



EUROPEAN COURT OF AUDITORS

SPEECH

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President of the European Court of Auditors**

**Presentation of the 2012 Annual Report to the Council of the European  
Union (Economic and Financial Affairs)**

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*Check against delivery. The spoken version shall take precedence.*

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President,

Ministers,

Commissioner Šemeta

It is a great honour for me to present the Court's annual report on the implementation of the 2012 EU budget to the Council of the European Union..

Europe's citizens have the right to know how their money is being spent and whether it is being used properly. They also have a right to know whether it is delivering value, particularly at a time when there is such pressure on public finances.

The Court's annual report helps to provide EU institutions and EU citizens with an overview of what is known about the state of EU financial management.

In the Court's view, the picture for 2012 is consistent with prior years. In short, the Court's annual report on 2012 says:

- We know what EU money is spent on - the EU accounts prepared by the Commission are reliable, as they have been since 2007.
- We also know that not all funds are used properly – the Court concludes that payments from the EU budget are materially affected by error.
- But not enough is known about the overall value the EU budget delivers to citizens. The management and reporting systems for the EU budget are not yet capable of providing sufficient, relevant and reliable information on the results obtained by EU spending.

As regards the **legality and regularity** of payments, the Court estimates that the most likely error rate for expensed payments underlying the EU accounts is 4.8 %.

The 2012 annual report includes considerable insight about the nature of these errors, where they occur, and why they persist. I would like to draw your attention to three key points in the report.

First, it is important to be clear what "errors" referred to by the Court represent. They are cases where EU funds were not used in accordance with the relevant legislation and hence the wishes of the Parliament and this Council, as legislator and budget authority. In other words, they are cases where EU funds should not have been paid out.

In fact, over two thirds of the estimated error rate pertains to the ineligibility of cost claims submitted for payment and to serious failures to respect procurement rules.

Second, I would like to underline that errors are not confined to any specific area of the budget. All policy groups covering operational expenditure are materially affected by error. Administrative expenditure is the only area where no material level of error was found.

The Court's overall estimate of the most likely error rate for all areas of operational expenditure showed increases compared to 2011, leading to an overall rise from 3.9% in 2011 to 4.8% in 2012.

Third, as in previous years, the Court's estimated rate of error is higher for those areas jointly managed by the Commission and Member States. The difference this year in our annual report is that improvements to the Court's methodology enable a fair comparison to be made between the different management arrangements.

The Court calculates that the estimated rate of error on shared management expenditure was 5.3% compared to 4.3% on all other forms of operational expenditure.

Nevertheless the most error prone areas are jointly managed. Rural development remains the most error-prone area of expenditure with an estimated error rate of 7.9%, followed by regional policy with an error rate of 6.8%.

But the Court's findings do not suggest that errors in areas under shared management are confined to specific Member States. In fact, the Court's assessments of supervisory and control systems it examined in 2012 and in prior years have showed there to be weaknesses at a wide range of national and regional authorities.

National and regional authorities responsible for managing EU funds could do more to prevent errors. The Court's transaction testing also shows that over half of the errors the Court found could have been corrected by those authorities before submitting claims for reimbursement to the Commission.

The Commission can and does take action to protect the EU budget by applying financial corrections. But the system for doing so is complex and the impact of financial corrections on Member States and beneficiaries depends on the applicable regulations.

For example, in agriculture most financial corrections do not lead Member States to recover payments from beneficiaries, while for cohesion most corrections are flat rate corrections which do not lead to detailed correction at project level.

President, ministers,

The main problem is that the current legal frameworks governing EU expenditure programmes do not do enough to encourage better spending. It will be a challenge to change that over the new financial framework period.

But there is an opportunity and a growing need to do so. With mounting pressure on public finances at EU and national level, the Court recommends a greater focus at EU and national level on the performance of EU spending programmes.

This means laying down clear objectives, relevant indicators, and expected results for all spending programmes at all the appropriate levels. As you can see in Chapter 10 of our report, the Court finds that this is not yet done consistently enough to provide a sufficient basis for managing and reporting on their performance.

If EU money is to be better spent in future, it will also be important to simplify management and control arrangements at national level and to ensure those arrangements function effectively right from the outset of the new programming period.

In short, the Union needs to create a culture of performance if the next generation of spending programmes are to deliver – and to be seen to deliver - added value to Europe and its citizens.

President, ministers,

EU institutions will need to work together to improve EU performance and accountability in the coming years.

The Court looks forward to playing its part alongside this Council, the parliament, and the Commission to achieve that goal for the benefit of EU citizens.

Thank you for your kind attention.