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## Speech

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

**Presentation of the Annual Reports 2013**

**The Committee on Budgetary Control of the European Parliament**

**Brussels, 5 November 2014**

Check against delivery.  
The spoken version shall take precedence.

## ECA Press

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Madam Chair,

Honourable Members,

It is an honour to present the Court's annual report on the 2013 financial year to the Budgetary Control Committee of the European Parliament.

The Court is conscious that it is publishing its report at an important moment of change for Europe. We have new members in the European Parliament, including in this committee, as well as new faces at the top of the European Commission.

As regards EU financial management, new spending programmes and financial rules have been fixed for the 2014 to 2020 period which must now be properly implemented and applied. And even if the worst of the financial and economic crisis may be behind us, the need to make best use of limited financial resources remains.

The Court is preparing a landscape review of the main EU financial management risks based on its experience of auditing over many years.

And, in this year's Annual Report on the EU budget, we also draw a number of lessons from financial management in 2013 that will be useful for addressing the challenges to be faced over the 2014 to 2020 period.

Honourable Members,

At the start of this new spending period, our report says EU financial management was not yet good enough overall. The EU spends its budget but there is still significant room for further improving how those funds are spent.

EU financial managers are not only asked to use all the available resources, they are also required to ensure spending complies with EU rules and that it achieves valuable results for citizens.

They should also be able to give account for doing all three: spending the money, following the rules and getting the results expected.

It is undoubtedly a difficult balancing act. This year our annual report warns of the risks of not paying sufficient attention to all three aspects at the same time.

So how well did EU financial managers, at EU and other levels, perform in 2013? And what lessons should be learned?

As regards **spending EU financial resources**, as we note in our report, payments from the EU budget in 2013 reached almost 99% of the maximum available for the year.

In total, the EU spent over €148 billion. That is more than 18 out of the 28 governments of the Member States spend each year. And it represents around €290 for every EU citizen.

Spending the 2013 EU budget involved making payments to millions of individuals and organisations, including farmers, small businesses and public bodies, across Europe and around the world.

In our report on 2013, we conclude that these transactions were properly recorded and accounted for in line with international standards for accrual based accounting. As, indeed, has been the case since the start of the programming period in 2007.

In other words, we have signed off a clean audit opinion on the reliability of 2013 EU accounts prepared by the Commission.

But let me add a few words of caution on two issues related **to managing EU cash-flows** in the coming years.

First, despite the high level of payments, the accounts show that outstanding financial commitments and other liabilities continued to grow in 2013. At the year end, they stood at € 322 billion and the figure is likely to rise as the 2014 budget provides for more commitments to be made than payments.

These “overhanging” financial obligations are a matter of particular concern because, for the first time, payment ceilings are set to remain broadly stable in real terms for a number of years.

In this context, it is important to anticipate potential funding shortages for EU programmes. That is why the Court has again recommended, among other things, that the Commission should prepare a long range cash-flow forecast.

Second, a significant amount of EU money has already been placed **in financial engineering instruments** and the Commission plans to make even greater use of them in future.

The EU funds placed in these instruments are subsequently used to provide support for investments in projects by way of loans, guarantees, or equity.

However, according to the latest Commission figures, only 37 % of the €8.4 billion that had been paid in to financial engineering instruments from 2007 to the end of 2012 had actually been paid out to final beneficiaries.

Furthermore, these instruments are complex and difficult to account for correctly, which also makes public scrutiny more challenging.

Therefore, the Court recommends that the Commission take care to ensure that contributions from the EU budget to such instruments reflect real cash-flow needs and are properly accounted for.

Honourable members,

The EU budget gets spent. But once again it is clear from our audit just how much of that spending is not in **compliance with the rules**.

As is required by the Treaty, we carry out our annual audit to provide a statement of assurance on the reliability of the EU accounts that also covers the regularity of the transactions underlying those accounts,.

As in all previous years of the programming period, the Court concludes that, taken as a whole:

- Revenue in 2013 is regular.
- Financial commitments made in 2013 are also regular.
- But payments are materially affected by error.

We arrived at these conclusions mainly by testing representative samples of transactions for revenue and expenditure.

This approach enables us to provide reliable estimates of the error rates for payments as a whole, and for the different spending areas in the budget.

In 2013, we estimate that the overall error rate for payments is 4.7% compared to 4.8% in 2012. As you know, the estimated error rate has been above what we call the “materiality threshold” of 2% for all the years that we have been auditing the EU accounts.

In 2013, almost 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.

Our results also show that errors occur not only in all areas of operational expenditure, but also in all places where EU funds are spent.

That said the estimated error rate is higher in those areas where responsibility for managing EU funds is shared between the Commission and Member States.

For 2013, the estimated error rate for the 80% of EU funds under shared management is 5.2%. In the other areas, which are mostly managed directly by the Commission, the figure is 3.7%.

As in 2012, the two most error prone policy areas are regional policy and rural development.

In addition, our audit results demonstrate that applying internal control procedures can make a significant difference.

As we note in our report, the Commission and national authorities did take various corrective actions in relation to errors they had identified in the transactions the Court audited. Without those actions the Court's overall estimated error rate would have been significantly higher, 6.3 % rather than 4.7%.

But internal controls could be more effective. As in previous years, national authorities had sufficient information available to have corrected many of the errors the Court found even before claiming reimbursement from the Commission. For example, in rural development, we estimate that this could, in principle, have reduced the Court's error rate from 6.7% to 2.0%.

In the Court's view, all Member States should take action to reduce the number of errors in EU spending in their countries as well as to improve the quality of the information they provide on the operation of their control systems.

Although it is not for the Court, as the independent auditor, to compensate for deficiencies in management reporting about the regularity of spending, it is our duty to say whether the figures available at EU level present a fair picture of the underlying reality.

As we state in our report, the Court's own results indicate that the Commission may be underestimating the true amounts at risk.

If the Commission and Member States are to reduce error rates significantly, they will need to generate better information about errors in spending and the corrective action they take.

But most importantly, they need to address the source of the problem. Our report provides insight about the sort of errors national authorities should watch out for. We give many typical examples in the report, such as:

- a company claiming funds as an SME, when it was in fact owned by a large company;
- the managers of an airport project making an addition to an existing public contract without giving other firms a chance to bid; and
- a farmer claiming subsidy for grassland that was in fact partly covered by bushes and trees.

These examples illustrate the main sources of error, namely:

- claims for ineligible costs, projects, activities or beneficiaries;
- serious breaches of public procurement rules; and
- incorrect declarations of agricultural areas.

Financial managers at EU and national level should concentrate first on preventing and then on detecting and correcting the errors that arise for these reasons. And they should keep in mind the important role that fulfilling eligibility conditions and following procurement rules play in ensuring EU funds are used efficiently and effectively to achieve policy objectives.

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** and impact.

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 lack equivalent incentives to achieve results with the money.

Consequently, management systems at EU and national level have been set up mainly to use the available financial resources and to ensure compliance with the rules for receiving the funding, rather than to get results.

This needs to change if performance is to improve significantly. Chapter 10 of 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 foster a culture of performance.

That culture needs to be based on a genuine commitment, at EU and national level, to getting the best results possible with limited EU financial resources.

It is also essential that the right incentives are in place to encourage performance.

In our report, we acknowledge the role that the **performance reserve** may play in this respect. But we warn that if it is to provide an effective financial incentive to Member States, then suitable targets for results need to be agreed up front and reliable information has to be available on progress towards achieving them.

We also emphasise that better information on results achieved is a pre-requisite for ensuring more effective accountability for performance at EU level.

In recent years, there have been significant developments in the framework for reporting performance at EU level, notably the introduction of the annual evaluation report produced by the Commission.

However, in the Court's view, the framework needs to be further improved. In particular, because it is too fragmented and does not sufficiently cover important elements, such as EU added value and progress towards the Europe 2020 strategy goals.

Therefore, we make three specific recommendations to the Commission:

- First, propose a more coherent performance reporting framework next time the financial regulation is reviewed;
- Second, summarise progress towards the Europe 2020 targets in the annual evaluation report; and
- Third, further develop the arrangements within the Commission for taking responsibility for the contribution EU spending makes to policy achievements.

Madam chair, honourable members,

The management of the EU budget could – and should – be better.

As I said at the beginning, it is not a matter of choosing between spending the money, complying with the rules, and getting results. It is about managing to do all three at once.

It is also about making the EU budget more manageable, with clearer objectives and simpler arrangements for spending the money. These are key lessons of the 2007 to 2013 budgetary period that you will also find in our overview on agriculture and cohesion spending, which we have issued today.

As I hope I have shown in presenting our 2013 annual report, the Court is fully committed to using its audit work to assist the EU institutions, including this Parliament, and Member States to make best use of EU funds to achieve the results that EU citizens rightly expect to see.

Thank you for your kind attention.