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

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Check against delivery.
The spoken version shall take precedence.

ECA Press

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President Schulz,

Honourable Members of the European Parliament,

Vice-President of the Commission Georgieva,

It is an honour to present the Court's annual report on the 2013 financial year to this plenary session of the European Parliament.

This is an important moment of change for Europe. A new European Commission is facing many important challenges.

One of those challenges is to improve the management of the EU budget. That challenge has three main elements: spending the money available, ensuring compliance with the EU's financial rules, and achieving valuable - and visible - results for citizens.

Honourable Members,

At the start of this new spending period, the Court's annual report says EU financial management is not yet good enough overall.

As regards **spending the EU budget**, over €148 billion worth of payments were made from the EU budget in 2013, which is almost 99% of the maximum available for the year.

The Court concludes that those transactions were properly accounted for in 2013, which means that we have now signed off a clean audit opinion on the reliability of EU accounts every year since 2007.

But let me add a few words of caution about **managing EU cash-flows**.

Despite the high level of payments, outstanding financial obligation rose by a further €9 billion to €322 billion by the end of 2013.

This is a sign of the growing pressure on EU cash-flows. In this context, it is important for the Commission to anticipate potential funding shortages for EU programmes by preparing appropriate cash-flow forecasts.

At the same time, the Court recommends that the Commission take care to ensure upfront investment from the EU budget reflects real cash-flow needs. For example, according to the latest Commission figures, less than half of the €14 billion paid in to **financial engineering instruments** since 2007 had actually reached final beneficiaries by the end of 2013.

Honourable members,

The EU budget gets spent but too many payments are still not in **compliance with the rules**.

The Court estimates that the overall error rate for payments is 4.7% in 2013, compared to 4.8% in 2012. This is significantly above the "materiality threshold" of 2%, as has been the case for all the years the Court has audited the EU accounts.

In 2013, all areas of expenditure were affected by a material level of error. The only exception was the €10.6 billion euro the EU spent on its own administration.

The Court estimates that the error rate is higher for the 80% of EU funds, where management responsibility is shared between the Commission and Member States, at 5.2% compared to 3.7% in other areas, which are mostly managed directly by the Commission.

The Court found that corrective actions by the Commission and national authorities help to keep the overall error rate down, but significantly more could be done under the current arrangements to prevent errors in the first place.

For example, the Court's error rate in rural development could, in principle, have been reduced from 6.7% to 2.0%, if national authorities had used all the information they had at their disposal before submitting claims to the Commission for reimbursement.

The main sources of error that national authorities should watch out are ineligible claims, serious breaches of public procurement rules, and incorrect declarations of agricultural areas.

In the Court's view, the Commission and Member States authorities should concentrate first on preventing and then on detecting and correcting the errors that arise for these reasons, not least because such errors also put at risk the efficiency and effectiveness of EU spending.

Honourable members,

During the 2007-2013 programming period, the managers of EU funds focused primarily on spending the money available, secondly on complying with the rules, and only then – and to a comparatively limited extent – did they focus on **achieving results**.

This reflects a fundamental feature of EU budgetary management arrangements. Officials at Member State and EU level are under considerable pressure to spend, because otherwise they may lose the funding, but they lack equivalent incentives to achieve results with the money.

This needs to change. Our annual report provides many examples, drawn from among the 19 special reports the Court adopted in 2013, to show how better focus on results could enhance performance.

In this context, the Court welcomes Commission initiatives to move from a culture of spending towards a culture of performance.

In the Court's view, that culture of performance will require:

- First, a genuine commitment, at EU and national level, to getting the best results possible with limited EU funds.

- Second, suitable targets for the results to be achieved as well as reliable information on progress towards achieving them; and

- Third – and most important - the right incentives to reward good performance and to sanction poor performance.

If the new budget arrangements for 2014 to 2020 are to succeed in putting more focus on results, then these elements must be in place and operating effectively.

At the same time, the overall results achieved need to be more visible. In this regard, the Court recommends that the Commission improve the coverage given in its annual evaluation report to the European added value of the EU budget and to progress made towards meeting the Europe 2020 strategy goals.

President, honourable members,

Improving EU financial management is not about choosing between spending the money, complying with the rules, and getting results. It is about managing to do all three at once. And that task would be easier if the EU budget were more manageable, with clearer objectives and simpler arrangements for spending the money. These are key lessons of the 2007 to 2013 budgetary period.

As I hope the Court's 2013 annual report shows, our institution is fully committed to assisting this Parliament, the other EU institutions, and the Member States to make best use of EU funds to achieve the kind of results that EU citizens rightly expect to see.

Thank you for your kind attention.