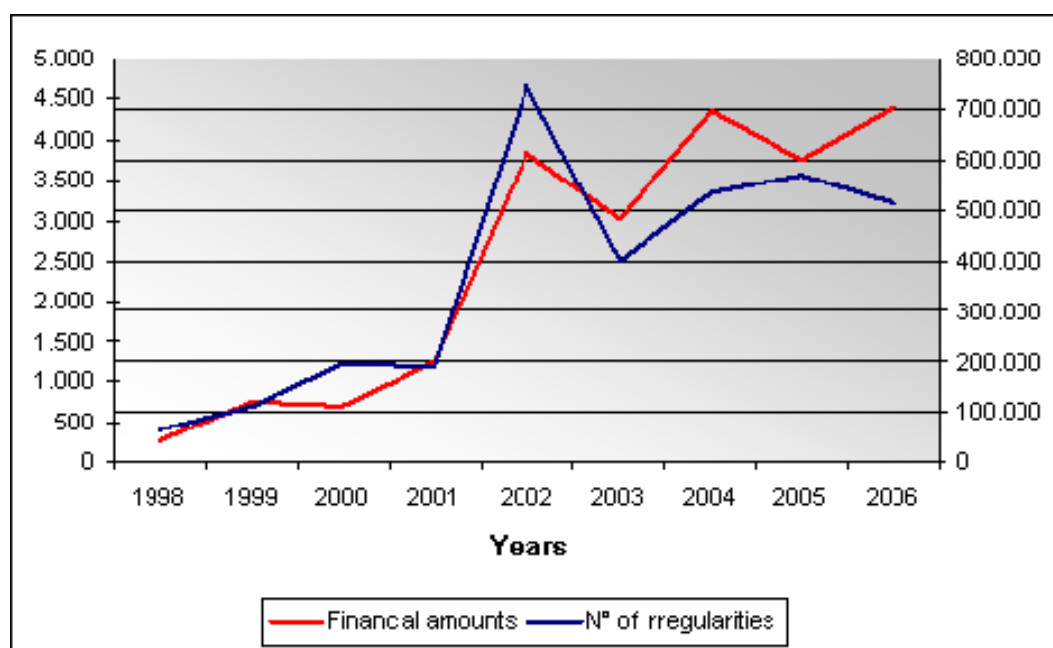
\*) In justice: awaiting outcome of judicial proceedings in national courts

## ANNEX 14

### STRUCTURAL MEASURES

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

| Year | N° of irregularities | Financial amounts<br>(x €1,000) | Total budget<br>(x €1,000,000) | Impact on budget |
|------|----------------------|---------------------------------|--------------------------------|------------------|
| 2006 | 3,216                | 702,302                         | 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 -<br/>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                              | 35,401,878                 |   |
| DE            | 243,850,697                 | 16,116,789                           |                            | 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<br>€      | 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<br>€    | 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<br>€      | 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<br>€    | 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<br>€    | 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<br>€    | 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<br>€      | 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<br>€      | 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<br>€      | 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<br>€      | 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<br>€    | 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.