



Luxembourg, 13 October 2022

## 2021 annual report

### The 10 most frequently asked questions

#### 1. What is the role of the European Court of Auditors with regard to the EU's accounts?

Every year, we **check the EU's consolidated accounts and provide an opinion** on three matters: whether the accounts are reliable, and whether EU revenue was received and payments were made in accordance with the rules. These checks form the basis for our **statement of assurance**, which we are required to provide to the European Parliament and the Council under Article 287 of the Treaty on the Functioning of the European Union (TFEU).

In 2021, EU budget spending amounted to **€181.5 billion**, representing 1.3 % of the combined gross national income of the EU Member States. Taking into account spending from funds earmarked for the Recovery and Resilience Facility (€46.5 billion), payments from the EU in 2021 totalled €228.0 billion.

#### 2. How is spending from the EU's pandemic recovery package reflected in the annual report?

NextGenerationEU (NGEU) is a financial package including several programmes to support the EU Member States in their economic recovery following the COVID-19 pandemic. Some of these programmes are funded under the 2021-2027 multiannual financial framework (MFF) headings and follow the delivery model and rules for the MFF. Conversely, the Recovery and Resilience Facility (RRF), which accounts for about 90 % of NGEU funding is delivered in a way that is fundamentally different to that of EU budget spending under the MFF. 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. For the first time, we have therefore provided a **separate opinion on the RRF expenditure** as well as dedicating a chapter to it in the annual report.

#### 3. What did the European Court of Auditors conclude in 2021?

We have signed off the 2021 accounts as **reliable** (given a 'clean' opinion), as we have for every financial year since 2007. We concluded that the 2021 accounts presented fairly, in all material respects, the financial position of the EU, its results for the year, its cash flow and the changes in its net assets.

We found that revenue was free from material error. For expenditure, we provide two separate opinions: one on the EU budget, and another on the RRF.

The estimated level of error in EU budget spending was 3.0 %. This represents an increase compared to 2019 and 2020, when it was 2.7 %. As in the two previous years, we concluded that error was pervasive, and therefore gave an **adverse opinion**.

For the first time, we issued a separate opinion for expenditure under the RRF. Our opinion covers the single payment made to a Member State in 2021 (Spain). While we found that one milestone had not been fully met, we consider that the related impact was not material, and therefore issued a **clean opinion**.

#### 4. What does our estimated level of error mean?

The figure of 3.0 % represents our estimate of the **amount of money that should not have been paid out** from the EU budget because, in our view, it was not spent in accordance with EU rules or specific national rules in the Member States.

Typical errors include payments to ineligible beneficiaries or projects, or for purchases of services, goods or investments without having correctly applied the rules on public procurement.

#### 5. Does that mean that 3.0 % of EU money was wasted?

**No.** It would be inaccurate to say this, because there is a significant difference between 'error' and 'waste'. In our testing of EU budget spending, we check whether EU money has been spent in accordance with the rules, whether the costs charged have been calculated properly, and whether eligibility conditions have been met. If one or more of these requirements have not been satisfied, we call it an 'error'. This is what the figure of 3.0 % means.

While these errors involve payments for projects or beneficiaries that did not meet the eligibility conditions, they may still provide the intended benefits. In this situation, the payments were in part or not at all legal and regular, but **cannot be considered wasteful**. For example, we audited an emergency assistance project in Ireland. While we found errors in relation to the procurement procedure, which made the expenditure ineligible for EU funding, it allowed accommodation (including meals) to be provided for asylum seekers.

Obviously, it is also possible for expenditure to be legal and regular but wasteful nevertheless. One example on which we reported in the past was port infrastructure that had been built without adequate regard to projected levels of freight.

#### 6. Do the errors found constitute fraud?

**In the vast majority of cases, we have no such indication.** Fraud is a deliberate act of deception to gain an advantage. Although it can be difficult to identify fraud through standard audit procedures, our testing does reveal a number of cases of suspected fraud each year.

In 2021, we reported 15 instances of suspected fraud among the 743 transactions that we audited. We reported these cases to OLAF, the European Union's Anti-Fraud Office, which investigates and follows up as necessary in cooperation with Member State authorities. One of these cases was reported in parallel to the European Public Prosecutor's Office (EPPO), along with an additional case that had been identified in 2021.

#### 7. What does 'pervasive error' and 'high-risk' expenditure mean?

Nearly two thirds of EU budget expenditure in 2021 was deemed to be high-risk. While we estimate the level of error for total expenditure to be 3.0 %, it increases to 4.7 % when examining high-risk expenditure in isolation. Due to the substantial weight of this expenditure type under total spending (63.2 %), we consider error to be pervasive, i.e. present in the entire audited population or in a **significant part** of it.

High-risk expenditure mainly refers to the **reimbursement by the EU** of eligible costs for eligible activities (according to complex rules). For example, reimbursements are made for 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'). This year, the proportion of this type of expenditure increased to 63.2 % (compared to 59.0 % in 2020).

Lower-risk expenditure concerns **entitlement-based payments**, which are made to beneficiaries that meet certain (less complex) conditions. For example, such payments 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').

#### 8. What is a 'clean/qualified/adverse' opinion?

A **'clean'** opinion means that the figures in the accounts present a true and fair view, and follow the rules of financial reporting and financial management. The underlying transactions are legal and regular in all material respects.

A **'qualified'** opinion means that the auditors are unable to give a clean opinion, but the problems identified are not pervasive.

An **'adverse'** opinion indicates widespread problems.

#### 9. What is a 'material' level of error?

In audit terminology, this means **the level above which errors are regarded as having a significant effect**. A material level of error is one that is likely to influence decision-making by the intended users of an audit report. Both we and the European Commission use a **2 % threshold** to determine materiality.

#### 10. Why does the Annual Report point to risks related to the COVID-19 relief package?

The COVID-19 pandemic will continue to have a very substantial impact on the EU's finances: for the 2021-2027 financial period, the combined funding allocation from the NextGenerationEU (NGEU) instrument and the multiannual financial framework (MFF) will be €1 824 billion, **almost twice the amount of spending** in the previous MFF period.

At the same time, Member States' absorption of the European Structural and Investment Funds (ESIF) has continued to be slower than planned. However, the absorption of 2014-2020 ESIF funding increased in 2021. By the end of 2021, only 67 % of the agreed EU funding for the 2014-2020 period had been paid out.

**Outstanding commitments** reached a record amount of €341.6 billion: €251.7 billion related to the EU budget (down from the historic high of 303.2 billion at the end of 2020) and €89.9 billion in new outstanding commitments related to NGEU.

The EU budget's total exposure to **contingent liabilities increased** from €131.9 billion in 2020 to €277.9 billion in 2021. This was mainly due to €91.0 billion that was issued in bonds to finance the NGEU package in 2021, and an increase of €50.2 billion in financial assistance provided to Member States in order to protect jobs and employees affected by the pandemic.

The ECA's 2021 annual report is available in 24 EU languages at [eca.europa.eu](https://eca.europa.eu).