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EUROPEAN COURT OF AUDITORS

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THE COMMITTEE ON BUDGETARY CONTROL OF

THE EUROPEAN PARLIAMENT

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Chairman Theurer, honourable members,

I would like to thank you for this opportunity to present the Court's annual reports on the implementation of the 2012 EU budget and the European Development Funds.

Europe's citizens have the right to know how their money is being spent and whether it is being used properly. They also have a right to know whether it is delivering value, particularly at a time when there is such pressure on public finances.

The Commission is the prime manager of EU funds. It must provide information in the EU accounts and other reports on the use of those funds, on the regularity of financial operations and on the results achieved.

The Court's role is to provide an independent assessment on those three elements of EU financial management in accordance with the Treaty and professional audit standards and good practices.

The Court presents the results of its assessment of the implementation of the EU budget in its annual report in order to assist the European Parliament in the discharge procedure.

Chapter 1 of the Court's annual report provides the statement of assurance on the reliability of the accounts and on the legality and regularity of the financial operations underlying those accounts. Chapters 2 to 9 provide specific assessments for revenue and the main areas of expenditure. Finally, Chapter 10 is about 'Getting results from the EU budget'.

So what is the Court's assessment of **EU financial management in 2012**?

The overall picture is broadly similar to that presented in last year's annual report. But there are a number of specific points in the annual report that I would like to draw to the attention of the members of the committee. Those points relate to:

- the legality and regularity of payments;
- financial corrections and recoveries;
- the pressure on EU finances; and
- finally, the need to create a performance culture over the period of the coming financial framework.

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I will start with the **overall picture**:

- The EU accounts are reliable, as they have been since 2007. Revenue and commitments underlying the EU accounts are legal and regular in all material respects but payments continue to be materially affected by error.
- As regards ‘getting results from the EU budget’, the Commission is not in a position to provide sufficient, relevant and reliable evidence on what the EU’s policies have achieved in a way that is suitable for the purposes of the discharge procedure.

The Court’s opinion on the **legality and regularity** of payments has remained broadly the same because it reflects an underlying reality that has not significantly changed.

The Court issues its adverse opinion based on the audit evidence it obtains from assessing supervisory and control systems and testing samples of transactions.

As in previous years, the supervisory and control systems the Court examined are only partially effective in ensuring the legality and regularity of payments *when EU expenditure is incurred*.

Based on testing of samples of transactions, the Court’s estimate for the most likely error rate for expensed payments underlying the EU accounts is 4.8 %. The Court is 95% confident that the rate of error in payments lies between 3% and 6%.

Those errors are not confined to any specific area of the budget. All policy groups covering operational expenditure are materially affected by error. Administrative expenditure is the only area where no material level of error was found.

The Commission’s own reports confirm this overall picture. The Commission acknowledges that errors occur across the budget and that the overall level is likely to be material. 14 directors-general of the Commission make reservations in their annual activity reports in respect of the legality and regularity of expenditure and the synthesis report puts the amounts at risk of error at between 1.9% and 2.6% of total payments – a figure the Commission itself recognises as likely to be an underestimate.

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As can be seen from Chapter 1, the Court's overall estimate of the most likely error rate has increased from 3.9% in 2011 to 4.8% in 2012.

The Court's estimates of the most likely error rates for agriculture, regional policy, rural development and employment and social affairs all show increases compared to 2011.

Rural development remains the most error-prone spending area with an estimated error rate of 7.9%, followed by regional policy with an error rate of 6.8%.

There are also increases in the error rate estimated for policy groups *research and other internal policies* and *external relations, aid and enlargement*.

In these latter cases, part of the increase can be attributed to two methodological improvements the Court has introduced for the 2012 audit.

The Court's samples of transactions in these areas no longer include advance payments made during the year. In other words, they comprise interim payments, final payments and advances that were cleared during the year.

This change is in line with the principles of accrual accounting, thus providing – the Court believes - a better picture of the underlying reality of EU financial management.

The second methodological improvement relates to the treatment of serious failures to apply procurement rules. From 2012 EU institutions and bodies are treated in the same way as Member States authorities and other international organisations.

These changes improve comparability between different policy groups and they will improve comparability over time. Together they add 0.3 percentage points to the Court's overall estimate of the most likely error rate in 2012 compared to 2011.

Chairman, honourable members,

The Court's 2012 annual report includes many illustrative examples of the errors found and considerable analysis. Together, they provide some insight on where and how errors occur and why they matter. To give a few examples of the analysis provided:

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- First, over two thirds of the estimated error rate pertains to the ineligibility of claims for payment and serious failures to respect procurement rules.
- Second, the highest contribution to the error rate comes from the areas where most money is spent, namely regional policy, agriculture, rural development and employment and social affairs.
- Third, The Court's testing of transactions shows that the proportion of transactions affected by error is high in these policy groups, ranging from 35% up to 63%.
- Fourth, the Court's transaction testing shows that over half of the errors the Court found under shared management could have been corrected by national authorities before submitting claims for reimbursement to the Commission.

But the Court's findings do not suggest that errors are confined to specific Member States. In fact, the Court's assessments of supervisory and control systems it examined showed there to be weaknesses at a wide range of national and regional authorities.

Nor are errors confined to expenditure which is jointly managed by Member States. The Court calculates that the estimated rate of error on shared management expenditure was 5.3% compared to 4.3% on all other forms of operational expenditure.

The errors that the Court finds matter because they represent cases where EU funds were not used in accordance with the relevant legislation and thus not in accordance with the wishes of Parliament and the Council, as legislator and budget authority.

They also matter because errors represent money that should not have been paid out. It is sometimes possible to get that money back. This brings me to the issue of **financial corrections and recoveries**.

The Court devotes a number of paragraphs in the 2012 annual report to this topic. It is a complex subject which the Court and the Commission approach from differing but complementary perspectives.

The Commission seeks to protect the budget from the effects of irregularity; the Court is obliged to report on whether transactions are legal and regular.

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In the 2012 annual report, the Court explores the effect of financial corrections and recoveries on Member States, on beneficiaries and on the statement of assurance.

The impact of financial corrections depends on the regulations applicable. For agriculture most financial corrections do not lead the Members States concerned to recover payments from beneficiaries, while for cohesion most corrections are flat rate corrections which do not lead to detailed correction at project level.

So, in effect, most financial corrections fall on national taxpayers.

The Court emphasises this point because the annual report is also addressed to national parliaments and national authorities.

Chairman, honourable members,

In seeking to improve EU financial management, we cannot afford to ignore the mounting pressure on public finances at EU and national level.

The Court highlights the signs of the growing **pressure on the EU budget for payments** in the 2012 annual report.

As you know, in 2012, the Commission was already finding it difficult to meet all requests for payment.

The pressure on payments was also reflected in the increase in the amount of outstanding commitments. By the end of 2012, they represented more than two years of total EU budgeted payments.

The Commission will also need to fund payments to meet liabilities in the Union's balance sheet. At the 2012 financial year end, the outstanding commitments and liabilities needing to be funded together amounted to around 313 billion euro.

In the Court's opinion, the Commission should plan for its future cash-flow requirements by preparing and publishing a long-range cash-flow forecast.

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Chairman, honourable members,

It is not always the actors who are to blame for the quality of the performance, sometimes the problem lies with the script they are given.

Current legal frameworks for spending do not do enough to encourage better spending.

The new financial framework period provides a chance to change that. The Court agrees with the Commission that there is a need to create a performance culture.

That will mean addressing the weaknesses the Court finds in the current performance management and reporting system, for example:

- Spending programmes do not consistently use SMART objectives and suitable indicators;
- performance data are not good enough; and
- projects financed by EU spending are too often not sustainable.

The Union needs to address these issues if the next generation of spending programmes are to deliver – and be seen to deliver - added value to Europe and its citizens.

The Court recommends a focus on performance in the coming programming period. This requires laying down clear objectives, relevant indicators, and expected results.

Chairman Theurer, honourable members,

EU institutions will need to work together to improve EU performance and accountability in the coming years.

The Court and its annual reports have – and will continue to have - an important contribution to make to the success of that collective endeavour. We look forward to playing our part alongside this parliament and the other EU institutions.

Thank you for your kind attention.