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Speech
5 October 2023

Speech by Tony Murphy, President of the European Court of Auditors

Presentation of the ECA's 2022 annual report
Committee on Budgetary Control – European Parliament

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The spoken version shall take precedence.

Madam Chair,

Honourable Members,

Commissioner,

[Representative of the Council Presidency],

I am delighted to be in your presence today to present the key findings and central messages from the ECA's annual report for the year 2022. I am joined by my esteemed colleague and Member for our annual report, Jan Gregor.

Before delving into the main findings and messages, I'd like to firstly underline the significance of our annual report:

— It represents the ECA's core product, demanding substantial effort and work.

— Its primary purpose is to identify areas for improvement and potential risks spanning all areas of EU action.

— Its ultimate objective, complementing our other ongoing auditing work, is to support the discharge process and foster EU citizens' trust by improving accountability and transparency.

Through our findings we often draw attention to spending that did not comply with the rules . We also make it a point to highlight positive aspects of what works well.

So, what are the key takeaways from our 2022 annual report?

Regarding the EU Accounts, as in previous years, we found them to present a true and fair view of the EU's financial position. We provide a clean opinion on the reliability of the accounts.

Total revenue amounted to €245 billion, with the overall error rate not material. Again, we offer a clean opinion. It important to note that our opinion does not account for evaded amounts concerned by "VAT and customs gap", as these amounts have not been booked to revenue.

Transitioning to expenditure, the EU's long-term budget package encompasses the Multi-Annual Financial Framework (MFF) along with NextGenerationEU (NGEU). NGEU funding is largely accounted for by the Recovery Resilience Facility, which employs a different delivery model from the MFF. Consequently, we offer two separate opinions on the legality and regularity of 2022's expenditure: one for traditional EU budget spending and one for the RRF.

Starting with EU budget spending, I'd like to focus on our opinion and findings:

Based on our representative sample of 760 transactions, we saw an increase in the overall level of irregularities, rising to 4.2 % in 2022 from 3.0 % in 2021 (2.7 % in 2020). Given the widespread occurrence of the errors identified, we have maintained an adverse opinion for the fourth consecutive year.

When we audit the EU Budget, we differentiate budget areas based on risks, we categorize areas as either high-risk or low-risk. Due to the evolving composition of the EU budget over time, the proportion of high-risk expenditure in our audit population has risen to a clear majority at 660 % (2021: 632 %).

For high-risk spending, the error rate is estimated at 6.0 % (2021: 4.7 %). These high-risk areas encompass Cohesion, as well as other EU policy sectors such as the 'Single Market', 'Migration', 'Security', 'Neighbourhood,' and segments of 'Natural Resources.'

Conversely, for low-risk spending we estimated the error rate to be below our 2 % materiality threshold. This category includes entitlement-based expenditures like direct aid to farmers, Erasmus grants for students, and the remuneration and pensions of EU civil servants.

This hopefully provides you with an overview of the distribution of our estimated level of error. Now, let's delve into specific policy areas to illustrate typical findings that contribute to our overall error rate.

Beginning with Cohesion, where we estimate the error rate at 6.4 % (compared to 3.6 % in 2021), marking a nearly 80 % year-on-year increase. This upturn is concerning, not only for the Cohesion policy but also because of their potential implications for other sections of the EU budget, including the RRF for which the related investments projects will largely replicate the Cohesion type expenditure.

Ineligible costs, along with infringements of internal market regulations - particularly non-compliance with procurement and state aid rules - contributed most significantly to our estimated error rate.

In the area of Cohesion, we heavily rely on the work of national audit authorities. For 2022, we found that assurance packages submitted by Audit Authorities that incorrectly had reported residual error rates below 2 % risen to 61 % (2021: 39 %), marking the highest since our examination of these packages began in 2017. This underscores the persistent shortcomings in their work and severely limits the extent to which we can rely on it.

Now turning to the other major spending area, 7 %'Natural Resources and Environment' heading. We estimate the error rate to be material at 2.2 % (2021:

1.8 %). While the error rate was not material for direct payments, constituting 66 % of expenditures in this area, it remained material for other spending categories (rural development, market measures, maritime, fisheries, the environment, and climate action).

In terms of “Single Market, Innovation and Digital”, we observed a decrease in the material error rate from 4.4 % in 2021 to 2.7 % in 2022. Notably, the Horizon 2020 program remains the primary initiative for research and innovation. This reduction in the error rate is a positive trend. We highlighted certain simplifications which have lightened the administrative burden on beneficiaries and potentially reduced the risk of error.

Regarding the types of errors identified, research and innovation spending, particularly in personnel costs, exhibited the highest incidence of errors.

Given the increasing significance of migration and border management in recent years, the EU introduced "Heading 4" in the 2021-2027 MFF with a specific focus on these policy areas. A significant portion of the 2022 spending in this sector still pertained to the completion of projects and initiatives outstanding from the 2014-2020 MFF.

We detected errors in nearly half of the transactions subject to our examination.

Shifting our attention to "Neighbourhood and the World". Close to half of the audited transactions contained errors and despite our limited sample, our findings continue to confirm a high risk of error under this heading.

Lastly, let's address "Administration". Our assessment, as in previous years, concludes that the level of error remains immaterial.

In essence, this encapsulates the outcome of our compliance work on budget expenditure for the 2022 annual report. It shows an increase in the overall level of error for EU budget spending, particularly in Cohesion, which now accounts for 40 % of the total budget spending.

Ladies and Gentlemen,

I will now address our audit of expenditure under the Recovery and Resilience Facility (RRF). This concerns the second opinion we issue on expenditure, which is necessitated by the distinct delivery model of the RRF compared to the EU budget spending under the MFF.

It's important to bear in mind that the RRF is designed as a temporary response to a crisis, facilitating the swift disbursal of funds to aid Member States' economic recovery.

While progress is slower than anticipated, 11 Member States received 13 grant payments totalling €47 billion. We assessed almost all of the 274 milestones and the 37 targets incorporated in these 13 payments. Our assessment was based mainly on the condition for payments, ensuring the satisfactory fulfilment of milestones and targets, while also verifying compliance with key eligibility criteria stipulated in the RRF regulation.

Our conclusion is that 15 milestones and targets were affected regularity issues. These issues either resulted from unsatisfactory fulfilment or non-compliance with eligibility conditions. We also found weaknesses in the RRF control system through our work. Based on both qualitative and quantitative considerations, we issue a qualified opinion on RRF expenditure for 2022. Given the distinct nature of the RRF spending model, we cannot calculate an error rate that would be either meaningful or directly comparable to that under the MFF.

In developing the RRF, we acknowledge the urgency with which RRF Member State plans had to be evaluated and approved during the pandemic. However, our audit work frequently reveals milestones or targets that are vaguely defined, making it challenging to ascertain their achievement.

As such, assessing regularity remains a persistent challenge for us, as the assessment of qualitative achievements necessitates multiple judgments, leading to diverse possible interpretations. We also note that the Commission's methodology for payment suspensions, which is a critical facet of the facility, is subjective and reliant on judgments. The varying conclusions and interpretations that the RRF permits due to subjective judgments, underscore the weaknesses in its overarching design. It’s also important to note that these limitations in evaluating qualitative factors contribute to forming our qualified opinion.

Our compliance audit on the regularity of RRF expenditure is just one aspect of the comprehensive body of work on which we are engaged to assess this new instrument.

By the end of September 2023, only about 31 % of the total funds available for distribution through grants, and just 21 % if we also include the loans to member states have been disbursed. Thus, we have not yet reached a point where we can comprehensively evaluate the overall performance of the facility. It is only by combining the results from our annual compliance and, both ongoing and planned performance audits that we will be able to form an assessment of the RRF's comprehensive performance.

Moreover, we have already issued audit reports that highlight shortcomings and concerns regarding the design and the early stages of implementation of the RRF. In one such report on the design of the Commission's control system for the RRF, we highlighted an EU level assurance and accountability gap, where we raised concerns about the adherence of investment projects funded by the RRF to both EU and national rules, such as procurement and state aid rules. The Commission's assessment of Member States' payment requests does not systematically verify compliance with these regulations.

Our concern regarding this assurance gap intensifies when we look at our cohesion outcomes for the 2022 annual report, where we have seen an 80 % escalation in the error rate on year-on-year. Projects funded through cohesion programmes are often similar to those financed by the RRF0 %. Consequently, there exists a critical risk to the EU's financial interests within the framework of the RRF, if such rules are not being checked systematically at all levels. As the future RRF payment requests will shift more to investment projects, this risk will significantly increase going forward.

1 %1 %Up to now, my focus has primarily been on our compliance work. However, there are other aspects of the EU budget that demand our attention that consistently raise concerns.

Outstanding commitments from the EU budget and NGEU grant funding, which represent future debts if they are not decommitted, reached a record level of €453 billion at the end of 2022. This represents a 33 % increase from the outstanding commitments of €342 billion in 2021, mainly a result of an increased commitment of funds during the second year of NGEU implementation.

The pressure to increase spending places a strain on administrative resources, consequently elevating the risk of errors. Moreover, unless the implementation rate for shared management funds experiences a significant acceleration in 2024 and 2025, the likelihood of decommitments later in the MFF cycle will grow exponentially.

But spending also needs to be funded. In addition to the funding through member states contributions, the EU also borrows from the markets, mainly long-term bonds guaranteed by the EU budget. Borrowing was a source of funding for the NGEU and financial assistance to member states and third countries. This debt increased in 2022 to €344 billion by year-end (2021: €237 billion), mainly because of new borrowing for the NGEU, SURE and MFA. The repayment of the NGEU borrowing will have to start by 2028 and has to be completed by 2058, in other words the next generation will have to repay it.

Our annual report encompasses a wealth of additional detailed information and findings that I would be eager to highlight today, but regrettably, time does not permit me. But I encourage you to explore the comprehensive findings presented in our Annual Report and our EU Audit in Brief, both of which you have all received.

In closing, it is very clear that the landscape in which we navigate the EU budget is expanding in both scope and complexity. Today, I have addressed just part of this landscape, showing that while many aspects work well, the EU continues to grapple with significant challenges. While addressing these challenges, it's crucial that we recognise that uncertainties might persist, and there may be occasions when conclusions differ. Nevertheless, it’s imperative that we move forward together, fostering collaboration to build a better and more sustainable Europe.

Thank you.