EUROPEAN COURT OF AUDITORS

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Press Release
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The complexity of rural development policy and Member States' weak control systems are the chief causes of the high error rate in spending, say EU Auditors

A report published today by the European Court of Auditors (ECA) finds that most of the errors in rural development policy are due to breaches of conditions set by Member States. Their control authorities could and should have detected and corrected most of the errors affecting investment measures in rural development. Their control systems are deficient because checks are not exhaustive and are based on insufficient information.

"It's important to understand why the rate of errors in rural development policy is unacceptably high. The key to bringing it down is to strike the right balance between the number and complexity of rules governing spending – which help achieve policy goals such as improving agricultural competitiveness – and the efforts to guarantee compliance with such rules," ***commented Rasa Budbergytė, the ECA Member responsible for the report****.*

The auditors estimated that the average error rate for rural development spending during the three years 2011-2013 was 8.2 %, which is more than four times the materiality threshold. Investment measures (mainly grants to purchase agricultural and food-processing machinery) accounted for two thirds of this error rate, and "area-related" aid (including compensation for additional costs incurred by using more environmentally friendly farming techniques) accounted for one third.

EU auditors found that, in relation to investment measures, the **information required to detect and correct the errors was available to the Member State authorities** but was either not used or not requested in many instances. The auditors found that only 16 % of the error rate resulted from non-compliance with direct provisions of EU regulations, while the largest proportion – 84 % – was due to breaches of conditions set at Member State level.

As regards investment measures, the audit revealed **public bodies to be a significant source of error because of non-compliance with public procurement rules**. The Court found two main reasons for this: first, rural infrastructure projects were commonly implemented by small municipalities, which often had limited experience of conducting public procurement procedures; second, certain beneficiaries preferred to work with specific contractors, most of whom had previously provided similar goods or services, and therefore awarded contracts directly. On no occasion did the paying agencies object to this, even though the **basic procurement principles of transparency, objectivity, non-discrimination and appropriate disclosure had not been observed**.

The auditors found that the measure supporting the processing of agricultural products, where public aid can amount to several million euro per project, was the most prone to error. Unintentional breaches of eligibility criteria by public and private beneficiaries accounted for a quarter of the error rate, while suspected intentional infringements by private beneficiaries contributed an eighth of the error rate.

For area-related aid, the main cause of error was non-compliance with farming commitments, which occurred due to **low incentives for farmers to comply, a low control rate for commitments and a low sanction rate for non-compliance**.

The auditors found that the Commission is moving in the right direction in addressing the causes of error through action plans. However, one weakness is that the **action plans implemented by Member States mainly have a reactive role** and do not systematically address all the problems that caused the errors. Moreover, there is a lack of preventive action against the main widespread weaknesses at EU level.

The purpose of this press release and notes to editors is to give the main messages of the special report adopted by the European Court of Auditors. The full report is available at www.eca.europa.eu

The Commission's review and approval of rural development programmes and the Member States' implementation of national regulatory frameworks have the greatest potential for reducing errors in rural development spending.

The auditors' recommendations

- The Commission should complete the corrective actions it has taken to date by continuing to focus on the root causes of error for rural development spending. In this regard, where relevant, preventive and corrective actions should be taken by the Member States concerning public procurement, the intentional circumvention of rules and agri-environment payments.

- The Commission should closely monitor the implementation of rural development programmes and, in its conformity audits, take account of the applicable rules, including those adopted at national level where relevant, in order to reduce the risk of repeating weaknesses and errors.

Notes to editors

ECA special reports are published throughout the year, presenting the findings of selected audits of specific EU budgetary areas or management topics.

This Special Report (23/2014) entitled "**Errors in rural development spending: what are the causes, and how are they being addressed?**" focuses on the compliance of rural development implementation with the applicable laws and regulations and describes the main causes of the high error rate for rural development. It also assesses whether the steps taken by the Member States and the Commission are likely to address the identified causes effectively in the future. The report includes information made available to the auditors up to the end of September 2014.

The EU and Member States allocated more than 150 billion euro to rural development policy during the 2007-2013 programming period, divided almost equally between investment measures and area-related aid. Rural development expenditure is implemented by shared management between the Member States and the Commission. Member States are responsible for implementing the rural development programmes at the appropriate territorial level, according to their own institutional arrangements. The Commission is responsible for supervising Member States to ensure that they fulfil their responsibilities.

The significant level of non-compliance with applicable rules, as reflected in the high error rate, means that the money concerned is not spent according to the rules. This may negatively affect the attainment of rural development policy objectives, such as improving the competitiveness of agriculture and forestry, improving the environment and the countryside, improving the quality of life in rural areas and encouraging the diversification of economic activity.

Errors are material if they affect more than 2 % of spending.

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