



EUROPEAN
COURT
OF AUDITORS

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Speech

1 December 2020

Speech by Klaus-Heiner Lehne, President of the European Court of Auditors

Presentation of the ECA's 2019 annual report

Council of the European Union (Economic and Financial Affairs)

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The spoken version shall take precedence.

ECA Press

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Mr President,

Esteemed Ministers,

Ladies and gentlemen,

I am pleased to speak to you like this today in the presence of the ECA Member responsible for the Annual Report, Tony Murphy.

I believe none of us have experienced a year with so many **challenges** as this one. But as always in the history of our European Union, **crises** lead to **steps forward** and innovations which we had thought impossible only a few months before.

Whilst I am here today presenting you the Court of Auditors' annual report for last year, we should at the same time bear in mind the big decisions and agreements which will shape EU spending and financial management **for the next seven years**: the new long-term EU budget, including the Next Generation EU recovery fund.

As the European Union's independent external auditor, we have done everything we could to **continue providing an effective public audit service** in the EU since the outbreak of the COVID-19 pandemic.

What did we find?

On expenditure, we estimate that the **overall error rate** remained **stable** – from 2.6 % for 2018, to **2.7 %** for 2019. This is, firstly, **good news**. This overall figure of course masks considerable differences between policy areas.

In the area of **Competitiveness**, we estimated an increased error rate (**4 %**), mostly relating to the reimbursement of ineligible costs. The further simplification of complex rules on personnel costs is certainly part of the solution here, as we have been saying for a number of years. We also reviewed audits carried out by both the Commission and external auditors working on its behalf – and found them only to be partly reliable – there is still a clear margin of progress.

In the area of **natural resources**, we noted improvements that reduced the estimated level of error to **1.9 %**. This is particularly the case for **direct payments**, which mainly relate to declared agricultural areas. For these payments, which account for the bulk of expenditure under this heading (70 %), the level of error remains **well below the materiality threshold**. However, **rural development market measures**,

fisheries and climate action, which represent the remaining 30 % of spending under this heading remains affected by a **material error**. Our review of some national bodies' audits also showed that a number of improvements are still needed.

In the area of **Administration**, we find **no material error**, in line with the past two years.

For **Cohesion**, taking into account the corrections made by Member State authorities, we estimate the level of error to be **4.4 %**, which is lower than in the previous year but still material. We reviewed the work of **18 national audit authorities**, which play a very important role in this area within the assurance and control framework, and **once again found errors that they had not detected**. If the national authorities and the Commission manage to make improvements in this area in the coming years, we could rely more on the work of Member States' audit authorities and its results, which would be a decisive step towards improving the control system in this important area. But we are not there yet. I know the Commission wants to reach this goal, but we need big efforts in the Member States, too, to make this a reality.

Why am I placing so much emphasis on Cohesion?

It's quite simple: for several years we have made a distinction between spending we consider **high-risk**, including Cohesion, and spending we consider low-risk. High-risk spending contains material error at an estimated rate of **4.9 %** (2018: 4.5 %).

So what happened in 2019? Despite a few better or worse nuances here and there, there was **no fundamental change** in the underlying policy areas. Weaknesses in **ex-post checks** persisted.

But the **proportion of high-risk expenditure**, particularly in Cohesion, **increased (53 %)**. This is not a problem in itself – it is good and expected that Cohesion spending increased. What it means, however, is that the **majority of our audit population is now affected by a material level of error**. As a result, the Court of Auditors this time issued a negative (i.e. **adverse**) opinion on expenditure as a whole.

This is due to **persistent structural problems** in some areas that need to be addressed. We need **clear and simple rules** for all EU finances - and we also need **effective checks** on how the money is spent and whether the intended results are achieved.

What matters more than our overall conclusion or headline is the reality on the ground and our conclusions for the different spending areas, which are **very diverse**. I would therefore invite the Council to look at these areas closely.

“This year, we have also published for the first time a report on the overall performance of the EU budget. This innovative report is part of our annual reporting and is therefore a contribution to the discharge procedure. The report shows that while EU performance reporting keeps improving and is becoming more balanced, challenges remain. The quality of the Commission’s performance assessments as well as the actual performance of EU spending programmes is mixed. Furthermore, the EU needs to further improve the reliability of the performance information“.

President, ladies and gentlemen,

I speak to you in the context of the setting up of the **next financial period**. EU spending is expected to almost double in the coming years. **Let us therefore use the lessons learned from the past** to create the best possible system. The Union must be able to take stock, in the new seven-year period, of what worked well in the previous period and what worked less well.

Let us therefore **protect the Union’s financial interests** against irregularities and fraud. In 2019, we referred to OLAF nine cases of suspected fraud detected during our audits. I look forward to similarly close cooperation with the European Public Prosecutor’s Office.

The next long-term EU budget, including the recovery plan for Europe, **also poses major challenges for the Court of Auditors** with its entirely new dimension. It will need **greater resources** at its disposal if it is to be able to verify that these funds are being used sustainably.

Let us also learn from previous experience by launching the new financial period **as soon as possible**. But let us also bear in mind that by the end 2019, the penultimate year of the current seven-year budget, only 40 % of the agreed EU funding for the seven-year period had been paid out, with some Member States having used less than a third. Difficulty in **absorbing EU funds** is a continuing issue on the ground, whatever the goals or requirements fixed at political level. It has contributed to inflating the *reste à liquider*, which had reached almost €300 billion by the end of 2019 and will need to be addressed in the next MFF.

Ladies and gentlemen,

In the context of a new financial framework for the next seven years, and in particular the Next Generation EU recovery fund, Member States also have a huge responsibility for the sound and sustainable management of EU finances in the interests of Europe's citizens. This year’s report, which I have had the opportunity to present to you today, highlights the need for **further efforts** by everyone involved to make the best use of European money to shape Europe’s future.

Thank you for your attention.