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2015 Annual Report – Frequently Asked Questions

1. Has the ECA signed off the 2015 accounts?

Yes. We have signed off the 2015 accounts as reliable (given a ‘clean opinion’), as we have for every financial year since 2007. We conclude that the 2015 accounts present fairly, in all material respects, the financial position of the EU and its results for the year.

As well as our opinion on the accounts, we are also required to give an opinion – based on our audit testing – on whether the underlying payments were made in accordance with EU rules. For 2015, the estimated level of error in these transactions was again too high (at 3.8%) for us to give a clean opinion on the regularity of expenditure.

2. Is EU financial management getting better?

The results of our audit testing show that EU financial management is largely unchanged in recent years: the estimated level of error has not increased or decreased greatly. However, it has been consistently above the so-called “materiality threshold” (the level below which errors do not have a significant effect) of 2%. The situation varies from one area of spending to another, although it is only below “materiality” in EU administrative spending. We have repeatedly recommended improvements in control systems at Member State and EU levels and further simplification of the rules to improve the quality of spending and reduce the level of error.

3. So what does the 3.8% estimated level of error mean?

3.8% is an estimate of the amount of money that should not have been paid out from the EU budget, because it was not used in accordance with EU rules and thus does not comply with what the Council and Parliament intended with the EU legislation concerned.

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Typical errors include payments for ineligible beneficiaries or projects, or for purchases of services, goods or investments without proper application of public purchasing rules.

4. The total EU budget in 2015 was €145.9 billion and the level of error was 3.8%. Does that mean that €5.5bn of EU money was wasted?

No. **This approach can be misleading.** In its testing, the ECA checks whether EU money has been spent on the purpose for which it was intended, whether the costs charged are calculated properly, and whether eligibility conditions have been met. That is what the figure of 3.8% refers to.

Some of the errors involve payments which did not meet eligibility conditions: for example, support given for research by a company classified as 'small or medium', even though it was wholly owned by a large company, or incorrect area declarations by farmers.

In these cases, EU funds may still have had some positive impact and provided some benefit even though they did not fully respect the conditions related to their use. On the other hand, some legal and regular expenditure may still be wasteful, such as a port built without adequate regard to future freight levels, as highlighted in one of our recent special reports.

5. How do errors occur?

Errors occur when beneficiaries do not comply with the rules when claiming EU funding. To be eligible for EU funding, beneficiaries are required to comply with specific EU rules and, in some cases, national rules. These rules exist to ensure that spending takes place for the purposes intended by the Council and Parliament.

Errors occur when these rules are breached. For example, farmers not honouring their environmental commitments, project promoters not adhering to public procurement rules or research centres claiming for reimbursement of costs not linked to EU-funded projects. The 2015 Annual Report provides examples of errors found during audit testing.

6. If the estimated level of error for payments is 3.8% for 2015, does this mean that 96.2% of the EU budget was spent in accordance with the rules?

No. The ECA's opinion on EU spending is based on an extensive sample covering all spending areas. The sampled transactions are audited in detail and the errors found are quantified, where possible, and used to calculate an estimated level of error.

However, there are many errors that the ECA cannot quantify, such as less serious breaches of procurement rules, failures to comply with rules on publicity, or incorrect incorporation of EU directives into national law. These errors are not included in the ECA's estimated level of error.

7. Do the errors found constitute cases of fraud?

In the vast majority of cases, no. Fraud is a deliberate act of deception to gain a benefit. Although cases of fraud can be difficult to identify during standard audit procedures, the ECA finds a number of suspected fraud cases each year in its audit testing. All these cases are reported to OLAF, the European Union's Anti-Fraud Office, which investigates and follows up as necessary in cooperation with Member State authorities.

8. Who is to blame here - the Member States or the European Commission?

The actual management mode has only a limited impact on the level of error. We continue to find nearly the same estimated level of error under shared management with the Member States (4.0%) and for expenditure managed directly by the Commission (3.9%). We again found the highest

estimated levels of error in spending under 'economic, social and territorial cohesion' (5.2%) and for 'competitiveness for growth and jobs' (4.4%). Administrative expenditure had the lowest estimated level of error (0.6%).

A major influence on the level of errors in the different spending areas continues to be the different risk patterns of reimbursement and entitlement schemes. Under reimbursement, the EU reimburses eligible costs for eligible activities on the basis of cost declarations made by beneficiaries. Under entitlement schemes, payments are made on meeting conditions rather than reimbursing costs. Reimbursement of costs is linked to a much higher level of error (5.2%) than spending on an entitlement basis (1.9%).

Ultimately, the blame lies with those who make incorrect claims for funding. However, control systems at both Member State and EU level should prevent such claims being processed in the first place, or should detect and correct them after the event.

9. The Commission can claim money back from Member States if it has been wrongly spent. How much impact does this have on the level of error?

In 2015, if such corrective measures had not been applied to the payments we audited, our overall estimated level of error would have been 4.3% rather than 3.8%. Although the Commission has taken steps to improve its assessment of risk and the impact of corrective action, there is still scope for improvement.

If the Commission, Member State authorities or independent auditors had made use of all the information available to them, they could have prevented - or detected and corrected - a significant proportion of the errors before the related payments were made.

For example, using all the information available might have reduced the level of error by a total of 3.2 percentage points for spending under rural development, environment, climate action and fisheries (5.3%); by 3.0 percentage points for expenditure under economic, social and territorial cohesion (5.2%); and by 0.9 percentage points for spending under agriculture - EAGF (2.2%).

All information about the 2015 Annual Report is available in 23 EU languages on www.eca.europa.eu