

## Speech

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## Speech by Klaus-Heiner Lehne, President of the European Court of Auditors

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Presentation of the European Court of Auditors 2017 Annual Report to the European Parliament Committee on Budgetary Control (CONT)

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## **ECA Press**

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Madam Chair, Madam Rapporteur, Honourable Members, Commissioner, Ladies and Gentlemen,

As a former Member, I know this is a busy time for the European Parliament. Not only is legislative output at its peak, but your institution is also, and rightly so, serving as a high-level forum to debate the future of Europe as the next European Parliament elections approach – as we saw yesterday with the visit of the Prime Minister of Estonia

All the more reason for me, as President of the Court of Auditors, to thank your Committee for setting aside the time to debate our annual report for the 2017 financial year.

Mr Lazarou as Member for the Annual Report, the Members responsible for each of the ten different chapters, and of course our auditors, have put considerable effort into providing you with our assessment of the state of the EU's financial management in 2017. This will now trigger the start of the discharge procedure, the last one under this Parliament.

I would also like to thank the Commission, represented here by Commissioner Oettinger, for engaging with us as the main auditee. Our audit process culminates with a so-called "adversarial" procedure, but we are not adversaries. The Court is often critical and sometimes stubborn, but I would hope we are always fair and always open to listen to reasonable explanations, which the Commission has often been able to deliver, and which you can read for yourselves next to our own observations.

Ladies and Gentlemen,

For 2017, as in previous years, we conclude that the EU's accounts present a true and fair view of its financial position. Like last year, we issue a qualified opinion, rather than an adverse opinion, on the regularity of the payments underlying the 2017 accounts.

In other words, a significant part of the 2017 expenditure which we examined was not materially affected by error, and by this I am referring to expenditure based on entitlement<sup>1</sup> – i.e. programmes where beneficiaries receive payments if they meet certain conditions. Think of payments to Erasmus students, direct aid to farmers, budget support to third countries, and EU staff salaries. These entitlement-based payments represented more than half of payments from the EU budget in 2017.

Moreover, the level of irregularities in EU spending has continued to decrease. The estimated level of error in payments during 2017 was 2.4%, down from 3.1% in 2016 and 3.8% in 2015. This illustrates that the EU's financial management is definitely heading in the right direction – and credit must go first and foremost to the Commission's sustained efforts, together with the Member States.

I believe that, as auditors, we should not only be the bearers of bad news but also highlight good practice where we find it. So let me highlight as a positive example our conclusion that direct payments under the European Agricultural Guarantee Fund – which represents a very large part of that MFF heading – are free from material error

Having said this, I must also say that some problems remain. To illustrate my point I will give you three examples, one from another area of agricultural spending, one from cohesion and one from research.

<sup>&</sup>lt;sup>1</sup> excluding some rural development schemes

We found a case where a farmer received environmental financial support to plant what are known as catchcrops. In reality no such crops had been planted, nor had the relevant irrigation and cultivation registers been kept. As a result of our visit, the national paying agency launched a procedure to recover the aid.

In another case, we found that a beneficiary had over-declared indirect costs for a project in the field of cohesion. These costs were in fact general costs incurred at the institute's headquarters, and not related to the specific entity set up to carry out the project. We considered all costs not directly related to the project in question to be ineligible.

In a third case, an SME participating in a research project had over-declared hours worked on the project, and had used an incorrect method to calculate them. To make matters worse, the staff declared were in fact employed by a sister company which was not a party to the grant agreement. We therefore considered all these costs to be ineligible.

I should underline that sufficient information is often available to prevent – or detect and correct – a significant proportion of errors. If the Commission and national authorities had used this information, an even larger share of the EU budget would have come under our, and the Commission's own, materiality threshold.

But we cannot stop there. Management and control systems have improved, and now we have an opportunity to take a fresh look at how these improvements provide us with audit evidence.

For 2017, we piloted a modified approach in the area of 'Economic, social and territorial cohesion'. The essential change was that we reviewed and re-performed the checks and controls previously carried out by those responsible for spending. This new audit approach takes account of important changes in the legal bases adopted by both Parliament and the Council in 2013. As a result, we are now auditing declared expenditure for which Member States and the Commission have already applied their financial corrections for irregularities detected by them. Therefore our findings make it clearer where shortcomings persist, both at the Commission and in the Member States, and enable us to provide you in the Parliament with information of a higher quality.

We will expand this project in the coming years to other spending areas, whenever the necessary conditions to do so are met.

But we will also need to focus our attention and resources on assessing whether the EU is delivering results for its citizens. It is not enough to know merely that money has been spent correctly, we need to know whether it has been spent wisely.

Let me give you another example here from the field of external action: on one project we visited, it had cost an international organisation over €280,000 to transport ballot boxes and papers worth €150,000. Although this was admittedly a sensitive and urgent case involving elections in a third country, it remains difficult to explain to our citizens that the EU spends their money in this way.

Ladies and Gentlemen,

In one of our recent special reports, we have shown that several Member States struggle to make good use of the resources from the European Structural and Investment Funds. In this respect, it is welcome that the Commission proposes a number of measures for the next financial period which could contribute to a better absorption of cohesion funds. Part of the solution also lies in your hands with the timely adoption of the new MFF and its associated multiannual financial programmes.

At the same time, the EU budget continues to face significant pressure owing to the value of payments committed for future years.

The combination of high commitments and low payments has increased the EU's outstanding budgetary commitments to a new high of €267.3 billion, and our projections indicate that the *reste* à *liquider* will rise even higher by the end of 2020. In our view, this must be a priority for the next Multiannual Financial Framework.

The Court of Auditors will certainly not wade into a dispute between net payers, who will say "downsize our commitments", and net beneficiaries, who will say "do more". We can, however, point to the fact that the growing pile of outstanding commitments will contribute to pushing further into the future the effects of financial programmes which you are negotiating now as legislators.

Ladies and Gentlemen,

The total EU budget is no more than about 1 % of the gross national income of the entire EU.

So while it is important that the EU budget should be spent effectively, we also have to be realistic about what can be achieved with the money entrusted to us. If we generate expectations which cannot be achieved, we lose the trust of our citizens. In our view, the conclusion is straightforward: the EU should not make promises it cannot deliver upon. And we must demonstrate every day that EU competences are more effectively exercised at Union level than nationally.

One last word before I conclude. We auditors have a reputation for always looking backwards. But this year, I think we are entitled to look forwards as well. You can expect from us in the coming weeks a series of opinions on the different proposals concerning the European Union's finances for the period 2021 to 2027.

Parliament and Council have important choices to make. We expressly welcome the fact that the Commission has framed these by proposing to add the flexibility which is so lacking in the current MFF – this is a step in the right direction.

Ladies and Gentlemen, as we chart a course through an increasingly uncertain world, let us ensure that our decisions are based on a firm financial footing.

Let us demonstrate to our citizens that we can deliver what we promise, deliver it efficiently, and deliver it in a way which really makes a difference.

Thank you for your attention, and I look forward to our exchange of views.