

Protection of the Communities' financial interests: fight against fraud. Annual report 2005

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The European Commission presented its 2006 Annual Report on the fight against fraud, within the framework of the protection of the financial interests of the Communities.

The first part of the report gives a summary of the **statistics** concerning irregularities reported by the Member States in accordance with sectoral regulations and provides some figures relating to the operational activities of the European Anti-Fraud Office (OLAF).

Traditional own resources: in 2006, the number of cases of fraud and irregularities reported (exceeding €10 000) was down 12% on 2005 (from 5 943 to 5 243), but the amount affected by irregularities rose by over 7% (from €328 million to €353 million). Suspected fraud accounts for approximately 22% of the cases of irregularities reported, with an estimated financial impact of €134.39 million, equivalent to approximately 0.94% of the total amount of own resources in 2006. This compares with €105.3 million (around 0.85% of own resources) in 2005. The goods most affected by irregularities in 2006, as in previous years, are tobacco products and TVs. The figures for sugar, fish, glass and glassware and optical instruments were down on 2005, whereas meat, engines and parts, inorganic products and oils and fats were all up. The textile sector remained relatively stable, involving €10.3 million in duties.

Agricultural expenditure (EAGGF Guarantee Section): in 2006, the number of irregularities reported was up 3% on the previous year (3 249 cases in 2006). The total amount involved in 2006 was down 15%, at €87 million, accounting for almost 0.17% of total appropriations for the EAGGF Guarantee Section (€49 742 million for 2006). Suspected fraud accounted for around 10% of all irregularities reported (€29.8 million, 0.06% of total appropriations, compared with €21.5 million, or 0.05% of total appropriations in 2005). The highest number of irregularities reported related to rural development, bovine sector, and fruit and vegetables (60% of the total number of reported irregularities and almost 70% of the total amount affected).

Structural measures: in 2006, the number of irregularities reported (3 216 cases, including the Cohesion Fund) was down 10% on the previous year (3 750 cases) whereas their financial impact increased by 17% to €703 million in 2006. As in previous years, the ERDF and ESF account for the most irregularities (around 75%). The number of irregularities reported for the Guidance Section of the EAGGF increased by 38%; for the Cohesion Fund and the FIFG it remained stable.

Pre-accession funds: the number of irregularities concerning PHARE, SAPARD and ISPA funds for 2006 increased by 13.6% (384, compared with 338 in 2005). The presumed financial impact of the irregularities increased for PHARE and SAPARD but fell for ISPA (from €6.9 million in 2005 to €1.2 million in 2006). For 2006, the total amount of irregularities reported was down 26% to €12.318 million (from €16.7 million in 2005). Suspected fraud accounted for approximately 14.63% of the irregular amounts reported. The financial impact is estimated at €1.57 million. The most frequently reported type of irregularity for each of the pre-accession funds was “non-eligible expenditure”. For the PHARE fund, the second most common irregularity was “unjustified expenditure”.

The number of investigations opened by OLAF following evaluation of information received fell (195 in 2006 against 214 in 2005).

In addition to a general overview of the measures taken in the different areas, the report focuses on 4 specific topics:

- 1. Risk analysis and management:** this area is currently being developed within the Commission as well as in Member States, to ensure proactive protection of financial interests, prevention and targeted action. For some years the Commission has used risk management not just in relation to expenditure but more generally too. The Commission has taken a number of steps since 2006, with the aim of improving the decision-making process, increasing effectiveness and strengthening the reliability of management systems. At national level all Member States have rules in their budgetary procedures to help managers to assess and manage the financial risks involved in awarding grants and public contracts, in particular to verify the reliability of potential beneficiaries. The national customs authorities use risk analysis to identify potential illegal activities and to target controls more effectively. Over the years, coordination at European level has improved the effectiveness of actions taken by the national authorities.
- 2. Early-warning and debarment systems:** Article 95 of the Financial Regulation, as amended in 2006, provides for the introduction of a central database of organisations excluded from contracts and grants financed by the EU budget. It is a common database of the institutions, executive agencies and bodies covered by Article 185 of the Financial Regulation. This database will contain all relevant information on entities convicted of fraud or corruption in the Member States and in third countries involved in the implementation of EU programmes. The system will be supplied with information from partners, and authorities involved in implementing the Community budget in the Member States will also be able to consult it. The Commission already has an internal Early Warning System (EWS) database containing information on funds managed directly by the Commission. The Commission also manages a database for risk identification in relation to economic operators in the specific field of the EAGGF Guarantee Section. Information for this database is supplied by the Member States. In connection with the recent developments in the field of early-warning and debarment (blacklisting) systems, Member States were asked to indicate what databases of risky beneficiaries they had (if any). Almost all the databases described aim at prevention (early-warning system). All the databases include information on the legal person responsible for the irregularity in question. In all the countries with tax databases, not being up to date with taxes or social security contributions is considered a ground for inclusion in the database.
- 3. Warning systems involving internal informants (whistleblowing):** civil servants and other staff of administrative authorities are the best placed to realise what the risks are and thus to prevent and combat fraud. The treatment of whistleblowers has changed considerably in recent years in some Member States, as it has in the European Union and various international organisations. In 2006, no OLAF investigations were launched as the result of information received direct from a whistleblower. All Member States indicated that they had adopted legal provisions or practices entitling or requiring civil servants and other public administration employees to pass on information discovered in the course of their duties if they suspect that an irregularity, fraud, corruption or malpractice may have been committed in the organisation where they work.
- 4. Recovery of amounts not collected or wrongly paid:** in 2002, the Commission announced the setting-up of a Task Force Recovery (TFR) to examine the considerable backlog of recovery cases concerning the EAGGF Guarantee Section. The Agriculture and Rural Development Directorate-General and OLAF's joint TFR was responsible for 463 cases involving more than €500 000 each and 3 227 cases involving less than €500 000 each, following an irregularity reported to the Commission prior to 1999. The report presents the situation with regard to TFR's work at 31 December 2006. This part also contains a section on mechanisms for recovery by offsetting under national law. The report notes that, in most Member States, a Community debt and a national

claim can be offset and vice versa. Reported statistics show that some Member States use offsetting regularly. The Commission can only encourage the use of this very effective instrument for recovering Community funds wherever possible.