EUROPEAN COURT OF AUDITORS

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FAQs
Luxembourg, 10 November 2015

2014 Annual Report - Frequently Asked Questions

1. Has the ECA signed off the 2014 accounts?

Yes. We have signed off the 2014 accounts as reliable (given a 'clean opinion'), as we have for every financial year since 2007. We conclude that the 2014 accounts present fairly, in all material respects, the financial position of the EU and its results for the year.

As well as our opinion on the accounts, we are also required to give an opinion – based on our audit testing – on whether the underlying payments were made in accordance with EU rules. For 2014, the estimated level of error in these transactions was again too high (at 4.4%) for us to give a clean opinion on the regularity of expenditure.

2. Is EU financial management getting better?

The results of our audit testing show that EU financial management is largely unchanged. The estimated error rate has not increased or decreased greatly over recent years. But it has been consistently above the so-called "materiality threshold" (the level below which errors do not have a significant effect) of 2%. The situation varies from one policy area to another, although it is only below "materiality" in EU administrative spending. We have repeatedly recommended improvements in control systems at Member State and EU levels and further simplification of the rules to improve the quality of spending and reduce the level of error.

3. So what does the 4.4% estimated error rate mean?

4.4% is an estimate of the amount of money that should not have been paid out from the EU budget, because it was not used in accordance with EU rules and thus does not comply with what the Council and Parliament intended with the EU legislation concerned.

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Typical errors include payments for ineligible beneficiaries or projects or for purchases of services, goods or investments without proper application of public purchasing rules.

4. The total EU budget in 2014 was €142.5 billion and the error rate was 4.4%. Does that mean that €6bn of EU money was wasted?

No. In the past, some commentators multiplied the total EU budget by the error rate and came up with a total for "money wasted". **This approach is simplistic and can be misleading**. In its testing, the ECA checks whether EU money has been spent on the purpose for which it was intended, whether the costs charged are calculated properly, and whether eligibility conditions have been met.

Some of the errors involve payments which did not meet eligibility conditions: for example, support given for research by a company classified as 'small or medium', even though it was wholly owned by a large company. Some involve breaches of procurement rules, such as awarding an additional construction contract for an airport directly to a company, without giving other potential tenderers a chance to make their bids at the best possible price.

In these cases, EU funds may still have had some positive impact and provided some benefit even though they did not fully respect the conditions related to their use. On the other hand, some legal and regular expenditure may still be wasteful, such as a motorway built without any regard to traffic needs.

5. How do errors occur?

Errors occur when beneficiaries do not comply with the rules when claiming EU funding. To be eligible for EU funding, beneficiaries are required to comply with specific EU rules and, in some cases, national rules. These rules exist to ensure that spending takes place for the purposes intended by the Council and Parliament.

Errors occur when these rules are breached. For example, project promoters not adhering to public procurement rules, research centres claiming for reimbursement of costs not linked to the EU-funded projects, or farmers not honouring their environmental commitments. The 2014 Annual Report provides examples of errors found during audit testing.

6. If the estimated error rate for payments is 4.4% for 2014, does this mean that 95.6% of the EU budget was spent in accordance with the rules?

No. The ECA's opinion on EU spending is based on an extensive sample covering all spending areas. The sampled transactions are audited in detail and the errors found are quantified, where possible, and used to calculate an estimated error rate.

But there are many errors that the ECA cannot quantify, such as less serious breaches of procurement rules, failures to comply with rules on publicity, or incorrect incorporation of EU directives into national law. These errors are not included in the ECA's estimated error rate**.**

7. Do the errors found constitute cases of fraud?

In the great majority of cases, no. Fraud is a deliberate act of deception to gain a benefit. Although cases of fraud can be difficult to identify during standard audit procedures, the ECA finds a number of suspected fraud cases each year in its audit testing. All these cases are reported to OLAF, the European Union's Anti-Fraud Office, which investigates and follows up as necessary in cooperation with Member State authorities.

8. Who is to blame here - the Member States or the European Commission?

Ultimately, the blame lies with those who make incorrect claims for funding. However, control systems at both Member State and EU level should prevent such claims being processed in the first place, or detect and correct them after the event. According to our audit, these control systems are – in general – only partly effective.

Shared management areas, such as agricultural and cohesion spending, represent 80% of the EU budget. There is potential to use Member State control systems more effectively in order to reduce the error rate. We concluded that for a large proportion of the errors found, national authorities had sufficient information available to have detected and corrected many of them before claiming reimbursement from the Commission. This could have significantly reduced the error rate, for instance from 6.2% to 2.9% in the rural development, environment, climate action and fisheries spending areas.

9. The Commission can claim money back from Member States if it has been wrongly spent. How much impact does this have on the error rate?

In 2014, if such corrective measures had not been applied to the payments we audited, our overall estimated level of error would have been 5.5 % rather than 4.4 %. However, we also found that for some transactions affected by error, if the Commission, Member State authorities or independent auditors had made use of all the information available to them, they could have prevented, or detected and corrected, the errors before they were made.
Based on transactions within our samples, this had the potential to reduce estimated levels of error both for shared-management spending and spending directly managed by the Commission.

For example, using all the information available might have reduced the level of error by 3.3 percentage points for both expenditure under regional and urban policy (6.1%) and for rural development, environment, climate action and fisheries (6.2%). In competitiveness for growth and jobs*,* which is directly managed by the Commission, the estimated level of error (5.6%) might have been reduced by 2.8 percentage points.

10. What do you mean by a "wholly new approach" to investment?

We call for this "wholly new approach" because substantive change is required by all those responsible for the way EU funds are managed:
• decision-makers must align the allocation of the budget better with the EU's long-term strategic priorities and make it more capable of responding in a crisis;
• legislators need to ensure spending schemes are clear about the results to be achieved and the risks it is acceptable for financial managers to take; and
• financial managers have to ensure that the money spent complies with the rules and achieves the intended results.

It is equally important to ensure transparency for EU policies not directly funded from the EU budget. New ways of funding EU policies should not put financial risks beyond public scrutiny and audit. That would be short-sighted and could prove counterproductive in the longer term.

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