

FAQs Luxembourg, 10 November 2020

2019 annual report 10 most frequently asked questions

1. What is the role of the European Court of Auditors as regards the EU budget?

Every year, we **check the EU accounts and provide an opinion** on two matters: whether the accounts are accurate and reliable, and whether the EU budget was spent according to the rules. This check forms the basis for our **statement of assurance**, which we are required to provide to the European Parliament and the Council under Article 287 of the Treaty on the Functioning of the European Union (TFEU).

In 2019, EU spending totalled €159.1 billion, the equivalent of 2.1% of the total public spending of EU Member States.

2. Has the European Court of Auditors signed off the 2019 accounts?

Yes. We have signed off the 2019 accounts as **reliable** (given a 'clean' opinion), as we have for every financial year since 2007. We conclude that the 2019 accounts present fairly, in all material respects, the financial position of the EU and its results for the year.

As well as our opinion on the accounts, we are required to give an opinion – based on our audit work – on whether the underlying payments were made in accordance with the EU rules. Recent years showed an overall improvement in the estimated level of error in payments, from 3.8% in 2015 to 3.1% in 2016, 2.4% in 2017 and 2.6% in 2018. For 2019, however, our error estimate has slightly increased to **2.7%**.

3. What does our estimated level of error mean?

The figure of 2.7% is our estimate of the **amount of money that should not have been paid out** from the EU budget because, in our view, it was not spent in accordance with the EU rules and thus does not comply either with what the Council and Parliament intended to achieve through the EU legislation concerned or with specific national rules in the Member States.

Typical errors include payments for ineligible beneficiaries or projects, or for purchases of services, goods or investments without correctly applying the rules on public procurement.

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4. Does that mean that 2.7% of EU money was wasted?

No.

It would be inaccurate to say this, because there is a significant difference between 'error' and 'waste'. In our testing, we check whether EU money has been spent in accordance with the rules, whether the costs charged are calculated properly, and whether eligibility conditions have been complied with. If one of these requirements has not been met, we call it an 'error'. That is what the figure of 2.7% refers to.

Some errors involve payments which did not meet eligibility conditions. For example, we found that an urban footpath in Portugal had been co-funded by the EU although the work had already been done at the time EU funding was requested. This was not in line with the eligibility conditions, which do not allow for retroactive funding. In another case, a farm of over 1 000 hectares applied for aid to build a storage facility for animal fodder, but instead erected storage for cereals. This was against the rules, which make support for crop storage facilities only available for smaller farms. In both these cases, even though the beneficiaries did not satisfy all the conditions, the EU funds may still have had some positive impact and provided some benefit.

Meanwhile, it is quite possible for expenditure that is perfectly legal and regular to be nonetheless wasteful. One example on which we report was port infrastructure built without adequate regard to projected freight levels.

5. Do the errors found constitute fraud?

In the great majority of cases, no.

Fraud is a deliberate act of deception to gain some advantage. Although it can be difficult to identify fraud through standard audit procedures, our testing does reveal a number of suspected cases each year.

In 2019, we found nine instances of suspected fraud among the 747 transactions we audited. We have reported all of these cases to OLAF, the European Union's Anti-Fraud Office, which investigates and follows up as necessary in cooperation with Member State authorities.

6. Is the EU's financial management getting worse?

There has been an overall improvement in the estimated level of error in expenditure over the last few years, from 4.4% in 2014 to 2.7% in 2019. There are improvements compared to 2018, such as the positive development in natural resources and sustained results in administration.

However, material error continues to be a feature of high-risk expenditure. The proportion of this type of expenditure increased in the 2019 budget to 53%, and was a majority of our audit population. We estimate the level of error in high-risk spending at 4.9%. Unlike in the last three years, we conclude that error is **pervasive**, and we therefore give an **adverse opinion on expenditure**.

7. What does 'pervasive error' mean?

Over half of EU expenditure in 2019 was deemed to be high-risk. While we estimate the level of error in total expenditure to be 2.7%, it goes up to 4.9% when examining high-risk expenditure in isolation. Due to the substantial weight of this expenditure type in total spending, we consider that error is pervasive – present in the entire audited population or a significant part of it.

8. What is 'high-risk' expenditure?

High-risk expenditure mainly refers to the **reimbursement** by the EU of eligible costs for eligible activities (under complex rules). Reimbursements are made, for example, for research projects (under 'Competitiveness' spending), investments in regional and rural development (under 'Cohesion' and 'Natural resources') and development aid projects (under 'Global Europe'). This year, the proportion of this expenditure type increased to 53.1%, largely due to a rise in 'Cohesion' spending.

Lower-risk expenditure concerns **entitlement payments**, which are made to beneficiaries meeting certain (less complex) conditions. Such payments include, for example, direct aid for farmers (under 'Natural resources'), student and research fellowships (under 'Competitiveness'), and the salaries and pensions of EU staff (under 'Administration').

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

A '**clean**' opinion means the figures present a true and fair view and follow the rules of financial reporting and management.

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

An 'adverse' opinion indicates widespread problems.

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

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

The ECA's 2019 annual report is available in 23 EU languages at <u>eca.europa.eu</u>.