



## Press Release

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# European Commission's estimate of error in EU Cohesion policy provides an incomplete picture

The European Commission annually discloses what it estimates to be the level of irregularity in EU Cohesion policy spending. To this end, it carries out a substantial amount of work to accept Member States' annual accounts and verify the reliability of the regularity information that they provide for this policy area. But, in a report published today, the European Court of Auditors (ECA) concludes that the related error rates that the Commission discloses are not final, and are likely to underestimate the real level of irregularity in Cohesion policy spending. This is because of the shortcomings that the auditors found in the Commission's control system.

Cohesion, a policy aimed at reducing development disparities between the EU's Member States and regions, has become the largest EU policy area; it accounts for over a third of the EU budget (€390 billion from 2014 to 2020). It is also an area where the risk of irregular spending is high, because the rules governing it are complex, and because much of the expenditure is based on the reimbursement of declared costs. Each year, after Member State audit authorities have completed their audits of Cohesion expenditure, the European Commission carries out its own verifications and assessment of Member State auditors' work and findings. From this, the Commission aims to confirm whether the residual level of error in Cohesion spending reported by Member States is below the 2 % threshold.

*"The European Commission's own control system does not sufficiently compensate for the weaknesses in the work of Member state audit authorities when they check Cohesion spending",* said Tony Murphy, the member of the European Court of Auditors responsible for the report.

*"The estimated level of error the Commission discloses annually in the relevant Directorate-General activity reports and in the Commission's management and performance report is not final, and can only represent a minimum level."*

For the 2014-2020 period, the auditors note that the European Commission releases the 10 % payment retention initially withheld even if it has evidence that the expenditure in the accounts contains a level of error of above 2 %. While this is in line with the Regulation, it is not in line with the overall objective of the payment retention, which was designed to safeguard the EU budget. For 2021-2027, the auditors note some positive changes: the Commission, for example, can no longer accept accounts with a reported residual total error rate (RTER) above 2 %. But it will continue to release the reduced retention of 5 % before it has carried out its regularity checks. These amendments still fall short of the objective of protecting the EU budget.

*The purpose of this press release is to convey the main messages of the European Court of Auditors' special report. The full report is available at [eca.europa.eu](https://eca.europa.eu).*

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With its desk reviews, the Commission aims to check the consistency of the regularity information that the Member States have provided. The auditors nevertheless found inherent limitations implying that irregular expenditure remains undetected and uncorrected. These desk reviews therefore add limited value in terms of confirming the regularity of the underlying transactions and the validity of the residual error rates reported. Although the reviews contribute to the risk-based approach for selecting operational programmes for compliance audits, the Commission did not always select those with the highest risk score, and did not sufficiently document the justification for their selection.

Compliance audits, where the Commission reviews the eligibility of operations and its related expenditure, are the most important element in its assessment of an audit authority's work and related findings. EU auditors draw attention to the high frequency of undetected errors noted by the Commission, even though the sample of operations reviewed was small. This indicates that further types of errors are likely to be present in the many remaining operations and in the expenditure not checked by the Commission.

The Commission nevertheless uses the results of this work as the main basis for its key performance indicator (KPI), which is supposed to be its best estimate of the residual level of error in Cohesion spending. The EU auditors regard this KPI as a minimum estimated level of error, a level which is also not final since the error rates that Member States have reported may still be reassessed and increased due to ongoing or future Commission audit work. The EU auditors therefore conclude that the Commission likely underestimates the real level of error in Cohesion policy in its key accountability document: the annual management and performance report. With a view to improving the reporting of regularity information in Cohesion for the new programming period, the EU auditors make four recommendations.

### **Background information**

In EU Cohesion policy, the control and assurance framework is centred around two control cycles: a national cycle at Member State level and a subsequent cycle at European Commission level. This reflects the fact that the Commission and Member State authorities jointly manage the implementation of Cohesion policy and its funding, a concept known as shared management.

Special report 26/2021: "Regularity of spending in EU Cohesion policy: Commission discloses annually a minimum estimated level of error that is not final" is available on the ECA website ([eca.europa.eu](https://eca.europa.eu)).

A month ago, the ECA published a report on [performance-based financing in Cohesion policy](#).

The ECA presents its special reports to the European Parliament and the Council of the EU, as well as to other interested parties such as national parliaments, industry stakeholders and representatives of civil society. The vast majority of the recommendations made in the reports are put into practice.

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