European Parliament

Digitalisation of European reporting, monitoring and audit

European added value assessment

STUDY

EPRS | European Parliamentary Research Service

Authors: Klaus Müller, Lenka Jančová and Niombo Lomba
European Added Value Unit

PE 694.229 – October 2021

EN

Digitalisation of European reporting, monitoring and audit

European added value assessment

The rules governing the monitoring and reporting obligations of EU funding programmes under shared management have been developing progressively over time. Across the EU, there are over 290 different reporting systems. Fragmentation makes data incomparable, prevents the use of AI and big data sets and systems for monitoring and control, and prevents stakeholders and society from getting a comprehensive overview of the way funds are distributed.

This European added value assessment accompanies the report of the European Parliament's Committee on Budgetary Control (CONT) on the 'Digitalisation of the European reporting, monitoring and audit' (2021/2054(INL)), by making an evidence-based analysis, identifying gaps and barriers, laying out possible policy options and pointing to their potential impacts.

Action in the field could diminish fraud, abuse and weaknesses of EU funding programmes, which would lead to more efficiency and transparency. The three policy options identified in this study propose strengthening the enforcement of existing measures, creating a single EU database, and introducing requirements for the disclosure of relevant information on companies.

A potential EU added value was identified, which could presumably lead to a lowering of the error rates by 0.7 percentage points and savings worth €1.11 billion. In the case of high-risk expenditure the error rates could drop by up to 2.9 percentage points, yielding savings worth €1.94 billion.

EPRS | European Parliamentary Research Service

AUTHORS

Klaus Müller, Lenka Jančová and Niombo Lomba, European Added Value Unit, DG EPRS.

This paper has been drawn up by the European Added Value Unit of the Directorate for Impact Assessment and European Added Value, within the Directorate-General for Parliamentary Research Services (EPRS) of the Secretariat of the European Parliament.

To contact the authors, please email: eprs-europeanaddedvalue@europarl.europa.eu

LINGUISTIC VERSIONS

Original: EN

Manuscript completed in September 2021.

PE 694.229
ISBN: 978-92-846-8551-6
DOI: 10.2861/441456
CAT: QA-09-21-399-EN-N

eprs@ep.europa.eu
http://www.eprs.ep.parl.union.eu (intranet)
http://www.europarl.europa.eu/thinktank (internet)
http://epthinktank.eu (blog)

Executive summary

Background

The issue of modernising the European reporting, monitoring and auditing system has been on the agenda of the European Parliament and especially the Committee on Budgetary Control (CONT) for some years already. As a reaction to the European Commission's 2018 discharge report on the consolidated annual accounts of the European Union, CONT has asked for the adoption of a digital and interoperable system enabling the EU institutions in charge of reporting, monitoring and audit – the Commission, the European Court of Auditors (ECA), the European Anti-Fraud Office (OLAF) and the European Public Prosecutor's Office (EPPO) – to work and fulfil their obligations more efficiently and effectively. This also includes Parliament in its role as discharge and budgetary authority.

Two very important aspects of this future digital system – as also noted by CONT – include its capacity to i) show accurate information on final beneficiaries; and ii) generate a (more) complete understanding of the distribution and concentration of EU funds. As of now, divergent approaches to the use of a digital reporting and monitoring system and data on final beneficiaries are still being used in the context of the 2021-2027 multiannual financial framework (MFF), the Recovery and Resilience Facility (RRF) and the Common Provisions Regulation 2021-2027 (CPR).

Why this assessment?

In accordance with Article 10 of the Interinstitutional Agreement on Better Law-Making, the CONT committee has requested permission to draw up an own-initiative legislative report (INL) on the 'Digitalisation of the European reporting, monitoring and audit' (2021/2054(INL)). These reports are accompanied by European added value assessments (EAVA) that support the European Parliament in its evidence-based analysis of gaps and barriers, possible policy options and their potential impacts. In this context, European added value is understood as 'the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone' (SEC(2011) 867 final).

Why should the EU act?

The rules governing the monitoring and reporting obligations of EU funding programmes under shared management have been progressively developing over time. Across the EU, there are over 290 different reporting systems in use. Fragmentation makes data incomparable, prevents the use of AI and big data sets and systems for monitoring and control, and impedes a comprehensive overview of the funds' distribution.

The analysis of the regulatory framework in the area of shared management shows that there is scope for EU action when implementing the EU budget. The newly adopted Common Provisions Regulation as well as the EU Financial Regulation also provide for potential further action by the Commission to implement the EU budget in accordance with their respective provisions.

The identification of gaps and barriers related to the monitoring, reporting and auditing of EU funds clearly shows the need for intervention at EU level. Addressing the gaps and barriers identified would help increase transparency, improve data quality, reduce complexity and ultimately enable a better understanding of and control over EU money flows.

Scope of the assessment

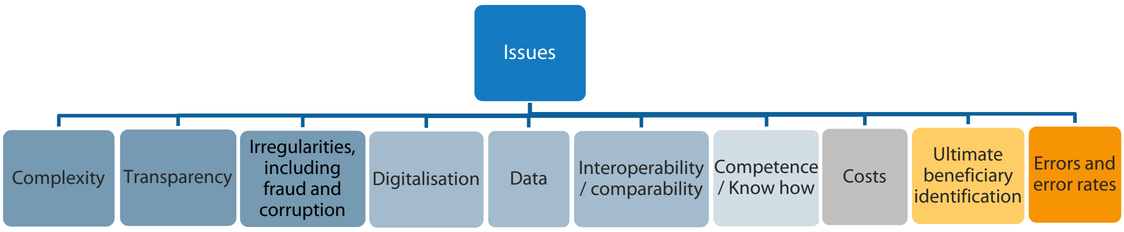
This EAVA is based on a desk review of the available literature, reports and databases. The literature reviewed is mostly sourced from EU and international institutions, such as the EP (in-house studies), the ECA and the OECD. It is relevant to mention that the EAVA only addresses funding instruments that are in shared management. It addresses fraud and/or abuse in the section on gaps and barriers. Even though it does not assess the impact of policy on fraud and/or abuse, the gaps and barriers it addresses and the policy options it identifies could help diminish and/or restrict fraud and/or abuse. The same holds true for the weaknesses of the existing funding programmes and mechanisms.

The EAVA starts by providing brief background information on the Parliament's initiative and the status quo. It then describes the legal situation in short, referring especially to the EU Financial Regulation, the General Provisions on the ESI funds for the 2014-2020 programming period and the Common Provisions Regulation for 2021-2027. Next, the EAVA gives an overview of recent EU policy developments and identifies the general gaps and barriers in the existing EU reporting, monitoring and auditing practices, while also measuring the European added value.

Description of key findings

Based on the analysis of the status quo, the EAVA identified a list of non-exhaustive gaps and barriers affecting reporting, monitoring and auditing.

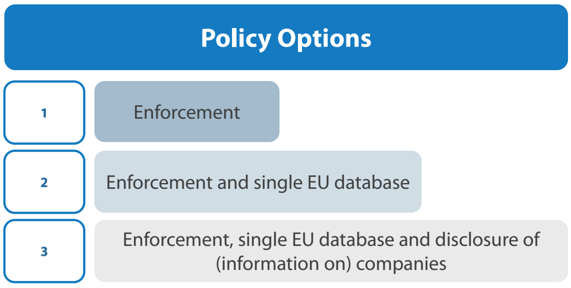
Figure 1 – Gaps and barriers affecting aspects related to reporting, monitoring and auditing



Data source: Prepared by the authors.

The EAVA identifies three specific policy options, tracing the path for EU action and the possible way forward:

Figure 2 – Policy options identified



Data source: Prepared by the authors.

The three policy options are assessed based on a set of general criteria (public scrutiny and accountability, relevance, subsidiarity and proportionality, efficiency, and effectiveness) and qualitative ones (transparency, simplification, and digitalisation). Furthermore, the costs, benefits and feasibility of the policy options are also assessed. Digitalisation is an enabler of open and more transparent governments and public administrations that continue to face increasing scrutiny by civic society. Greater transparency is also associated with other qualitative benefits such as accountability, trust and a stronger interest from society. Greater transparency and visibility of EU-funded projects could also give them greater visibility while also ensuring stronger participation by the stakeholders and thereby increasing competition.

The EAVA uses as its base the error rate identified by the European Court of Auditors, to assess the costs that could be saved by EU action. An error might arise due to an incorrect calculation or irregularities from non-compliance with legal requirements. As the level reaches up to 4.9 % in the case of high-risk expenditures, the EAVA assumes that there is potential to lower these rates if better and more timely use is made of data. Based on this, it identifies a potential EU added value that could presumably lower the error rates by 0.7 percentage points, yielding €1.11 billion; in the case of high-risk expenditure, the error rates could even drop by 2.9 percentage points, yielding €1.94 billion. These scenarios are explained in greater detail in Section 6.2.1.

Table 1 – Overview of the potential European added value

Criteria / Policy option	Base line (current situation)	Policy option 1	Policy option 2	Policy option 3
Subject	Status quo	Enforcement	Enforcement and single EU database	Enforcement, single EU database and disclosure of (information on) companies
Legislation needed? Y/N	N/A	N	N (Delegated act)	Y
Regulatory impact	N/A	0	0	+
Public scrutiny and accountability	- -	+	++	+++
Transparency	- -	+	++	+++
Simplification	- -	+	+	+
Digitalisation	-	+	++	++
Economic impacts	-	+	+	+++
Benefits	0	+	+	+++
Costs	0	0	0	+
Relevance	N/A	+	+	++
Subsidiarity and proportionality	N/A	+	+	+
Efficiency	N/A	+	+	++
Effectiveness	-	+	+	++
Feasibility	N/A	+		-
European added value	N/A	+	+	+++
Estimation of a potential European added value				
Reduction of overall level of error rates	Up to 0.7 percentage points Amounting to €1.11 billion			
Reduction of error rates in high risk-expenditure	Up to 2.9 percentage point Amounting to €1.94 billion			

Source: Compiled by the authors.

Note: A seven-level scale is used to assess the impact of the criteria qualitatively: high positive (+++); medium positive (++); low positive (+); 0 neutral, low negative (-); medium negative t (--); high negative (---); not applicable (N/A)

Table of contents

Table of figures

Table of tables

1. Introduction

The European Parliament Committee on Budgetary Control (CONT) requested permission to draw up an own initiative legislative report on the 'Digitalisation of the European reporting, monitoring and audit' (2021/2054(INL)). Article 10 of the Interinstitutional Agreement on Better Law-Making of 13 April 2016[1] gives the European Parliament the right to ask the European Commission for action through own-initiative legislative reports (INL). These reports are accompanied by European added value assessments (EAVA) that support the European Parliament in its evidence-based analysis of gaps and barriers, possible policy options and their potential impacts. In this context, European added value is understood as 'the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone'.[2]

Looking at the scope of this EAVA, it is relevant to mention that it addresses only funding instruments that are in shared management. It furthermore addresses fraud and/or abuse in the section dedicated to gaps and barriers. However, due to the scope of the EAVA, it was not possible to address the impact of policy on fraud and/or misuse. Still, the gaps and barriers it addressed and the policy options it identified could help diminish and/or restrict the gaps and barriers. The same is true for the weaknesses of the funding programmes and mechanisms.

Methodology and scope of the assessment

This EAVA is based on a desk review of the available literature, reports and databases. The literature reviewed is mostly sourced from EU and international institutions such as the European Parliament (in-house studies of the Secretariat), the European Court of Auditors and the OECD.

Figure 3 – Structure of the present EAVA

Data source: Prepared by the authors.

The EAVA starts by briefly looking at the history of the European Parliament's initiative and the status quo. In Section 2, it briefly describes the legal situation especially referring to the EU Financial Regulation, the General Provisions on the ESI Funds for the 2014-2020 programming period and the Common Provisions Regulation for 2021-2027.

In a next step, the EAVA gives an overview of recent EU policy developments (Section 3). General gaps and barriers in the existing EU reporting, monitoring and audit as well as some specific aspects are addressed in Section 4. Based on the analysis made as part of the EAVA, the grounds for EU action and the possible ways forward are explained and three specific policy options identified (Section 5). The document then assesses the European Added Value (Section 6) based on a set of general criteria

[1] Article 10 of the Interinstitutional Agreement on Better Law-Making of 13 April 2016 states: 'The Commission will give prompt and detailed consideration to requests for proposals for Union acts made by the European Parliament or the Council pursuant to Article 225 or Article 241 of the Treaty on the Functioning of the European Union respectively'.

[2] Commission staff working paper on the added value of the EU budget, SEC(2011) 867 final, European Commission, June 2011.

(public scrutiny and accountability, relevance, subsidiarity and proportionality, efficiency, and effectiveness) and specific qualitative ones (transparency, simplification, digitalisation).

Furthermore, the EAVA explores the costs, benefits and feasibility of the policy options. To assess the costs that could be saved by EU action, it uses the error rate identified by the European Court of Auditors as its base. An error might arise due to an incorrect calculation or irregularities from non-compliance with legal requirements. In this case the EAVA presumes that by lowering an error rate, money that would otherwise have been unduly paid from the EU funds could be saved. As the level reaches up to 4.9 % in the case of high-risk expenditures, the EAVA assumes that there is a potential to lower these rates if a better and timely use of data would be made. The EAVA conclusions are laid out in Section 7.

Background

The modernisation of the EU the European reporting, monitoring and auditing system has been on the agenda of the European Parliament and especially CONT for some years already.[3] As a reaction to the European Commission's 2018 discharge report on the consolidated annual accounts of the European Union[4], CONT[5] has asked for a digital reporting and monitoring system. The aim is a system that would enable the European institutions in charge of reporting, monitoring and auditing – the European Commission (EC), the European Court of Auditors (ECA), the European Anti-Fraud Office (OLAF) and the European Public Prosecutor's 'Office (EPPO) – to work and fulfil their obligations more efficiently and effectively. This also includes the European Parliament in its role as discharge and budgetary authority.

Two very important aspects of this future digital system – as also noted by CONT – include its capacity to i) show accurate information on final beneficiaries; and ii) generate a (more) complete understanding of the distribution and concentration of EU funds. At present, divergent approaches concerning the use of a digital reporting and monitoring system and data on final beneficiaries are still being used in the context of the multiannual financial framework 2021-2027 (MFF), the Recovery and Resilience Facility (RRF) and the Common Provisions Regulation 2021-2027 (CPR). Commissioner Hahn, respectively, pointed out in a Parliament hearing of 11 January 2021[6] the strong benefits as well as efficiency and transparency a horizontal regulation would bring.

In its letter[7] to the Conference of Committee Chairs, CONT estimates that an INL report would 'propose concrete solutions to make reporting easier and to facilitate accessibility, analysis and comparability of the financial information on allocation and spending of EU funds. Moreover, such a new system should ensure transparency about final beneficiaries of EU funds thereby helping to prevent fraud and conflict of interest'.

Status quo

The rules governing the monitoring and reporting obligations of the Member States have been progressively developing over the different programming periods, also reflecting the evolution of

---

3 For more, see Section 3 of this EAVA.

4 Communication on consolidated annual accounts of the European Union for the Financial Year 2018, COM(2019) 316, September 2019.

5 Resolution of 14 May 2020 on discharge in respect of the implementation of the general budget of the European Union for the financial year 2018, Section III – Commission and executive agencies (2019/2055(DEC)), European Parliament.

6 Web streaming of the meeting of the Committee on Budgetary Control of 11 January 2021, European Parliament.

7 Letter of the Committee on Budgetary Control (CONT) to the EP Conference of Committee Chairs, 'Request for authorisation to draw up a legislative own-initiative report under Rule 46 of the Rules of Procedure' dated 11 May 2021. I POL-COM-CONT 0(2021)5617).

the digital technologies used by the Member States and their authorities. While in the 2007-2013 programming period, Regulation 1083/2006[8] governing the provisions for the ERDF, the ESF and the Cohesion Fund did not specify how national authorities were to provide information on co-financed programmes, Article 13 the subsequent Regulation 1303/2013[9] introduced an obligation for the Member States to establish a single website providing information on all operational programmes. In addition, the regulation requires national authorities to 'maintain a list of operations by operational programme and by Fund in a spreadsheet data format, which allows data to be sorted, searched, extracted, compared and easily published on the internet, for instance in CSV or XML format'. The new Common Provisions Regulation of 24 June 2021[10] introduces further provisions to enhance the transparency as well as to better promote the results achieved with the help of EU funds among the citizens.

Currently, the Member States use more than 290 different systems[11] to report on the implementation of the common agricultural policy (CAP) and cohesion policy. The fragmentation in the reporting systems across the EU makes data incomparable and prevents the use of AI and big data sets and systems for the monitoring and controlling the funds. It is therefore difficult to get a comprehensive overview of the distribution of EU funds at national level.

8 Regulation 1083/2006 of 11 July 2006 on the general provisions on the ERDF, the ESF and the CF.

9 Regulation 1303/2013 of 17 December 2013 on the common provisions on the ERDF, the ESF, the CF, the EAFRD, the EMFF and laying down general provisions on the ERDF, the ESF, the CF and the EMFF.

10 Common Provisions Regulation of 24 June 2021.

11 The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Policy Department for Budgetary Affairs, European Parliament, 2021.

2. Regulatory basis for shared management

This section looks into the regulatory basis for shared management and the 2014-2020 programming period and the future 2021-2027 period. The rules for the 2014-2020 programming period are still in force and are the legal basis for the obligations introduced in 2014. The rules are well known and the relevant reporting, monitoring and audit systems should be in place. They are necessary conditions for the commitments and payments in the Member States. The regulatory basis for 2014-2020 and the practical implementation of these rules serve as the basis for their further development in 2021-2027.

Main types of EU funding

There are two main types of EU funds: funds managed directly by the European Commission and funds whose management is shared between the EU and the Member States.

Direct management

The EU budget is implemented directly by the Commission, EU delegations or executive agencies. Example: The Recovery and Resilience Facility (RRF) will be placed under direct management. The Member States report twice a year on the progress made in the achievement of their recovery and resilience plan. There is no reporting about operations and beneficiaries foreseen – neither for loans nor for grants '... payments should not be subject to controls on the costs actually incurred by the beneficiary'.

Source: Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility (18), Articles 8 and 27.

Shared management

The EU budget is implemented in close cooperation between the European Commission and the Member States. Examples: European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund and the Just Transition Fund. After the negotiations between the European Commission and the Members States, the Member States bear the primary responsibility for implementation, through their management and control systems, including reporting systems.

Source: Common Provisions Regulation of 24 June 2021.

2.1. Legal basis – Treaty on the Functioning of the European Union

The Treaty on the Functioning of the European Union (TFEU)[12] includes the possibility for the EU and the Member States to jointly act in certain areas and policies according to Article 4 TFEU. The legal basis for reporting, monitoring and auditing of programmes under the so called shared management of Member States are the following:

Principle of transparency

According to Article 15 TFEU and in accordance with the principle of transparency, the EU institutions have to conduct their work as openly as possible. With regard to budget and implementation, e.g. the ESI Funds, the application of that principle implies that citizens should know where, and for what purpose, funds are spent by the EU.

Social and territorial cohesion

Article 174 TFEU provides that, in order to strengthen its economic, social and territorial cohesion, the EU should aim to reduce disparities within and between Member States.

Article 175 TFEU stipulates that the EU is to support the achievement of these objectives by means of the actions it takes through the European Agricultural Guidance and Guarantee Fund, the

[12] Treaty on the Functioning of the European Union.

Guidance Section, the European Social Fund, the European Regional Development Fund, the European Investment Bank and other instruments.

Article 290 TFEU allows the legislator (generally, the European Parliament and the Council of the EU) to delegate to the European Commission the power to adopt non-legislative acts and in this context to supplement and amend certain non-essential elements of the common provisions for the ESI funds.

According to Article 317 TFEU, the Commission implements the funds in cooperation with the Member States, on its own responsibility. Member States cooperate with the Commission in accordance with the principles of sound financial management. The regulations lay down the control and audit obligations of the Member States as well as the responsibilities and rules for each institution concerning its part in effecting its own expenditure.

2.1.1. The legal basis for shared management: 2014-2020

The general provisions on the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime and Fisheries Fund (EMFF) are laid down in Regulation (EU) No 1303/2013 of 17 December 2013.[13] For the 2014-2020 programming period, these funds are – with some exceptions –under shared management. Regulation (EU) No 1303/2013 lays down the rules allowing the Commission to exercise its responsibilities as regards the implementation of the EU budget and clarifies the terms of cooperation with the Member States. In accordance with the principles of shared management, Member States have the primary responsibility, through their management and control systems.

For the purpose of the analysis under the present EAVA, Section 2.1.1 refers to the different provisions of Regulation (EU) 1303/2013.

Digitalisation

Article 115 addresses the responsibilities of the Member States and the managing authorities regarding information and communication. In each Member State a single website or website portal should be made publicly available, with the aim of strengthening accessibility and transparency about funding and project beneficiaries, and providing information on all the operational programmes, including the lists of operations supported under each operational programme.

For all official exchanges of information between the Member State and the Commission, they need to use an electronic data exchange system. This is also part of the partnership agreement with the Member State, under which the latter has to ensure efficient implementation of the ESI funds, as set out by Article 15. The Commission is empowered to adopt implementing acts establishing the conditions regarding the electronic data exchange system.[14]

Member States or managing authorities are required to maintain a list of operations by operational programme and by fund in a spreadsheet data format, allowing data to be sorted, searched, extracted, compared and easily published on the internet, for example in CSV or XML format. The list of operations should be updated at least every six months and the information to be set out in the list of operation is laid down in Annex XII.[15]

[13] Regulation (EU) No 1303/2013 of 17 December 2013.

[14] Article 74 of Regulation (EU) No 1303/2013).

[15] Article 115 of Regulation (EU) No 1303/2013).

Definitions according to Article 2

In 2007, the wording 'final beneficiary' was replaced by 'beneficiary' and defined as a 'public or private body and, for the purposes of the EAFRD Regulation and of the EMFF Regulation only, a natural person, responsible for initiating or both initiating and implementing operations...'.

In this context, an operation means 'a project, contract, action or group of projects selected by the managing authorities that contributes to the objectives of a priority or priorities; in the context of financial instruments, an operation is constituted by the financial contributions the subsequent financial support provided by those financial instruments'.

Sanctions

Deficiencies in the functioning of the management and control system can lead to the interruption of the payment deadline (Article 83) and the suspension (Article 142) of payments.

Financial corrections can be also made if the breach of the applicable law has affected the selection of an operation by the body responsible for providing support through the ESI funds.

For the 2014-2020 programming period, the general provisions on the ERDF, ESF, CF, EAFRD and EMFF have laid down clear definitions, rules and sanctions concerning:

- beneficiaries and operations,
- the lists of operations published on a single website,
- a spreadsheet data format, and
- sanctions in case of deficiencies.

2.1.2. Changes in the 2021-2027 programming period compared to 2014-2020

More funds – compared with the 2014-2020 period – will be implemented under shared management. These include the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund (CF), the Just Transition Fund (JTF), measures financed under shared management in the European Maritime, Fisheries and Aquaculture Fund (EMFAF), the Asylum and Migration Fund (AMIF), the Internal Security Fund (ISF) and the Integrated Border Management Fund (BMVI)). Furthermore, financial rules based on Article 322 TFEU should be established for all these funds, clearly specifying the scope of application of the relevant provisions.[16] The rules for shared management remain the same (10), (15a), (45). The definitions of 'operations' and 'beneficiary' have been developed further.

Article 2 Definitions

'operation' means inter alia:

(a) a project, contract, action or group of projects selected under the programmes concerned;
(b) in the context of financial instruments, a programme contribution to a financial instrument and the subsequent financial support provided to final recipients by that financial instrument.

'beneficiary' is defined as:

(a) a public or private body, an entity with or without legal personality or a natural person, responsible for initiating or both initiating and implementing operations;
(b) in the context of public-private partnerships ('PPP'), the public body initiating a PPP operation or the private partner selected for its implementation;
(c) in the context of State aid schemes, the undertaking which receives the aid...

Source: Article 2 of Common provisions regulation of 24 June 2021.

[16] Common provisions regulation of 24 June 2021.

2.1.3. Changes in the content of the publicly available list of operations

Article 49 (3) of the Common Provisions Regulation introduces [17] a list of data that should be provided by the managing authority, such as the contractor's name, the purpose and total cost of the operation, the EU co-financing rate and a location indicator (see textbox on the right for more details). Additionally, the managing authorities are asked to grant public access to the list of operators chosen for funding.

This legal basis still does not make it possible to identify natural persons with complete certainty, as natural persons' identification codes are not included in the list. As a consequence, no information on the company registration number and ultimate beneficiary of the company needs to be disclosed. There is no legal obligation under the Financial Regulation to publicly provide information on the beneficiary company's registration number and the ultimate beneficiary.[18]

Article 49 (3) Responsibilities of the managing authority

List of data

The managing authority shall make the list of operations selected for support by the Funds publicly available on the website. Each operation shall have a unique code. The list shall contain the following data:

(a) in the case of legal entities, the beneficiary's and, in the case of public procurement,* the **contractor's name**;

(b) where the beneficiary is a natural person the first name and the surname;

(c) for EMFAF operations linked to a fishing vessel, the Union fishing fleet register identification number as referred to in Commission Implementing Regulation (EU) 2017/218;

(d) name of the operation;

(e) the **purpose of the operation** and its expected or actual achievements;

(f) start date of the operation;

(g) expected or actual date of completion of the operation;

(h) **total cost of the operation**;

(i) Fund concerned;

(j) specific objective concerned;

(k) **Union co-financing rate**;

(l) **location indicator** or geolocation for the operation and country concerned;

(m) for mobile operations or operations covering several locations the location of the beneficiary where the beneficiary is a legal entity; or the region on NUTS 2 level where the beneficiary is a natural person;

(n) type of intervention for the operation in accordance with Article 67(3)(g);

For data referred to in points (b) and (c) of the first sub-paragraph, the data shall be removed after two years from the date of the initial publication on the website.

2.1.4. Sanctions in case of deficiencies

The sanctions in case of deficiencies remain similar. Deficiencies in the functioning of the management and control system can lead to the interruption of the payment deadline (Article 96)[19] for a maximum period of six months and the suspension (Article 97)[20] of payments after the Member State has been given the opportunity to present its points of view.

Financial corrections (Article 103 and 104)[21] are also possible if there is a serious deficiency and if expenditure contained in accepted accounts is irregular and was not detected and reported by the Member State.

[17] Common Provisions Regulation of 24 June 2021.

[18] The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Policy Department for Budgetary Affairs, European Parliament, 2021.

[19] Common provisions regulation of 24 June 2021.

[20] ibid.

[21] ibid.

3. Recent EU policy developments

This section analyses the positions of the different EU institutions, namely the European Commission, Parliament, Council and the European Court of Auditors (ECA), regarding the (further) digitalisation of reporting, monitoring and auditing. The analysis is based on publicly available information, including exchanges of views and resolutions of the Parliament, Commission proposals, Council conclusions and audits by the ECA.

Policy context

Given the adoption of Next Generation EU and the new MFF [22] in December 2020, and the Common Provisions Regulation 2021/1060 in June 2021,[23] the discussion on the digitalisation of the monitoring, reporting and auditing processes is very timely. The new rules that apply to the EU funds for the 2021-2027 programming period have a big potential to enhance the process of implementation and control of the EU budget in the coming years, ensuring that money is spent efficiently and in line with the requirements.

Digitalisation and its impact on policy-making has become a key point on the agenda of all policy discussions in the EU and beyond.[24] Digital transformation is also among the key priorities of the newly adopted Recovery and Resiliency Facility, applicable since February 2021.[25] It aims to help the Member States to overcome the consequences of the pandemic and to increase the resiliency of EU economies, while focusing on digital and green transformation.

3.1. Position of the European Parliament

The European Parliament plays an important role in controlling the implementation of the EU budget and in ensuring that taxpayer money is spent effectively and efficiently, in accordance with the rules governing the EU budget.[26] The Committee on Budgetary Control has the responsibility of preparing the Parliament's position on, among others, scrutiny of the implementation of the EU budget as well as a common stance on the reports by the European Court of Auditors (ECA).[27] Every year, the Parliament decides on granting discharge to the Commission on the budget after having closely examined all respective documents, including the activity, management, performance and evaluation reports as well as the ECA's annual reports.[28]

On 28 April 2021, the EP plenary adopted the 2019 discharge on the general budget of the EU in which it reiterated the EP's call on the Commission to propose a regulation on the establishment of an interoperable IT system allowing the Member States to report in a uniform, standardised and timely manner on the implementation of EU funds under shared management.[29] The document notes that a digital and interoperable system would also help avoid systematic problems, such as misuse, fraud, conflict of interest and double funding, and would bring more efficiency in the monitoring and control of the use of EU funds, allowing the use of AI and big data sets and systems. Ultimately, the Parliament calls upon the Commission to propose respective provisions as part of

22 Regulation 2020/2093 of 17 December 2020 on multiannual financial framework for the years 2021 to 2027.

23 Provisional agreement resulting from interinstitutional negotiations on common provisions from 3 March 2021.

24 Going digital, OECD website (consulted in September 2021).

25 Recovery and Resilience Facility, European Commission website (consulted in September 2021).

26 Rules of Procedure of the European Parliament (Rule 98), 9th parliamentary term, January 2021.

27 Rules of Procedure of the European Parliament (Annex VI), 9th parliamentary term, January 2021.

28 Rules of Procedure of the European Parliament (Annex V), 9th parliamentary term, January 2021.

29 2019 discharge: EU general budget - Commission and executive agencies, European Parliament, April 2021.

the upcoming review of Regulation 2018/1046 on the financial rules applicable to the general budget of the Union[30] (the Financial Regulation), due in December 2021. This request is not new; the Parliament has been emphasising the need for standardising and digitising reporting to guarantee better transparency and improve accountability already in the discharge report for the Commission for the year 2018.[31]

In its resolution[32] of 9 June 2021 on the conflict of interest, the Parliament raises concerns over the distribution of a vast majority EU funds among a small minority of beneficiaries, which negatively affects small businesses. The resolution also reiterates the Parliament's call for establishing an interoperable digital reporting and monitoring tool that would allow for a standardised way of reporting and improve the accountability of EU finances. Finally, the resolution conveys the Parliament's deep regret that the co-legislators did not reach a satisfactory agreement on provisions establishing the interoperability of the IT systems, which would allow standardised and uniform reporting and foster cooperation'.

3.2. Position of the European Commission

The European Commission proposes and implements the EU budget[33] and manages the EU funding programmes. Under shared management, national administrations are responsible for choosing and running projects, while the Commission oversees the process to ensure that the money is spend according to the rules.

As part of the new Common Provisions Regulation, the Commission has proposed[34] a mandatory use of an integrated and interoperable monitoring system that would collect and compare information on recipients of funding. This would help avoid irregularities, conflict of interest, double funding and misuse of taxpayers' money. The proposal was not retained during the interinstitutional negotiations and the use of such a tool by Member States remains therefore voluntary.

During a CONT committee meeting in January 2021,[35] the Commissioner for Budget and Administration, Johannes Hahn, recalled that compliance with the EU budget rules and spending performance remain some of the highest priorities. He also highlighted the main challenges for the EU budget in the years to come, among them the need for simplification, increased transparency and greater support to the Member States, including beneficiaries. He also reminded that the respective sectorial legislation provides for relevant rules to ensure the regularity and performance of EU budget expenditure.

In March 2021, the Commission presented a roadmap on a targeted revision[36] of the Financial Regulation to align it with the recently adopted legal acts in the context of the MFF package. The revision will also include some simplifications and improvement to the current rules regarding EU budget expenditure, including the implementation of the EU funding programmes.

---

30 Regulation 2018/1046 of 18 July 2018 on the financial rules applicable to the general budget of the Union.

31 Discharge 2018: EU general budget - Commission and executive agencies, European Parliament, May 2020.

32 Resolution of 10 June 2021 on the conflict of interest of the Prime Minister of the Czech Republic, European Parliament.

33 Article 317 TFEU.

34 Proposal for a regulation on common provisions of 29 May 2018.

35 Web streaming of the meeting of the Committee on Budgetary Control, European Parliament, January 2021.

36 Targeted revision of the financial rules applicable to the general budget of the EU, European Commission, March 2021.

3.3. Position of the Member States

The Council has not directly addressed the need for further harmonisation of rules governing the monitoring, reporting and auditing of EU programmes under shared management. Although the Member States have called on the Commission to propose further measures for tackling fraud and irregularities in the management of EU funds, including measures on the collection and comparability of data on final beneficiaries to ensure control and audit, the final text remains short of further details. While the Parliament calls for the introduction of uniform reporting rules as part of the review of the Financial Regulation, the Council conclusions from 21 July 2020[37] favour including respective provisions in the basic acts of the programmes rather than having a standardised set of rules applying to all EU funds in the same way. Finally, the Council agreed that a strong involvement of the European Court of Auditors (ECA), European Anti-Fraud Office (OLAF), Eurojust, Europol and the European Public Prosecutor's Office (EPPO) as well as the Member States' authorities is needed to combat fraud.

3.4. Position of the European Court of Auditors

The ECA aims to make optimal use of new technologies and highlights the need of investing in digital auditing, as affirmed in its 2021-2025 strategy.[38] The strategy recognises the opportunities digitalisation brings as well as the challenges posed by the pandemic; the ECA will therefore seek to expand their audit scope through an increased use of digital tools. In 2020, the ECA used digital audit tools for the first time when auditing EU agencies. The digital pilot project covered several audit procedures for six executive agencies and confirmed the potential to enhance the quality and efficiency of their audits.[39] The ECA Special Report on fighting fraud[40] recognised the actions taken by the Commission to fight against fraud in the EU budget as well as the creation of the EPPO as an important step. The report calls for further action, namely encouraging the Commission to put in place a 'robust fraud reporting system' and the Member States to make use of the ARACHNE database.

3.5. Member States' practices and their impact

Article 125 of the General Provisions Regulation 2014-2022[41] introduces the requirement for the managing authority to implement risk-based, effective and proportionate measures to prevent fraud in operational programmes.

This section provides an overview of some relevant practices by a number of Member States, implemented to a large extent to help them address the new requirements introduced by the 2014-2020 programming period.

[37] Council conclusions of 21 July 2020 on the Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020).

[38] The 2021-25 strategy of the European Court of Auditors, January 2021.

[39] Our activities in 2020: Annual activity report, European Court of Auditors, 2021.

[40] Fighting fraud in EU spending: action needed, European Court of Auditors, 2019.

[41] Regulation (EU) No 1303/2013 of 17 December 2013.

Table 2 – Member States practices and their expected impact

Practice	Short description	Expected impact	Country example
Managing authorities' monitoring system shared with other entities	A hard prevention practice designed to mitigate the risk of project manipulation and enhance the anti-fraud culture within a Member State	Transparency and integrity in the applicant selection process, increased traceability and effective coordination between stakeholders	**Belgium:** Wallonia uses the EUROGES database as a platform for coordinating, managing, monitoring and evaluating ERDF projects. The database is comprised of an award module, a management module and a public procurement module. **Denmark:** A joint Monitoring Committee has been set up, comprised of the managing authority and the Regional Growth Forums. The committee is in charge of monitoring the ERDF and the EFS-related operational programmes.
Use of data collected by managing authorities to detect fraud risks	A hard detection measure that aims to detect possible double funding and manipulation of project cost and quality	More efficient checks in the selection of applicants, enhanced management verifications and increased compliance and fraud detection	**Finland**: The electronic management system EURA 2014 traces all project operations (selection, implementation, verification, payments and certifications). The system has direct access to the national tax authority. **Portugal:** The Balcão 2020 monitoring system not only serves as a communication platform but also helps with project selection and implementation. The module is capable of detecting potential double-funding applications.
Cooperation between ESI funds authorities and other national authorities	A soft prevention measure that helps to reinforce skills, capacity-building and information- and knowledge-sharing	Synergies achieved through information exchange, knowledge sharing and more efficient stakeholder coordination.	**Croatia:** A Network for the Management of Irregularities has been set up to prevent irregularities and frauds and to exchange practices on handling irregularities in order to enhance competences related to fraud detection. **Lithuania:** National authorities cooperate with the Financial Crime Investigation Service to strengthen the competences of the institutions involved in management and control as well as to share information about emerging criminal trends and new fraudulent mechanisms.

Source: Compiled by the authors based on the Commission Compendium of anti-fraud practices for preventing and detecting fraud and corruption in ESI Funds.

4. Gaps and barriers in the existing EU system

This section gives a brief non-exhaustive overview of the gaps and barriers reported in recent analysis and reports. It distinguishes between i) general gaps and barriers; and ii) more detailed gaps and barriers related to the area addressed in this paper. The gaps and barriers mentioned here have either existed or can potentially come into existence.

4.1. General gaps and barriers in EU reporting, monitoring and audit

Over time, the European Commission and the European Court of Auditors have identified gaps and barriers in the operation of the funding programmes under shared management. Not all gaps and barriers identified have been tackled, whether partially or completely. These range from issues with the interoperability of the reporting systems and approaches, data and its collection, to insufficient resources for tasks (costs). Table 3 below provides a non-exhaustive overview of these gaps and barriers.

Table 3 – Non-exhaustive overview of gaps and barriers

Issues	Potential gaps and barriers
Complexity	Reporting is done in various EU languages. The wide range of systems and the diverse ways of reporting create complexity. This reduces and/or even restricts comparability.
Transparency	It is impossible to achieve transparency due to a tremendous number of different systems, e.g. in the CAP and in Cohesion 292 alone, different systems and hundreds of URLS are used. It is (technically) difficult to identify all reporting systems. Generating the data by a software is not possible due to gaps and barriers as regards interoperability, comparability of systems and data. Fragmentation and divergence may lead to avoidance of control and of being controlled, both by the Member States and the EU. This may also lead to beneficiaries not disclosing relevant information both on purpose and unintentionally.
Irregularities, including fraud and corruption	Costs associated with the corruption* risk in EU public procurement could amount to €5.33 billion a year. Insufficient corruption control and prevention Corruption negatively impacts citizens as well as businesses. This may harm the EU's financial interests and lead to lower investment levels and public finances. OLAF identified irregularities amounting to roughly €8.8 billion, or €586.67 million per year, including suspected fraud. Lack of powers given to the European Public Prosecutor to urge national authorities to allocate resources dedicated to pro-active investigation of fraud in the management of EU funds
Data	None or unclear definition for the kind of data that should be collected and for its quality The collection of data varies as to who collects data and how and what precisely is collected. Divergent opinions on the ownership of the data complicate reporting, monitoring and data collection.

	Standards on identifiers are not aligned. The use of different languages poses problems for the accessibility, readability and exportability of the data.
Digitalisation	The digital gap is still pertinent and remains a challenge among the Member States. The gap in the performance of delivering digital public services among the Member States is wide. Challenges facing the Member States such as rapid technological change, skills shortage, increasing complexity, change in working methods, and the need to adapt to the goals of the green transition The level of adjustment to the requirements of digitalisation varies strongly among the regional/local authorities. The current systems / approaches lack interoperability.
Interoperability / comparability	The reporting systems and formats differ among the Member States. Some Member States have specific reporting software in place. Often Excel tables and/or pdf documents are used and published. The quantity and quality of data varies, is unstructured and is not comparable.
Competence / Know-how	Experience of e-government and reporting software varies. Not all administrations have a set standard for the use of reporting system, the full competence needed and sufficient resources.
Costs	The introduction of new, digital reporting systems produces costs at the beginning such as for developing software, restructuring the administration, and carrying out training of staff.**
Ultimate beneficiary identification	Due to a lack of understanding about who the actual beneficiary is, there is no clear picture about who is ultimately benefiting from the EU funds. For example, in the case of infrastructure projects, it is often the municipalities that are identified as the beneficiaries rather than the companies that are the de facto ultimate beneficiaries.
Errors and error rates	These occur due to an incorrect calculation or to irregularities stemming from non-compliance with the legal or contractual obligations.

Source: Compiled by the authors based on literature review mostly sourced from the ECA, the EC, the OECD and the EP.
* Corruption is understood to be the 'abuse of power for private gain' in both the private and the public sector.
** Some costs are covered by the budget for technical assistance, as stipulated, for example, in the Common Provisions Regulation (CPR), Article 35 'Technical assistance at the initiative of the Commission'.

4.2. Specific gaps and barriers in EU reporting, monitoring and audit

With regard to EU reporting, monitoring and auditing, this EAVA considers four issues and the related gaps and barriers as especially important: digitalisation, transparency, error rates and irregularities, including fraud and corruption, as mentioned in Table 3.

4.2.1. Digitalisation

Although digital transformation is one of the key policy objectives of the European Union and one of the guiding principles in the MFF, the existing digital gap among the Member States remains a considerable challenge for the EU. The European Commission has presented several initiatives and funding programmes aiming to facilitate the digitalisation of both the private and the public sector, including national public administrations. Despite the overall progress made, differences between Member States remain. The 2020 e-Government Benchmark report[42] measures and evaluates the performance of online public services across Europe, based on an average score for the following benchmarks: user centricity, transparency, key technological enablers and cross-border access to online services. The report shows that while the top five performing countries score 89 % on average in delivering digital public services, the five least performing score no more than 54 %. The EU average performance stands at 68 %. Although this gap has been diminishing among both countries and regions, it is obvious that any new provisions towards more digitalised funds management will affect the different (groups of) countries disproportionately.

Digitalisation goes beyond replicating bureaucracy by electronic means, as in order to grasp the opportunities it could offer, it needs to be at the core of administrative management. Member States encounter several challenges in transforming their administration, including rapid technological change, skills shortage, increasing complexity, change in working methods, and the need to adhere to the principles of the green transition. Last but not least, adaptation to sub-national levels is also necessary, as EU funds are to a large extent implemented by the regional and local authorities.[43]

4.2.2. Transparency

In a 2021 study,[44] lack of transparency was identified as one of the most relevant issues to be targeted concerning EU reporting, monitoring and auditing. This is backed by findings by different players, including the ECA.[45] The 2021 study highlights the presence of gaps and barriers in three areas i) legal, ii) technical and iii) a central database. These are described in greater detail below:

Legal aspects

One of the most substantial obstacles to receiving and publishing information by and on beneficiaries is the lack of transparency. Looking at the reporting systems used for cohesion policy funding programmes and the CAP, certain types of information – such as the beneficiaries' registration number – are not required to be disclosed / introduced in the reporting systems. The type of information that is required under the anti-money-laundering legislation (AML) is not required for reporting, monitoring and auditing purposes. Furthermore, the date / timeline for when information can become public varies. Information collected under the CAP can be deleted after having been stored for two years and under the AML – after five years of storage. For the current cohesion policy programming period (2021-2027), no timeframe is indicated.

Technical aspects

The systems in use suffer from diverse gaps and barriers, such as issues with the data that are being stored, non-machine-readable data and/or data that are difficult to find and use. The systems are not interoperable. The format of the data is not always the same. Moreover, data are not stored in the same manner and data exchange is done differently. This poses problems with obtaining and disclosing information on beneficiaries. Furthermore, not all data are included in and accessible through national central registers. Last but not least, not all Member States have an easily and

[42] eGovernment Benchmark report 2020: eGovernment that works for people, A study prepared for the European Commission, DG Communications Networks, Content and Technology, September 2020;

[43] Supporting public administrations in EU Member States to deliver reforms and prepare for the future, European Commission, April 2021.

[44] The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Policy Department for Budgetary Affairs, European Parliament, 2021.

[45] Transparency of EU funds implemented by NGOs: more effort needed, European Court of Auditors, 2018.

publicly accessible national register and, if they do, these registers are not necessarily publicly accessible.

A central database

There is some progress on a European central database, and an EU-level pilot project is being carried out. For the time being, this database is not publicly accessible.

4.2.3. Error rates

Each year, the ECA carefully evaluates the implementation of the EU budget and releases an opinion on the reliability of the EU accounts. In 2019, the ECA's audit population amounted to €126.1 billion, compared to €159.1 billion of EU spending.[46] As in previous years, the latest EU audit from November 2020 relating to 2019 concluded its report with a clean opinion, confirming that the accounts present a 'true and fair overview of the EU's financial position'.[47]

Furthermore, the ECA also estimates error rates of audited expenditure. An error could arise due to an incorrect calculation or an irregularity stemming from non-compliance with legal or contractual obligations.[48] In 2019, the estimated level of error amounted to 2.7 %, which represents an increase compared to 2.6 % in 2018 and 2.4 % in 2017.[49]

Table 4 – Overview of the estimated level of error per spending programme in 2019

Spending programme	Management type	Budget subject to audit in 2019	Estimated most likely level of error in 2019
Horizon 2020 (including the 7th Framework Programme), Erasmus + programme	Direct and indirect management	€16.7 billion	4.0 % (€0.67 billion)
The European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF) and other schemes	Shared management	€28.4 billion	4.4 % (€1.25 billion)
The common agricultural policy (CAP) and the common fisheries policy and part of EU spending on environment and climate	Shared management	€59.4 billion	1.9 % (€1.13 billion)
European Development Funds	Indirect management	€3.4 billion	3.5 % (€0.12 billion)

Source: Authors' compilation and calculations based on the 2019 EU audit in brief, ECA, 2020.

The above table provides an overview of an estimated level of error for 2019 in the different spending programmes, including the budget proportion. The level of error in the common agricultural policy seems relatively low compared to other programmes. This can be explained by the fact that the CAP has undergone a series of simplifications in the past years. Presumably, the introduction of flat rate payments, in particular, has also contributed to lowering the number of

46 2019 Annual reports, European Court of Auditors, 2020.

47 2019 EU audit in brief, European Court of Auditors, November 2020.

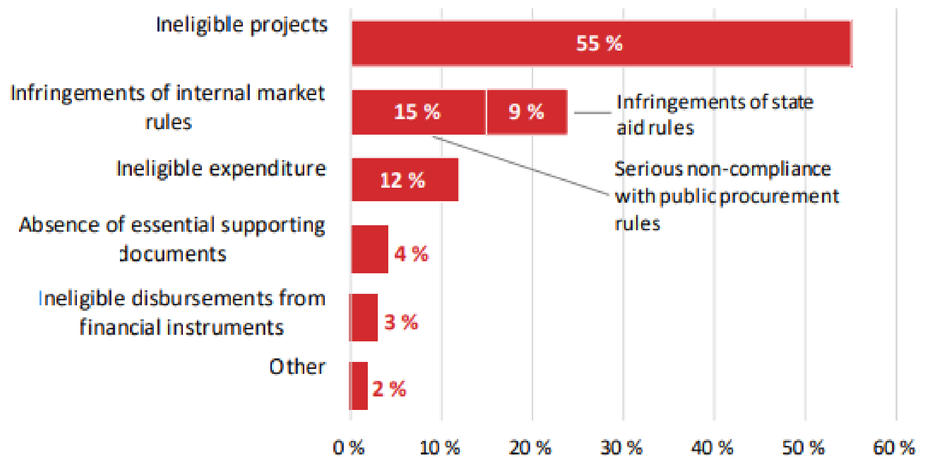
48 ECA 2019 annual report - Glossary, European Court of Auditors, 2020.

49 ECA defines 'estimated level of error' as 'a statistical estimate of the level of error affecting a population, based on testing of a representative sample of transactions'.

irregularities. Despite the relatively low error rate, there is nevertheless room for further improvement.

Looking closer at the funds under shared management, which represent 33.8 % of the overall budget for 2019 and amount to €53.8 billion, the 2019 report notes that there is 'a high inherent risk of error' and that the checks performed by the managing authorities are 'still often ineffective' to prevent or detect expenditure irregularities by beneficiaries.[50] More details can be found in Figure 4 below. Due to the 'pervasive level of error', the ECA released an adverse opinion on the legality and regularity of EU expenditure in 2019.[51]

Figure 4 – Types of errors identified in the area of cohesion policies, 2019



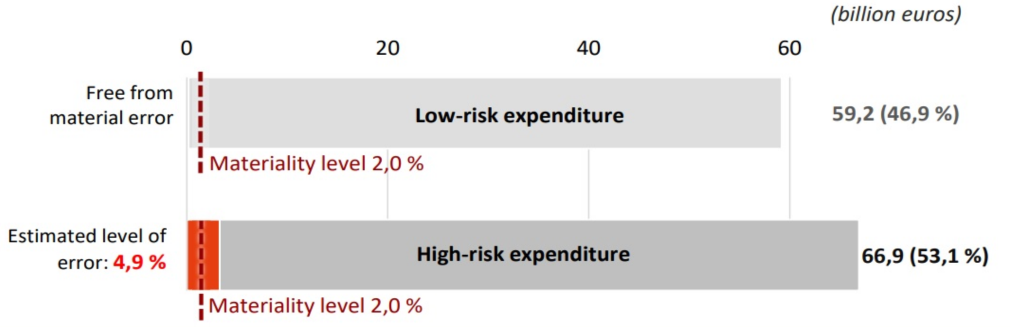
Source: 2019 Annual reports, European Court of Auditors, 2020.

It is important to note that the level of the error rate might vary depending on the expenditure type, as also shown in Figure 5 below. While low-risk expenditure is free from material error, in the case of high-risk expenditure, relating mostly to cost-reimbursement and subject to complex rules, the ECA-estimated error rate stands at 4.9 %. This is not only substantially higher that the materiality level of error but also represents an increase compared to 2018 as already explained above, and there is therefore room for improvement.

50 2019 Annual reports, European Court of Auditors, 2020.

51 According to the ECA, an adverse opinion indicates widespread problems.

Figure 5 – Breakdown of the 2019 audit population by low- and high-risk expenditure



Source: [2019 Annual reports](), European Court of Auditors, 2020

4.2.4. Irregularities, including fraud and corruption

According to the latest Eurobarometer survey published in May 2021, 49 % of respondents trust the EU. This represents an increase of 16 % compared to 2020 and constitutes the highest level of trust since 2008.[52] The survey also shows that people tend to trust their national institutions (36 %) less than the EU institutions and are therefore inclined to expect that the EU would protect them against crime and corruption within their national public administrations. The 2011 and 2014 EU anti-corruption reports estimate that the cost of corruption[53] in the EU could stand at €120 billion a year.[54] A European Parliamentary Research Service (EPRS) study on the Cost of Non-Europe in the area of Organised Crime and Corruption[55] from March 2016 estimates the cost associated with corruption risk in EU public procurement to stand at €5.33 billion a year. The 2016 EPRS study also expresses the opinion that the recent creation of the EPPO office alone has the potential to reduce the cost of corruption by up to €200 million annually, in a best-case scenario, provided all Member States sign up to the EPPO. At this point, five EU countries have not yet done so.[56]

Insufficient corruption control and prevention will inevitably have an adverse effect also on the management of EU funds. If there is a suspicion of corruption or conflict of interest where EU public money is involved in a Member State, the Commission might proceed with suspension of payments[57] unless corrective measures are undertaken in the country.

---

52 Standard Eurobarometer 94 - Winter 2020-2021, Public Opinion in the European Union, European Commission, April 2021.

53 Under corruption we understand 'abuse of power for private gain' in both private and public sectors.

54 Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: Fighting Corruption in the EU, COM(2011) 308, European Commission; June 2011; and, Report from the Commission to the Council and the European Parliament: EU Anti-corruption report, COM(2014)38, February 2014.

55 The Cost of Non-Europe in the area of Organised Crime and Corruption: Annex II - Corruption, EPRS, European Parliament, March 2016.

56 EPPO website. Consulted in September 2021.

57 Article 97 of the Common Provisions Regulation 2021/1060 of 24 June 2021.

Corruption affects negatively citizens as well as businesses. The 2017 Eurobarometer survey on businesses' attitudes towards corruption in the EU shows that 67 % of companies responding to the survey across the EU believe that corruption is a widespread problem in their country. The numbers differ from 12 % in Denmark and 22 % in Luxembourg to 96 % in Romania and Greece and finally, to 100 % in Cyprus.[58] This not only harms the EU's financial interests but also diminishes investment levels and public finances and prevents the EU from achieving the full potential of the single market.

The ECA notes that during 2002-2016, the OLAF identified irregularities, including suspected fraud, worth roughly €8.8 billion, that is, €586.67 million per year, and that it issued financial recommendations for recovering the unduly paid money from EU funds; a total of €2.6 billion was actually recovered.[59] Although the recent creation of the EPPO might contribute to addressing fraudulent operations, serious concerns remain, as the investigation is mostly in the hands of the Member States and the EPPO lacks the powers needed to urge national authorities to allocate resources for proactive investigation of fraud in the management of EU funds.

4.3. Gaps and barriers in the CAP and the cohesion policy reporting systems

The data included in the cohesion data platform is sourced from the 533 national, regional and interregional programmes and is exchanged by the national and regional authorities and the Commission through a common IT platform – SFC2014.[60] The platform gathers in one place the latest data available from these 533 programmes (December 2019 for achievements, December 2020 for finances implemented, daily updates for EU payments). The data can be explored by using one of the four options and allows users to check progress in the delivery of investments at EU level, by theme, by country (linked to programmes) or by fund. Datasets can be visualised, embedded in other sites or downloaded for the purposes of being analysed. There is also a (non-exhaustive) list of representative projects funded by ESIF. The data concerning projects are publicly available but spread across more than 290 reporting systems in Europe, and therefore the level of data fragmentation is high.[61] The EU-funded pilot database Kohesio,[62] which is under development, should bring the solution and give access to all projects and beneficiaries.

Kohesio is currently based on the data of a selection of Member States (Denmark, Czechia, France, Ireland, Italy and Poland). It is an information pool that gathers and links the fragmented project-related data and information for the current funding period. It offers tools enabling the launch of searches related to all projects funded under the cohesion policy funds, namely the European Regional Development Fund, the European Social Fund and the Cohesion Fund. It also provides information related to the beneficiaries of those EU funds. The Commission has the intention to extend the coverage to all of the Member States by the end of 2021.[63]

58 Flash Eurobarometer 457: Briefing Note on businesses' attitudes towards corruption in the EU, European Commission, October 2017.

59 Fighting fraud in EU spending: action needed, European Court of Auditors, 2019.

60 The Instrument of Pre Accession – Cross-Border Cooperation (IPA-CBC) programmes are included in the finances dataset and the 10 additional programmes concerned are listed under the relevant EU Member States.

61 CEPS, The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, May 2021, Requested by the CONT committee.

62 Kohesio Open Projects: Project Information Portal for Regional Policy.

63 The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Policy Department for Budgetary Affairs, European Parliament, 2021.

Data accessibility, missing identifiers

According to a 2021 EP study,[64] a download option is the easiest way to obtain a complete and structured overview of the direct beneficiaries. The majority of CAP- and cohesion policy-related reporting systems allow users to download the data. More than 86 % of cohesion policy-related reporting systems offer one or more download options. For CAP the figure is significantly lower: 54 %.

Matching with the national company register is also difficult. Between 2014 and 2020, it was possible to match the names in the company registers for about 71 % of the direct cohesion policy beneficiaries. Over the said period, there were huge differences between the Member: matching the names was possible in only 10 % (or even less) of the cases in six Member States, whereas in another five Member States it was possible in 80 % (or even more) of the cases.

As there is no single database containing information on the ultimate beneficiaries, getting an exhaustive overview of the funds received by natural persons remains a challenge. Managing authorities are required to provide the full names of both natural and legal persons in the reporting systems, as this should make it possible to determine the type of beneficiary. In practice, however, the information on beneficiaries is often incomplete (no common way to refer to the full name or acronym of the legal form and the names of the beneficiaries are often incomplete. As there is no common unique identifier, it is currently impossible to determine the beneficiaries with certainty. Even if the Kohesio database is fully implemented, this problem will persist.

[64] ibid.

5. Possible EU policy responses to current gaps and barriers

Based on the analysis of the current regulation, programmes and existing gaps and barriers identified, this section looks at the EU's right to act, briefly mentions recommendations and suggests possible actions. It then identifies three policy options and their impacts.

5.1. EU right to act – Legal basis

The analysis of the regulatory framework in the area of shared management (Section 2 above) shows that there is a scope for EU action when implementing the EU budget. The newly adopted Common Provisions Regulation as well as the EU Financial Regulation also foresee further potential action by the Commission to implement the EU budget in accordance with the respective provisions. These are based on, for example, Article 290 TFEU, which allows the Commission to adopt a delegated act to supplement or amend certain non-essential elements of legislation or Article 317, which empowers the Commission to implement the funds together with the Member States. Furthermore, the identification of gaps and barriers (Section 3 above) related to the monitoring, reporting and auditing of EU funds clearly shows the need for an intervention at EU level. Addressing these barriers would help increase transparency, improve data quality, reduce complexity and eventually enable better understanding of and control over EU money flows. Digitalisation would considerably enhance the work of institutions but also enhance the cooperation with Member State authorities.

5.2. Possible EU action

Below, this EAVA provides some examples of possible EU action based on the ongoing discussions as well as recommendations following the EAVA authors' research and analysis of available sources.

5.2.1. Suggestions raised in current political debates

There is an ongoing discussion on the need for greater transparency and digitalisation of processes in the implementation of EU funds, and various stakeholders are also making efforts in this direction. Some suggestions have been made as part of the inter-institutional debates and reports published by the EU institutions.

Digitalisation

The existing digitalisation gap among the different national administrations is explained in greater detail in Section 4.2.1 above. Interoperability could simplify and enhance the cooperation between administrations at regional, national and EU level.

National public administrations play a key role in implementing reforms and managing investments. To this end, the Commission has been engaging with Member States to facilitate the transition and help to enhance the quality of public administration, including the provision of capacity-building tools, exchange of best practices and financial support.[65]

Error rates

Due to the 'pervasive' level of error the ECA identified in its 2019 Annual Report, it released an adverse opinion on EU expenditure, highlighting the need for clear and simple rules as well as effective checks on how the EU budget is spent. It also evaluated that the Commission, with the

[65] Supporting public administrations in EU Member States to deliver reforms and prepare for the future, European Commission, April 2021.

respective control procedures in place, failed to prevent or detect errors before having accepted the expenditure. The ECA believes that the Commission could have made a better use of all available data.

Concluding on the 2019 report, the ECA's President, Klaus-Heiner Lehne, added that clear rules and effective checks are particularly important in the context of the Recovery and Resilience Fund.[66]

Irregularities, including corruption

As described in Section 4.2.4, the Court of Auditors issued recommendations to the Commission to establish a robust fraud reporting system and to urge Member States to use the ARACHNE tool to prevent misuse of EU funds. There have been efforts by the Commission and the Parliament to further enhance the use of the data-mining tool to detect corruption, but the tool's use remains voluntary for Member States.

ARACHNE is managed by the Commission and both the ECA and OLAF have access to it on a case-by case basis, in line with an opinion by the European Data Protection Supervisor (EDPS).[67]

During a CONT committee hearing of 2 September 2021, several stakeholders, including the Commission, CONT committee representatives, OLAF and the ECA confirmed the importance and further potential of using the ARACHNE tool. Although updates with regard to artificial intelligence are needed, it offers a good starting point and another step towards greater interoperability at EU level.[68]

As mentioned by the Commission representative during the meeting, the Commission is considering proposing, as part of the upcoming proposal on a revision of the Financial Regulation:

- strengthening the protection of EU financial interests via, for example, digitalisation;
- collecting data on recipients of EU funding in an EU-wide website/database extending the use of the Early Detection and Exclusion System (EDES)[69] to shared management;
- extending the mandatory collection of beneficial ownership information for control and audit purposes;
- making the use of a risk-scoring and data-mining tool mandatory for analysing data on recipients of EU funding for control and audit purposes.[70]

5.2.2. Study recommendations

Based on the present EAVA authors' research and assessment of the available sources, including the 2021 study[71] and the suggestions in Section 5.2.1, the following recommendations can be formulated:

- To **resolve the fragmentation** and identify the beneficiaries, it is necessary to revise both the monitoring process and the requirements towards the information being collected. In addition, we recommend creating a common database at EU level

[66] 2019 EU accounts: clean, but too many spending errors, press release, European Court of Auditors; 10 November 2020.

[67] Opinion on a notification for Prior Checking received from the Data Protection Officer of the European Commission regarding the 'Risk analysis for fraud prevention and detection in the management of ESF and ERDF' – ARACHNE, European Data Protection Supervisor, 17 February 2014.

[68] Web streaming of the meeting of the Committee on Budgetary Control of 2 September 2021, European Parliament.

[69] Link providing further details about EDES.

[70] Commission presentation during the CONT committee meeting of 2 September 2021, European Parliament.

[71] The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Policy Department for Budgetary Affairs, European Parliament, 2021.

covering all projects financed by the Cohesion Fund, the European Social Fund, the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund, the European Maritime and Fisheries Fund and the European Regional Development Fund. A pilot project has already been developed on EU cohesion policy projects for six Member States. To create a harmonised database with beneficiaries, the required information has to be provided in a standard format that is open, machine-readable and fulfilling the open data requirements.[72]

- To **prevent fraud, conflict of interest and irregularities**, active use should be made of the integrated IT data tool for data mining and enrichment ARACHNE. The tool could assist national authorities in detecting and identifying risky projects and beneficiaries via performing both ex-ante and ex-post checks.[73] As both the usefulness and the efficiency of the tool depend on the amount of data provided by the Member States, (ARACHNE is currently used on a voluntary basis), it has not reached its full potential yet, and a more systematic use should be encouraged. The tool, including technical support and trainings by the Commission, is offered free of charge to the Member States.
- **To identify the beneficiary** with greater certainty, a EU-wide unique identifier needs to be developed.[74] Currently, national identifiers are helpful in determining the direct beneficiary but this is not possible when the company operates in several countries. As a follow-up to the study on 50 largest beneficiaries, CEPS has been asked by the CONT committee to prepare a briefing on requirements for a unique beneficiary database, due by the end of September 2021.[75]

As shown in Section 3.5, several Member States have implemented measures to prevent fraud, mitigate risks and enhance capacity-building. These measures are considered to have a strong potential to become good practices and are expected to have a positive impact. These actions demonstrate that further improvement is not only possible but also feasible.

5.2.3. Possible EU action

Based on the present EAVA authors' analysis, they suggest three actions.

(A) Action on enforcement and extension of pilot databases

This action would foresee enforcement of existing rules set out in the respective legal frameworks as described in Section 2, including completeness and accuracy of data and their timely delivery.

Table 5 – (A) Action on enforcement

Criteria	Assessment
Why is this action needed?	The data concerning projects are publicly available but fragmented in 292 reporting systems across EU countries. This fragmentation makes data incomparable and prevents the use of AI and big data sets and systems to monitor and control the funds. It is therefore difficult to get a comprehensive overview of the distribution of EU funds even at national level, taking into account the different levels of digitalisation of the

72 The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Policy Department for Budgetary Affairs, European Parliament, 2021.

73 ARACHNE risk scoring tool, European Commission website.

74 The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Policy Department for Budgetary Affairs, European Parliament, 2021.

75 Web streaming of the Meeting of the Committee on budgetary control of 2 September 2021, European Parliament.

	Member States' public administrations. A download-option to obtain a complete and structured overview of the direct beneficiaries is not always available. The 'mainstreaming' of the pilot info base Kohesio could give access to all projects and beneficiaries.
A stand-alone action?	Yes

Source: Compiled by the authors.

(B) Action on the creation of a single database at EU level

The action would include the creation of a common database at EU level, covering all programmes and projects financed by the Cohesion Fund, the European Social Fund, the European Agricultural Fund for Rural Development, the European Agricultural Guarantee Fund, the European Maritime and Fisheries Fund and the European Regional Development Fund. This would mean bringing together the Cohesion data platform and Kohesio to reduce the existing fragmentation.

Table 6 – (B) Action on a single EU database

Criteria	Assessment
Why is this action needed?	To create a uniform database for identifying direct beneficiaries, the disclosure requirements need to be harmonised and provided in the same format. This needs to be open, machine-readable, accessible, findable and reusable, fulfilling the open data requirements. However, even if the Enforcement option is implemented, the 292 systems remain in place. It will not be possible to identify the beneficiaries with certainty. There is no legal obligation under the Financial Regulation to publicly provide information on the beneficiary company's registration number and ultimate beneficiary.
A stand-alone action?	No, the implementation of action A would be a pre-condition for a successful implementation of action B.

Source: Compiled by the authors.

(C) Action on disclosure of companies, including an EU-wide identifier

This action foresees an obligation to disclose information on companies involved in operations. A threshold would apply to determine which companies would be affected.

Table 7 – (C) Action on disclosure of companies, including an EU-wide identifier

Criteria	Assessment
Why is this action needed?	Even if both actions A and B are implemented, the single database will not include i) the companies working on behalf of a beneficiary, for example, a construction company on behalf of a public entity; or ii) an overview about the companies that are economically active across the EU. To date, it is only possible, if at all, to get an overview for one single country. It would be necessary to complement the existing rules via reporting on the companies working on behalf of the beneficiaries and to develop an EU-wide unique identifier.
A stand-alone action?	No, the implementation of actions A and B would be a pre-condition for a successful implementation of action C.

Source: Compiled by the authors.

The analysis of the three actions done in this EAVA suggested clearly indicates that action is needed. Still, we see limitations when implementing action B and C individually. Whereas action A can stand alone.

5.2.4. Possible impacts of EU action

This section aims to provide an overview of the possible impacts of general EU action towards more digitalisation and more transparency in the monitoring, reporting and auditing of EU funding implementation, based on available literature and evidence of how increased fiscal transparency has the potential to benefit efficiency, economic growth and competitiveness.

In the era of data and digitalisation, there are new opportunities for making governments and businesses more transparent. Deployment of technology, in particular the use of block chain, big data analytics and artificial intelligence, has a great potential to help prevent and detect corruption. As the coronavirus pandemic has hit our economies hard, there is a unique opportunity to 'get recovery right and create a sustainable society if we put good governance, transparency and accountability at the heart of all efforts',[76] as observed at the World Economic Forum (WEF). The crisis has demonstrated the need for both governments and businesses to increasingly invest in digital transformation. We are experiencing a new level of openness as well as the availability of e-government tools and services.

Efficiency

The IMF has been paying increasing attention to fiscal transparency and assessing its impact on the economy and society. A recent IMF paper[77] analyses how fiscal transparency can improve government efficiency and reduce corruption in central, eastern and south-eastern Europe. The evidence provided in this paper shows that transparency is 'highly correlated with better economic and financial outcomes', including improved market access and more efficient public investment. Transparency also contributes to narrowing the information gap between policy-makers and citizens, improves the accountability of public institutions and increases competition. Using two indicators, Fiscal Transparency Evaluation (FTE[78]) and Open Budget Index (OBI[79]), the paper reveals a strong correlation between fiscal transparency and economic and financial outcomes.

Economic growth

Several studies provide evidence on the positive correlation between the level of transparency and economic growth. The IMF has been advocating the importance of good governance and its impact on economic growth, including on economic efficiency, macroeconomic stability and sustainable growth. Transparency is an important enabler of good governance, as it ensures an efficient allocation of resources and allows the market to assess the government's policy.[80] The author of a paper examining the correlation between fiscal transparency and economic growth concludes[81] that, as the level of fiscal transparency impacts credit ratings, the volume of foreign direct investment, corruption and economic development, less transparent countries are therefore likely to experience lower growth rates. He also points out that as a result of lower levels of transparency, nations tend to 'experience slower growth rates, lower levels of per capita GDP, higher budget

[76] Brende B. with Gomez Pensado P. G., 3 ways to fight corruption and restore trust in leadership, World Economic Forum, December 2020.

[77] Akitoby B., Cui Q L., Domit S., Meng J., Slavov T S., Suphaphiphat N., and Zhang H., Improving Fiscal Transparency to Raise Government Efficiency and Reduce Corruption Vulnerabilities in Central, Eastern, and South-eastern Europe, International Monetary Fund, May 2020.

[78] The IMF's FTE offers a comprehensive assessment of a country's budget openness, with a focus on the information needed for good fiscal management. More information available in the database.

[79] The Open Budget Survey is a set of third-party indicators compiled by the International Budget Partnership. More info can be fund here.

[80] Corruption: Costs and Mitigating Strategies, IMF Staff discussion note, May 2016.

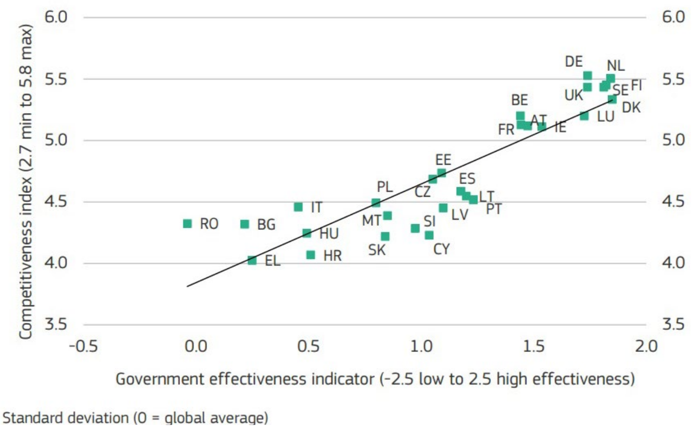
[81] Teig M., Fiscal Transparency and Economic Growth; Faculty of Economics at Bramberg University, January 2006.

deficits, and a higher debt to GDP level'. The importance of government transparency and its impact on economic growth have been at the centre of the work of several international bodies – including the IMF (Fiscal Transparency Code[82] and Fiscal Transparency Handbook[83]) and the OECD (Budget Transparency Toolkit[84]) – encouraging countries to aspire towards greater fiscal transparency.

Competitiveness

The quality and efficiency of public administration has a significant impact on the implementation of EU cohesion policy funds, as confirmed by the Seventh report on economic, social and territorial cohesion.[85] Low government efficiency hampers economic growth and reduces the impact of public investments. The report argues that strengthening institutional capacity leads to economic growth, increased impact of investment and higher competitiveness. Government efficiency has been proven to be strongly correlated with economic competitiveness (see Figure 6 below).

Figure 6 – Economic impact of government effectiveness, 2015



Source: World Bank Government Effectiveness 2015; World Economic Forum.

There is a growing interest among researchers to investigate to what extent the quality of public administration could impact economic performance and the returns of cohesion policy investment at regional level.[86] Transparency, accountability and improved institutional quality have been identified as key success factors.

Further research also suggest that quality of governance is indeed a key precondition of economic growth at regional level. It is no longer considered that it is solely the level of investment that determines development and growth. Improvements in public administration infrastructure, including changes in institutional quality, improvements with regard to the corruption index, enhanced government effectiveness and government accountability seem to be equally important.[87]

The OECD finds that countries are using e-procurement and leveraging digital tools to collect data to assess effectiveness and increase transparency by publishing information related to

---

[82] The Fiscal Transparency Code, IMF, 2019

[83] Fiscal Transparency Handbook, IMF Fiscal Affairs Department, April 2018.

[84] OECD Budget Transparency Toolkit, OECD, 2017.

[85] My region, My Europe, Our Future: Seventh report on economic, social and territorial cohesion, European Commission, September 2020.

[86] Rodríguez-Pose A., with Garcilazo J. E., Quality of Government and the Returns of Investment: Examining the Impact of Cohesion Expenditure in European Regions, OECD Regional Development Working Papers 2013/12.

[87] My region, My Europe, Our Future: Seventh report on economic, social and territorial cohesion, European Commission, September 2020.

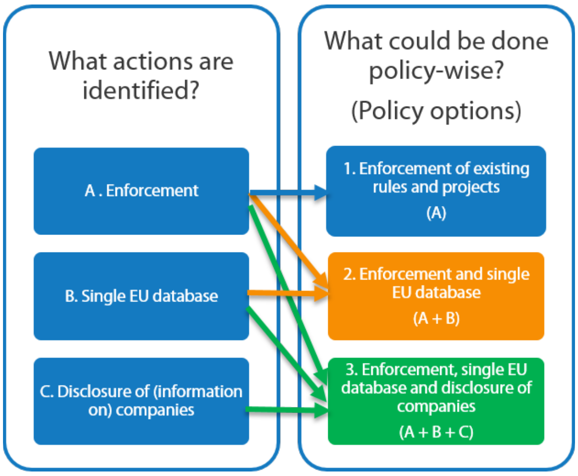
procurement. It also notes that countries are increasingly focusing on collaborative procurement instruments to enhance efficiency and cost-effectiveness.[88]

The more transparent the public procurement process is, the more potential benefits it could bring. Firstly, national or regional authorities can access information about similar projects and associated costs that can help them make better informed decisions when choosing a project. Secondly, promoting public procurement opportunities would make more companies aware of their existence, especially SMEs, which may otherwise not have access to such information.

5.3. Policy options and their impacts

Based on the observations and conclusions made in the previous sections, three possible actions have been identified (see Figure 7). Against this background, three policy options are explained and analysed in the following paragraphs.

Figure 7 – From possible actions to recommended policy options



Data source: Prepared by the authors.

5.3.1. Policy option 1 – Enforcement of existing rules and projects

Policy option 1 corresponds to action A – enforcement of current rules. As shown in the previous sections, more efforts are necessary to keep the systems up to date, to improve data accessibility and to use unique identifiers to link the common EU database to the databases with ultimate beneficiary information.

Table 8 – Policy option 1 – Enforcement of existing rules and projects

Criteria	Assessment
What will be addressed?	The fragmentation of the existing databases, the incomparability of data, the deficiencies of the databases (not being up to date and lacking quality). The pilot project Kohesio could be further developed to become a comprehensive info base, covering all Member States and programmes under shared management.
Impacts	Better data quality and overview about beneficiaries and operations at national level. Important progress in countries with many regional programmes, such as Italy, France and Germany. However, due to the lack of unique identifiers, the overview will not be complete.
How would the policy option be implemented?	This could be done by way of i) Member States ensuring that correct and complete data are sent in the right format and updated regularly; and ii) the Commission requesting the national authorities to correct or upload missing data when necessary.

Source: Compiled by the authors.

[88] Performing public procurement: Progress in implementing the 2016 OEC recommendation, OECD, 2019.

5.3.2. Policy option 2 – Enforcement and single EU database

Policy option 2 builds on policy option 1 and includes action A. In addition to enforcement, it includes the creation of one common database at EU level covering all programmes and projects financed by the CF, the ESF, the EAFRD, the EAGF, the EMFF and the ERDF, bringing together the cohesion data platform and Kohesio.

Table 9 – Policy option 2 – Enforcement and single EU database

Criteria	Assessment
What will be addressed?	In order to create a uniform database featuring all direct beneficiaries, the disclosure requirements need to be harmonised and provided in the same format. The database needs to be open, machine-readable, accessible, findable, and reusable, while also fulfilling the open data requirements. A (mandatory) use of a single data mining and risk-scoring tool (such as ARACHNE) should be encouraged.
Impacts	Better data quality and overview of beneficiaries and operations at national and European level. The transparency of data on beneficiaries active in different Member States will improve. However, due to the lack of an EU-wide identifier, the overview will not be complete.
How would the policy option be implemented?	This policy option could be realised via, for example, a delegated act. The Commission is empowered to adopt delegated acts on certain aspects of the implementation of the EU budget to protect financial interest of the EU, as done previously, using Regulation (EU) 1303/2013 as well as Regulation (EU) 1306/2013 as its basis.

Source: Compiled by the authors.

5.3.3. Policy option 3 – Enforcement, database and disclosure of companies

Policy option 3 builds on policy option 2 and includes action C. In addition to enforcement and the creation of a single EU database, it includes i) the obligation of publishing – above a certain threshold – information on the companies involved in operations; and ii) an EU-wide identifier.

Table 10 – Policy option 3 – Enforcement, single EU database and disclosure of companies

Criteria	Assessment
What will be addressed?	After enforcing and implementing a uniform database, it will be necessary to reform the existing legal basis as it would require that companies working for/helping the beneficiaries to develop/implement the operations be registered in the same way as the beneficiaries. Taking the construction of public roads as an example of the current situation, a public entity is listed as the beneficiary and the construction company is not disclosed, as there is currently no regulatory requirement for doing so.
Impacts	Improved transparency not only as regards the active beneficiaries in the Member States but also as regards companies that are responsible for the work and implementation. An EU-wide identifier could significantly improve the overview of the ultimate beneficiaries.
How would the policy option be implemented?	There is no such obligation in the current regulatory framework and as a consequence implementing this policy option would require changes/reforms in the relevant regulations such as the Financial Regulation or the recently adopted General Provision Regulation.

Source: Compiled by the authors.

5.3.4. Overview of the impact of the policy options: What, who and how

Table 10 shows what gaps and barriers have been addressed, which stakeholders have been targeted and whether legal changes are needed.

Table 11 – Policy options – What, who and how do they impact

Policy option	Subject	Gaps and barriers addressed	Stakeholders	Legal changes (Y/N, how?)
Policy option 1	Enforcement option (Action A)	Completeness, data, and transparency: The enforcement would allow the generation of more complete and quality data and therefore also enhance transparency, but only to a limited extent. Comparability/interoperability: Due to the existence of numerous systems, data comparability remains a problem. Almost no improvement of interoperability. Irregularities: More data would help prevent irregularities, but only to a very limited extent.	European Commission, Member States, responsible managing authorities	N
Policy option 2	Enforcement and a single EU database (Actions A + B)	*In addition to policy option 1:* Complexity, transparency, digitalisation, data: A single database would ensure interoperability, comparability of data and hence result in simplification and a better overview of data. Cost, competence: Initial costs for creating the database and the relevant skills involved in filling- the database digitally and maintaining it up to date. Irregularities: The database would make it possible to address irregularities to some extent, due to a better overview of data and beneficiaries. Ultimate beneficiary identification remains an issue.	European Commission, Member States, responsible Managing Authorities	N, via an delegated act

Policy option 3	Enforcement, a single EU database and disclosure of (information on) companies (Actions A + B + C)	*In addition to policy option 2:* Complexity, transparency, data: More data on companies above certain threshold would need to be provided and this would enhance transparency Digitalisation, interoperability: No significant impact on further digitalisation but further possibilities for interoperability and comparability of data on companies Costs: One-off costs related to the creation and implementation of an EU identifier. Irregularities, error rates: This option would be the most efficient in detecting irregularities, including potentially fraudulent operations, as well as lowering the error rates. Ultimate beneficiary identification: Disclosure of information on companies would make it possible to identify the ultimate beneficiaries through the EU-wide unique identifier.	European Commission, Member States, responsible managing authorities	Y, via revision of the EU Financial Regulation and/or the Common Provisions Regulation

Source: Compiled by the authors.

6. Assessment of the European added value

This section makes a qualitative and quantitative assessment of the potential European added value of the (further) digitalisation of the reporting, monitoring and auditing of EU funds under shared management. The general criteria used are relevance, subsidiarity and proportionality, efficiency, effectiveness and feasibility, as defined in the Better Regulation Guidelines.[89] Another two criteria are public scrutiny and accountability. Specific criteria – transparency, simplification and digitalisation – are used for the qualitative assessment.

Digitalisation is an enabler of open and more transparent governments and public administrations that continue facing closer public scrutiny by civic society. More transparency is also associated with other qualitative benefits such as accountability, trust and a stronger interest from society. More transparency and visibility of EU-funded projects could also lead to their further promotion and greater participation from stakeholders, leading to increased competition.

The basis used in this study for the quantitative assessment of costs that could be saved by EU action is the error rate identified by the ECA. Such error could arise due to an incorrect calculation or irregularities from non-compliance with the legal requirements. The authors assume that lowering the error rate would result in saving money that would have otherwise been unduly paid from the EU funds. As the error rate reaches up to 4.9 % in the case of high-risk expenditures, the study assumes that there is a potential to lower this rate if data are used in a better and timelier way.

6.1. Qualitative assessment

The qualitative assessment analyses certain non-quantifiable impacts of EU action taken to promote digitalisation of EU monitoring, reporting and auditing. The assessment is based on a literature review of publicly available sources such as papers, studies and reports, published by international bodies such as the OECD and the IMF as well as internal impact assessments by the European Commission.

The potential impact was assessed along both general and policy option-specific criteria.

6.1.1. Qualitative assessment based on general criteria

Public scrutiny and accountability

Digitalisation has become a main enabler of the increased openness of public institutions and greater transparency. Public authorities are therefore facing increased scrutiny by civil society, which is holding them accountable for public spending and integrity. Digitalisation also has the potential to increase public involvement in performance monitoring, boost the involvement of citizens in the scrutiny of the use of EU funds and enhance protection against corruption.[90] In the Tallinn Declaration on e-Government, the Member States committed to 'strive to be open, efficient and inclusive, providing borderless, interoperable, personalised, user-friendly, end-to-end digital public services to all citizens and businesses – at all levels of public administration'.[91]

The available literature provides a clear evidence that greater transparency of the public budget and funding brings multiple economic and societal benefits. The OECD's Council on Budgetary

[89] See European Commission, Better Regulation Toolbox #58, Typology of costs and benefits, available at: https://ec.europa.eu/info/sites/info/files/file_import/better-regulation-toolbox-58_en_0.pdf.

[90] Quality of Public administration: A toolbox for practitioners - 2017 edition, European Commission, November 2017.

[91] Ministerial Declaration of 6 October 2017 on e-Government - the Tallinn Declaration.

Governance (2015)[92] outlines 10 key principles that underpin good budget governance, including transparency, accessibility and data openness. Transparency is 'an important underpinning of public trust and assurance regarding how public funds are used'.[93] In addition to transparency, integrating performance and evaluation not only helps parliaments and citizens to better understand how public money is spent but also enhances the quality and efficiency of public spending.

Relevance

The relevance criterion aims to verify whether the existing legislation is pertinent and to evaluate how the objectives of an EU action correspond to wider EU priorities and goals.[94] The implementation of EU funds is closely linked to one of the key principles, transparency, as set out in Article 15 TFEU. In this case, citizens have the right to know how the Union's budget is implemented and who benefits from EU funds. The proposed actions aim to contribute to increasing transparency by way of enabling the timely collection of information and data on projects and beneficiaries as would make it possible to draw a comparison and therefore obtain an overview of funds across the EU. As the current data are fragmented and not comparable, further action at EU level is deemed necessary.

Subsidiarity and proportionality

When a policy measure does not fall under the exclusive competences of the EU, it has to be assessed against the principles of subsidiarity and proportionality. To demonstrate subsidiarity, it should be explained what the Union dimension of the problem is and demonstrate that the goal could not be satisfactory achieved at MS level and the EU action would be more effective. In the case of digitalisation of reporting, the fact of having 292 different and monitoring systems that are hardly comparable demonstrates the EU dimension of problem. To avoid the fragmentation of rules and to enable the comparability of data among the different countries, a clear set of rules should be envisioned at EU level. This would avoid the unclear interpretation and hence improper implementation of the rules. Last but not least, the proposed actions aim to clarify certain aspects of already existing programmes that have previously undergone subsidiarity checks.

The principle of proportionality aims to ensure that any proposed measure does not go beyond what is necessary to achieve the policy objective. The aim of the proposed action in this EAVA is to ensure better transparency and to avoid the misuse of EU funds. In this respect, the proposed policy measures would help identify EU funds beneficiaries. As many companies are operating in several EU countries, there is a need to go beyond Member State level to get a fair overview of all projects. When it comes to EU-wide databases, there is already a precedent at EU level. Similar policy measures have been implemented in other policy areas, such as energy (the EU-wide mandatory database EPREL,[95] which compares the energy efficiency of products) and chemicals (the SCIP database,[96] which ensures more transparency in the tracking of chemicals at EU level).

[92] Recommendations of the Council on budgetary governance, Public Governance & Territorial Development Directorate, OECD, February 2015.

[93] Downes R., Moretti D. and Scherie N., 'Budgeting and performance in the European Union: A review by the OECD in the context of EU budget focused on results', OECD *Journal on Budgeting*, Volume 2017/1, 2017, pp. 5.

[94] Better Regulation 'Toolbox', complementing the Better Regulation Guidelines presented in SWD(2017) 350, European Commission.

[95] EPREL is the European Product Database for Energy Labelling of products placed on the EU market.

[96] SCIP is the database for information on substances of concern in articles as such or in complex objects (products) established under the Waste Framework Directive (WFD).

Efficiency

The analysis of efficiency explores whether benefits stemming from an EU intervention justify the costs incurred by various stakeholders.[97] As the findings in Section 4.2.4 indicate, irregularities identified by OLAF could reach up to €586.67 million annually. Arguably, clearer rules and their enforcement as well as effective checks could contribute to the identification and prevention of cases where there is a conflict interest or corruption in the use of EU funds.

Effectiveness

The principle of effectiveness from within the Better Regulation Toolbox[98] requires that policy-makers identify the most effective solution of an action and assess what specific added value could be achieved by a policy measure at EU level. In this case, the authors of this EAVA presume that in order to increase transparency and ensure comparability of information on the beneficiaries of EU funds across countries, a unified system should be defined. As the current situation, characterised by lack of harmonised rules on reporting, leads to a fragmented implementation and impossibility to compare data on projects, the authors of this EAVA presume that more harmonisation across the different countries would bring added value. In order to make data comparable and national systems interoperable, unified rules should be set at EU level, on setting up an EU-wide database and creating an EU-wide unique identifier.

6.1.2. Qualitative assessment based on specific criteria

The study has analysed three policy options. It needs to be noted that policy option 1 needs to be in place to implement policy option 2 and both policy options 1 & 2 need to be in place to implement policy option 3, respectively. To evaluate the policy options, a set of qualitative criteria was used, including transparency, simplification, digitalisation, benefits, costs and feasibility.

For example, when looking at the objective of improving transparency, public accountability, it can be concluded that policy option 3 would address these to the highest extent. If we look at the aim to simplify rules and digitise monitoring, reporting and audit, policy option 2 would address these goals sufficiently. A more detailed assessment can be found in Table 10 above, whereas Table 12 below examines the policy options from the viewpoint of their qualitative assessment.

Table 12 – Qualitative assessment of policy options

Assessment criteria	Policy option 1	Policy option 2	Policy option 3
Subject	Enforcement	Enforcement and single EU database	Enforcement, single EU database and disclosure of (information on) companies
Transparency	Increased transparency at national level	Increased transparency at national and EU level, but still missing a unique identifier	Increased transparency at national and EU level achieved, among inter alia, by making available information and data on companies working on behalf of beneficiaries and

[97] Better regulation 'Toolbox', complementing better regulation guideline presented in SWD(2017) 350, European Commission.

[98] Better regulation 'Toolbox', complementing the better regulation guideline presented in SWD(2017) 350, European Commission.

			by adopting an EU-wide identifier
Simplification	Easier to aggregate and compare the different datasets	Commonly agreed data/report formats on national and European level	Commonly agreed data/report formats on national and European level
Digitalisation	Not directly addressed.	Directly addressed via creating a common EU database	Disclose of further information does not additionally address digitalisation
Benefits	More timely reporting and better data quality for a single programme	More timely reporting and better data quality for all programmes per Member State	Monitoring and reporting about programmes within and between Member States will be possible – at least to a certain extent
Costs	Almost no additional costs; covered by Technical assistance at the initiative of the Commission*	Mostly one-off costs related to the development of the database; covered by Technical assistance at the initiative of the Commission*	Mostly one-off costs related to the creation and implementation of an EU-wide identifier; covered by Technical assistance at the initiative of the Commission*
Feasibility	Possible technically and legally (no legal changes are required).	Possible. A delegated act would be needed.	Difficult to agree on a common European "identifier" for beneficiaries. Change of legal basis would be needed.

Source: Compiled by the authors.
* Article 35 (1) of the Common Provisions Regulation.

As mentioned in the introduction to this EAVA, the scope of the latter is limited to the request by the CONT committee and therefore the proposed policy options focus on the implementation of EU funds under shared management only. However, as €672.5 billion has been agreed for 2021-2026 via the Recovery and Resilience Facility for investment and reforms in the Member States, there is a considerable political pressure when it comes to its implementation and control.[99] The Facility will be implemented through a direct management scheme[100] and should help mitigate the impact of the coronavirus pandemic and make the EU more resilient, while also focusing on the green and the digital transition. To this end, the authors of this EAVA would suggest to consider extending the scope of the three policy options described above to also include direct management, notably for the upcoming implementation of the Recovery and Resilience Facility.

6.2. Quantitative assessment

This section assesses the potential impact of the further digitalisation of monitoring, reporting and auditing in quantitative terms. The assessment is based on data and estimations from the annual reports on the implementation of the EU budget by the European Court of Auditors for 2018[101] and

99 COVID recovery money comes with strings attached, say EU officials, press release, Euractiv, 28 May 2021.

100 Article 8 of Regulation 2021/241 of 12 February 2021 establishing the Recovery and Resilience Facility.

101 2018 EU audit in brief: Introducing the 2018 annual reports of the European Court of Auditors, 2019.

2019.[102] Better quality of data and timely access to information have the potential to decrease the level of irregularities in EU funds management. The ECA has gone one step further and looked at the Commission's performance in detecting and correcting irregularities. The ECA 2019 report indicates that better use of available information by the Commission would help to decrease the level of error by preventing, detecting or correcting it. The ECA estimates that if the Commission had made better use of information at its disposal, the levels of errors could have been lower by 1.1 percentage points in the area of 'competitiveness for growth and jobs' and by 1.4 percentage points in the area of the European development funds in 2019.[103]These estimates suggest that better use of available data could help detect or prevent errors and irregularities to a certain extent. Although the ECA estimated the extent to which the level of error could be lowered for funds managed directly/indirectly by the Commission, a similar level could be achieved for funds that are under shared management, although with a higher layer of complexity, as checks need to be done at both EU and national level.

6.2.1. Quantitative European added value achieved by EU action

Based on the gaps and barriers described in Section 5, one could assume that having better and more timely access to data as well as higher interoperability among the different reporting systems could significantly help the Commission to better review and identify irregularities and thereby prevent or correct errors. While it would be rather unrealistic to expect that all irregularities can be prevented, it could be assumed that the situation could definitely improve.

When evaluating the implementation of EU funds, both the Commission and the ECA take into account the 'material level of error',[104] a threshold below which errors are not considered to have a significant effect or to influence decision-making related to the implementation of the EU budget by the relevant institutions. The ECA uses a 2 % materiality threshold for its opinions.[105] Its audit evidence suggests with 95 % certainty that the level of error amounts to 2.7 % of expenditure accepted in the 2019 accounts. It is also important to note that cohesion programmes constitute 36.3 % of this error rate and are therefore considered relevant for our estimations.[106]

If one then looks at the overall level of error of 2.7 %, one would assume that with better quality and timely access to data, the level of error could be lowered further. As the materiality threshold amounts to a maximum of 2 %, a further reduction could be aimed for: from the current 2.7 % level to the 2 % level that is considered acceptable. The authors of this EAVA therefore recommend aiming at a reduction of 0.7 percentage points, presuming that more accurate timely data would help identify potential irregularities or eligibility issues. This represents approximately €1.11 billion that could be saved out of a total €159.1 billion in payments made in 2019.

The ECA also notes that the complexity of rules and mechanisms applicable to EU funds distribution also impact the risk of error. The ECA therefore divides the audit population transactions into low- and high-risk, estimating the level of error for both types of expenditure. Expenditure subject to simple rules carries a lower risk of mistakes whereas expenditure subject to complex rules is more prone to errors. In the 2019 accounts, the ECA concludes that low-risk expenditure was free from material error while high-risk expenditure was affected by material error, estimated at 4.9 %.[107]

[102] 2019 annual reports on the implementation of the EU budget for the 2019 financial year. European Court of Auditors, 2020.

[103] 2019 annual reports on the implementation of the EU budget for the 2019 financial year. European Court of Auditors, 2020.

[104] 2017 Annual Report - Frequently Asked Questions, European Court of Auditors, October 2018.

[105] 2019 annual report, 10 most frequently asked questions, European Court of Auditors, 10 November 2021.

[106] 2019 Annual reports, European Court of Auditors, 2020.

[107] 2019 Annual reports, European Court of Auditors, 2020.

Therefore the authors of the present EAVA also humbly presume that there is a significant potential for decreasing the level of error in this domain. This category amounts to 53.1 % of the audit population[108] expenditure (€66.9 billion) and includes reimbursement-based payments in regional and rural development projects.[109] In this case, it could be assumed that, after deducting the level of material error, there is still a potential to improve the error rate by 2.9 percentage points, which corresponds to around €1.94 billion.

Based on the above assumptions, the authors of the present EAVA estimate that the potential EU added value could amount to €1.11 billion as a result of lowering the overall level of error in expenditure (error rate) by 0.7 percentage points. Alternatively, looking at the high-risk expenditure, the level of error in this category could be lowered by up to 2.9 percentage points, which would yield €1.94 billion.

It should be also noted that although the 2 % material error rate is considered acceptable, this could be lowered further, for example by providing complete, correct and timely data that would enable the respective authorities to make more efficient checks. Increased access to data and better use of the available information could further facilitate the prevention, identification and correction of irregularities, as already suggested by the ECA.

[108] The ECA audit population for 2019 totalled €126.1 billion. In the area of cohesion, the audit population amounted to €28.4 billion out of €53.8 billion worth of payments.

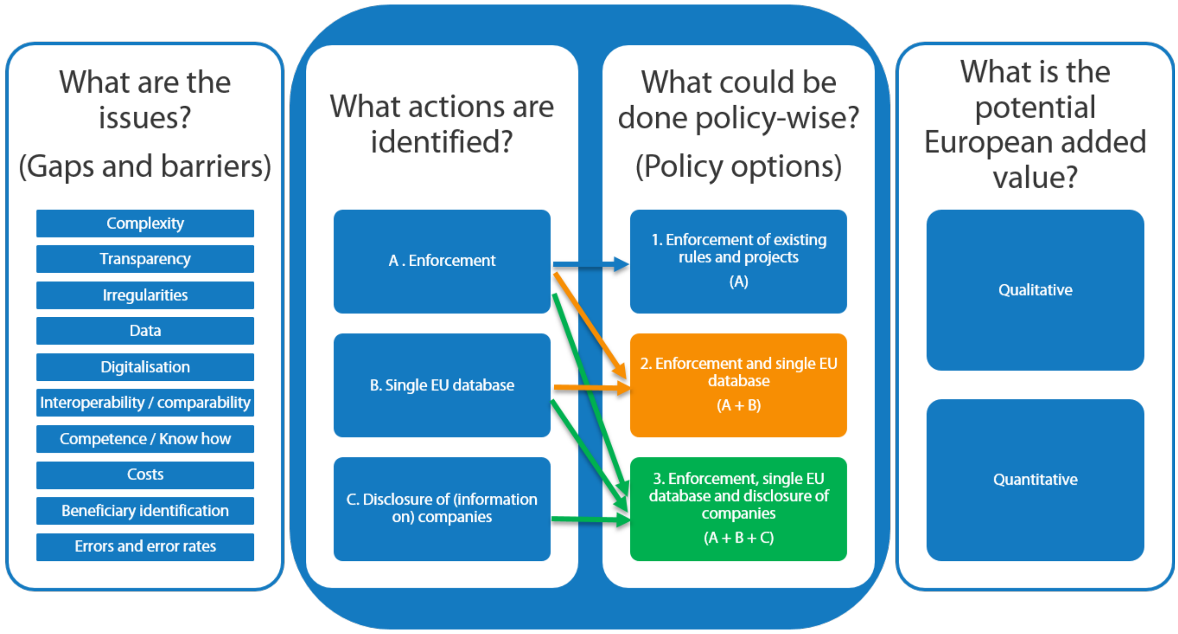
[109] 2019 annual report: 10 most frequently asked questions, European Court of Auditors, November 2020.

7. Summary of the European added value

The rules governing the monitoring and reporting obligations of the EU funding programmes under shared management have been developing progressively over time. Across the EU, over 290 different reporting systems are in use. Fragmentation makes data incomparable, prevents the use of AI and big data sets and systems to monitor and control, and impedes a comprehensive overview of the funds distribution.

This European added value assessment accompanies the European Parliaments' report on the Digitalisation of the European reporting, monitoring and audit (2021/2054(INL)) by providing an evidence-based analysis, identifying the gaps and barriers present in 10 areas (see Figure 8), laying out three policy options and highlighting their potential impacts and potential European added value as seen from a quantitative and qualitative point of view.

Figure 8 – From gaps and barriers to European added value



Data source: Prepared by the authors.

The three policy options identified tackle i) strengthening the enforcement of existing measures, ii) creation of a single EU database, and iii) disclosure of relevant information on companies.

This EAVA clearly justifies EU action for digitalising the monitoring, reporting and auditing of EU funding programmes under shared management. The policy options identified would address public scrutiny and accountability more than sufficiently. Furthermore, they seem highly relevant, would live up to the needs of subsidiarity and proportionality, and would be effective and efficient. The benefits would outweigh the costs by far.

Action in the field could diminish fraud, abuse and weaknesses of funding programmes, leading to more efficiency and transparency. Digitalisation is an enabler of open and more transparent governments and public administrations that continue facing increased scrutiny by civil society. More transparency is also associated with other qualitative benefits such as accountability, trust and stronger interest on the part of society. More transparency and visibility of EU-funded projects could also lead to their further promotion and greater participation from stakeholders, leading to increased competition.

Policy option 1 would to a certain extent increase transparency at national level, and help to aggregate and compare the different datasets more easily. Policy option 2 would address the aim of simplifying rules and digitising the monitoring, reporting and auditing practices sufficiently. Policy option 3 would address the objectives of improving transparency and public accountability to the highest extent. In general, policy option 3 would – due to its nature – create qualitatively the highest European added value (for more see Table 14).

A potential EU added value was identified, which could presumably lead to lowering error rates by 0.7 percentage points (yielding savings of €1.11 billion) when looking at overall expenditure in 2019. In the case of high-risk expenditure, error rates could even decrease by 2.9 percentage points, which would yield savings of up to €1.94 billion. These amounts would correspond to money otherwise lost due to ineligibility errors and irregularities. In broader terms, this EAVA assumes that higher transparency and use of up-to-date data have the potential, through increased public scrutiny, to also positively impact the management of programmes through detection and possibly prevention of corruption, conflict of interest and misuse of EU funds.

Due to the unprecedented amount of money committed under the Recovery and Resilience Facility, this EAVA would recommend considering extending the policy options to direct management, although this goes beyond the scope of the present study.

Table 13 – Overview of the potential European added value

Criteria / Policy option	Base line (current situation)	Policy option 1	Policy option 2	Policy option 3
Subject	Status quo	Enforcement	Enforcement and single EU database	Enforcement, single EU database and disclosure of (information on) companies
Legislation needed? Y/N	N/A	N	N	Y
Regulatory impact	N/A	0	0	+
Public scrutiny and accountability	- -	+	++	+++
Transparency	- -	+	++	+++
Simplification	- -	+	+	+
Digitalisation	-	+	++	++
Economic impacts	-	+	+	+++
Benefits	0	+	+	+++
Costs	0	0	0	+
Relevance	N/A	+	+	++
Subsidiarity and proportionality	N/A	+	+	+
Efficiency	N/A	+	+	++
Effectiveness	-	+	+	++
Feasibility	N/A	+		-

European added value	N/A	+	+	+++
Estimation of a potential European added value				
Reduction of overall level of error rates	Up to 0.7 percentage points Amounting to €1.11 billion			
Reduction of error rates in high risk-expenditure	Up to 2.9 percentage point Amounting to €1.94 billion			

Source: Compiled by the authors.
Note: A seven-level scale is used to assess the impact of the criteria qualitatively: high positive (+++); medium positive (++); low positive (+); 0 neutral, low negative (-); medium negative t (--); high negative (---); not applicable (N/A)

REFERENCES

In-house

The Cost of Non-Europe in the area of Organised Crime and Corruption: Annex II – Corruption, EPRS, European Parliament, March 2016.

The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds, Policy Department for Budgetary Affairs, European Parliament, 2021.

European Parliament

Resolution of 14 May 2020 on discharge in respect of the implementation of the general budget of the European Union for the financial year 2018, Section III – Commission and executive agencies (2019/2055(DEC)), European Parliament.

Web streaming of the Meeting of the Committee on budgetary control of 11 January 2021, European Parliament.

Web streaming of the Meeting of the Committee on budgetary control of 2 September 2021, European Parliament.

Discharge 2018: EU general budget – Commission and executive agencies, European Parliament, May 2020.

2019 discharge: EU general budget – Commission and executive agencies, European Parliament, April 2021.

Resolution of 10 June 2021 on the conflict of interest of the Prime Minister of the Czech Republic, European Parliament, 2021.

European Institutions

Commission staff working paper on the added value of the EU budget, SEC(2011) 867 final, European Commission, June 2011.

Communication on consolidated annual accounts of the European Union for the Financial Year 2018, COM(2019) 316, European Commission, September 2019.

Provisional Agreement resulting from interinstitutional negotiations: Proposal for a regulation of the European Parliament and of the Council laying down common provisions on the ERDF, the ESF+, the Cohesion Fund, the Just Transition Fund and the EMFF and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument, European Parliament, March 2021.

Quality of Public administration: A toolbox for practitioners – 2017 edition, European Commission, November 2017.

Better Regulation Toolbox #58, European Commission.

Better regulation 'Toolbox', complementing the better regulation guideline presented in SWD(2017) 350, European Commission.

2017 Annual Report – Frequently Asked Questions, European Court of Auditors, October 2018.

Ministerial Declaration of 6 October 2017 on eGovernment – the Tallinn Declaration. October 2017.

Regulation 2021/241 of 12 February 2021 establishing the Recovery and Resilience Facility.

Targeted revision of the financial rules applicable to the general budget of the EU, European Commission, March 2021.

Preventing fraud and corruption in the European Structural and Investment Funds – taking stock of practices in the EU Member States: Compendium of anti-fraud practices for preventing and detecting fraud and corruption in ESI Funds, European Commission, October 2018.

Our activities in 2020: Annual activity report, European Court of Auditors, 2021.

Regulation 1083/2006 of 11 July 2006 on general provisions on the ERDF, the ESF and the CF.

Council conclusions of 21 July 2020 on the Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020).

Regulation 1303/2013 of 17 December 2013 on common provisions on the ERDF, the ESF, the CF, the EAFRD, the EMFF and laying down general provisions on the ERDF, the ESF, the CF and the EMFF.

Regulation 2018/1046 of 18 July 2018 on the financial rules applicable to the general budget of the Union.

eGovernment Benchmark report 2020: eGovernment that works for people, European Commission, September 2020.

Supporting public administrations in EU Member States to deliver reforms and prepare for the future, European Commission, April 2021.

Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: Fighting Corruption in the EU, COM(2011) 308, European Commission, June 2011.

Standard Eurobarometer 94 – Winter 2020-2021, Public Opinion in the European Union, European Commission, April 2021.

Flash Eurobarometer 457: Briefing Note on businesses' attitudes towards corruption in the EU, European Commission, October 2017.

Transparency of EU funds implemented by NGOs: more effort needed, European Court of Auditors, 2018.

2019 EU audit in brief, European Court of Auditors, November 2020.

ECA 2019 annual report – Glossary, European Court of Auditors, 2020.

2018 Audit in brief: Introducing the 2018 annual reports of the European Court of Auditors, 2019.

Fighting fraud in EU spending: action needed, European Court of Auditors, 2019.

2019 Annual reports, European Court of Auditors, 2020.

My region, My Europe, Our Future: Seventh report on economic, social and territorial cohesion, European Commission, September 2020.

Fighting fraud in EU spending: actions needed, European Court of Auditors, 2019.

2019 annual report: 10 most frequently asked questions, European Court of Auditors, November 2020.

Opinion on a notification for Prior Checking received from the Data Protection Officer of the European Commission regarding the "Risk analysis for fraud prevention and detection in the management of ESF and ERDF" – ARACHNE, European Data Protection Supervisor, 17 February 2014.

State-of-play report on digital public administration and interoperability in Europe, European Commission, 2020.

Study on the accounting regime of limited liability micro companies, European Commission, 2019.

Stock-taking of administrative capacity, systems and practices across the EU to ensure the compliance and quality of public procurement involving European Structural and Investment (ESI) Funds, European Commission, 2016.

Stock-taking of administrative capacity, systems and practices across the EU to ensure the compliance and quality of public procurement involving European Structural and Investment (ESI) Funds, Final report. Country Profiles, European Commission, 2016.

Report from the Commission to the Council and the European Parliament: EU Anti-corruption report, COM(2014) 38, February 2014.

International organisations

Akitoby B., Cui Q L., Domit S., Meng J., Slavov T S., Suphaphiphat N., and Zhang H., Improving Fiscal Transparency to Raise Government Efficiency and Reduce Corruption Vulnerabilities in Central, Eastern, and South-eastern Europe, International Monetary Fund, May 2020.

Corruption: Costs and Mitigating Strategies, IMF Staff discussion note, International Monetary Fund, May 2016.

Fiscal Transparency Handbook, IMF Fiscal Affairs Department, International Monetary Fund, April 2018.

The Fiscal Transparency Code, International Monetary Fund, 2019.

Downes R., Moretti D. and Scherie N., Budgeting and performance in the European Union: A review by the OECD in the context of EU budget focused on results, OECD *Journal on Budgeting*, Volume 2017/1, 2017, pp. 5.

OECD Budget Transparency Toolkit, Organisation for Economic Co-operation and Development, 2017.

Performing public procurement: Progress in implementing the 2016 OEC recommendation, OECD, 2019.

Recommendations of the Council on budgetary governance, Organisation for Economic Co-operation and Development, Public Governance & Territorial Development Directorate, February 2015.

Rodríguez-Pose A., with Garcilazo J. E., Quality of Government and the Returns of Investment: Examining the Impact of Cohesion Expenditure in European Regions, OECD Regional Development Working Papers 2013/12.Strengthening Governance of EU Funds under Cohesion Policy, Administrative Capacity Building Roadmaps, Organisation for Economic Co-operation and Development, 2020.

Brende B. with Gomez Pensado P. G., 3 ways to fight corruption and restore trust in leadership, World Economic Forum, December 2020.

Ventura L., Corruption can have no place in our COVID-19 recovery, World Economic Forum, April 2020.

Websites

ARACHNE risk scoring tool, European Commission website. Consulted in July 2021.

Digitalisation of the European reporting, monitoring and audit, 2021/2054(INL), Legislative Observatory website. Consulted in August 2021.

Early Detection and Exclusion System (EDES), European Commission website. Consulted in September 2021.

EPPO website. Consulted in September 2021.

Fiscal Transparency, International Monetary Fund website. Consulted in June 2021.

Going digital, OECD website. Consulted in September 2021.

Improving how funds are invested and managed, European Commission, Consulted in August 2021.

Interinstitutional Agreement on Better Law-Making of 13 April 2016, Official Journal of the European Union website. Consulted in July 2021.

Open Budget Survey, International Budget Partnership website. Consulted in June 2021.

Press releases

2019 EU accounts: clean, but too many spending errors, press release, European Court of Auditors, November 2020.

COVID recovery money comes with strings attached, say EU officials, press release, Euractiv, 28 May 2021.

Academia

Kuhl, L., Implementation of Effective Measures against Fraud and Illegal Activities in Cohesion Policies, eucrim, 2/2020.

Teig M., Fiscal Transparency and Economic Growth; Faculty of Economics at Bamberg University, January 2006.

ANNEX – Regulatory sources

2014-2020 programming period

Regulation (EU) No 1303/2013

Article 83 Interruption of the payment deadline
1. The payment deadline for an interim payment claim may be interrupted by the authorising officer by delegation within the meaning of the Financial Regulation for a maximum period of six months if:
(a) following information provided by a national or Union audit body, there is clear evidence to suggest a significant deficiency in the functioning of the management and control system;
Article 142 Suspension of payments
Article 85 Financial corrections by the Commission
1. The Commission shall make financial corrections by cancelling all or part of the Union contribution to a programme and effecting recovery from the Member State, in order to exclude from Union financing expenditure which is in breach of applicable law.
2. A breach of applicable law shall lead to a financial correction only in relation to expenditure which has been declared to the Commission and where one of the following conditions is met:
(a) the breach has affected the selection of an operation by the body responsible for support from the ESI Funds or in cases where, due to the nature of the breach, it is not possible to establish that impact but there is a substantiated risk that the breach has had such an effect;

ANNEX XII

INFORMATION AND COMMUNICATION ON SUPPORT FROM THE FUNDS

1. LIST OF OPERATIONS
The list of operations shall contain, in at least one of the official languages of the Member State, the following data fields:
— beneficiary name (only of legal entities; no natural persons shall be named);
— operation name;
— operation summary;
— operation start date;
— operation end date— total eligible expenditure allocated to the operation;
— Union co-financing rate, as per priority axis;
— operation postcode; or other appropriate location indicator;
— country;
— name of category of intervention Article 96(2);
— date of last update of the list of operations.
The headings of the data fields shall be also provided in at least one other official language of the Union.
...

2021-2027 programming period

Article 90 Interruption of the payment deadline
1. The Commission may interrupt the payment deadline for payments, except for prefinancing, for a maximum period of six months where any of the following conditions is met:
(a) there is evidence to suggest a serious deficiency for which corrective measures have not been taken;
Article 91 Suspension of payments
1. The Commission may suspend all or part of payments, except for pre-financing, after having given the Member State the opportunity to present its observations, if any of the following conditions is met:
...
(b) there is a serious deficiency;

Article 98 Financial corrections by the Commission
1. The Commission shall make financial corrections by reducing support from the Funds to a programme where it concludes that:
(a) there is a serious deficiency which has put at risk the support from the Funds already paid to the programme;
(b) expenditure contained in accepted accounts is irregular and was not detected and reported by the Member State;

The rules governing the monitoring and reporting obligations of EU funding programmes under shared management have been developing progressively over time. Across the EU, there are over 290 different reporting systems. Fragmentation makes data incomparable, prevents the use of AI and big data sets and systems for monitoring and control, and prevents stakeholders and society from getting a comprehensive overview of the way funds are distributed.

This European added value assessment accompanies the report of the European Parliament's Committee on Budgetary Control (CONT) on the 'Digitalisation of the European reporting, monitoring and audit' (2021/2054(INL)), by making an evidence-based analysis, identifying gaps and barriers, laying out possible policy options and pointing to their potential impacts.

Action in the field could diminish fraud, abuse and weaknesses of EU funding programmes, which would lead to more efficiency and transparency. The three policy options identified in this study propose strengthening the enforcement of existing measures, creating a single EU database, and introducing requirements for the disclosure of relevant information on companies.

A potential EU added value was identified, which could presumably lead to a lowering of the error rates by 0.7 percentage points and savings worth €1.11 billion. In the case of high-risk expenditure the error rates could drop by up to 2.9 percentage points, yielding savings worth €1.94 billion.

QA-09-21-399-EN-N

This is a publication of the European Added Value Unit
EPRS | European Parliamentary Research Service

PDF ISBN 978-92-846-8551-6 | doi:10.2861/441456 | QA-09-21-399-EN-N