



FAQ

Luxembourg, 8 October 2019

2018 Annual Report - Frequently Asked Questions

1. What is the role of the European Court of Auditors as regards the EU budget?

Every year, we **check the EU accounts and provide an opinion** on two questions: whether the accounts are accurate and reliable, and whether the EU budget was spent according to the rules.

This forms the basis for our **statement of assurance**, which we are required to provide to the European Parliament and the Council under Article 287 of the Treaty on the Functioning of the European Union (TFEU).

In 2018, EU spending totalled €156.7 billion.

2. Has the European Court of Auditors signed off the 2018 accounts?

Yes.

We have signed off the 2018 accounts as reliable (given a 'clean opinion'), as we have for every financial year since 2007. We conclude that the 2018 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: 2015: 3.8%, 2016: 3.1%, 2017: 2.4%, 2018: 2.6%. Moreover, in 2018, a significant part of the audited expenditure – mainly entitlement payments – was not affected by a material level of error.

Therefore, for the third year running, we have issued a **qualified opinion** on 2018 payments.

Up until these last three years, our opinion on the regularity and legality of spending had been adverse for every year since 1994.

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3. 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 and management.

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.

4. 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 one that is likely to influence the decision of the intended users of the audit report. Both we and the European Commission use a 2% threshold to determine materiality.

5. What are “entitlement/reimbursement payments”?

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

Reimbursement payments are made when the EU reimburses eligible costs for eligible activities (involving more complex rules). Such payments are made, for example, for research projects (under ‘Competitiveness’ spending), investments in regional and rural development (covered by expenditure under ‘Cohesion’ and ‘Natural resources’) and development aid projects (under ‘Global Europe’).

6. 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, from 4.4% in 2014 to 2.6% in 2018. Moreover, in 2018, about half of the audited expenditure examined was free from material 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.

7. But there is still a 2.6% estimated level of error. What does that mean?

The figure of 2.6% 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.

8. Does that mean that 2.6% of EU money was wasted?

No.

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 in accordance with the rules, whether the costs charged are calculated properly, and whether eligibility conditions have been met. That is what the figure of 2.6% refers to.

Some of the errors involve payments which did not meet eligibility conditions. For example, we found that the eligibility rules for an operational programme in one Member State included a condition prohibiting the use of an EU grant if another entity was carrying out the same type of business activity on the same premises. As one beneficiary, a lawyer, had set up its activity in the same building as another legal firm, the project was ineligible for co-financing.

In these cases, EU funds may still have had some positive impact and provided some benefit, even though the beneficiaries did not satisfy all 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 people or organisations **do not comply with the rules** when claiming EU funding. To be eligible for EU funding, they 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 (e.g. procurement rules and state aid rules) and is 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. For instance, in one case we examined, a small healthcare company participating for the first time in an EU project had used an incorrect methodology to calculate personnel costs in line with EU research funding rules. In another case, farmers claiming to operate independent businesses received subsidies to construct a pigsty as part of a measure to support the development of small and medium-sized farms; however, we found that they held shares in a family company operating on the same site which was too large for these farmers to be eligible.

The 2018 annual report provides further examples of errors found during our audits.

10. 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 2018, we found 9 instances (13 in 2017) of suspected fraud among the approximately 700 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.

11. 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?

Overall, corrective action by authorities in the Member States and by the Commission had a positive impact on the estimated level of error.

However, 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 – a significant proportion of the errors before the relevant payments were made.

For instance, had this information been used, the estimated level of error would have been below the 2% materiality threshold in 2018 for overall spending on 'Natural resources'. We believe this demonstrates that existing controls are adequate, but they must be enforced properly.

12. You said that the ECA was moving towards a new, single audit approach. What have you done differently for 2018?

The 2017 financial year was the first in which a significant part of spending from all areas of the EU budget followed the **new rules** applicable to the 2014-2020 multi-annual financial framework (MFF). The internal controls at the Commission and in the Member States now allow us to make better use of their work when assessing the regularity of spending.

We aim to apply an **attestation approach** to our entire statement of assurance, which means forming our audit opinion based on the Commission's (management and control) statement.

For 2017 and 2018, the auditors piloted this new approach in the area of 'Cohesion'. The pilot has made clearer where shortcomings persist, both at the European Commission and in the Member States, thus helping to promote accountability and further improve the management of EU finances.

We note that, for 'Cohesion', the Commission's 2018 estimate for regularity of expenditure is below our range, while its results for 'Competitiveness' and 'Natural resources' are close to ours.

Following this pilot, we intend to **expand the project** to other spending areas, but we will need the Commission's commitment and cooperation to make further progress.

The 2018 annual report, including the PRESS PACK, is available in 23 EU languages at eca.europa.eu