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OF AUDITORS

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Speech

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

Presentation of the ECA's 2019 annual report

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ECA Press

12, rue Alcide De Gasperi – L-1615 Luxembourg

E: press@eca.europa.eu @EUAuditors eca.europa.eu

President

Ms Hohlmeier,

Rapporteurs and Shadow Rapporteurs for the Discharge,

Honourable Members,

Commissioner (Hahn),

Presidency of the Council,

Ladies and gentlemen,

We live in challenging times. As always in our European Union, big crises lead to big steps forward and innovations which we had thought impossible only a few months before.

Thanks to the tenacity of this Parliament, the big decisions and agreements which shape EU finances for the next seven years were finalised in good time, and I also take this opportunity to congratulate the outgoing Council Presidency and the Commission. We can now look forward to the hopefully swift ratification of the Own Resources Decision by the Member States.

I'm glad to be here with my colleague Tony Murphy, our Member responsible for the annual report, to present and debate with you the Court of Auditors' annual report for the year 2019.

Because of the specific circumstances due to the on-going COVID-19 crisis, this year's presentation takes place a bit later than has been the usual practice. But this may even be an **advantage** because the Budgetary Control Committee is now well-advanced in its work on the discharge. The insights you have gained through the various hearings in the last weeks can thus already feed into today's debate, and that's not a bad thing at all.

It's particularly important that the political decisions which you take or consent to in this Chamber are translated into results on the ground. That you can judge what worked and what didn't, and how to improve things. This is where the detailed and independent audits carried out by the Court of Auditors come in.

By now, our findings for the year 2019 are well-known. We continue to issue a clean opinion on both the reliability of the accounts and the regularity of revenue.

On expenditure, we estimate that the overall error rate remained **stable – 2,7 %** for 2019 compared to 2,6 % for 2018. This headline of course masks considerable differences between policy areas.

In the area of **Competitiveness**, we estimated an increased error rate (**4 %**), mostly relating to ineligible costs.

In **Natural Resources**, we noted improvements bringing the estimated level of error to **1,9 %**.

In the area of **Administration**, we find no material error, as in previous years.

In **Cohesion**, we estimated the error in this area to be **4,4 %**, taking into account corrections made by Member States authorities, which is lower than last year, but still remains material. Furthermore, if the national authorities and the Commission can clear up shortcomings that we found in their own error estimates in future years, we might very well be in position to make more use of the work of Member States audit authorities, but we are not there yet. I know the Commission's strong determination to reach this goal, and we need big efforts at all levels to reach it.

Ladies and Gentlemen,

For several years we have made a difference between spending we consider as **high-risk**, for example Cohesion where management is shared with Member States, and those we consider low-risk. High-risk spending contains material error at an estimated rate of **4,9 %** (2018: 4,5 %). What happened in 2019 was that the **proportion** of high-risk expenditure, in particular Cohesion, increased (53 %). This is not a problem in itself – but it results in the fact that material error now affects most of our audit population – the error is therefore pervasive. And that is why - for the financial year 2019 - the Court of Auditors decided to issue an **adverse opinion** on spending, rather than a qualified opinion as in previous years.

This should **not** be seen as some sort of indictment of the Commission on its own – after all **Member State authorities** manage approximately 74 % of EU expenditure. Each entity has a role in the chain, and oversimplification will get us nowhere. It should also **not** be seen as a sign of any **backsliding** in the EU's financial management. If you look at the situation a decade ago, we have come a long way.

Beyond the overall headline for 2019, our conclusions for the different spending areas are **very diverse**, and I know you are looking into these as you prepare the Parliament's decision on the discharge.

President, Ladies and Gentlemen,

I would like to insist on three overarching issues as we move forward.

First, I would have wished that instead of debating nomination procedures to the European Public Prosecutor's Office as you will later this week – important as they are –, we could already be seeing the EPPO in action, providing a real 'bite' to **protect the EU's financial interests** against irregularities and fraud; exactly as if they were national financial interests. It is high time to get this Office off the ground and properly resourced, and I know the Chief Prosecutor's and your strong determination to see this happen. The Court of Auditors is of course keen to support this effort wherever possible, in keeping with our audit mandate.

Second, we note that the Court of Auditors' reports are mentioned as one possible source of information feeding into the qualitative assessments made by the Commission under Regulation 2020/2092 (the 'general regime of **conditionality** for the protection of the Union budget'). By recognising the obvious, namely that there is a 'clear relationship between respect for the rule of law and the efficient implementation of the Union budget in accordance with the principles of sound financial management', the EU legislator has drawn a line in the sand which will now have to be enforced on the ground where necessary. I would like to welcome the fact that several of our recommendations were taken on board during the law-making process, notably the position of final recipients or beneficiaries of EU funds.

Thirdly, we repeatedly drew your attention in our reports to the fact that many Member States continue to face difficulties in **absorbing** EU funds, whatever the goals or requirements fixed at political level. This difficulty has contributed to inflate the *reste à liquider*, which reached €298 billion by the end of 2019. This means that this money has still to be put to the good use intended by the legislators. This problem of spending delays must be urgently addressed by the Member States concerned.

I also take the opportunity of our debate to make two rather practical and future-looking comments.

With the start of 'Next Generation EU', we are looking at an almost doubling of EU spending in the coming years. We already debated this in the CONT committee last time I spoke to you in November, and I wanted to inform you that we are currently assessing what this means for us auditors – in terms of **duties**, and in terms of necessary resources. It seems obvious that this will have **staffing** implications – and I hope to be able to update you on this shortly.

Lastly, I would like to flag up the Court's pilot 'Report on the performance of the EU budget – Status at the end of 2019' which responds to the wishes from many in this House to see more focus in our audit work on the performance of the EU budget and an assessment of the information which the Commission provides in that respect.

Ladies and Gentlemen, and I conclude here,

In these times of crisis, the Member States and the European Commission have a tremendous responsibility for managing the EU's finances in a sound and efficient way. Our annual report, which I'm glad to discuss with you today, shows that **further efforts** are needed. And you, as directly elected Members of Parliament, have a **great responsibility** in exercising legislative and political control to ensure this happens.

Thank you for your attention.