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**PRESENTATION OF THE 2010 ANNUAL REPORT TO
THE COUNCIL OF THE EUROPEAN UNION (ECONOMIC AND FINANCIAL
AFFAIRS)**

The spoken text will prevail in the event of differences.

President, Ministers, Ladies and gentlemen,

It is an honour for me to present to you today the European Court of Auditors' Annual Report on the implementation of the 2010 EU budget.

As in previous years, the Court's annual report mainly covers the *reliability* of the 2010 EU accounts and the *regularity* of the transactions underlying them. This year it also includes a chapter on the *results* of EU spending.

Reliability of the EU accounts

As regards the reliability of the EU accounts, the Court concludes that the 2010 accounts present fairly the financial position of the European Union and the results of its operations and its cash flows for the year.

Nevertheless, there remains scope to improve the quality of financial reporting and the underlying information systems – not least with respect to financial engineering instruments in Cohesion, where the Court considers that the Commission should revisit the relevant accounting rule, and take further action to ensure that the information necessary for effective supervision is available from Member States.

Regularity of transactions

As regards the regularity of transactions, in the Court's opinion, revenue and commitments underlying the EU accounts for the year ended 31 December 2010 are legal and regular in all material respects.

In contrast, the payments underlying the accounts were affected by material error, with an estimated error rate of 3.7% for EU spending as a whole. Overall, control systems were found to be only partially effective in ensuring the regularity of payments.

Cohesion, energy and transport was the most error prone group of policy areas of EU spending. After falling in previous years, the estimated error rate in 2010 was higher than 2009 and this led to an increase in the estimated error rate for payments as a whole compared to 2009. A relatively small number of wholly ineligible projects, and serious breaches of EU and national procurement rules, accounted for much of the error found. There continues to be room for improving Member States' correction mechanisms and audit activities, not least because some of the errors found could

have been detected or corrected by Member States on the basis of available information before claims for reimbursement were made to the Commission.

For the other groups of policy areas, the audit results were relatively stable. For **Agriculture and natural resources**, the estimated error rate was 2,3% and systems were found to be partially effective. Direct payments covered by the Integrated Administrative Control System (IACS), which accounted for almost 40 billion of the 57 billion euro spent, were found to be free from material error, but spending on rural development remained prone to error.

For **Research and other internal policies** and **External aid, development and enlargement**, the Court concluded that payments were not materially effected by error. However, systems were found to be only partially effective and a significant risk of error for interim and final payments was noted.

Finally for **Administrative and other expenditure**, the Court concluded that it was not affected by material error and that systems were effective – as in previous years.

The Commission provides its own assessments of regularity of spending in the different policy areas in the annual activity reports of the Directorates General and in the Synthesis report. In those reports, the Commission includes a number of reservations highlighting areas of risk.

However, the Court finds that the scope and scale of reservations made for the 2010 financial year should have been greater in several areas, including in Cohesion, where the Court considers that the Commission's approach may underestimate the amounts at risk.

Getting results from the EU budget

The annual activity reports of the Directorates General also provide a self assessment of performance, including the results achieved from EU spending. This year, for the first time, the Court presents the results of its review of the performance reporting of three directorates general responsible for much EU spending.

The Court recommends that the Commission puts more focus on performance in Annual Activity Reports - including on economy and efficiency - and that it sets appropriate targets for assessing progress towards achieving multi-annual objectives.

Based on the main performance audit results in its Special Reports, the Court also makes recommendations in areas of shared management for improving the definition of objectives, indicators and monitoring arrangements when spending programmes are planned.

Concluding remarks on developments in EU public finance

President,

That completes my summary of the main points in the annual report for the 2010 financial year.

I believe this year's annual report confirms the main message of previous years. After many years of incremental improvements in systems, there remain significant risks to the regularity of payments as well as scope for improving the results obtained from EU spending.

The proposals for sectoral legislation governing spending after 2013 provide an opportunity to address those risks by reforming legislative frameworks and re-designing control systems. Reforms should focus on improving both regularity and performance while minimising the costs of control and ensuring adequate accountability.

In addition, there have been a number of significant developments in EU economic governance that risk giving rise to gaps in public accountability and public audit. Last month the Heads of the EU Supreme Audit Institutions and the ECA expressed their concerns on this matter and they called for the principles of transparency, accountability and public audit to be respected when public funds are at stake. The establishment of the European Stability Mechanism was identified as an opportunity to apply these principles.

President, Ministers,

Upholding the principles of transparency and accountability is a fundamental responsibility for all public institutions – not least those of the EU at a time when the pressure on EU public finances is high, the importance of achieving the EU's objectives is great, and the need to restore the confidence of EU citizens is acute.

I trust that the annual report I have had the honour to present to you today will provide the Council with a sound basis for playing its role in ensuring accountability in respect of EU funds for the 2010 financial year.

Thank you for your kind attention.