EN

CURIA RATIONUM

EUROPEAN COURT OF AUDITORS

2023

EU audit in brief

Introducing the 2023 annual reports of the European Court of Auditors

EUROPEAN COURT OF AUDITORS
12, rue Alcide De Gasperi
1615 Luxembourg
LUXEMBOURG

Tel. +352 4398-1
Enquiries: https://eca.europa.eu/en/contact
Website: https://eca.europa.eu
Twitter: @EUauditors

NB: It should be noted that due to rounding, some totals in the figures in this document may not equal the sum of the individual items.

More information on the European Union is available on the Internet (https://europa.eu).

EN

2023 EU audit in brief

Introducing the 2023 annual reports of the European Court of Auditors

Contents

President's foreword

As we reach the midpoint of the EU's 2021-2027 Multi-Annual Financial Framework (MFF), the Union has navigated through some transformative years characterised by unprecedented challenges met with significant policy and funding responses. This underscores the vital importance of robust financial management and oversight across all EU levels. Through its work, the ECA contributes to enhancing the financial management and effectiveness of EU policies. Our Annual Report serves as a key tool in achieving these goals.

We issue a clean opinion on the reliability of the 2023 accounts and conclude that they accurately reflect the EU's financial position. Our Annual Report once again finds that EU revenue was free from material error.

For the third consecutive year we provide two separate opinions on the legality and regularity of the expenditure for the 2023 financial year: one for the traditional EU budget and one for the Recovery and Resilience Facility (RRF). Starting with the traditional EU budget or MFF, our estimate of the level of error in EU budget spending has increased to 5.6 % (2022: 4.2 %). We therefore issue an adverse opinion on EU budget expenditure.

Significant errors persist in 'Cohesion, resilience, and values', reaching 9.3 % (2022: 6.4 %, 2021: 3.6 %) and in 'Single market, innovation and digital' at 3.3 % (2022: 2.7 %). Errors in 'Natural resources' remain at 2.2 % (2022: 2.2 %). The most common error types continue to be those linked to ineligible projects, costs and public procurement.

The substantial increase in the estimated level of error for the EU budget, largely driven by the errors found in Cohesion expenditure (up 45 % year-on-year), is concerning. Such spikes often occur during MFF closure periods, where pressure to spend intensifies, straining administrative resources and increasing the risk of error. This pressure on administrative resources is further compounded by the simultaneous absorption of various and competing EU funds, including the RRF.

By the end of 2023, its third year of implementation, approximately 40 % (33 % excluding pre-financing) of the allocated grant funds under the RRF had been paid out. In 2023, RRF expenditure totalled €53.6 billion. Our audit covered all 23 grant payments to 17 member states, amounting to €46.3 billion, as well as the clearing of pre-financing, which totalled €7.3 billion.

Our assessment of the RRF payment requests is based on the payment conditions set out the RRF Regulation, which is that milestones and targets must first be satisfactorily fulfilled and should comply with other key eligibility conditions. Based on our assessment of the payment requests and qualitative findings, such as cases of weak design of milestones and targets, as well as weaknesses in the member states' reporting and control systems, we issue a qualified opinion on RRF expenditure.

RRF payments to member states are not based on actual costs of measures, and member states do not report the actual expenditure of final recipients. Furthermore, compliance with EU and national rules is not a condition for payment under the RRF. Our work in Cohesion has revealed serious weaknesses in terms of non-compliance with these rules, with a major spike in the error rate over the past three years. Considering that these projects are similar to those financed under the RRF and often controlled by the same national bodies, in our view, there is a risk that similar type errors exist for RRF expenditure. However, under the RRF, compliance with EU and national rules are not systematically checked.

We have previously highlighted this assurance gap in a specific audit report on the Commission's RRF control framework. More recently, we have raised further concerns regarding the RRF's design and implementation. Firstly, we found that its monitoring framework is insufficient for measuring its overall performance. Additionally, there remains a significant risk to the absorption and completion of measures in the second half of the RRF's implementation. With the Commission set to present a new MFF in 2025, its design should ensure that EU financial interests are adequately protected, down to the level of final recipients.

Looking ahead to the next MFF, our annual report highlights several risks and challenges facing the EU budget. These include the risk of decommitments, increasing financial exposure, and the growing financial risks due to Russia's war of aggression against Ukraine. Additionally, new priorities for the future, such as security and defence, as well as enlargement, will require a significant increase in funding. Decision-makers will need to identify ways to meet these financial needs. We look forward to working with the newly appointed Commission and European Parliament and enhance the management and oversight of EU funds. Our mission remains to build citizens' trust by improving accountability and transparency in all EU activities.

Finally, I want to recognise the dedication and expertise of the ECA's staff. Their commitment and professionalism are crucial to producing our annual report and advancing our institution.

Tony Murphy
President

6

Overall results

Key findings

We issue a clean opinion on the reliability of the 2023 accounts of the European Union.

We also issue a clean opinion on the legality and regularity of revenue for 2023.

We provide two separate opinions on the legality and regularity of expenditure for 2023:

— **our opinion on the legality and regularity of EU budget expenditure is adverse;**

— **our opinion on the legality and regularity of expenditure under the Recovery and Resilience Facility is qualified.**

We provide more information on the basis for our opinion on the legality and regularity of expenditure for 2023 in 'Our statement of assurance'.

- Overall, the estimated level of error in EU budget expenditure was material at **5.6 %** (2022: 4.2 %).

- In our risk assessment, we identify as **high-risk** the EU expenditure where beneficiaries often have to follow complex rules, when they submit claims for costs they have incurred. The proportion of high-risk expenditure in our audit population remained substantial at **64.4 %** (2022: 66.0 %). This year, we estimate the level of error to be **7.9 %** (2022: 6.0 %) in this part of our audit population. This error is material and pervasive and we are issuing **an adverse opinion on EU budget expenditure**.

- For **RRF expenditure**, in 2023, the Commission made 23 grant payments to member states which included a total of 542 milestones and all 135 targets. We identified quantitative findings in seven payments. Six of these payments were affected by material error, and we are issuing a qualified opinion on RRF expenditure.

- **Commission's estimate of error** (risk at payment), as disclosed in the 2023 Annual Management and Performance Report (AMPR), is 1.9 %, which is significantly below our range. Limitations in the Commission's and member states' *ex post* checks in MFF headings one, two and six affect the risk at payment disclosed in the AMPR, and hence the Commission's risk assessment.

- In 2023, we reported to the European Anti-Fraud Office (**OLAF**) 20 cases (2022: 14 cases) of suspected fraud, 19 that we had identified during our audit of 2022 expenditure and one from our audit of 2021 expenditure, based on which OLAF has already opened four investigations. In parallel we reported 17 of these cases to the European Public Prosecutor's Office (**EPPO**), from which the EPPO has opened nine investigations. During our audit of 2023 expenditure, we already identified 12 cases of suspected fraud.

- **Outstanding commitments** from the EU budget and NGEU grant funding, which represent future debts if they are not decommitted, reached a record level of €543 billion at the end of 2023 (2022: €453 billion). 90.3 % of these outstanding commitments were made after 2021.

- The outstanding **EU debt from borrowing** (nominal value) increased significantly to €458.5 billion by the end of 2023 (2022: €348 billion). The bulk of this outstanding amount relates to NGEU borrowing, which accounts for €268.4 billion. For NGEU, the EU may borrow an additional €443.6 billion by the end of 2026. All costs incurred by the EU in relation to the borrowing of funds for NGEU loans, including those linked to managing interest rate and other financial risks, have to be borne by the beneficiary countries. All costs associated with NGEU grants and programme top-ups are borne by the EU budget.

- The **EU budget exposure**, consisting of guarantees for the EU loans disbursed to member states or non-EU countries and of contingent liabilities, increased from €248 billion in 2022 to €298 billion in 2023. This was mainly due to borrowings for RRF loans made to member states and the MFA+ loans to Ukraine. The EU budget exposure will continue to rise with agreements for €211.7 billion in RRF loans having been signed but not been disbursed by the end of 2023.

- The **EU budget exposure to Ukraine** more than doubled in 2023 compared to 2022 (from 16 billion to €33.7 billion). We have highlighted that transferring the risks of possible defaulted repayments to the future could put pressure on future budgets and payment needs.

The full text of our 2023 annual reports on the EU budget and on the activities funded by the 9th, 10th and 11th European Development Funds can be found on our ***website*** *(eca.europa.eu).*

What we audited

2023 EU budget in figures

The European Parliament and the Council adopt an annual EU budget within the framework of a longer-term budget agreed for a period of several years (known as the '*multiannual financial framework*' or MFF). In 2023, total payments from this budget were 162.0 billion, or 98.1 % of the available amount.

Taking into account additional payments of €74.7 billion from assigned revenue (mainly RRF grants of €48.0 billion and NGEU top-ups to MFF programmes of €19.0 billion) and €2.4 billion of carry-overs from 2022, payments from the EU totalled €239.2 billion. Utilisation of the total available budget for payments of €265.7 billion was 90.0 %.

Without the RRF grants of €48.0 billion, the 2023 EU budget spending totalled €191.2 billion.

Where does the money come from?

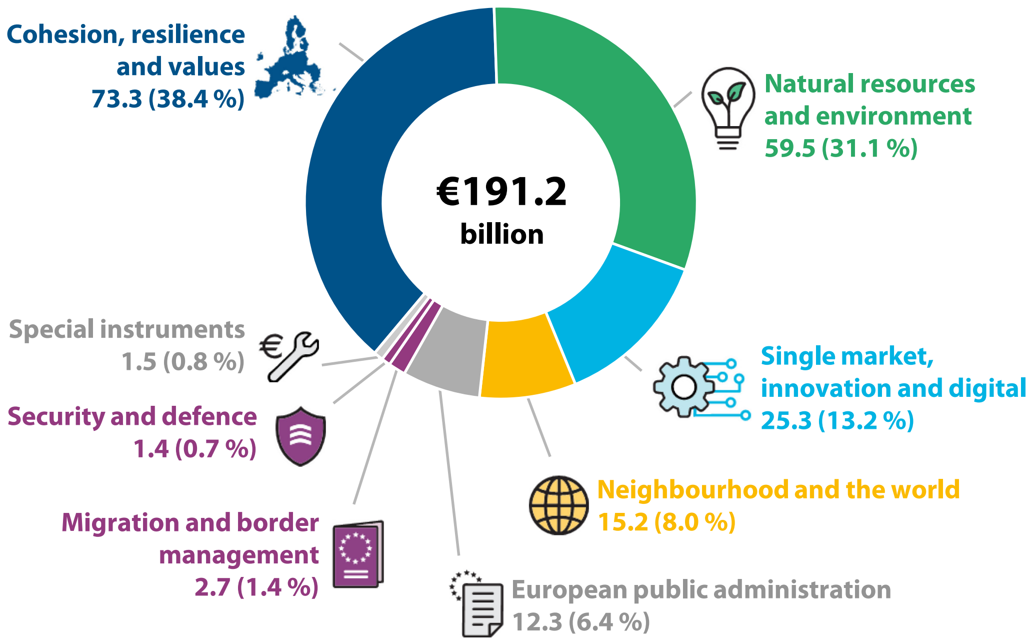
Total revenue for 2023 was €248.4 billion. The largest share of the EU budget is financed by amounts that member states contribute in proportion to their gross national income (€97.7 billion). Other sources include, a contribution based on value-added tax collected by member states (€22.5 billion), customs duties (€22.1 billion), and a contribution based on non-recycled plastic packaging waste (€7.2 billion). Amounts borrowed to finance non-repayable financial support to member states in the context of NGEU provide €67.6 billion of EU revenue. There are also other revenues (€31.3 billion). The most significant of these are contributions and refunds connected with EU agreements and programmes.

What is the money spent on?

The EU budget is spent in a wide range of areas, as shown in *Figure 1*.

Figure 1 – 2023 EU budget spending per MFF heading

(billion euros)



MFF 1 (Chapter 5)	Single market, innovation and digital
MFF 2 (Chapter 6)	Cohesion, resilience and values
MFF 3 (Chapter 7)	Natural resources and environment
MFF 4 (Chapter 8)	Migration and border management
MFF 5 (Chapter 8)	Security and defence
MFF 6 (Chapter 9)	Neighbourhood and the world
MFF 7 (Chapter 10)	European public administration
Special instruments	(outside MFF)

Source: ECA.

About three quarters of the budget is spent under what is known as ‘shared management’. Under this budget implementation method, the member states distribute funds, select projects and manage the EU’s expenditure, while the Commission remains ultimately responsible. This is the case of, for example, ‘Natural resources and environment’ and ‘Cohesion, resilience and values’ MFF headings.

Under the RRF, the member states set out reforms and investments in advance in their national recovery and resilience plans, and the Commission pays them for achieving related milestones and targets. Member states may request disbursements up to twice a year if they provide sufficient evidence that the related milestones and targets have been satisfactorily fulfilled. The Commission’s control system must ensure that RRF payments are legal and regular, this being mainly contingent upon the satisfactory fulfilment of milestones and targets. By the end of 2023, the Commission had made 37 grant payments (one in 2021, 13 in 2022, and 23 in 2023) totalling €141.6 billion, including €22.7 billion pre-financing not yet cleared.

What did we cover?

Every year, we audit the reliability of the annual accounts and the compliance of the underlying income and expenditure transactions. In 2023, our audit population for testing revenue amounted to €248.4 billion. Our audit population of expenditure transactions covers interim and final payments as well as clearances of advances. We do not examine the payments of advances. Our population for testing expenditure totalled €161.2 billion under the general budget and €53.5 billion under the RRF. The RRF expenditure comprised 23 grants payments totalling €46.3 billion and the related clearing of pre-financing of €7.2 billion. These payments were made to 17 member states and concerned 542 milestones and 135 targets.

For general budget spending, we examine expenditure at the point when final recipients of EU funds have undertaken activities or incurred costs. For the RRF, the main condition for payment to member states by the Commission is the satisfactory fulfilment of predefined milestones or targets. We examine RRF expenditure at the point when member states request payment for achieving their predefined milestones or targets and at the point when the Commission has accepted it. We focused on whether the milestones and targets have been satisfactorily fulfilled, and whether the eligibility conditions were met. Our audit does not cover the loans component of the RRF.

What we found

Our statement of assurance on the EU budget

In accordance with Article 287 of the Treaty on the Functioning of the European Union (TFEU), we provide a statement of assurance to the European Parliament and the Council of the European Union covering the reliability of the EU's consolidated accounts and the legality and regularity of transactions. This is the central element of our annual report.

The EU accounts present a true and fair view

The 2023 EU accounts present fairly, in all material respects, the EU's financial results and its assets and liabilities at the end of the year, in accordance with international public sector accounting standards.

We can therefore give a clean opinion on the reliability of the accounts, as we have done every year since 2007.

The EU balance sheet includes a liability for pension and other employee benefits amounting to €90.8 billion at the end of 2023 (2022: €80.6 billion). The increase in the pension liability in 2023 is mainly due to the decrease in the nominal discount rate and the update of the EU Civil Servants Life Table. The discount rate was influenced primarily by the evolution of the interest rates and of the expected future inflation.

On 1 February 2020, the United Kingdom ceased to be an EU member state. At the balance sheet date, the EU accounts showed a net receivable due from the UK of €15.5 billion (2022: €23.9 billion), based on mutual obligations defined in the withdrawal agreement.

The impact of Russia´s war of aggression against Ukraine on loans and grants in the EU accounts has been assessed, and appropriately accounted for and disclosed in accordance with the requirement of the accounting rules.

We issue a clean opinion on revenue

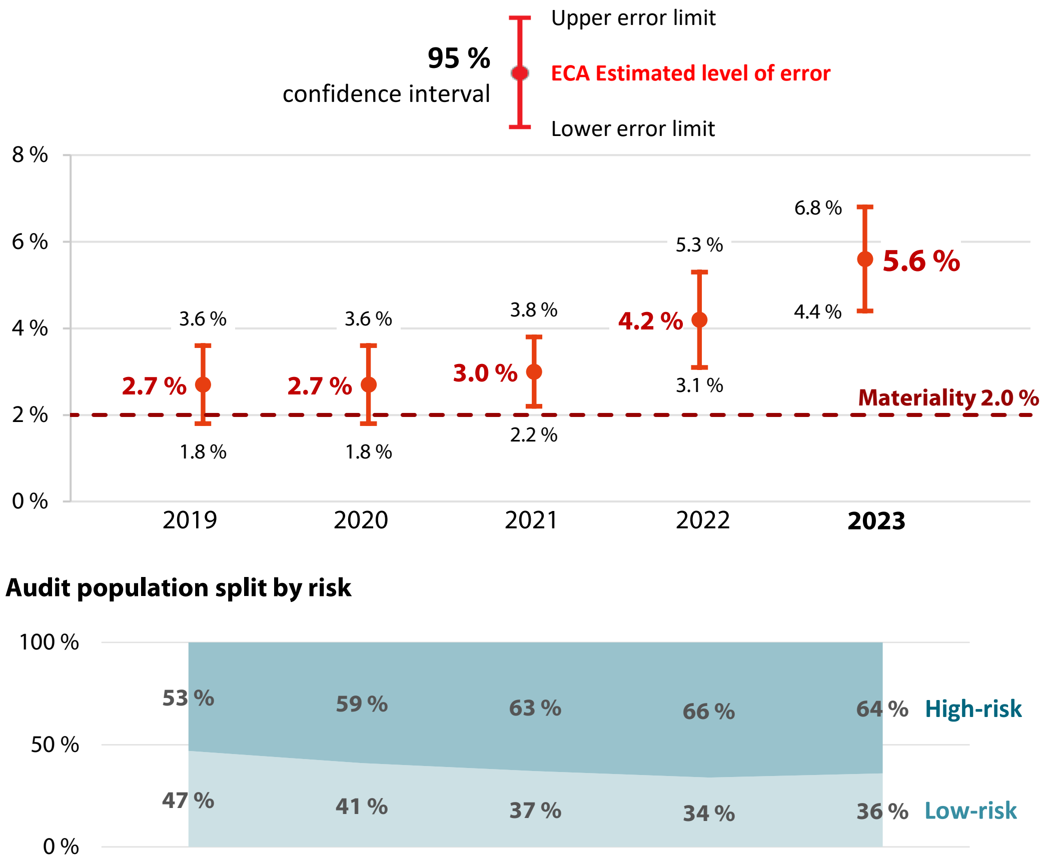
We conclude that revenue is free from material error. The systems for managing the revenue we examined were generally effective.

We issue an adverse opinion on EU budget spending

We define error as an amount of money that should not have been paid out of the EU budget. Errors occur when money is not used in accordance with the relevant EU legislation and hence not as the Council and European Parliament intended when adopting that legislation, or when it is not used in accordance with specific national rules.

For EU budget spending, we estimate the level of error to be between 4.4 % and 6.8 %. The mid-point of this range, previously known as the 'most likely error', has increased compared to last year, from 4.2 % to 5.6 % – see ***Figure 2***.

Figure 2 – Estimated level of error and audit population (2019-2023)

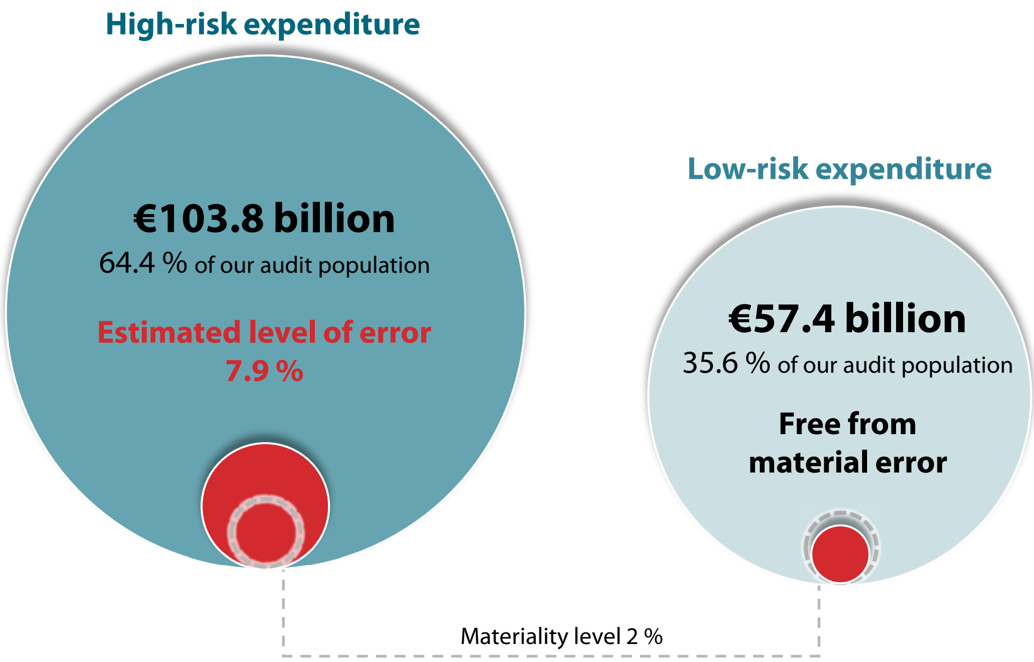


Source: ECA.

More than half of our audit population is again affected by material error

In 2023, high-risk expenditure represented 64.4 % of our audit population, compared to 66.0 % in the previous year. We continued to find that low-risk expenditure was free from material error, but that high-risk expenditure remained affected by material error, therefore the way funds are disbursed has an impact on the risk of error. We estimate the level of error in high-risk expenditure at 7.9 % (2022: 6.0 %) (see ***Figure 3***).

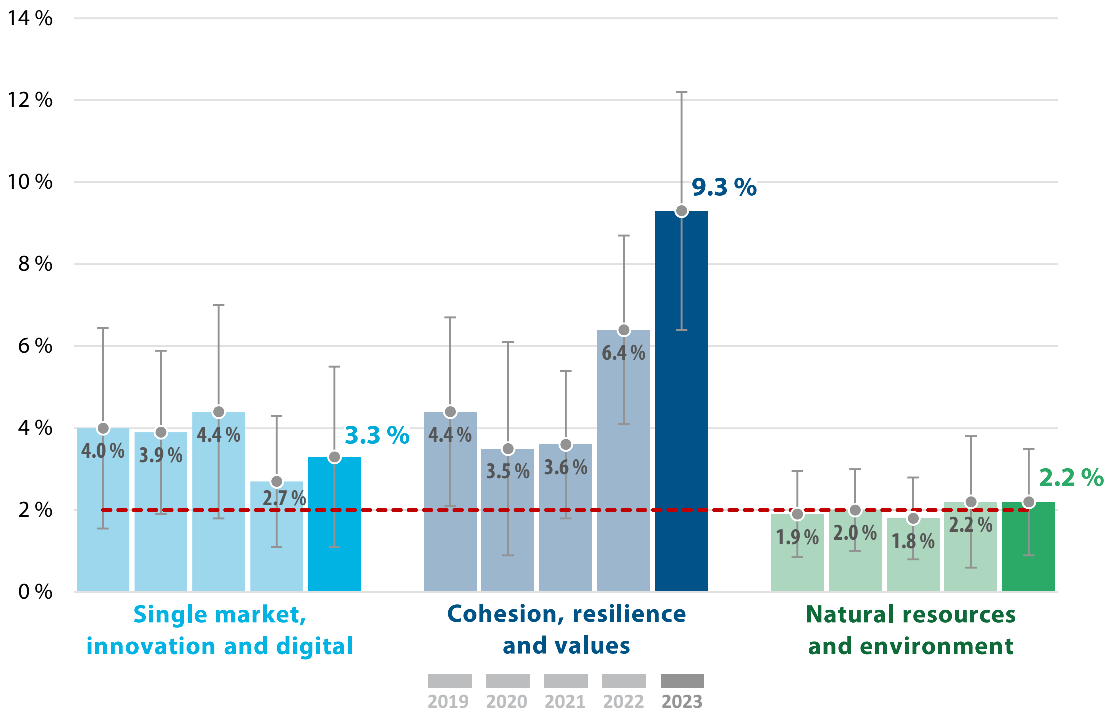
Figure 3 – Breakdown of the 2023 audit population into high-risk and low-risk expenditure



Source: ECA.

The overall level of error is mainly driven by 'Cohesion, resilience and values' (3.5 percentage points), followed by 'Natural resources and environment' (0.8 percentage points) and 'Neighbourhood and the world' (0.8 percentage points). ***Figure 4*** compares our estimated levels of error for 'Single market, innovation and digital', 'Cohesion, resilience and values' and 'Natural resources and environment' between 2019 and 2023.

Figure 4 – Estimated levels of error for MFF headings 1, 2 and 3 (2019-2023)



Source: ECA.

In 2023, we continued to find that eligibility errors contributed the most to the estimated level of error for high-risk expenditure, at 53 %, mainly in 'Cohesion, resilience and values', 'Natural resources and environment', 'Neighbourhood and the world' and 'Single market, innovation and digital'. Moreover, errors relating to infringements of public procurement and state aid rules contributed 31 % to the estimated level of error for high-risk expenditure.

Comparing our error level estimates with those of the Commission

The AMPR, for which the college of Commissioners has responsibility, summarises key information from the annual activity reports (AARs) on internal control and financial management. It includes the risk at payment, which is the Commission's estimate of the amount that has been paid without being in accordance with the applicable rules. The Commission's risk at payment for 2023 is 1.9 %, which is below our estimated level of error of 5.6 % (2022: 4.2 %) and below our range, which is between 4.4 % and 6.8 %.

Like our estimated level of error, the Commission's estimate does not include RRF expenditure, for which it discloses the control results separately based on a qualitative assessment. In addition, the AAR of each Commission directorate-general (DG) includes a declaration in which the director-general provides assurance that the report presents financial information properly and that the transactions under their responsibility are legal and regular. For this purpose, all DGs provided estimates of the risk at payment in their spending, except for the RRF, for which the Commission assesses the control results based on a combination of the results from member states' and its own audits and controls.

For each MFF heading where we provide a specific assessment, we have compared the Commission's risk at payment for 2023 with our estimated level of error. The comparison shows that the Commission's figures are below our estimates for three policy areas. We found that for 'Single market, innovation and digital', the Commission's estimate of the risk at payment of 1.4 % was in the lower half of our range, below our estimated level of error, for 'Cohesion, resilience and values', the Commission's estimate was 2.6 %, significantly below our range for the estimated level of error and for 'Natural resources and the environment', the Commission's estimate of the risk at payment (1.9 %) was in the lower half of our range, below our estimated level of error.

In the AMPR, the Commission presents its overall risk assessment for 2023 annual expenditure in order to identify and focus action on high-risk areas. The Commission estimates risk to be low for 67 % of expenditure, medium for 9 % and high for 24 %. However, our work revealed limitations in the Commission's *ex post* work, which, taken together, affect the robustness of the Commission's risk assessment. One of the areas most impacted was 'Cohesion, resilience and values', where we assessed the majority of the spending to be high risk, while the Commission classified only a minority in this way.

We issued a qualified opinion on RRF expenditure in 2023

The RRF is a temporary instrument delivered and financed in a way that is fundamentally different to EU budget expenditure. Whereas beneficiaries of EU budget spending are paid for having undertaken certain activities or reimbursed for costs incurred, under the RRF member states are paid for the satisfactory achievement of predefined milestones or targets. For RRF, we therefore examined whether predefined milestones or targets were satisfactorily achieved and whether horizontal eligibility conditions were met.

The overall audit evidence from our work shows that 16 out of the 452 RRF milestones and targets we examined did not comply with the payment or eligibility conditions. These concern seven payments in seven member states. We also identified cases of vaguely defined milestones and targets, weaknesses in member states' control systems and problems with the reliability of information that member states included in their management declaration.

Want to know more? Full information on the main findings can be found in Chapter 1 and Chapter 11 of our ***2023 annual report****. The full text of our annual report can be found on our* ***website*** *(eca.europa.eu).*

A closer look at our results

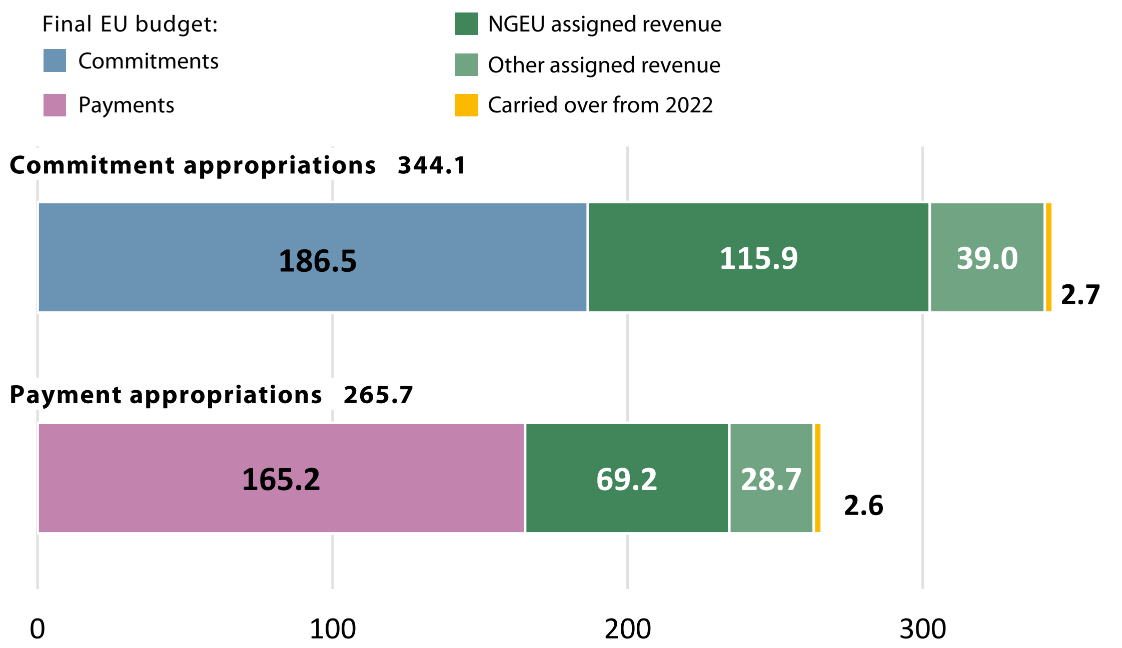
Budgetary and financial management

EU budget implementation was high for commitments but low for payments

2023 was the third year of the 2021-2027 MFF. ***Figure 5*** shows the overall available EU budget expenditure including NGEU grants.

Figure 5 – Total 2023 EU budget available appropriations including NGEU grants

(billion euros)



Source: ECA, based on the 2023 consolidated annual accounts of the EU.

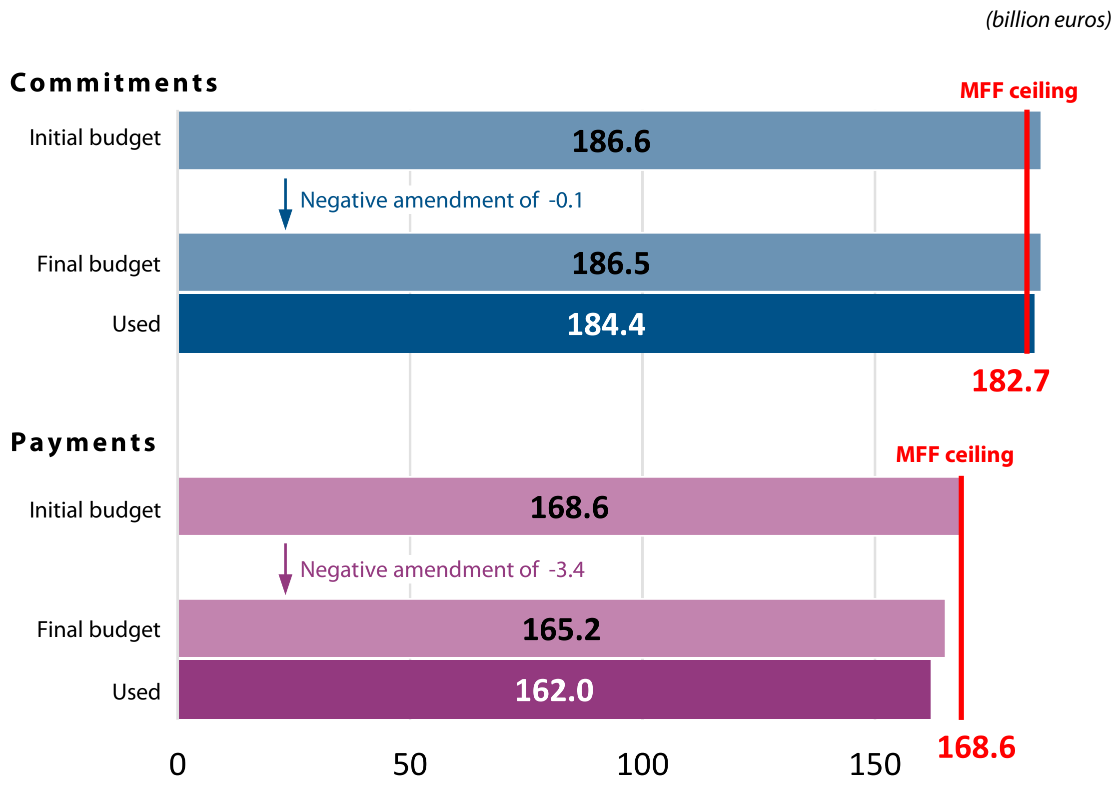
In 2023, almost all commitment appropriations of the annual EU budget were used

The final budget of commitment appropriations of €186.5 billion was above the MFF ceiling of €182.7 billion. This was made possible via MFF special instruments, such as the Brexit Adjustment Reserve (BAR), European Globalisation Adjustment Fund, and Solidarity and Emergency Aid Reserve. These instruments provide additional funds over and above the MFF ceilings for new or unforeseen events. The total commitments made under the 2023 budget were €184.4 billion.

Payments were lower than initially planned and below the MFF ceiling

In 2023, the total final budget was €165.2 billion, which was below the MFF ceiling. Total payments made under the final budget were €162.0 billion. See ***Figure 6***.

Figure 6 – Budget implementation in 2023



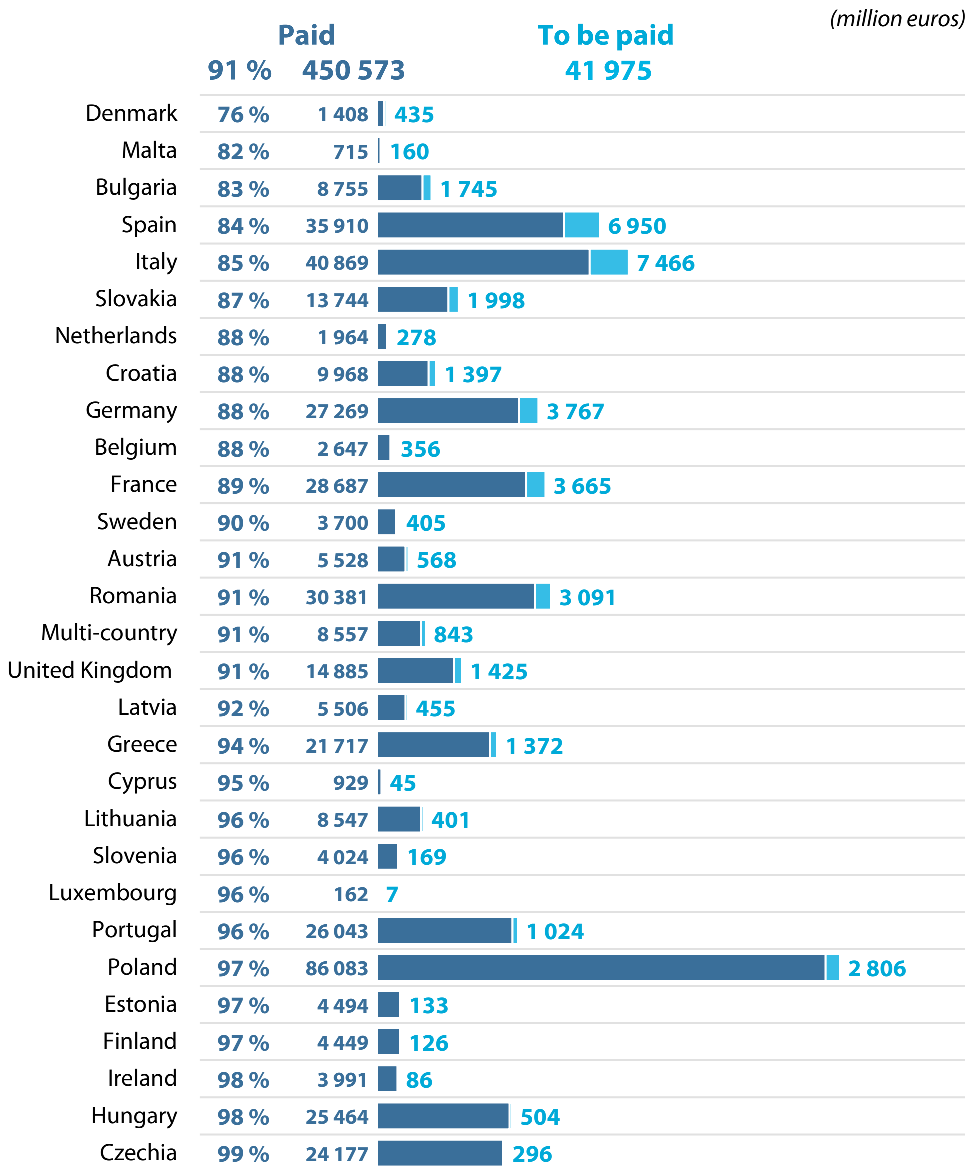
Source: ECA, based on the 2023 consolidated annual accounts of the EU.

Taking into account additional payments of €74.7 billion from assigned revenue (mainly NGEU grants), and €2.4 billion of carry-overs from 2022, total payments in 2023 reached €239.2 billion. Utilisation of the budget for payments was 90.0 % of total payment appropriations of €265.7 billion.

Absorption of the 2014-2020 ESIF slowed down in 2023, but the deadline for payment claims and closure documents was extended by one year

European Structural and Investment Funds (ESIF) payments in 2023, excluding NGEU resources, amounted to €54.7 billion, which was less than in the previous three years (€64.7 billion in 2022, €75.1 billion in 2021 and €72 billion in 2020). At the end of 2023, total payments for the 2014-2020 ESIF amounted to €450.6 billion out of the total allocation of €492.6 billion, resulting in an absorption rate of 91.5 %. While the differences in how member states absorbed ESI funds were less significant in comparison to 2022, the absorption rates of four member states remained below 85 % at the end of 2023 (see ***Figure 7***).

Figure 7 – Member state 2014-2020 ESIF absorption rates (excluding NGEU), as at end 2023



Source: ECA, based on Commission’s open data platform as at 8 January 2024 and on other Commission data.

Payments from 2021-2027 shared management funds under the CPR remained low

In 2023, the annual payments for the shared management funds under the CPR (€6.3 billion) were for €4.1 billion of pre-financing and €2.2 billion of interim payments. In 2023, 11 member states did not request interim payments for any of the funds covered by the CPR. At the end of 2023, total payments amounted to €12.8 billion, which is only 3.2 % of the total amount of the 2021-2027 MFF.

In 2023, member states prioritised efforts to absorb the 2014-2020 cohesion policy funds, and speed up the implementation of NGEU. Compared to the previous programming period, the aggregate delays indicate a shortfall in implementation of cohesion policy funds equivalent to a one-year gap.

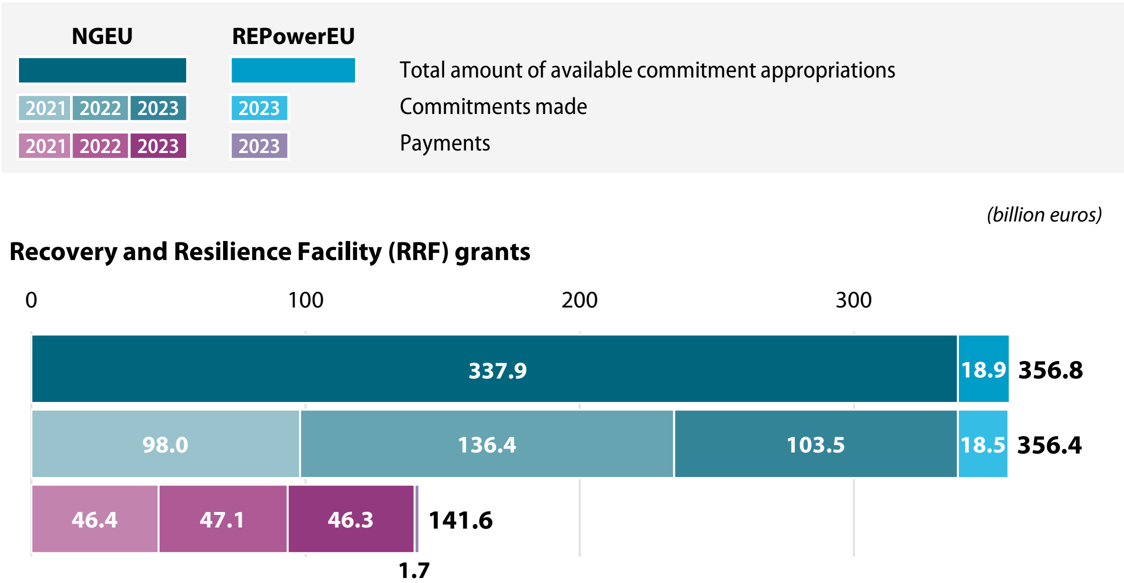
EAFRD payments under the new CAP started slowly in 2023

Since 2023, the EAFRD has been covered by the new Common Agricultural Policy regulations. At the end of 2023, EAFRD payments amounted to €0.7 billion, with an absorption rate of only 1 %.

Payments from RRF and NGEU top-up programmes were lower than expected in 2023

In February 2023, the European Parliament and the Council amended the RRF Regulation so that a REPowerEU chapter, financed from the emissions trading system (ETS) and BAR, could be included in the member states' RRF plans. By the end of 2023, the Commission had made all NGEU-financed RRF commitments for grants (€337.9 billion). The commitments for the REPowerEU chapters were €18.5 billion (€17.3 billion from the ETS and €1.2 billion from the BAR), with the remaining €0.4 billion from the BAR to be committed at a later date. Annual payments of RRF grants totalled €48 billion in 2023. In contrast, in June 2022, the Commission had expected total NGEU financed RRF payments linked to milestones and targets (not including REPowerEU) in 2023 to amount to €76.4 billion. According to the Commission, several factors, such as high inflation, increased energy prices, problems in global supply chains, labour shortages or insufficient administrative capacity, adversely affected RRF implementation. With payments of €141.6 billion out of €356.4 billion of commitments made, a total of up to €215.2 billion of RRF grants remains available to be paid by the end of 2026. See ***Figure 8***.

Figure 8 – Implementation of RRF grants by source, as at end 2023



Source: ECA, based on the 2023 consolidated annual accounts of the EU.

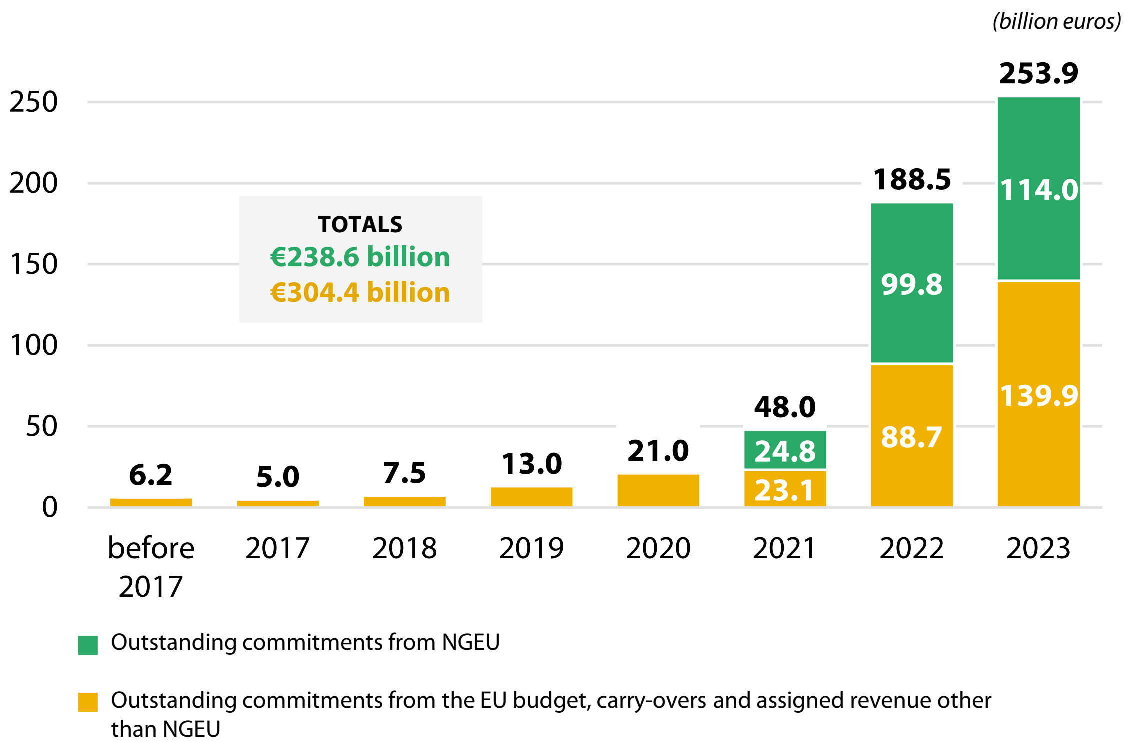
There are significant differences in how member states absorbed the RRF grants. By the end of 2023, four member states (Ireland, Hungary, Netherlands, and Sweden) had not received pre-financing nor submitted a payment request, while three member states (Belgium, Poland, and Finland) had received only pre-financing.

The total commitments of NGEU top-ups to MFF programmes totalled €82.9 billion out of an initial allocation of €83.1 billion. The annual payments of NGEU top-ups to existing MFF programmes increased from €16.1 billion in 2022 to €19.0 billion in 2023. Payments up to €40.6 billion can be made until the end of 2026.

Outstanding commitments from the EU budget and NGEU grant funding reached a record €543 billion

Outstanding commitments are the sum of commitments made but not yet paid. By the end of 2023, total outstanding commitments, which will have to be paid in the following years unless they are decommitted, reached a record high of €543 billion. This was an increase of €90.2 billion compared to 2022 (€452.8 billion). The outstanding commitments mainly relate to the EU budget and carry-overs (€263.6 billion) and NGEU grant funding (€238.6 billion). We made a recommendation in 2022 to substantially reduce the level of outstanding commitments. See ***Figure 9***.

Figure 9 – Total outstanding commitments by year of origin and type of funding, as at end 2023



Source: ECA, based on the 2023 consolidated annual accounts of the EU and budgetary implementation reports from the Commission's accounting system.

Risks and challenges

The MFF revision introduced measures to address risks related to additional NGEU financing costs and payment backlog

In February 2024, the Council amended the MFF in response to multiple challenges (e.g. continued support for Ukraine, higher interest rates, increased migration and the need to promote strategic technologies). The MFF revision increases commitment appropriations for 2024-2027 by €21.0 billion, of which €17 billion is to finance the newly created Ukraine Facility.

The Council also introduced a "cascade mechanism". Its purpose is to cover NGEU borrowing costs that exceed, if funds cannot be found within the existing EU budget and until the end of the current MFF, the annual amounts set out in the revised MFF Regulation. The European Union Recovery Instrument NextGenerationEU is a special instrument over and above the MFF ceiling and has no fixed amount. The Commission has estimated that the additional interest and coupon payments for NGEU borrowing within the current MFF might range from €17 billion to €27 billion.

Risk of decommitments in cohesion policy funds for the 2021-2027 MFF

Absorption of ESIFs and the Just Transition Fund for the 2021-2027 MFF continued to be low in 2023. As a result, the budgetary authority reduced the 2023 payment appropriations for the ERDF (- €1.1 billion) and the ESF+ (- €0.7 billion). The risk of decommitments could already materialise at the end of 2025 for commitments made in 2022 under the CPR for 2021-2027.

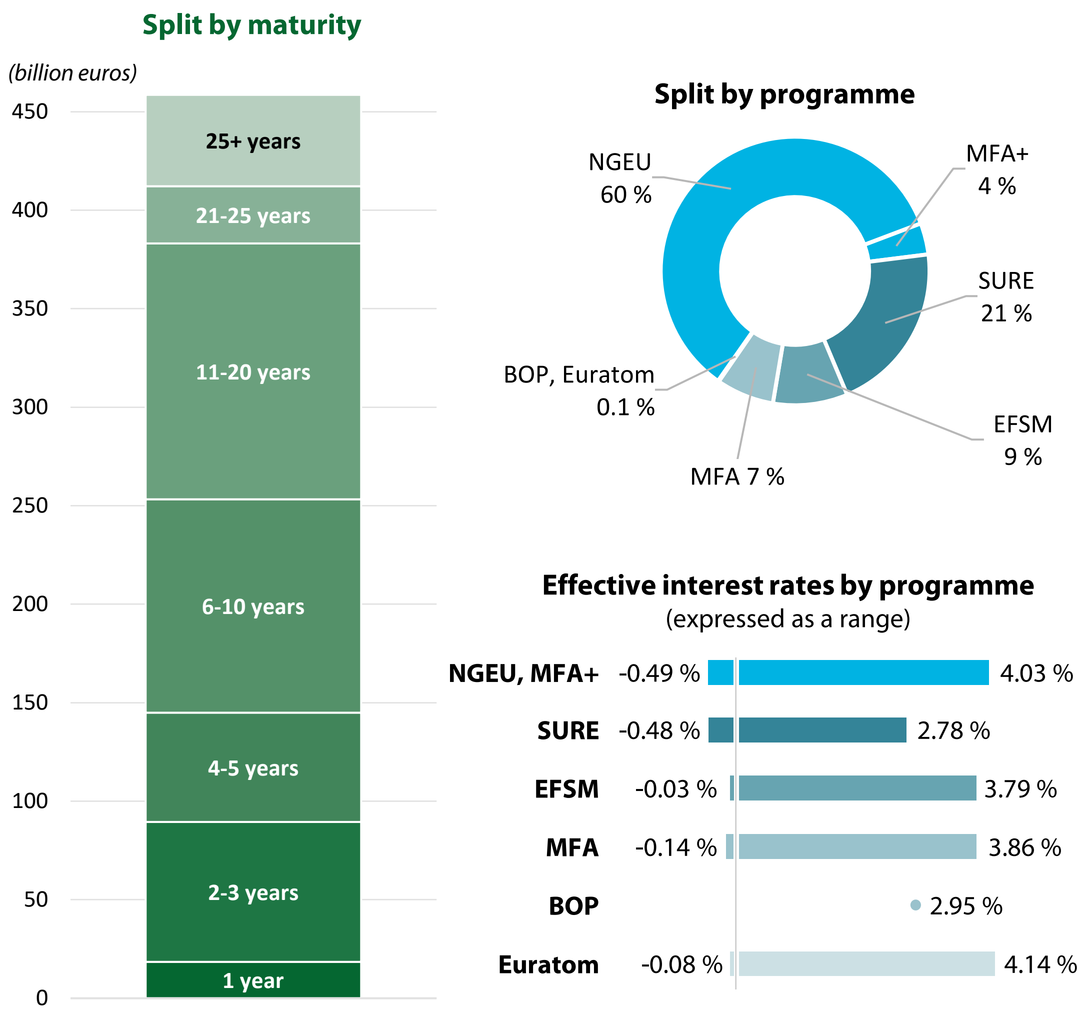
In 2023, the Commission forecast decommitments for 2024-2027 at €8.1 billion (2022 forecast: €7.6 billion for 2023-2027). For the CF, ERDF, and ESF+ cohesion policy funds, the Commission forecast total decommitments for 2024-2027 at €2.2 billion, more than five times its 2022 forecast of €0.4 billion. For JTF, the delays in adopting the MFF and the programme-specific legislation, and the low implementation in 2023 will put important amounts at risk of decommitment from 2025 onwards. An important amount of decommitments might jeopardise the achievement of the EU objectives.

EU debt from borrowing increased in 2023

Outstanding EU borrowings increased by more than 30 % in 2023

At the end of 2023, the nominal value of outstanding EU borrowings has risen to over €458.5 billion, an increase in the year of €110.5 billion. The EU has now become one of the largest debt issuers in Europe. ***Figure 10*** shows the maturities and effective interest rates of all EU borrowing.

Figure 10 – Maturities and effective interest rates of EU budget borrowing, as at end 2023



NGEU: NextGenerationEU
MFA+: Macro-Financial Assistance Plus to Ukraine
SURE: Temporary Support to mitigate Unemployment Risks in an Emergency
EFSM: European Financial Stabilisation Mechanism
MFA: Macro-Financial Assistance
BOP: Balance of Payments assistance facility

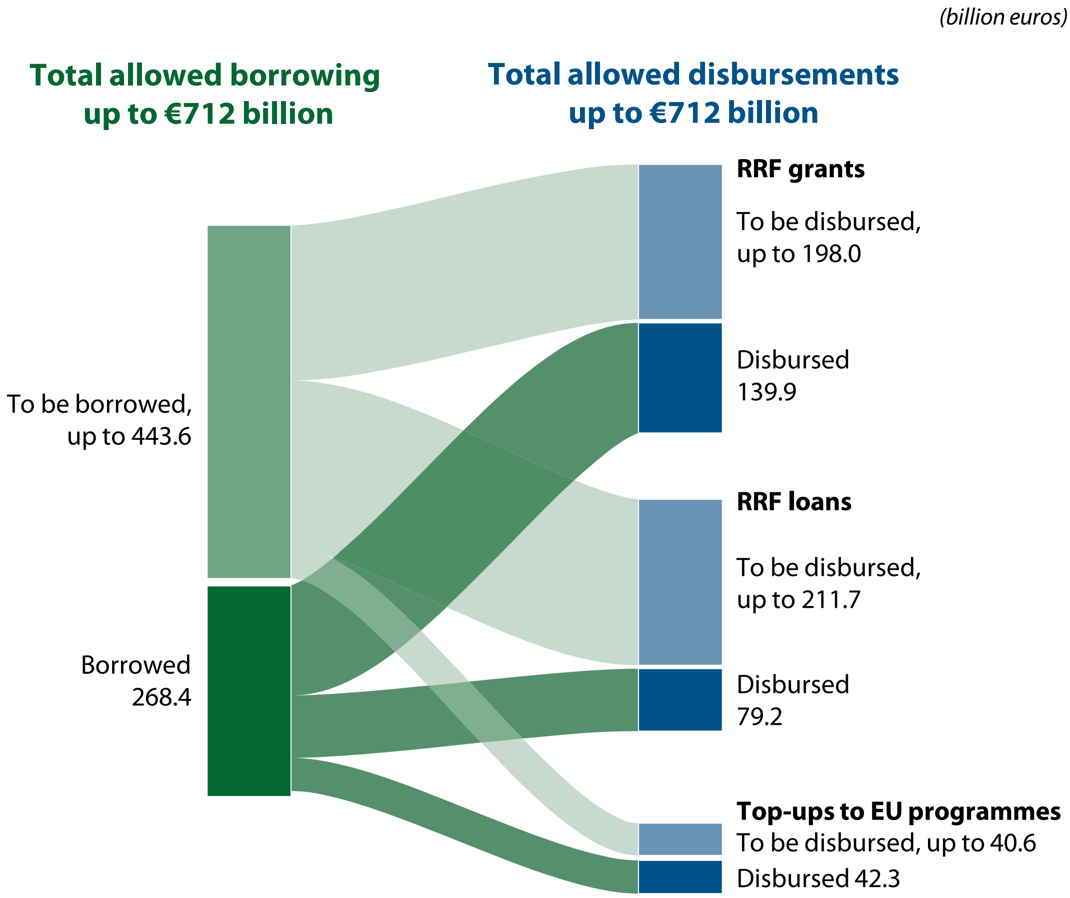
Note: Amounts at nominal value.

Source: ECA, based on the 2023 consolidated annual accounts of the EU.

NGEU borrowing may more than double by 2026 while the bulk of repayment is deferred to future MFFs

At the end of 2023, the EU had outstanding EU bonds for a nominal value of €268.4 billion to finance NGEU loans and grants and other NGEU-funded programmes. For NGEU, the EU may borrow an additional €443.6 billion by the end of 2026, see *Figure 11*.

Figure 11 – NGEU borrowing and disbursements, as at end 2023



Note: The borrowed amount does not include €15.2 billion of short-term EU bills. A borrowed amount of €7.0 billion had not yet been disbursed by the end of 2023, with the funds held at the European Central Bank.

Source: ECA, based on COM(2024) 93 and the 2023 consolidated annual accounts of the EU.

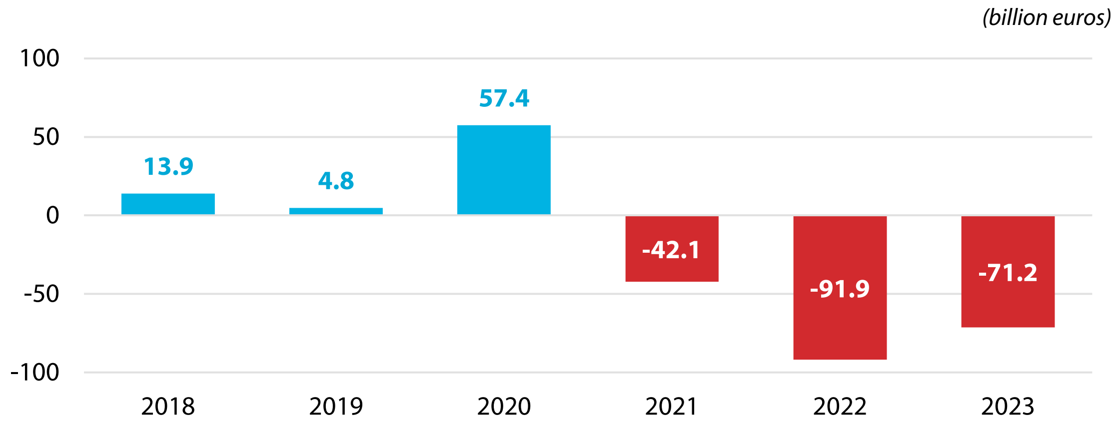
The repayment of NGEU borrowing must start before the end of 2027, if unused appropriations remain available in the budget line to cover NGEU financing costs, and be completed by 2058 at the latest. The bulk of the repayments is therefore deferred to future MFFs. All costs incurred by the EU in relation to the borrowing of funds for NGEU loans, including those linked to managing interest rate and other financial risks, have to be borne by the beneficiary countries. All costs associated with NGEU grants and top-ups are borne by the EU budget.

To achieve a steady and predictable reduction of NGEU debt until 2058, the Commission may need to rollover expiring debt by issuing new debt instruments to pay off the old ones as they mature. Potential changes in market conditions might result in higher borrowing costs that, for the NGEU debt relating to grants and NGEU top-ups, will have to be borne by the EU budget.

External assigned revenue from NGEU debt has a significant impact on the economic result

The amounts borrowed under NGEU are channelled into NGEU grants and top-ups of EU programmes by means of external assigned revenue, which is additional to voted appropriations in the EU budget. The implementation of NGEU does not formally affect the principle that the revenue and expenditure shown in the annual EU budget should balance (principle of equilibrium). Nevertheless, from an accounting perspective, the statement of financial performance does not include as revenue the amount borrowed under NGEU, whereas it includes the expenses related to the NGEU grants. Consequently, it has a negative impact on the economic result of the year. Negative economic results increase the deficit in net assets as reflected in the EU's balance sheet and therefore must be funded by future budgets (see ***Figure 12***). The repayment of the NGEU borrowing is guaranteed within the ceilings of own resources.

Figure 12 – Economic result (surplus/deficit) for each year from 2018 to 2023



Note: The figure for 2020 includes €47.5 billion of revenue related to the UK Withdrawal Agreement.

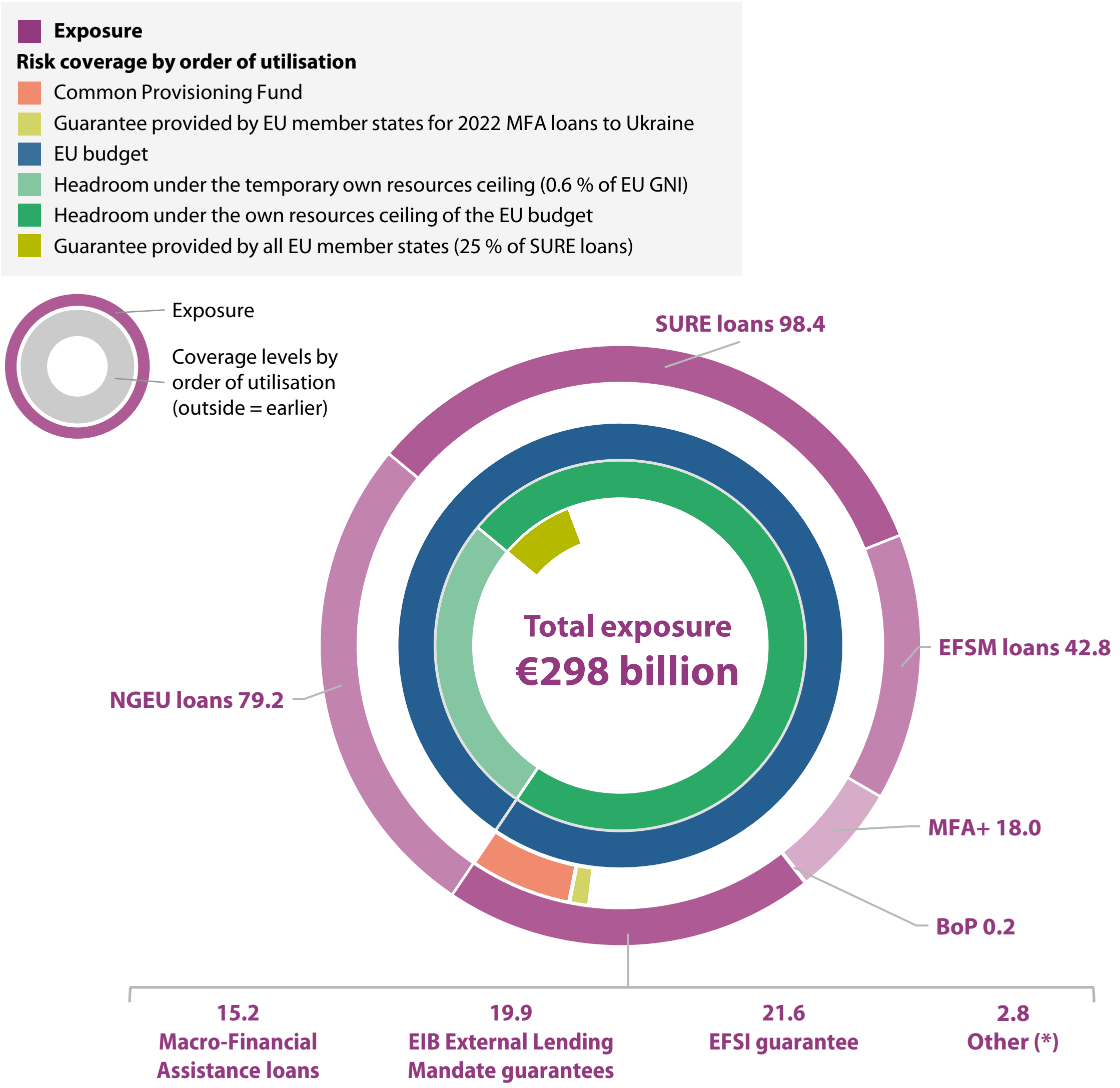
Source: ECA, based on consolidated annual accounts of the EU for 2018 to 2023.

EU budget exposure increased in 2023 and is projected to rise further

The exposure of the EU budget from EU budget guarantees for borrowing from the market and contingent liabilities from budgetary guarantees totalled €298.0 billion at the end of 2023, which was an increase from €248.3 billion at the end of 2022. ***Figure 13*** provides a detailed breakdown of the exposure (shown in purple) by source. In the figure, layers of risk coverage, representing different levels of coverage, are shown as concentric circles. The circle adjacent to the exposure represents the first layer of risk coverage that will be called upon. Moving inwards, subsequent circles denote additional layers of risk coverage.

Figure 13 – Total exposure of the EU budget at end 2023, with source of exposure and risk coverage

(billion euros)



NGEU	NextGenerationEU
SURE	Support to mitigate Unemployment Risks in an Emergency
EFSM	European Financial Stabilisation Mechanism
MFA+	Macro-Financial Assistance Plus to Ukraine (2023)
BoP	Balance of Payments
EFSI	European Fund for Strategic Investments

(*) European Fund for Sustainable Development (EFSD) guarantee: €0.5 billion, InvestEU guarantee: €1.4 billion, and European Fund for Sustainable Development Plus (EFSD+) guarantee: €0.6 billion; Euratom loans: €0.3 billion.

Source: ECA, based on the 2023 consolidated annual accounts of the EU, and applicable regulations.

The 2023 increase in EU budget exposure related mainly to borrowings for the additional €34.1 billion of RRF loans made to member states (2022: €27.2 billion), of which €5.4 billion were for REPowerEU loans, plus the MFA+ loans to Ukraine of €18.0 billion. Exposure to the contingent liabilities arising from budgetary guarantees increased to €44.0 billion by the end of 2023 from €42.9 billion at the end of 2022. This was mainly because of more disbursements for investments covered by the InvestEU guarantee. In October 2023, the Commission estimated that the available headroom for the 2024-2027 period would be adequate to cover potential losses arising from headroom-backed liabilities.

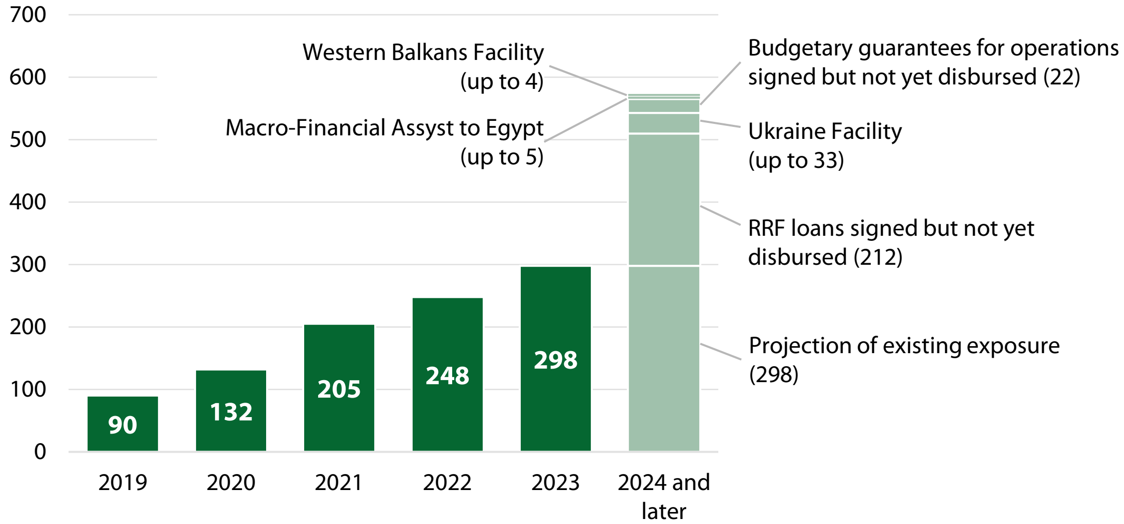
The EU budget exposure at the end of 2023 is expected to rise in 2024 and 2025, mainly due to new RRF loans. By the end of 2023, the Commission had signed RRF loan agreements with member states for €290.9 billion, of which €211.7 billion had not yet been disbursed.

In early 2024, the EU legislator established the Ukraine Facility. Loans up to €33 billion will be financed by financial market borrowing and backed by the headroom of the EU budget, as is the case for MFA+ loans. In our opinion on the Ukraine Facility, we highlighted that this approach entails considerable risks for the EU budget.

Figure 14 compares past and projected exposure of the EU budget from 2019 onwards.

Figure 14 – Past and projected exposure of the EU budget

(billion euros in current prices)



Note: Amounts in nominal values.

Source: ECA, based on the consolidated annual accounts of the EU for 2019 to 2023 and Commission information.

Russia's war of aggression against Ukraine continues to increase financial risks to future EU budgets

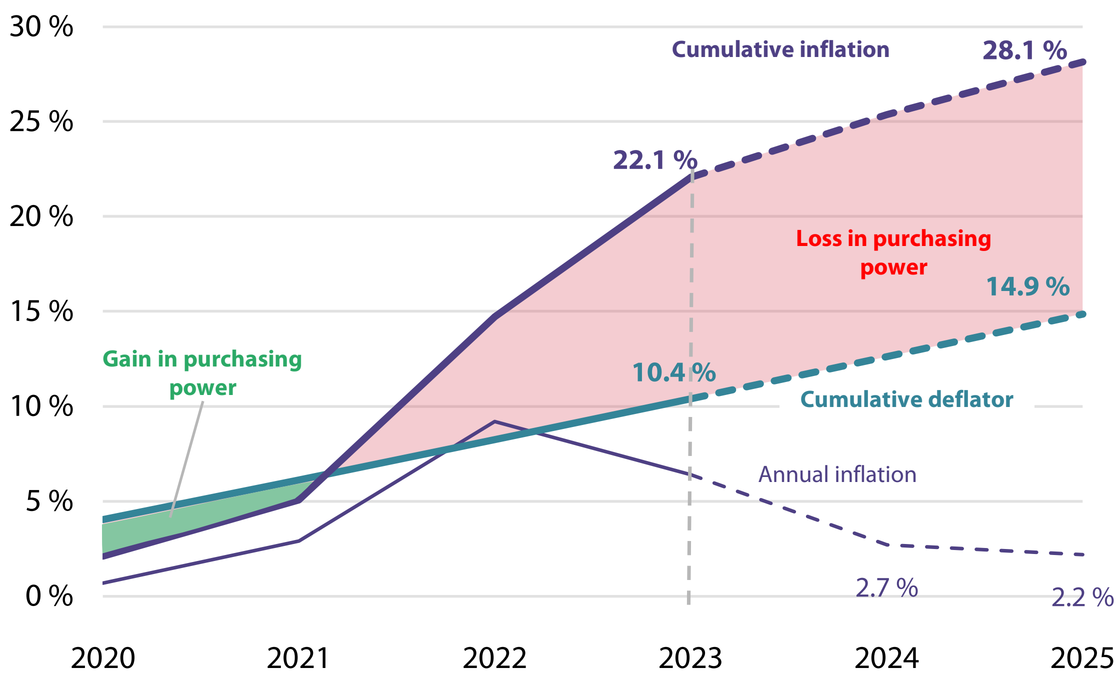
The exposure of the EU budget to Ukraine rose from €16 billion at the end of 2022 to €33.7 billion at the end of 2023. This comprised €18 billion of MFA+ loans, €11.6 billion of MFA loans, €0.3 billion of Euratom loans, and €3.8 billion of budgetary guarantees for outstanding loans provided by the EIB and other financial institutions. The Commission has recognised an impairment allowance for the MFA and MFA+ loans made to Ukraine of €8.8 billion (€2.2 billion in 2022), which reflected the expected losses over the lifetime of the loans.

In 2023, the MFA+ instrument provided €18 billion support to Ukraine in the form of highly concessional loans to be repaid over a maximum of 35 years starting in 2033. The MFA+ loans do not require provisioning to cover the risk of default as they are guaranteed through the headroom of the EU budget. We have highlighted that transferring the risks of possible defaulted repayments to the future could put pressure on future budgets and payment needs. Furthermore, in our opinion, the Ukraine facility set up in 2024 to provide financial support for an additional amount of up to €33 billion in loans for the period from 2024 to 2027, which does not require provisioning, entails considerable risks for the EU budget.

High inflation in 2022 and 2023 continues to affect the EU budget

Based on the Commission's inflation forecast, we estimate that the EU budget could lose about 13 % of its purchasing power by the end of 2025, see ***Figure 15***.

Figure 15 – Changes in EU budget purchasing power (2020-2025)



Source: ECA, based on Eurostat and Commission's Spring 2024 Economic Forecast.

What we recommend

To mitigate the risk of decommitments, we recommend that the Commission closely monitor the progress in selection of operations and take necessary actions regarding programmes at risk.

Want to know more? Full information on our audit of the Budgetary and Financial Management can be found in Chapter 2 of our ***2023 annual report****.*

Getting results from the EU budget

Every year, we analyse a number of aspects relating to the performance and the results achieved by the EU budget, which is implemented by the Commission in cooperation with the member states. This year, our analysis covers:

- results and key messages from our 2023 special reports on performance, as well as related information from the Commission and the budgetary and legislative authorities (European Parliament and Council of the European Union);
- how the Commission reported on performance for MFF heading 4, 'Migration and border management' (we aim to examine different MFF headings in rotation over the following years);
- implementation of the recommendations made in our 2020 report on the performance of the EU budget;
- implementation of the recommendations we made in the special reports we published in 2020.

Key messages from our 2023 special reports on performance

Our special reports examine how well the principles of sound financial management have been applied in implementing the EU budget. In 2023, we published 29 special reports addressing many of the challenges the EU is facing across its different spending areas and policies. Our auditees have the right to provide replies to our observations. Our 2023 special reports contained 220 recommendations on a wide range of topics, mainly addressed to the Commission, 85 % of which were fully accepted.

They addressed five strategic areas, namely, the EU's response to post-crisis recovery, increasing the EU's economic competitiveness for the benefit of all citizens, resilience to threats to the EU's security, and respect for the European values of freedom, democracy and the rule of law, climate change, the environment and natural resources, and fiscal policies and public finances in the EU (see ***Table 1***).

Table 1 – ECA strategic areas covered by special reports in 2023

EU response to post-crisis recovery	▪ SR 02/2023: Adapting cohesion policy rules to respond to COVID-19 ▪ SR 07/2023: Design of the Commission's control system for the RRF ▪ SR 16/2023: NGEU debt management at the Commission ▪ SR 26/2023: The Recovery and Resilience Facility's performance monitoring framework
Competitiveness	▪ SR 03/2023: Internal electricity market integration ▪ SR 11/2023: EU support for the digitalisation of schools ▪ SR 13/2023: Authorised Economic Operators ▪ SR 15/2023: The EU's industrial policy on batteries ▪ SR 27/2023: Screening foreign direct investments in the EU
Resilience and European values	▪ SR 01/2023: Tools facilitating travel within the EU during the COVID-19 pandemic ▪ SR 09/2023: Securing agricultural product supply chains during COVID-19 ▪ SR 10/2023: The Preparatory action on defence research ▪ SR 14/2023: Programming the Neighbourhood, Development and International Cooperation Instrument – Global Europe ▪ SR 20/2023: Supporting persons with disabilities ▪ SR 21/2023: The Spotlight Initiative to end violence against women and girls
Climate change, environment and natural resources	▪ SR 04/2023: The Global Climate Change Alliance(+) ▪ SR 08/2023: Intermodal freight transport ▪ SR 17/2023: Circular economy ▪ SR 18/2023: EU climate and energy targets ▪ SR 19/2023: EU efforts for sustainable soil management ▪ SR 22/2023: Offshore renewable energy in the EU ▪ SR 23/2023: Restructuring and planting vineyards in the EU ▪ SR 24/2023: Smart cities ▪ SR 25/2023: EU aquaculture policy ▪ SR 29/2023: The EU's support for sustainable biofuels in transport
Fiscal policies and public finances	▪ SR 05/2023: The EU's financial landscape ▪ SR 06/2023: Conflict of interest in EU cohesion and agricultural spending ▪ SR 12/2023: EU supervision of banks' credit risk ▪ SR 28/2023: Public procurement in the EU

Source: ECA.

Performance of programmes under MFF heading 4 ‘Migration and border management’

To provide more information on the performance of the EU budget, this year we analysed the available performance information on a selected MFF heading. We focused on heading 4 – Migration and border management and the following two funds: the Asylum, Migration and Integration Fund (AMIF), and the Integrated Border Management Fund (IBMF), which consists of the Border Management and Visa Policy and the Customs Control Equipment Instrument. Comprehensive performance information for programmes financed under an MFF heading becomes more available towards and after the end of the programming period. We noted that:

- there is an improved performance reporting framework for the current MFF period;
- performance information for the AMIF and the IBMF for the current period is so far scarce and shows low progress;
- most indicators for the 2014-2020 period show good progress towards achieving their targets. Indicators do not necessarily show the extent to which the funded actions have addressed needs. There is not yet sufficient information about the programmes’ overall results, including their economy and efficiency;
- the key performance indicators the Commission highlighted in the 2022 AMPR of the Internal Security Fund – Borders and visa were less balanced than for the AMIF. The programme performance statements provided reasonable explanations when targets were not fully achieved, however the Commission included expected future achievements in its ‘programme in a nutshell’ section.

We recommend that the Commission present actual achievements in the ‘Programme in a nutshell’ part of the programme performance statement, not potential achievements in the future, and disclose in its AMPR which key performance indicators were based on sources that were different from the annual implementation reports submitted by the member states.

Follow-up of the recommendations made in our report on the performance of the EU budget – status at the end of 2020

Our report on the performance of the EU budget covering the financial year 2020 contained five recommendations, all of which were addressed to and accepted by the Commission. Three of the five recommendations we followed up were not yet due for implementation at the time of our follow-up review. Of the remaining two recommendations, the Commission implemented one in most respects, and the other one in some respects.

Follow-up of the recommendations made in our 2020 special reports

Every year, we review the extent to which our auditees have taken action in response to our recommendations three years after we made them. This year, we analysed 195 recommendations from all 26 special reports we published in 2020. Of these, 185 were addressed to the Commission, of which seven were addressed to the European Investment Advisory Hub which operates as a partnership between the Commission and the European Investment Bank. The remaining 10 recommendations were addressed to EU decentralised agencies and other bodies and the European Personnel Selection Office. We found that:

- the proportion of recommendations accepted by our auditees remained at a high level with 80 % fully accepted and 13 % partially accepted;
- the proportion of recommendations implemented in full or in most respects slightly decreased from 70 % to 68 %;
- 68 % of recommendations addressed to the Commission have been implemented in full or in most aspects;
- 78 % of recommendations addressed to other auditees have been implemented in full or in most respects;
- the proportion of recommendations implemented on time has increased from 38 % to 52 %. Although the timeliness of actions taken by auditees to address our recommendations improved, it has not yet returned to the pre-COVID-19 pandemic level; and
- recommendations related to the design of policies or programmes show the highest level of acceptance, implementation and timeliness.

Want to know more? Full information on our audit of Getting results from the EU budget can be found in Chapter 3 of our ***2023 annual report****.*

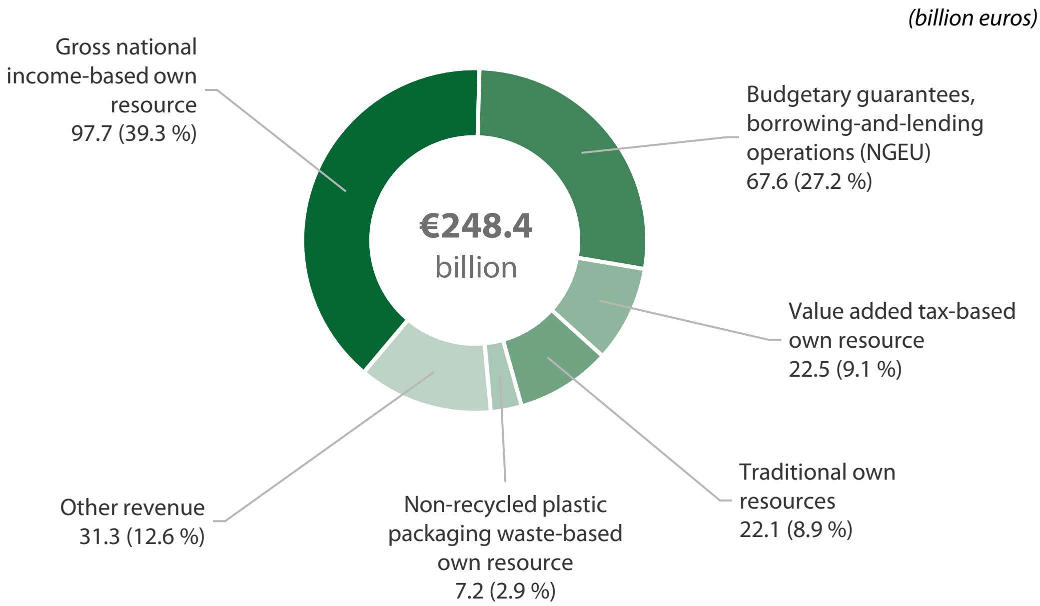
Revenue

€248.4 billion

What we audited

Our audit covered the revenue side of the EU budget, which finances the EU's expenditure. We examined selected key control systems for managing own resources, and a sample of revenue transactions.

2023 breakdown (*)



(*) The total of €248.4 billion represents the EU's actual budget revenue. The amount of €171.9 billion presented in the statement of financial performance is calculated using accrual-based accounting.

Source: ECA, based on data from the 2023 consolidated accounts of the European Union.

GNI-based contributions from member states accounted for 39 % of the EU's revenue in 2023, while the own resource based on value added tax (VAT) accounted for 9 %. These contributions are calculated using macroeconomic statistics and estimates provided by member states. Traditional own resources (TOR), consisting of customs duties on imports collected by member states on the EU's behalf, provided a further 9 % of EU revenue.

The non-recycled plastic packaging waste-based own resource provided 3 % of EU revenue. It is calculated by applying a uniform rate to the weight of unrecycled plastic packaging waste generated in each member state.

Revenue financing NextGenerationEU, which relates to amounts borrowed to provide member states with non-repayable financial support, accounted for 27 % of EU revenue.

What we found

Audited amount	Affected by material error?
€248.4 billion	No – free from material error in 2023

The overall audit evidence indicates that the level of error in revenue transactions was not material. The systems for managing the revenue we examined were generally effective. However, some of the elements for the management of GNI and VAT reservations, TOR open points at the Commission, the key internal TOR controls we assessed in certain member states, and the systems for ensuring the reliability and comparability of data for calculating the plastic-based own resource were partially effective.

The Commission's verification work on GNI is affected by delays on the part of member states, which lead to delays in the Commission's work to verify the information provided and lift the reservations. This increases uncertainty in the national and EU budgets with regards to the GNI-based contribution. The Commission did not charge late payment interest when GNI reservations were partially addressed after the deadline. This removed an incentive for the member states to provide all the necessary information to address reservations within the deadline.

There was a decrease in the number of VAT reservations and TOR open points, but long outstanding issues remain. Weaknesses persist in member states' accounting and management of TOR.

We noted deficiencies in the reliability and comparability of the data used for calculating plastic-based own resource. In our special report on this source of revenue, we observed weaknesses in the data used for the calculation of member states' contributions and the absence of assurance that the plastic packaging waste is actually being recycled.

There was insufficient progress in implementing some actions from the Customs Action Plan. The Commission has linked a significant number of actions from this plan to the Customs Reform proposal, which has not yet been adopted. In our view, some of the delayed actions can only be closed once the related provisions of the proposed revision of the Union Customs Code are applied (expected from 2028 onwards).

We also noted insufficient follow-up by the Commission of the member states' implementation of financial risk criteria and standards. As we previously reported, the lack of harmonisation across the EU of these criteria and standards creates a risk for the whole Customs Union as operators could still target EU points of entry with lower level of controls.

What we recommend

We recommend that the Commission:

- charge member states late payment interest when GNI reservations are not fully addressed by the deadline; and

- verify progress reported by member states and identify the key elements of financial risk criteria and standards to be implemented.

*Want to know more? Full information on our audit of EU revenue can be found in Chapter 4 of our **2023 annual report**.*

Single market, innovation and digital

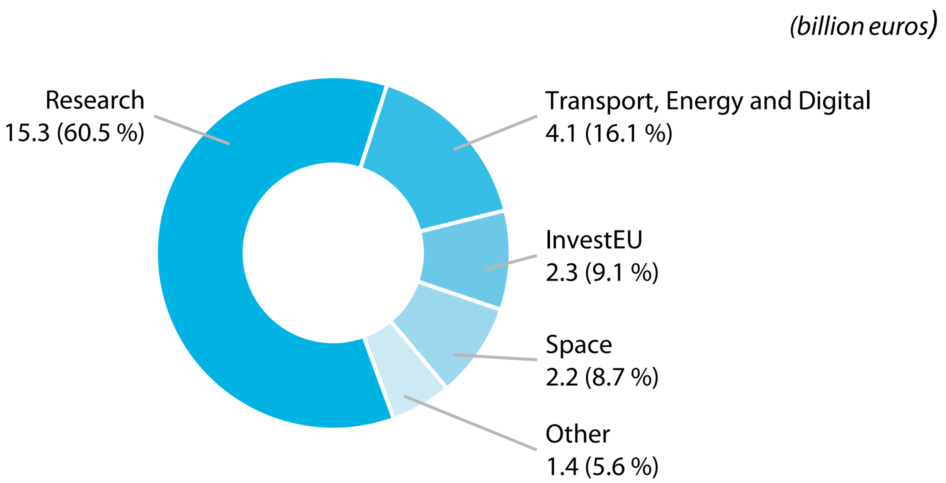
Total: €25.3 billion ***(13.2 % of EU budget expenditure)***

What we audited

The programmes financed under 'Single market, innovation and digital' are diverse and aim to finance projects that contribute to, among other things, research and innovation, the development of European infrastructure in the transport, energy and digital sectors, communications, digital transformation and the single market, and space policy. The principal programmes for research and innovation are Horizon 2020, and its successor, Horizon Europe, though the latter still only accounts for a small proportion of our 2023 audit population.

This MFF heading also finances large infrastructure projects such as the Connecting Europe Facility (CEF) and the space programmes, including Galileo, European Geostationary Navigation Overlay Service (EGNOS), and Copernicus, the European Earth Observation Programme. It also includes the InvestEU fund, which, together with Horizon Europe, benefits from additional funding from the NextGenerationEU (NGEU).

2023 payments breakdown by fund



Source: ECA, based on data from the 2023 consolidated accounts of the European Union.

For 2023, €15.5 billion was subject to audit in this area. Most spending is managed directly by the Commission, including through executive agencies, and takes the form of grants to public or private beneficiaries participating in projects. The Commission provides pre-financing to beneficiaries upon signature of a grant agreement and later reimburses the EU-funded costs, net of the pre-financing. The space programmes are generally managed indirectly on the basis of delegation and contribution agreements signed between the Commission and dedicated implementing bodies (such as the European Space Agency and the EU Agency for the Space Programme). InvestEU financial instruments are implemented mainly by the European Investment Bank or European Investment Fund, which in turn use financial intermediaries.

What we found

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€15.5 billion	Yes	3.3 % (2022: 2.7 %)

Overall, we estimate that the level of error in 'Single market, innovation and digital' is material. In 2023, 39 (31 %) of the 127 transactions we examined were affected by errors.

Horizon 2020 spending remains high risk and is the main source of the errors we detect. We found quantifiable errors relating to ineligible costs in 30 of the 97 research and innovation transactions in the sample, including one in Horizon Europe. This represents 71 % of our estimated level of error for this heading in 2023.

In the case of other programmes and activities, we detected quantifiable errors in two of the 30 transactions in the sample, both concerning CEF projects. One of these relates to a serious breach of the EU public procurement rules, which led to the contract being awarded to a consortium that did not fulfil the selection criteria.

After nine years of implementation of the H2020 programme, the calculation of personnel costs remains a major source of error in the cost claims. Of the 30 transactions affected by quantifiable errors in our sample of research transactions, 22, i.e. around 73 %, were affected by incorrect application of the methodology for calculating personnel costs.

Other errors relating to personnel costs included incorrect calculation of hourly rates in H2020, incorrect calculation of daily rates for Horizon Europe grants and breaches of the double ceiling rule. We also found errors relating to other ineligible direct costs.

Example of multiple errors in a single cost claim

A public intergovernmental beneficiary in France declared costs for personnel and other services. In the case of one employee, the beneficiary included in the costs a bonus that lacked legal basis and supporting documentation. In that of a second employee, the beneficiary applied an incorrect number of productive hours, leading to an inflated hourly rate. Furthermore, when declaring costs for other services, the beneficiary included VAT amounts, even though the organisation could be reimbursed by the French tax authority.

One of the strategies for boosting European research is to increase private-sector participation, especially by newcomers and SMEs. SMEs represented 11 % of the sample (14 out of 127 transactions) but accounted for 25 % of the estimated error rate. Moreover, we found errors in the cost claims of four of the 12 newcomers we audited, two of which were also SMEs. These results indicate that SMEs and newcomers are more prone to errors than other beneficiaries, as has also been concluded both by the Commission's audits and in our previous annual reports.

CINEA's *ex ante* control system for Connecting Europe Facility grants in the transport and energy sectors

The European Climate, Infrastructure and Environment Executive Agency (CINEA) is responsible for implementing the Connecting Europe Facility (CEF) programme for transport and energy. Two programming periods are currently underway, i.e. CEF1 (2014-2020) and CEF2 (2021-2027).

We reviewed the *ex ante* control strategies for CEF1 and CEF2 and the improvement between CEF1 and CEF2. The design of both strategies is based on sound analysis of risks and past irregularities. However, CINEA does not envisage performing any in depth checks on procurement in CEF2 projects in certain cases. We consider that this might reduce the level of assurance provided by the *ex ante* controls.

The sampling approaches of the *ex ante* control strategies for CEF1 and CEF2 are correctly reflected in the corresponding guidelines. However, the guidelines for procurement are not detailed enough as they do not describe the extent of the checks to be performed on the samples.

Commission Annual Activity Reports and other governance arrangements

The annual activity reports we examined (those of DG RTD and HaDEA) reflected the information available in the respective DG/Agency and, based thereon, gave a fair assessment of the financial management in relation to the regularity of underlying transactions relating to MFF1 expenditure.

The estimated risk at payment in the Commission's 2023 AMPR is 1.4 %. This percentage is at the lower end of our range of estimated level of error and below materiality. Therefore, in our view, despite the measures already taken by the Commission, this rate remains understated.

What we recommend

We recommend that the Commission:

- enhance beneficiaries' compliance with the daily-rate rules;
- ensure clarity in Horizon Europe documents; and
- develop the guidelines on *ex ante* controls on procurement for CEF projects.

*Want to know more? Full information on our audit of EU expenditure on 'Single Market, Innovation and Digital' can be found in Chapter 5 of our **2023 annual report**.*

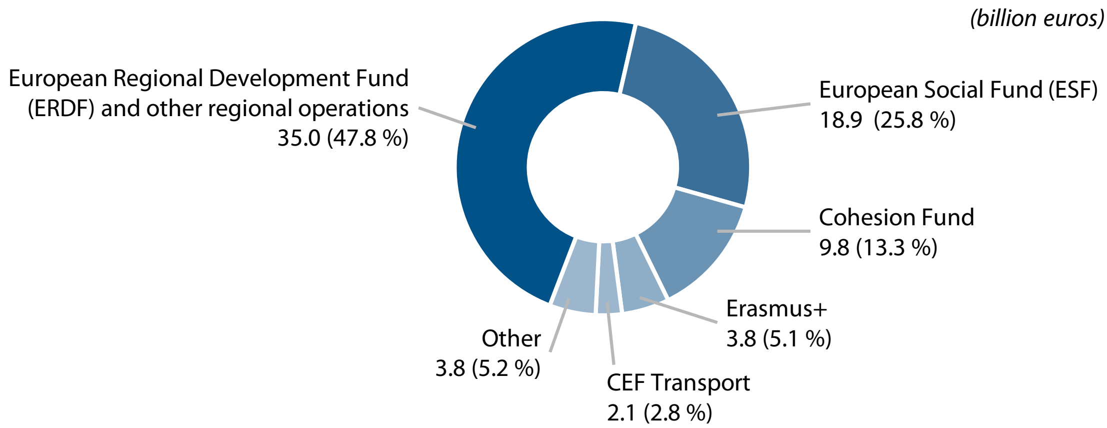
Cohesion, resilience and values

Total: €73.3 billion ***(38.4 % of EU budget spending)***

What we audited

Spending under this heading focuses on reducing development disparities between the different member states and regions of the EU (subheading 2a) and actions to support and protect EU values, making the EU more resilient to present and future challenges (subheading 2b).

2023 payments breakdown by fund



Source: ECA, based on data from the 2023 *consolidated accounts* of the European Union.

The cohesion policy funds (the ERDF, the CF and the ESF) account for the bulk of expenditure, where Commission and member states share the management of the funds, with the Commission having ultimate responsibility for implementing the EU budget. The EU co-finances multiannual operational programmes (OPs) or actions, from which funding goes to projects. Member states' audit authorities play a key role in the control and assurance framework for 2014-2020 spending under shared management. At the Commission, the Directorate-General for Regional and Urban Policy (DG REGIO) is responsible for implementing the ERDF and the CF, and the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) is responsible for the ESF. EU funding for programmes not under shared management is either managed directly by the Commission DGs or indirectly with the support of partner organisations or other authorities.

What we found

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€60.2 billion	Yes	9.3 % (2022: 6.4 %)

Overall, we estimate that the level of error for Cohesion, resilience and values is material.

This is based on our audit of 238 transactions, in which we identified and quantified 49 errors which had not been detected or insufficiently corrected by audit authorities. Our estimate also includes the findings of audit authorities, which reported 52 errors in the same transactions. In arriving at our estimate, we took account of the corrections applied by programme authorities (total value €337 million).

This year our error rate estimate is again significantly above the 2 % materiality threshold. We note that several factors put additional pressure on member state administrations and increased the risk regarding their capacity to ensure that spending was regular. These factors include the significant additional REACT-EU resources being made available, and the end date of 31 December 2023 for the 2014-2020 cohesion eligibility period, which for the last few years overlaps with the eligibility period of the Recovery and Resilience Facility (RRF).

Ineligible projects were the most significant contributors to our estimated level of error.

Example of project financed despite ineligibility

A private company in Czechia received ERDF funding to purchase new IT equipment with a view to increasing sales and competitiveness. The call required applications to sufficiently describe individual project items and justify their link to the project's activities on penalty of exclusion.

We found that the company did not sufficiently describe and justify the IT equipment for purchase in its project application. Furthermore, the majority of the equipment did not directly relate to the project activities or comply with the 'project's *economy*' criterion. The managing authority should therefore have excluded the project application from funding. Therefore, we consider the project ineligible.

Moreover, our on-the-spot visit revealed that some of the newly purchased equipment was not used by the beneficiary, but rather by its subsidiary company which was not eligible for funding through the call issued under the programme in question. Therefore, we consider the costs relating to the equipment used by the subsidiary company ineligible.

Ineligible costs and infringements of public procurement rules were also important contributors to our estimated level of error.

Example of breach of public procurement rules

In Hungary, a consortium of three entities (the beneficiary) received a *grant* to provide free legal assistance to employees and employers in relation to labour law and other legal and business issues.

The beneficiary launched an initial open public procurement procedure because the amount involved was above EU threshold. However, the national public procurement control body concluded that the bidders' conduct may have unlawfully distorted competition, and therefore provided a negative opinion on the procedure. Subsequently, the beneficiary divided the initial contract into a number of lower-value contracts. Each contract individually was below the threshold set by the EU Public Procurement Directive, and consequently contracted through direct award procedures, rather than by open tender. The beneficiary awarded one of these contracts to a bidder involved in the suspected collusion in the initial tender procedure.

We consider the expenditure related to these contracts ineligible due to the absence of a public procurement procedure compliant with the EU Public Procurement Directive.

Assessment of audit authorities' work

Managing authorities are the 'first line of defence'. Their effective control is indispensable to ensure both the compliance of the operations with the legal framework and their *performance*. Our audit results over the last seven years demonstrate that these controls are not yet sufficiently effective. Audit authorities are the 'second line of defence' verifying, on a sample basis, the regularity of the expenditure that managing authorities have declared to the Commission. They must be functionally independent from the managing authorities.

We assessed the work of 19 of 116 audit authorities in 13 member states and the United Kingdom. Our sample comprised 29 assurance packages. Except for four cases, the audit authorities had reported to the Commission a residual error rate equal to or below 2 %. Taking account of the errors detected by the Commission and of our own audit findings, our work on this year's sample shows that the residual error rate was above 2 % in 16 of the 29 audited assurance packages.

We found various types of weaknesses in the work of all 19 audit authorities we audited. Similar to 2022, these weaknesses affected more than half of the transactions we examined. The errors we found in these transactions could, and should, have been detected by audit authorities when they did their checks. This reduces the extent to which the Commission can rely on the results of their work.

Persistent deficiencies in management and control systems

Taking into account the results of Commission's own audits and our results of 49 errors that remained undetected and the numerous weaknesses in audit authorities work, we conclude that at the end of the eligibility period (31 December 2023) not all member states' management and control systems function effectively. As the Commission – as the third line of defence – bases its assessments on only limited reliable controls performed nationally, the reliability of the Commission error rates is also affected. This shows that there is room for both the Commission and member states to improve how they perform their checks on Cohesion spending.

Closure of the 2007-2013 and 2014-2020 programmes

By the end of 2023, for the closure of 2007-2013 period, one programme under DG REGIO and three under DG EMPL remained fully open.

There are uncertainties around the closure of the 2014-2020 programme period. The eligibility period for cohesion spending runs from 1 January 2014 until 31 December 2023 and the deadline for member states to submit their final expenditure declaration was recently extended to mid-2025. For the 2014-2020 period, the closure of the programmes will be based solely on the documents relating to the final accounting year and the final implementation report. The Commission reported two 2014-2020 OPs as closed in 2023. However, we found that, in both cases, the communication on the settlement of accepted amounts was still ongoing in 2024.

What we recommend

We recommend that the Commission:

- follow-up in a timely manner all weaknesses in the member states' management and control systems we identified and reported on in the context of our statement of assurance exercise for the outgoing 2014-2020 period;
- identify, together with the audit authorities, the key lessons learnt and apply them to the arrangements for the 2021-2027 period, and communicate the actions needed and supporting best practices to the member states' programme authorities;
- establish a harmonised treatment of public procurement irregularities for projects financed under both direct and shared management, such as projects financed by both CEF and ERDF. Irregularities resulting from the breach of the same legal provisions should lead to the same assessment and correction rate;
- ensure that member states establish a process to systematically check the fulfilment of contractual obligations after payment, by which the beneficiary has committed to achieve performance indicators linked to actions taking place following project implementation; and
- elaborate detailed closure procedures addressing the risks identified in our annual reports, by setting up a closure monitoring system to trace the status of all 2014-2020 OPs, the amounts actually closed during the year and cumulatively, the amounts still open, and the actions still pending for closure; and disclosing this information in the AARs. This information on 2014-2020 closures should also contain the decommitment of outstanding funds in the Commission's accounts.

Want to know more? Full information on our audit of EU expenditure on 'Cohesion, Resilience and Values' can be found in Chapter 6 of our ***2023 annual report****.*

Natural resources

Total: €59.5 billion ***(31.1 % of EU budget spending)***

What we audited

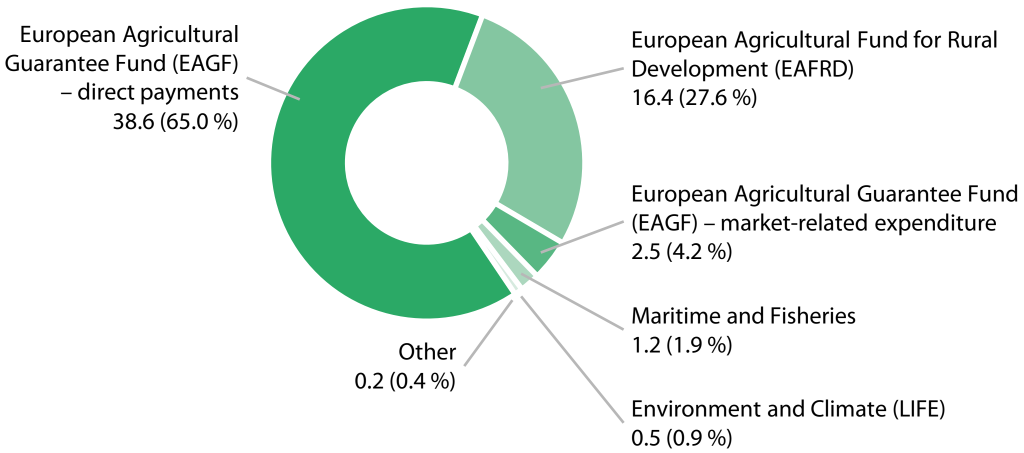
This spending area covers the common agricultural policy (CAP), the common fisheries policy, and part of EU spending on the environment and climate action.

Agriculture and rural development account for 97 % of EU spending on 'Natural resources and environment' and are implemented through the CAP, which has three general objectives:

- viable food production, with a focus on agricultural income, agricultural productivity and price stability;
- the sustainable management of natural resources and climate action, with a focus on greenhouse gas emissions, biodiversity, soil and water;
- balanced territorial development.

2023 payments breakdown by fund

(billion euros)



Source: ECA, based on data from the 2023 consolidated accounts of the European Union.

While the Commission (DG Agriculture and Rural Development (AGRI)), is ultimately responsible for the CAP, it shares its management with paying agencies in the member states. Since 2015, independent certification bodies in the member states have been providing annual opinions on the legality and regularity of the expenditure of paying agencies.

This MFF heading also covers EU spending on the maritime and fisheries policy financed by the European Maritime and Fisheries Fund (EMFF), under the responsibility of the Directorate-General for Maritime Affairs and Fisheries (DG MARE), and the LIFE programme for environment and climate action under the responsibility of the Directorates-General for the Environment (DG ENV), Climate Action (DG CLIMA) and Energy (DG ENER).

What we found

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€58.6 billion	Yes	2.2 % (2022: 2.2 %)

Overall, we estimate that the level of error for MFF heading 3 is material.

Of the 218 transactions we examined, 56 (26 %) contained errors. Based on the 37 errors we have quantified, we estimate the level of error for MFF heading 3 to be 2.2 %.

Our results indicate that the level of error was not material for direct payments, representing 66 % of spending under this MFF heading, while it was still material for the other spending areas taken as a whole (rural development, market measures, maritime, fisheries, the environment and climate action), representing 34 % of spending.

Rural development transactions accounted for the largest number of quantifiable errors we found (16). We found 15 quantifiable errors in direct payments, three in market measures, and three in non-CAP expenditure. The main source of the estimated level of error was the ineligibility of beneficiaries, activities, projects or expenditure.

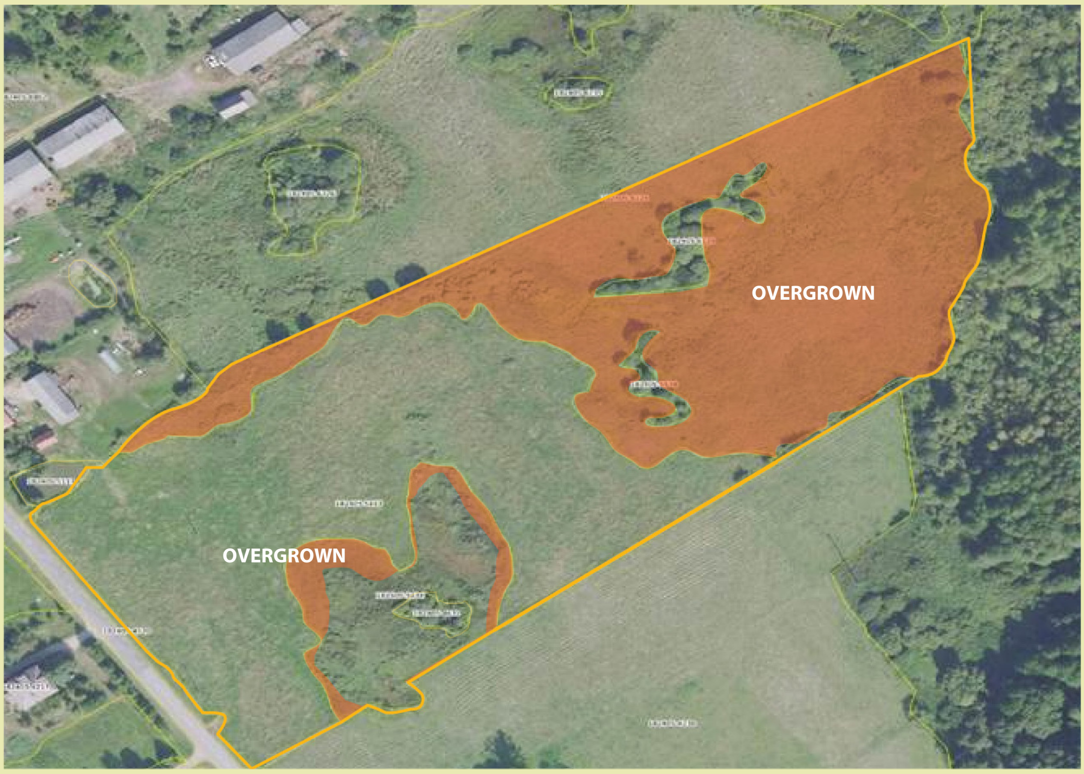
The member state authorities and the Commission had applied corrective measures that directly affected 39 of the transactions we sampled. These measures were relevant to our calculations, as they reduced our estimated level of error for this chapter by 0.5 percentage points. In 30 cases of quantifiable errors, the member state authorities and the Commission had sufficient information to prevent, or to detect and correct, the error before accepting the expenditure. Had the member state authorities and the Commission made proper use of all the information at their disposal, the estimated level of error for this chapter would have been 1.0 percentage point lower.

Direct payments

In the 88 direct payment transactions tested, we found 15 quantifiable errors, eight of them resulting from farmers overstating the eligible area of agricultural land or wrongly calculated payments. In one case, a beneficiary avoided the cap on the maximum amount of support receivable by setting up several companies to enable multiple applications for EU support.

Example of over declaration of eligible area

In Lithuania, a beneficiary had a determined eligible area of 15.02 ha for their holding. During our on-the-spot visit, we confirmed the determined area except for one parcel, where the beneficiary did not fulfil the minimum requirements, as there was overgrown, unwanted vegetation in one part. The measurement resulted in a reduction of the eligible area of the parcel by 1.64 ha, representing a quantifiable error of over 10 % for the overall area of the holding. The aerial photo shows the overgrown area on the parcel that we found during our on-the-spot visit.



Rural development, market measures and other payments

We examined:

- 59 rural development payments based on areas or animal numbers declared by farmers, including payments for meeting specific agri-environment-climate commitments, compensation payments for organic farming, payments to farmers in areas with natural constraints and compensation for farming in Natura 2000 protected areas. Of these, 19 contained errors, 13 of which were quantifiable errors with eight related to over-declaration of eligible areas;

- 49 rural development payments to investment projects, such as investments in physical assets, start-up aid for young farmers and risk management (insurance). We quantified errors in three payments, resulting from beneficiaries having declared expenditure or activities that did not meet the eligibility conditions;

- 14 market measure transactions and found three cases in which paying agencies had reimbursed ineligible costs;

- eight transactions in maritime, fisheries, and the environment and climate action areas and found three quantifiable errors in direct management transactions under the LIFE programme for the environment and climate action.

Example of support for organic olive farming

In Spain, a small olive producer claimed support under rural development measure 11 for organic farming. The support enabled the producer to preserve olive groves with very old olive trees and produce olives without fertiliser or pesticide on sloping parcels, where it was not possible to mechanise olive harvesting. During our audit we confirmed that the beneficiary had respected the eligibility conditions. The photo shows one of the olive groves.

Information collected on new CAP performance reporting systems

The introduction of annual performance reports (APR) is a key element of the new performance-based delivery model for the 2023-2027 CAP. To be eligible for EU support, paying agencies' declared expenditure under their CAP strategic plans must be matched by a corresponding reported output. The Commission checks the correspondence between declared expenditure and outputs. We examined the progress made by the paying agencies of Bulgaria, Croatia, and Greece in developing annual performance reporting and the approaches they are taking to implement their APR systems.

Annual activity reports and other governance arrangements

DG AGRI, taking into account the work of the certification bodies and its own audits, calculated the 'estimated amount at risk at payment' to be €1 064 million, i.e. around 1.9 % of total CAP expenditure in 2023. DG AGRI estimated a risk at payment (adjusted error rate) of around 1.5 % for direct payments, 2.8 % for rural development and 2.3 % for market measures.

We also performed a limited review of the regularity information in DG ENV's annual activity report. We noted that the methodology for the calculation of the risk at payment and at closure for DG AGRI and DG ENV was in line with the Commission guidelines.

The Commission's estimate of risk at payment for 'Natural resources' presented in its AMPR is 1.9 %.

What we recommend

We recommend that, given the responsibility of member states for targeting income support to those who need it most, the Commission examine the effectiveness of member states' measures for limiting direct payments for large farms.

Want to know more? Full information on our audit of EU expenditure on 'Natural resources' can be found in Chapter 7 of our ***2023 annual report****.*

Migration and border management, Security and defence

Total: €4.1 billion ***(2.1 % of EU budget spending)***

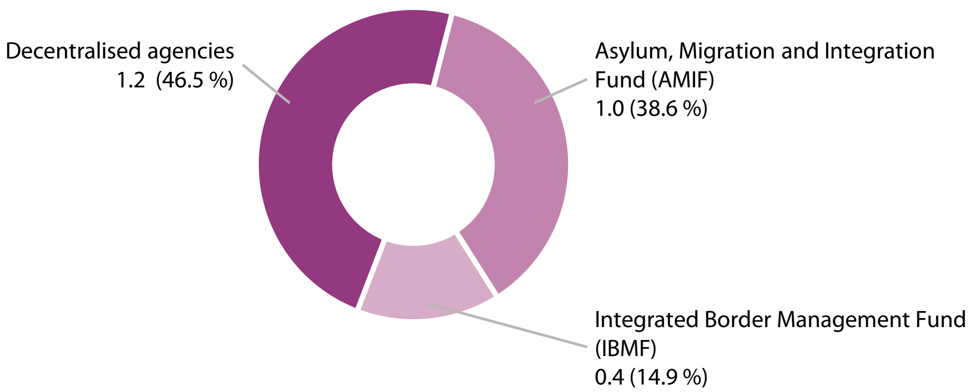
What we audited

Given the increasing importance of migration and border management in recent years, the European Union has established heading 4 of the 2021-2027 MFF specifically for these policy areas.

A significant portion of the spending in this heading in 2023 still concerned the completion of projects and schemes outstanding from the 2014-2020 MFF.

Migration and border management: 2023 payments breakdown by fund

(billion euros)



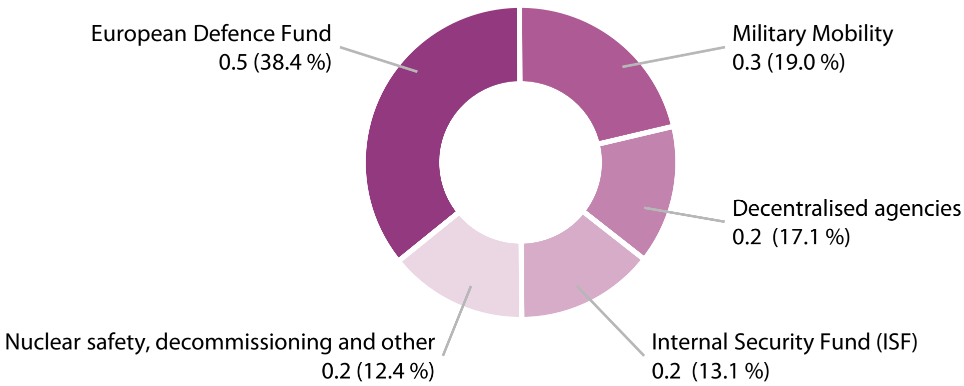
Source: ECA, based on data from the 2023 consolidated accounts of the EU.

Thus, most expenditure relates to the winding-up of the *Asylum, Migration and Integration Fund* (AMIF) for 2014-2020 and the completion of funding from the *Internal Security Fund* – Borders and Visa instrument (ISF-BV). These 2014-2020 funds have been replaced in the 2021-2027 MFF by, respectively, a new AMIF, and the *Instrument for Financial Support for Border Management and Visa Policy (BMVI)* of the *Integrated Border Management Fund*.

Another significant spending area for MFF heading 4 is the funding for *decentralised agencies* (European Border and Coast Guard Agency (Frontex), European Union Agency for Asylum (EUAA), and European Union Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice (eu-LISA)).

Security and defence: 2023 payments breakdown by fund

(billion euros)



Source: ECA, based on data from the 2023 consolidated accounts of the EU.

In the 2021-2027 MFF, heading 5 is devoted to security and defence. The 'security' component includes funding from the Internal Security Fund (ISF) for 2021-2027 and the completion of projects and schemes funded from the Internal Security Fund – Police instrument (ISF-P) for 2014-2020, which comprised a significant portion of the spending in this area in 2023. This component also includes funding for nuclear decommissioning in Bulgaria, Lithuania and Slovakia, and funding for EU decentralised agencies in the area of security (European Union Drugs Agency (EUDA), European Union Agency for Law Enforcement Cooperation (Europol), and European Union Agency for Law Enforcement Training (CEPOL)). The 'defence' component includes the European Defence Fund that supports collaborative defence projects at all stages of research and development. The component also supports military mobility through a dedicated budget within the Connecting Europe Facility that relates to adapting sections of the Trans-European Transport Network for civilian-military dual use purposes.

The management of most AMIF and ISF funding for 2014-2020, and most AMIF, BMVI and ISF funding for 2021-2027 is shared between the member states (or Schengen associated countries) and the Commission's Directorate-General for Migration and Home Affairs (DG HOME). Under this arrangement, member states implement multiannual national programmes that have been approved by the Commission.

What we found

Regularity of transactions

Of the 23 transactions we examined, seven were affected by errors. We quantified four errors which had a financial impact on the amounts charged to the EU budget. These errors related to ineligible expenditure, the absence of supporting documents and public procurement issues.

We also found ten cases of non-compliance with legal and financial provisions in seven transactions (but with no direct financial impact on the EU budget). These related to, for example, shortcomings in grant award procedures, public procurement issues, and failure to respect technical eligibility parameters.

Although not affected by regularity errors, we also found three transactions which did not comply with the principles of sound financial management. These related to issues with reimbursement of value added tax to public bodies, and the lack of an objective basis for the application of supplemental salary allowances.

Examination of elements of internal control systems

We assessed how DG HOME had established the thematic facilities for the 2021-2027 MFF and re-calculated the allocations and weightings for the distribution of funding for the member states' national programmes under AMIF, BMVI and ISF. We confirmed that DG HOME's establishment of the thematic facilities and implementation of the allocation methodologies was compliant with the requirements of the relevant regulations.

We also assessed the support and guidance offered by DG HOME to the member state authorities in managing the transition of the AMIF, BMVI and ISF funds to the new CPR in the 2021-2027 MFF. The five selected member states (Germany and France for AMIF, Hungary and Poland for BMVI, Latvia for the ISF) had finalised the description of their management and control systems at the time of our audit, and most were still in the process of finalising their audit strategies (one had already done so). The five member states we visited intended to submit their first annual accounts for AMIF, BMVI and the ISF to the Commission in 2024, at the earliest. Overall, the five audit authorities considered that DG HOME support provided to the member states was satisfactory. They have made reasonable progress in their preparations for the 2021-2027 AMIF, BMVI and ISF.

Annual activity reports and other governance arrangements

For the 2023 financial year, we reviewed the AAR of DG HOME. Our analysis focused on whether DG HOME had presented the regularity information in its AAR in accordance with the Commission's instructions, and whether this information was consistent with the knowledge we had obtained during our audits. We found no information that might contradict our findings.

We reviewed DG HOME's estimates for risks at payment and at closure. We found that they were calculated and reported in the AMPR in accordance with internal methodology.

What we recommend

We recommend that the Commission:

- provide further guidance to member states on applicable rules; and
- verify technical aspects of projects before awarding grants.

Want to know more? Full information on our audit of EU expenditure for 'Migration and border management, Security and Defence' can be found in Chapter 8 of our ***2023 annual report****.*

Neighbourhood and the world

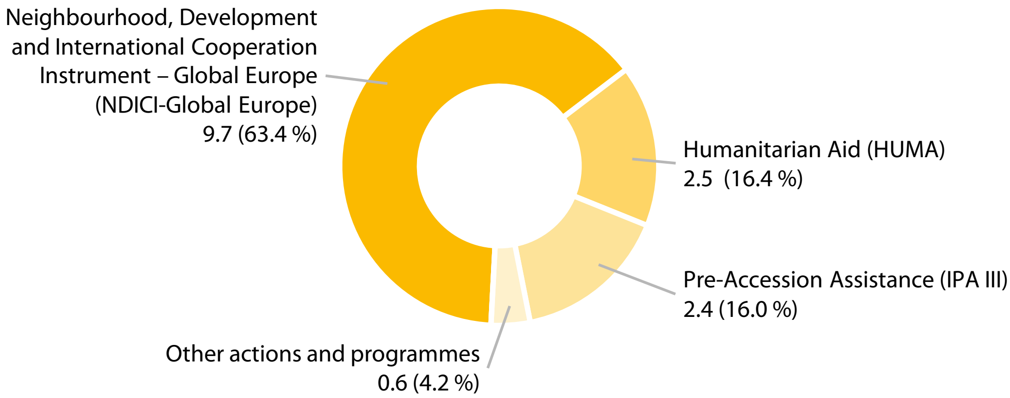
Total: €15.2 billion ***(7.9 % of EU budget spending)***

What we audited

The spending area comprises several funding instruments, most notably the Neighbourhood, Development and International Cooperation Instrument – Global Europe ('NDICI – Global Europe') and the Instrument for Pre-accession Assistance. It also covers the humanitarian aid budget.

2023 payments breakdown by fund

(billion euros)



Source: ECA, based on data from the 2023 consolidated accounts of the European Union.

The general objective of NDICI – Global Europe is to uphold and promote EU values, principles and fundamental interests worldwide, and help promote multilateralism and stronger partnerships with non-EU countries. It reflects two major changes, compared to the 2014-2020 MFF, in the way the EU finances external action (foreign policy):

- cooperation with African, Caribbean and Pacific partner countries, previously financed by the European Development Funds, has now been brought under the EU's general budget;
- such cooperation and the EU's neighbourhood policy are now funded under the same NDICI – Global Europe instrument while preserving the specific features of both types of support.

The general objective of the Instrument for Pre-accession Assistance is to support beneficiary countries in adopting and implementing the reforms required to align with EU values with a view to membership, thereby contributing to their stability, security and prosperity. The EU also provides needs-based humanitarian assistance to people hit by human-induced disasters and natural hazards, with a particular focus on the most vulnerable.

The main directorates-general and services involved in implementing EU external action are the Directorate-General for Neighbourhood Policy and Enlargement Negotiations (DG NEAR), the Directorate-General for International Partnerships (DG INTPA), the Directorate-General for European Civil Protection and Humanitarian Aid Operations (DG ECHO) and the Service for Foreign Policy Instruments (FPI).

In 2023, payments for 'Neighbourhood and the world' amounted to €15.2 billion (pre-financing, interim and final payments) and were disbursed using several instruments and delivery methods. These include works/supply/service contracts, grants, special loans, loan guarantees and financial assistance, budget support and other targeted forms of budgetary aid in non-EU countries.

What we found

Despite the limited sample size, our audit results indicate that the risk of error in this MFF heading is high. Of the 72 transactions we examined, 37 (51.4 %) were affected by errors. We have quantified 31 errors which had a financial impact on the amounts charged to the EU budget. These errors related to ineligible beneficiaries, ineligible costs, expenditure not incurred and public procurement.

Example: Budget implementation entrusted to an ineligible beneficiary

We audited an invoice worth €3.5 million under a delegation agreement with a pillar-assessed implementing partner. After signing the agreement, the implementing partner sub-delegated the entire implementation to a private company registered under national law of an EU member state. This company could not demonstrate its public service mission, and hence its eligibility to undergo pillar assessment and manage EU funds on the Commission's behalf.

However, neither the Commission nor the implementing partner sought clarification on whether the company in the member state was eligible, and particularly on whether it could be considered to have a public service mission. The company was also not made to undergo the required *ex ante* assessment before signing the sub-delegation contract.

The implementing partner consequently sub-delegated the implementation of the audited delegation agreement to an ineligible entity, thereby rendering the related payment ineligible.

We also found 19 cases of non-compliance with legal and financial provisions (but with no direct financial impact on the EU budget). These related to, for example, public procurement, unclear allocation of costs, non-compliance with visibility rules and insufficient evidence.

For transactions related to contracts under indirect management with pillar-assessed organisations (international organisations, international financial institutions and state agencies), the Commission accepted expenditure on the basis of a financial report and a management declaration. However, we found errors in transactions implemented by pillar-assessed organisations that indicate that their financial reports are not free from errors and that these errors are not reported in their management declarations.

Examination of elements of internal control systems

We visited five EU delegations (in Albania, Armenia, Cambodia, Georgia and India) and identified some shortcomings in elements of their internal control systems related to, for example, insufficient budget for monitoring visits and delays in the implementation of blending contracts.

Annual activity reports and other governance arrangements

We reviewed FPI’s AAR for the 2023 financial year. We focused on whether FPI had presented the regularity information in its AAR in accordance with the Commission’s instructions and had been consistent in its application of the methodology for estimating future corrections and recoveries.

Of the total expenditure accepted in 2023 (€865 million), FPI estimated the total amount at risk at the time of payment to be €7.2 million (0.83 %). It estimated the value of corrections resulting from its checks in subsequent years at €0.9 million (0.1 % of the total relevant expenditure). This led FPI’s Head of Service to declare that the service’s financial exposure was below the materiality threshold of 2 %.

Our review of FPI’s 2023 annual activity report and our checks on payments under FPI’s responsibility in 2023 did not reveal any errors or shortcomings.

What we recommend

We recommend that the Commission:

- take measures to improve control systems for the clearing of pre-financing;
- provide beneficiaries with guidance on the allocation of shared costs;
- ensure compliance with visibility rules;
- make sure sufficient field monitoring visits by EU delegations take place; and
- enhance the monitoring and steering mechanisms for blending operations.

Want to know more? Full information on our audit of EU expenditure for 'Neighbourhood and the World' can be found in Chapter 9 of our ***2023 annual report****.*

European public administration

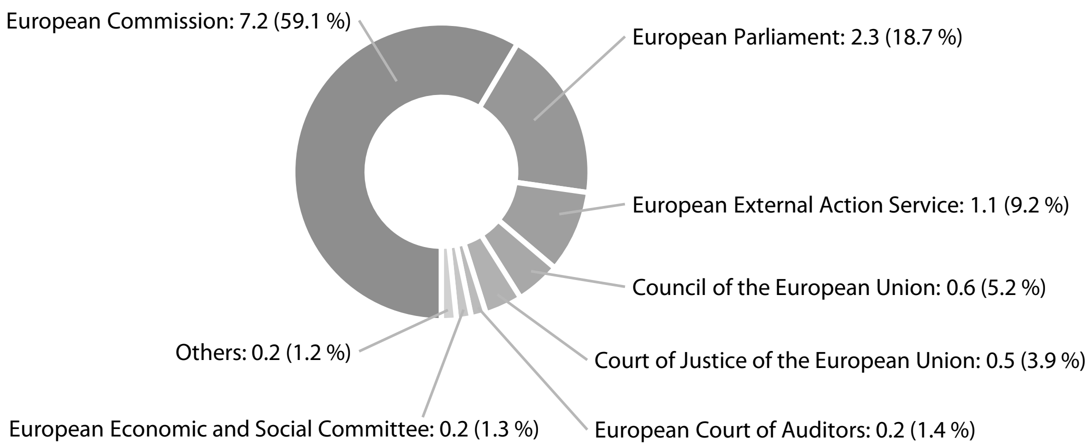
Total: €12.3 billion ***(6.4 % of EU budget spending)***

What we audited

Our audit covered the administrative expenditure of the EU institutions and bodies.

2023 payments breakdown

(billion euros)



Source: ECA, based on data from the 2023 consolidated accounts of the European Union.

In 2023, the institutions and bodies spent a total of €12.3 billion on administration. This amount comprised spending on salaries and pensions (about 70 % of the total), buildings, equipment, energy, communications and information technology.

An external auditor examines our own expenditure and financial statements. Each year, we publish the resulting audit opinion and report in the Official Journal of the European Union and on our website.

What we found

Amount subject to audit	Affected by material error?
€12.3 billion	No – free from material error in 2022 and 2023

We examined 70 transactions, covering all EU institutions and bodies. As in previous years, we estimate the level of error to be below the materiality threshold.

We did not identify any significant issues concerning the Court of Justice of the European Union, the European Economic and Social Committee, or the European Ombudsman. Our external auditor did not report any specific issues.

European Parliament

In 2023 we examined 16 transactions at Parliament, including expenditure of Parliament's political groups. As we reported in 2022, the internal rules for the management of appropriations of the political groups were not in line with the Financial Regulation. This is because they do not require the use of open or restricted procurement procedures for high-value contracts, but rather the use of negotiated procurement procedures, which limits competition. We identified two cases where political groups had awarded such high-value contracts. We identified another two cases where the political groups did not fully follow Parliaments internal rules, as they did not always seek enough tenders. We also detected other cases of non-compliance with procurement procedures.

Council of the European Union

We did not identify quantifiable errors in the four payments we examined. In one case we consider that the Council did not clearly explain the 10-year duration of a building maintenance contract.

European Commission

We identified two quantifiable errors in the 26 Commission payments we examined, one concerning a salary calculation, and the other concerning a building contract.

European External Action Service

We found one quantifiable error in the 13 payments we examined, concerning the absence of a valid procurement procedure before a rental contract was signed for an EU Delegation.

Committee of the Regions

In one of the two transactions we examined, we identified that the Committee did not clearly explain the 10-year duration of a building maintenance contract.

European Data Protection Supervisor

For the salary payment we examined, we identified delays in receiving and verifying declarations concerning rights to family and child allowances.

In 2023, we examined supervisory and control systems at the European Parliament, concentrating on the four biggest spending directorate-generals, across which approaches to *ex ante* and *ex post* controls on expenditure varies. The European Parliament has taken initiatives to prevent and detect fraud, but had no institution-wide anti-fraud strategy, to coordinate actions across the organisation.

What we recommend

We recommend that the European Parliament build on its existing actions to fight against fraud by developing an institution-wide anti-fraud strategy.

Want to know more? Full information on our audit of EU expenditure for 'European Public Administration' can be found in chapter 10 of our ***2023 annual report****.*

Recovery and Resilience Facility

Total: €53.5 billion

What we audited

The Recovery and Resilience Facility (RRF) has supported reforms and investments in member states since February 2020 (since 1 February 2022 in the case of REPowerEU) and will run until 2026. It was originally funded with €723 billion in non-repayable grants (€338 billion) and loans (€385 billion). By the end of 2023, €648 billion had been committed, consisting of €356.8 billion in grants and €290.9 billion in loans. As loans could be requested until August 2023, €94.5 billion is no longer available for loans. The main objective of the RRF is to mitigate the economic and social consequences of the COVID-19 pandemic, while making member states' economies more resilient and better prepared for future challenges, also by accelerating their way towards the green and digital transition.

The Commission implements the RRF through direct management, meaning that the Commission is directly responsible for its implementation. Payments under the RRF are conditional upon member states satisfactorily fulfilling the milestones and targets set out in the Annexes to the Council implementing decisions (CIDs) approving their Recovery and Resilience Plans (RRPs). Further requirements are that targets or milestones that have previously been satisfactorily fulfilled should not have been reversed, and that there is no breach of the double-funding principle. The eligibility conditions laid down in the Regulation include compliance with the eligibility period, the 'Do No Significant Harm' principle, and non-substitution of recurring national budgetary expenditure.

Member states may request disbursements up to twice a year if they provide sufficient evidence that the related milestones and targets have been satisfactorily fulfilled. They also need to accompany their payment requests with a summary of audits and a management declaration regarding the information provided. The Commission's control systems provide for preliminary assessments (*ex ante* verifications) of member states' payment requests and *ex post* audits in the member states that are carried out after payment has been made.

By the end of 2023, the Commission had made 37 grant payments (one in 2021, 13 in 2022, and 23 in 2023) totalling €141.6 billion. There is no information available on the overall amount paid by member states to final recipients.

Our 2023 audit population totalled €53.5 billion and comprised all 23 grant payments amounting to €46.3 billion and the clearing of the related pre-financing amounting to €7.2 billion. Our audit did not cover the loans part of the RRF. We examined 325 milestones and 127 targets, including the Commission's preliminary assessments, to assess whether they comply with the payment and eligibility conditions. We checked 30 of the targets on the spot in six member states. We also examined the Commission *ex post* audits.

What we found

Amount subject to audit	Affected by material error?
€53.5 billion	2023: the overall effects of our findings are material, but not pervasive

The overall audit evidence from our work shows that 16 of the 452 milestones and targets we examined did not comply with the payment or eligibility conditions. These concern seven payments in seven member states. Given the nature of the RRF spending model and considering that the Commission's payment suspension methodology relies on many judgements to be made, possibly leading to different interpretations, we do not provide an error rate comparable to other EU spending areas.

Taking into account these limitations, we estimate the minimum financial impact of these findings to be above our materiality threshold. These findings related to not satisfactory fulfilment of milestones and targets, measures starting before the eligibility period and the substitution of recurring national budgetary expenditure.

Example of a target not satisfactorily fulfilled

Italian target M1C1-9 – 'Support to the upgrade of security structures T1'

Description of the target in Italy's CID:

'At least five strengthening interventions upgrading security structures completed in the National Security Perimeter for Cyber (PSNC) and Network and Information Systems (NIS) sectors. […]'

The member state provided seven reports to prove the strengthening interventions upgrading security structures. These reports included cyber posture analysis, risk and impact analysis, while the NIS2 directive considers these actions as only one of the ten elements necessary to manage the risk posed to the security of networks and information systems.

The Commission took the view that these seven reports represent strengthening interventions.

We took the view that six reports were not improvements of the internal monitoring and control capabilities but merely an analysis of those capabilities. The interventions provided the basis for plans to strengthen cyber defences but did not constitute strengthening interventions upgrading security structures as required by the CID.

We found milestones/targets not satisfactorily fulfilled also in payments for Austria, Czechia, France, Greece and Portugal.

We also found 15 cases of vaguely defined milestones and targets that contributed to a more discretionary assessment of their satisfactory fulfilment and/or undermine the results that can be achieved by the RRF.

Example of an insufficiently specific milestone

Spanish milestone 2 – 'Amendments to the Technical Building Code (TBC) the Low Voltage Electrotechnical Regulation (LVER) and approval of a Royal Decree to regulate public recharging services'.

Description of the milestone in Spain's CID:

'Entry into force of: […] ii) amendments to the Low Voltage Electrotechnical Regulation (LVER) to incorporate obligations for charging infrastructure of car parks which are not linked to a building and […].'

Among other things, the milestone requires amendments to LVER legislation to include the obligation to install charging points in car parks not linked to a building. However, it does not specify the scope of the obligation, in particular the number or percentage of charging points to be installed. As a result, any amendment, however undemanding, would be sufficient for the satisfactorily fulfilment of the milestone.

The Commission updated its *ex post* audit strategy to include checks on reversal, but not on the substitution of recurring national budgetary expenditure. *Ex post* audits now include some checks on compliance with the eligibility period, but take as the start of a measure the date of costs incurred rather than the date of the relevant legal commitment.

During the 2023 revision of the NRRPs, the Commission added 10 further control milestones for seven member states to address newly identified weaknesses in their control systems. For those member states whose second or third payments were conditional on the achievement of control milestones, the weaknesses in their control systems pose a risk to the protection of the EU's financial interests, with a potential impact on the regularity of expenditure.

There were persistent weaknesses in the member states' reporting and control systems. This poses a risk to the protection of the EU's financial interests, with a potential impact on the regularity of expenditure.

Persistent weaknesses in member state control systems we reported in 2022

Spain: The reporting system does not have complete information about the progress of unfulfilled milestones/targets and about beneficial owners, sources of EU funding, and amounts paid.

France: The management and reporting system is not interfaced with other IT systems for managing RRF measures. In the absence of an integrated information system dedicated to the NRRP, the flow of information is not automated and so entails a risk to the quality of the data.

Croatia: The repository system is still unable to provide data on calls for proposals that were awarded before the system was put in place.

The information that member states included in their management declarations was not always reliable.

We also reviewed DG Economic and Financial Affairs (ECFIN)'s reporting on the regularity of 2023 RRF expenditure in its Annual Activity Report (AAR) and the way this information is presented in the AMPR. Our findings and conclusions are not in line with the declaration provided by DG ECFIN's authorising officer. The RRF control system provides only limited information at EU level on whether RRF-funded investment projects complied with EU and national rules, and this impacted the assurance the Commission could provide, resulting in an assurance gap. According to the 2023 AAR, the Commission has updated the RRF control and audit strategies, including reinforced controls on member state control systems. However, the assurance for the financial year 2023 provided by DG ECFIN only states that member states carry out regular checks and still does not cover the effectiveness of the checks carried out by member states. This is particularly worrying as non-compliance with EU and national rules, such as procurement, state aid and eligibility rules is prevalent in other EU spending programmes and the member state control systems are affected by weaknesses.

What we recommend

We recommend that the Commission:

- assess compliance with eligibility conditions by applying the date of the first (legal) commitment as the start of the measure;
- define specific criteria for what constitutes substitution of recurring national budgetary expenditure;
- ensure that member states take prompt remedial action to address remaining weaknesses in the control systems; and
- use the results of the Commission's checks on member state control systems to express a clear conclusion on their effectiveness.

Want to know more? Full information on our audit of the Recovery and Resilience Facility can be found in Chapter 11 of our ***2023 annual report****.*

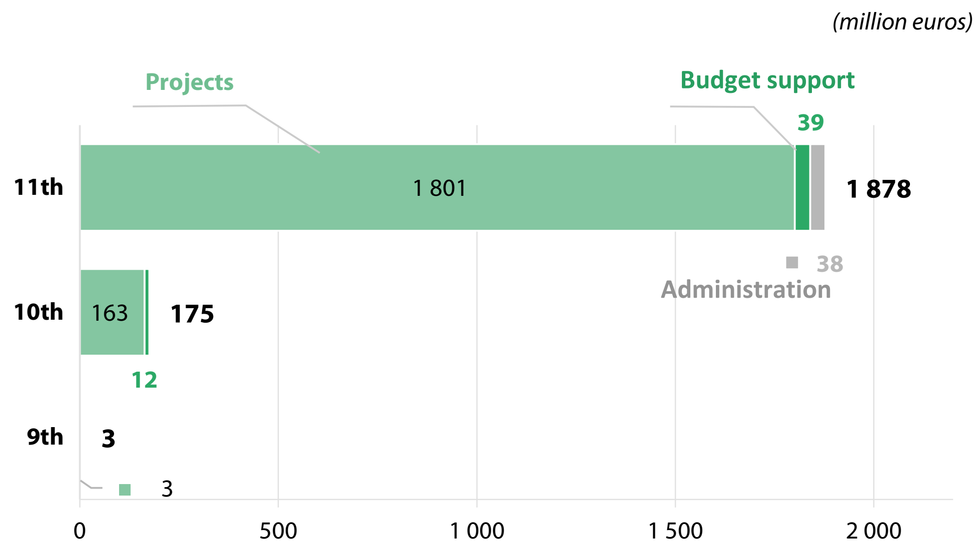
European Development Funds

Total: €2.1 billion

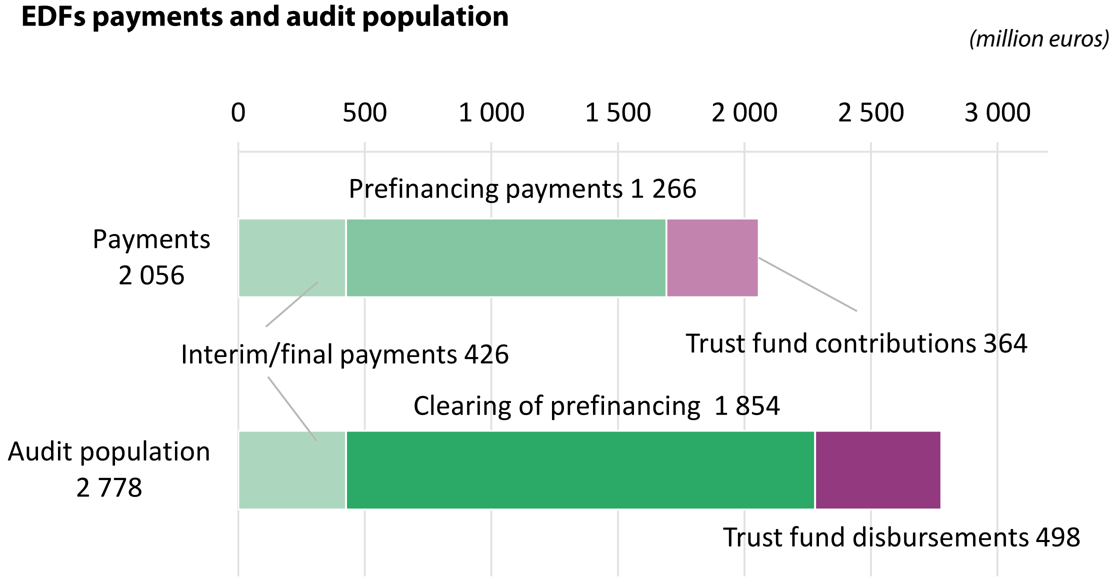
What we audited

Launched in 1959, the European Development Funds (EDFs) were the main instruments, outside the EU general budget, by which the EU financed development cooperation aid with African (Sub-Saharan), Caribbean and Pacific (ACP) countries and overseas countries and territories (OCTs) until the end of 2020. The primary objective of the EDFs is to reduce and ultimately eradicate poverty, in accordance with the primary objective of development cooperation as laid down in Article 208 of the Treaty on the Functioning of the European Union (TFEU).

EDFs payments by budget line and type



EDFs payments and audit population



Source: ECA, based on the 2023 annual accounts of the 9th, 10th and 11th EDFs.

The 11th EDF covers the 2014-2020 MFF. For the 2021-2027 MFF, development cooperation with ACP countries has been incorporated into the Neighbourhood, Development and International Cooperation Instrument – Global Europe, as part of the EU general budget, and cooperation with the OCTs has been incorporated into the Decision on the Overseas Association, including Greenland.

The expenditure covered in this report relates to support that is delivered in 76 countries using a wide range of methods such as works, supply and service contracts, grants, budget support, programme estimates and contribution and delegation agreements concluded with pillar-assessed entities (such as international organisations).

The EDFs are managed almost entirely by the Commission's Directorate-General for International Partnerships (DG INTPA). A small proportion (7 %) of the 2023 EDF payments was managed by the Directorate-General for European Neighbourhood Policy and Enlargement Negotiations (DG NEAR).

What we found

We found that the accounts were free from material misstatements.

Revenue transactions did not contain a material level of error.

The expenditure for the 2023 financial year is materially affected by error and we provide an adverse opinion.

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€2.8 billion	Yes	8.9 % (2022: 7.1 %)

To audit the regularity of transactions, we examined a sample of 140 transactions that were representative of the full range of spending from the EDFs. This comprised 31 transactions related to the Emergency Trust Fund for Africa, three transactions related to the Bêkou Trust Fund, 87 transactions authorised by 14 EU delegations (Angola, Benin, Côte d'Ivoire, Fiji, Ghana, Guinea-Bissau, Kenya, Madagascar, Malawi, Mauritius, Mozambique, The Gambia, Togo and Uganda) and 19 transactions approved by Commission headquarters. Where we detected errors in the transactions, we analysed the underlying causes to identify potential weaknesses.

Of the 140 transactions we examined, 62 (44.3 %) contained errors. On the basis of the 52 errors we have quantified, we estimate the level of error to be 8.9 %. The three most common error types were expenditure not incurred (45 %), absence of essential supporting documents (31 %), and ineligible expenditure (23 %). In 2023, all of the quantifiable errors we detected were in transactions relating to programme estimates and grants and to contribution and delegation agreements with beneficiary countries, international organisations and member state agencies. Of the 112 transactions of this type that we examined, 52 contained quantifiable errors, which accounted for 100 % of the estimated level of error.

Expenditure not incurred: excess clearing of pre-financing

We audited an invoice for €2.3 million under a contribution agreement signed with an international organisation, which was implemented under indirect management and fully funded by the EU. The invoice related to the clearing of the costs based on the financial report submitted by the international organisation for the period up to 15 April 2023.

During our audit, we found that this financial report included €1.8 million of advance payments, which are not considered costs incurred and are therefore ineligible. Furthermore, we noted that the Commission had not implemented sufficient controls to mitigate the risk of clearing ineligible expenditure. We found 14 transactions with similar errors.

As in previous years, we faced delays in receiving requested documentation from some international organisations and, consequently, in carrying out our work. These organisations provided only limited access to documents (e.g. in read-only format), which hindered the planning, execution and quality control of our audit. These difficulties persisted despite the Commission's attempts to resolve them through ongoing communication with the international organisations concerned.

Annual activity report and other governance arrangements

As in the preceding years, DG INTPA issued an action plan to address the weaknesses in the implementation of its control system. In 2021 and 2022, we reported on the satisfactory progress achieved on the 2020 and 2021 action plans.

By April 2024, the implementation status of the 2021 action plan had improved compared to last year. The Commission had completed one more action, bringing the total number of actions completed to five. Three actions remained ongoing. In its 2022 action plan, DG INTPA once again increased the number of actions, this time to ten. Four had been completed and six were still ongoing. The 2023 action plan consists of 13 actions, including four new ones. As of April 2024, five actions had been completed and eight were still ongoing.

DG INTPA's RER study

In 2023, DG INTPA had its 12th RER study carried out by an external contractor. The purpose of the study is to estimate the rate of those errors that have evaded all DG INTPA management checks to prevent, detect and correct such errors across its entire area of responsibility, in order to conclude on the effectiveness of those checks.

For the 2023 RER study, DG INTPA used a sample size of 480 transactions, as in previous years (some of the sampled transactions had a value higher than the *sampling interval*; therefore, the final sample size was 413). The study estimated the overall RER at 0.97 % – below the Commission's 2 % *materiality threshold* for the eighth year in a row.

The RER study does not constitute an *assurance engagement* or an audit; it is based on the RER methodology and manual provided by DG INTPA. Our previous annual reports on the EDFs have already described limitations in the studies that may have contributed to the RER's underestimation.

Review of the 2023 AAR

The Director-General's declaration of assurance in the 2023 AAR does not include any reservations. From 2018 onwards, DG INTPA significantly reduced the scope of reservations (i.e. the share of expenditure covered by them), initially from 16 % to 1 % and then to zero.

What we recommend

We recommend that the Commission:

- take into account changes made to contracts after the reporting period when calculating cut-off estimates;
- strengthen checks before making payments; and
- take measures to improve control systems for clearing of pre-financing paid to pillar-assessed organisations.

Want to know more? Full information on our audit of EDFs can be found in the ***2023 annual report*** *on the activities funded by the 9th, 10th and 11th European Development Funds.*

Background information

The European Court of Auditors and its work

The ECA is the independent external auditor of the EU. We are based in Luxembourg and employ around 900 staff of all EU nationalities. Our mission is to contribute to improving EU administration and financial management and to promote accountability and transparency, and act as the independent guardian of the financial interests of EU citizens. Our audit reports and opinions are an essential element in the EU accountability chain. They are used to hold to account those responsible for implementing EU policies and programmes: the Commission, other EU institutions and bodies, and administrations in member states. We warn of risks, provide assurance, indicate shortcomings and good practice, and offer guidance to EU policymakers and legislators on how to improve the management of EU policies and programmes. Through our work, we ensure that Europe's citizens know how their money is being spent.

Tony MURPHY
Ireland

Nikolaos MILIONIS
Greece

Klaus-Heiner LEHNE
Germany

Bettina JAKOBSEN
Denmark

Jan GREGOR
Czech Republic

Mihails KOZLOVS
Latvia

Ildikó GÁLL-PELCZ
Hungary

Annemie TURTELBOOM
Belgium

Viorel ŞTEFAN
Romania

Ivana MALETIĆ
Croatia

François-Roger CAZALA
France

Joëlle ELVINGER
Luxembourg

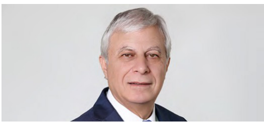
Helga BERGER
Austria

Marek OPIOŁA
Poland

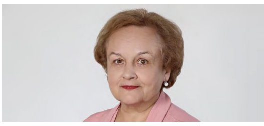
Jorg Kristijan PETROVIČ
Slovenia

Stef BLOK
Netherlands

George Marius HYZLER
Malta



Lefteris CHRISTOFOROU
Cyprus



Laima Liucija ANDRIKIENĖ
Lithuania

Keit PENTUS-ROSIMANNUS
Estonia

Katarína KASZASOVÁ
Slovakia

João LEÃO
Portugal

Alejandro BLANCO FERNÁNDEZ
Spain

Carlo Alberto MANFREDI SELVAGGI
Italy

Petri SARVAMAA
Finland

Hans LINDBLAD
Sweden

Note: As at July 2024.

Our output

We produce:

- annual reports, mainly containing the results of financial and compliance audit work on the EU budget and the European Development Funds, but also on budgetary management and performance aspects;
- special reports, presenting the results of selected audits on specific policy or spending areas, or on budgetary or management issues;
- specific annual reports on the EU's agencies, decentralised bodies and joint undertakings;
- opinions on new or updated laws with a significant impact on financial management – either at the request of another institution or on our own initiative;
- reviews, providing a description of, or information about, policies, systems, instruments or more focused topics.

Audit approach for our statement of assurance – at a glance

The opinions in our statement of assurance are based on objective evidence obtained from audit testing in accordance with international auditing standards.

As stated in our 2021-2025 strategy, for MFF 2021-2027 we will continue to develop our audit approach and use available data and information, which will allow us to continue providing strong assurance, based on our Treaty mandate and in full accordance with international public-sector audit standards.

Reliability of the accounts

Do the EU annual accounts provide complete and accurate information?

Hundreds of thousands of accounting entries are generated by Commission directorates-general each year, taking information from many different sources (including member states). We check that accounting processes work properly and that the resulting accounting data is complete, correctly recorded and properly presented in the EU's financial statements. For the audit of the reliability of the accounts, we have applied the attestation approach ever since our first opinion in 1994.

- We evaluate the accounting system to ensure it provides a good basis for producing reliable data.
- We assess key accounting procedures to ensure they function correctly.

- We perform analytical checks of accounting data to ensure it is presented consistently and appears reasonable.
- We directly check a sample of accounting entries to ensure the underlying transactions exist and are accurately recorded.
- We check financial statements to ensure they present the financial situation fairly.

Regularity of transactions

Do the income and expensed payment transactions underlying the EU accounts comply with the rules?

The EU budget involves millions of payments to beneficiaries, both in the EU and in the rest of the world. The bulk of this spending is managed by member states. To obtain the evidence we need, we assess the systems by which income and expensed payments (i.e. final payments and clearing of advances) are administered and checked, and we examine a sample of transactions.

Where the terms of the relevant international auditing standards have been met, we review and re-perform the checks and controls carried out by those responsible for implementing the EU budget. We thus take full account of any corrective measures taken on the basis of these checks.

- We assess the systems for revenue and expenditure to determine their effectiveness in making sure transactions are regular.
- We take statistical samples of transactions to provide a basis for detailed testing by our auditors. We examine the sampled transactions in detail, including at the premises of final recipients (e.g. farmers, research institutes or companies providing publicly procured works or services), to obtain evidence that each underlying event exists, is properly recorded and complies with the rules for making payments.
- We analyse errors and classify them as either quantifiable or not. Transactions are affected by quantifiable error if, based on the rules, the payment should not have been authorised. We extrapolate the quantifiable errors to obtain an estimated level of error for each area in which we make a specific assessment. We then compare the estimated level of error against a materiality threshold of 2 % and assess whether the errors are pervasive.
- Our opinions take account of these assessments and of other relevant information, such as annual activity reports and reports by other external auditors.
- We discuss all our findings both with the authorities in the member states and with the Commission to confirm our facts are correct.

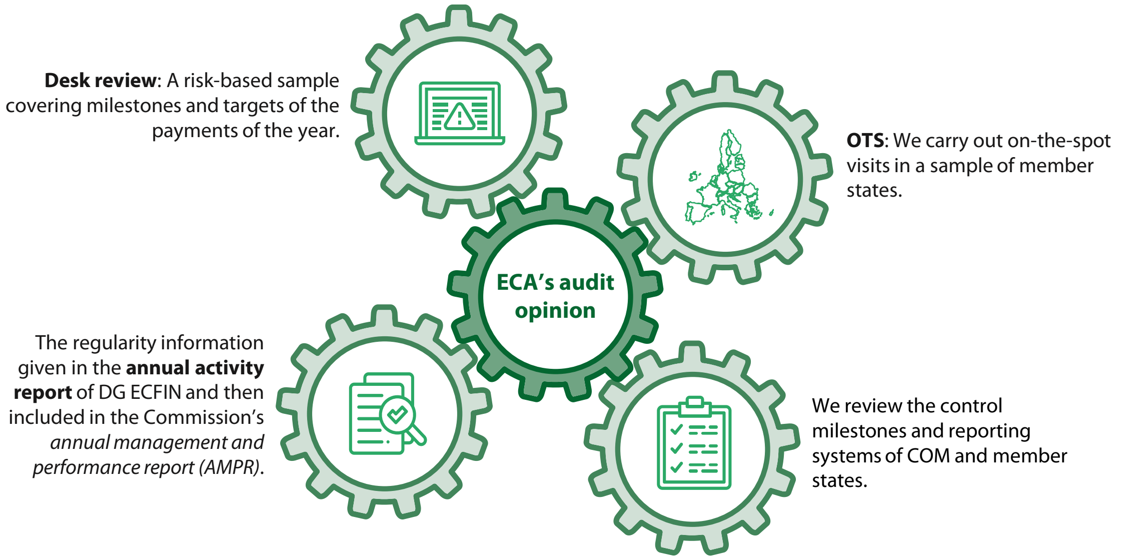
What is our audit approach and methodology for the statement of assurance on the regularity of RRF expenditure?

- We issue a separate opinion on the regularity of the RRF expenditure as part of our statement of assurance on the EU budget. This is because we consider the RRF delivery model to be different and a temporary instrument. With this opinion, we aim to provide reasonable assurance on the payments, and provide detailed information based on this opinion in the statement of assurance (see ***Figure 16***).

- We derive most of our assurance from substantive testing and the assessment of the supervisory and control systems. Our assurance is complemented by the AARs-AMPR and the reports of the Internal Audit Service.

- Our work conforms to international audit standards and ensures that our audit opinions are supported by sufficient and appropriate audit evidence.

Figure 16 – RRF audit opinion



Source: ECA.

All our products are published in our website at ***www.eca.europa.eu****.*
More information on the audit process or the statement of assurance can be found in Annex 1.1 of our ***2023 annual report****.*

Luxembourg: Publications Office of the European Union, 2024

PDF	ISBN 978-92-849-2715-9	ISSN 2812-149X	doi:10.2865/770029	QJ-AS-24-001-EN-N
Print	ISBN 978-92-849-2736-4	ISSN 2812-1503	doi:10.2865/087380	QJ-AS-24-001-EN-C
HTML	ISBN 978-92-849-2677-0	ISSN 2812-149X	doi:10.2865/567705	QJ-AS-24-001-EN-Q

A word on the '2023 EU audit in brief'

The '2023 EU audit in brief' provides an overview of our 2023 annual reports on the EU's general budget and the European Development Fund, in which we present our statement of assurance as to the reliability of the accounts and the legality and regularity of the transactions underlying them. We also covered the Recovery and Resilience Facility and provide a separate opinion on the legality and regularity of its expenditure. The EU audit in brief also outlines our key findings regarding revenue and the main areas of spending under the EU budget and the European Development Fund, as well as findings relating to budgetary and financial management.

The full texts of the reports may be found at eca.europa.eu.

The European Court of Auditors (ECA) is the independent external auditor of the EU. We warn of risks, provide assurance, highlight shortcomings and good practice, and offer guidance to EU policymakers and legislators on improving the management of EU policies and programmes. Through our work we ensure that EU citizens know how their money is being spent.

CURIA RATIONUM
EUROPEAN COURT OF AUDITORS

Publications Office of the European Union