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Speech

Brussels, 10 November 2015

Speech by Vítor Caldeira, President of the European Court of Auditors

Presentation of the European Court of Auditors' 2014
annual report to the European Parliament
Committee on Budgetary Control (CONT)

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Madam Chair,

Honourable Members of the European Parliament,

Thank you for this opportunity to present the Court's annual reports on EU financial management in 2014.

This year, we are presenting them at a particularly difficult time for Europe.

The EU and the Member States face major long-term challenges that require urgent action:

- generating jobs and economic growth;
- meeting energy needs while achieving climate goals; and
- managing the pressures of asylum, migration and security.

The EU and the Member States must strive to do more with what is already in place. They not only have to find the money now to deal with these challenges, they also have to ensure that money is well invested.

The main source of funds at EU level is the EU budget, which we audit each year.

Taken together, our audit results over recent years point to a need for a wholly new approach, if the EU budget is to be invested better and more quickly to meet the challenges that Europe now faces.

We call for this "wholly new approach" because substantive change is required by all those responsible for the way EU funds are managed.

- decision-makers must align the allocation of the budget better with the EU's long-term strategic priorities and make it more capable of responding in a crisis;
- legislators need to ensure spending schemes are clear about the results to be achieved and the risks it is acceptable for financial managers to take; and
- financial managers have to ensure that the money spent complies with the rules and achieves the intended results.

But all this will take time:

- the EU is mid-way through the Europe 2020 strategy;
- the spending schemes for 2014 to 2020 are underway; and
- the EU's financial management culture has developed over many years.

That is why it is so important to do what can be done now.

The upcoming mid-term review of the Multi-annual Financial Framework provides an opportunity to re-think spending priorities and the design of some schemes.

Better use could also be made of the financial management tools that are already in place, as our report shows.

Honourable Members,

Almost all the EU's spending in 2014 was planned during 2007-2013, so our report inevitably highlights a number of long-standing issues.

But it is important to put these problems into context. We believe our report provides a fair assessment of financial management in 2014 as well as important insights on how to improve in the coming years.

First, we have “signed off” the 2014 EU accounts. They are reliable and we have issued a “clean” audit opinion to that effect. We also conclude that the collection of EU revenue was free from material error.

That said, there is a **persistently high level of payment errors**, which means too much money is still not spent in accordance with the EU’s financial rules.

The overall estimated error rate for payments in 2014 was 4.4%, and it has been stable for the last three years.

Again, all operational expenditure was affected by a material level of error of more than 2%. Only the institutions’ administrative expenditure was not subject to a material level of error.

As requested by the European Parliament, we provide more insight this year about what drives the risk of error.

As we note, most of the EU’s operational spending is inherently risky because the correct calculation of payments largely depends on information supplied by the final recipients themselves.

Depending on the spending scheme or programme, the final recipients of EU funds may include farmers, researchers, SMEs, NGOs or even governments.

Our analysis does not suggest that the level of error depends on the type of management arrangements. The estimated error rate for spending where the Commission shares management responsibility with the Member States was 4.6%, the same as for all other operational expenditure.

Instead, our analysis shows that there is a strong relationship between the type of scheme or programme and the level of error.

We estimate the level of error on schemes that reimburse costs at 5.5%. This compares with only 2.7% for entitlement programmes, where payment depends on claimants meeting certain conditions.

This distinction largely explains the differences in the estimated level of error for spending under the different headings of the MFF.

The estimated level of error is higher in “Competitiveness” and “Cohesion”, where almost all spending takes the form of cost reimbursement, than in “Natural resources” and “Global Europe”, where a higher proportion of spending is based on entitlement.

Of course, it is essential to keep risk under control. The Commission and Member States have made progress in recent years in preventing and correcting errors.

In 2014, corrective measures reduced our estimated level of error by 1.1%. But more errors could have been corrected if all the information available had been used.

The Commission needs to make full use of its corrective powers, including those introduced under the current MFF, to reduce errors further and recover more misspent funds, so that those funds can be re-invested.

That brings me to **the performance of the EU budget**.

Clearly, if the EU is to address the pressing challenges it faces, it must invest the budget better.

Our review of the links between the current EU strategy and MFF shows that they could be better aligned, both in terms of periods and priorities.

We also highlight the fact that the Member States do not translate Europe 2020 targets into operational level objectives in their partnership agreements and programmes.

Both issues limit the Commission's ability to monitor and report on the EU budget's contribution to Europe 2020.

This is a matter for decision-makers to address.

Legislators, meanwhile, have a key role to play in translating political aims into EU-level objectives and in requiring that those objectives should be reflected in the way programmes are managed.

In areas under shared management, the results to be achieved need to be stated clearly and quantified in partnership agreements and programmes. This is not currently the case.

Under the current legislation, Member States are not required to include common indicators in their programmes, and poor performance in terms of results achieved does not lead to Member States losing their performance reserve.

Recent initiatives to strengthen performance budgeting and management are welcome, though many challenges remain. Our reports and opinions can provide considerable assistance in this regard.

Honourable Members,

The EU budget is under severe pressure. It has been operating within the contingency margin for payments since shortly after the new MFF began - even before the Juncker Plan was launched or the full force of the refugee crisis was felt.

The EU needs to deal with a number of **financial backlogs** that have built up, in order to free up funds so they can be used where they are most needed.

Although outstanding commitments fell in 2014, they are projected to increase again in 2015 and subsequent years.

Some Member States are struggling to absorb the EU funds they have been allocated.

In fact, in four Member States, the total not yet claimed from the EU budget is equivalent to 15% or more of their governments' annual spending.

The Commission has put funds at the disposal of Member States, without sufficiently considering their capacity to invest them. And some Member States have had difficulty identifying sufficient projects and finding the funding they need to contribute.

This puts value-for-money at risk. With few projects available, there is less incentive to apply rigorous selection criteria.

We also note again this year the high level of unused funds in financial instruments and the small increase in unpaid claims.

The Commission has a plan that should improve short-term cash flow. But the Court considers that a longer-term perspective and better forecasting are needed to ensure the EU

budget does not remain over-committed. These are matters for financial managers to consider.

Honourable Members,

EU financial management would strongly benefit from improved transparency.

In our view, the foundation for transparency is good-quality management information. It is a theme that runs through our report.

This year the Commission accompanied the accounts with a brief discussion of some key financial themes. We welcome this as a first step towards more integrated reporting on management and performance for all stakeholders.

We have recommended the action the Commission should take to improve transparency about:

- long-term cash flow needs;
- payment errors and corrections made; and
- the results of spending the EU budget.

It is equally important to ensure transparency for EU policies not directly funded from the EU budget.

New ways of funding EU policies should not put financial risks beyond public scrutiny and audit. That would be short-sighted and may prove counterproductive in the longer term.

To conclude, the EU must invest its money better. It must act to ensure:

- investments match the Union's priorities more closely;
- simpler rules are framed to achieve results; and
- resources are managed more efficiently.

Taken together, that would indeed represent a wholly new approach.

Madam Chair, honourable Members,

EU citizens and their representatives have a right to know how well the EU invests their money.

The European Court of Auditors looks forward to assisting the EP by auditing the funds invested, warning where they are at risk and advising on how to improve their performance.

Thank you.