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EUROPEAN
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2020

EU audit in brief

Introducing the 2020 annual reports
of the European Court of Auditors

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President's foreword

Our annual report on the 2020 financial year, the last one in the period for 2014-2020, has been finalised during challenging times for the EU and its Member States. We, as the European Union's external auditor, have done everything we can to continue providing an effective public audit service in the EU despite the particular operational issues arising from the COVID-19 crisis.

As in previous years, we conclude that the EU accounts present a true and fair view of the EU's financial position. We give a clean opinion on the reliability of the 2020 accounts of the European Union. The revenue for 2020 was legal and regular, and free from material error.

For 2020, our estimate for the overall error rate in the audited expenditure is 2.7 % (2019: 2.7 %).

Concerning the significant areas of EU spending for which we provide a specific assessment, the level of error is material for 'Cohesion' and 'Competiveness'. For 'Natural resources', we find the estimated level of error to be close to materiality (2.0 %), whereby our results indicate that the level of error was not material for direct payments, representing 69 % of spending under this MFF heading, and that it was, taken as a whole, material for the spending areas we had identified as higher risk (rural development, market measures, fisheries, the environment and climate action). The level of error is below materiality in 'Administration'.

For several years, we have audited the EU revenue and spending by differentiating between those budget areas where we consider the risks to legality and regularity high, and those where we consider them low. Due to the way the EU budget is composed and evolves over time, the proportion of high-risk expenditure in the audited population further increased compared to the previous years and represents around 59 % of our 2020 audit population (2019: 53 %). We estimate the level of error in this type of expenditure at 4.0 % (2019: 4.9 %). Against this background, we issue an adverse opinion on expenditure.

The estimated level of error for low-risk expenditure (which accounted for the remaining 41 % (2019: 47 %) of our audit population) was below our materiality threshold of 2 %.

The EU will spend significantly more than in the previous programming period. Over the next seven years, the Union will be able to spend €1.8 trillion. This includes the €750 billion for the recovery instrument, the 'Next Generation EU' initiative, as the EU's response to the COVID-19 crisis, on top of a revised 2021-2027 MFF worth €1.1 trillion. The 27 Member States also agreed to partly finance this recovery programme through the issuing of public debt. These decisions thus mark a truly historic shift in EU finances.

Managing the EU's finances in a sound and effective manner will thus become even more important. This entails an increased responsibility for both the Commission and the Member States, but also for us at the European Court of Auditors.

Against this background, we have prepared a new strategy for the 2021-2025 period. In January 2021, we agreed on three strategic goals that will guide our efforts in auditing the EU's finances in the coming years, notably to provide strong audit assurance, in a challenging and changing environment. In the years to come, we will thus continue contributing actively to accountability and transparency for all forms of EU finances, including the 'Next Generation EU' instrument.

Klaus-Heiner LEHNE
President of the European Court of Auditors

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Overall results

Key findings

Summary of the 2020 statement of assurance

We give a clean opinion on the reliability of the 2020 accounts of the European Union.

Revenue for 2020 was legal and regular, and free from material error.

Our opinion on legality and regularity of expenditure for the 2020 financial year is adverse.

- Overall, the **estimated level of error in expenditure** from the 2020 EU budget was material and remained at **2.7 %** (2019: 2.7 %).

- For **high-risk expenditure** (mainly reimbursement based), where beneficiaries often have to follow complex rules when they submit claims for costs they have incurred, we estimate the level of error to be 4.0 % (2019: 4.9 %). The proportion of high-risk expenditure in our audit population further increased, largely due to a further rise in Cohesion spending (€20 billion) and was substantial at 59 % (2019: 53 %). Like in 2019, the error is pervasive and we are issuing again **an adverse opinion on expenditure**.

- In the seventh and final year of the 2014-2020 multi-annual financial framework (MFF), outstanding commitments, continued to rise and reached €303.2 billion by the end of 2020. In particular the use or **'absorption' of the European Structural and Investment Funds (ESIF) by Member States remained slower than planned**. Of the total amount of committed ESIF funds, 45 % (€209 billion) remain to be absorbed.

- The **COVID-19 pandemic** will have a substantial impact on the amount of funds that the EU will spend in future years. For the 2021-2027 period, the combined funding allocation from the NGEU instrument and the MFF almost doubled compared to the previous MFF period and will be €1 824 billion. We identified risks and challenges relating to the implementation and sound financial management of these funds.

- We report all **suspected fraud cases** detected during our audit work to the EU's Anti-Fraud Office (OLAF). In 2020, there were six such cases (2019: nine).

The full text of our 2020 annual reports on the EU budget and on the activities funded by the 8th, 9th, 10th and 11th European Development Funds can be found on our ***website*** *(eca.europa.eu).*

What we audited

2020 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). Our 2020 audit covered the last year of the period that began in 2014 and ran until 2020, though amounts will continue to be disbursed.

Ultimate responsibility for ensuring that the budget is properly spent lies with the Commission. In 2020, spending totalled €173.3 billion, the equivalent of 1.1 % of the combined gross national income (GNI) of the EU-27 and the United Kingdom.

Where does the money come from?

Total revenue for 2020, was €174.3 billion. The EU budget is financed by various means. The largest share (€123 billion) is paid by Member States in proportion to their GNI. Other sources include customs duties (€19.9 billion), the contribution based on value-added tax collected by Member States (€17.2 billion) and contributions and refunds arising from European Union agreements and programmes (€8.2 billion).

What is the money spent on?

The EU budget is spent in a wide range of areas, such as:

- fostering the economic development of structurally weaker regions;
- promoting innovation and research;
- transport infrastructure projects;
- training for unemployed people;
- farming and promoting biodiversity;
- fighting climate change;
- border management;
- aid for neighbouring and developing countries.

About two thirds of the budget is spent under what is known as 'shared management'. While the Commission is ultimately responsible in this method of budget implementation, the Member States distribute funds, select projects and manage the EU's expenditure. This is the case of, for example 'Natural resources' and 'Cohesion'.

Our statement of assurance on the EU budget

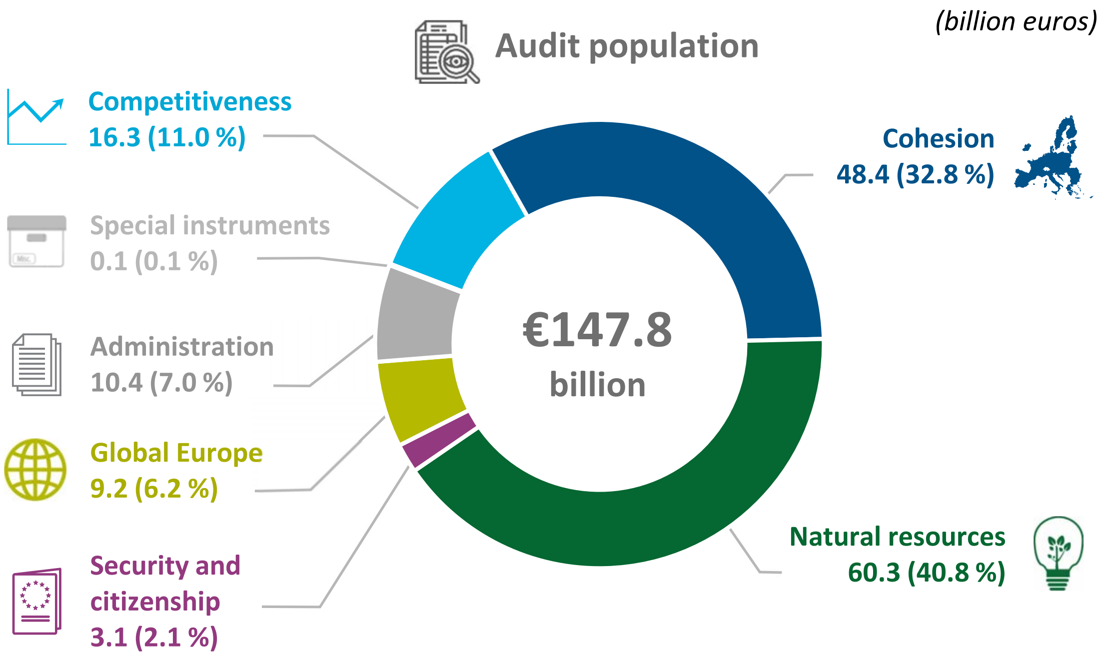
Every year, we audit EU revenue and expenditure, examining whether the annual accounts are reliable and whether the underlying income and expenditure transactions comply with EU and national rules.

This work forms the basis for our statement of assurance to the European Parliament and the Council in accordance with Article 287 of the Treaty on the Functioning of the European Union (TFEU). We examine expenditure at the point when final recipients of EU funds have undertaken activities or incurred costs, and when the Commission has accepted this expenditure. In practice, this means that our population of transactions covers interim and final payments. We did not examine advances paid in 2020 unless they were also cleared during the year.

COVID-19 travel restrictions prevented us, in almost all cases, from carrying out on-the-spot checks. We therefore carried out most of our work through desk reviews and by interviewing auditees remotely. While not carrying out on-the-spot checks may increase the detection risk, the evidence that we obtained from our auditees enabled us to complete our work and conclude on it.

Our audit population for 2020 amounted to €147.8 billion (see ***Figure 1***).

Figure 1 – 2020 expenditure audited



This year, 'Natural resources' made up the largest share of our overall audit population (40.8 %), followed by 'Cohesion' (32.8 %) and 'Competitiveness' (11.0 %).

For more information on our audit approach, see ***Background information***.

What we found

The EU accounts present a true and fair view

The 2020 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 €116 billion at the end of 2020. The further increase of this estimate is mainly due to a decrease in the nominal discount rate, which reflects the reduction in global interest rates.

On 1 February 2020, the United Kingdom ceased to be an EU Member State. On 31 December 2020, the EU accounts showed a net receivable due from the United Kingdom of €47.5 billion based on mutual obligations defined in the withdrawal agreement.

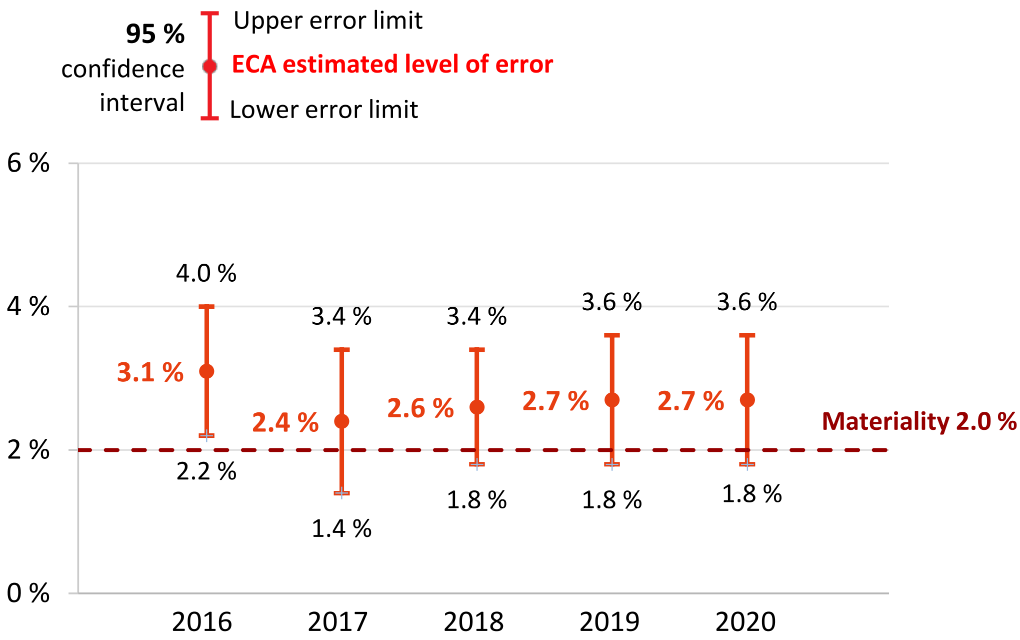
Revenue for 2020 is legal and regular

We conclude that revenue is free from material error.

The error in expenditure for 2020 is material and pervasive

For expenditure as a whole, we estimate the level of error to be between 1.8 % and 3.6 %. The mid-point of this range, previously known as the 'most likely error', remained the same as last year and is at 2.7 % (see ***Figure 2***).

Figure 2 – Estimated level of error for the EU budget as a whole (2016-2020)



We define **error** as an amount of money that should not have been paid out from 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.

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

In 2020, we found once again that the way expenditure was disbursed had an impact on the risk of error. We distinguish in this context between entitlement and cost-reimbursement payments (see box below).

What are entitlement and cost reimbursement payments?

EU spending is characterised by two types of expenditure involving distinct patterns of risk:

— Entitlement payments, which are based on beneficiaries meeting certain (less complex) conditions: these include student and research fellowships (under ‘Competitiveness’), direct aid for farmers (‘Natural resources’) and salaries and pensions for EU staff (‘Administration’).

— Cost reimbursements, where the EU reimburses eligible costs for eligible activities (involving more complex rules): these include research projects (under ‘Competitiveness’), investment in regional and rural development (‘Cohesion’ and ‘Natural resources’) and development aid projects (‘Global Europe’).

The most common errors we found in high-risk expenditure were:

- ineligible projects and expenditure, as well as infringements of internal market rules (in particular non-compliance with state aid rules) in ‘Cohesion’;
- ineligible costs, administrative errors and absence of essential supporting documents in the rural development, market measures, environment, climate action and fisheries spending area, which together make up around 31 % of total spending in ‘Natural resources’;
- ineligible costs, in particular direct personnel and direct other costs, in research spending (Horizon 2020 and FP7), which makes up around 57 % of total spending in ‘Competitiveness’; and
- absence of supporting documents, non-compliance with public procurement rules as well as costs not incurred and ineligible costs in ‘Global Europe’.

In 2020, high-risk expenditure further increased compared to the previous four years and clearly makes up the majority of our audit population, accounting for around 59 % of it (2019: 53 %). The increased share taken by this expenditure type was mainly due to a further €20 billion increase in our 'Cohesion' audit population. The estimated level of error for high-risk expenditure was 4.0 % (2019: 4.9 %).

Low-risk expenditure accounted for the remaining 41 % of our audit population (2019: 47 %) and mainly included entitlement payments. The estimated level of error in this part of the population was below our materiality threshold of 2 % (see ***Figure 3***).

Figure 3 – Error rates reflect the level of risk

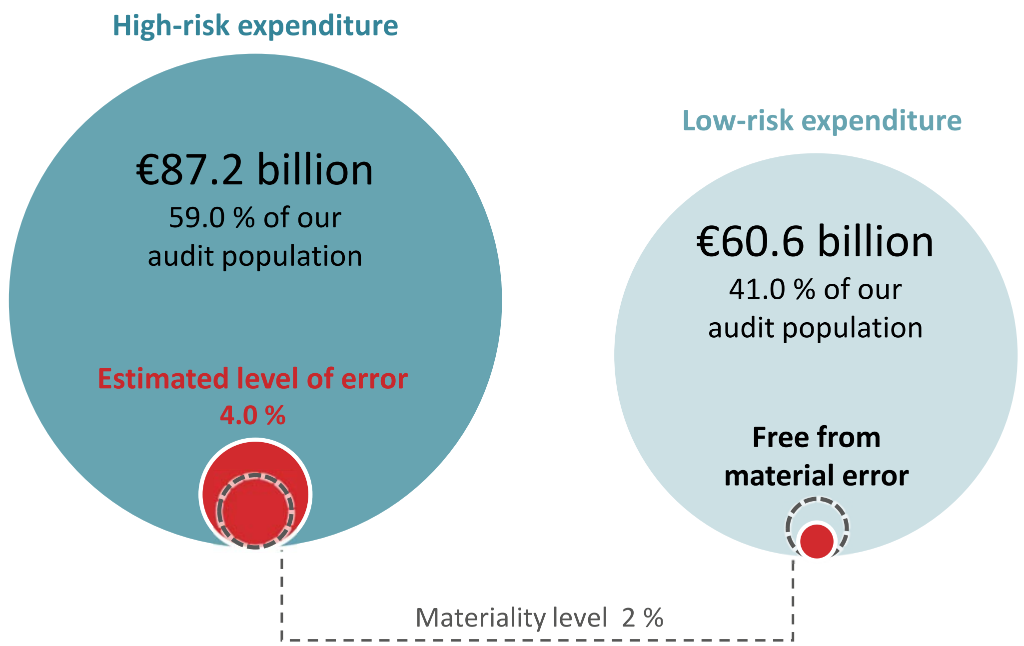
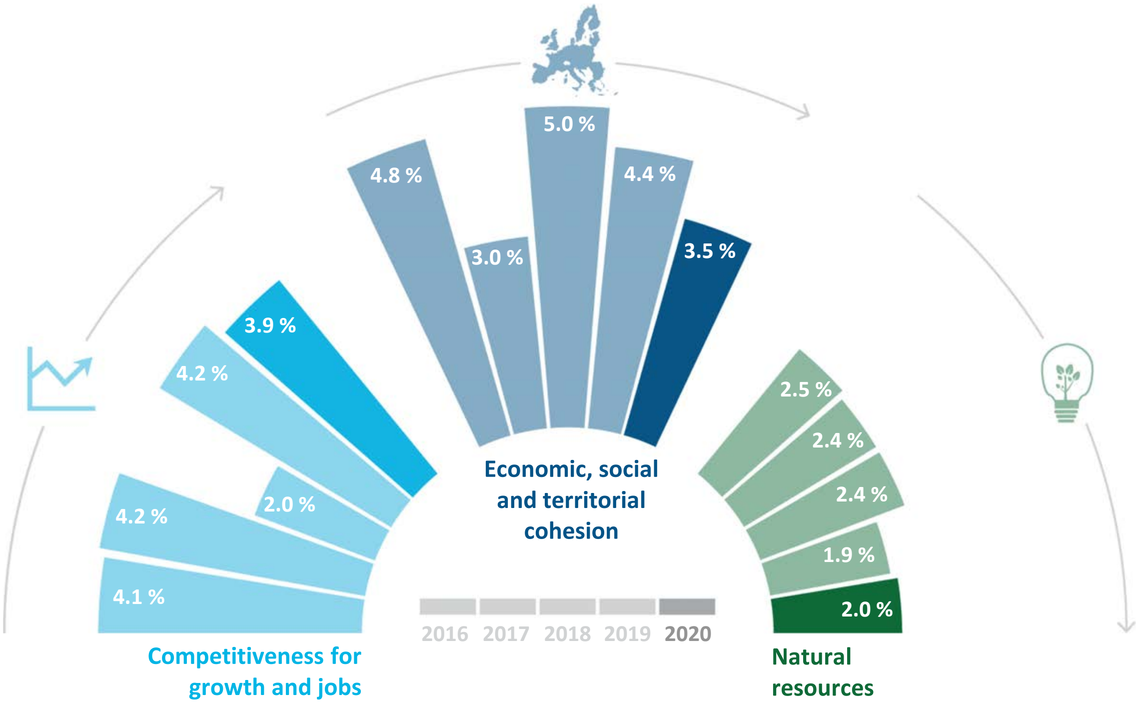


Figure 4 compares the estimated levels of error in the various spending areas between 2016 and 2020. Further information on results are provided in the section ***A closer look at our results*** and in the relevant chapters of our ***2020 annual report***.

Figure 4 – Our error level estimates for selected EU spending areas (2016-2020)



Comparing our error level estimates with those of the Commission

The annual management and performance report, for which the college of Commissioners has ownership and is responsible, summarises key information from the annual activity reports on internal control and financial management. It includes the risk at payment, which is the Commission’s estimate of the amount that is paid without being in accordance with the applicable rules. Overall, the Commission’s estimate of the risk at payment for 2020 is 1.9 %. This is below our materiality threshold (2.0 %) and our estimated level of error (2.7 %).

In addition, the annual activity report 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.

We consider that the issues we reported last year concerning *ex post* audits by the Commission’s Common Audit Service (‘Competiveness’), Member States’ controls, reflected in their control statistics (‘Natural resources’), checks by Member State audit authorities (‘Cohesion’), and the annually commissioned residual error rate (RER) study (‘Global Europe’), – still exist and affect the estimation of the risk at payment.

Where we provide a specific assessment for an MFF heading, we have compared the Commission’s risk at payment for 2020 with our estimated levels of error. The comparison shows that the Commission’s risk at payments are lower than our estimated level of error for ‘Competitiveness’, ‘Cohesion’ and ‘Natural resources’.

This year, we reviewed the Commission’s reporting on financial corrections and recoveries and found it to be complex and not always clear. We also noted that there were recoveries dating back to 2005 and net corrections to the programming period 1994-1999. By the end of 2020, no net financial corrections for ‘Cohesion’ had yet been made for the programming period 2014-2020.

We reported six cases of suspected fraud to OLAF

We report all suspected fraud that we detect during our audit work to the European Anti-Fraud Office (OLAF), which then decides whether to investigate and follow up, where appropriate in co-operation with national judicial authorities. In 2020, we referred six cases of suspected fraud (2019: nine). For all these cases, OLAF has opened investigations. In June 2021, we started cooperating with the European Public Prosecutor’s Office (EPPO) based on the administrative arrangement between the two organisations.

*Want to know more? Full information on the main findings can be found in Chapter 1 of our **2020 annual report**. The full text of our annual report can be found on our **website** (eca.europa.eu).*

A closer look at our results

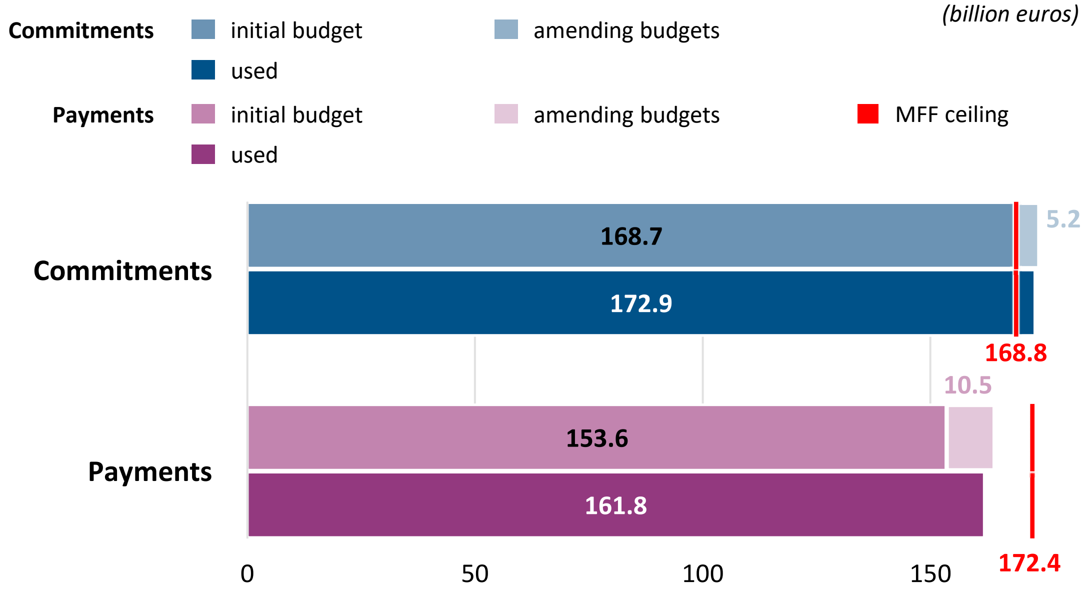
Budgetary and financial management

Implementation and use of the budget in 2020

The available budget was almost fully implemented

The MFF regulation sets maximum amounts for each of the seven years of the MFF. These ceilings apply to the new EU financial obligations (*commitment appropriations*) and to payments that can be made from the EU budget (*payment appropriations*). See ***Figure 5***.

Figure 5 – Budget implementation in 2020



In 2020, commitment appropriations were almost fully used: €172.9 billion out of the final budget of €173.9 billion (99.5 %). Both the appropriations and way they were implemented exceeded the MFF ceiling (€168.8 billion). Exceeding this ceiling was made possible by the use of special instruments, such as the European Union Solidarity Fund.

In 2020, the MFF ceiling for payment appropriations was €172.4 billion, and the amount available for payments in the final budget was €164.1 billion. Actual payments totalled €161.8 billion, €10.6 billion less than the ceiling.

While many changes were made to the budget related to the COVID-19 pandemic, the Commission has not yet reported on EU funds used for this purpose

In order to react quickly to the COVID-19 pandemic and provide support, two main budgetary tools were used: amending budgets and transfers. The total amount of additional commitment appropriations inserted through amending budgets was €5.2 billion, of which €3.3 billion was for COVID-19-related expenditure. For payment appropriations, the total amount of amending budgets over the year was €10.5 billion, of which €9.4 billion was for COVID-19-related expenditure. Further examples of pandemic related changes were transfers of funds between regions, the lifting of the requirement to concentrate funding on specific themes, and the possibility of co-financing at a rate of up to 100 %, which became possible for one year. Member States were also not required to reimburse to the EU budget €7.6 billion of unspent annual pre-financing of ESIF funds from the previous year.

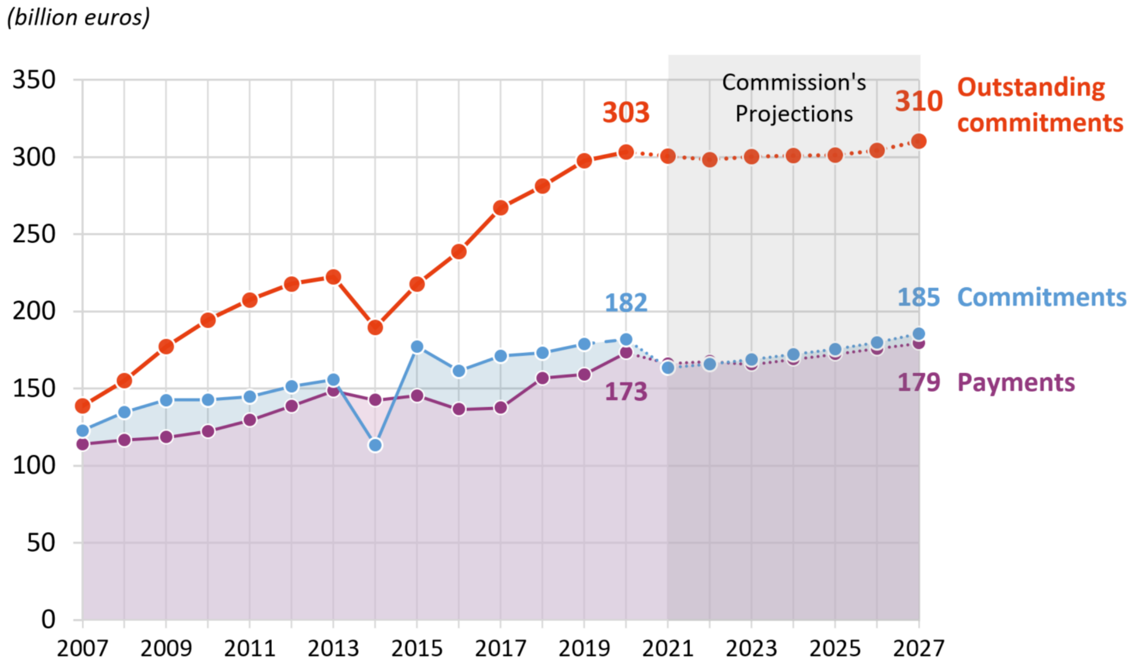
To increase transparency and to take account of information requests by the European Parliament, the Commission began to internally track EU funds used for COVID-19-related purposes in the first half of 2020. The Commission has not yet published a report on COVID-19-related expenditure.

Outstanding commitments have exceeded €300 billion

Outstanding commitments, resulting from the level of commitments being higher than the amount of payments made, have continued to rise, reaching €303.2 billion by the end of 2020 (see ***Figure 6***). The increase was smaller than in previous years, partly due to the additional payment appropriations being made available for combating the COVID-19 pandemic.

According to the Commission's long-term forecasting, which does not include the Next Generation EU (NGEU) instrument, the amount of outstanding commitments should remain fairly stable at this high level until 2027. This will mainly be due to the very small annual gap between commitment appropriations and payment appropriations in the 2021-2027 MFF, which was not the case in the two previous MFFs. However, outstanding commitments will rise if, as from 2016 to 2020, commitments remain high and payment claims are lower than anticipated due to implementation delays.

Figure 6 – Outstanding commitments, commitments and payments (2007-2027)

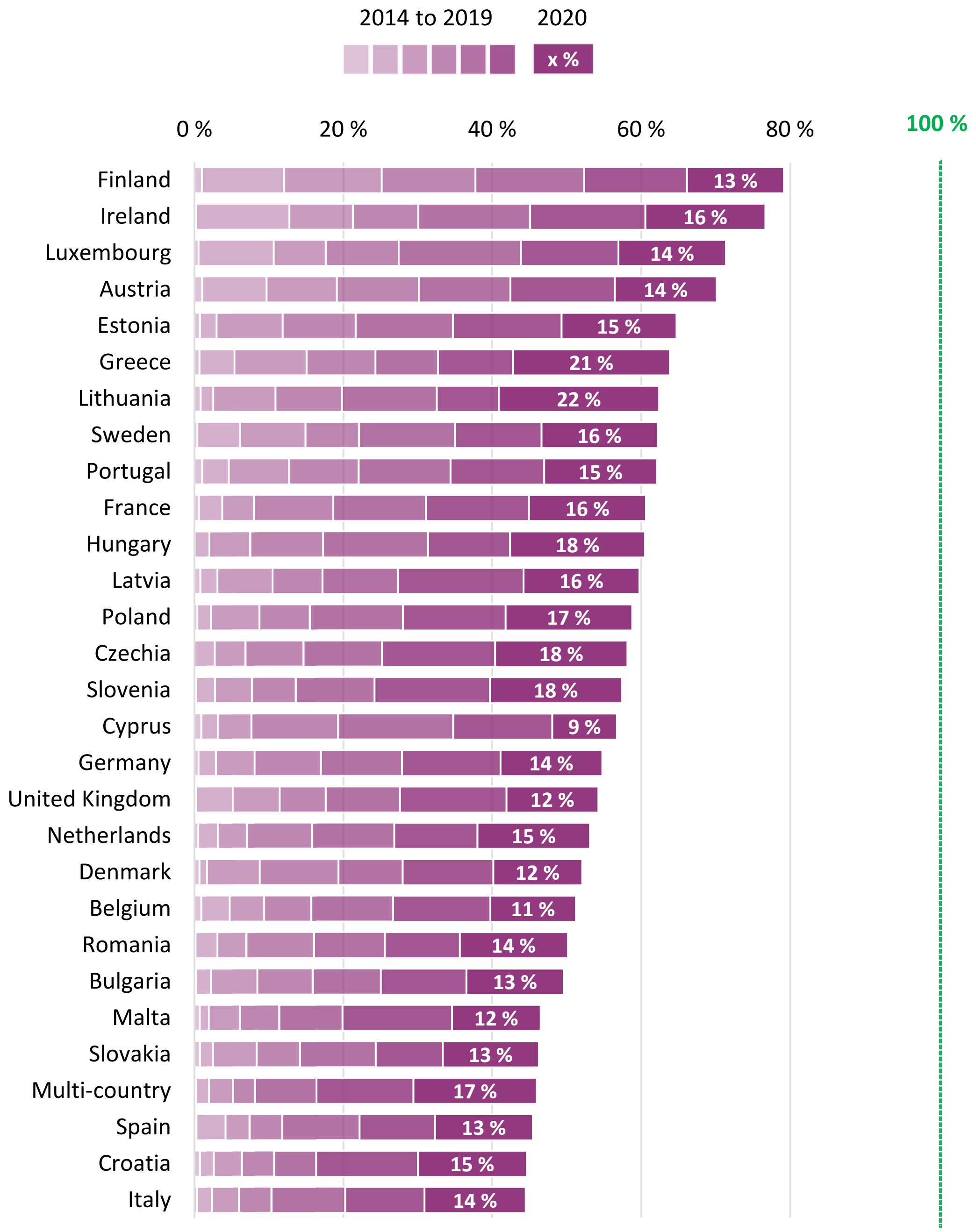


Although absorption of the ESIF funds was faster in 2020, it was still slower than under the previous MFF.

The overall annual absorption rate for the 2014-2020 MFF in 2020, the final year of the current MFF, was 15 %: the same as the rate in 2013, the final year of the previous 2007-2013 MFF. However, cumulative absorption was around 7 % lower than under the previous MFF. While by the end of 2020, all of the ESIF funds allocated to the Member States (€465 billion) had been committed, this left 45 % (€209 billion) to be absorbed. This amount constitutes the main part of the €303 billion of outstanding commitments at the end of 2020.

As ***Figure 7*** shows, there are considerable differences between Member States in the absorption of the ESIF funding allocated to them during the 2014-2020 MFF. While Finland, for example, had absorbed 79 % of its total allocation by the end of 2020, the three Member States where the absorption rate was lowest (Italy, Croatia and Spain) had only used around 45 % of their committed amounts.

Figure 7 – Annual ESIF absorption levels for each Member State 2014-2020



Previous experience suggests that the absorption rate is likely to increase, but this may still not be sufficient to allow all funds to be absorbed. In 2014, the Commission set up the Task Force for Better Implementation for the cohesion policy programmes. The measures taken led to a marked increase in absorption of the remaining funding from the 2007-2013 period for those Member States involved, but we noted an insufficient focus on results.

Main risks and challenges for the EU budget in the coming years

The 2021-2027 MFF and the NGEU instrument face risks and challenges

In the 2021-2027 MFF period, up to €750 billion will be available under the Next Generation EU instrument, which is aimed at countering the effects of the pandemic, maintaining the targets set by EU policies, and enabling Member States to become more resilient, sustainable and better prepared for the future.

The combined funding allocation from the NGEU instrument and the 2021-2027 MFF will be €1 824 billion (in 2018 prices), of which €1 074 billion will come from the MFF itself, representing almost double the amount of the previous MFF allocation.

We identified the following main risks and challenges:

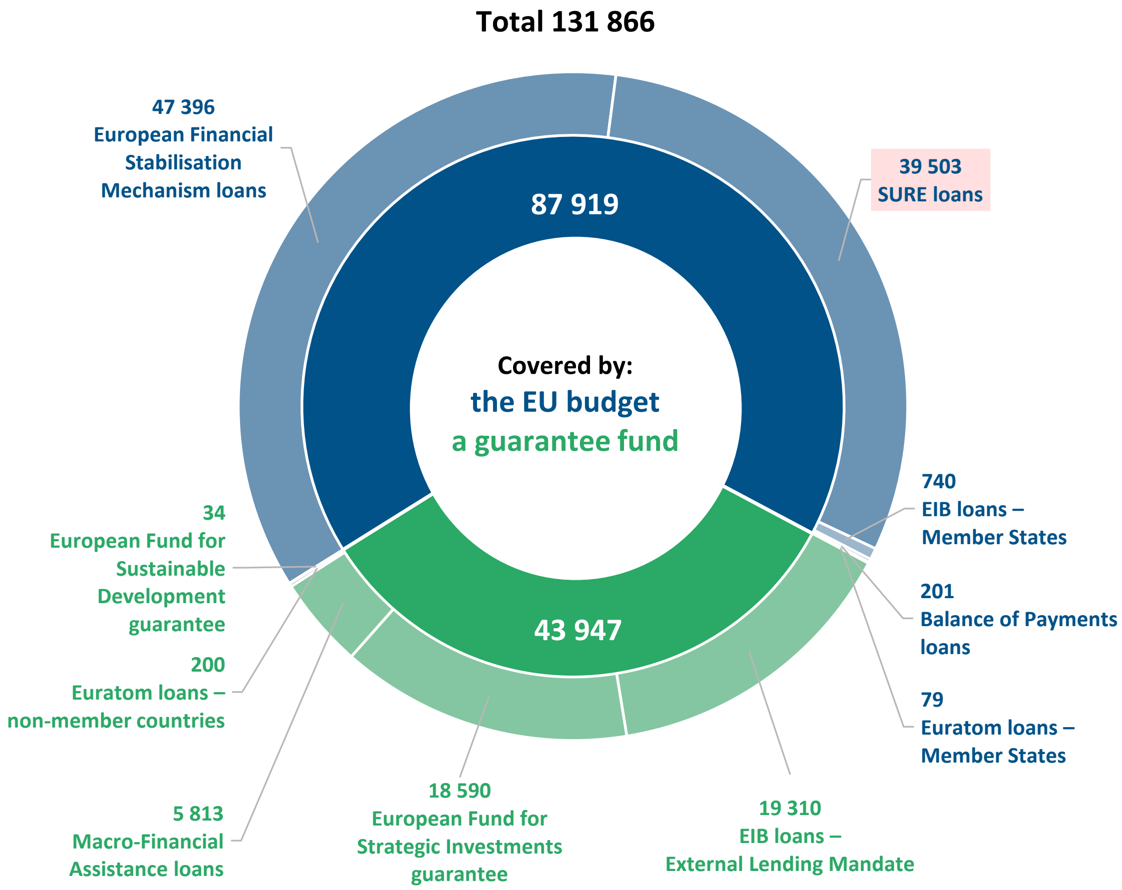
- risk of a delayed start to the implementation of shared management funds' in the 2021-2027 MFF;
- challenges related to sound financial management in the use of funds due to COVID-19 related changes.

The SURE Instrument has increased the EU budget's exposure to financial risks

The total exposure of the EU budget to contingent liabilities – liabilities that depend on a specific future event occurring – increased from €90.5 billion at the end of 2019 to €131.9 billion by the end of 2020, an increase of 46 %. The rise was almost completely due to the introduction of the European instrument for temporary support to mitigate unemployment risks in an emergency (the SURE Instrument). This added €39.5 billion of Member States borrowing to the exposure figure by the end of 2020 (see ***Figure 8***). Although the SURE loans increase overall exposure, safeguards built into the instrument reduce the associated risks.

Figure 8 – EU budget exposure

(million euros)



The NGEU instrument will have a major impact on overall exposure from 2021 onwards

The NGEU instrument will substantially increase the overall exposure of the EU budget by up to €750 billion (in 2018 prices) in the years to come.

The Commission will borrow the necessary funds to finance the grants and budgetary guarantees (€390 billion) and the loans available to Member States (up to €360 billion) on the financial markets on behalf of the EU. This borrowing will be guaranteed by the EU budget and could increase its overall exposure by as much as €940 billion. As a result, the Commission will face the challenge of scaling up its administrative capacities to ensure the sound management of larger transactions in capital markets than ever before, including bond issuance and the management of financial risks.

What we recommend

We recommend that:

- to allow for the comprehensive reporting of the committed and expensed amounts relating to the COVID-19 pandemic, including amounts pledged or contracted in 2020, the Commission should standardise the recording of EU budgetary expenditure for COVID-19-related purposes and report on it to the budgetary authority at least annually for as long as is deemed necessary;

- with a view to gradually reducing the overall level of outstanding commitments in the years to come, the Commission should analyse the factors contributing to the evolution of outstanding commitments and, based on the results, take appropriate action;

- in the light of the substantial increases in the level and types of EU funding available over the coming years, including amounts remaining from the previous MFF period, the Commission should set up measures to ensure that additional advisory support is available to national authorities, thereby facilitating Member States' sound use of these funds.

*Want to know more? Full information on the main findings on budgetary and financial management can be found in Chapter 2 of our **2020 annual report**.*

Revenue

€174.3 billion

What we audited

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

GNI-based contributions from Member States accounted for 70.6 % of the EU's revenue in 2020, while the own resource based on value added tax (VAT) accounted for 9.9 %. 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' administrations on the EU's behalf, provided a further 11.4 % of EU revenue. The remaining 8.1 % came from other sources (contributions and refunds connected with EU agreements and programmes, the surplus from the previous year, and other revenue).

What we found

Amount subject to audit	Affected by material error?
€174.3 billion	No – free from material error in 2020 and 2019

Preventive and corrective measures

The revenue-related systems we examined were generally effective. However, the key internal TOR controls we assessed in certain Member States and the closure of the GNI verification cycle we assessed at the Commission were partially effective due to persistent weaknesses.

We also detected significant weaknesses, requiring EU action, in Member States' controls to reduce the customs gap. These weaknesses do not affect our audit opinion on revenue, as they do not concern the transactions underlying the accounts but rather the risk that TOR are incomplete. Our recent **special report 04/2021** on customs controls recommended improvements in this area.

In 2020, the Commission closed its GNI multiannual verification cycle in respect of GNI data for own resources from the year 2010 onwards. The Commission set a large number of GNI reservations in this respect, which generally keep 10 years of Member States' statistical data open for changes. This increases budgetary uncertainty in the national budgets regarding the GNI-based contribution.

For the GNI reservation related to the impact of globalisation, the Commission exceptionally reduced the data revision period by making 2018 the starting year for changes. However, such exception weakens the comparability, reliability and exhaustiveness of Member States' GNI from 2010 to 2017. This limitation is not in line with the EU rules on the calculation of the GNI-based own resource.

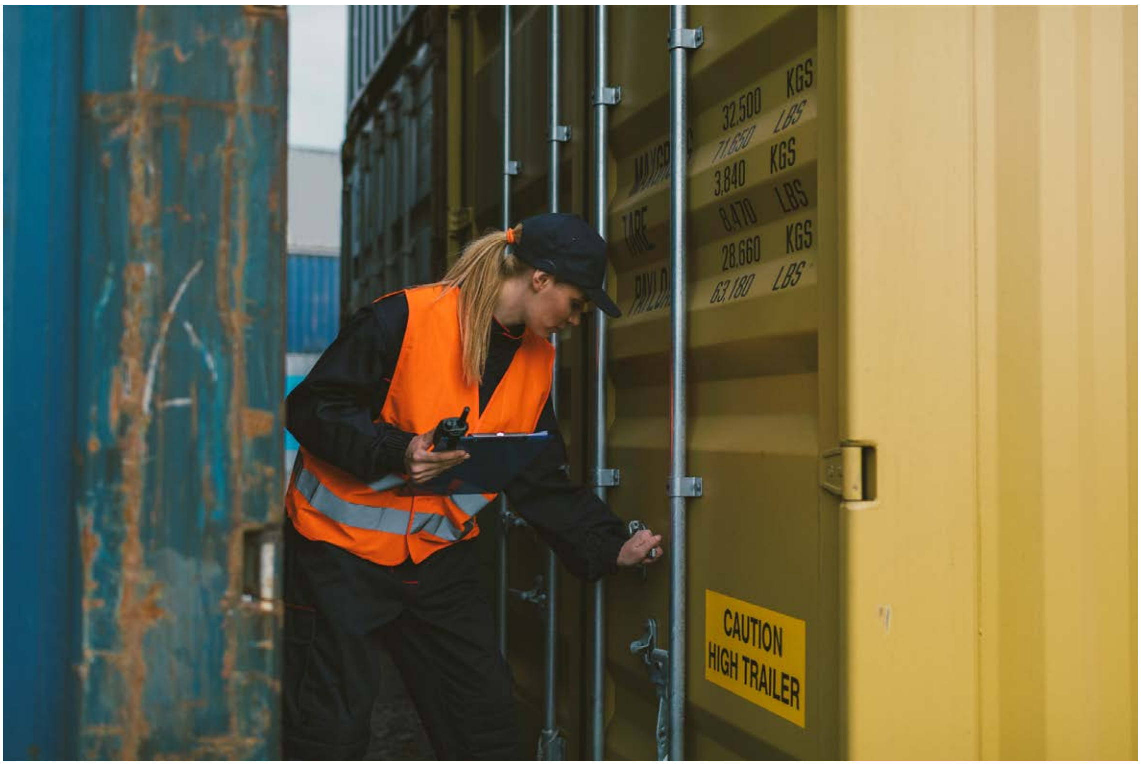
For the fifth year in a row, the Commission's Directorate-General for Budget, in its 2020 annual activity report, has maintained the reservation that the TOR amounts transferred to the EU budget are inaccurate owing to undervaluation of textiles and shoes imported from China over the period from 2011 to 2017. The reservation was first set in 2016, when TOR losses attributable to the United Kingdom (UK) were quantified, and then extended to other Member States in 2018. The Commission's infringement case against the UK concerning the TOR losses due to these undervalued imports from China is awaiting judgement by the Court of Justice of the European Union.

Persistent weaknesses remain in the national control systems for compiling TOR statements. In the particular case of the Netherlands, we have already questioned the reliability of the Dutch TOR statements since 2013, due to limitations of the customs IT system.

What we recommend

We recommend that:

- the Commission review and update its approach to verifying Member States' GNI data in future multiannual cycles with a view to further streamlining the process and reducing the period over which GNI data remain open after the end of the cycle;
- the Commission continue, in cooperation with Member States' statistical authorities, to improve the capture of globalisation in national accounts to address the GNI reservation in this area for the years 2018 onwards. If the impact of lifting the above reservation on national accounts were to differ significantly between Member States, the Commission should reassess the quality of GNI data of previous years with a view to informing the budgetary authority of the possible implications of the resulting revised statistics for the revenue budget since 2010;
- the Netherlands ensure that its monthly and quarterly TOR statements are reliable by solving the current weaknesses in its customs IT system.



Want to know more? Full information on our audit of EU revenue can be found in Chapter 3 of our ***2020 annual report****.*

Competitiveness for growth and jobs

Total: €24.1 billion

What we audited

Spending programmes in this policy area play an important role in stimulating growth and creating employment in the EU and fostering an inclusive society. The Horizon 2020 research and innovation programme (and its predecessor, the Seventh Framework Programme, or FP7), and the Erasmus+ programme for education, training, young people and sport account for the bulk of expenditure. Other programmes provide funding for the Galileo space programme (the EU's global satellite navigation system), the Connecting Europe Facility (CEF) and the International Thermonuclear Reactor (ITER).

For 2020, expenditure of €16.3 billion was subject to audit in this area. Most of this expenditure was managed directly by the Commission. The Commission provides advances to public or private beneficiaries upon signature of a grant agreement and, as their co-financed projects progress, reimburses part of the total costs they report, deducting those advances. In the case of Erasmus+, expenditure is mostly managed by national agencies on behalf of the Commission (around 80 % of grants).

What we found

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€16.3 billion	Yes	3.9 % (2019: 4.0 %)

Overall, we estimate that the level of error in 'Competitiveness for growth and jobs' is material.

In 2020, 64 (48 %) of the 133 transactions we examined were affected by errors.

Most errors related to ineligible costs, such as overstated personnel costs, incorrectly declared subcontracting costs, or costs not actually incurred.

Issues related to subcontracting concerned mostly beneficiaries who were not aware of the difference in treatment of direct personnel costs and the costs of external consultants under EU funded programmes (Horizon 2020 and CEF). The risk of such errors is particularly high in SMEs, which are strongly encouraged to take part in research programmes but may have few or no staff of their own and instead use the services of other companies.

Example – subcontracting costs declared as direct personnel costs resulting in ineligible indirect costs

One of the SMEs audited was actually a shell company. It had no payroll staff or premises of its own. The company address was the private residence of one of the SME owners. The company relied on the services of freelancers who worked from other parts of the country or abroad. It declared the payments made to freelancers as direct personnel costs.

With regard to their own work on the project, the owners entered into consultancy agreements with their own company. They invoiced their services to the company, and subsequently claimed reimbursement from the EU at rates almost three times higher than the Horizon 2020 rates laid down for SME owners not receiving a salary. As a result of the incorrect classification of subcontracting costs as personnel costs, the company also unduly claimed €115 000 in indirect costs for staff and premises it did not have.

Horizon 2020

Horizon 2020 and its predecessor FP7 remain higher-risk and the main source of errors that we detect. We found quantifiable errors relating to ineligible costs in 28 of the 84 research and innovation transactions that we examined. This represents 66 % of our estimated level of error for this sub-heading in 2020.

The rules for declaring personnel costs under Horizon 2020 remain complex, despite simplification efforts, and their calculation remains a major source of error in the cost claims.

Auditors contracted by the beneficiaries at the end of a project provide certificates on financial statements, which are intended to help the Commission check whether costs declared in the financial statements are eligible. We have repeatedly reported weaknesses in these certificates. In 2020, we found that the auditors providing the certificates had not discovered a number of detectable quantifiable errors in our sample.

Commission reporting on regularity

With regard to Horizon 2020, DG Research and Innovation (RTD) reported an expected representative error rate of 2.95 % and a residual error rate, taking into account corrective action, of 2.16 %, for all DGs and other EU bodies managing EU research spending. The underlying *ex post* audits are carried out by DG RTD's Common Audit Service (CAS) or by external contractors on its behalf.

For both our 2018 and 2019 annual reports, we had reviewed a random sample of 20 *ex post* audits and found we could not rely on the conclusions in 17 cases.

Following our recommendations, we noted that the CAS took action that aimed to improve the quality of its *ex post* audits. Nevertheless, we continued to find weaknesses in the sampling procedures, including breaches of the CAS sampling rules and in audit documentation.

We also noted that the expected representative error rate includes an increase of 0.13 percentage points that aims to address the quantitative findings from our reviews of the *ex post* audits. However, this error rate remains potentially understated as it does not take into account that the errors we had found could also have occurred in the *ex post* audits not reviewed by us and our qualitative findings, such as weaknesses in the audit procedures, could not be quantified.

What we recommend

We recommend that the Commission:

- extend the scope of the certificates on financial statements to include unit cost categories for the new Research Framework Programme, Horizon Europe, in order to increase the level of detection and correction of errors in unit costs;
- implement actions, including a periodical review of the main causes of error in financial statements, providing guidance on complex issues such as subcontracting rules, and conducting information campaigns in order to reduce the error rate for Horizon 2020;
- further improve the quality of *ex post* audits by addressing the weaknesses in the sampling procedures at the level of cost statements and apply the corrections to the error calculation method for Horizon Europe.

*Want to know more? Full information on our audit of EU expenditure on 'Competitiveness for growth and jobs' can be found in Chapter 4 of our **2020 annual report**.*

Economic, social and territorial cohesion

Total: €59.5 billion

What we audited

Spending under this subheading is aimed at strengthening competitiveness and reducing development disparities between the different Member States and regions of the EU. Funding takes place through the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF) and other schemes, such as the Fund for European Aid to the Most Deprived (FEAD) and the Connecting Europe Facility (CEF).

The management of the bulk of expenditure is shared by the Commission and Member States. The EU co-finances multiannual operational programmes (OPs), from which funding goes to projects. 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.

We audited expenditure of €48.4 billion in this area for the 2020 annual report (2019: €28.4 billion). In line with our approach, this amount included €46.1 billion worth of expenditure from previous years that the Commission had accepted or cleared in 2020.

What we found

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€48.4 billion	Yes	3.5 % (2019: 4.4 %)

Overall, we estimate that the level of error in ‘Economic, social and territorial cohesion’ is material.

In 2020, we tested 227 transactions. We identified and quantified 23 errors, which had not been detected by Member State audit authorities. Taking account of the 64 errors these had previously found and corrections applied by Member State programme authorities (worth a total of €834 million for both programming periods combined), we estimate the level of error to be 3.5 %.

Ineligible projects and costs, infringements of internal market rules (in particular non-compliance with state aid rules) and the absence of essential supporting documents contributed most to our estimated level of error. The number and impact of the errors detected demonstrate that the controls in place do not yet sufficiently mitigate the high inherent risk of error in this area. This particularly concerns managing authorities and intermediate bodies. Overall, their first-level verifications are ineffective for preventing or detecting irregularities in the expenditure declared by beneficiaries.

Example of a project with ineligible staff costs

In a research project in Poland, the staff costs for the project manager were fully declared to the project. However, the grant agreement stated that project management was to be covered by a flat rate for indirect costs. For this reason, the costs for the project manager should not have been declared separately and are ineligible.

The application of Article 14(1) of the ESF Regulation led to an excessive imbalance in favour of a Member State in the first year of implementation

The beneficiaries of five ESF operations in our sample for an OP in Italy correctly declared eligible costs based on a simplified cost method determined by the managing authority. However, in each case the amount the managing authority declared to the Commission was based on the Commission's standard scales of unit costs. As a result, the amounts paid by the EU budget for each operation concerned were more than 20 % higher than those paid to the beneficiaries. This arrangement has generated an imbalance in favour of the Member State of more than €43 million in the 2014-2020 period so far. As they currently stand, the Commission's standard scales of unit costs for this OP are overly generous for the Member State.

Assessment of audit authorities' work

The work of audit authorities in the Member States play a critical part in the assurance and control framework in Cohesion, in particular to ensure that residual error rates remain below the materiality threshold of 2 %.

An assurance package is an annual set of documents, which each Member State submits to the Commission in respect of the ESIF funds. It comprises the annual accounts, a summary thereof, a control report, a management declaration and an audit opinion. Since 2017, we reviewed the work of 34 out of 116 audit authorities in relation to 26 assurance packages for the 2014-2020 period. In all these cases, the audit authorities had reported residual error rates below 2 %. While our work is not intended to conclude on the correctness of audit authorities' error rates as such, we found errors not detected by audit authorities. For 12 of the 26 assurance packages we reviewed, this resulted in understated residual error rates reported, which were in fact above 2 %.

Similarly, our examination of the three programme closure packages we examined from the 2007-2013 period resulted, in two cases, in an adjustment the residual error rate to above the 2 % materiality threshold.

Overall, in the last four years we have been examining audit authorities' work, we have found that, for around half (by number and value) of the assurance packages we have selected for audit, the audit authorities had incorrectly reported residual rates below 2 %. The weaknesses found in the work of several audit authorities continue to limit the reliance that can be placed on their work.

We also found that audit authorities do not keep track of the risk of fraud, with only 21 % of the operations in our sample having audit documentation that adequately addressed that risk.

Reporting by DG REGIO and DG EMPL on the regularity of Cohesion spending

Annual activity reports are the Commission DGs' main tools for reporting whether they have reasonable assurance that Member States control procedures ensure the regularity of expenditure.

The annual activity reports also provide an error rate as a key performance indicator on regularity. In 2020, DG REGIO reported a key performance indicator above the 2 % materiality level (2.1 %), while the rate reported by DG EMPL was below (1.4 %). In our 2018 annual report we concluded, that for various reasons, the error rate shown as a key performance indicator should be considered a minimum rate.

The Commission used these error rates in the 2020 annual management and performance report to provide regularity information on the Cohesion policy area. It reported an overall risk at payment of between 1.9 % and 2.4 %. However, because of the shortcomings of the audit authorities' work and the issues we identified regarding the key performance indicators reported in the two DGs annual activity reports, we consider that the rates aggregated in the annual management and performance report can only be minimum estimates.

The Commission DGs made a reservation in the annual activity report for an OP for which weaknesses in the corresponding Member State's management and control system mean a material risk to the EU budget. To this end, they should take into account all information available at the time of the assessment, including the error rates reported by audit authorities. However, we found that these error rates were mostly provisional rates for expenditure included in annual accounts that the Commission had not yet accepted. As a result, the reservations might have not covered all material risks.

What we recommend

Among other things, we recommend that the Commission:

- closely monitor Member States using its standard scales of unit costs, to ensure that the scheme does not result in excessive imbalances in favour of Member States. The Commission should ask Member States to adjust excessive rates and correct imbalances to avoid any gains at programme closure;
- encourage audit authorities explicitly to introduce specific questions in their checklists on fraud risks and document the steps taken to address any such risks discovered in the course of an audit;
- ask Member States to make available sufficient information in the annual summary on conclusions and follow-up of operations for which they have withdrawn amounts under an ongoing assessment from the accounts. This would enhance transparency about the way programme authorities monitor these amounts.

*Want to know more? Full information on our audit of EU expenditure on 'Economic, social and territorial cohesion' can be found in Chapter 5 of our **2020 annual report**.*

Natural resources

Total: €60.6 billion

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.

The CAP accounts for 97 % of spending on 'Natural resources'. Its three general objectives set in EU legislation are:

- 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; and
- balanced territorial development.

CAP spending under the European Agricultural Guarantee Fund (EAGF) falls into two broad categories:

- direct payments to farmers, which are fully funded by the EU budget; and
- agricultural market measures, also fully funded by the EU budget, with the exception of certain measures co-financed by the Member States, including promotion measures.

In addition, the CAP supports rural development strategies and projects through the European Agricultural Fund for Rural Development (EAFRD). Since the start of the 2014-2020 period, the EAFRD has formed part of the ESIF and been subject to the ESIF common provisions regulation.

For 2020, expenditure of €60.3 billion was subject to audit in this area.

The Commission shares the management of the CAP with the Member States.

What we found

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€60.3 billion	Close to materiality	2.0 % (2019: 1.9 %)

Overall, we find that the level of error in 'Natural resources' is close to materiality.

As in previous years, for direct payments which are mainly based on the area of agricultural land declared by farmers and represent 69 % of spending for 'Natural resources', the level of error was not material. For the remaining areas (rural development, market measures, fisheries, the environment and climate action), our results, taken as a whole, indicate a material level of error.

Direct payments to farmers: an effective control system

The main management tool for direct payments is the Integrated Administration and Control System (IACS), which incorporates the Land Parcel Identification System (LPIS). The IACS has helped to bring down the level of error in direct payments, with the LPIS making a particularly significant contribution.

We checked 88 direct payments covering the main schemes. We found that 76 were free from error, and detected compliance issues without financial impact in two direct payments. The ten quantified errors in these schemes resulted from farmers overstating the eligible area of agricultural land or number of animals in their aid claims.

Checks by monitoring: limited coverage in 2020

Since 2018, Member State paying agencies may perform 'checks by monitoring'. This approach uses automated processes based on the EU Copernicus programme's Sentinel satellite data to check compliance with certain CAP rules. Where all eligibility criteria of a given payment scheme can be evaluated from space, it enables paying agencies to monitor the whole population of aid recipients remotely.

Checks by monitoring can be used to warn farmers of potential non-compliance with the payment scheme rules at any time during the growing season. This provides farmers with more opportunities to rectify their claims before they are finalised.

The Commission has committed itself to providing support to the Member States in developing the new approach of checks by monitoring. At the end of 2020, the area of the main direct aid schemes (basic payments and single area payments) subject to checks by monitoring was 5.7 %.

Rural development, market measures, fisheries, environment and climate action: higher risk of error

Compared to direct payments, these spending areas are subject to complex eligibility conditions, which increases the risk of error.

Out of the 104 rural development transactions we tested, 87 were unaffected by error. Out of eleven cases where we found and quantified errors, five of them had an impact exceeding 20 %. We detected compliance issues without financial impact in six payments.

Example: ineligible expenditure in a rural development project

We audited a payment for a rural development project in Croatia that supported blueberry cultivation including the installation of an irrigation system.

Investments in irrigation are only eligible for EU financing if they fulfil the requirements laid down in EU legislation promoting a sustainable use of water. These include the existence or installation of water metering.

The beneficiary had submitted documents indicating that a water meter was part of the project and the paying agency accepted expenditure related to the irrigation system. However, we found that no meter had been installed, making the irrigation component ineligible for EU financing.

Agricultural market measures form a number of diverse schemes that are subject to a variety of eligibility conditions. We tested 16 transactions and found three cases where paying agencies had reimbursed ineligible costs. In two of these cases, the error exceeded 20 %. We detected a non-compliance issue without financial impact in one case.

The selection criteria and eligibility requirements for projects in fisheries, the environment and climate action also vary. Among the nine transactions we examined, we found one quantified errors resulting from the declaration and reimbursement of ineligible expenditure. We detected compliance issues without financial impact in four cases.

Reporting by Directorate-General for Agriculture and Rural Development on regularity of CAP spending

Each paying agency director provides Directorate-General for Agriculture and Rural Development (DG AGRI) with an annual management declaration on the effectiveness of their agency’s control systems, and the legality and regularity of their payments. The Member States report on their administrative and on-the-spot checks (‘control statistics’).

Since 2015, in order to provide additional assurance, certification bodies have been required to give an annual opinion for each paying agency on the legality and regularity of the expenditure for which the Member States have requested reimbursement.

DG AGRI uses the error rates reported in the control statistics, making adjustments based on the results of the certification bodies' audits and of its own checks of paying agencies' systems and spending, to calculate a figure for 'risk at payment'. The Commission estimated the risk at payment to be around 1.9 % for CAP spending as a whole in 2020.

Anti-fraud policies and procedures in the CAP

The paying agencies are required to have systems in place to prevent and detect fraud, and the Commission must obtain reasonable assurance on the operation of those systems. In our 2019 annual report, we identified some weaknesses in CAP anti-fraud policies and procedures, and made a recommendation to tackle the issues. In 2021, we have carried out a performance audit of the Commission and Member States' anti-fraud measures in the CAP. We plan to publish a special report on this issue, also covering the related issue of 'land grabbing', by the end of 2021.

Want to know more? Full information on our audit of EU expenditure on 'Natural resources' can be found in Chapter 6 of our ***2020 annual report****.*

Security and citizenship

Total: €6.3 billion

What we audited

This spending area groups various policies whose common objective is to strengthen the concept of European citizenship by creating an area of freedom, justice and security without internal borders.

The most significant area of expenditure concerns the Emergency Support Instrument, with €2.6 billion spent in 2020, or 40.5 % of the total for this MFF heading. This instrument was set up in April 2020 to help Member States address the COVID-19 pandemic by funding, among other things, the cross-border transfer and transport of patients, medical staff and essential medical items. Other significant funds under this heading are:

- the Asylum, Migration and Integration Fund (AMIF), which aims to contribute to the effective management of migration flows and bring about a common EU approach to asylum and immigration; and
- the Internal Security Fund (ISF), which aims to ensure security in the EU while facilitating legitimate travel and respecting fundamental freedoms and human rights.

In 2020, these two funds accounted, with €1.6 billion, for slightly more than a quarter (25.3 %) of EU spending in this area. Management of the implementation of AMIF and ISF is largely shared between the Member States and the Commission's Directorate-General for Migration and Home Affairs (DG HOME).

Funding for 12 decentralised agencies and the EPPO involved in implementing key EU priorities in the areas of migration and security, judicial cooperation and health accounts for another 18.5 %. We report separately on spending by EU agencies in our specific annual reports and in an annual summary entitled 'Audit of EU agencies in brief'.

For 2020, the value of expenditure subject to audit in this area was €3.1 billion.

What we found

In 2020, we examined a sample of 27 transactions. This sample was designed to contribute to our overall statement of assurance rather than to be representative of spending under this MFF heading. We were therefore unable to estimate the error rate for this MFF heading.

Of the 27 transactions we examined, eight (30 %) were affected by errors. We identified four transactions with quantifiable errors which had a financial impact on the amounts charged to the EU budget. We also found four cases of non-compliance with legal and financial provisions, but without a financial impact on the EU budget.

In addition, we reviewed the work done by four authorities responsible for auditing their respective Member States' AMIF/ISF annual accounts and providing the Commission with an annual control report (ACR). All the audit authorities we examined had developed and implemented detailed procedures of sufficient quality to report on their work in the ACR. We identified some shortcomings whose impact on the accounts was not material enough to detract from the audit authorities' conclusions.

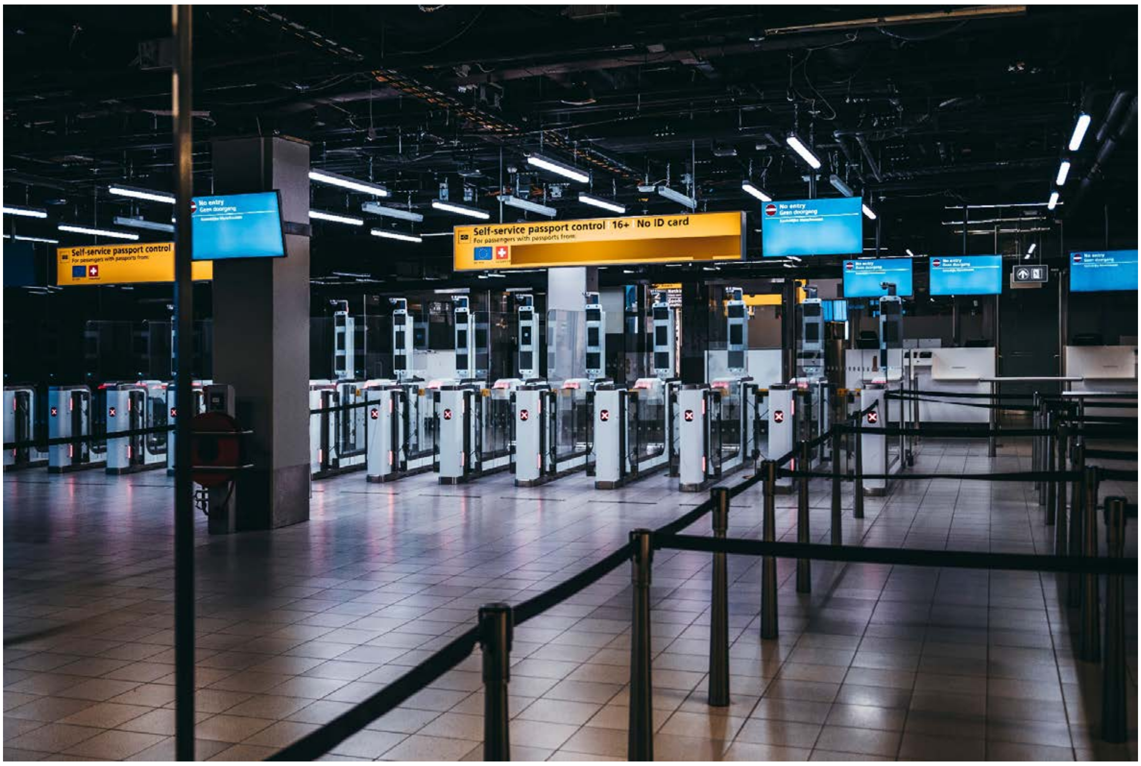
Annual activity reports and other governance arrangements

We reviewed the annual activity reports Directorate-General for Migration and Home Affairs (DG HOME) and the Directorate-General for Communications Networks, Content and Technology (DG CONNECT) and found no information that might contradict our findings. However, our limited sample for 2020 (27 transactions) is not sufficient for us to compare our audit results with the information reported by the two DGs on the regularity of spending.

What we recommend

We recommend that the Commission:

- carefully check the eligibility of the costs submitted by the beneficiaries of ESI actions, in particular the regularity of procurement procedures;
- issue guidance to the Member State authorities responsible for AMIF and the ISF on documenting the completeness and quality of services when funding is based on standard unit costs.



Want to know more? Full information on our audit of EU expenditure for 'Security and citizenship' can be found in Chapter 7 of our ***2020 annual report****.*

Global Europe

Total: €11.4 billion

What we audited

This spending area covers expenditure on all external action funded by the EU budget (with the exception of the *European Development Funds*). The policies aim to: promote EU values abroad, address major global challenges, increase the impact of EU development cooperation, foster stability and security in candidate and neighbourhood countries.

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

Payments are disbursed using several instruments and delivery methods such as works/supply/service contracts, grants, special loans, loan guarantees and financial assistance, budget support and other targeted forms of budgetary aid in more than 150 countries.

For 2020, the expenditure subject to audit in this area was €9.2 billion.

What we found

We reviewed a sample of 75 transactions, which was designed to contribute to our overall statement of assurance rather than to be representative of spending under this MFF heading. We were therefore unable to estimate the error rate for this MFF heading.

Of the 75 transactions we examined, 28 (37.3 %) were affected by errors. We identified 17 quantifiable errors with a financial impact on the amounts charged to the EU budget. We also found 11 cases of non-compliance with legal and financial provisions.

Transactions related to budget support and projects implemented by international organisations under the ‘notional approach’ (where contributions from the Commission to multi-donor projects are pooled with those from other donors and not earmarked for specific, identifiable, items of expenditure) were less prone to error. In 2020, we did not detect any errors in these areas.

Some international organisations provided only limited access to documents, such as in read-only format, meaning we could not make copies of the documents we reviewed. Furthermore, some international organisations questioned our mandate. These issues hindered the planning and execution of our audit and led to excessive delays in the audit team receiving the requested documentation and carrying out its work. The Treaty on the Functioning of the EU establishes the European Court Auditors' right to be forwarded any document or information necessary to carry out its task.

DG NEAR's RER study

In 2020, DG NEAR had its sixth residual error rate (RER) study carried out by an external contractor on its behalf. The purpose of this study was to estimate the level of error remaining after the completion of all management checks to prevent, detect and correct errors across its entire area of responsibility. It does not constitute an assurance engagement or an audit.

As in previous years, they estimated an overall RER for DG NEAR that was below the Commission's own 2 % materiality threshold (2020: 1.36 %; 2019: 0.53 %; 2018: 0.72 %).

We identified limitations that may contribute to the underestimation of the RER.

Major factors distorting the Commission's RER

- DG NEAR did not stratify the population of transactions used for sampling to cover in more detail those areas which are more prone to error or to focus less on those with confirmed lower risk.
- The confidence level applied to the 'grant rate', an additional error rate for directly managed grants, introduced by DG NEAR in 2018, is 80 %, while for the overall RER it is 95 %. As a result, the estimate of error for direct management grants does not reflect the high risk in this area and led to less precise estimate of the actual error rate.
- The RER estimation method gives the contractor broad discretion in deciding whether there are sufficient logistical and legal reasons that prevent timely access to the documents for a transaction and, hence, preventing estimation of the error rate. This method does not necessary reflect the actual residual error for the transaction in question.

In addition, the contractor performed no or limited checks on more than 60 % of the transactions it sampled for the study in 2020 (2019: around 50 %), instead, relying fully or partially on previous control work. However, the purpose of the RER study is to identify errors not detected by previous control work. By relying on previous control work, the RER study does not fully measure such errors. Finally, the regulatory framework for the RER study does not address or mention the risk of fraud.

Annual activity reports and other governance arrangements

For the 2020 financial year, we verified if the annual activity report of the Service for FPIs presented the regularity information in accordance with the Commission's instructions and whether it consistently applied the methodology for estimating future corrections and recoveries.

We noted in this context a potential internal control weakness, where the FPI has taken specific measures to mitigate the associated risks. This issue is related to the common security and defence policy (CSDP) missions, for which the Commission must ensure that they are accredited, based on an assessment whether they adhere to the principles of sound financial management, transparency, non-discrimination and visibility of EU action (as part of 'pillar assessment'). As of the end of 2020, two out of the 11 ongoing CSDP missions had not yet received a full positive pillar assessment.

What we recommend

We recommend that the Commission:

- take steps so that international organisations provide the European Court of Auditors with complete, unlimited and timely access to documents necessary to carry out our task in accordance with the TFEU, and not just in read-only format;
- establish a procedure to ensure that partner organisations base their allocation of shared costs on expenditure actually incurred;
- establish obligations for the RER study contractor to report to the Commission any suspected fraud against the EU budget detected during its work on the RER study.

*Want to know more? Full information on our audit of EU expenditure for 'Global Europe' can be found in Chapter 8 of our **2020 annual report**.*

Administration

Total: €10.3 billion

What we audited

Our audit covered the administrative expenditure of the EU institutions and bodies: the European Parliament, the European Council and the Council of the European Union, the Commission, the Court of Justice, the Court of Auditors, the European Economic and Social Committee, the Committee of the Regions, the European Ombudsman, the European Data Protection Supervisor and the European External Action Service.

In 2020, the institutions and bodies spent a total of €10.3 billion on administration. This amount comprised spending on human resources (about 68 % of the total), buildings, equipment, energy, communications and IT.

For 2020, the expenditure subject to audit in this area was €10.4 billion, including payments and clearings of pre-financing.

We examined selected supervisory and control systems of the European Ombudsman and the Council. We also examined 48 transactions.

An external auditor examines our own 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?
€10.4 billion	No – Free from material error in 2020 and 2019

In 2020, we examined selected supervisory and control systems of the European Ombudsman and the Council. We also examined 48 transactions.

As in previous years, we estimate the level of error to be below the materiality threshold.

We did not identify any specific issues concerning the Council, the Court of Justice, the European Economic and Social Committee, the European External Action Service, the Committee of the Regions, the European Ombudsman, the European Data Protection Supervisor or the Court of Auditors.

Parliament

We detected errors in two payments executed by the European Parliament. One concerned an over-payment for IT services caused by the incorrect application of contract terms. The other concerned an incorrect payment of a subsistence allowance to an MEP, following a mistake in an attendance list. We found that the control system in place did not prevent nor detect such mistakes, but the Parliament is currently working on a new system to improve it.

Commission

We found five errors in payments made by the Commission. One concerned a minor overpayment of costs for software licences. The other four related to allowances of staff who had not declared recent changes in their personal situation or were entitled to claim similar allowances from other sources. Staff are required first to claim such allowances and then to notify them to the Commission so it can take them into consideration when calculating pay. The Commission's consistency checks on its calculation did not detect these four cases. We found similar errors in respect of family allowances in previous years.

Procurement procedures to acquire personal protective equipment

This year, we also examined 15 procurement procedures organised by the European Parliament, the Council, the Commission, the Court of Justice and the EEAS to acquire protective equipment supplies for their staff during the COVID-19 pandemic. While we found some problems in the procedures used by the European Parliament, the Council, the Commission and the EEAS when procuring urgently required protective masks, examining these procedures was outside our representative sample and therefore did not contribute to our estimated level of error.

What we recommend

We recommend that:

- the Parliament should implement the necessary changes to ensure that it only pays daily subsistence allowances to MEPs who qualify for them;
- in order to improve its system for managing statutory family allowances, the Commission should reinforce consistency checks on staff declarations of allowances received from other sources and raise staff awareness of this issue.

Want to know more? Full information on our audit of EU expenditure for 'Administration' can be found in chapter 9 of our ***2020 annual report****.*

European Development Funds

Total: €4.6 billion

What we audited

Launched in 1959, the EDFs were the main instrument by which the EU provided development cooperation aid to the African, Caribbean and Pacific (ACP) countries and overseas countries and territories (OCTs) until the end of 2020. The partnership agreement signed in Cotonou on 23 June 2000 for a period of 20 years ('the Cotonou Agreement') was the framework governing the EU's relations with ACP countries and OCTs. Its primary objective was to reduce and ultimately eradicate poverty. For the 2021-2027 MFF, development cooperation aid to Africa, Caribbean and Pacific is integrated into the Neighbourhood, Development and International Cooperation Instrument (NDICI/Global Europe) and development cooperation aid to OCT is integrated into the Overseas Association Decision. However, the 8th, 9th, 10th and 11th EDFs will not be integrated into the EU general budget and will continue to be implemented and reported on separately until their closure.

For 2020, the total value of expenditure subject to our audit in this area was €4.0 billion. This expenditure relates to the 8th, 9th, 10th and 11th EDFs.

The EDFs are managed by the Commission, outside the framework of the EU general budget, and the European Investment Bank. The Directorate General for International Partnerships (DG INTPA, ex-DG DEVCO) is the main DG in charge.

What we found

The 2020 accounts were not affected by material misstatements.

We also conclude that the revenue of the EDFs did not contain a material level of error.

Our opinion on expenditure for the 2020 financial year is adverse:

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€4.0 billion	Yes	3.8 % (2019: 3.5 %)

To audit the regularity of transactions, we examined a sample of 140 transactions representative of the full range of spending within the EDF. This comprised 21 transactions related to the Emergency Trust Fund for Africa, 102 transactions authorised by 21 EU delegations and 17 payments approved by Commission headquarters.

Due to the COVID-19 pandemic, it was not possible to carry out on-the-spot visits to EU delegations. This prevented us from carrying out certain audit procedures, in particular verifying contract implementation for the transactions selected, and therefore limited our audit work. We had to adapt our approach, carrying out desk reviews of transactions and projects and liaising remotely with our auditees.

Of the 140 transactions we examined, 36 (25.7 %) contained errors. Based on the 31 errors we have quantified, we estimate the level of error to be 3.8 %. The three most common error types were absence of essential supporting documents (38.3 %), ineligible expenditure (38.2 %) and expenditure not incurred (18.1 %).

The Commission and its implementing partners this year committed more errors in transactions relating to grants and to contribution and delegation agreements with international organisations than they did with other forms of support (such as those covering works, supply and service contracts). Of the 67 transactions of this type that we examined, 27 (40.3 %) contained quantifiable errors, which accounted for 94.2 % of the estimated level of error.

Some international organisations provided only limited access to documents, such as in read-only format, meaning we could not make copies of the documents reviewed. Furthermore, one international organisations questioned our mandate or took excessive amount of time to provide the requested supporting documents. These issues hindered the planning and execution of our audit and led to excessive delays in the audit team receiving the requested documentation and carrying out its work. The Treaty on the Functioning of the EU establishes the European Court of Auditors' right to be forwarded any document or information necessary to carry out its task.

DG INTPA's RER study

In 2020, DG INTPA had its ninth residual error rate (RER) study carried out by an external contractor, to estimate the level of error that had evaded all DG INTPA management checks to prevent, detect and correct errors across its entire area of responsibility. For the 2020 RER study, the sample size was 480 transactions. This meant it was again possible to present separate error rates for expenditure financed from the EU general budget and for spending financed by the EDFs, in addition to the overall error rate for both combined.

For the fifth year in a row, the study estimated the overall RER to be below the Commission's own 2 % materiality threshold (2016: 1.67 %; 2017: 1.18 %, 2018: 0.85 %; 2019: 1.13 % and 2020: 0.95 %). The RER study does not constitute an assurance engagement or an audit; it is based on the RER methodology and the manual provided by DG INTPA. As in the previous four years, we have identified limitations that may contribute to the underestimation of the RER.

Factors distorting the Commission's RER

- the financial and administrative framework agreement limits the number of items that can be checked during an expenditure verification, as well as access to audit evidence;
- 97 % of the error rate declared for the RER was related to grants and contracts with international organisations and Member State agencies (high-risk). Only 6 grant transactions (considered high risk and totalling €6.3 million or 0.3 % of the total sample value) were reviewed in their entirety;
- the RER estimation method gives the contractor broad discretion in deciding whether there are sufficient logistical and legal reasons that prevent timely access to the documents for a transaction and therefore for the estimation of the error rate;
- the regulatory framework for the RER study and the contract between DG INTPA and the contractor do not address or mention the risk of fraud.

In addition, for more than half of transactions (54 %), the RER relies fully (17 %) or partially (37 %) on previous control work. For these transactions, the contractor performed no or limited checks, and instead relied on previous control work done as part of DG DEVCO's control framework. Overreliance on previous control work is contrary to the purpose of the RER study, which is to identify the errors that have evaded precisely these controls. Finally, the regulatory framework for the RER study does not address or mention the risk of fraud.

Review of DG INTPA's annual activity report

The Director-General's declaration of assurance in the 2020 annual activity report does not include any reservations, as the two reservations remaining in 2018 had been lifted and new ones have not been issued. In 2018 and 2019, DG INTPA significantly reduced the scope of reservations (i.e. the share of expenditure covered by them).

Just as last year, we find the lack of reservations in DG INTPA's 2020 annual activity report unjustified and consider that it results partly from the limitations of the RER study.

For the second time, the Commission applied a rule which states that a reservation is not needed if the individual spending area it would cover represents less than 5 % of total payments and has a financial impact of less than €5 million. Consequently, reservations are no longer made in certain areas where they were made in previous years, even if the corresponding risk remains.

What we recommend

We recommend that the Commission:

- take steps so that international organisations provide the European Court of Auditors with complete, unlimited and timely access to documents necessary to carry out its task in accordance with the TFEU, and not just in read-only format;
- issue reservations for all areas found to have a high level of risk, regardless of their share of total expenditure and their financial impact;
- establish obligations for the RER study contractor to report to the Commission any suspected fraud against the EU budget detected during its work on the RER study.

*Want to know more? Full information on our audit of EDFs can be found in the **2020 annual report** on the activities funded by the 8th, 9th, 10th and 11th European Development Funds.*

Background information

The European Court of Auditors and its work

The European Court of Auditors is the independent external auditor of the European Union. We are based in Luxembourg and employ around 900 professional and support staff of all EU nationalities.

Our mission is to assess the economy, effectiveness, efficiency, legality and regularity of EU action through our independent, professional and impactful audit work to improving accountability, transparency and financial management, thereby enhancing citizens' trust and responding effectively to current and future challenges facing the EU.

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.

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Croatia

François-Roger CAZALA
France

Joëlle ELVINGER
Luxembourg

Helga BERGER
Austria

Marek OPIOŁA
Poland

Our output

We produce:

- annual reports, containing the results of our audit work on financial, compliance and performance aspects concerning the EU budget and the European Development Funds, as well as on budgetary management;
- 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 the next multiannual financial framework (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.

- 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 examine a sample of transactions and we use information on the systems by which income and expensed payments (i.e. both final payments and clearing of advances) are administered and checked

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 based on 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. This year, COVID-19 travel restrictions prevented us, in almost all cases form carrying out on-the-spot checks. We therefore carried out most of our work remotely, which enabled us to complete and conclude on it.

- 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 use the level of 2 % as materiality threshold for our opinion. We also take account of these assessments and of other relevant information, such as annual activity reports and reports by other external auditors.

- If we find the level of error is material in the audited transactions, we must determine whether the error is 'pervasive'. We can deem it pervasive for various reasons, including when we find it in a substantial proportion of the audited population. If this is the case, it forms the basis for an adverse opinion. Since 2016, we identify low-risk areas and high-risk areas of the EU budget. When the high-risk expenditure affected by material error makes up a substantial part of the audited population, we consider the error to be pervasive and therefore, give an adverse opinion.

- We discuss all our findings both with the authorities in the Member States and with the Commission so as to confirm our facts are correct.

All our products are published on our website: ***http://www.eca.europa.eu****.*
More information on the audit process for the statement of assurance can be found in Annex 1.1 to our ***2020 annual report****.*

Getting in touch with the EU

In person

All over the European Union, there are hundreds of Europe Direct information centres. You can find the address of the centre nearest you at: https://europa.eu/european-union/contact_en

On the phone or by email

Europe Direct is a service that answers your questions about the European Union. You can contact this service:

– by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
– at the following standard number: +32 22999696 or
– by email via: https://europa.eu/european-union/contact_en

Finding information about the EU

Online

Information about the European Union in all the official languages of the EU is available on the Europa website at: https://europa.eu/european-union/index_en

EU publications

You can download or order free and priced EU publications at: https://publications.europa.eu/en/publications. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see https://europa.eu/european-union/contact_en).

EU law and related documents

For access to legal information from the EU, including all EU law since 1952 in all the official language versions, go to EUR-Lex at: https://eur-lex.europa.eu/

Open data from the EU

The EU Open Data Portal (http://data.europa.eu/euodp/en/home) provides access to datasets from the EU. Data can be downloaded and reused for free, for both commercial and non- commercial purposes.

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A word on the '2020 EU audit in brief'

The '2020 EU audit in brief' provides an overview of our 2020 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. It 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, and follow-up of our previous recommendations.

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.

EUROPEAN COURT OF AUDITORS

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