EUROPEAN
COURT
OF AUDITORS

EN

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2020 annual report

The 10 most frequently asked questions

(1) What role does the European Court of Auditors play in connection with the EU budget?

Every year, we **check the consolidated EU accounts and provide an opinion** on three matters: 1) whether the accounts are reliable, 2) whether the EU's income was received according to the rules, and 3) whether its budget was spent according to 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 2020, EU spending amounted to **€173.3 billion**, representing 1.1 % of the combined gross national income of the EU Member States and the UK.

(2) Has the European Court of Auditors signed off the 2020 accounts?

Yes. We have signed off the 2020 accounts as **reliable** (given a 'clean' opinion), as we have for every financial year since 2007. We conclude that the 2020 accounts present 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.

As well as our opinion on the accounts, we are required to give an opinion – based on our audit work – on whether the underlying transactions were made in accordance with the EU rules. We found that revenue was free from material error. The estimated level of error in payments has remained relatively stable in recent years. It decreased from 3.8 % in 2015 to 3.1 % in 2016 and 2.4 % in 2017. It has remained stable since 2018, when it was 2.6 %. In 2020 the estimated error level in payments was 2.7 %, the same as in 2019. As in 2019, we have concluded that error is pervasive, and we have therefore given an adverse opinion (this is explained in more detail below).

(3) What does our estimated level of error mean?

The figure of 2.7 % is 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 the EU rules or with specific national rules in the Member States.

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

(4) Does that mean that 2.7 % of EU money was wasted?

No. That is not accurate, because there is a significant difference between 'error' and 'waste'. In our testing, we check whether EU money has been spent in accordance with the rules, whether the costs charged are calculated properly, and whether eligibility conditions have been complied with. If one of these requirements has not been met, we call it an 'error'. That is what the figure of 2.7 % refers to.

Some errors involve payments which did not meet eligibility conditions, but which were not wasteful. For example, we found that a rural development project in Croatia that supported blueberry cultivation including the installation of an irrigation system had been funded. Such investments are only eligible for EU financing if they fulfil the requirements laid down in EU legislation promoting the sustainable use of water. The beneficiary had submitted documents indicating that a water meter was part of the project and the paying agency accepted expenditure related to the irrigation system. However, we found that no meter had been installed, making the irrigation component ineligible for EU financing.

However, it is also quite possible for expenditure that is perfectly legal and regular to be nonetheless wasteful. One example which we reported on in the past was port infrastructure built without adequate regard to projected freight levels.

(5) Do the errors found constitute fraud?

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

In 2020, we reported six instances of suspected fraud among the 838 transactions 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.

(6) Is the EU's financial management getting worse?

There has been an **overall improvement** in the estimated level of error in expenditure over the last multiannual financial framework, from 4.4 % in 2014 to a stable level of close to 2.7 % in the last three years.

However, material error continues to be a feature of high-risk expenditure (mainly reimbursement-based expenditure). The proportion of this type of expenditure increased to 59 % in the 2020 budget. We estimate the level of error in high-risk spending to be 4.0 %. As in the previous year, we conclude that **error is pervasive**, and we have therefore given an **adverse opinion on expenditure**.

(7) What do 'pervasive error' and 'high-risk' expenditure mean?

Over half of EU expenditure in 2020 was deemed to be high-risk. While we estimate the level of error in total expenditure to be 2.7 %, the figure goes up to 4.0 % if we examine high-risk expenditure in isolation. Due to the substantial weight of this expenditure type as a proportion of total spending (59 %), we consider that error is pervasive – in other words, that it is present in the entire audited population or **a significant part** of it.

High-risk expenditure mainly refers to the **reimbursement by the EU** of eligible costs for eligible activities (under complex rules). Reimbursements are made, for example, for research projects (under 'Competitiveness' spending), investments in regional and rural development (under 'Cohesion' and 'Natural resources') and development aid projects (under 'Global Europe'). This year, the proportion of this expenditure type increased to 59 %, largely due to a further rise in 'Cohesion' spending (€20 billion).

Lower-risk expenditure concerns **entitlement-based payments**, which are made to beneficiaries meeting certain (less complex) conditions. Such payments include, for example, direct aid for farmers (under 'Natural resources'), student and research fellowships (under 'Competitiveness'), and the salaries and pensions of EU staff (under 'Administration').

(8) What is a 'clean/qualified/adverse' opinion?

A **'clean'** opinion means the figures present a true and fair view and follow the rules of financial reporting and management.

A **'qualified'** opinion means that the auditors cannot 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 have a very substantial impact on the EU's finances: for the 2021-2027 financial period, the combined funding allocation from the Next Generation EU (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 (ESI) Funds has continued to be slower than planned. By the end of 2020, the final year of the current seven-year budget, only 55 % of the agreed EU funding for the 2014-2020 period had been paid out. This has had the effect of **inflating outstanding commitments**, which reached €303.2 billion (of which €209 billion came from the ESI Funds) by the end of 2020, the equivalent of nearly two annual budgets.

In view of this, the auditors point out the risk of a delayed start to the implementation of shared management funds in the 2021-2027 financial period. In this context, and based on the evidence of previous periods, they also warn of challenges related both to legality issues and to the sound financial management of funds.

The ECA's 2020 annual report is available in 23 EU languages at eca.europa.eu.