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EUROPEAN
COURT
OF AUDITORS

2021

EU audit in brief

Introducing the 2021 annual reports
of the European Court of Auditors

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Contents

President's foreword

Our annual report on the 2021 financial year is the first one in the new programming period for 2021-2027. In 2021, the COVID-19 pandemic continued to weigh heavily on the European Union 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 ongoing 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 2021 accounts of the European Union. The revenue for 2021 was legal and regular, and free from material error.

Apart from the traditional budgetary resources agreed as part of the 2021-2027 multiannual financial framework (MFF), the EU launched the 'NextGenerationEU' (NGEU) initiative, a recovery package of supplementary funds based on debt securities. The Recovery and Resilience Facility (RRF) accounts for about 90 % of NGEU funding.

We provide two separate opinions on the legality and regularity of expenditure for 2021: one on the traditional EU budget and one on the RRF.

For 2021, our estimate of the level of error in EU budget expenditure is 3.0 % (2020: 2.7 %).

In 2021, RRF expenditure covered the single payment made to a Member State (Spain). We consider that one of the 52 milestones included in the Spanish payment request was not fulfilled. In our view, the related error is not material. We based our assessment on the condition for payments, i.e. that the milestones and targets had been satisfactorily fulfilled. Compliance with EU and national rules are not part of the regularity assessment.

Concerning the significant areas of EU budget spending for which we provide a specific assessment, the level of error is material for 'Single market, innovation and digital' and 'Cohesion, resilience and values'. For 'Natural resources', based on the results of our testing of transactions and other evidence produced by the control system, we find the level of error to be close to materiality. Our results also indicate that the level of error was not material for direct payments, representing 68 % 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 'European public 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 63 % of our 2021 audit population (2020: 59 %). We estimate the level of error in this type of expenditure at 4.7 % (2020: 4.0 %). Against this background, we issue an adverse opinion on expenditure.

The estimated level of error for low-risk expenditure, which accounted for the remaining around 37 % (2020: 41 %) of our audit population, was below our materiality threshold of 2 %.

Contingent liabilities involving a risk to the EU budget increased by €146.0 billion (111 %) in 2021, from €131.9 billion to €277.9 billion. This was mainly due to €91.0 billion issued in bonds to finance NGEU in 2021, and an increase of €50.2 billion in the amount of European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) loans made to Member States. Russia's war of aggression against Ukraine has also contributed to this increase through guarantees that the EU has given to cover loans to non-EU countries.

Against this backdrop, managing the EU's finances in a sound and effective manner is more important than ever. This entails an increased responsibility for both the Commission and the Member States, but also for us at the European Court of Auditors.

Klaus-Heiner LEHNE
President of the European Court of Auditors

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Overall results

Key findings

Summary of the 2021 statement of assurance

We issue a clean opinion on the reliability of the 2021 accounts of the European Union.

We also issue a clean opinion on the legality and regularity of revenue for 2021.

We provide two separate opinions on the legality and regularity of expenditure for 2021:

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

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

- We conclude that the EU accounts present a true and fair view of the EU's financial position.

- The revenue for 2021 was legal and regular, and free from material error. We provide more information on the basis for our opinion on revenue in '***Our statement of assurance***'.

- The **Recovery and Resilience Facility** (RRF) is the centrepiece of the NextGenerationEU (NGEU). It is a temporary instrument, which follows a different delivery model than **EU budget expenditure** under the multiannual financial framework (MFF) headings. Unlike EU budget expenditure, which is based on the reimbursement of costs and/or compliance with conditions, under the RRF, Member States are paid for achieving predefined milestones or targets. For 2021, we therefore provide separate opinions for EU budget expenditure and RRF expenditure.

- Overall, the **estimated level of error in EU budget expenditure** was material at **3.0 %** (2020: 2.7 %).

- In our risk assessment, we identify as **high-risk** the EU expenditure where beneficiaries often have to follow complex rules, when they submit claims for costs they have incurred. The proportion of high-risk expenditure in our audit population further increased and was substantial at 63.2 % (2020: 59 %). This year, we estimate the level of error to be **4.7 %** (2020: 4.0 %) in this part of our audit population. As in the previous two years, this error is material and pervasive and we are issuing **an adverse opinion on EU budget expenditure**.

- In 2021, **RRF expenditure** covered the single payment made to a Member State (Spain). We consider that one of the 52 milestones included in the Spanish payment request was not satisfactorily fulfilled. In our view, the related error is **not material**. We provide more information on the basis for our opinion on RRF expenditure in '***Our statement of assurance***'.

- We reported to the European Anti-Fraud Office (**OLAF**) 15 cases (2020: six cases) of suspected fraud that we had identified in 2021, from which OLAF has already opened five investigations. We reported one of these cases in parallel to the European Public Prosecutor's Office (**EPPO**), along with an additional case that we had identified in 2021.

- The Commission summarises key information on its internal control and financial management in the **Annual Management and Performance Report** (AMPR). Limitations in the Commission's and Member States' ex post checks in MFF headings 'Single market, innovation and digital', 'Cohesion, resilience and values' and 'Neighbourhood and the world' affect the **risk at payment** disclosed in the AMPR and hence the robustness of the Commission's **risk assessment**.

- The reporting in the AMPR on **financial corrections and recoveries** has improved compared to last year, but the presentation of 'corrections for past payments' (€5.6 billion) could lead to misunderstanding, as preventive measures included in this amount, do not relate to past payments or accepted expenditure. Furthermore, Member States' preventive measures cannot be attributed directly to the Commission.

- The Commission in the AMPR does not disclose details of the letter sent to Hungary under the '**general regime of conditionality**' and how it may affect the regularity of the expenditure concerned.

- **Outstanding commitments** at the end of 2021 totalled €341.6 billion; €251.7 billion related to the EU budget and €89.9 billion to NGEU. The EU budget's outstanding commitments decreased significantly from a historical high of €303.2 billion at the end of 2020, mainly due to delays in the implementation of shared-management funds under the 2021-2027 MFF.

- The total **exposure** of the EU budget to contingent liabilities increased by €146.0 billion (111 %) in 2021, from €131.9 billion to €277.9 billion. This was mainly due to €91.0 billion issued in bonds to finance NGEU in 2021, and an increase of €50.2 billion in the amount of European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) loans made to Member States. **Russia's war of aggression against Ukraine** has also contributed to this increase through guarantees that the EU has given to cover loans to non-EU countries.

The full text of our 2021 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

What were the 2021 figures?

The European Parliament and the Council adopt an annual EU budget, within the framework of a longer-term budget agreed for a period of several years (known as the '*multiannual financial framework*' or MFF). In 2021, EU budget spending totalled €181.5 billion, the equivalent of 2.4 % of the EU Member States' total general government spending and 1.3 % of their gross national income.

In May 2020, the Council of the European Union adopted NGEU, a temporary instrument that was set up in response to the socio-economic impact of the COVID-19 pandemic and is financed through issuing bonds. The RRF accounts for about 90 % of NGEU funding. In 2021, spending on non-repayable RRF support (grants) amounted to €46.5 billion.

Taking into account RRF spending, payments from the EU in 2021 totalled €228.0 billion.

Where does the money come from?

Total revenue for 2021 was €239.6 billion. The largest share of the EU budget is financed by amounts that Member States contribute in proportion to their gross national income (€115.8 billion). Other sources include customs duties (€19.0 billion), a contribution based on value-added tax collected by Member States (€17.9 billion), a contribution based on non-recycled plastic packaging waste, introduced in 2021 (€5.9 billion), and other revenue (€5.7 billion).

Additional revenue amounted to €75.3 billion in 2021, including €55.5 billion of external assigned revenue for budget guarantees, borrowing and lending operations (NGEU) and €19.8 billion of contributions and refunds arising from EU agreements and programmes.

What is the money spent on?

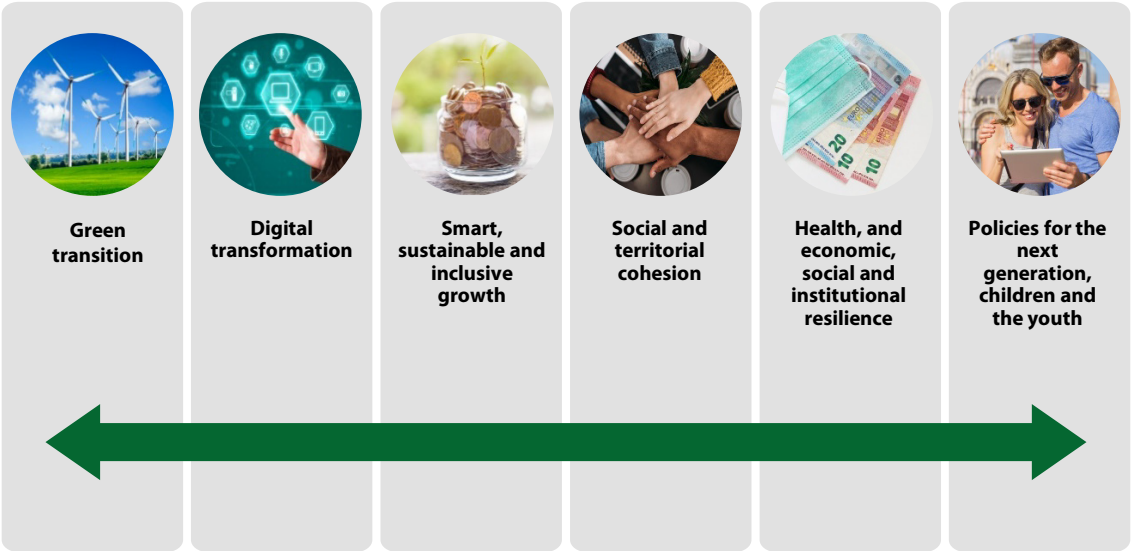
The EU budget is spent in a wide range of areas, such as:

- 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 three quarters of the budget is spent under what is known as 'shared management'. Under this budget implementation method, the Member States distribute funds, select projects and manage the EU's expenditure, while the Commission remains ultimately responsible. This is the case of, for example, 'Natural resources and environment' and 'Cohesion, resilience and values'.

RRF spending shall finance investments and reforms in policy areas of EU-wide relevance, structured into six pillars (see *Figure 1*).

Figure 1 – The six pillars



Source: European Court of Auditors.

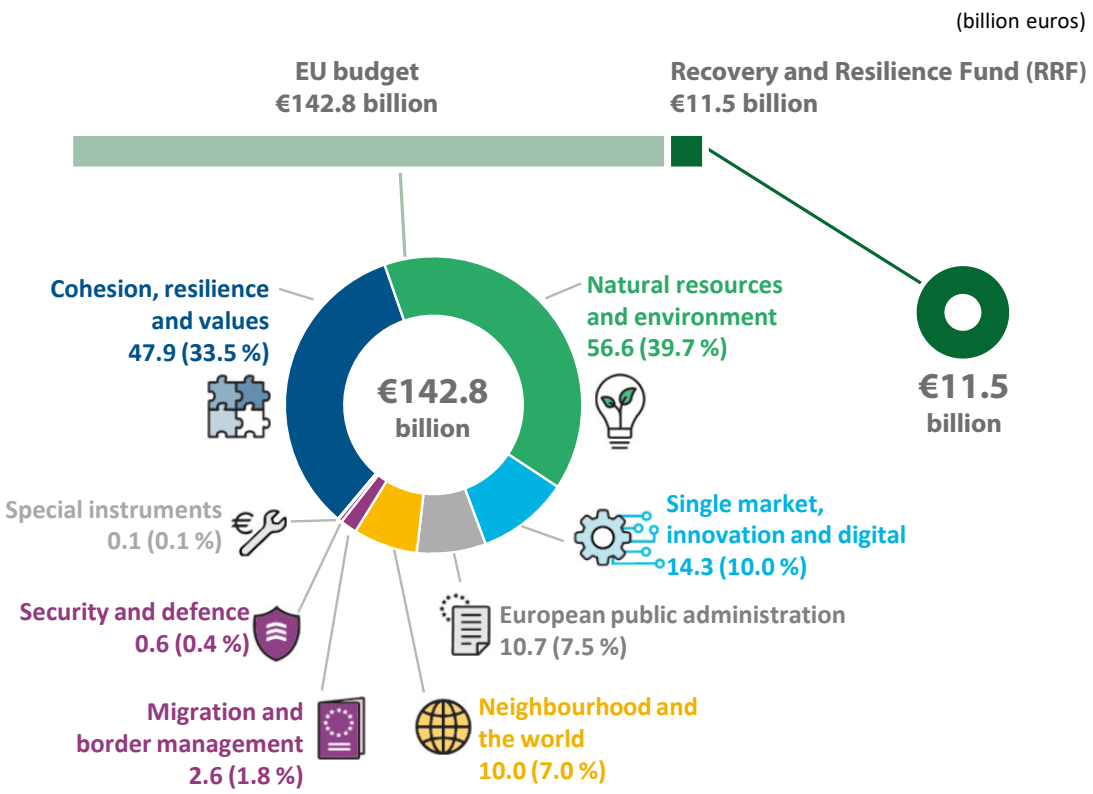
The Member States set out these reforms and investment in advance in their national recovery and resilience plans, and the Commission pays them for achieving related milestones and targets.

What did we cover?

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. We examine expenditure at the point when final recipients of EU funds have undertaken activities or incurred costs or, in the case of RRF expenditure, at the point when Member States request payment for achieving their predefined milestones or targets, and at the point when the Commission has accepted it. In practice, this means that our audit population of transactions covers interim and final payments. We did not examine advances paid in 2021 unless they were also cleared during the year.

Our audit population for 2021 totalled €154.3 billion. We had separate audit populations for EU budget spending (€142.8 billion) and RRF spending (€11.5 billion) to support our respective opinions (see ***Figure 2***).

Figure 2 – Audit population 2021



Source: European Court of Auditors.

This year, 'Natural resources and environment' made up the largest share of our audit population for EU budget spending (39.7 %), followed by 'Cohesion, resilience and values' (33.5 %) and 'Single market, innovation and digital' (10.0 %).

The RRF audit population included the single payment (€11.5 billion) made to a Member State (Spain) in 2021.

COVID-19 travel restrictions continued to prevent us, in most 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 and conclude on our work.

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

What we found

Our statement of assurance

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

The RRF is a temporary instrument delivered and financed in a way that is fundamentally different to EU budget expenditure. Whereas beneficiaries of EU budget spending are paid for having undertaken certain activities or reimbursed for costs incurred, under the RRF Member States are paid for the satisfactory achievement of predefined milestones or targets. We therefore provide two separate opinions on the legality and regularity of expenditure: one for EU budget spending and another for RRF spending.

Because RRF payments are based on the satisfactory achievement of predefined milestones or targets, we examined whether the Commission had gathered sufficient and appropriate evidence to assess this condition. Compliance with other EU and national rules does not form part of this assessment.

For the traditional own resources component of revenue, customs duties are at risk of either not being declared or being declared incorrectly to the national customs authorities by importers. The actual import duties collected will therefore fall short of the amount that should theoretically be collected. This difference is known as the "customs gap". These evaded amounts are not captured in Member States' TOR accounting systems and do not fall within the scope of our audit opinion on revenue.

The EU accounts present a true and fair view

The 2021 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 that further increased, amounting to €122.5 billion at the end of 2021 (2020: €116 billion). The further increase in this estimate is mainly due to a decrease in the nominal discount rate.

On 1 February 2020, the United Kingdom (UK) ceased to be an EU Member State. At balance sheet date, the EU accounts showed a net receivable due from the UK of €41.8 billion (2020: €47.5 billion) based on mutual obligations defined in the withdrawal agreement. This decrease is mainly due to payments received from the UK during 2021 in line with the terms of the withdrawal agreement.

The impact of Russia's invasion on loans and grants in respect of Ukraine in the EU accounts have been assessed, and are appropriately accounted for and disclosed in accordance with the requirements of the accounting rules.

We issue a clean opinion on revenue

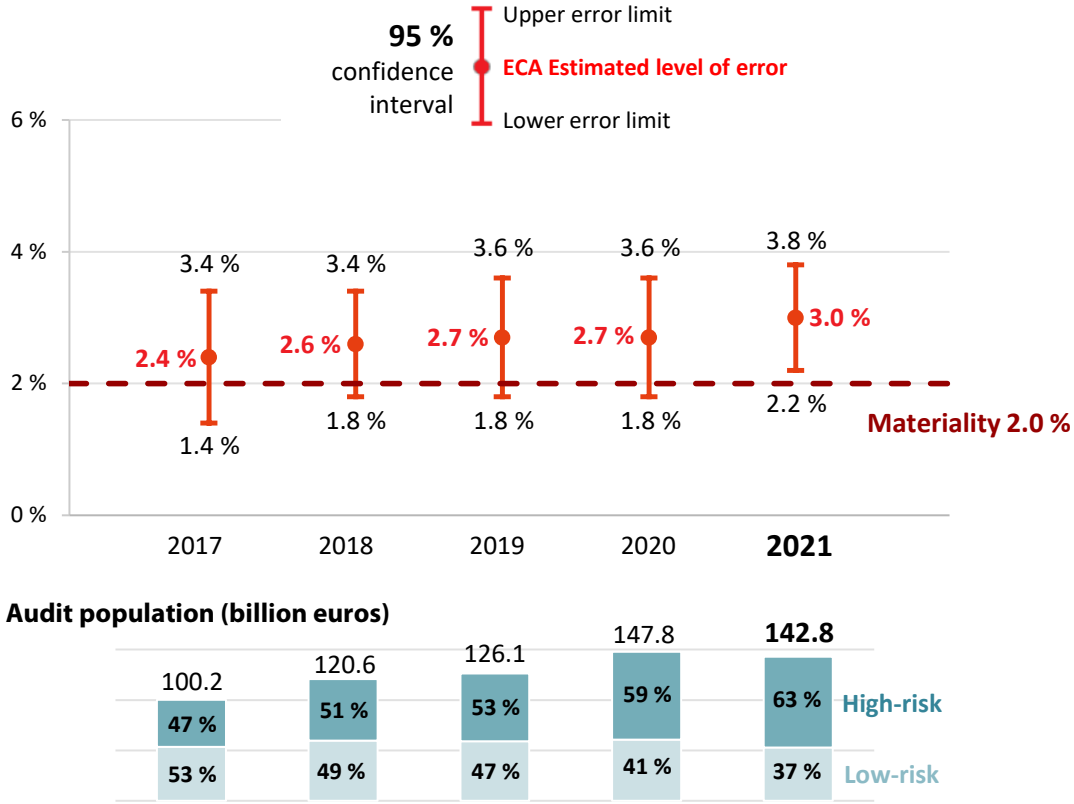
We conclude that revenue is free from material error.

We issue an adverse opinion on EU budget spending

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

For EU budget spending, we estimate the level of error to be between 2.2 % and 3.8 %. The mid-point of this range, previously known as the 'most likely error', has increased compared to last year, from 2.7 % to 3.0 % (see ***Figure 3***).

Figure 3 – Estimated level of error for EU budget spending (2017-2021)



Source: European Court of Auditors.

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

In 2021, we found once again that the way expenditure was disbursed had an impact on the risk of error. We distinguish in this context between cost-reimbursement and entitlement payments (see ***Box*** below).

What are cost-reimbursement and entitlement payments?

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

— Cost reimbursements, where the EU reimburses eligible costs for eligible activities (involving complex rules): these include research projects (under 'Single market, digital and innovation'), investment in regional and rural development ('Cohesion, resilience and values' and 'Natural resources and environment') and development aid projects ('Neighbourhood and the world'). We consider this type of expenditure to be **high-risk**.

— Entitlement payments, which are based on beneficiaries meeting certain (less complex) conditions: these include student and research fellowships (under 'Single market, digital and innovation'), direct aid for farmers ('Natural resources and environment') and salaries and pensions for EU staff ('European public administration'). We consider this type of expenditure to be **low-risk**.

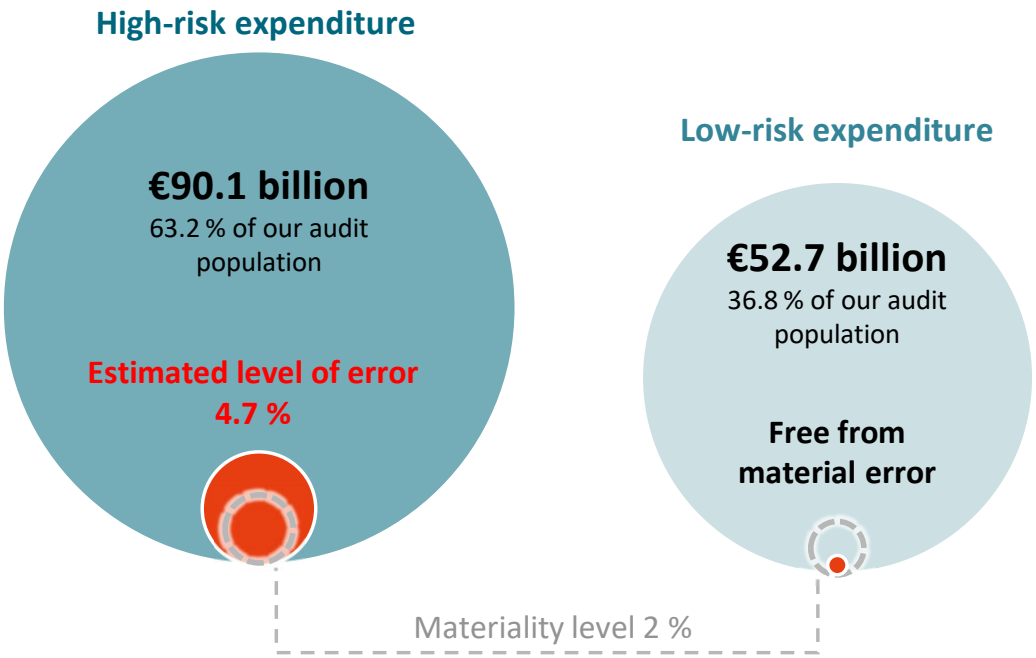
The most common errors we found in high-risk expenditure in the main MFF headings were:

- ineligible costs and projects, infringements of internal market rules (in particular non-compliance with state aid rules), absence of essential supporting documents, and non-compliance with public procurement rules in 'Cohesion, resilience and values';
- ineligible beneficiaries, projects or expenditure, administrative errors and failure to meet agri-environmental commitments are the most common errors found in the rural development, market measures, environment, climate action and fisheries spending areas, which together make up around 33 % of total spending in 'Natural resources and environment';
- ineligible direct personnel and direct other costs are the main sources of error in research expenditure (Horizon 2020 and the Seventh Framework Programme under 'Single, market, innovation and digital'). Serious non-compliance with public procurement rules and ineligible other direct costs are the most common errors found in other programmes and activities (mainly the Connecting Europe Facility);
- expenditure not incurred, ineligible costs, absence of supporting documents and public procurement in 'Neighbourhood and the world'.

In 2021, high-risk expenditure further increased compared to the previous years, making up almost two thirds of our audit population at 63.2 % (2020: 59 %). The estimated level of error for high-risk expenditure was 4.7 % (2020: 4.0 %).

Low-risk expenditure accounted for the remaining 36.8 % of our audit population (2019: 41 %) 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 4***).

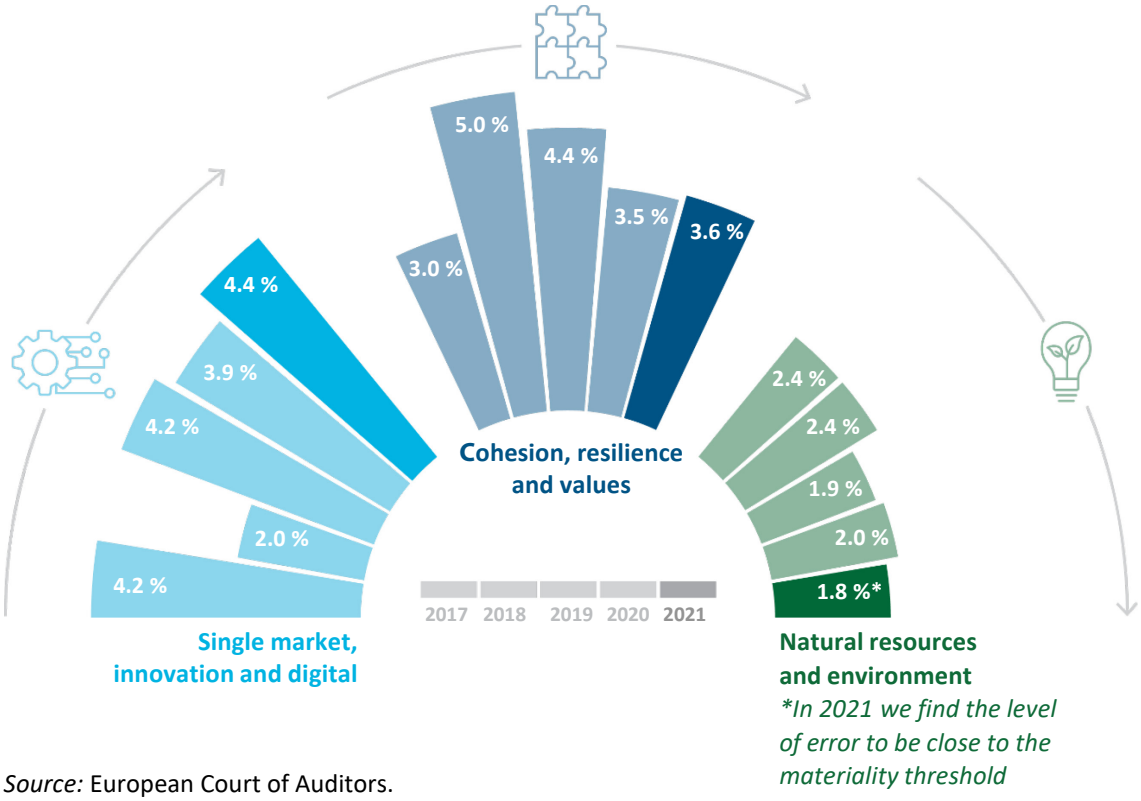
Figure 4 – Error rates reflect the level of risk



Source: European Court of Auditors.

Figure 5 compares our estimated levels of error in the various spending areas between 2017 and 2021. Further information on results is provided in the ***A closer look at our results*** section and in the relevant chapters of our ***2021 annual report***.

Figure 5 – Our estimated levels of error for selected EU budget spending areas (2017-2021)



Source: European Court of Auditors.

We issued a clean opinion on the first payment under the RRF

In 2021, for the first time, our work covered the legality and regularity of RRF expenditure. Our audit population comprised the only 2021 disbursement, a payment to Spain, and the clearing of the related pre-financing. The Spanish request for payment included 52 milestones, which Spain considered to have been achieved. The amount in the Council Implementing Decision (CID) determined to be payable to Spain was €11.5 billion.

We based our assessment on the condition for payment, i.e. that the milestones and targets as defined in the CID had been satisfactorily fulfilled. The overall audit evidence we obtained through our work indicates that one of the 52 milestones associated with the first disbursement to Spain was not achieved. The Commission has not yet defined a method for quantifying the impact of not achieving a milestone or target. Our own view is that the error is not material. Other weaknesses found in the Commission's work when assessing the milestones concern the insufficiently robust criteria for the additional control milestone and insufficient documentation of the Commission's work, though this does not affect the assessment of whether a particular milestone has been achieved.

Comparing our error level estimates with those of the Commission

The Annual Management and Performance Report (AMPR), for which the college of Commissioners has responsibility, summarises key information from the annual activity reports (AARs) on internal control and financial management. It includes the risk at payment, which is the Commission's estimate of the amount that has been paid without being in accordance with the applicable rules. Overall, the Commission's estimate of the risk at payment for 2021 is 1.9 %. This is below our materiality threshold (2.0 %) and our estimated level of error (3.0 %) for EU budget expenditure.

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

For each MFF heading where we provide a specific assessment, we have compared the Commission's risk at payment for 2021 with our estimated level of error. The comparison shows that the Commission's risk at payment is lower than our estimated level of error for 'Single market, innovation and digital' and 'Cohesion, resilience and values'. For 'Natural resources', the Commission's estimate of the risk at payment (1.8 %) is consistent with our estimate.

In the AMPR, the Commission presents its overall risk assessment for 2021 annual expenditure in order to identify and focus action on high-risk areas. The Commission estimates risk to be low for 55 % of expenditure, medium for 23 % and high for 22 %. However, our work revealed limitations in the Commission's *ex post* work, which, taken together, affect the robustness of the Commission's risk assessment.

We also followed up on our observation from last year that the way the Commission reports actual financial corrections and recoveries in its AMPR is complex and not always clear. We found that the Commission's revision of its reporting has brought improvements. However, we also consider, that the presentation of 'corrections for past payments' (€5 620 million) and the associated percentage of relevant expenditure (3.3 %) is inadequate and prone to misunderstanding. It includes preventive measures, which do not relate to past payments or accepted expenditure. Furthermore, Member States' preventive measures cannot be attributed directly to the Commission.

We note that the Commission, in its AMPR, reports that it sent a first notification to Hungary in April 2022 under the 'general regime of conditionality'. This triggered the procedure that may lead to the imposition of measures against a Member State for breaches of the principles of the rule of law. However, the AMPR does not disclose details of the notification or how it may affect the regularity of the expenditure concerned.

We reported cases of suspected fraud to OLAF and the EPPO

We have been working together with OLAF for many years and with the EPPO since it started operations in June 2021. We reported to OLAF 15 cases (2020: six cases) of suspected fraud that we had identified in the course of our audit work in 2021, from which OLAF has already opened five investigations. We reported one of these cases in parallel to the EPPO, along with an additional case that we had identified in the course of our audit work in 2021. In March 2022, we decided to start forwarding cases of suspected fraud to both OLAF and the EPPO simultaneously, where appropriate.

*Want to know more? Full information on the main findings can be found in Chapters 1 and 10 of our **2021 annual report**. The full text of our annual report can be found on our **website** (**eca.europa.eu**).*

A closer look at our results

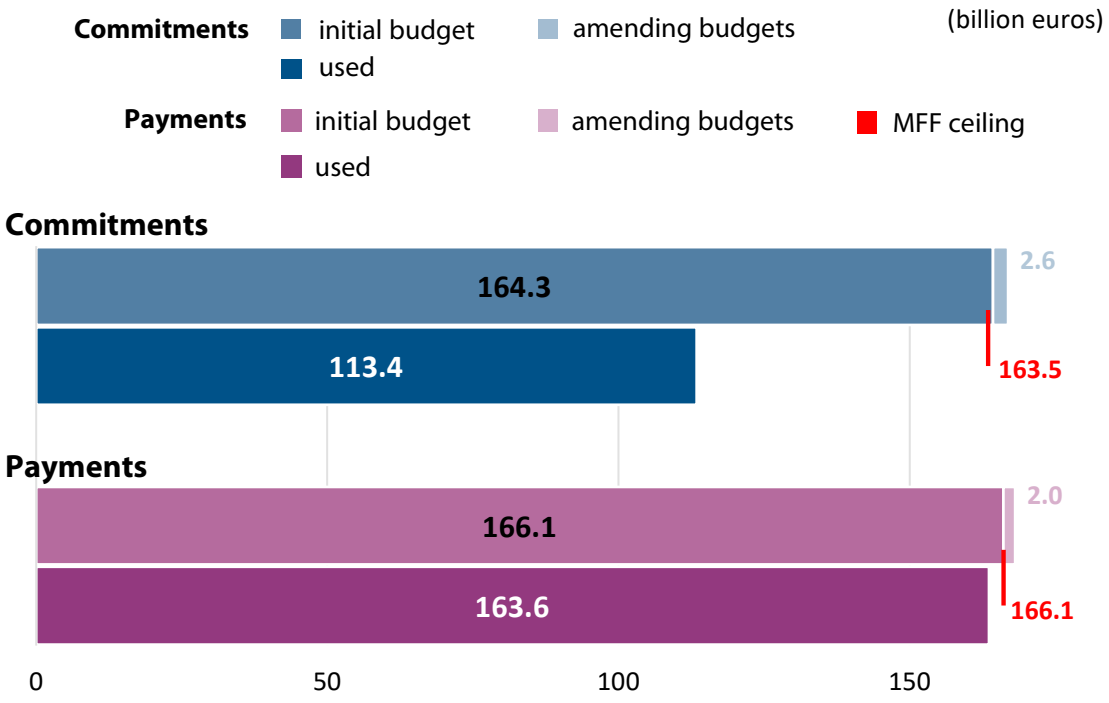
Budgetary and financial management

Implementation and use of the budget in 2021

Budget implementation was low for commitments but high for payments

The MFF regulation sets maximum amounts for each of the seven years of the MFF. These ceilings apply to new EU financial obligations (*commitment appropriations*) and to payments that can be made from the EU budget (*payment appropriations*). See ***Figure 6***.

Figure 6 – Budget implementation in 2021



Source: European Court of Auditors.

During 2021, a total of €113.4 billion was committed: only 68 % of the total amount available (€166.8 billion). This rate is exceptionally low, even lower than in 2014, the first year of the previous MFF (77 %). In 2021, delays in the adoption of the sectoral regulations slowed down the launch of new programmes, particularly for the eight shared management funds under the Common Provisions Regulation. Only 2 % of the available amount of commitment appropriations for these eight shared management funds was used.

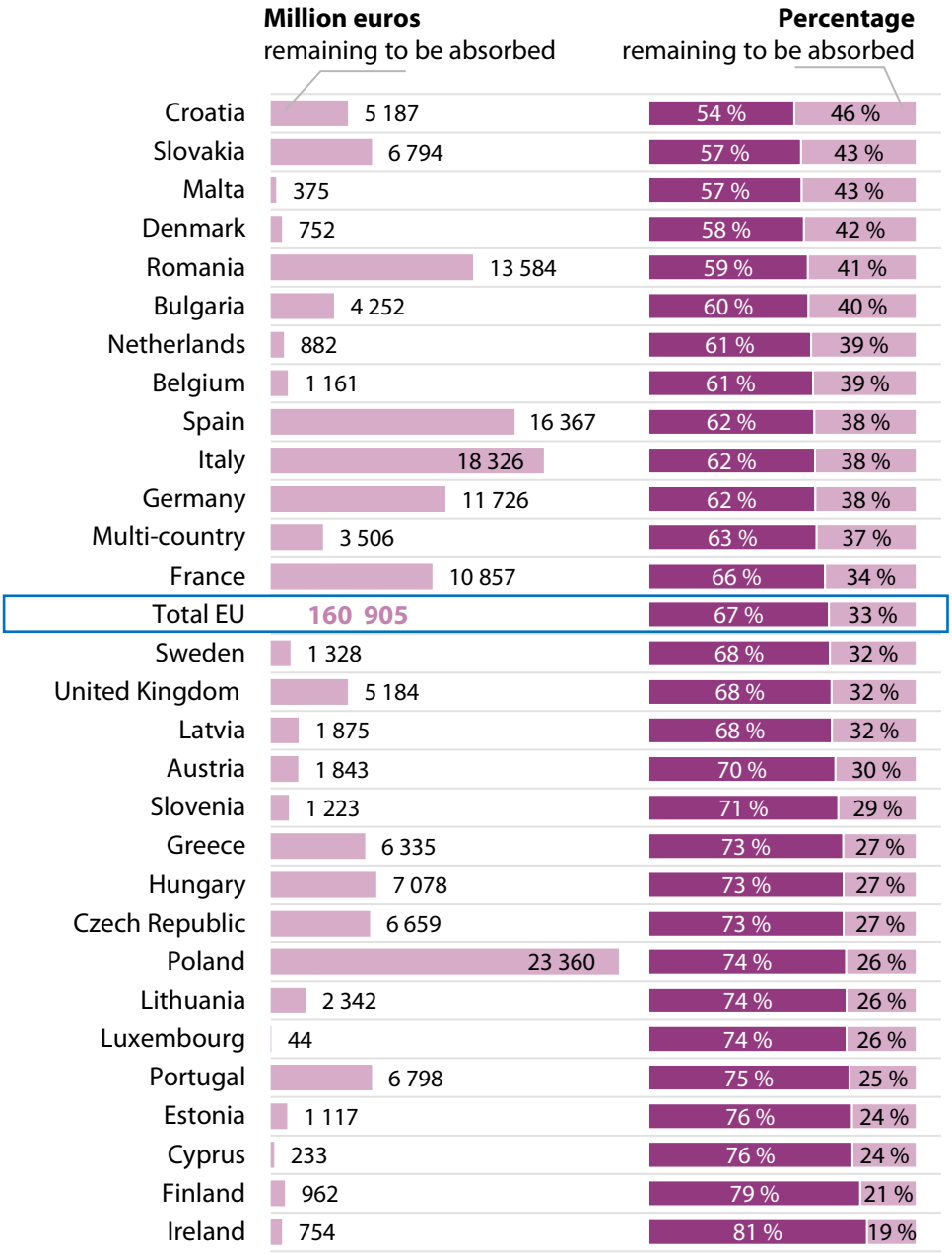
In 2021, the MFF ceiling for payment appropriations was €166.1 billion, and the amount available for payments in the final budget was €168.0 billion. Actual payments totalled €163.6 billion (97 %) of available payment appropriations. Taking into account additional payments of €62.6 billion from assigned revenue (mainly RRF grants) and €1.8 billion of carry-overs from 2020, payments in 2021 totalled €228.0 billion.

The absorption rate of 2014-2020 European Structural and Investment Funds increased

During 2021, the Member States continued to absorb European Structural and Investment Funds (ESIF) from the 2014-2020 MFF period. At the end of 2021, total cumulative payments for the 2014-2020 ESIF operational programmes amounted to €331.1 billion, from a total of €492 billion (67 %). The remaining €160.9 billion should be paid out, and the remainder de-committed by the closure of the programmes before the end of 2025, except for the EAFRD, for which closure will take place in 2027. This amount makes up most of the EU budget's €251.7 billion of outstanding commitments at the end of 2021.

As ***Figure 7*** shows, the Member States' cumulative absorption of ESIF funding varies significantly.

Figure 7 – 2014-2020 ESIF absorption levels (excluding NGEU resources)

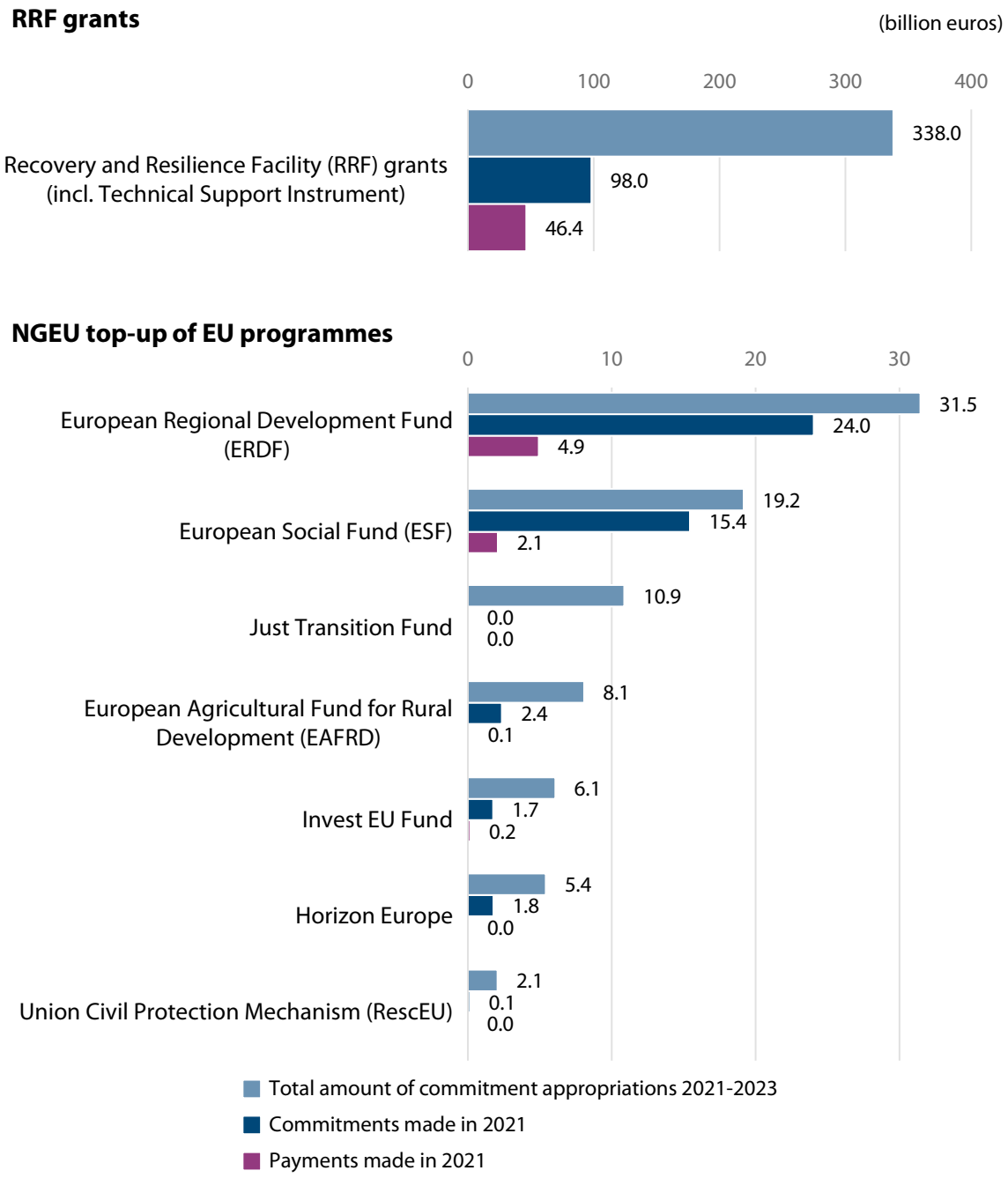


Source: European Court of Auditors.

Implementation of NGEU began in 2021

The temporary NGEU instrument started in June 2021 with the entry into force of the new Own Resources Decision authorising the related borrowing. By the end of 2021, commitments of NGEU funds reached €143.5 billion. Pre-financing and payments were more than €53.6 billion. See *Figure 8* for more information.

Figure 8 – NGEU Implementation

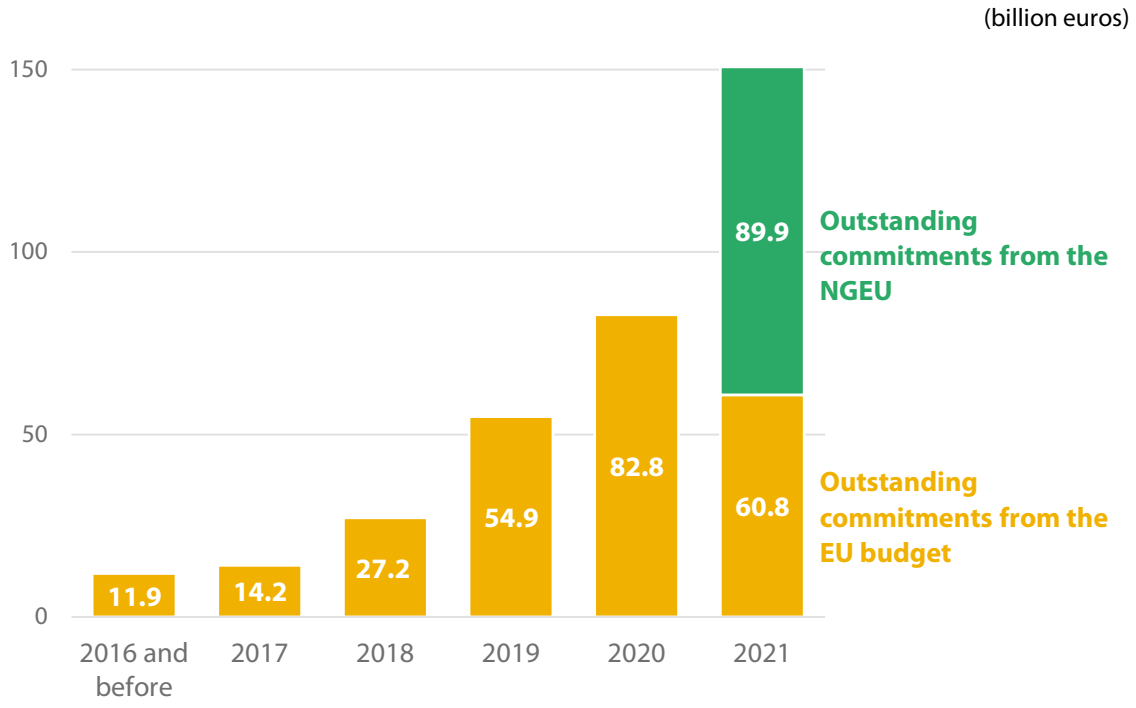


Source: European Court of Auditors.

Outstanding commitments from the EU budget and NGEU reached a record amount of €341.6 billion

Outstanding commitments at the end of 2021 totalled €341.6 billion; €251.7 billion related to the EU budget and €89.9 billion to NGEU. The EU budget's outstanding commitments decreased significantly from a historic high of €303.2 billion at the end of 2020, mainly due to delays to the start of the implementation of shared-management funds under the 2021-2027 MFF. However, together with outstanding NGEU commitments, total outstanding commitments reached a record amount. ***Figure 9*** shows total outstanding commitments from both the EU budget and NGEU at the end of 2021, broken down by year of origin.

Figure 9 – Outstanding commitments as at the end of 2021 by year of origin



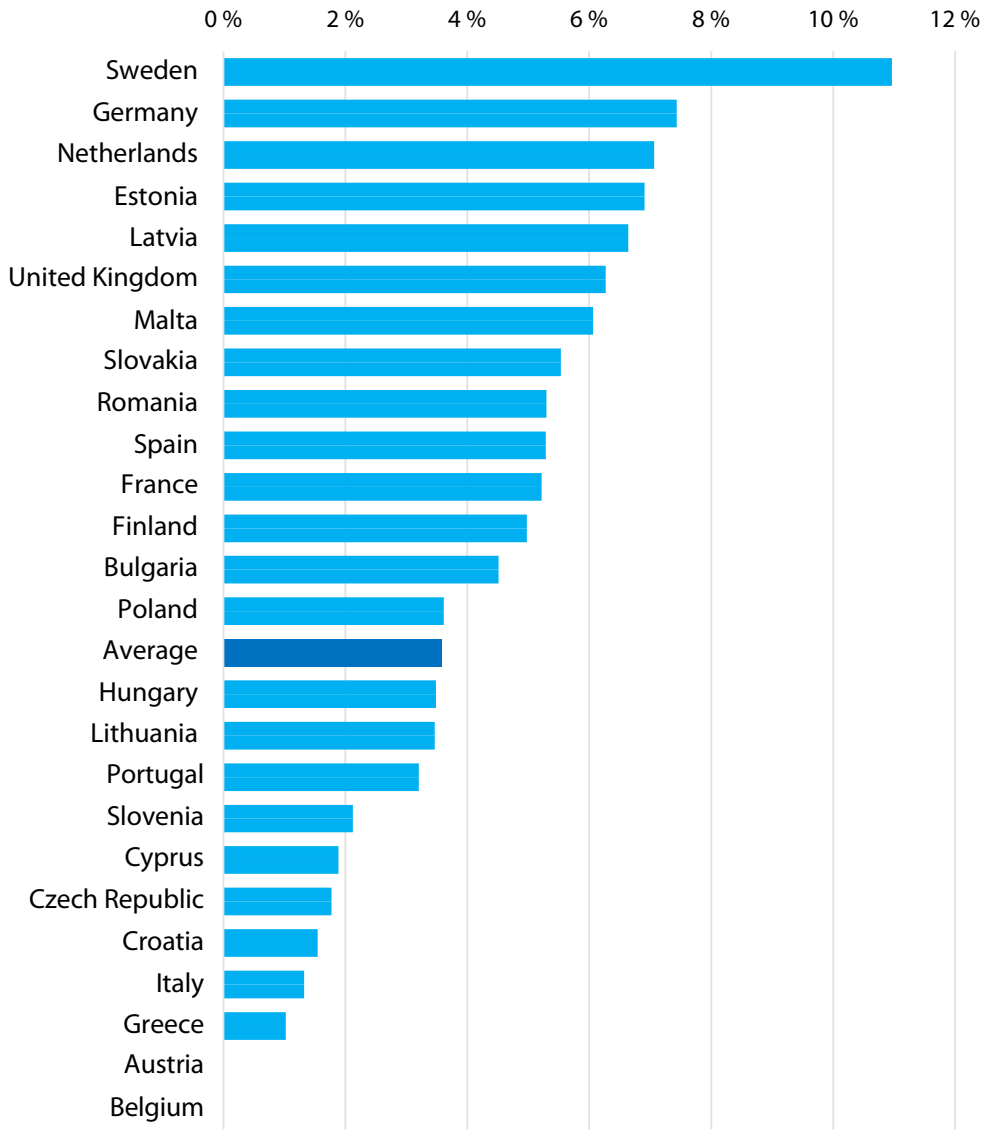
Source: European Court of Auditors.

The Commission forecasts that outstanding commitments from the EU budget will reach €317 billion in 2027, €14 billion higher than the €303.2 billion at the end of 2020. This small increase is mainly due to the smaller gap between commitment and payment appropriations in the 2021-2027 MFF.

Management costs for financial instruments vary

We also looked at the paid management costs at Member State level in proportion to the total payments including national co-financing to the financial instruments. We found that management costs amounted to 3.6 % of total payments to the financial instruments under the 2014-2020 MFF. However, this is an average; the actual figure varies greatly between Member States. In Sweden, for example, management costs accounted for more than 10 % of total payments to financial instruments. In Austria and Belgium, on the other hand, financial instruments did not account for any management costs (see ***Figure 10***).

Figure 10 – Management costs in relation to total payments to financial instruments under the 2014-2020 MFF as at the end of 2020



Source: European Court of Auditors.

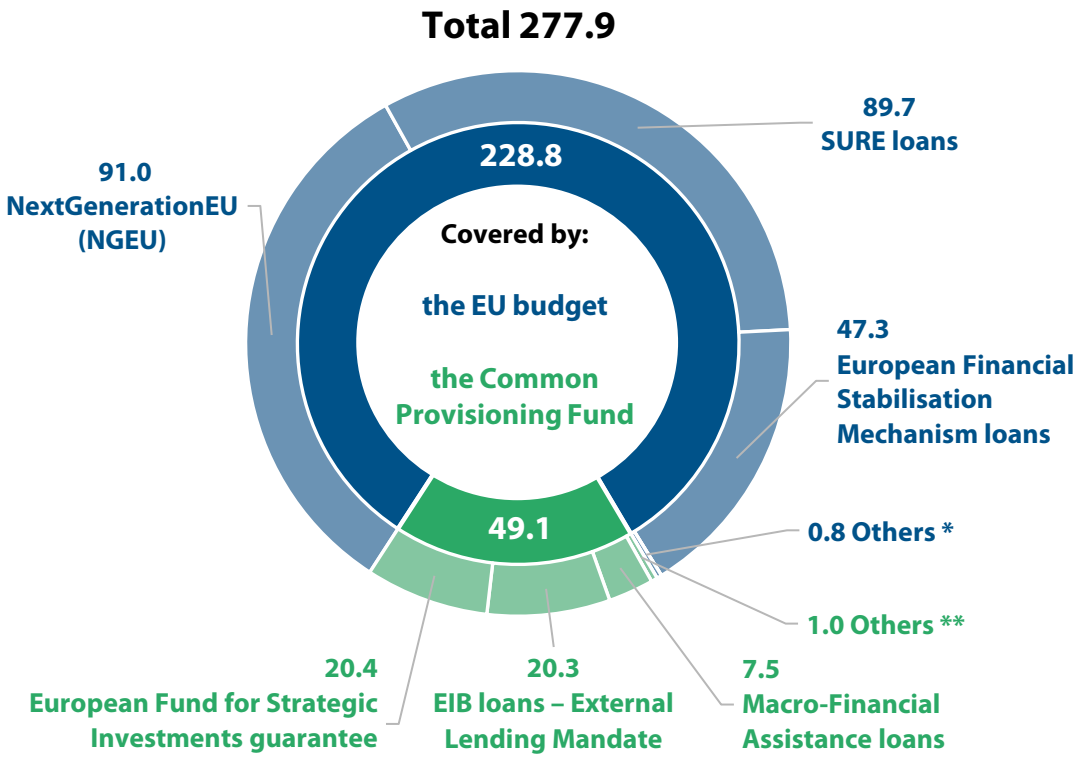
Main risks and challenges for the EU budget in the coming years

The total exposure of the EU budget increased in 2021, mainly due to the introduction of NGEU

The EU budget's total exposure to contingent liabilities increased from €131.9 billion in 2020 to €277.9 billion in 2021. The two main reasons for this substantial rise were the introduction of NGEU and the increase in the amount of loans provided under the SURE (see *Figure 11*).

Figure 11 – Total exposure of the EU budget as at the end of 2021, broken down by category

(billion euros)



(*) EIB loans – Member States €0.6 billion, Balance of Payments loans €0.2 billion, Euratom loans – Member States €0.1 billion, difference from the total is due to rounding.

(**) European Fund for Sustainable Development (EFSD) guarantee €0.5 billion, Euratom loans – non-member countries €0.3 billion and NDICI-European Fund for Sustainable Development Plus (EFSD+) €0.2 billion.

Source: European Court of Auditors.

Russia's war of aggression against Ukraine increases risks to the EU budget

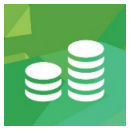
The EU is mobilising its budget and adding additional flexibility to react to Russia's war of aggression against Ukraine. This will increase the EU's budgetary needs and lead to a higher risk of contingent liabilities to the EU budget being triggered. At the end of 2021, Ukraine had outstanding loans with a nominal value of €4.7 billion under the Macro-Financial Assistance and Euratom programmes. In addition, the European Investment Bank (EIB) has granted loans to the value of €2.1 billion to Ukraine, loans which are supported by EU guarantees.

What we recommend

We recommend that the Commission:

- inform the budgetary authority about the factors contributing to the evolution of outstanding commitments, and take appropriate action with a view to gradually reducing outstanding commitments in the long term;
- should closely monitor the increasing risk of contingent liabilities to the EU budget being triggered in connection with Russia's war of aggression against Ukraine, and take action as necessary to ensure that risk mitigation tools maintain sufficient capacity.

*Want to know more? Full information on the main findings on budgetary and financial management can be found in Chapter 2 of our **2021 annual report**.*



Revenue

€239.6 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 48.2 % of the EU's revenue in 2021, while the own resource based on value added tax (VAT) accounted for 7.5 %. 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 7.9 % of EU revenue.

The non-recycled plastic packaging waste-based own resource provides 2.5 % of EU revenue. It was introduced in 2021 and is calculated by applying a uniform rate to the weight of unrecycled plastic packaging waste generated in each Member State.

External assigned revenue, which mostly relates to amounts borrowed to provide Member States with non-repayable financial support in the context of NGEU, accounts for 23.2 % of EU revenue.

There are also other sources of EU revenue. The most significant of these are contributions and refunds connected with EU agreements and programmes (8.3 % of EU revenue), such as revenue relating to the conformity clearance of the EAGF and EAFRD, and non-EU countries' contributions to EU programmes and activities.

What we found

Amount subject to audit	Affected by material error?
€239.6 billion	No – free from material error in 2021 and 2020

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 management of VAT reservations and TOR open points at the Commission were partially effective due to persistent weaknesses.

We also found that the implementation of several actions in the Commission's Customs Action Plan that contribute to reducing the customs gap had been delayed. This weakness does 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.

Persistent weaknesses remain in the national control systems for compiling TOR statements. In the particular case of Italy, we have already questioned the reliability of the Italian TOR statements since 2011, mainly due to delays in updating the accounts of customs duties not yet collected with information on debt recoveries.

We also observed that the number of VAT reservations and TOR open points has decreased, but weaknesses in their management remain. In the case of VAT reservations, this was due to the Commission not applying a common approach in setting deadlines for Member States to calculate and make the resulting financial corrections to their VAT-based own resources. Concerning TOR open points, the Commission had updated its procedure for processing TOR inspection results. However, it did not include a system for ranking Member States` shortcomings in order of priority, nor did it set deadlines for their follow-up actions based on Member States` replies.

In addition, we noted delays in Commission actions to improve TOR risk management and reduce the customs gap. Our review of the Commission's implementation of the Customs Action Plan revealed insufficient progress on a number of actions.

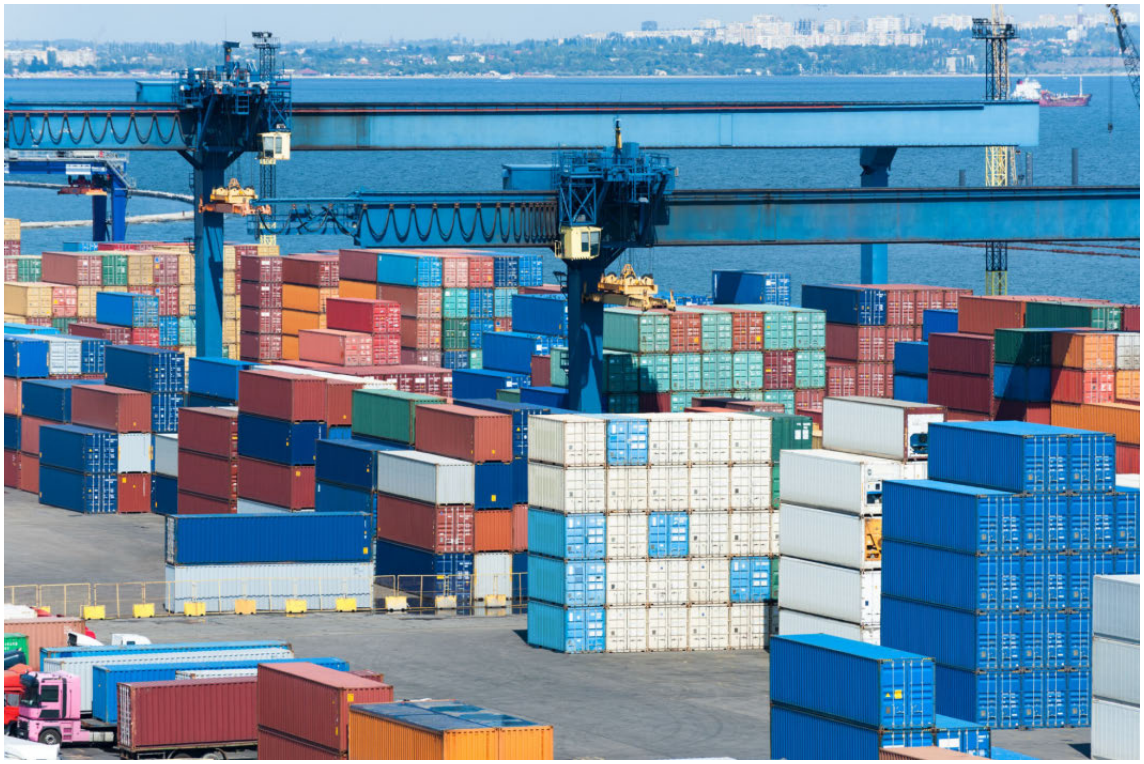
The Commission work on lifting GNI reservations was affected by delays from the Member States concerned. These delays related to delivering the GNI inventories to the Commission under the new 2020-2024 GNI verification cycle and to addressing the GNI transaction-specific reservations set as part of the previous 2016-2019 verification cycle.

For the sixth year in a row, the Commission's DG BUDG, in its 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 at €2.1 billion, and then extended to other Member States in 2018, without quantification. A further €2.1 billion of interest was also booked in the 2021 consolidated accounts of the European Union. On 8 March 2022, the Court of Justice of the European Union (CJEU) concluded that the UK had failed to fulfil its obligations under EU law in respect of own resources. The CJEU approved the Commission's method of quantifying of TOR losses based on statistical data. However, it partly rejected the Commission's calculation and provided guidance on recalculating it. The Commission has started analysing the CJEU judgement and its impact on its calculations.

What we recommend

We recommend that the Commission:

- take the necessary action (including infringement proceedings where appropriate) to ensure that Italy solves its long-outstanding weaknesses in TOR accounting. The action should aim to address the persistent discrepancies affecting the reliability of the country's statements of duties collected and not yet collected;
- review its procedures for managing VAT reservations, in order to set more harmonised and stricter deadlines for national authorities and make its follow-up and lifting of reservations more efficient;
- improve the assessment of financial risks for TOR by implementing the relevant measures of its Customs Action Plan in a timely manner.



*Want to know more? Full information on our audit of EU revenue can be found in Chapter 3 of our **2021 annual report**.*

Single market, innovation and digital

Total: €18.5 billion

What we audited

The programmes financed under MFF heading 1 'Single Market, Innovation and Digital' are diverse and aim to finance EU investments that contribute to research and innovation, the development of trans-European transport networks, communications, energy, digital transformation and the single market, and space policy. The principal programme for research and innovation remains Horizon 2020. The MFF heading also encompasses large infrastructure projects under the Connecting Europe Facility and space programmes (Galileo, EGNOS and Copernicus). It also includes the InvestEU fund, which aims to mobilise public and private investment through an EU budget guarantee that backs the investment of implementing partners.

For 2021, expenditure of €14.3 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 funded projects progress, reimburses part of the total costs they report, deducting those advances. The space programmes are generally managed indirectly based on delegation agreements signed between the Commission and dedicated implementing bodies (such as the European Space Agency). The InvestEU financial instruments are implemented mainly by the EIB or the European Investment Fund, which in turn use financial intermediaries.

What we found

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€14.3 billion	Yes	4.4 % (2020: 3.9 %)

Overall, we estimate that the level of error in 'Single market, Innovation and Digital' is material.

In 2021, 55 (42 %) of the 130 transactions we examined were affected by errors.

Horizon 2020 and FP7 spending remains high risk and is a main source of errors that we detect. We found quantifiable errors relating to ineligible costs in 29 of the 87 research and innovation transactions in the sample. This represents 45 % of our estimated level of error for this heading in 2021.

In the case of other programmes and activities, we detected quantifiable errors in nine of the 43 transactions in the sample. These included cases of irregularity in the procurement procedure, works claimed and reimbursed twice, reimbursement of costs not provided for in the framework contract as well as financing of an ineligible asset.

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. Of the 29 transactions affected by quantifiable errors in our sample of research transactions, 26, i.e. more than 89 %, relate to ineligible personnel costs being declared and reimbursed.

Example: Ineligible costs due to missing time records

Our review of the personnel costs declared by an SME revealed that there were no time records or other alternative evidence to support a large number of the hours charged to the project by two staff members. Moreover, based on the analysis of the timesheets provided for the rest of the staff that we examined, we found that one staff member had declared 225 hours for the project, but no hours had been recorded in the time-sheets and in the case of two other staff members, hours had been claimed when they had been on annual leave. A total of 1 277 hours (50 %) out of the 2 550 hours that we examined, were ineligible.

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. This year, we found that 7 of the 12 cases of detectable quantifiable errors had not been discovered by either the auditors providing the certificates, or the Commission.

Review of IT systems for research grants

In 2021, we reviewed the eGrants suite, the Commission's corporate business solution for managing grants and experts. It integrates the systems used for the entire process i.e. from work programme and call preparation, through to grant workflow management.

Based on our limited review, we found the systems being well integrated in the IT environment. However, in accordance with the current legal basis, there is no link between beneficiaries' accounting systems and the reporting system. The Commission has the general financial data on projects required by its control framework and any accounting information for additional controls or audits on request. This means that it is not possible to carry out large-scale automatic controls.

Commission's reporting on regularity

With regard to Horizon 2020, DG Research and Innovation (RTD) reported an expected representative error rate of 2.3 % and a residual error rate, taking into account corrective action, of 1.7 %, 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.

As 2021 was the first year of implementation of the Horizon Europe, only a very limited number of payments had been executed (only pre-financing in DG RTD). Hence, DG RTD did not report a detected error rate for Horizon Europe in 2021.

What we recommend

We recommend that the Commission:

- strongly encourages the use of the Personnel Costs Wizard (made available in the participant portal), especially by certain categories of beneficiaries that are more prone to committing errors, such as SMEs and new entrants (for both for Horizon 2020 and Horizon Europe grants);
- issues guidance to beneficiaries on the specific differences, focusing on the eligibility aspects under Horizon Europe, compared to the Horizon 2020 and similar programmes;
- in the case of Horizon 2020, improves the existing *ex ante* controls in order to identify and eliminate potential ineligible adjustments made to the personnel costs submitted by the beneficiaries following recalculation of the hourly rates;
- further improves the guidance addressed to the independent auditors beneficiaries contract to deliver the certificates on financial statements in order to reduce the large number of weaknesses we identified in our audits of these certificates;
- for the next research programme, explores, in line with evolving business needs, the feasibility of extending the functionalities in eGrants for risk assessment and automatic checks, e.g. by exploiting other available data sources to make available, in digital format, additional key data supporting the confirmation of compliance.

*Want to know more? Full information on our audit of EU expenditure on 'Single market, innovation and digital' can be found in Chapter 4 of our **2021 annual report**.*

Cohesion, resilience and values

Total: €80.1 billion

What we audited

Spending under this heading focuses on reducing development disparities between the different Member States and regions of the EU (subheading 2a) and actions to support and protect EU values, making the EU more resilient to present and future challenges (subheading 2b). Funding takes place for subheading 2a (economic, social and territorial cohesion) through the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF) and the Connecting Europe Facility (CEF). For subheading 2b (resilience and values) funding is provided through programmes like Erasmus+, a number of smaller schemes and specific instruments created in response to the COVID-19 pandemic.

The cohesion policy funds (the ERDF, the CF and the ESF) account for the bulk of expenditure, where Commission and Member States share the management of the funds. 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. EU funding for programmes not under shared management is either managed directly by the Commission DGs or indirectly with the support of partner organisations or other authorities.

We audit expenditure once the Commission has accepted it. For the 2021 annual report, we audited expenditure of €47.9 billion in this area for the 2021 annual report, including €44 billion expenditure under subheading 2a and €3.9 billion under subheading 2b (2020: €48.4 billion in total). In line with our approach, this amount included €40.8 billion worth of expenditure from previous years under subheading 2a that the Commission had accepted or cleared in 2021.

What we found

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€47.9 billion	Yes	3.6 % (2020: 3.5 %)

Overall, we estimate that the level of error for MFF heading 2 is material.

In 2021, we tested 243 transactions. We identified and quantified 30 errors, all relating to subheading 2a. Taking account of the 56 errors previously found by audit authorities and corrections applied by Member State programme authorities (worth a total of €458 million for both programming periods combined), we estimate the level of error to be 3.6 %. The estimated level of error for subheading 2a alone is 4.1 %.

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 main contribution to the estimated level of error comes from weak decision-making by managing authorities, for example when approving ineligible projects or unlawful state aid. We have also observed that audit authorities report relatively low levels of this type of error.

The number and impact of the errors detected demonstrate that the controls currently in place do not yet sufficiently offset the high inherent risk of error in this area. This particularly concerns managing authorities and intermediate bodies whose verifications are still partly ineffective for preventing or detecting irregularities in the expenditure declared by beneficiaries.

Example: No verification of participant status

In France, the status of participants not being in employment, education or training in two Youth Employment Initiative (YEI) projects was checked solely against self-declarations.

In one of the ESF programmes concerned, the beneficiary could not provide any independent evidence that participants were 'not in employment, training or education' (NEET). We requested additional checks from the Commission and national authorities to establish the participants' status. This showed that nine out of the 37 participants were actually in employment, making them ineligible for EU support.

In Spain, we found that three of the four operations in our sample for the YEI were ineligible for EU funding. National YEI legislation and the OP covering these operations require NEETs to be registered with the national Youth Guarantee system. This registration gives NEETs access to a number of assisting measures, but also serves to verify their compliance with the NEET requirements. In three of the audited operations, NEETs were registered retroactively in the national system. This retroactive registration made it impossible to validate their eligibility as not being in education or training. Most importantly, it means that NEETs are deprived of all the additional benefits available under those two schemes.

Simplified cost options

Simplified cost options (SCOs) have the potential to reduce both beneficiaries' administrative workload and errors. This year, we found errors relating to the use of SCOs in four transactions in one Member State. In Ireland, we found that the amounts reimbursed by the Member State to beneficiaries and the amounts reimbursed by the Commission to the Member State were based on different forms of support. While the beneficiary was reimbursed based on actual costs, EU funding was based on SCOs. This approach was also not in line with the regulatory requirements for SCOs.

Specific procurement weaknesses affecting direct management transactions

In April 2020, the Commission activated the Emergency Support Instrument (ESI) and issued a communication explaining the options available in public procurement for dealing with issues relating to the COVID-19 crisis. Seven of the 18 transactions in our sample for sub-heading 2b concerned payments made under the ESI in 2021. In connection with these transactions, we found that the Commission did not verify adequately whether the financial terms of its advance purchase agreements with manufacturers of COVID-19 vaccine doses had been respected for payments to the contractors. We also found weaknesses in the procurement of services and supplies under the ESI but we did not quantify these errors, since in every case we examined the extraordinary nature of the pandemic supported direct contracting.

Assessment of audit authorities' work

Audit authorities are the 'second line of defence' in the framework for assurance and control of spending. They verify, on a sample basis, the regularity of expenditure declared by managing authorities to the Commission. Through this work, they shall ensure that residual error rates remain below the materiality threshold of 2 %. This year we assessed the work of 23 out of 116 audit authorities, in 19 Member States and the UK.

While our work is not intended to conclude on the correctness of audit authorities' residual error rates as such, we found errors not detected by them. Our work on this year's sample shows that the residual error rate was above 2 % in 12 of the 31 assurance packages (corresponding to 39 % of the expenditure sampled), also taking account of the additional errors detected following the Commission's verifications.

Since 2017, we have examined an annual sample of assurance packages. During that time we have covered 69 assurance packages in 24 Member States and the UK at least once, corresponding each year to between 34 % and 62 % of the expenditure certified in annual accounts. Taking account of the Commission's adjustments and our own audit findings, 37 of these packages (54 %) have had residual rates above 2 % in at least one year. The 37 packages have consistently accounted for at least 39 % of the expenditure in our sample. This illustrates the extent to which audit authorities incorrectly report that residual error rates are below the 2 % materiality threshold.

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. DG REGIO reported a key performance indicator of 1.9 % and a 'maximum rate' of 2.5 %. The DG EMPL rates were 1.7 % for the key performance indicator and 2.4 % for maximum risk. The Commission used these error rates in the 2021 AMPR to provide regularity information. It reported a combined risk at payment of between 1.8 % and 2.5 % for MFF subheading 2a, on cohesion, and 1.7 % and 2.3 % for MFF heading 2 as a whole.

In 2021, we published a special report in which we provided details on the relevance, reliability and consistency of the annual level of error reported in AARs and the AMPR for cohesion expenditure. The report supported the conclusions reached in our annual report over the past four years. We found that the Commission provides a minimum estimate for the level of error that is not final (at OP level, in AARs and in the AMPR) and that the desk reviews are of a limited value in confirming the validity of the residual total error rates reported by audit authorities.

In response to our recommendations, the Commission has revised its methodology for calculating its maximum risks. In particular, it now applies a 'top-up' to unaudited OPs, based on error rates reported by the same audit authority for other OPs, or a flat rate if the audit authority has not yet been audited. However, the Commission does not make these adjustments in the case of OPs audited in earlier accounting years, for which it continues to rely on its desk reviews of (which have inherent limitations compared to compliance audits). Furthermore, the level of top-up may not be sufficient to account for errors that the Commission has not detected through its compliance audits.

Rule of law procedure

In April 2022 the Commission sent Hungary a written notification concerning alleged breaches of the rule of law. To do this, the Commission must have reasonable grounds to consider that these breaches affect or seriously risk affecting the sound financial management of the EU budget or the EU's financial interests. In their 2021 AARs, neither DG EMPL nor DG REGIO made any reference to this ongoing procedure or how it may affect the assurance that the Commission can obtain from Hungary's control and assurance system.

What we recommend

We recommend that the Commission:

- reiterate to managing authorities the requirements attached to reimbursing beneficiaries using a methodology that differs from the simplified cost options (SCOs) used for calculating payments to Member States from the EU budget, taking particular account of the situation detected this year in an Irish ESF operational programme;
- ensure that, when operational programmes are based on existing national schemes, the operation implemented contribute effectively to programme objectives, taking particular account of the situation detected this year in relation to NEET participants in Spanish ESF/YEI operational programmes;
- reiterate to programme authorities that they must confirm the NEET status of participants before submitting expenditure declarations for ESF/YEI programmes from the 2014-2020 period. These eligibility checks should be made on the basis of reliable and verified sources, taking particular account of the situation detected this year in French and Irish ESF/YEI OPs;
- verify that COVID-19 vaccine manufacturers comply with the terms of advance purchase agreements, in particular as regards production cost estimates, the use of upfront financing and, where applicable, no-profit clauses, and take corrective action as necessary;

- reiterate to audit authorities that the legal framework requires them to keep an audit trail, with which the Commission can verify that their sampling procedures are independent, objective and without bias;

- provide information in its annual activity reports about ongoing rule of law procedures against Member States and how these may affect the assurance that the Commission can obtain about regularity of expenditure from the assurance and control systems of the countries concerned.

*Want to know more? Full information on our audit of EU expenditure on 'Cohesion, resilience and values' can be found in Chapter 5 of our **2021 annual report**.*

Natural resources

Total: €56.8 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).

This MFF heading also covers EU spending on the maritime and fisheries policy, and part of the EU spending on the environment and climate action covering EMFF and LIFE programmes.

For 2021, expenditure of €56.6 billion was subject to audit in this MFF heading.

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
€56.6 billion	Close to materiality	1.8 % (2020: 2.0 %)

Based on the errors we have quantified and other evidence produced by the control system, we find the level of error for 'Natural resources' to be 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 67 % of spending under 'Natural resources', our results indicate that the level of error was not material. For the remaining areas (rural development, market measures, fisheries, the environment and climate action), representing 33 % of spending under this MFF heading 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.

In the 84 direct payment transactions tested, we found only three minor quantifiable errors, which resulted from farmers overstating the eligible area of agricultural land.

Checks by monitoring

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.

Through our work, we examined the implementation of checks by monitoring in Spain and Italy. Spain has been implementing such checks for direct payments since 2019. Some regions have extended these checks to an increasing number of rural development measures. In Italy, the checks covered only direct payments, but Italy intends to extend the checks to some rural development measures.

The Commission has committed itself to providing support to the Member States in developing checks by monitoring. At the end of 2021, the area of the main direct aid schemes (basic payments and single area payments) subject to checks by monitoring was 13.1 %.

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.

Of the 104 rural development transactions we tested, 90 were unaffected by error. Out of 13 cases where we found and quantified errors, six of them had an impact exceeding 20 %. We detected one compliance issue without financial impact.

Example of non-compliance with agri-environment-climate eligibility condition

In Poland, a farmer received aid under rural development measure M10 'Agri-environment-climate'. The farmer declared three parcels of land under the measure and had to respect several commitments:

— mow the declared areas once between 15 June and 30 September;
— on two of the parcels, leave 15-20 % of the area unmown; and
— collect or put into bales the mown biomass within two weeks of mowing.

We found that most of the data recorded in the beneficiary's farm register did not reflect the actual agricultural activity. Using evidence from Sentinel satellite images, we were able to establish that:

— one parcel was not mown at all;
— one of the parcels which should have been left partly unmown was completely mown; and
— on two parcels, the mowing date was different than that recorded by the farmer, which led us to conclude that the mown biomass was collected or put into bales more than two weeks after mowing.

Taking into account the penalties laid down in the national rules, these non-compliances led to an error of 57 % for the audited payment.

Agricultural market measures form a number of diverse schemes that are subject to a variety of eligibility conditions. We tested 14 transactions and found four cases where paying agencies had reimbursed ineligible costs. All four errors were below 20 %.

The selection criteria and eligibility requirements for projects in fisheries, the environment and climate action also vary. Among the four transactions under direct management we examined, we found no error. For another six transactions, which are under shared management, we found three quantified errors, including one above 20 %, resulting from the incorrect calculation of eligible costs.

Coherence checks

We examined for the financial year 2021, the quality and coherence of Member States control statistics and payment data reported to the Commission. Overall, we found that the selected paying agencies' systems reliably calculated the aid payments, correctly taking into account adjustments resulting from the control data.

Measure M21

The main purpose of measure M21 ('Exceptional temporary support to farmers and SMEs particularly affected by the COVID-19 crisis') was to address liquidity problems for farmers and small and medium-sized businesses affected by the COVID-19 pandemic. We examined the implementation of the measure in four Member States. We identified a limited number of cases where beneficiaries who did not meet the criteria for support received funds. This that could have been prevented by the paying agencies, if they had used the IACS system instead of using Excel sheets.

Reporting by Directorate-General for Agriculture and Rural Development (DG AGRI) on regularity of CAP spending

Each paying agency director provides DG AGRI with an annual management declaration on the effectiveness of their agency's management and control systems, and the legality and regularity of their expenditure. In addition the Member States report annually 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 audits of paying agencies' systems and spending, to calculate a figure for 'risk at payment'. It estimated the risk at payment to be around 1.8 % for CAP spending as a whole in 2021. DG AGRI estimated a risk at payment (adjusted error rate) of around 1.4 % for direct payments, 2.9 % for rural development and 2.1 % for market measures.

What we recommend

We recommend that the Commission:

- based on the experience of the use of 'checks by monitoring', facilitate the sharing best practices in Member States' use of new technologies for performing their checks of CAP payments, in order to support the Member States in their implementation of the Area Monitoring System from 2023;

- perform audits, and ensure monitoring and evaluation, to confirm that measure M21 funding properly targeted eligible beneficiaries suffering liquidity problems which put at risk the continuity of their farming or business activities.

*Want to know more? Full information on our audit of EU expenditure on 'Natural resources' can be found in Chapter 6 of our **2021 annual report**.*

Migration and border management
Security and defence

Total: €3.2 billion

What we audited

This spending area comprises various policies related to migration and border management (MFF heading 4) as well as security and defence (MFF heading 5). We report on these headings in a common chapter, since they were mainly budgeted for and recorded under a single heading, MFF3 'Security and citizenship', in the previous MFF period.

For heading 4 'Migration and border management', most spending concerned the completion of projects and schemes from the previous programming period (2014-2020) under the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund – Borders and Visa instrument (ISF-BV).

These two funds aim to contribute to the effective management of migration flows and bring about a common EU approach to asylum and migration (AMIF) and to ensuring a high-level of security in the EU while facilitating legitimate travel, through a uniform and high level of control of the external borders and the effective processing of Schengen visas (ISF-BV). Their management was largely shared between the Commission's Directorate-General for Migration and Home Affairs (DG HOME) and the Member States.

Another significant spending area for heading 4 is the funding for three decentralised agencies (the European Union Agency for Asylum – EUAA, the European Border and Coast Guard Agency – Frontex, the European Union Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice – eu-LISA) that are active in the implementation of key EU priorities in the areas of migration and border management. 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 2021, our audit population for MFF heading 4 was at €2.6 billion.

For MFF heading 5 'Security and defence', the 'security' component includes completion of funding from the Internal Security Fund – Police instrument (ISF-P) for 2014-2020, funding for nuclear decommissioning (EU financial support for the decommissioning of nuclear installations in Bulgaria, Lithuania and Slovakia), and funding for three EU decentralised agencies in the area of security (the European Monitoring Centre for Drugs and Drug Addiction – EMCDDA, the European Union Agency for Law Enforcement Cooperation – Europol, the European Union Agency for Law Enforcement Training – CEPOL). The 'defence' component includes the European Defence Fund, which supports collaborative defence projects at all stages of research and development.

In 2021, our audit population for MFF heading 5 was at €0.6 billion.

What we found

In 2021, we examined a sample of 28 transactions. This sample, while contributing to the overall statement of assurance, is not representative of the spending under MFF headings 4 and 5. We therefore cannot provide an estimate of the error rate for these MFF headings.

Of the 28 transactions we examined, nine (32 %) were affected by errors. We have quantified six errors which had an impact on the amounts charged to the EU budget. We also found six cases of non-compliance with legal and financial provisions, but with no financial impact on the EU budget.

Example: Acquisition of ineligible vehicle types

We audited an ISF-Police project under shared management with Bulgaria. The project was implemented by a ministerial department and consisted of the purchase of 18 new off-road vehicles.

We randomly selected a sample of ten vehicles purchased during the project for detailed checks. We found that only five of these vehicles met the definition of off-road vehicles in Directive 2007/46/EC. We therefore considered 50 % of the project costs to be ineligible expenditure. Furthermore, the register of vehicle use was not sufficiently detailed to demonstrate that the vehicles purchased were being used solely in connection with the project.

Our review of the work done by three audit authorities showed that they had developed and implemented detailed procedures of sufficient quality to report on their work in the annual control report that they provide to the Commission. However, we found shortcomings in their audit work and reporting.

Annual activity reports and other governance arrangements

We reviewed the annual activity report of DG HOME and found no information that might contradict our findings. As our checks on 25 transactions concern only a small proportion of the transactions under DG HOME's responsibility, we are unable to verify the DG's declaration of assurance against the results of our audit work.

What we recommend

We recommend that the Commission:

- provide further guidance to the beneficiaries of Union action and emergency assistance, and the Member State authorities responsible for implementing DG HOME funding, on adhering to:

  (a) the rules for collecting appropriate supporting documentation that can be produced in the event of checks or audits; and

  (b) the obligation to comply with the national rules on public procurement when purchasing goods or services;

- carry out better targeted *ex ante* checks on the eligibility of expenditure, especially in the case of emergency assistance, with a specific focus on the potential risks related to:

  (a) the type of expenditure (e.g. procurement);

  (b) the type of beneficiary (e.g. beneficiaries with little or no experience of EU funding).

  In doing this, the Commission should take into consideration the fact that using audit certificates to support beneficiaries' payment claims has limitations.

Want to know more? Full information on our audit of EU expenditure for 'Migration and border management/Security and defence' can be found in Chapter 7 of our ***2021 annual report****.*

Neighbourhood and the world

Total: €10.9 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: uphold and promote EU values, principles and fundamental interests worldwide, and help promote multilateralism and stronger partnerships with non-EU countries to support beneficiary countries in adopting and implementing the reforms required to align with EU values with a view to membership, thereby contributing to their stability, security and prosperity.

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 2021, the expenditure subject to audit in this area was €10 billion.

What we found

We reviewed a sample of 67 transactions, which while contributing to our overall statement of assurance, is not representative of the spending under this MFF heading. We are therefore unable to provide an estimate of the error rate for this MFF heading.

Of the 67 transactions we examined, 32 (48 %) were affected by errors. Despite the limited sample size, our audit results confirm that the risk of error in this MFF heading is high. We have quantified 24 errors which had an impact on the amounts charged to the EU budget. The most common categories of error were expenditure not incurred, ineligible costs, absence of supporting documents and public procurement errors.

Example: Part of expenditure not incurred

DG NEAR

We audited expenditure claimed under a contribution agreement by an international organisation dedicated to gender equality and empowering women for an action aimed at challenging gender stereotypes in the Eastern Partnership countries. According to the contribution agreement, the action's total estimated cost is €7.9 million, with an EU contribution of up to €7 million.

For the first 12 months of the three-year implementation period, the beneficiary reported €2.2 million of incurred expenditure, which the Commission accepted. We examined the supporting documents and found that the eligible expenditure amounted to only €1.2 million. The international organisation had wrongly reported €977 434 as incurred expenditure. Although it had committed this amount, it had not yet actually spent it. The Commission had therefore incorrectly cleared 44 % of the audited amount.

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 to specific, identifiable items of expenditure) were less prone to error. In 2021, we detected one error in each of these spending areas.

As in previous years, some international organisations provided only limited access to documents (e.g. in read-only format), meaning we could not make copies of them. These issues hindered the planning and execution of our audit and led to delays in our work. Although the Commission has stepped up its communication with the international organisations, we continue to have difficulties obtaining the requested documentation.

DG NEAR's RER study

In 2021, the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) had its seventh residual error rate (RER) study carried out by an external contractor on its behalf. The purpose of this study is to estimate the rate of those errors not detected by all DG NEAR management checks to prevent, detect and correct such errors across its entire area of responsibility, in order to conclude on the effectiveness of those checks. 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 2 % materiality threshold set by the Commission (2021: 1.05 %; 2020: 1.36 %).

Our previous years' annual accounts have already described limitations in the studies that may contribute to the RER's underestimation.

The population for the 2021 RER exercise excluded 'old contracts' closed during the reference period with a total value of €389 million and DG NEAR thematic grant contracts amounting to €50 million. At €439 million, the above two types of excluded contracts together account for around 20 % of DG NEAR's portfolio of closed contacts of €2.27 billion. This is a substantial share to permanently exclude from any RER review, especially considering that the final RER sampling population for the 'global (DG derived) error rate' is worth about €1.7 billion, and might result in errors remaining undetected. The exclusion of these contracts represents a limitation not disclosed by DG˚NEAR in its 2021 annual activity report.

Annual activity reports and other governance arrangements

Based on the low estimated residual error rate, the Director-General of DG ECHO declared the DG's financial exposure to be below the materiality threshold of 2 %. As only a small proportion of our checks concern transactions under DG ECHO's responsibility, we are unable to verify this statement based on the results of our work.

The COVID-19 pandemic and political crises have put the delivery of humanitarian aid at risk, as they have restricted or prevented access to people affected by humanitarian crisis. This risk concerns not only humanitarian needs assessments, but also the delivery of aid itself as well as related controls.

What we recommend

We recommend that the Commission:

- take appropriate measures aimed at ensuring that any commitments or advance payments claimed as incurred costs by beneficiaries in their financial reports are deducted before carrying out payments or clearings;
- strengthen controls when drafting financing agreements for budget support operations in order to set clear conditions in financing agreements regarding the transfer of funds to the treasury account in the beneficiary country's central bank and the applicable exchange rate; these should be consistent with the budget support guidelines;
- disclose the type and value of contracts excluded from the population of the RER study in the 2022 annual activity report and future annual activity reports.

*Want to know more? Full information on our audit of EU expenditure for 'Neighbourhood and the world' can be found in Chapter 8 of our **2021 annual report**.*

European public administration

Total: €10.7 billion

What we audited

Our audit covered the administrative expenditure of the EU institutions and bodies: the European Parliament (EP), the Council of the European Union, the European Commission, the Court of Justice of the European Union (CJEU), the European Court of Auditors (ECA), the European External Action Service (EEAS), the European Economic and Social Committee (EESC), the European Committee of the Regions(CoR), the European Ombudsman and the European Data Protection Supervisor (EDPS).

In 2021, the institutions and bodies spent a total of €10.7 billion on administration. This amount comprised spending on human resources and pensions (about 68 % of the total), buildings, equipment, energy, communications and information technology.

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?
€10.7 billion	No – Free from material error in 2021 and 2020

In 2021, we examined selected supervisory and control systems of the European External Action Service. We also examined 60 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 of the European Union, the CJEU, the EESC, the CoR, the European Ombudsman and the EDPS. Our external auditor did not report any specific issue based on its work.

European Parliament

We detected two quantifiable errors in payments made by the European Parliament. One concerned a minor over-payment for IT services caused by the incorrect application of contract terms. The other was related to a payment made by the European Parliament to a European political group. The European Parliament's internal procurement rules are inconsistent with the Financial Regulation as they limit competition. We found that the political group did not fully follow these internal rules, as it did not seek enough tenders and did not adequately document the criteria it used to award the contract.

In addition, we examined a payment of €74.9 million related to the purchase of a building in Brussels. We noted it was 30 % more expensive per square metre than another building considered by the Parliament and that the award criteria significantly reduced the importance of price as a basis for the purchase decision, making it unlikely that any other offer could have been accepted.

European Commission

We found one quantifiable error in payments made by the Commission, concerning a minor incorrect deduction from pension payments. Additionally, we noted that the Commission had temporarily suspended certain verification checks on pension entitlements due to the COVID-19 pandemic.

European External Action Service

We found two quantifiable errors in payments made by the EEAS. One concerned the absence of an underlying contract for services acquired by an EU Delegation. The other related to allowances paid to a staff member who had not declared recent changes in their personal situation.

In addition, we examined procurement and local recruitment procedures organised by EU Delegations. While the EEAS made improvements to the procurement process, we still detected some weaknesses. For half of the procurement procedures we examined, we found some deficiencies in how the EU Delegations applied public procurement rules. We also found some weaknesses in all of the recruitment procedures for local agents we examined. These may have hindered the transparency of the recruitment process, the identification of the best candidates and equal treatment.

What we recommend

We recommend that:

- The European Parliament's administration should revise its guidelines on the application by the political groups of the rules on public procurement, and it should propose a revision of these rules to the Parliament's Bureau to better align them with the Financial Regulation. It should better monitor the application of these rules;
- The EEAS should take appropriate measures to ensure the application of procurement rules by EU Delegations such as enhancing training, improving guidelines and templates;
- The EEAS should enhance training and guidance on the EU Delegations' recruitment procedures for local agents to ensure compliance with the principles of transparency and equal treatment. It should also strengthen its oversight that the EU Delegations document the relevant steps of the recruitment process.

*Want to know more? Full information on our audit of EU expenditure for 'European public administration' can be found in Chapter 9 of our **2021 annual report**.*

Recovery and Resilience Facility

Total: €46.4 billion

What we audited

In 2021, for the first time our work also covered the single payment made to Spain from the RRF. The facility is the main component of the NGEU package, which is aimed at supporting recovery from the impact of the COVID-19 pandemic. The RRF is a temporary instrument delivered and financed in a way that is fundamentally different to budget spending under the MFFs. Unlike EU budget expenditure, which is based on the reimbursement of costs and/or compliance with conditions, under the RRF, Member States are paid for achieving predefined milestones or targets.

Our audit population comprised the only 2021 disbursement, a payment to Spain, and the clearing of the related pre-financing.

The Spanish request for payment (dated 11 November 2021) included 52 milestones, which Spain reported as achieved. The amount paid to Spain was €11.5 billion. The Commission adopted its positive preliminary assessment on 3 December 2021 and, after receiving the positive opinion of the Council's Economic and Financial Committee, authorised the disbursement in its implementing decision of 22 December 2021. It paid €10 billion to Spain on 27 December 2021, simultaneously clearing pre-financing of €1.5 billion.

The results of our work form the basis for our 2021 opinion on the regularity of RRF expenditure.

What we found

Amount subject to audit	Affected by material error?
€11.5 billion	No

Our audit covered the regularity of the RRF payment made to Spain. We based our assessment on the condition for payment, i.e. that the milestones and targets as defined in the Council Implementing Decision (CID) had been satisfactorily fulfilled. To do this, we examined whether the Commission had gathered sufficient and appropriate evidence to support its assessment of satisfactory fulfilment of the 52 milestones included in the Spanish payment request. Compliance with other EU and national rules does not form part of this assessment.

The overall audit evidence we obtained through our work indicates that one of the 52 milestones associated to the first disbursement to Spain was not satisfactorily fulfilled. The Commission has not yet defined a method for quantifying the impact of not achieving a milestone or target. Our own view is that the error is not material.

Milestone 395 'Modifications of corporate income tax in 2021'

Description of milestone 395 (reform C28.R8) in Annex to CID (p. 244):

'Entry into force of the modifications introduced by the Budget Law for 2021 and the development regulations related to Corporate Income Tax to increase corporate tax revenue.'

Description of reform 8 (C28.R8) – Short-term adoption tax measures in corporate tax – Annex to the CID (p. 241):

'The reform shall amend the Corporate Tax Act in order to increase the contribution of this tax to the support of public spending, while also introducing simplifications to the exemptions and deductions in order to ensure a minimum rate of 15 % by taxpayers. On the other hand, the exemption for dividends and capital gains generated by their shareholding in subsidiaries, both resident and non-resident in Spanish territory, shall be reduced by 5 %. The implementation of the measure shall be completed by 31 March 2021'.

The Commission appropriately assessed the element on the reduction of the exemption for dividends and capital gains. However, it did not assess the element of the reform a minimum rate of 15 %, as provided for in the CID description of the reform.

Other weaknesses found in the Commission's work when assessing the milestones, concern the insufficiently robust criteria for the control milestone and insufficient documentation of its work, though this does not affect the assessment of the achievement of the milestone.

What we recommend

We recommend that the Commission:

- clearly and transparently justify the elements contained in the Operational Arrangements and Council implementing Decision that are not considered to be relevant by them for the satisfactory fulfilment of milestones and targets;
- develop a methodology to determine the amount to be suspended in accordance with Articles 24.6 and 24.8 of the RRF Regulation;
- improve documentation of the assessment of milestones and targets by fully documenting all the elements examined during the *ex ante* work.

*Want to know more? Full information on our audit of EU expenditure for 'Recovery and Resilience Facility' can be found in Chapter 10 of our **2021 annual report**.*

European Development Funds

Total: €3.4 billion

What we audited

Launched in 1959, the European Development Funds (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 with the 11th (and final) EDF covering the 2014-2020 MFF. The framework governing the EU's relation with ACP countries and OCTs was a partnership agreement signed in Cotonou on 23 June 2000 for a period of 20 years. Its primary objective was to reduce and ultimately eradicate poverty, in accordance with the primary objective of development cooperation as laid down in Article 208 of the Treaty on the Functioning of the European Union. For the 2021-2027 MFF, development cooperation aid to Africa, Caribbean and Pacific has been integrated into the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI-Global Europe) and development cooperation aid to OCTs has been incorporated into the Decision on the Overseas Association, including Greenland. However, the 8th, 9th, 10th and 11th EDFs themselves were not incorporated into the EU general budget and continue to be implemented and reported on separately until their closure.

For 2021, the total value of expenditure subject to our audit in this area was €3.1 billion. This expenditure relates to the 9th, 10th and 11th EDFs.

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

What we found

The 2021 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 2021 financial year is adverse:

Amount subject to audit	Affected by material error?	Estimated most likely level of error
€3.1 billion	Yes	4.6 % (2020: 3.8 %)

To audit the regularity of transactions, we examined a sample of 140 transactions that were representative of the full range of spending from the EDFs. Our sample comprised 26 transactions related to the Emergency Trust Fund for Africa, 92 transactions authorised by 17 EU delegations and 22 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, which we replaced with desk reviews. This prevented us from carrying out certain audit procedures, and particularly from verifying contract performance for the transactions selected, thus limiting our audit work. We had to adapt our approach, carrying out desk reviews of transactions and projects and liaising remotely with our auditees. Nevertheless, we consider that the evidence obtained enabled us to complete and conclude on our work.

Of the 140 transactions we examined, 54 (38.8 %) contained errors. Based on the 43 errors we have quantified, we estimate the level of error to be 4.6 %. The three most common error types were ineligible expenditure (38.6 %), absence of essential supporting documents (23.3 %), and expenditure not incurred (14.9 %).

As they did in 2020, the Commission and its implementing partners committed more errors in transactions relating to grants and to contribution and delegation agreements with beneficiary countries, international organisations and Member States agencies than they did with other forms of support (such as those covering works, supply and service contracts). Of the 92 transactions of this type that we examined, 39 contained quantifiable errors, which accounted for 81.2 % of the estimated level of error.

Example: Absence of legal basis resulting in ineligible expenditure

The Commission signed a grant contract with an international organisation to improve Niger's cash management function and implement a treasury single account in the country. The total cost of the action was estimated at €1.4 million (EU contribution of 100 %).

We reviewed the financing agreement, worth €82 million, signed between the Commission and Niger. It stated that the funds were to be spent on budget support and other projects, but contained no mention of work to be done on a treasury single account. The financing agreement also did not provide for the award of any related contract to the organisation concerned or to any other body, despite being cited as the legal basis for the award in question. The entire value of the contract (€1.4 million) is affected by error.

As in previous years, some international organisations provided only limited access to documents (e.g. in read-only format), meaning we could not make copies of them. These issues hindered the planning and execution of our audit and led to delays in our work. Although the Commission has stepped up its communication with the international organisations, we continue to have difficulties with some of them obtaining the requested documentation.

DG INTPA's RER study

In 2021, DG INTPA had its tenth residual error rate (RER) study carried out by an external contractor, to estimate the rate of those errors that have evaded all DG INTPA management checks to prevent, detect and correct such errors across its entire area of responsibility, in order to conclude on the effectiveness of those checks.

For the 2021 RER study, DG INTPA applied a sample size of 480 transactions. This allowed it once again to present separate error rates for expenditure financed from the EU general budget and for spending financed by the EDF, in addition to the overall error rate for both combined. For the sixth year in a row, the study estimated the overall RER to be below the 2 % materiality threshold set by the Commission (1.14 %).

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

One aspect of the RER study is the degree of reliance placed on the work of other auditors. In this regard, full reliance increased from 15 % of transactions in 2020 to 34 % of transactions in 2021. We maintain our view that placing such extensive reliance on the work of other auditors is contrary to the purpose of an RER study, which is to estimate the rate of errors that have evaded all DG INTPA management checks to prevent, detect and correct such errors.

Review of DG INTPA's annual activity report

The Director-General's declaration of assurance in the 2021 annual activity report does not include any reservations. From 2018, DG INTPA significantly reduced the scope of reservations (i.e. the share of expenditure covered by them).

We find the lack of reservations in DG INTPA's 2021 annual activity report unjustified and consider that it results partly from the limitations of the RER study.

DG INTPA is working to improve the quality of its data for calculating the corrective capacity. We reviewed the calculation of the corrective capacity for 2021, which DG INTPA estimates at €13.62 million. Having tested 35 % (by value) of the total population of recoveries, we identified no errors in our sample.

What we recommend

We recommend that the Commission:

- strengthen internal control to ensure that no contracts are signed without the existence of a valid legal basis;
- take appropriate measures aimed at ensuring that any commitments or advance payments claimed as incurred costs by beneficiaries in their financial reports are deducted before carrying out payments or clearings.

*Want to know more? Full information on our audit of EDFs can be found in the **2021 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 ECA 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 contribute to improving EU administration and financial management and to promote accountability and transparency, and act as the independent guardian of the financial interests of EU citizens.

Our audit reports and opinions are an essential element in the EU accountability chain. They are used to hold to account those responsible for implementing EU policies and programmes: the Commission, other EU institutions and bodies, and administrations in Member States.

We warn of risks, provide assurance, indicate shortcomings and good practice, and offer guidance to EU policymakers and legislators on how to improve the management of EU policies and programmes. Through our work, we ensure that Europe's citizens know how their money is being spent.

Klaus-Heiner LEHNE
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Lazaros S. LAZAROU
Cyprus

Pietro RUSSO
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Baudilio TOMÉ MUGURUZA
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François-Roger CAZALA
France

Joëlle ELVINGER
Luxembourg

Helga BERGER
Austria

Marek OPIOŁA
Poland

Jorg Kristijan PETROVIČ
Slovenia

Our output

We produce:

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

Finally, our audit previews present background information on a forthcoming or ongoing audit task.

Audit approach for our statement of assurance – at a glance

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

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

Reliability of the accounts

Do the EU annual accounts provide complete and accurate information?

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

- We evaluate the accounting system to ensure it provides a good basis for producing reliable data.
- We assess key accounting procedures to ensure they function correctly.
- We perform analytical checks of accounting data to ensure it is presented consistently and appears reasonable.
- We directly check a sample of accounting entries to ensure the underlying transactions exist and are accurately recorded.
- We check financial statements to ensure they present the financial situation fairly.

Regularity of transactions

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

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

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

- We assess the systems for revenue and expenditure to determine their effectiveness in making sure transactions are regular.

- We take statistical samples of transactions to provide a basis for detailed testing by our auditors. We examine the sampled transactions in detail, including at the premises of final recipients (e.g. farmers, research institutes or companies providing publicly procured works or services), to obtain evidence that each underlying event exists, is properly recorded and complies with the rules for making payments.

- We analyse errors and classify them as either quantifiable or not. Transactions are affected by quantifiable error if, based on the rules, the payment should not have been authorised. We extrapolate the quantifiable errors to obtain an estimated level of error for each area in which we make a specific assessment. We then compare the estimated level of error against a materiality threshold of 2 % and assess whether the errors are pervasive.

- Our opinions take account of these assessments and of other relevant information, such as annual activity reports and reports by other external auditors.

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

*All our products are published on our website: **www.eca.europa.eu**.*
*More information on the audit process for the statement of assurance can be found in Annex 1.1 to our **2021 annual report**.*

Getting in touch with the EU

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– at the following standard number: +32 22999696 or
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EU law and related documents

For access to legal information from the EU, including all EU law since 1951 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 (https://data.europa.eu/en) 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 '2021 EU audit in brief'

The '2021 EU audit in brief' provides an overview of our 2021 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. This year, for the first time, through our work we also covered the Recovery and Resilience Facility and provide a separate opinion on the legality and regularity of its expenditure. The EU audit in brief also outlines our key findings regarding revenue and the main areas of spending under the EU budget and the European Development Fund, as well as findings relating to budgetary and financial management.

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

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

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EUROPEAN COURT OF AUDITORS

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