



## FAQ

Luxembourg, 28 September 2017

### 2016 Annual Report - Frequently Asked Questions

#### 1. Has the European Court of Auditors signed off the 2016 accounts?

Yes. We have signed off the 2016 accounts as reliable (given a 'clean opinion'), as we have for every financial year since 2007. We conclude that the 2016 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 required to give an opinion – based on our audit work – on whether the underlying payments were made in accordance with EU rules. There has been a sustained improvement in the estimated level of error in payments over the last few years: 2014: 4.4 %; 2015: 3.8 %; 2016: 3.1 %. Moreover, in 2016, about half of the expenditure examined was not affected by a material level of error. This was mainly the case for entitlement payments.

Therefore, for the first time since we started providing a statement of assurance in 1994, we have issued a qualified opinion on 2016 payments, rather than an adverse opinion.

#### 2. What is a “clean/qualified/adverse opinion”?

A “clean” opinion means the figures present a true and fair view and follow the rules of financial reporting. A “qualified” opinion means that the auditors cannot give a clean opinion, but the problems identified are not pervasive, i.e. not present in the entire population. An “adverse” opinion indicates widespread problems.

#### 3. What is a “material level of error”?

In audit terminology, this means the level below which errors are not regarded as having a significant effect. A material level of error is a level of error that is likely to influence the decision of the intended users of the audit report. Both we and the Commission use a 2% threshold to determine materiality.

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#### **4. What are “entitlement/reimbursement payments”?**

Entitlement payments are based on meeting certain conditions. Such payments include, among others, student and research fellowships (under competitiveness spending), direct aid for farmers (under ‘Natural resources’), and salaries and pensions for EU staff (under ‘Administration’).

Reimbursement payments are made when the EU reimburses eligible costs for eligible activities. Such payments are made, for example, for research projects (under competitiveness spending), investment in regional and rural development and training schemes (covered by expenditure under ‘Economic, social and territorial cohesion policy’ and ‘Natural resources’) and development aid projects (under ‘Global Europe’).

#### **5. Is the EU’s financial management getting better?**

Yes. There has been a sustained improvement in the estimated level of error in payments over the last few years: 2014: 4.4 %; 2015: 3.8 %; 2016: 3.1 %. Moreover, in 2016, about half of the audited expenditure examined was not affected by a material level of error. We have also seen in our audits in recent years that the internal controls at the Commission and in the Member States have been significantly strengthened.

#### **6. How are you planning to do things differently in the future?**

2017 will be the first year that a significant part of spending from all areas of the EU budget will be made according to the new rules applicable to the 2014-2020 MFF. The legislators have adopted new and more robust rules that govern this spending. Moreover – as we have seen in our audits in recent years – the internal controls at the Commission and in the Member States have been significantly strengthened. In future, assuming the internal controls continue to prevent, or detect and correct errors, we expect to be able to rely more on them when it comes to assessing the regularity of spending. This approach will make it more obvious where shortcomings remain and help us to promote accountability and further improve the management of EU finances. For 2017, it will be piloted in the Cohesion area.

At the same time, just spending the money in accordance with the rules is not enough. EU taxpayers want to see value for money. This is why we are focusing time and resources on “performance audits” - checking whether EU policies are actually effective and spending programmes are delivering the best possible value for money.

#### **7. But there is still a 3.1% estimated level of error. What does that mean?**

3.1% 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 either with what the Council and Parliament intended with the EU legislation concerned or with specific national rules in the Member States.

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

Our estimate of the level of error is based on a statistical model: based on our work, we are 95% sure that the level of error is between 2.2 % and 4.0 %. Moreover, the figure of 3.1% is an average across all areas of the EU budget and all types of spending. The estimated level of error for entitlement payments, which account for about half the total, was below 2%.

**8. The total EU budget in 2016 was €136.4 billion and the level of error was 3.1%. Does that mean that €4.23bn of EU money was wasted?**

This approach can be misleading because there is an important difference between “error” and “waste”. In our testing, we check whether EU money has been spent for the intended purpose, whether the costs charged are calculated properly, and whether eligibility conditions have been met. That is what the figure of 3.1% refers to.

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, or incorrect area declarations by farmers.

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 relating to their use. On the other hand, some legal and regular expenditure may still be wasteful, such as port infrastructure built without adequate regard to future freight levels.

**9. 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 some specific EU rules and, in many cases, also with national rules. These rules exist to ensure that spending does not interfere with the functioning of the internal market (such as procurement rules and state aid rules) and takes place for the purposes intended by the Council and Parliament.

Errors occur when these rules are breached - for example, farmers submitting an incorrect agricultural area, project promoters not adhering to public procurement rules or research centres claiming for reimbursement of costs not linked to EU-funded projects. The 2016 annual report provides examples of errors found during our audits.

**10. If the estimated level of error for payments is 3.1% for 2016, does this mean that 96.9% of the EU budget was spent in accordance with the rules?**

Yes, if you consider only errors that can be quantified. Our opinion on EU spending is based on a comprehensive sample covering all spending areas. The sampled transactions are examined in detail and the errors found are quantified, where possible, and used to calculate an estimated level of error.

But there are many errors that we do not 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 therefore not included in our estimated level of error.

**11. Do the errors found constitute cases of fraud?**

In the great majority of cases, no.

Fraud is a deliberate act of deception to gain some advantage. Although cases of fraud can be difficult to identify during standard audit procedures, we find a number of suspected fraud cases each year in our audit testing. In 2016, we found 11 instances of suspected fraud out of approximately 1,000 transactions audited. 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.

**12. Both the Commission and the Member States have powers to prevent errors and correct them where they occur. How much impact does this have on the level of error?**

Corrective action by authorities in the Member States and by the Commission had a positive impact on the estimated level of error. Without this action, our overall estimate for the level of error would have been 1.2 % higher.

In addition, sufficient information was available to prevent, or to detect and correct, a significant proportion of the remaining errors. Had this information been used, the estimated level of error for overall spending on 'Economic, social and territorial cohesion' and 'Global Europe' would have been below the 2% materiality threshold in 2016. We believe this demonstrates that existing controls are adequate, but they must be enforced properly.

The 2016 annual report, including the PRESS PACK, is available in 23 EU languages at [eca.europa.eu](http://eca.europa.eu)