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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 2020 annual report

Plenary – European Parliament

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The spoken version shall take precedence.

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Madam President,

Madam Chair, Rapporteurs and Shadow Rapporteurs for the Discharge,

Members of the European Parliament,

Madam Commissioner,

Ladies and gentlemen,

It is a pleasure to be among you in person, here in this plenary chamber. I am joined by my colleague Tony Murphy who, as you know, is our Member responsible for the Annual Report and the Dean of our fifth chamber.

The Treaties mandate the Court of Auditors, among other things, to “examine the accounts of all revenue and expenditure of the Union” and provide a “statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions”, and this is what I’m here to present to you this evening, for the 2020 financial year.

What did we find this year?

As for many years, our opinions on the **accounts** and on **revenue** are clean.

In terms of **spending**, for 2020, based on the 728 spending transactions we selected, we continued to find that it is affected by material error. Having said this, if we look at the different expenditure types, distinguishing between the related risks, we note that **low-risk** expenditure was free from material error.

However for **high-risk** expenditure (for instance, expenditure where beneficiaries have to submit claims for eligible costs they have incurred – often according to complex rules) was affected once again by material error. The share of this high-risk expenditure increased to a clear majority (59 %) of our audit population for 2020, largely due to an increase in the share of cohesion spending, and led to us to adopt – as we did last year – an **adverse opinion on EU spending as a whole**.

The errors our auditors found most frequently were ineligible cost claims, ineligible projects, activities or beneficiaries, errors in public procurement and state aid, and lack of supporting documentation.

For **Competitiveness**, we estimated an overall error of 3,9 %. We found errors mainly in research and innovation spending, in particular personnel costs declared by SMEs.

For **Cohesion**, we estimated a level of error of 3,5 % (already reduced to take into account corrections made before we started our examination). We found most errors to be **ineligible projects and costs**, and we also looked carefully at what *national* audit authorities found before us, and here **public procurement** errors was a major source of

problems. Having found additional errors that were not detected at national level or by the Commission, we conclude, not for the first time, that the residual error rates reported at national level are not always reliable.

Our audit of **Natural Resources** resulted in an estimated error rate of 2,0 %, which is still just below *materiality*. Here there is a real dichotomy: on the one hand, direct payments (69 % of the heading) are free from material error. On the other hand, the remainder of the heading (rural development programmes, market measures, fisheries, environment and climate action) resulted in greater irregularities.

On **Security and Citizenship**, a third of our sample of 27 transactions contained errors, four of which had an impact on the budget.

A similar picture emerges for the heading **Global Europe**, where 17 quantifiable errors were found among the 75 transactions examined.

On **Administration**, the level of error was below the materiality threshold. This is positive news and has been the case for the whole duration of the 2014-2020 MFF.

Having covered the different policy headings, I have six points of a horizontal nature to raise before you.

First, **geographical insight**. You often ask us for a more precise breakdown of audit results per Member State. While our approach is not designed to deliver “score-cards” for individual Member States, we do in our Report detail the quantified errors we found in Cohesion and Agriculture, *by Member State*. And where we provide concrete examples, the Member State is also identified.

Second, **recoveries**. This year we looked in more detail at the Commission’s presentation of financial corrections and recoveries in the AMPR and found it to be complex and not always clear. We also found that recoveries go back a very long way, so that some financial corrections still relate to the 1994-1999 programming period. We will continue our work through a special report planned for the year 2022.

Third, **fraud**. The Court transmitted to OLAF six suspected cases detected as part of our audits, and investigations were opened in all of those cases. The Court also concluded this year an agreement with the European Public Prosecutor’s Office, and therefore corresponds with either OLAF or the EPPO, depending on their respective jurisdiction.

Fourth, **audit missions** – a topic we discussed quite extensively already in the CONT committee a month ago. As you know, our auditors normally travel far and wide to carry out on the spot checks, obtaining original documents, interviewing auditee staff face to face and verifying the physical existing of EU-funded outputs for the transaction we selected. We discussed the pandemic-related travel restrictions our staff faced for many months and recognised

that this may increase the so-called detection risk¹. For 2020, the evidence we obtained enabled us nonetheless to complete our work and draw the necessary audit conclusions. For the future however, we are already starting again to carry out physical checks in the Member States, whilst using the advantages of remote meetings to deal with routine meetings, for example with the Commission.

Fifth, **digitalisation** of reporting, monitoring and audit. When I look at the day-to-day work of our auditors, it's clear to me that we need greater digitalisation of the whole audit chain. To put it the other way, lack of digitalisation and lack of interoperability, mean: more work for auditors, more work for the Commission to understand what is going on, greater opacity of final beneficiaries, and reduced acceptance of citizens. In the 21st century, having several hundred different reporting systems for EU funds is not an expression of subsidiarity, it's an expression of inefficiency. I'm therefore very glad that the Parliament has taken the matter to heart. With your legislative initiative resolution, prepared by Ms Grappini and voted this week, you request an update of the Financial Regulation – with a detailed annex to boot. We all know that it takes time and funding to set up such a harmonised reporting system, but we must be ambitious now in order to avoid further delay. I would also urge all involved to widen their focus beyond *reporting*, to the digitalisation of how EU programmes are *managed* – i.e. everything the Commission and Member States do on a daily basis in relation to the programmes *before* the stage of reporting and audit, for example granting funding or communicating with final recipients. And of course, at the ECA we are doing our homework as well.

Sixth, **NGEU**. As you know, the Recovery Fund payments will be based on the fulfilment of milestones and targets, compared to the current system, which provides for the reimbursement of cost. Obviously, this will have an impact as to what constitutes an error and may also imply a change in what we find and report. The Court is very grateful that the Parliament has strongly supported the specific increase in audit staff which we requested for the 2022 budget specifically to deal with NGEU. I am particularly grateful that the Parliament hung on to this point as one of its priorities in the final budget agreed last week in conciliation. I pay tribute to your dedication, Madam Chair of the Budgetary Control Committee (Ms Hohlmeier), and to that of your Colleague the Chair of the Budgets Committee (Mr van Oortveld), and that of the relevant rapporteur, Mr Böselager. In the end, the point is to have the people necessary to properly provide *you* with insights and findings on NGEU which would otherwise not be available to you. Based on these increased resources for 2022, we are now preparing the upcoming audit of NGEU. Given the structure of NGEU and the rhythm of spending, I hope that a further temporary staff increase will be possible also for the year 2023.

I very much look forward to our discussions this evening.

Thank you for your attention.

¹ This refers to the risk that the auditor will not detect a deviation that has not been corrected by the entity's internal controls.