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33rd Annual Report on the protection of the European Union's financial interests and the fight against fraud – 2021

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EXECUTIVE SUMMARY

The COVID-19 pandemic brought new challenges to which the EU reacted swiftly, in a flexible way and by deploying new instruments and resources. With the introduction of the Recovery and Resilience Facility (RRF) and the implementation of the national recovery and resilience plans, the role of national authorities to ensure an adequate level of protection of the EU's financial interests has significantly increased. The Commission has supported national authorities while assessing the national plans, paying particular attention to the design of measures to protect the RRF resources from fraud, corruption, conflict of interest and double funding.

The EU and national anti-fraud players have strengthened their cooperation throughout 2021, both in relation to the protection of EU revenue and expenditure. The European Public Prosecutor's Office (EPPO) started its operations on 1 June 2021. The operational results from the European Anti-Fraud Office (OLAF) and the EPPO show the added value that EU bodies bring to the protection of the EU's financial interests and the fight against fraud, overcoming national systems' limitations in dealing with cross-border crime in particular.

In 2021 the EU completed the adoption of the 2021-2027 spending programmes. The legislation ensures that the Commission, OLAF, the European Court of Auditors and the EPPO can exercise their mandate and that national authorities put in place effective anti-fraud measures taking into account any risk identified. Among these programmes, the Union Anti-Fraud Programme supports the fight against fraud by providing grants for specific initiatives and enabling the financing of dedicated IT platform and tools to facilitate the exchange of information between the Member States and the EU.

The number of fraud and irregularities reported by the competent EU and national authorities remained stable in 2021 compared to 2020, while the related irregular amounts increased, due to significant detections in a limited number of Member States. The number of non-fraudulent irregularities reported in certain areas of spending is low when compared to the previous programming period. This drop may partly be explained by e.g. delays in the implementation of operational programmes, changes in reporting practices and the use of simplified cost options.

Besides recurring risks, the implementation of the RRF will increase the pressure on national administrations in the coming years, as they will need to implement the RRF plans and, at the same time, the 2021-2027 spending programmes. In this respect they will need to show expertise and control of different management modes linked to the implementation of the various funds.

The EU aims to pursue increased coherence and harmonisation to eliminate potential loopholes in the overall control architecture that could be exploited by fraudsters. The guiding principles have already been laid down in EU legislation, but can be further reinforced. Member States should correct the identified problems linked to the transposition of the PIF Directive and pursue the enhancement of transparency, digitalisation of the fight against fraud and the continuous strengthening and development of fraud risk assessment and management. The Commission has put forward a proposal for the amendment of the Financial Regulation that aims to strengthen EU action along these lines.

LIST OF ABBREVIATIONS

AFIS	Anti-Fraud Information System
AFCOS	Anti-Fraud Coordination Service
CAFS	Commission Anti-Fraud Strategy
CoSP	Conference of State Parties
DG	Directorate General
ECA	European Court of Auditors
EDES	Early Detection and Exclusion System
EP	European Parliament
EPF	European Peace Facility
EPPO	European Public Prosecutor's Office
ESIF	European Structural and Investment Funds
EU	European Union
EUBAM	European Union Border Assistance Mission to Moldova and Ukraine
FCTC	Framework Convention on Tobacco Control
FDR	Fraud Detection Rate
HFC	Hydrofluorocarbons (refrigerant gases)
IDR	Irregularity Detection Rate
IMS	Irregularity Management System
JIT	Joint Investigation Team
MFF	Multiannual Financial Framework
NGEU	NextGenerationEU
OFIS	Organic Information System
OLAF	European Anti-Fraud Office
PIF	Protection of financial interests
RRF	Recovery and Resilience Facility
SCO	Simplified Cost Options
TFEU	Treaty on the Functioning of the European Union
TOR	Traditional Own Resources
UNCAC	United Nations Convention Against Corruption
VAT	Value Added Tax
VOCU	Virtual Operations Coordination Unit
WCO	World Customs Organization

1. INTRODUCTION

The EU and its Member States share responsibility for protecting the EU's financial interests and fighting fraud. EU Member State authorities manage the largest share of EU expenditure and collect traditional own resources (TOR). The Commission oversees both these areas, sets standards and checks compliance. In line with Article 325(5) of the Treaty on the Functioning of the European Union (TFEU), the Commission, in cooperation with EU Member States, is obliged to submit an annual report to the European Parliament and the Council on measures taken to counter fraud and other illegal activities affecting the EU's financial interests (the PIF Report[1]). For 2021, this report and its accompanying documents meet this obligation.

The 2021 PIF Report presents:

(1) an overview of the EU's financial interests, of the key legal acts adopted for their protection and the relevant jurisprudence of the Court of Justice;
(2) the most significant anti-fraud developments in the EU as a whole and in Member States;
(3) anti-fraud cooperation;
(4) key areas for the consistent and harmonised protection of the EU's financial interests;
(5) statistics and data on fraud and irregularities affecting the EU budget and their analysis;
(6) an outlook for 2022, conclusions and recommendations.

1.1. Key concepts

The most important terms that are used in the PIF Report are summarised in ***Box 1***.

Box 1: Applicable definitions

For a full description of the **EU's financial interests** see **Section 1.2**.

Irregularity means any breach of EU law, or of national law relating to its application, resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the EU budget, either by reducing or losing revenue accruing from own resources collected directly on behalf of the EU or by charging an unjustified item of expenditure to the EU budget[2].

Following the adoption of Directive (EU) 2017/1371 (the 'PIF Directive'), any intentional act or omission affecting the EU's financial interests, including the use or presentation of false, incorrect or incomplete statements or documents or failure to disclose information despite a

[1] Also known as the PIF Report, from *Protection des Intérêts Financiers* in French, this report is accompanied by six Commission staff working documents concerning:

a) statistical evaluation of irregularities reported for own resources, natural resources, cohesion policy and pre-accession assistance and direct expenditure in 2020;

b) measures adopted by Member States to protect the EU's financial interests in 2021;

c) follow-up on recommendations to the Commission report on the protection of the EU's financial interests – fight against fraud 2020;

d) European Anti-Fraud Programme – 2021 implementation;

e) Early Detection and Exclusion System (EDES) — Panel referred to in Article 143 of the Financial Regulation;

f) CAFS Action Plan - State of play June 2022.

[2] Article 1.2 of Council Regulation (EC, EURATOM) No 2988/95 of 18 December 1995, OJEC 23.12.1995 L312 and Article 2(35) of Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013, OJ 20.12.2013, L347.

specific obligation to do so, or the misapplication of funds or benefits, amounts to **fraud**. The PIF Directive also distinguishes between fraud in:

(1) non-procurement-related expenditure;
(2) procurement-related expenditure;
(3) revenue other than revenue arising from VAT own resources;
(4) revenue arising from VAT own resources.

Sectoral regulations on the reporting of irregularities in shared management introduce the concept of **suspected fraud,** defined as 'an irregularity that gives rise to the initiation of administrative or judicial proceedings at national level in order to establish the presence of intentional behaviour, in particular fraud'[3].

Fraud is considered **established fraud** once a definitive decision (judicial or administrative) has been taken by a competent body, establishing the presence of intentional behaviour.

Box 2 explains how the concepts of **suspected** and **established fraud** are used in relation to the statistics published in this report.

Corruption refers to any abuse of power by a public official for private gain, which has the effect of prejudicing the EU's financial interests.

1.2. The EU's financial interests in 2021

The EU's financial interests include revenues, expenditures and assets covered by the EU budget and those covered by the budgets of the EU institutions, bodies, offices and agencies and the budgets they manage and monitor[4].

The revenue side of the budget is made up of traditional own resources (TOR)[5], value added tax, plastics own resource and a share of the gross national income of EU Member States.

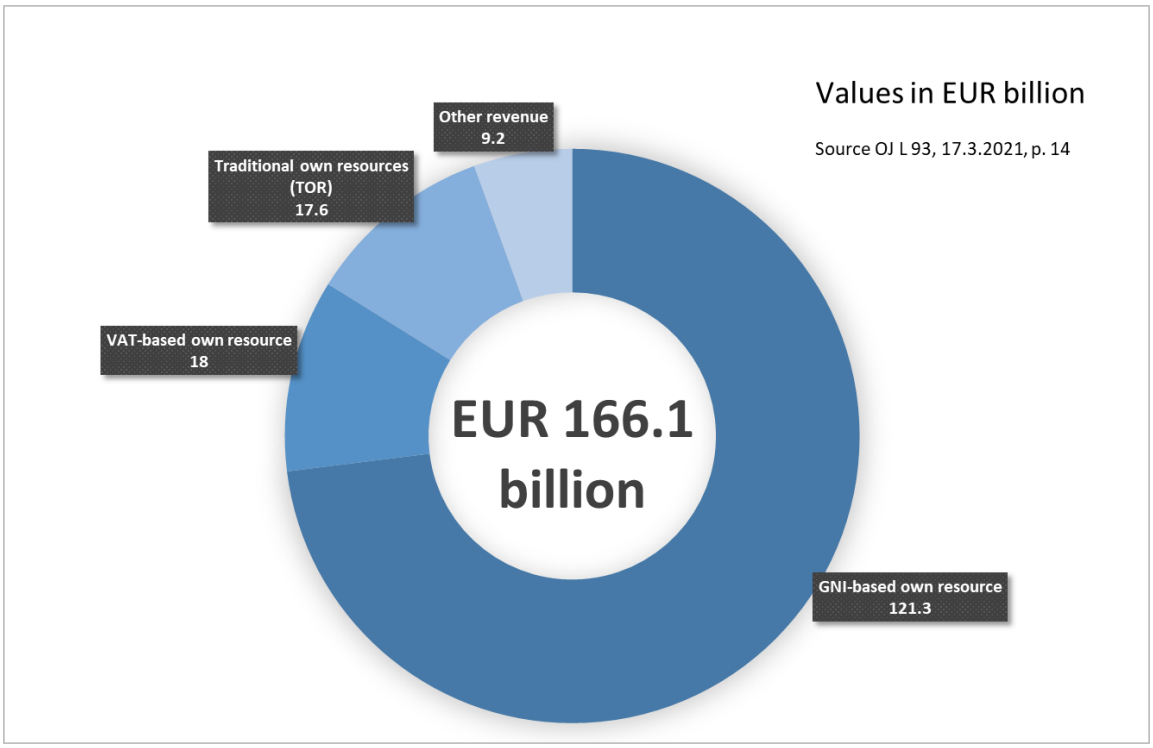
Figure 1 shows the resources available to the EU in 2021.

[3] See for example Article 2(a) of Commission delegated Regulation (EU) 2015/1970 of 8 July 2015, OJ L293, 10.11.2015.

[4] Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017, Article 2.1(a), OJ 28.07.2017 L198, p. 29.

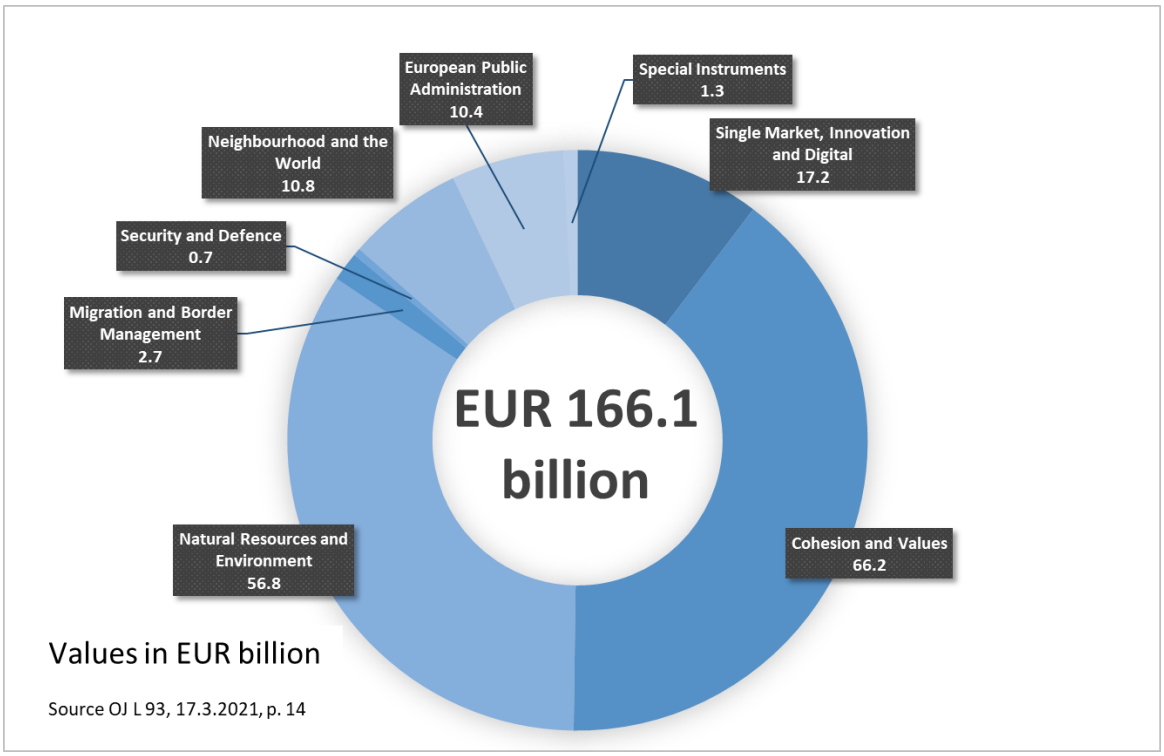
[5] TOR mainly consists of customs duties after deduction of the retention rate of 25%.

Figure 1 – EU revenue in 2021



The EU finances its policies using these resources (see **Figure 2**).

Figure 2 – EU expenditure in 2021



Although implemented on a yearly basis[6], the budget is part of the EU's long-term budget, the Multiannual Financial Framework (MFF), which provides the spending limits for 7 years.

2. HIGHLIGHTS OF 2021

This section summarises the key acts adopted and European Court of Justice case-law on PIF matters in 2021.

2.1. Key acts adopted

Table 1 shows the key legislative acts adopted in 2021. During this year a wide range of regulations have been adopted concerning the 2021-2027 spending programmes. They contain specific provisions reiterating the competence of the European Anti-Fraud Office (OLAF) and the European Public Prosecutor's Office (EPPO) to protect the EU's financial interests, and require third countries participating in the programmes to grant the Commission, OLAF and the European Court of Auditors (ECA) the necessary rights and accesses required to comprehensively exercise their respective competences.

Reference to those regulations has not been inserted in the table.

Table 1 – Key acts adopted

Title	Description of how the act protects the EU's financial interests
Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility[7]	The 'RRF Regulation'. Article 22 contains provisions concerning the protection of the EU's financial interests[8].
Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy[9]	Recital 71 reiterates the competence of OLAF and the EPPO to protect EU financial interests for the related programmes. Article 69 requires Member States to ensure the legality and regularity of expenditure and to take actions to prevent, detect and correct and report on irregularities, including fraud. It also ensures that the Commission, OLAF and the ECA have the necessary access to information concerning beneficial owners of the recipients of EU funds. Under Article 74 managing authorities are requested to have in place effective and proportionate anti-fraud measures and procedure, taking into account the risks identified. Annex XII sets detailed rules and the template for the

6 For the yearly adoption procedure of the EU budget, https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/budgetary-procedure.pdf

7 OJ L 57, 18.2.2021, p. 17.

8 Section 5.2 has more information on its implementation.

9 OJ L 231, 30.6.2021, p. 159.

	reporting of irregularities.
Regulation (EU) 2021/785 of the European Parliament and of the Council of 29 April 2021 establishing the Union Anti-Fraud Programme and repealing Regulation (EU) No 250/2014[10]	The Union Anti-Fraud Programme, the successor to HERCULE III, finances activities to counter fraud and any other illegal activities affecting the financial interests of the EU[11].

2.2. Jurisprudence on PIF matters

The Court of Justice of the European Union ensures the uniform application and interpretation of EU law. In 2021, the Court delivered three decisions on the protection of the EU's financial interests.

Case number and description
C-130/19[12]**, Court of Auditors v Pinxten**. In this case, the Court of Justice declared that a former Member of the ECA had breached the obligations arising from his office as a Member of the ECA by undertaking a number of acts including the improper use of the resources of the ECA to finance activities unrelated to his duties and the use of a fuel card provided by the Court to purchase fuel for vehicles belonging to third parties. The Court deprived the former Member of two thirds of his pension rights. In its judgment, the Court of Justice underlined that it is important that Members of the ECA observe the highest standards of conduct and ensure that the general interest of the EU takes precedence at all times, not only over national interests but also over personal interests. In this regard, the Court of Justice concluded that although people holding important positions in EU institutions and bodies must observe the highest standards of conduct, the specific function of the Court of Auditors – checking the regularity of EU expenditure and the soundness of financial management – increased the gravity of the irregularities committed by the former Member.
C-360/20[13]**, Ministerul Lucrărilor Publice, Dezvoltării şi Administraţiei**. In this decision, the Court considered that the concept of 'fraud affecting the Union's financial interests', within the meaning of Article 1(1)(a) of the PIF Convention[14] does not only include the illegal receipt of funds from the EU budget, but also their illegal retention. Fraud may therefore take the form of a failure to comply with reporting obligations after obtaining those funds. Consequently, fraud within the meaning of Article 1(1)(a) of the PIF Convention covers the intentional use of false or incorrect statements made after the implementation of an EU-financed project to create the illusion that the obligations under the financing agreement have been met during the sustainability period of the project, with the purpose of unlawfully withholding funds from the EU budget. The Court of Justice added that national legislation, according to which a person cannot be prosecuted for such statements unless they were made during the implementation of the project, is incompatible with Article 325 TFEU. However, in order to respect the fundamental rights of the persons concerned, national courts will not be obliged to interpret such national legislation as applying to statements made after the project's implementation where this would lead to an infringement of the principle of the legality of criminal offences and penalties. In the event of a potential infringement, it will be for the national legislator to take the appropriate steps.

10 OJ L 172, 17.5.2021, p. 110–122.

11 See Section 4.2.2 for more information.

12 Judgment of 30 September 2021, EU:C:2021:782

13 Judgment of 14 October 2021, EU:C:2021:856

14 Convention drawn up on the basis of Article K.3 of the Treaty on European Union, on the protection of the European Communities' financial interests, OJ C 316, 27.11.1995, p. 49–57

C-357/19, C-379/19, C-547/19, C-811/19 and C-840/19[15], Euro Box Promotion and Others.

The Court of Justice was asked to rule on the compatibility with EU law of case-law of the Romanian Constitutional Court on the rules of criminal procedure applicable to fraud and corruption proceedings. In 2018, the Romanian Constitutional Court overturned the decisions of the Romanian High Court of Cassation and Justice convicting several people for VAT fraud, corruption and exerting influence in connection with the management of EU funds, stating, in substance, that the panels of judges who had heard the cases were irregularly constituted. A preliminary reference was made to the Court of Justice by a lower Romanian court on the question, among other matters, of whether the Constitutional Court's case-law gave rise to a systemic risk of impunity in the fight against fraud and corruption, in particular as offences will go unpunished because they become time-barred.

In its judgment, the Court of Justice held that even though the rules governing the organisation of the judicial system in the Member States are in principle a matter for the Member States' jurisdiction, these rules must nevertheless tally with their obligations under EU law. Such obligations include the fight against illegal activities, including corruption offences, affecting the EU's financial interests by means of effective deterrent measures. The effectiveness requirement applies to both proceedings and penalties for those offences and to the enforcement of the penalties imposed. It is primarily for the national legislature to ensure that the procedural rules applicable to those offences do not present a systemic risk of impunity. National courts, for their part, must not apply domestic provisions preventing the application of effective deterrent penalties. In the case in point, the consequence of the application of the case-law of the Romanian Constitutional Court is that the cases of fraud and corruption concerned must be re-examined, if necessary on several occasions, at first instance and/or on appeal. This may lead to their being time-barred, with the result that people occupying the highest positions in the Romanian State who have been convicted of fraud or corruption are not penalised in a manner that is effective and acts as a deterrent. The risk of impunity would become systemic for that category of people and would call into question the objective of combating high-level corruption. Consequently, the Court of Justice ruled that Article 325 TFEU and Article 2 of the PIF Convention preclude national rules or practices under which judgments in corruption and VAT fraud cases were not delivered due to irregularly constituted panels of judges, where this leads to a systemic risk of acts constituting serious fraud affecting the EU's financial interests or corruption in general going unpunished. The Court of Justice added that the referring court had to verify the compatibility of such an approach with the accused's right to a fair trial under Article 47 of the Charter of Fundamental Rights.

3. THE EU ANTI-FRAUD ARCHITECTURE

The complex legislative and organisational architecture in place to protect the EU's financial interests is the result of a continuous process spanning over three decades[16]. This section presents the most significant developments in this area in 2021[17].

15 Judgment of 21 October 2021, EU:C:2021:1034

16 For the development of legislation to protect the EU's financial interests over the first three decades (1989-2018) of the PIF aspect of the EU's work see European Commission, *Annual report on the protection of the EU's financial interests and the fight against fraud – 2018*, COM(2019) 444 final, 11.10.2019. For the last two years (2019-2020) see, respectively, European Commission, *Annual report on the protection of the EU's financial interests and the fight against fraud – 2019*, COM(2020) 363 final, 3.9.2020, and *Annual report on the protection of the EU's financial interests and the fight against fraud – 2020*, COM(2021) 578 final, 20.9.2021.

17 The EU anti-fraud architecture and the main players involved was presented in COM(2021) 444 final, *cit.*, Section 3, pp. 11-19.

3.1. European level

3.1.1. European Parliament

Besides its legislative activities, the **European Parliament** (EP) scrutinises the Commission's (and other institutions' and bodies') implementation of the EU budget through a procedure known as 'discharge'. In 2021 the EP granted discharge for the 2019 financial year[18] and started the procedure for the 2020 financial year[19]. The **Committee on Budgetary Control** (CONT) is central to the discharge procedure and also drafts an annual report on the protection of the EU's financial interests. The report provides political guidance for the Commission and the Member States once adopted as a resolution in the Parliament's plenary. In 2021, several CONT meetings focused on OLAF's activities, with the Office invited to present its results.

Snapshot 1 - The EP's 2019 resolution on the protection of the EU's financial interests

The EP's resolution for 2019 was adopted in its plenary session of 7 July 2021, after receiving a favourable CONT vote on 21 June 2021[20].

The resolution strikes a largely positive tone while recommending further Commission action in a variety of areas related to the fight against fraud. It takes note of the decrease in the number of fraudulent and non-fraudulent irregularities reported in 2019 and demands closer cooperation by the Member States on the exchange of information. The resolution recognises the Commission's efforts to reform the anti-fraud landscape and requests that OLAF and the EPPO be given adequate resources. The resolution emphasises the crucial role of detection capability and calls on the Commission to continue supporting Member States to ensure that both the quality of controls is improved and their number increased. The EP asks the Commission in particular to:

- create an interoperable digital reporting and monitoring system for timely, uniform and standardised reporting by the Member States in shared management;
- adopt an anti-fraud strategy which involves the Member States;
- present a legislative proposal on mutual administrative assistance in the area of EU expenditures;
- include proposals for caps per natural person for the beneficiaries of the Commission Agricultural Policy (CAP) and cohesion funds in its proposal for the revision of the Financial Regulation;
- extend Early Detection and Exclusion System (EDES) to shared management; and
- support and protect investigative journalism.

3.1.2. Council

The **Council's Working Party on Combating Fraud** deals with matters related to the protection of the EU's financial interests and the fight against fraud and other illegal activities affecting those interests. It also works on matters concerning the OLAF and its Supervisory Committee.

18 2020/2140(DEC) of 28.4.2021.

19 2021/2106(DEC). The EP adopted the discharge resolution in May 2021. It approved the discharge resolution on the Commission accompanying the decision on discharge, by 451 votes in favour, 175 against and 17 abstentions.

20 Procedure file 2020/2246(INI), Protection of the EU's financial interests - combatting fraud - annual report 2019.

The working party is responsible for examining:

- legislative proposals on combating fraud and on OLAF's activities;
- annual reports on the protection of the EU's financial interests.

OLAF has represented the Commission in several Council working groups, notably in the Working Party on Combating Fraud.

3.1.3. European Commission

The **European Commission** defines the strategies and translates into policies and initiatives the overall political goals developed collectively by the EU institutions. Commission Directorates-General (DGs) manage specific policies and the related spending programmes that support them. To better protect the EU budget, in 2019, the Commission adopted its anti-fraud strategy (Commission Anti-Fraud Strategy (CAFS)), accompanied by an action plan.

Snapshot 2 – State of play of the implementation of the action plan accompanying the CAFS

The Commission's Anti-Fraud Strategy (CAFS) and its associated action plan comprising 63 actions, play a significant role in preventing the possible misuse of EU funds. Under the coordination of OLAF, the responsible Commission departments made very good progress in implementing the actions, putting them on track to meet the December 2021 deadline for completion. By June 2022, 59 of the 63 actions – approximately 94% – had been completed[21].

The strategy has two main objectives, to improve: (i) data collection and analysis; and (ii) coordination, cooperation and processes.

In line with the first objective, OLAF intensified its analytical work, notably by developing a risk framework for the Recovery and Resilience Facility (RRF), covering potential serious irregularities – fraud, corruption and conflicts of interest – arising in the implementation of the RRF. It also launched a study on the future development of the Irregularity Management System (IMS), to address questions of interoperability and improve reporting by the Member States.

In line with the second objective of the CAFS, progress continued on a number of actions aimed at fostering coordination and cooperation between Commission departments and equipping the Commission with a more effective system of anti-fraud oversight. Contacts and cooperation between Commission departments have been intensified, in particular through regular meetings of groups of Commission representatives – set up according to management mode or theme – under the aegis of the Fraud Prevention and Detection network (FPDNet) led by OLAF.

The Commission has also committed itself to improving monitoring of the follow-up given to OLAF recommendations, an essential part of the efforts to put misspent funds back into the EU budget. The Commission and OLAF made a concerted effort to increase the efficiency of this monitoring and took stock of approximately 1 700 financial recommendations issued to Commission departments and executive agencies between 2012 and 2020. In total, the sum of recommended amounts for recoveries for 2012-2020 is equivalent to more than EUR 7 billion with almost 40% linked to five major customs undervaluation cases[22].

To ensure sustained anti-fraud efforts in the Commission, and address both the remaining actions of the 2019 CAFS action plan and new Commission priorities, OLAF is considering a targeted

[21] For the state of play of the implementation of the CAFS action plan, see 'CAFS Action Plan - State of play June 2022' accompanying this report.

[22] Undervaluation detected in the United Kingdom has already been reported in the 2020 PIF report, *cit.*, Snapshot 1, p. 13.

revision of the plan. The CAFS' main objectives and underlying principles remain valid and the intended focus of a revised action plan will be on Commission priorities such as the new MFF, the RRF, cooperation with the EPPO, and the role of digitalisation in the fight against fraud.

3.1.4. European Anti-Fraud Office (OLAF)

The **European Anti-Fraud Office** (OLAF) carries out independent investigations into fraud and corruption involving EU funds and develops EU anti-fraud policy to fight fraud, corruption and any other illegal activities affecting the EU's financial interests.

Snapshot 3 – OLAF activities in 2021

Some 1 100 selections were made during the year, leading to 234 new investigative cases being opened. A total of 212 investigations were successfully concluded during the year, leading to OLAF's issuing 294 financial, judicial, disciplinary and administrative recommendations to competent EU and national authorities. The majority of these recommendations concerned the recovery of EU funds by the EU and national authorities in question – EUR 527.4 million in 2021. Thanks to OLAF's work, over EUR 340 million were prevented from being unduly spent.

OLAF's investigations showed a number of new trends in fraudulent activity, such as fraud related to COVID-19, the green transition, and waste management.

On 5 July 2021, a working arrangement between OLAF and the EPPO was signed in view of optimising operational cooperation. This cooperation is already producing tangible results. In 2021, OLAF was a significant source of incoming information for the EPPO[23]: 85 of its criminal investigations were based on OLAF's investigative reporting. The total possible damage to the EU budget of the matters under investigation reported by OLAF in 2021 was estimated at EUR 2.2 billion[24]. OLAF investigators and forensic analysts also provided substantial support for EPPO investigations, by participating in witness interviews as experts and providing detailed analysis of customs matters. Several complementary investigations were opened by OLAF. These yielded some significant results in terms of financial and criminal justice.

3.1.5. European Public Prosecutor's Office (EPPO)

The **European Public Prosecutor's Office** (EPPO), as the first supranational prosecution authority, has the power to investigate and prosecute crimes affecting the EU's financial interests in the 22 participating Member States[25].

Snapshot 4 - First 7 months of the EPPO's operational activity in numbers

The EPPO started operations on 1 June 2021. In total, the Office received 2 832 reports and opened 576 investigations by the end of 2021 (515 active investigations by 31 December 2021)[26].

Reports mainly came from national authorities or from private parties.

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23 The legal framework governing relationship between the EPPO and OLAF provides for working arrangements between the two bodies setting out the practical aspects of this relationship. The working arrangements were signed on 5 July 2021.

24 European Anti-Fraud Office (OLAF), *The OLAF Report 2021*, p. 38.

25 Denmark, Ireland, Hungary, Poland and Sweden do not participate in the EPPO. Sweden is expected to join the EPPO in 2023.

26 For more detailed statistics, in particular per participating Member States, see European Public Prosecutor's Office, *2021 Annual Report*.

The EPPO concluded a working arrangement with the Office of the Prosecutor-General of Hungary and negotiations on concluding a working arrangement are ongoing with Poland, Ireland and Denmark.

With regard to the recovery of the proceeds of criminal activities, 81 recovery actions took place in 12 of the participating Member States (Italy, Belgium, Germany, Romania, Czechia, Croatia, Finland, Latvia, Luxembourg, Spain, Lithuania, and Portugal). In total, the EPPO requested more than EUR 152 million to be seized, and the seizure of more than EUR 147 million was granted.

In accordance with the principle of legality, the EPPO is obliged to initiate investigations whenever there are reasonable grounds to believe that an offence within its competence is being or has been committed. National authorities are legally obliged to report to the EPPO any criminal conduct in respect of which the EPPO could exercise its competence. If national authorities have started investigating an offence falling with the EPPO's competence and the EPPO decides to exercise its right of evocation, they are obliged to hand over their cases to it. Investigations are initiated by the European Delegated Prosecutors in the participating Member States and overseen by 22 European Prosecutors and the European Chief Prosecutor in Luxembourg. The European Delegated Prosecutors are embedded in national public prosecution services or judiciaries. However, they can only be given direction with regard to their operational work by the EPPO headquarters, either through the 15 Permanent Chambers or the 22 European Prosecutors. In 2021, 95 European Delegated Prosecutors were active and the intention is to appoint 140. The College of the EPPO has met 34 times and adopted 125 decisions. It amended and supplemented some decisions based on the first lessons learned, for instance, about the allocation of cases to the Permanent Chambers or the verification of the information registered to assess the EPPO's competence.

Snapshot 5 – The Agreement establishing the modalities of cooperation between the Commission and the EPPO

The legal framework governing the EPPO provides that it establishes and maintains a cooperative relationship with the Commission for the purpose of protecting the EU's financial interests. To that end, they have concluded an agreement setting out the modalities for their cooperation.

The Agreement, signed on 18 June 2021, details the administrative arrangements for implementing the mutual information and consultation obligations set in the EPPO Regulation. They aim, on the one hand, at enabling the EPPO to effectively investigate and prosecute crimes affecting the EU budget; and, on the other, at enabling Commission departments to ensure an appropriate administrative, financial and disciplinary follow-up to the EPPO's investigations, including precautionary measures to protect the EU budget.

The Agreement specifies, in particular, a) the specific types of information or consultations to be transmitted in each case; b) the relevant contact points; c) the applicable procedures, communication tools, template and deadlines; and d) the conditions under which the EPPO is able to access specific relevant databases managed by the Commission. It also includes a reference to the close and timely cooperation between the Commission and the EPPO as regards the application of Regulation (EU) No 2020/2092 on a general regime of conditionality for the protection of the EU budget.

3.1.6. European Court of Auditors (ECA)

The **European Court of Auditors** (ECA) assesses the economy, effectiveness, efficiency, legality and regularity of EU action to improve accountability, transparency and financial management.

Snapshot 6 – The European Court of Auditors' annual report

Every year the ECA audits the revenue and expenditure of the EU budget and provides its opinion on the extent to which the annual accounts are reliable, and income and spending comply with the rules and regulations in force. The annual report for the 2020 financial year was published on 26 October 2021[27].

The ECA concluded that the accounts were not affected by material misstatements. On the regularity of transactions, it concluded that revenue was free from material error. On expenditure, the audit results show that the estimated level of error remained the same as last year, 2.7%. High-risk (mainly reimbursement-based) expenditure was affected by a material level of error. In 2021, six instances of suspected fraud were reported to OLAF.

3.1.7. Eurojust

Eurojust, the European Union Agency for Criminal Justice Cooperation, coordinates the work of national authorities – from the Member States and non-EU countries – in investigating and prosecuting cross-border crime. In the protection of the EU's financial interests, it mostly plays its role in relation to the Member States that do not participate in the EPPO.

Snapshot 7 – Eurojust's highlights in 2021

In 2021, Eurojust continued its operational work on fighting fraud affecting the EU budget and other PIF crimes together with the EPPO, OLAF and Europol. Cooperation in the fight against fraud included Eurojust's involvement in Operation SENTINEL, aimed at protecting funds in connection with the NextGenerationEU initiative against fraud, corruption and any other illegal activities affecting the EU's financial interests (see **Snapshot 11**).

Eurojust's cooperation with the EPPO began in 2021. After signing their working arrangement in February 2021, Eurojust started cooperating with the EPPO in investigations soon after the EPPO started its operational work on 1 June 2021.

OLAF remained an important operational partner for Eurojust in 2021 participating in several coordination meetings on cases affecting the EU budget. The two bodies also established a new workflow for closer cooperation and continued to work on the evaluation of Joint Investigation Teams (JIT) in which OLAF participated. As in previous years, Eurojust and OLAF continued to share expertise with each other on the fight against fraud. Following the Eurojust seminar for OLAF investigators in 2020, in 2021 Eurojust experts attended presentations by OLAF on case studies, data analysis methods and the revised legal framework applicable to OLAF investigations.

3.1.8. Europol

Europol, the European Union Agency for Law Enforcement Cooperation serves as a support centre for law enforcement operations, a hub for information on criminal activities, and a centre for law enforcement expertise.

Snapshot 8 –Europol in 2021

In September 2021, Europol's European Financial and Economic Crime Centre (EFECC), in cooperation with the Italian authorities, held a high level law enforcement meeting in Rome and

[27] European Court of Auditors, *Annual Report on the implementation of the EU budget for the financial year 2020*, 26.10.2021.

agreed on the following principle: any threat to the RRF impinges on the financial well-being of the EU.

Also in September 2021, Europol, OLAF, the EPPO, Eurojust and 21 Member States joined forces in Operation SENTINEL (see **Snapshot 11**).

3.2. Member State level

3.2.1. Anti-fraud Coordination Services (AFCOS)

Since 2013[28] the Member States have been required to designate an **anti-fraud coordination service** (AFCOS) to facilitate effective cooperation and the exchange of information, including operational information, with OLAF. Member States are free to decide where to best place the AFCOS in their national administrative structure and what powers the service will have.

The mandate of the AFCOS may vary, depending on country-specific circumstances. In all cases however, its remit should include ensuring co-operation with OLAF and co-ordinating, in the Member State concerned, legislative, administrative and investigative obligations and activities related to the protection of the EU's financial interests.

Snapshot 9 – Measures adopted by the Member States in 2021[29]

Luxembourg and Latvia strengthened their AFCOS. In **Luxembourg**, the AFCOS team was reinforced to ensure adequate coordination in the fight against fraud and the protection of the EU's financial interests. **Latvia** reported the adoption of a new law and a corresponding procedure manual, to ensure its AFCOS has legal rights *(a)* to participate in and provide assistance in on-the-spot checks by OLAF, *(b)* to request information or documents from private individuals, and *(c)* to receive information on bank accounts as part of administrative investigations.

Greece, **Spain** and **Sweden** reported measures taken by their AFCOS to help managing authorities to better report possible fraud to law enforcement agencies.

3.2.2. National Anti-Fraud Strategies (NAFS)

The Commission's sustained encouragement of Member States to adopt **national anti-fraud strategies** (NAFS) has resulted in a steady increase in the number of NAFS adopted. By the end of 2021, 17[30] Member States had adopted or updated a NAFS and of the 11[31] yet to adopt one, 4[32] reported that they were in the process of drafting, or close to adopting, a NAFS.

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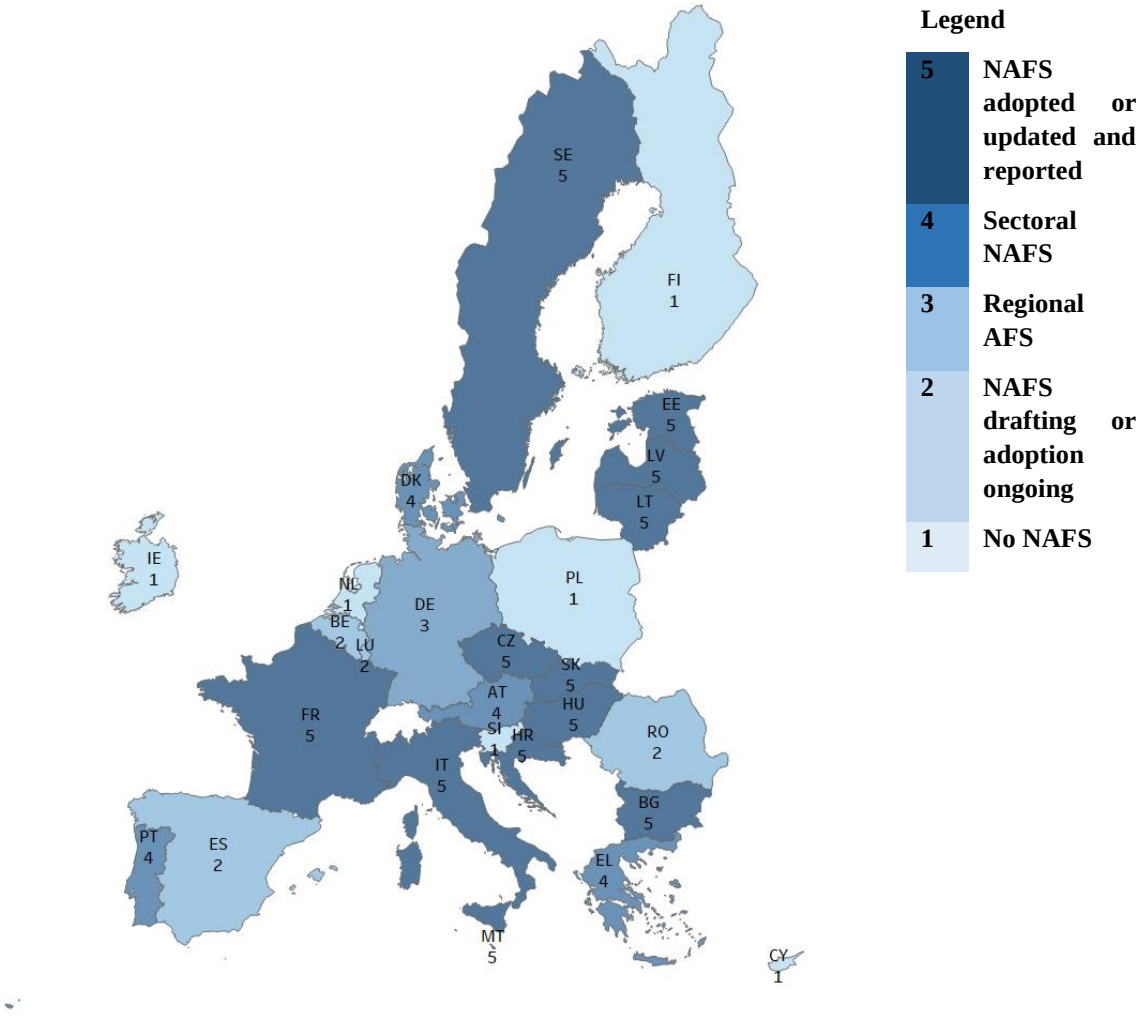
28 In accordance with Article 12a of Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999, as amended by Regulation (EU, Euratom) 2016/2030 of the European Parliament and of the Council of 26 October 2016 and Regulation (EU, Euratom) 2020/2223 of the European Parliament and of the Council of 23 December 2020.

29 See 'Measures adopted by the Member States to protect the EU's financial interests in 2021 – Implementation of Article 325 TFEU' accompanying this report for more information on national initiatives to enhance the protection of the EU's financial interests.

30 Bulgaria, Czechia, Denmark, Germany, Estonia, Greece, France, Croatia, Italy, Latvia, Lithuania, Hungary, Malta, Austria, Portugal, Slovakia, Sweden. Of these, Germany and Portugal had not yet

Figure 3 – NAFS: state of play of adoption



Although the coverage and content of the strategies continues to vary across Member States[33] and some strategies need to be updated, the overall situation has improved compared to 2020. Following the Commission's recommendations, several[34] of the current strategies have been updated to reflect new significant risks, such as those associated with the implementation of the Recovery and Resilience Facility (RRF) and the effects of the COVID-19 pandemic.

3.2.3. Implementation of the 2020 recommendations by the Member States[35]

In its 2020 Report on the protection of the European Union's financial interests, the Commission made three sets of recommendations to Member States, covering a) cross-cutting aspects of the

transmitted the necessary documents to OLAF. Austria had reported in 2020 that it had a strategy in place until the end of the year, but transmitted no further updates for 2021.

31 Belgium, Ireland, Spain, Cyprus, Luxembourg, the Netherlands, Poland, Romania, Slovenia, Finland.

32 Belgium, Spain, Luxembourg, Romania.

33 See also section 5.6.

34 Bulgaria, Greece, France, Italy, Hungary.

35 For a complete overview of the follow-up given by Member States, see 'Implementation of the 2020 recommendations by the Member States' accompanying this report.

fight against fraud; b) revenue; and c) expenditure. These recommendations aimed to improve cooperation between the EU and national bodies; increase the coherence and consistency of national anti-fraud measures; optimise the functioning of the customs union and Member States' customs authorities; strengthen internal control frameworks; and increase flexibility and resilience in times of crisis.

On the cross-cutting aspects of the fight against fraud, the Commission recommended that Member States who had not joined the EPPO consider doing so.

Of the five Member States not yet part of the EPPO, **Sweden** has indicated its intention to join in 2023; **Denmark**, **Ireland**, **Hungary**, and **Poland** said that they did not intend to join[36].

In the area of revenue, 16[37] Member states replied that they fully implemented the Commission's recommendation to assess the **risks and shortcomings of their national customs control strategies** brought to the fore by the COVID-19 pandemic, 4[38] partially implemented, and 6[39] did not implement it. The replies show a series of successful measures, such as the flexibility of controls and risk profiling, thereby ensuring that controls continued to be carried out efficiently during the COVID-19 period.

In response to the recommendation to **assess the risks that may not have been addressed in 2020 and implement remedial measures to address them**, 16[40] Member States fully implemented the recommendation, 3[41] implemented it partially, and 7[42] did not implement it.

On the recommendations on expenditure, 11[43] Member States reported that they had launched **targeted risk management exercises linked to the impact of COVID-19 and the upcoming implementation of the RRF**, and fully implemented the recommendation; 11[44] did so only partially, and 4[45] did not implement the recommendation.

On whether they had **improved the way in which underlying data and data on detected irregularities and fraud, are collected and used**, 14[46] Member States reported that they fully implemented the recommendation, 7[47] that they had partially implemented it, and 5[48] that they had not implemented it. Most Member States reported that they had tailored their use of IT

36 Denmark and Ireland have an opt-out from the area of freedom, security and justice.

37 Bulgaria, Czechia, Estonia, Ireland, Greece, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Poland, Portugal, Romania, Slovenia, Sweden.

38 Belgium, Germany, Spain, France.

39 Denmark, Croatia, Malta, the Netherlands, Slovakia, Finland.

40 Czechia, Estonia, Ireland, Greece, Spain, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Poland, Portugal, Romania, Slovenia, Sweden

41 Belgium, Bulgaria, France.

42 Denmark, Germany, Croatia, Malta, the Netherlands, Slovakia, Finland.

43 Denmark, Estonia, Greece, Italy, Cyprus, Latvia, Luxembourg, Malta, Poland, Portugal, Sweden

44 Belgium, Bulgaria, Czechia, Spain, France, Croatia, Hungary, the Netherlands, Romania, Slovakia, Finland.

45 Germany, Ireland, Lithuania, Slovenia.

46 Bulgaria, Greece, Croatia, Italy, Cyprus, Latvia, Luxembourg, Hungary, Malta, the Netherlands, Poland, Portugal, Slovakia, Sweden.

47 Belgium, Czechia, Denmark, Spain, France, Romania, Finland.

48 Germany, Estonia, Ireland, Lithuania, Slovenia.

systems such as the Irregularity Management System (IMS), Arachne[49], the Early Detection and Exclusion System (EDES)[50], as well as a variety of national IT tools, to improving the quality of the data they worked with.

The last recommendation on expenditure encouraged Member States to use the **integrated and interoperable information and monitoring system the Commission will make available for the RRF and the EU budget**. 19[51] Member States reported they fully implemented it, 4[52] partially implemented, and 3[53] did not implement the recommendation.

4. ANTI-FRAUD COOPERATION

Fighting fraud is crucial for the EU, not least given the part it plays on the world stage. Cooperation is key to ensure that this fight is effective. This section gives an account of the most significant developments in this area.

4.1. International cooperation

4.1.1. Cooperation with non-EU countries and mutual assistance and anti-fraud provisions in international agreements

Cooperation with international partners is crucial to protect EU funds spent outside Europe and the revenue side of the EU budget. To do this, in 2021 OLAF – together with the relevant Commission department – continued to **ensure that financing agreements and other contracts contained sound anti-fraud provisions**, including the possibility of carrying out controls and investigations relating to funds implemented outside the EU. OLAF also concluded administrative cooperation arrangements with two international partner authorities, the Prosecutor-General's Office of Ukraine and the World Customs Organization (WCO). Such arrangements help to foster close relationships with partners engaged in the fight against fraud by providing a guiding framework for practical cooperation, e.g. the sharing of information or best practices. In 2021, OLAF also organised online outreach events to establish new operational contacts with investigative authorities in non-EU countries and to encourage the reporting of fraud and irregularities through EU Delegations around the world.

Cooperation with third countries to prevent, detect and combat breaches of customs legislation is based on agreements on **mutual administrative assistance** (MAA) in customs matters. Such agreements make a key contribution to protecting the EU's financial interests. Currently there are agreements with 87 countries, including with major EU trade partners, such as the United States, China and Japan. In 2021, negotiations with the Eastern and Southern Africa (ESA5) countries[54] were finalised, and negotiations were ongoing with Australia, Indonesia and the United Kingdom in respect of Gibraltar.

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49 Arachne is a single integrated IT system for data-mining and risk-scoring that the Commission has developed and put of disposal of the Member States in the areas of cohesion, agriculture and RRF.

50 For a description of the system, see Section 7.2.

51 Bulgaria, Belgium, Czechia, Denmark, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Luxembourg, Hungary, Malta, the Netherlands, Poland, Portugal, Slovenia, Slovakia.

52 Croatia, Lithuania, Romania, Finland.

53 Germany, Estonia, Sweden.

54 Comoros, Madagascar, Mauritius, Seychelles and Zimbabwe.

Free trade agreements usually contain an anti-fraud clause, involving a temporary withdrawal of tariff preference for a product in cases of serious customs fraud or a persistent lack of adequate cooperation to combat it. Such a clause is actually a *conditio sine qua non* for granting tariff preference to third countries.

4.1.2. United Nations Convention against Corruption CoSP9 and EU sponsored resolutions

The EU is party to the United Nations Convention against Corruption (UNCAC), the only legally binding universal anti-corruption instrument. The Commission represents the EU at all UNCAC-related processes, including the participation in the implementation review group meetings and in the open-ended working groups on Prevention of Corruption and on Asset Recovery.

The Mechanism for the Review of Implementation of the Convention is binding upon all the parties to the Convention, including the EU. In June 2021, the Commission announced to the United Nations Office on Drugs and Crime (UNODC) its readiness to undergo the review process provided for under the UNCAC[55]. In July 2021, the implementation review was officially launched.

At its ninth Conference of State Parties (CoSP) in Sharm el-Sheikh, Egypt, in December 2021, the EU highlighted its continued strenuous efforts to support the widest **participation of relevant civil society and non-governmental organisations** in the fight against corruption.

During the general discussion, the EU noted the role of the EPPO and OLAF in the fight against corruption and stressed the importance played by the media and investigative journalists. Four out of the eight resolutions adopted were sponsored by the EU, notably on the prevention of corruption, strengthening international cooperation during times of emergencies and crisis response and recovery as well as the regional fight against corruption[56].

4.1.3. Fight against illicit trade in tobacco products

The **second action plan to combat the illegal tobacco trade** (2018-2022), presented by the Commission in December 2018 and containing both policy and operational law enforcement measures, continued to be implemented throughout 2021, and a large number of key actions were underway or completed by the end of 2021.

The Commission plays a leading role in this area at multilateral level and bilaterally with source and transit countries. At the multilateral level, the **Framework Convention on Tobacco Control Protocol to Eliminate Illicit Trade in Tobacco Products** (FCTC Protocol) is an international agreement aimed at significantly reducing the illicit tobacco trade worldwide. OLAF, in close cooperation with relevant Commission departments and Member States, has been actively engaged in work related to the FCTC Protocol. OLAF represented the EU and the participating Member States in the second Meeting of the Parties that took place in November 2021. During this meeting, the conclusions of two working groups (Tracking and Tracing, and Assistance and Cooperation) were approved, and a new assistance strategy to support the implementation of the Protocol was proposed. All the Parties involved also agreed to continue working on a Global Information-Sharing Focal Point to enable tracking and tracing systems to exchange information and support the global fight against illicit tobacco trade.

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55 By a letter of Commissioner Johansson addressed to the Executive Director of the UNODC.

56 Final report on the COSP 9.

4.2. Cooperation between the EU and Member States

4.2.1. Activities of the Advisory Committee for the Coordination of Fraud Prevention (COCOLAF)

The **Advisory Committee for the Coordination of Fraud Prevention** (COCOLAF) brings together the Commission (represented by OLAF) and Member State experts. It provides a forum for discussing the main developments in the fight against fraud and for the preparation of this report. Its work is structured around four working groups and plenary sessions.

In 2021, two plenary meetings were organised in June and December, two meetings of the subgroup on the reporting and analysis of fraud and other irregularities took place, and one of the fraud prevention subgroup. These meetings were good opportunities to discuss the latest trends in irregularities and fraud and the IT tools used to manage EU funds. They also served as an important link between OLAF and its partners during the pandemic, keeping lines of communication open and allowing participants to share information and best practices.

The annual meeting between Member States AFCOS took place in September, virtually. The discussions focused on the RRF. In December, the fraud prevention subgroup agreed on setting-up an expert group dedicated to the use of IT tools to protect the RRF resources.

4.2.2. The EU's anti-fraud programme

The Hercule III programme, which provided assistance for projects supporting the fight against fraud and the protection of the EU's financial interests under the 2014-2020 Multiannual Financial Framework (MFF), was replaced by the new **Union anti-fraud programme** (UAFP) with the adoption of Regulation (EU) 2021/785.

The UAFP combines three different previously separate activities, but builds on the success of the Hercule III programme. The UAFP merges into **one single framework** the **Hercule funding part**, the financing of the **Anti-Fraud Information System** (the AFIS platform), to support Member States in mutual assistance in customs and agricultural matters, and the **Irregularity Management System** (IMS), for the reporting of irregularities, including fraud, in cases related to the shared management and pre-accession assistance funds.

This **enhances synergies** between the different strands and creates economies for resources, including the financial flexibility to reallocate funding within the programme to one or other activity part, where needed.

The UAFP has two general objectives[57]. First, it aims to protect the EU's financial interests. Second, it aims to support mutual assistance between the administrative authorities of the Member States, and cooperation between them and the Commission to ensure that the law on customs and agricultural matters is correctly applied.

The programme has three specific objectives:

(1) to prevent and combat fraud, corruption and any other illegal activities affecting the financial interests of the EU;
(2) to support the reporting of irregularities, including fraud, with regard to the shared management funds and pre-accession assistance funds of the EU budget;

[57] For more information see 'Annual overview with information on the results of the Union anti-fraud programme in 2021' accompanying this report.

(3) to provide tools for information exchange and support for operational activities in the area of mutual administrative assistance in customs and agricultural matters.

Snapshot 10 – Focus on AFIS and IMS

AFIS is an umbrella term for a set of anti-fraud IT applications operated by OLAF using a common technical infrastructure, the aim of which is the timely and secure **exchange of information on fraud** between competent national and EU administrations, as well as the storage and analysis of relevant data. The AFIS portal has over 8 500 registered end-users in nearly 1 400 competent services from Member States, partner third countries, international organisations, the Commission and other EU institutions. It makes substantial economies of scale and synergies possible in developing, maintaining and operating such a wide and diverse set of IT services and tools.

AFIS supports **mutual assistance in customs** with collaboration tools such as **VOCU** (Virtual Operations Coordination Unit) for **joint customs operations**, secure email (AFIS Mail) and specific information exchange modules. It also provides support through databases such as CIS (Customs Information System) and FIDE (Customs Investigation Files Identification Database), the Container Status Messages (CSM) directory and the Import, Export and Transit (IET) directory; and it provides support through data analysis tools such as the AMT (Automated Monitoring Tool) and electronic workflow applications such as ToSMA (Tobacco Seizures Management Application). Further developments are ongoing for the establishment of an analytical platform in AFIS to support strategic and operational analysis.

The main legal basis for the operation of the AFIS platform is Council Regulation (EC) No 515/97 on mutual assistance between the administrative authorities of the Member States and cooperation between them and the Commission to ensure the correct application of the law on customs and agricultural matters[58].

IMS is an application on the AFIS platform facilitating the **reporting of irregularities and fraud** detected by national authorities in the area of shared management and pre-accession in compliance with sectoral regulations and financing agreements. In 2021, a study was commissioned to identify possible improvements to the system based on user and stakeholder needs, and to explore the possibility of enhancing interoperability with other Commission anti-fraud IT systems, such as Arachne and the EDES[59].

4.2.3. Cooperation in the area of revenue

4.2.3.1. The customs programme

The **customs programme** (Regulation (EU) 2021/444), while not directly addressing the fight against fraud, is an important partner in the protection of the EU's and the Member States' financial and economic interests. As a pillar of the programme, its **IT systems** play an essential role in facilitating the exchange of information and data, including risk information, between the Member States, thereby buttressing the collection of the various duties (e.g. customs duties, VAT and excise duties on imports). The programme also supports **collaboration actions**, including

[58] Council Regulation (EC) No 515/97 of 13 March 1997 on mutual assistance between the administrative authorities of the Member States and cooperation between the latter and the Commission to ensure the correct application of the law on customs and agricultural matters (OJ L 82, 22.3.1997, p. 1).

[59] For a description of the system see Section 7.2.

project groups, networks of experts, workshops and training activities and other human competency-building support, that enable Member State authorities to share good practices and to improve customs controls and the collection of duties. Furthermore, the newly established Instrument for Financial Support for Customs Control Equipment (Regulation (EU) 2021/1077), intended to be used at all types of borders, should support the customs union and the work of the customs authorities, in particular by helping them to protect the EU's financial and economic interests, to ensure security and safety in the EU and to protect it from unfair and illegal trade, such as the counterfeiting of goods, while facilitating legitimate business activity.

4.2.3.2. The Fiscalis programme

The **Fiscalis programme** (Regulation (EU) 2021/847) encompasses a broad range of actions to support collaboration between the Member States' tax authorities to protect the financial and economic interests of the EU and its Member States, including protecting them from tax fraud, tax evasion and tax avoidance. The Fiscalis programme also provides opportunities for national authorities to cooperate through the use of **IT systems, collaborative activities and human competency-building actions**.

4.2.3.3. Joint customs operations (JCOs)

Joint customs operations (JCOs) are **targeted actions of limited duration** to combat fraud and the smuggling of sensitive goods in specific areas at risk and/or on identified trade routes.

In addition to its investigations into cases of revenue fraud and counterfeiting, OLAF coordinates large-scale JCOs involving EU and international operational partners. The support OLAF provides is tailored to each JCO and may include the use of its permanent technical infrastructure, IT and communications tools, in particular the VOCU for the secure exchange of information, as well as strategic analysis, administrative and financial support. In 2021, OLAF organised or co-organised two operations on facemasks and tobacco products, and was involved in several operations initiated by Member States, Europol, the European Border and Coast Guard Agency (FRONTEX) or the WCO.

Table 2 - JCOs in 2021

Operation	Description
S'CARE FACE	Organised by OLAF, in close coordination with other DGs (DGs TAXUD, GROW, SANTE and JUST) to improve knowledge across the EU of the process of allowing facemasks into the EU. S'CARE FACE ran from January to March 2021. During the operation, the participating Member States prevented 49 million counterfeit or substandard facemasks from entering the EU market.
SCORPION II	Co-organised by the European Union Border Assistance Mission to Moldova and Ukraine (EUBAM) and OLAF, this JCO, targeting the smuggling of tobacco products at the EU's eastern border, resulted in the seizures of 8.5 million cigarettes.
POSTBOX III	Co-organised by the Italian customs and Guardia di Finanza with the support of OLAF, the collaboration of Europol and the participation of 20 Member States. The operation focused on the illegal trade of counterfeit products, pharmaceutical products and COVID-19 related goods, drugs, endangered animal and plant species, and goods undervaluation using both the open and the dark web. The operation led to the detention of over 1 400 shipments of illicit goods, including over 35 000 pieces of counterfeit goods, counterfeit bank notes with an approximate value of EUR 240 000, over 1 500 items of COVID-19 related materials, 240 kg of smuggled cigarettes and tobacco and over 20 kg of cannabis and marijuana.
ATHENA V	On the smuggling of cash in the EU using courier, postal and parcel services. This operation was coordinated by the Spanish customs administration with the support of

Operation	Description
	OLAF and the involvement of 13 Member States and Europol. More than 14 000 packages were controlled during the operation. The evaluation of the results is ongoing.
ARKTOS 3	Joint action led by FRONTEX, the European Border and Coast Guard Agency, and co-led by Lithuania and Poland supported by INTERPOL, OLAF, Eurojust and Europol along with border guards, police and customs officers from Estonia, Finland, Latvia, Slovakia and Sweden. It targeted excise fraud, particularly tobacco smuggling, document fraud and migrant smuggling at selected border crossing points at the EU's eastern land borders. As a result of the action, law enforcement authorities detected more than 400 innovative tobacco products, such as electronic cigarettes and e-liquids. Among the illegal goods seized were 6.7 million illegal cigarettes and 2.6 tonnes of raw tobacco, along with half-a-tonne of illegal drugs. Fifteen smugglers were arrested, and more than 200 forged documents detected.
Joint CELBET Activity 8	Organised by the Customs Eastern and South Eastern Land Border Expert Team (CELBET) with the support of OLAF. It focused on controls of cash, and the detection of illegal cigarettes and other tobacco products as well as counterfeit parts of vehicles, clothes, shoes and cosmetics entering the EU through its eastern border.
STOP II	Organised by the WCO, this was the largest-ever customs-led global operation involving 146 Member customs administrations, with the support of Europol, INTERPOL, the United Nations Office on Drugs and Crime (UNODC) and the World Health Organization (WHO), together with pharmaceutical companies and other private-sector actors. The operation's target was illicit trade in medicines, vaccines and medical devices related to COVID-19. It resulted in the seizure of 365.7 million units, of which 195.5 million medicines related to COVID-19, 156.7 million medical devices (such as COVID-19 test kits, face masks, used gloves, sanitiser gel and oxygen cylinders) and around 13.5 million doses of COVID-19 vaccines.
LUDUS II	Organised by Europol with the participation of OLAF, the European Union Intellectual Property Office (EUIPO), the WCO and 21 countries. It led to the seizure of over 5 million fake and illegal toys, worth EUR 18 million. The seized goods posed risks such as chemical exposure, strangulation, choking, electric shock, damage to hearing and fire hazards.
OPSON X	Europol/INTERPOL joint operation targeting fake and substandard food and beverages. OLAF led a targeted action on wine and alcoholic beverages and coordinated the work of 19 Member States and 3 non-EU countries. This action resulted in the seizure of nearly 1.8 million litres of wine and alcoholic beverages by European customs and police authorities: 215 000 litres of counterfeit alcoholic beverages, mostly wine and vodka; and 1 550 000 litres of various alcoholic beverages, wines and beers, infringing fiscal rules or food safety standards.
SHIELD II	Organised by Europol. OLAF led a targeted action with 17 Member States against counterfeit and hormonal substances, food supplements and medicines for erectile dysfunction, stopping in total 254 731 tablets and 131 027 vials of various medicines and 278 kg of food supplements from entering the EU.
DEMETER VII	Coordinated by the WCO to tackle the illicit trafficking of waste, ozone-depleting substances (ODS) and hydrofluorocarbons (HFCs). A total of 102 law enforcement agencies participated in this operation. OLAF's role was to liaise between EU and non-EU countries to obtain information and intelligence, which led to the detection and seizure of over 4 000 tonnes of waste (e.g. used electronic items, waste batteries, used vehicles, printing machines), and 493 items of ODS and HFCs.
SILVER AXE VI	Annual Europol-led operation. OLAF participated by providing expertise in identifying and tracking suspicious shipments. Over 1 200 tonnes of illegal pesticides were seized in the operation, involving 35 different countries. It led to seizures of illegal and counterfeit products worth an estimated EUR 80 million. OLAF shared operational intelligence with the customs authorities of the Member States and of China, Ukraine, Russia and Colombia. It tracked suspicious shipments of illegal pesticides, leading to the seizure of around 39 tonnes of them in total.

5. KEY MEASURES FOR THE PROTECTION OF THE EU'S FINANCIAL INTERESTS AND THE FIGHT AGAINST FRAUD

5.1. Transposition of the PIF Directive

Directive (EU) 2017/1371 on the fight against fraud to the Union's financial interests by means of criminal law (PIF Directive) came into effect on 5 July 2017. The deadline for transposing the Directive into national law expired on 6 July 2019.

The Commission published the first of three **reports on the transposition of the Directive**, as required under Article 18 of it, on 6 September 2021. The report concludes that although all Member States have transposed the Directive, **further action is needed to address outstanding compliance issues**. It underlines that a proper transposition of the PIF Directive's definitions, sanctions, jurisdiction rules, and limitation periods for fraud and other offences affecting the EU's financial interests is necessary to enable the EPPO to conduct effective investigations and prosecutions. The report also underlines that cooperation between the EPPO and the Member States is crucial.

In December 2021, the Commission decided to open **infringement proceedings** against eight Member States[60] for not correctly transposing the PIF Directive. In February 2022, the Commission opened infringement proceedings against five more Member States[61]. In May 2022, the Commission opened infringement proceedings against four more Member States[62].

The Commission will continue to take all necessary steps to ensure the correct and comprehensive transposition of the PIF Directive, with further infringement proceedings, if necessary.

The Commission is preparing a second transposition report on the PIF Directive, due in the third quarter of 2022. This report will focus on the appropriateness of the EUR 10 million VAT threshold and the effectiveness of the Directive's provisions in the area of public procurement fraud and limitation periods.

5.2. Anti-money laundering

Fraud against the EU budget may also be the **precursor to other crimes** (i.e. it can be a predicate offence). Thus, even if not directly linked to the protection of the EU budget, the EU legal framework on anti-money laundering and counter-terrorist financing is relevant in this context.

All the Member States have reported full transposition of the fifth anti-money laundering directive[63] on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing[64].

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60 Croatia, Finland, Greece, Latvia, Luxemburg, Portugal, Romania and Spain.

61 Belgium, Cyprus, Slovakia, Slovenia and Sweden.

62 Estonia, Hungary, Malta and the Netherlands.

63 Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (Text with EEA relevance), OJ L 156, 19.6.2018, p. 43–74.

64 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/anti-money-laundering-and-counter-terrorist-financing_en#eu"

5.3. Recovery and Resilience Facility

The **Recovery and Resilience Facility** (RRF) Regulation entered into force on 19 February 2021. The RRF finances reforms and investments in Member States from the start of the pandemic in February 2020 until 31 December 2026. To benefit from the RRF, Member States must submit their **national recovery and resilience plans** to the European Commission. Each plan sets out the reforms and investments to be implemented by the end of 2026, allowing Member States to receive financing up to a previously agreed allocation.

Each plan should address challenges identified in the European Semester[65], particularly the country-specific recommendations[66] of 2019 and 2020 adopted by the Council. It should also advance the green and digital transitions and make Member States' economies and societies more resilient. Investments must respect the Do No Significant Harm principle[67].

The RRF is a **performance-based instrument**. Fulfilment of agreed milestones and targets towards achieving the reforms and investments in the plans enables disbursements to the Member State of grants and loans.

The RRF regulation[68] requires that Member States take all appropriate measures to protect the EU's financial interests and to ensure that the **use of funds complies with applicable EU and national laws**. To this effect, the Member State must provide an effective and efficient internal control system and the recovery of amounts wrongly paid or incorrectly used. This **new delivery model** gives Member States a major responsibility in ensuring that these resources are protected from fraud, corruption, conflict of interests (defined as 'serious irregularities') and double funding.

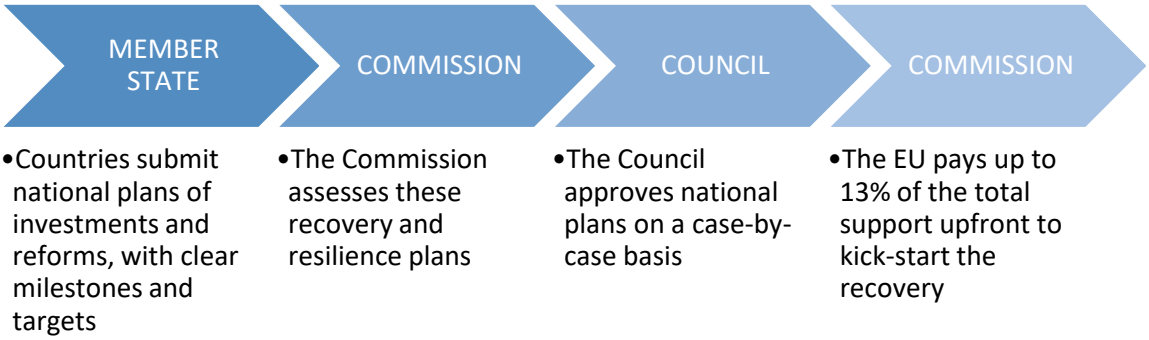
65 https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester_en

66 https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-timeline/spring-package_en

67 No measure included in the RRF should lead to significant harm objectives, as defined by Article 17 of the Regulation (EU) 2020/852 on the Taxonomy.

68 Article 22 of Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

Figure 4 – Assessment process of national plans



Each plan therefore contains a **control and audit section** where Member States describe the measures (including anti-fraud measures) which they will implement and identify **specific milestones and targets** to protect the EU's financial interests from serious irregularities and double funding. The Commission can only assess positively a plan if it rates positively on its control systems. As a Commission service, OLAF contributed to the Commission's assessment of the Member States' recovery and resilience plans, by providing **targeted anti-fraud advice**. Cooperation with national authorities is ongoing to exchange views and facilitate the dissemination of good practices and experiences (such as use of IT tools – see also **Section 4.2.1**).

Snapshot 11 – Operation SENTINEL

In September 2021, Europol, OLAF, the EPPO, Eurojust and 21 Member States joined forces as part of **Operation SENTINEL** to anticipate the expected wave of fraud affecting the recovery funds. To this end, Europol established a dedicated internal mechanism to process operational data, help with information exchanges and support ongoing cases. The joint activities targeted fraud, as well as tax evasion, excise fraud, corruption, embezzlement, misappropriation and money laundering. Europol and OLAF issued a Joint Report – 'Assessing the Threats to the Next Generation EU (NGEU) Fund' – in February 2022.

Among Member States' obligations in relation to measures for protecting the EU's financial interests, the collection of data on beneficiaries, contractors, sub-contractors and beneficial owners is prominent. The Commission has made Arachne available to the Member States for use in relation to the RRF.

By the end of 2021, 22 national plans had been adopted. They were 25 by 31 July 2022[69].

[69] Hungary and the Netherlands still not adopted.

5.4. Protection of whistle-blowers

Unlawful activities and abuse of law may occur in any organisation, whether private or public, big or small. They can take many forms, such as corruption, fraud, businesses' malpractice or negligence. If not addressed, such activities can result in serious harm to the public interest. People who work for an organisation or are in contact with it in their work-related activities are often the first to know about such occurrences and are, therefore, in a privileged position to inform those who can address the problem.

Whistleblowers, i.e. people who report (in the organisation concerned or to an outside authority) or disclose (to the public) information on wrongdoing obtained in a work-related context, help **prevent damage and detect threat or harm** to the public interest that may otherwise go unnoticed.

However, at European and national level the protection of whistleblowers is uneven and fragmented. As a consequence whistleblowers are often discouraged from reporting their concerns for fear of retaliation.

The Directive on the protection of persons who report breaches of EU law, adopted on 23 October 2019 gave Member States until 17 December 2021 to transpose it into national law. It covers many key areas of EU law, such as anti-money laundering, data protection, protection of the EU's financial interests, food and product safety, public health, environmental protection and nuclear safety.

By the end of 2021 only five Member States[70] had adopted specific legislation. By June 2022, four more Member States[71] had done so. Only one Member State[72] has not yet started any procedure yet. Three Member States[73] have even expanded the scope of the Directive.

By 17 December 2023, the Commission must submit a report to the European Parliament and the Council on the Directive's implementation and application.

5.5. The Rule of Law toolbox

As part of the so-called **Rule of Law toolbox**, the Commission has developed a number of instruments to respond to different challenges to the rule of law.

This includes the **European Rule of Law Mechanism**, with the **annual Rule of Law Report** at its centre. It aims to develop a **stronger awareness and understanding of developments** in the Member States, to be able to identify challenges to the rule of law, develop possible solutions, and target support early on. The Mechanism also provides a process for an **annual dialogue** between the Commission, the Council and the European Parliament together with Member States as well as national parliaments, civil society and other stakeholders on the rule of law.

5.5.1. Rule of law report – main findings and highlights in relation to the protection of the EU's financial interests

The 2021 Rule of Law Report[74], including its 27 country chapters, presents positive and negative developments, over the period July 2020 to June 2021, across the Member States in four key

70 Denmark, Lithuania, Malta, Portugal and Sweden.

71 Croatia, Cyprus, France and Latvia.

72 Hungary.

73 Denmark, France and Latvia.

areas for the rule of law: the **justice system**, the **anti-corruption framework**, **media pluralism and media freedom** and **other institutional issues** related to checks and balances. Issues related to the justice system or the anti-corruption framework can have a significant impact on how the EU's financial interests are protected in a given Member State.

The third Rule of Law report, adopted in July 2022[75], covers the period July 2021 to June 2022 and includes for the first time specific recommendations to all Member States, as announced by President von der Leyen in the 2021 State of the Union address. In line with the preventive nature of the report, the objective of the recommendations is to support Member States in their efforts to take forward ongoing or planned reforms, to encourage positive developments, and to help them identify where improvements or follow-up to recent changes or reforms may be needed, also with a view to address systemic challenges in certain cases.

5.5.2. Progress in the implementation of the EU regulation on a general regime of conditionality for the protection of the EU budget

Regulation (EU, EURATOM) 2020/2092 on a **general regime of conditionality** aims to protect the EU's budget from breaches of the principles of the rule of law that affect or seriously risk affecting its sound financial management or the protection of the financial interests of the EU in a sufficiently direct way.

On 2 March 2022, **the Commission adopted guidelines**[76] explaining how it will apply the regulation, including how the rights of the final recipients and beneficiaries of EU funding will be protected (see **Section 7**).

The Commission has initiated one procedure under the Conditionality Regulation.

5.6. Anti-corruption policy

In 2021, the Commission continued to provide **technical support** to Member States in the area of anti-corruption and integrity through its programmes, namely the **Structural Reform Support Programme** and the newly established **Technical Support Instrument**. The technical support has facilitated the review of procedures for the selection and appraisal of judges and prosecutors, and the enforcement of anti-corruption measures in education, environmental matters and sport. Some national authorities received support to establish monitoring mechanisms for their national anti-corruption plan, to revise their rules to manage conflicts of interest, to ensure supervision of public expenditure or to demonstrate preparedness for joining the Organisation for Economic Cooperation and Development (OECD) Anti-Bribery Convention.

The Commission organises **anti-corruption experience-sharing workshops** across the EU. On 13 December 2021, the 14th Experience-Sharing Workshop brought together representatives of EU Member States, the European Commission, Europol and academia to discuss the theme of anti-corruption resilience in times of crisis. The Commission also supports **projects aimed at improving integrity and addressing corruption** in EU Member States, amongst others. In 2021, anti-corruption projects were funded under the Internal Security Fund Police (ISFP) 2014-2020 and include, amongst others, project C.O.R.E which aims at developing and validating a replicable procedure for computing corruption risk in public procurement in the time of pandemic, based on a collection and cross-processing of public procurement data. The procedure

74 COM(2021) 700 final of 20.07.2021.

75 COM(2022) 500 final of 13.07.2022

76 COM(2022 1382 final of 2.3.2022.

is intended at enhancing earlier detection of corruption risk and fostering a stronger evidence base for policy reform, by serving primarily anti-corruption authorities and law enforcement agencies, but also journalists and the general public for accountability objectives.

The Commission also encourages Member States to adopt **national anti-corruption strategies**, as they ensure that:

- political commitments are translated into concrete actions;
- legislative or institutional gaps are addressed in a coherent, comprehensive and coordinated manner; and
- anti-corruption efforts are adapted to an evolving landscape.

6. THE RESULTS OF CONTROL ACTIVITIES

6.1. Data sources and methodology

This section is mainly based on data reported by Member States in the areas of traditional own resources (TOR) and shared management and by candidate countries in the area of pre-accession. Data concerning direct expenditure (**Section 6.1.2**) are extracted from the internal accounting system of the Commission. **Box 2** specifies under which conditions reporting from Member States takes place and how they are used in this section.

Box 2: Reporting of irregularities by Member States

Sectoral regulations concerning TOR and shared management funds specify a number of conditions under which Member States must report irregularities detected in those areas.

They use two IT systems to report irregularities: OWNRES in the area of TOR and IMS in shared management and pre-accession.

In relation to TOR, Member States must report detected irregularities and fraud involving more than EUR 10 000 and specify in their reporting if the detected case relates to fraudulent behaviour or not.

In relation to shared management, the same financial threshold applies and Member States must provide a classification of the reported irregularity, indicating whether the case is a suspected fraud, established fraud or a simple (administrative) irregularity. Member States can update the reported irregularities at any time, also modifying their classification. In the case of a simple irregularity, further derogations apply and Member States do not need to report cases:

(1) where the irregularity consists solely of the failure to execute, in whole or in part, an operation included in the co-financed operational programme owing to the bankruptcy of the beneficiary;
(2) brought to the attention of the managing authority or certifying authority by the beneficiary voluntarily and before detection by either authority, whether before or after the payment of the public contribution;
(3) detected and corrected by the managing authority or certifying authority before inclusion of the expenditure concerned in a statement of expenditure submitted to the Commission.

Two broad categories are used in this report for cases reported by the Member States: **fraudulent irregularities** and **non-fraudulent irregularities**.

Fraudulent irregularities are those for which Member States provided the classification of **fraud** in TOR or **suspected fraud** or **established fraud** in relation to shared management and pre-accession.

The remaining cases are referred to as **non-fraudulent irregularities**.

A total of 11 218 irregularities, involving about EUR 3.24 billion, were reported in 2021. In terms of the number of reported irregularities the situation is stable compared to 2020, with a minor decrease of about 5%. However, the related amounts represent a significant increase in relation to the previous year, having more than doubled (+121%).

Box 3 provides a short methodological note on how to interpret these data and those published in the following sections.

Box 3: Methodological note

The reporting of irregularities is subject to some limitations.

In relation to TOR, the time between the moment in which irregularities are committed and when they are detected depends on the type of control: release controls allow for an immediate detection, while post-release controls are performed within the three-year's time limit for notifying a customs debt. Therefore, the detection of irregularities can take up to three years from the release of the goods. Reporting after detection is usually short, considering the specific legal deadlines.

In relation to expenditure, with the exception of fraudulent irregularities detected before payment, *i.e.* prevented, the great majority of reported irregularities (fraudulent and non-fraudulent) are detected during ex-post controls. This means that a time gap exists between the moment in which irregularities are committed and when they are reported to the Commission. This is, on average, between two and a half to three years[77].

Much EU expenditure also follows multi-annual cycles, with progressively increasing implementation until programme closure (usually n+2 or n+3 in relation to the last year of the cycle, *i.e.* 2022-2023 in relation to the current programming period), also representing years with a peak in the reporting of irregularities.

For these reasons the year-to-year comparison in terms of the reporting of irregularities does not provide a reliable picture of the situation, in particular in relation to variations concerning the financial impact, as this could be influenced by very few high-value cases.

Consequently, together with year-to-year variations, this report (and its accompanying document statistical evaluation of irregularities) also presents a multi-annual perspective (by programming period for cohesion and pre-accession policy and five-year for the other sectors) to mitigate any distortion of the analysis by the factors highlighted above.

6.2. Revenue

In 2021, the Commission adopted a proposal for amending the Making Available Regulation[78] with the objective to further strengthen the system of making available own resources in order to

[77] This is the time gap measured for irregularities reported in cohesion policy. See the 'Statistical evaluation of irregularities reported in 2021' accompanying this report, section 4.5.1.

[78] Council Regulation (EU, Euratom) 2022/615 amending Regulation (EU, Euratom) No 609/2014 was adopted on 5 April 2022.

ensure regular and timely payments to the EU budget. Furthermore, a new enforcement strategy was implemented aiming at reacting more swiftly to upcoming risks and better protecting TOR.

6.2.1. VAT fraud

The EPPO has the competence to investigate serious offences against the common VAT system. Such offences should be connected with the territory of two or more Member States and involve total damage of at least EUR 10 million.

In 2021, the EPPO investigated 91 such cases for estimated damages of EUR 2.5 billion[79].

6.2.2. Traditional own resources

In 2021, the COVID-19 pandemic continued to affect the lives of all individuals and businesses in the EU. While in 2020 the pandemic was experienced as an emergency, in 2021 it became a given, as attested by the figures for import volumes: after the shocking decrease in EU-27 imports of 11.6% in 2020, imports increased in 2021 by 23%.

Table 3- Revenue: Irregularities detected and reported by Member States - TOR – in 2021

Budgetary sector	Fraudulent irregularities		Non-fraudulent irregularities		FDR[80]	IDR[81]
	N	EUR (million)	N	EUR (million)	%	%
Traditional Own Resources EU-27	**482**	**157.1**	**3 506**	**366.8**	**0.63%**	**1.48%**

In 2021, the number of fraudulent and non-fraudulent irregularities related to TOR (see **Table 3**) remained quite stable, with a decrease of only 3% compared to the five-year average. The number of fraudulent irregularities increased by 1% and non-fraudulent irregularities decreased by 4%. Of all fraudulent and non-fraudulent instances detected in 2021, 12% were classified as fraudulent. The related amount of TOR increased and was the highest TOR amount detected during the last five years. For both fraudulent and non-fraudulent irregularities, the amount of TOR detected increased compared to the five-year average, by 32% and 13% respectively. In total, the TOR amount increased by 18% in 2021 over the average for 2017-2021[82].

TOR: variation 2021 data compared to the five-year average 2017-2021

-3% number of fraudulent and non-fraudulent irregularities

+32% financial amounts linked to fraudulent irregularities

+13% financial amounts linked to non-fraudulent irregularities

79 European Public Prosecutor's Office, 2021 Annual Report, p. 10.

80 FDR – Fraud Detection Rate: Ratio of financial amounts related to fraudulent irregularities on the total own resources established and estimated amount.

81 IDR – Irregularity Detection Rate: Ratio of financial amounts related to non-fraudulent irregularities on the total own resources established and estimated amount.

National anti-fraud together with the customs services played a key role in detecting fraudulent instances in 2021. Inspections by anti-fraud services were the most successful way of detecting fraudulent instances and surpassed post-release controls and release controls in detecting fraudulent duty evasion. Non-fraudulent irregularities were primarily detected by means of post-release controls.

Snapshot 12 – TOR: most frequent irregularities and type of goods concerned

Most cases reported in 2021 as fraudulent and non-fraudulent relate to **undervaluation**, **incorrect origin** or **classification/misdescription of goods**. **Smuggling** remains one of the main types of fraud. **Textiles, electrical machinery and equipment** were the types of goods most affected by fraud and irregularities in number of cases and in monetary terms, followed by **miscellaneous chemical products, footwear and tobacco** in terms of amounts and by **vehicles and plastics** in terms of number of cases. In 2021 China remained the major country of origin of goods affected by irregularities reported as fraudulent or non-fraudulent.

For COVID-19 related goods, in 2021, a notable increase in the amounts reported as irregular was observed for goods such as **disinfectants and sterilisation products, protective garments and medical consumables**. However, analysis shows that the impact of irregularities affecting COVID-19 related goods remained relatively low in 2021 (54% of the total number of irregularities reported and 6% of the related amounts).

In 2021, the Commission continued, on-the-spot or remotely, its monitoring and control visits to ensure the correct application of EU customs and TOR legislation. Where cooperation and progress made in tackling outstanding issues are considered insufficient, corrective measures are being applied.

As the 2020 PIF report states, such corrective measures have already been applied by the Commission against the UK in relation to undervalued textiles and footwear from China[83]. On 8 March 2022, the Court of Justice issued its ruling in case C-213/19[84] against the UK. The Commission is in the process of analysing the implications of that CJEU ruling both, for the UK (e.g. re-calculation of TOR losses), and for the other Member States.

Snapshot 13 – Circumvention and absorption of trade defence measures

Monitoring of existing trade defence measures remained a priority in 2021. Particular attention was given to those trade defence measures where an increased risk of duty avoidance was detected, either through circumvention practices[85], reduction of the export price or absorption[86] of the resale price, after anti-dumping or countervailing measures were imposed.

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82 For a complete analysis of irregularities reported in TOR, see 'Statistical evaluation of irregularities reported for 2021' accompanying this report, Section 2.

83 European Commission, *32nd Annual Report on the protection of the EU's financial interests and the fight against fraud – 2020*, snapshot 1, p. 13.

84 Judgment of 8 March 2022. EU:C:2022:167.

85 Based on Article 13 of the basic Anti-Dumping Regulation, circumvention takes place when exporting producers in third countries engage in practices like shipping the product through a country not subject to duties (transhipment), slightly modifying the product so that it does not fall under the duties, or exporting through an exporting producer with lower individual rates of anti-dumping or countervailing duties (company channelling).

86 Another practice is the absorption of the duty when exporters, despite the imposed measures, decrease their prices to overcome the duties or importers do not reflect the duty when reselling the product in the Union.

In 2021, the Commission initiated four investigations concerning the possible circumvention of imports of **glass fibre fabrics**[87] from Turkey and Morocco after anti-dumping and countervailing duties were imposed on these products originating in China and Egypt in 2020. There was also one anti-absorption investigation on the same product, originating in Egypt. These brought the total number of such investigations initiated in the last three years to eleven and two respectively. Additionally, in 2021 the Commission established that the anti-dumping duties in force on two different types of **aluminium household foil** from China were being circumvented via Thailand, where the product was only subject to minor assembly operations.

A number of the cases investigated, which involved transhipment after the product concerned was sent from China to go through minor assembly operations in Turkey and Morocco, are emblematic of the challenges posed by China's Belt and Road policy and the Commission's determination to take robust action against unfair trade resulting therefrom.

6.3. Expenditure

While flexibilities and instruments were introduced to address the crisis brought about by the COVID-19 pandemic, the EU budget also faced new challenges and risks[88]. Overall, the Commission managed to maintain a high level of audit coverage and assurance. This was also the case in the Member States, who carry out the bulk of the audits and all the controls in shared management.

This ensured that the flexibility provided did not lead to a relaxation of controls. The amended rules introduced in the Member States control procedures were limited in time and scope. This helped beneficiaries and Member States in difficult circumstances[89].

Robust mitigating measures have also been put, or were already in, place to mitigate the risks linked to the impossibility of doing on-the-spot audits and controls. These included the replacement of on-the-spot audits by desk reviews and remote audits, and the possibility of replacing on-the-spot inspections with IT solutions (geo-tagged photos, satellite images, video meetings, etc.)[90].

Against this backdrop, and in line with the expected trend, over the last five years, the number of reported irregularities (fraudulent and non-fraudulent) related to EU expenditure for the 2007-2013 programming period has decreased, while those linked to the 2014-2020 financial framework[91] have been increasing, consistently with the implementation cycles, so that they now represent the great majority of reported irregularities (about 90%). Reported irregularities related to annual spending (direct aid to farmers and market support measures) remained stable.

87 Glass fibre fabrics are used, for instance, for the production of blades for wind turbines, in the boat, truck and sport equipment production, as well as in pipe rehabilitation system

88 See 32nd PIF Report, *cit.*, Section 6.2, pp. 37-40.

89 European Commission, *Report from the European Commission to the European Parliament and the Council on the follow-up to the discharge for the 2020 financial year*, COM(2022) 331 final, 30.6.2022, p. 2.

90 *Ibidem.*

91 Spending areas linked to programming periods concern rural development, cohesion, fisheries policies and internal policies.

Table 4 - Expenditure: Irregularities detected and reported by budgetary sector in 2021

Budgetary sector	Fraudulent irregularities		Non-fraudulent irregularities		FDR[92]	IDR[93]
	N	EUR (million)	N	EUR (million)	%	%
Agriculture	**250**	**30.0**	**3 455**	**204.0**	**0.06%**	**0.38%**
Rural Development	*144*	*16.5*	*2 400*	*94.7*	*0.12%*	*0.68%*
Support to agriculture	*98*	*13.0*	*1 015*	*107.5*	*0.03%*	*0.27%*
Both/Unclear	*8*	*0.5*	*40*	*1.8*	-	-
European Structural Investment Funds	**215**	**1 624.0**	**2 271**	**812.9**	**2.57%**	**1.29%**
Cohesion and regional	*155*	*1 605.5*	*1 627*	*588.5*	*3.42%*	*1.25%*
Social policy	*50*	*16.7*	*614*	*217.6*	*0.11%*	*1.39%*
Fisheries	*10*	*1.8*	*70*	*6.8*	*0.35%*	*1.32%*
Other shared management funds	**0**	**0**	**45**	**4.3**	**0.00%**	**0.22%**
Pre-accession	**29**	**1.9**	**86**	**4.2**	**0.10%**	**0.22%**
Pre-Accession Assistance			*1*	*0.4*	-	-
Instrument for Pre-Accession I	*4*	*0.4*	*29*	*2.3*	-	-
Instrument for Pre-Accession II	*25*	*1.5*	*56*	*1.5*	-	-
Direct expenditure	**54**	**7.0**	**825**	**35.9**	**0.03%**	**0.16%**
TOTAL	**548**	**1 662.9**	**6 682**	**1 061.3**	**1.0%**	**0.63%**

6.3.1. Shared management

Agriculture: variation 2021 data compared to the five-year average 2017-2021

+1% number of fraudulent and non-fraudulent irregularities

-28% financial amounts linked to fraudulent irregularities

+18% financial amounts linked to non-fraudulent irregularities

Agriculture[94] – The analysis of the five-year period (2017-2021) confirms the main patterns highlighted in previous PIF reports[95]. Even if progressively increasing, fraudulent irregularities in rural development related to the 2014-2020 programming period are still fewer than those reported for the 2007-2013 period after a comparable period of implementation. Reporting of fraud in support to agriculture (including direct aid and market measures) remains quite stable over time, even if it shows a decline of 17% in 2021 from the previous year. The incidence of reported fraud in proportion to payments

92 FDR – Fraud Detection Rate: Ratio of financial amounts related to fraudulent irregularities on the total payments made.

93 IDR – Irregularity Detection Rate: Ratio of financial amounts related to non-fraudulent irregularities on the total payments made.

94 For a complete analysis of irregularities reported in agriculture, see 'Statistical evaluation of irregularities reported for 2021', accompanying this report, Section 3.

95 See 32nd PIF Report 2020, *cit.*, p. 35.

remains very low for direct payments. It is the highest for market measures, in particular in the **fruits and vegetable sector** and in relation to **national support programmes in the wine sector**. The financial amounts involved were also relatively high for the market measure specifically related to the **promotion of agricultural products**.

With reference to rural development and direct payments to farmers, **risk analysis and spontaneous information from civil society**, including from the media, make a **marginal contribution** to detecting fraudulent and non-fraudulent irregularities. In relation to market measures, risk analysis has a stronger role in detection, because of the risk-based scrutiny of commercial documents of those entities receiving payments.

Snapshot 14 – Fight against fraud in organic production

On the basis of the Action Plan on the Development of Organic Production[96], the Commission has further strengthened the fight against fraud in organic production. With respect to the protection of the EU's financial interests, it has systematised the cross-checking of information in the Organic Information System (OFIS) on possible non-compliances in organic production with information it has on the provision of EU financial support for organic production. In this context OLAF has been given direct data access to OFIS.

Exploratory discussions were held with the EPPO on giving it access to data from OFIS, while it has already been granted for TRACES[97].

About ten years on from initial reporting, **the proportion of cases of suspected fraud that have not led to conviction remains very high**, while the share of cases in which fraud is established is low. This may signal the need to invest more in investigating and prosecuting it.

Snapshot 15 – Agriculture: irregularities most frequently detected

Over the 2017-2021 period, for **direct aid payments to farmers, the falsification of documentary proof or the request for aid** were the most frequently detected fraudulent irregularities. A wide range of documents and information can be falsified, such as lease agreements or property documents, and documents related to compliance with the cross-compliance requirements.

In relation to **market measures**, fraud mainly concerned the **implementation of the action**, often in combination with other violations. Significant financial amounts were recorded in several cases investigated by OLAF where **conflicts of interest** were combined with other irregularities, in relation to the **market measure 'Promotion'**. The **creation of artificial conditions** for the purpose of receiving financial support is a potential risk.

For **rural development**, fraudsters mainly used the practice of **falsifying documents**. This may involve falsifying invoices, declaring second-hand equipment as new, tinkering with bids in procurement procedures, or providing false information on compliance with the conditions for receiving aid. A significant number of fraudulent irregularities concerned **failure to fully implement the action**. The **creation of artificial conditions** is also a potential risk for rural development funding. For example, beneficiaries may artificially split agricultural holdings and request aid via several linked companies to avoid ceilings on support.

96 COM(2021) 141.

97 TRACES is the European Commission's online platform for sanitary and phytosanitary certification required for the importation of animals, animal products, food and feed of non-animal origin and plants into the European Union, and the intra-EU trade and EU exports of animals and certain animal products.

Cohesion policy: variation 2021 data compared to the five-year average 2017-2021
-11% number of fraudulent and non-fraudulent irregularities
+186% financial amounts linked to fraudulent irregularities
+14% financial amounts linked to non-fraudulent irregularities

European Structural and Investment Funds (ESIF)[98] – Between 2017 and 2021, the number of fraudulent and non-fraudulent irregularities related to the **2007-2013 programming period** decreased for the ESIF. The number of irregularities reported for the **2014-2020 programming period** increased. These dynamics are in line with known trends and patterns in the detection and reporting of irregularities and are linked to the implementation cycle of multiannual programmes.

The number of irregularities reported as fraudulent for the 2014-2020 programming period were in line with those detected for the 2007-2013 programming period after the same number of years from the start of the period; at about 1%, the FDR was higher than for the 2007-2013 period[99]. This is not the case for non-fradulent irregularities. For them, **the fall in the number and financial amounts reported after eight years** from the start of the programming period is striking (see **Snapshot 17** for an analysis of the reasons behind the decrease).

Snapshot 16 – Reasons for the decline of non-fraudulent irregularities in cohesion

With general reference to the cohesion and fisheries policies, **OLAF carried out a specific analysis**, based on the non-fraudulent irregularities reported by the Member States, until 2020 included. This analysis identifies a number of potential explanations that may in great measure explain this big decrease.

Delays in the implementation of the relevant operational programmes may explain part of the current gap. Another part of the decrease in non-fraudulent irregularities may be explained by a possible **change in the reporting practices** of some authorities for irregularities involving less than EUR 10 000.

For the 2014-2020 programming period, the **possibility of using simplified cost options (SCO)** has been extended. For the European Social Fund the increase in the percentage of expenditure covered by SCOs (from 7% to 33%) may be a significant factor contributing to the drop in non-fraudulent irregularities.

Another part of the reason could be a **delayed adaptation to the change in a derogation** from reporting non-fraudulent irregularities, which occurred in 2009 and affected reporting during the 2007-2013 period.

The **introduction of annual accounts and the exclusion of ongoing assessments** could have also contributed to such a decrease. As from the 2014-2020 programming period, the Member States can exclude from the annual accounts expenditure from which there is an ongoing assessment of legality and regularity. Through this exclusion, the Member States avoid a

98 For a complete analysis of irregularities reported in relation to ESIF, see 'Statistical evaluation of irregularities reported for 2021', accompanying this report, Section 4.

99 With reference to the 2014-2020 programming period, the FDR is heavily influenced by significant detections by Romania and Slovakia, but of single irregularities that involved huge financial amounts. These irregularities also had a significant impact on the EU-27 FDR. The comparison between the two programming periods is important as it allows to understand that the increase by 186% in 2021 compared to the five-years average is linked to exceptional situations.

reduction in the contribution from a given fund, even if there are irregularities. The Member States are using this possibility.

Under certain conditions, after seven years of implementation (end 2020), the combined effect of these reasons would roughly account for about two thirds of the EU-wide decrease in the reporting of non-fraudulent irregularities.

The effect of increased administrative capacity is something else to consider. There are no indicators to gauge the increase in the capability of the implementing bodies and of the beneficiaries, or the impact this could have had in terms of the decrease in unintentional irregularities. However, some contributing factors would suggest such positive developments, such as: a) **effective and proportionate anti-fraud measures** adopted at operational programme level, which may have led to the earlier detection and prevention of irregularities (fraudulent and non-fraudulent); b) the **improved quality and experience of relevant authorities** (in particular in certain Member States), **including beneficiaries;** and c) **greater involvement of civil society through the integrity pacts** (see **Snapshot 18**).

On the flip side, **the COVID-19 outbreak could have put additional strain on the administrative capacity of those involved in management and control systems**. This could contribute to the detection of more irregularities in the years to come.

Risks of irregularities seem to be higher in the areas of cohesion policy related to **transport**, **environment protection**, research, technological development and innovation (**RTD&I**), **social inclusion** and the promotion of **employment** and **labour mobility**.

Analysis points to risks related to the **green transition**, including for investments in energy efficiency, the provision of drinking water, waste management, renewable energy (solar) and risk prevention. **Digital transition** risks seem to be more prominent in services and applications for small and medium sized enterprises (SMEs), in terms of the number of irregularities, and services and applications for e-government, in terms of the financial amounts involved. Irregularities were also reported in relation to investments in infrastructure for the digital transition.

On **RTD&I**, analysis suggests higher risks for investments to provide assistance for these activities in companies. Measures to stimulate research, innovation and entrepreneuship in SMEs were particularly affected.

Risks are high in relation to investments in **transport infrastructure**, because of the frequency of irregularities in generic road projects, which affect regional and local levels, and because of the high financial amounts involved in irregularities concerning railways and trans-European network (TEN) roads. Investments in TEN multimodal infrastructure and in electricity networks also seem to be risky.

Risks in relation to **social inclusion**, poverty and discrimination seem to be higher for investments in (i) active inclusion; (ii) health infrastructure; (iii) improved access to healthcare and social services; (iv) social infrastructure and the regeneration of rural and urban areas; (v) investments in favour of marginalised communities and (vi) childcare infrastructure.

In relation to the promotion of **employment** and labour mobility, risks seem to be higher for investments in (i) the adaptation to change of workers and enterprises, in particular operations for the design and dissemination of innovative and more productive ways of working; (ii) access to employment, in particular operations for job-seekers and inactive people, including the long-term unemployed and people far from the labour market; and (iii) support for self-employment and business start-up.

Snapshot 17 – ESIF: types of irregularities detected

The most frequent fraudulent irregularities were the use of **false or falsified documents**. High financial amounts were involved where there were fraudulent infringements of contract provisions/rules. This type of fraud often consisted of **incomplete or non-implementation of the funded action**. Most fraudulent irregularities concerning ethics and integrity were about **conflicts of interests**. Infringements of **public procurement** rules were the most reported of non-fraudulent irregularities, but only in 4% of these cases was fraud detected.

Risk analysis has still a marginal contribution in detecting fraud, while **information from civil society** (including information published in the media) has a significant and growing role. This is not the case for non-fraudulent irregularities. Detection of fraud and irregularities could improve through ex-post thematic risk analysis projects focusing on groups of past transactions.

Snapshot 18 – Integrity Pacts and cooperation with civil society

Integrity Pacts, a civil society-supported monitoring tool aimed at increasing transparency, accountability and good governance in public contracting, are promoted in the 2021-2027 programmes under design and assessment. With the conclusion of the 18 pilot projects (in 11 Member States from 2016 to 2021), the Commission encourages Member States to continue implementing Integrity Pacts in targeted projects financed by EU funds by gradually mainstreaming Integrity Pacts into their programmes, and provides support to Member States in that regard, i.e. with the recently published toolbox[100].

About ten years on from initial reporting, the proportion of cases of suspected fraud that have not led to conviction remains very high, while the proportion of cases in which fraud is established is low. This may signal the need to invest more in investigating and prosecuting it.

Other shared management funds[101] – Concerning shared management funds for other internal policies, the Fund for European Aid to the most Deprived (FEAD) was the fund most affected by fraud. More than 90% of the detections of non-fraudulent irregularities were related to the following funds: Asylum, Migration and Integration Fund (AMIF), the FEAD and the Youth Employment Initiative (YEI).

6.3.2. Indirect management

Pre-accession[102] – Irregularities reported in this area in 2021 are declining compared to the five years average (-23% in number and -48% in terms of irregular financial amounts). Over the same period, the highest number of detected irregularities concerned rural development pre-accession assistance (IPARD) and cross-border cooperation.

6.3.3. Direct management

Detected fraudulent irregularities related to direct expenditure by the Commission have fallen since 2016 and remained stable over the last 4 years, despite a marginal increase in 2021. Non-

100 https://ec.europa.eu/regional_policy/en/policy/how/improving-investment/integrity-pacts/

101 For an analysis of irregularities reported in relation to these funds, see 'Statistical evaluation of irregularities reported for 2021', accompanying this report, Section 4.6.

102 For an analysis of irregularities reported in pre-accession, see 'Statistical evaluation of irregularities reported for 2021', accompanying this report, Section 5.

fraudulent irregularities continued decreasing and 2021 was the year with the lowest figure for both number of cases and the amounts concerned[103].

Snapshot 19 – Direct expenditure: irregularities most frequently detected and policy areas concerned

The most frequent types of irregularities concern the eligibility of expenditure and under-performance/non-performance.

In 2021, the policy areas most affected by irregularities were research and innovation; the single market; security, defence and border management; European strategic investments; and external actions.

7. OUTLOOK FOR 2022, CONCLUSIONS AND RECOMMENDATIONS

The COVID-19 pandemic has brought new challenges to which the EU has reacted swiftly, in a flexible way and deploying new instruments and resources. The challenges and consequences of that crisis are not yet behind us, but Russia's invasion of Ukraine has unleashed major new dynamics, with profound implications for the EU and its economy and society.

On 18 May 2022, the Commission presented a package to deal with the topics that have come to the fore since the invasion of Ukraine, from the security of energy supply to the EU's defence investment gap and Ukraine's long-term reconstruction. All these topics have implications for the EU budget.

The EU budget is already under pressure, as new measures are being rolled out to deal with the repercussions of recent events (e.g. **REPowerEU**), priorities are shifting (migration) and the widest ranging package of sanctions ever agreed against a country (in general, but also in relation to targeted individuals) needs to be enforced, with effects on EU revenue (import and export of goods) and expenditure (exclusions from public procurement procedures and grants).

Already, with the introduction of the RRF and the implementation of the national recovery and resilience plans, **the role of national authorities** in ensuring an adequate level of protection of the EU's financial interests **has significantly increased**. The pressure on national administrations will remain high during 2022 and afterwards, as they will also need to implement the spending of the 2021-2027 programming cycle and show expertise and control of different management modes linked to the implementation of the various funds.

7.1. The EU anti-fraud area

The results of OLAF and the EPPO in 2021[104] show the **added value the EU dimension can bring to the protection of the EU's financial interests** and the fight against fraud, overcoming national systems' inherent limits in dealing with cross-border crime in particular.

More importantly, they also show the necessity of continuing to work towards an increasingly harmonised EU **anti-fraud area**, which requires, in particular, that national legislation be in line with EU law and its principles.

[103] For an analysis of irregularities detected in direct management, see 'Statistical evaluation of irregularities reported for 2021', accompanying this report, Section 6.

[104] See snapshots 3 and 4.

Regulation 2020/2092 on a general regime of conditionality for the protection of the Union budget (**conditionality regulation**) has been applicable since 1 January 2021 and is enforceable from that date. All breaches of the principles of the rule of law in a Member State that affect or seriously risk affecting the sound financial management of the EU budget and the financial interests of the EU in a sufficiently direct way after that date are covered.

The conditionality regulation allows the EU to take measures – for example suspension of payments or financial corrections – to protect the budget, while at the same time ensuring that the final beneficiaries of EU funds continue to receive their payments, directly from the Member States concerned. The conduct of public authorities in relation to fraud is among the situations that, if concerned by breaches of the principles of the rule of law, may be relevant under the procedure set by the conditionality regulation.

On 16 February 2022, the European Court of Justice dismissed the actions brought by two Member States (C-156/21[105] and C-157/21[106]) ruling that the regulation falls within the power conferred by the Treaties to establish financial rules for the implementation of the EU budget. On 2 March 2022, the Commission released guidelines for the application of the regulation, taking into account the judgment of the Court of Justice.

Recommendation 1 – Correct transposition of the PIF Directive

Member States against which infringements procedures have been launched by the Commission should swiftly take remedial action and modify national legislation to correctly transpose the PIF Directive.

A coherent and increasingly harmonised EU anti-fraud area also contributes to eliminating possible loopholes in the overall control architecture that can be exploited by fraudsters.

Recommendation 2 – Participation in the EPPO

The Commission reiterates its call for Member States who have not yet joined the EPPO to do so. The Member States that participate in the EPPO should ensure the EPPO is in a position to exercise all the powers bestowed upon it by its founding Regulation.

7.2. Transparency, fraud risk management and digitalisation of the fight against fraud

For the 2021-2027 MFF and NextGenerationEU, the Commission has put forward proposals to **improve the quality of data and the interoperability of IT systems** on the recipients of EU funding, where the budget is implemented under shared management and RRF.

One of the Commission's proposals retained by the co-legislators for the RRF and Cohesion policy requires Member States to record and store **data on the recipients of EU funding and their beneficial owners**. For the CAP, Member States will collect data on groups in which the beneficiaries participate, where applicable.

With the targeted amendment of the Financial Regulation[107], the Commission intends to further improve the way information is provided to the public on the use of the EU budget and on recipients of EU funding. It has proposed to require Member States and other bodies implementing the EU budget under all management modes to provide to the Commission

[105] Judgement of 16 February 2022. EU:C:2022:97.

[106] Judgement of 16 February 2022. EU:C:2022:98.

[107] COM(2022) 184 final, 22.4.2022.

information on their recipients of EU funding once a year, including unique identifiers if recipients are legal persons. The rights of beneficiaries to respect their private life and their personal data should be protected[108]. The Commission would add to that information the data it has at its disposal on direct management and would be responsible for consolidating, centralising and publishing the information in a database on a single website, covering all management modes. The resulting single website would be an improved version of the **Financial Transparency System** currently in use for direct management.

The targeted amendment of the Financial Regulation provides another opportunity for further improving the protection of the EU budget against irregularities, fraud, corruption, and conflicts of interest.

First, the Commission has proposed to make the **use of a single integrated IT system** for data-mining and risk-scoring **compulsory**. The use of the existing system, Arachne, is voluntary and, although already largely used in cohesion policy and being introduced for agricultural spending, making it mandatory would be a major step forward.

Second, the Commission also proposes to **increase the scope and effectiveness of the Early Detection and Exclusion System** (EDES). This system consists of a set of measures against unreliable economic operators. In particular, it enables the early detection of fraudulent or unreliable economic operators and their possible exclusion from EU funding. Prohibited practices include a broad range of behaviours that affect professional integrity (such as fraud, corruption and grave professional misconduct) and failures in contractual performances (for example significant deficiencies in the implementation of EU-funded contracts)[109]. In this regard, the Commission has also proposed extending the system to beneficiaries under shared management with a proportionate and targeted approach. The objective is to make sure that exclusion decisions taken at EU level are enforced by Member State authorities in shared management. The Commission also proposes to allow the exclusion of affiliated entities and/or beneficial owners of a primary excluded entity from bidding for public contracts and ultimately from obtaining EU funds.

Third, the proposed amendments to the Financial Regulation, if endorsed by the co-legislator, will **increase the efficiency and quality of controls and audits with the help of digitalisation and emerging technologies** such as machine learning, robotic process automation and artificial intelligence. These aspects are given more visibility in the Financial Regulation for wider and more consistent use of digital audits and controls, while decreasing the cost of controls and audits. Digitalising the fight against fraud will also be a topic for the revision of the action plan accompanying the Commission Anti-Fraud Strategy, foreseen for 2023.

Recommendation 3 – Digitalising the fight against fraud

As long as the revision of the Financial Regulation is still ongoing, the Commission invites Member States to make full use of the tools at their disposal (Arachne, EDES, IMS) and encourages the development of interoperable solutions with national systems in order to fully realise their potential.

A timely and proactive approach to assessing and monitoring risks is indispensable for the effective protection of the EU's financial interests. This includes using all available sources of information, exchanging information among the services involved and giving prompt feedback

[108] In line with Regulations (EU) 2016/679 (GDPR) and (EU) 2018/1725.

[109] For a detailed overview of the decisions taken by the Panel in 2021, see 'Early Detection and Exclusion System (EDES) — Panel referred to in Article 143 of the Financial Regulation' accompanying this report.

on actions taken. Such permanent assessment, exchange of information and monitoring of risks, fraud trends and feedback is required to fine-tune the measures to be taken to better protect the EU's financial interests.

Recommendation 4 – Strengthen fraud risk analysis

Member States should take a proactive approach to protecting the financial interests of the EU. This means using data from all available sources, analysing the data and exchanging information, including with law enforcement authorities and the Commission in order to identify and address emerging risks and fraud trends in a timely manner.

Member States should also act upon the information provided by the Commission in this and other strategic analysis and targeted reports and provide prompt feedback on the actions they take in order to help monitor fraud risks and trends.