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Speech
10 October 2024

Speech by Tony Murphy, President of the European Court of Auditors

Presentation of the ECA's 2023 annual report
Committee on Budgetary Control – European Parliament

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The spoken version shall take precedence.

Chair,
Honourable Members,
Commissioner,

I am delighted to address this **committee** today as we present the **key findings** and core messages from the European Court of Auditors' **annual report for 2023**. Joining me is my esteemed colleague and Member for our annual report, **Jan Gregor**.

Before we go **into details** of our annual report, I would firstly do a brief overview of what our **annual report** actually represents and why it its significant.

In terms of **content**:

- It provides an **audit opinion** on the reliability of the EU's financial statements and the legality and regularity of underlying transactions.
- It estimates the **overall error rate** for **EU budget spending**, indicating the percentage of funds not used in compliance with applicable rules and regulations.
- It is organised into chapters that align with different spending areas, and for some areas, we also provide **specific error rates**.
- It presents in a **separate chapter** our findings on the **RRF spending** which follows a different **delivery model**.

And linked to its content is its **significance**:

- It is the ECA’s **core product**, requiring substantial dedication and effort.

  Its primary aim is to **identify** opportunities for improvement and highlight **potential risks** across all EU activities. And while we may draw attention to areas where intended results were not achieved, we also make it a point to recognise the positive aspects of what works well. For example, we continue to find weaknesses in the work of many national auditor authorities checking Cohesion expenditure, but we also report on good practices that we found in a regional OP in Poland. The audit authorities’ checklists and the working documentation covered all relevant aspects in sufficient detail. This enabled us to follow the audit trail and draw conclusions from the audit work done.

So, what are the key takeaways from our 2023 annual report?

Regarding the **EU Accounts**, as in previous years, we found them to accurately reflect the EU’s financial position, and we provide a **clean opinion** on the reliability of these accounts.

Total revenue amounted to €248.4 billion, where, again as in previous years, we issue a **clean opinion**. However, it is important for the committee to be aware that this opinion does not include amounts lost through the "**VAT and customs gap**." These gaps refer to discrepancies arising from **underreported or evaded** customs duties and VAT, which can occur due to **fraud or inefficient collection practices**. As these uncollected amounts are **not recorded** as revenue, our opinion focuses on the **reported** figures.

Moving on to expenditure, the EU's long-term budget includes both the **Multi-Annual Financial Framework** (MFF) and **NextGenerationEU** (NGEU). NGEU funding primarily involves the **Recovery and Resilience Facility**, RRF, which follows a different **delivery model** than the MFF. As a result, we issue **two distinct opinions** regarding the regularity of 2023's expenditure: one for the **traditional EU budget spending** and another for the **RRF**.

Starting with the traditional **EU budget spending** or MFF:

Following the trend in recent **years**, our **error rate** for **EU budget spending has increased** and remains **material**, now at **5.6 %** (2022: 4.2 %), which is a **substantial increase** year on year. Given the pervasive nature of the identified errors, we have maintained an **adverse opinion** for the **fifth consecutive year**.

The **error rate for EU budget spending** is determined by taking into account and consolidating the levels of error identified across **various policy areas** within the MFF budget. Now, let's delve into **specific policy areas** to illustrate the **typical findings** that contribute to this error rate.

Starting with **Cohesion**, which accounts for **nearly 40 %** of what we audited.

In this policy area, we estimate the **error rate** at **9.3 %**, up from **6.4 %** in 2022. Our findings indicate that **ineligible costs and projects** were major contributors to the estimated error level, as well as infringements of public procurement rules. We also identified several factors that, could increased the risk of irregular spending, such as

- the **time pressure to spend money** as the **2014 - 20 MFF period** comes to **end**,
- **competing EU funds**, notably from the **RRF**,
- payments made and controlled under **pandemic conditions**, and
- the possibility of **100 % EU cofinancing for Cohesion projects**. Such projects contributed **5 %** to the error rate.

Our **audit approach** in ‘Cohesion’ was based on the work of member state **audit authorities**. And for the past seven years, we have found their checks to be **insufficiently effective**.

- Audit authorities consistently incorrectly report residual error rates below 2 %.
- And we constantly find errors in **transactions** that could, and should, have been detected by audit authorities when they did their checks.

Simply put, we **could not rely** on their work. And when we take into account the Commission's audit results and our own findings of undetected errors, along with numerous weaknesses in audit authorities' work, we conclude that by the end of the eligibility period's (December 31, 2023), **not all member states' management and control systems** are functioning effectively or adequately. What's also important in this context is that in many cases these **same control and management systems** are being used to administer **RRF funds** at member state level.

Now, turning our attention to another major spending area: the **'Natural Resources and Environment'** category, where agriculture and rural development account for the majority of spending. Here, we estimate the error rate to be material at **2.2 % (2.2 %, 2022)**.

While our results indicate that the level of error was **not material for direct payments**, representing **66 % of spending under this MFF heading**. it remained **material** for the other areas collectively. Together these areas account for the remaining **34 %** of the spending, **including rural development, market measures, maritime activities, fisheries, environment, and climate action**.

In terms of “**Single Market, Innovation and Digital**”, we observed an increase in the material error rate from **2.7 % in 2022 to 3.3 %** in 2023. Notably, **Horizon 2020 spending** remains high risk and is the **main source** of the errors we detected.

Given the increasing significance of **migration and border management** in recent years, the EU introduced "Heading 4" in the 2021-2027 MFF with a specific focus on these policy areas. While spending in this area is set to increase in the new MFF period it represents **2.1 % of EU budget spending** in 2023. We do not provide a specific error rate for this budget heading, but we detected **errors** in nearly **a third of the transactions** subject to our examination.

Shifting our focus to "**Neighbourhood and the World**," this spending area includes several funding instruments related to **Global Europe, Pre-Accession Assistance, and Humanitarian Aid**. Despite our limited sample size, our audit results indicate that the **risk of error in this MFF heading is high**, with over half the transactions examined affected by errors. From next year on, we will produce a specific assessment for this heading which will provide deeper insights into this high-risk area.

Lastly, let's address "**Administration**". Our assessment, as in previous years, concludes that the level of error remains **immaterial**.

To summarise, our compliance work on the 2023 annual report highlights **a substantial increase** in the error level for **EU budget** spending, to which "**Cohesion**" is the main contributor.

Turning to the RRF, it is important to note that **RRF funded projects closely mirror those funded by Cohesion and are often overseen by the same national bodies**. However, the RRF operates on a 'financing not linked to costs' model, where the payments to member states **are not conditional on compliance with EU and national rules**, such as procurement and state aid rules.

Unlike for **Cohesion** and **other EU budget areas**, our assessment and opinion on the RRF spending does therefore not evaluate whether the **actual costs** of RRF funded projects are appropriate. Based on the RRF Regulation, for this opinion we assess and cover member states **RRF payment requests**, which requires milestones and targets **to be satisfactorily fulfilled** and to comply with **key eligibility conditions**.

And as this is **important**, I would like to **underline**:

- Instalments paid to **member states** under the RRF are not linked to **the estimated costs** of RRF measures nor the **actual costs** incurred by final recipients.
- Member states are not required to provide information about the expenditure incurred by **final recipients** with their payment request.

In 2023, **RRF expenditure** totalled **€53.6 billion**. Our audit covered all **23 grant payments** to **17 member states**, amounting to **€46.3 billion**, as well as the clearing of pre-financing, which totalled **€7.3 billion**. We found that **16 milestones or targets** concerning seven payments to seven member states were affected by findings with a **financial impact** that overall, we consider to be above our **material threshold**. In addition, we found **systems weaknesses** such as cases of **weak design of milestones and targets**, as well as weaknesses in the **member states' reporting and control systems**. Taken together, we issue a **qualified opinion** on RRF expenditure.

Regarding our **opinion on the RRF**, it is important to underline that **non-compliance with EU and national rules** is a major source of increasing error in Cohesion spending and other MFF budget areas. However, the **RRF model defined in the regulation** provides for member states controlling its RRF funded projects themselves and doesn't systematically ensure compliance of RRF spending with these rules. This creates an assurance gap that seriously risks the **EU's financial interest**.

And it’s important to note that this concern is echoed by others- the **EPPO’s 2023 Annual Report** revealed 233 active funding fraud investigations related to the RRF in EU member states – the fourth-largest number of active EPPO investigations into an EU programme.

Therefore, any **future EU funding models** derived from the RRF should seriously incorporate these concerns to ensure that the EU financial interest are adequately protected going forward.

In discussing the **future of EU budgets**, our annual report also addresses critical **challenges** at a **macro level** that go beyond our compliance work.

In 2023, **EU debt** has surged to **€458.5 billion**, primarily driven by borrowing for the Next Generation EU initiative. This figure is now **double the debt level** from 2021. However, there is still **uncertainty** regarding how this debt will be **repaid**, as no decision has been reached on the Commission’s proposal for **own resources**, and it's unclear whether this proposal will generate **sufficient revenue** to cover the repayment of the NGEU debt. Ultimately, it will fall to the **next generation** of citizens to bear this financial responsibility.

High inflation in 2022 and 2023 continues to affect the budget, we estimate that the EU budget could lose about **13 % of its purchasing power** by the end of 2025. Furthermore, **outstanding commitments** have reached a record high of **€543 billion**, increasing the likelihood of decommitments. This situation also places a **strain on administrative resources**, thereby elevating the **risk of errors**.

Our annual report encompasses a **wealth of additional detailed information** and findings that I would be eager to highlight today, but regrettably, time does not permit me. But I encourage you to explore the comprehensive findings presented in our Annual Report and our **EU Audit in Brief**, both of which you have all received.

Finally, I want also to recognise the dedication and expertise of the **ECA’s staff** and its College. Their **commitment and professionalism** are crucial to producing this year’s high quality our annual report and advancing our institution.

Thank you all for your attention, and I look forward to your questions and our discussions.