



EUROPEAN COURT OF AUDITORS

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ECA/13/37

## 2012 Annual Report - Frequently Asked Questions

### 1. Has the ECA signed off the 2012 accounts?

**Yes. The ECA has signed off the 2012 accounts as complete and accurate, as it has done since the 2007 financial year.** The ECA concludes that the 2012 accounts present fairly, in all material respects, the financial position of the EU and its results for the year.

But as well as certifying that income and expenditure have been accurately presented in the accounts, the ECA is also required to give an opinion on whether payments were made in accordance with the relevant legislation. **For 2012, and as in previous years, the ECA does not give assurance that these payments were legal and regular, leading to an adverse opinion on the regularity of expenditure.**

### 2. The total amount of EU budget in 2012 was €138.6 billion and the error rate was 4.8%. Does that mean that nearly €7bn of EU money has been wasted?

**No.** In the past, some commentators have 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.** For its annual report on the EU general budget the ECA checks whether EU money has been spent on the purpose for which it was intended and has been properly accounted for.

Some of the errors identified involve money which was wrongly spent: for example, support given to companies to hire unemployed persons, but without these companies respecting the condition of keeping the people hired for the minimum period of time, intended to provide longer term benefits. Or, awarding the construction of a highway project directly to a company, without giving other potential tenderers a chance to make their offers and at the best possible price.

These are examples of inefficiency, but not necessarily of waste. The EU funds were used for their intended purposes 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 highway built without any regard to traffic needs.

### 3. So what does the 4.8% estimated error rate mean?

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4.8% 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 the applicable rules, and thus does not comply with what the Council and Parliament intended with the EU legislation concerned.

Typical errors include **payments for beneficiaries or projects that were ineligible or for purchases of services, goods or investments without proper application of public purchasing rules**. See diagram 5: Contribution to overall estimated error by type [LINK]. Not all illegal or irregular payments will necessarily be wasteful, but nor is all legal and regular expenditure good value for money. Thus, this percentage should not be calculated in relation to the total EU budget as “waste” or “money lost”.

#### 4. 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 and, in some cases, national rules. These rules are there to try and ensure that expenditure takes place for the purposes intended by the Council and Parliament.

Errors occur when these rules are breached: for example, farmers not honouring their environmental commitments, project promoters not respecting public procurement rules or research centres claiming for costs not linked to the EU-funded projects. The 2012 Annual Report provides specific examples of errors found during our audit testing.

#### 5. If the estimated error rate for payments is 4.8% for 2012, does this mean that 95.2% 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 policy areas. The sampled transactions are audited in detail and the errors found are calculated in a form of an estimated error rate.

But there are many errors that the ECA does not quantify, such as minor breaches of procurement rules, failures to comply with rules on publicity, or incorrect transposition of EU directives into national law. These errors are not included in the error rate estimated by the ECA.

## 6. Do errors mean fraud?

**Not necessarily.** Fraud is an act of deliberate deception to gain a benefit. Although the ECA's audit procedures are not designed to detect fraud, the ECA finds a small number of suspected frauds each year during its audit testing. These cases are reported to OLAF, the European Union's anti-fraud office, which investigates and follows-up as necessary in co-operation with member state authorities.

## 7. Is EU financial management getting better or worse?

**It is relatively stable from year to year, although it varies from one policy area to another.** For example, there has been a rise in the estimated error rate in the area of agriculture over several years. For structural funds, the estimated error rate has increased every year since 2009, after having fallen in the three previous years.

The ECA has repeatedly recommended further simplification of the rules to improve the quality of spending and reduce the level of error. An analysis of the simplification of rules for the European Social Fund suggests that it has had a positive impact.

## 8. Where do the main problems lie – with the Member States or with the European Commission?

**Both.** The ECA estimates the error rate for expenditure jointly managed by the Commission and the Member States at 5.3%. For the rest of operational expenditure, which is directly managed by the Commission, it is 4.3%. Many examples were found of weaknesses in management and control systems at both Member State and Commission level.

Shared management areas such as agricultural and regional policy represent 80% of EU spending. For many of the errors detected through the audit Member States' authorities were in possession of information that should have allowed them to identify and correct the problem before claiming re-imbursement from the Commission. There is still potential to use financial management systems more effectively and to reduce the error rate.

## 9. Why has the ECA changed the way it carries out some of its annual audit work? Doesn't it make comparisons with the past more difficult?

This year, the approach to sampling transactions has been updated **so as to examine all transactions on the same basis for all spending areas** - at the point at which the Commission has accepted and recorded expenditure - thus confirming that it believes payment from the EU budget to be justified. The audited populations will be more stable from year to year as the fluctuating levels of advance payments will be eliminated. The effect of this standardisation of the ECA's sampling approach had only a 0.3 percentage point impact on its estimated error rate for the 2012 budget as a whole.

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## **10. Why all this focus on mistakes when the Commission can claim the money back from Member States, if it has been wrongly spent?**

**In most cases the Commission does not physically claim back money from the Member States, when EU funds have been wrongly spent.** In line with the applicable legislation, in case errors are found in the expenditure claims, Member States have a possibility of reallocating these EU funds to other projects and to get additional EU money by presenting further invoices.

**Financial corrections and recoveries are taken into account in the error rate estimated by the ECA, if they reverse erroneous payments made during the same year:** in other words if the incorrect expenditure has been identified and excluded from the declaration sent by the Member State concerned to the Commission and/or led to recoveries from beneficiaries during the year. However, these conditions are only sometimes met.

**For agriculture, most financial corrections do not lead to recoveries from beneficiaries, while for cohesion policy spending, most corrections are flat-rate financial corrections which do not lead to detailed correction at project level.**

The current 2007-2013 spending period provides limited incentive for Member States to claim correctly since erroneous claims can just be withdrawn and replaced without losing money from the EU budget.

## **11. Would the ECA have been able to sign off on EU expenditure, if it had done more audit work?**

**No.** The ECA gained sufficient evidence to be confident that the level of error in EU expenditure is material. Further work would not have changed this conclusion.

## **12. Were the errors the ECA found the result of restriction on its access to records in the Member States or on the premises of final beneficiaries?**

**No.** The ECA has wide powers of access based on the Treaty, and the Member States and final beneficiaries cooperated in the audit process.