



Luxembourg, October 2023

2022 annual report

The 10 most frequently asked questions

1. What is the role of the European Court of Auditors with regard to the EU's accounts?

Every year, we **check the EU's consolidated accounts and provide an opinion** on three matters: whether the accounts are reliable, and whether EU revenue was received and payments were made in accordance with the rules. These checks form 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 2022, EU budget spending amounted to **€196 billion**, representing 1.3 % of the combined gross national income of EU member states. Taking account of spending from funds earmarked for the Recovery and Resilience Facility (€47.3 billion), payments from the EU totalled **€243.3 billion** in 2022.

2. How is RRF spending (the EU's recovery package) reflected in the annual report?

NextGenerationEU (NGEU) is a financial package including several programmes to support EU member states in their economic recovery following the COVID-19 pandemic. Some of these programmes are funded under the 2021-2027 multiannual financial framework (MFF) headings, and follow the delivery model and rules for the MFF. Conversely, the Recovery and Resilience Facility (RRF), which accounts for about 90 % of NGEU funding, is delivered in a way that is fundamentally different from that of EU budget spending under the MFF. Whereas beneficiaries of EU budget spending are paid for having undertaken certain activities or are reimbursed for costs incurred, under the RRF member states are paid for the satisfactory achievement of predefined milestones or targets. We have therefore provided a **separate opinion on RRF expenditure**, as well as dedicating a chapter to it in the annual report.

3. What did the European Court of Auditors conclude in 2022?

We have signed off the 2022 accounts as **reliable** (i.e. given a 'clean' opinion), as we have for every financial year since 2007. We concluded that the 2022 accounts presented fairly, in all material respects, the financial position of the EU, its results for the year, its cash flow and the changes in its net assets.

We found that revenue was free from material error. For expenditure, we provide two separate opinions: one on the EU budget, and another on the RRF.

The estimated level of error in EU budget spending was 4.2 %. This represents an increase compared to previous years, when it was 3 % (2021) and 2.7 % (2019 and 2020). As in the three previous years, we concluded that error was pervasive in 2022, and therefore gave an **adverse opinion**.

We also issued a separate opinion for expenditure under the RRF. We found regularity issues in 15 of the 281 milestones and targets examined, and therefore issued a **qualified opinion**.

4. What does 'pervasive error' and 'high-risk' expenditure mean?

Two thirds of EU budget expenditure in 2022 was deemed to be high-risk. While we estimate the level of error for total expenditure to be 4.2 %, this increases to 6 % when examining high-risk expenditure in isolation. Due to the substantial weight of this expenditure type under total spending (66 %), we consider error to be pervasive, i.e. present in the entire audited population or in a **significant part** of it.

High-risk expenditure mainly refers to the **reimbursement by the EU** of eligible costs for eligible activities (according to complex rules). For example, reimbursements are made for research projects (under 'Single market, digital and innovation'), investment in regional and rural development ('Cohesion, resilience and values' and 'Natural resources and environment'), and development aid projects ('Neighbourhood and the world'). This year, the proportion of this type of expenditure increased to 66 % (compared to 63.2 % in 2021 and 59 % in 2020).

Lower-risk expenditure concerns **entitlement-based payments**, which are made to beneficiaries that meet certain (less complex) conditions. For example, such payments include student and research fellowships (under 'Single market, digital and innovation'), direct aid for farmers ('Natural resources and environment'), and salaries and pensions for EU staff ('European public administration').

5. What is a 'clean/qualified/adverse' opinion?

A '**clean**' opinion means that the figures in the accounts present a true and fair view, and follow the rules of financial reporting and financial management. The underlying transactions are legal and regular in all material respects.

A '**qualified**' opinion means that the auditors are unable to give a clean opinion, but the problems identified are not pervasive.

An '**adverse**' opinion indicates widespread problems.

6. What is a 'material' level of error?

In audit terminology, this means **the level above which errors are regarded as having a significant effect**. A material level of error is one that is likely to influence decision-making by the intended users of an audit report. Both we and the European Commission use a **2 % threshold** to determine materiality.

7. What does our 'estimated level of error' mean?

The figure of 4.2 % represents our estimate of the **amount of money that should not have been paid out** from the EU budget because, in our view, it was not spent in accordance with EU rules or specific national rules.

Typical errors include payments to ineligible beneficiaries or projects, or for purchases of services, goods or investments without having correctly applied public procurement rules.

8. Does that mean that 4.2 % of EU money was wasted?

No. It would be inaccurate to say this, because there is a significant difference between 'error' and 'waste'. In our testing of EU budget spending, we check whether EU money has been spent in accordance with the rules, whether the costs charged have been calculated properly, and whether eligibility conditions have been met. If one or more of these requirements have not been satisfied, we call it an 'error'. This is what the figure of 4.2 % means.

While these errors involve payments for projects or beneficiaries that did not meet eligibility conditions, they may still provide the intended benefits. In this situation, the payments were legal and regular in part, or not at all, but **cannot be considered wasteful**. For example, for one procurement procedure no bidder fulfilled the necessary requirements to be selected. According to the rules, a new tender should have been launched. However, the contracting authority modified the calculation method for the selection criteria, and chose one of these bidders. Even though the procurement did not comply with the rules and the expenditure was ineligible, the purchased investment (a welding cell) was delivered and in use.

Obviously, it is also possible for expenditure to be legal and regular but wasteful nevertheless. One example on which we reported in the past was port infrastructure that had been built without adequate regard for projected levels of freight.

9. Do the errors found constitute fraud?

In the vast majority of cases, we have no such indication. Fraud is a deliberate act of deception to gain an advantage. Although it can be difficult to identify fraud through standard audit procedures, our testing does reveal a number of cases of suspected fraud each year.

In 2022, we reported 14 instances of suspected fraud among the 760 transactions we audited. We reported these cases to OLAF, the European Union's Anti-Fraud Office, which, where necessary, investigates the cases and follows them up in cooperation with national authorities. Six of these cases were reported in parallel to the European Public Prosecutor's Office (EPPO).

10. Why does the Annual Report point to increased risks relating to EU debt and budget exposure?

EU debt went up significantly in 2022 to €344.3 billion by year end (2021: €236.7 billion). This was mainly due to new borrowing for NGEU, the European Instrument for temporary support to mitigate unemployment risks (SURE), and macro-financial assistance (MFA).

At the same time, **borrowing costs increased** significantly due to rising interest rates. The cost of new NGEU funding increased from 0.14 % in the second half of 2021 to 2.6 % in the second half of 2022. In 2022, net interest paid on NGEU borrowing amounted to €0.5 billion.

The **EU budget's exposure increased** from €205 billion in 2021 to €248 billion in 2022. This was mainly due to the additional NGEU and SURE loans provided to member states and the MFA loans provided to Ukraine. In addition, at the end of 2022, an additional €126 billion in loans had already been granted but not yet disbursed. The EU budget's exposure will therefore continue to rise.

The ECA's 2022 annual report is available in 24 EU languages at eca.europa.eu.