Annual report 2011 on the protection of EU's financial interests - Fight against fraud

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PURPOSE: presentation of the Commission’s 2011 annual report on the protection of the European Union's financial interests - Fight against fraud

CONTENT: this report describes the measures taken at Union level to counter fraud. It also contains a summary and evaluation of the action taken by Member States in one specific area, based on the replies to a questionnaire focusing, this year, on the controls in the area of cohesion policy. The report then presents the latest information on fraudulent and non-fraudulent irregularities reported by the Member States and the situation on recovery of amounts.

Progress: the report shows progress achieved in 2011 with the adoption of measures to improve the legal and administrative framework for protecting the EU’s financial interests, these being:

- an amended proposal for a reform of the European Anti-Fraud Office (OLAF);
- the Commission Anti-Fraud Strategy, which also included the Action Plan to fight smuggling along the EU’s eastern border;
- the Communication on the financial interests of the European Union by criminal law and administrative investigations;
- the Communication on fighting corruption in the EU;
- proposals for modernisation of the public procurement rules;
- the Communication on the future of VAT.

The report states that full implementation of these measures will require close cooperation between the EU institutions and t Member States, which the Commission will continue monitoring.

Decrease in fraudulent and other irregularities affecting the EU budget: the analysis of irregularities in 2011 shows an overall decrease in reported irregularities and improvements in the results of recovery of EU resources unduly paid. In 2011, in all sectors combined, 1230 irregularities were reported as fraudulent, down by about 35% in comparison with 2010. The estimated financial impact of such irregularities reported as fraudulent also decreased, by about 37% in comparison with 2010 to EUR 404 million. This decrease was expected, following the acceleration in previous years, which, itself, was also the result of improvements in controls and tools.

The report notes that while the overall picture is reassuring and demonstrates, amongst other things, the effects of the procedures the Commission has put in place to deal with irregularities and a general improvement in the management and control systems by Member States, there are still **significant differences in the approaches adopted by Member States to report fraudulent and non-fraudulent irregularities**. This raises questions about the adequacy of their national reporting systems. The Member States concerned should therefore report on how their control systems are being adapted to target areas where there is a high risk of fraud and irregularities.

Improvement of anti-fraud systems in the area of cohesion policy: in 2011, the number of irregularities reported as fraudulent in the area of cohesion policy and the related amounts both decreased significantly in comparison with the previous year, by 46% and 63% respectively. Trends highlighted in previous years were confirmed: Poland, Germany and Italy reported most of the cases (149 out of 276) and Germany remains the most successful Member State at completing criminal proceedings to establish fraud and impose penalties.

The analysis of this year's special topic - the measures taken and irregularities reported in the high-risk area of cohesion policy - shows **improvements in the financial control and risk management system.** These include legal provisions and guidelines, national or regional strategies, use of risk indicators, administrative procedures and cooperation between national authorities.

Conversely, **further progress is needed on monitoring the results of the administrative and criminal anti-fraud investigations** by the Member States, including on the recovery of amounts from the final beneficiary in the area of cohesion policy. Furthermore, **better fraud statistics** are necessary to enable the Commission and the Member States to focus their efforts in higher-risk areas.

In agriculture and cohesion policy areas, **Member States are invited to explain the low number of "suspected fraud" cases reported** and to report on the way in which their control systems target high-risk areas to improve fraud prevention and detection.

Improvement in recovery procedures: in 2011, all 27 Member States recovered a combined total of approximately EUR 305 million related to cases detected between 1989 and 2011. The recovery process, in particular for pre-accession funds and direct expenditure, has been improved. The Commission **invites Member States and pre-accession countries with low recovery rates** to speed up their procedures, to make use of the available legal instruments and guarantees when irregularities are detected and to seize assets in cases where debts are not paid.

It is also clear from the data received that further progress has yet to be achieved, especially in the area of recovery where **procedures are still relatively long**.

European Parliament resolution on protection of the Communities' financial interests and the fight against fraud: on 6 April 2011, the European Parliament adopted its resolution concerning the Commission's 2009 report, which contains specific requests and covers a wide range of topics, such as publication of the beneficiaries of EU funds, national management declarations and public procurement. It criticises the situation regarding recovery of EU funds in all areas and the low number of irregularities reported by certain Member States in particular sectors.

The Commission has submitted a follow-up report to the Parliament indicating the practical action it intends to take in response to the resolution. In particular, the Commission pointed out that it had adopted a number of simplifications in all areas under shared management, with the aim of easing the workload on Member States. In return, the latter are expected to improve the quality, timeliness and completeness of their irregularity reports.

In conclusion, the Commission recommends that all Member States put in place adequate anti-fraud measures aimed at both prevention and detection, especially those for which these kinds of results seem to be missing or insufficient. It is also clear from the data received that further progress has yet to be achieved, especially in the area of recovery where procedures are still relatively long.