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EUROPEAN
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2017

EU audit in brief

Introducing the 2017 annual reports of the European Court of Auditors

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President's foreword

This year, we publish our annual report in the midst of the debate about the European Union's next multiannual financial framework (MFF), which will cover the years 2021 to 2027. It is not for the European Court of Auditors to give our views on the size or allocation of EU expenditure. It is, however, our role to warn of risks and to provide advice on improving the financial management, transparency and accountability of the EU budget.

The findings of this year's annual report relate mainly to EU spending under the current MFF (2014-2020), but also in some areas to the previous period (2007-2013). This underscores the fact that, for much of the EU budget, several years are needed from the taking of a political decision to the actual allocation of funds to policies, programmes and projects on the ground. It also illustrates how important it is to avoid problems at the outset, when taking decisions on how the EU is to spend its money, because those decisions will have implications for many years to come. We intend to play our role in this process to the full, and we are therefore issuing a number of briefing papers and opinions setting out our views for further improving the Commission's proposals. This with a view to meeting our main objective of an EU budget where spending not only complies with the rules, but also delivers results.

In 2017, as in previous years, we conclude that the EU accounts present a true and fair view of the EU's financial position. Moreover, like last year, we issue a qualified (rather than an adverse) opinion on the regularity of the transactions underlying the 2017 accounts. In other words, a significant part of the 2017 expenditure which we audited was not materially affected by error. Our testing also shows that the level of irregularities in EU spending has continued to decrease.

In view of this sustained improvement in the management of the EU's finances, and as set out in our strategy for 2018-2020, we have taken the first steps towards modifying our approach for the statement of assurance on the reliability of the EU accounts and the regularity of the underlying transactions. Our main concern in this regard is to take greater account of the different layers of internal controls at the European Commission and in Member State administrations where EU funds are managed. Wherever the necessary conditions are met, we aim to depart from our previous practice of direct testing (based on evidence that we gather ourselves) and instead use an attestation approach (in which we reassess the evidence already examined by the Member State authorities and the Commission). For 2017, we piloted a modified approach in the area of 'Economic, social and territorial cohesion'. The essential change was that we reviewed and re-performed the checks and controls previously carried out by those responsible for spending. The new approach makes it clearer where shortcomings persist, both at the European Commission and in the Member States, and so helps us to promote accountability and further improve the management of the EU's finances. We will expand the project next year to other spending areas.

Let me add a final remark. Arguably, the EU achieves most of its impact through regulatory actions and, for example in the area of trade, international agreements. Its budgetary significance is much smaller. Although the total EU budget of some €140 billion annually is very large, it is no more than about 1 % of the gross national income of the entire EU. Total government spending by the EU countries themselves is 50 times greater. All the more important, therefore, that the EU budget should be spent effectively.

Yet at the same time we have to be realistic about what can be achieved with the money entrusted to the EU, all the more so as we approach the next MFF. If we generate expectations which cannot be achieved, we lose credibility in the eyes of our citizens; more importantly, we lose their trust. The conclusion is straightforward: the EU should not make promises if it cannot deliver.

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Klaus-Heiner LEHNE
President of the European Court of Auditors

Overall results

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Key findings

Summary of the 2017 statement of assurance

The European Court of Auditors gives a clean opinion on the reliability of the 2017 accounts of the European Union.

Revenue for 2017, taken as a whole, was legal and regular, as in previous years.

Payments for 2017 were legal and regular, except for cost reimbursements.

For the full text of our statement of assurance, please refer to Chapter 1 of the 2017 annual report.

- The **2017 accounts** were prepared in accordance with international standards and present, in all material aspects, a true and fair view. Therefore, as has been the case every year since 2007, we give a clean opinion on their reliability.
- The **estimated level of error in payments** from the EU budget continues to improve. In 2017 it was 2.4 %, down from 3.1 % in 2016 and 3.8 % in 2015. Moreover, in 2017, a significant part of the audited expenditure — mainly *entitlement payments* — was not affected by a material level of error. Therefore, this year — for the second year in a row — we issue a **qualified opinion on payments**.
  - *Entitlement payments* are made to beneficiaries for meeting certain conditions, rather than to reimburse costs. They represent 53 % of the expenditure audited for 2017 and include direct aid to farmers, the largest share of spending under 'Natural Resources: Direct support' and 'Administration'. Both these areas had an estimated level of error below the 2 % materiality threshold. Other activities funded through entitlement payments are student and research fellowships and agri-environment measures.
  - *Cost reimbursements* are made to beneficiaries who have incurred costs that can be reimbursed from the EU budget. They include spending in the areas with the highest error rates: 'Natural Resources: Rural development, market measures, the environment, climate action and fisheries' and 'Economic, social and territorial cohesion (Cohesion)'. Other activities funded by reimbursing costs are research projects, training schemes and development aid projects.
- The individual components of the **Commission's information on regularity** are not always in line with our findings. The Commission's estimate of the level of error broadly concurs with ours for 'Natural resources' and 'Administration', but it is lower for 'Competitiveness for growth and jobs' and 'Cohesion'.

- Sufficient **information was available to prevent, or to detect and correct, a significant proportion of errors**. Had this information been used by national authorities to correct errors, the estimated level of error for overall spending on, for example, 'Natural resources' would have been below the 2 % materiality threshold in 2017.

- **Using available resources from European Structural and Investment (ESI) funds** is still proving challenging for Member States, and the EU budget continues to face significant pressure owing to the value of payments to which the EU has committed in future years. Measures to increase the flexibility of the budget in 2017 were helpful, but may not be sufficient to help the EU address possible future challenges. A combination of high commitments and low payments **increased outstanding budgetary commitments** to a new high of €267.3 billion. Better managing the risk of a payment backlog should be a priority when planning the multiannual financial framework (MFF) for the period starting in 2021.

- We looked at the **Commission's use of performance information** in decision-making. We conclude that the Commission should make better use of its own performance information and develop an internal culture more focused on performance.

- We found 13 instances of **suspected fraud** in the 703 transactions we audited for our statement of assurance and for other performance and/or compliance audits. We reported these to the European Union's anti-fraud office.

The full text of our 2017 annual reports on the EU budget and on the activities funded by the 8th, 9th, 10th and 11th European Development Funds can be found on our website (http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=46515).

Overall results

Who we are

As the EU's external auditor, our mission is to contribute to improving EU financial management, promote accountability and transparency and act as the independent guardian of the financial interests of EU citizens.

We warn of risks, provide assurance, indicate shortcomings and successes and offer guidance to EU policymakers and legislators on how to improve the management of EU policies and programmes. Through our work, we ensure that Europe's citizens know how their money is being spent.

What we audited

Our statement of assurance on the EU budget

The EU budget is agreed annually by the European Parliament and the Council in the context of multiannual financial frameworks (MFFs). Ensuring that the budget is properly spent is primarily the responsibility of the Commission.

Every year, we audit EU budget revenue and expenditure, examining whether the annual accounts are reliable and whether income and spending transactions comply with the applicable rules at EU and Member State level.

This work forms 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).

2017 EU budget in figures

Budgetary spending is a significant instrument for achieving the EU's policy objectives.

In 2017, spending totalled €137.4 billion, the equivalent of 2.0 % of the total general government spending of EU Member States and 0.9 % of EU gross national income.

Where does the money come from?

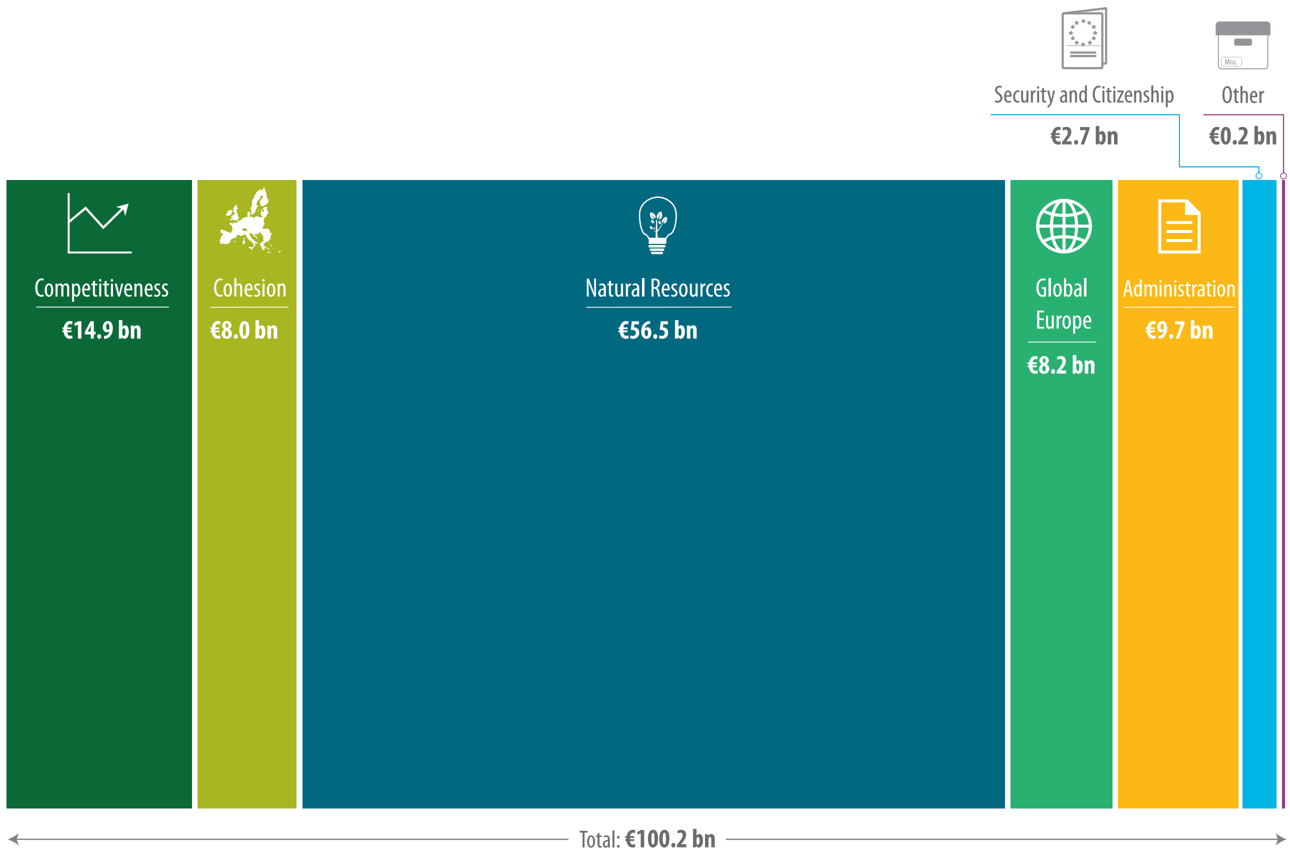
The EU budget is financed by various means. The largest share (€78.4 billion) is paid by Member States in proportion to their gross national income. Other sources include customs duties (€20.3 billion) and the contribution based on value added tax collected by Member States (€16.6 billion).

What is the money spent on?

The annual EU budget is spent on a wide range of areas (see ***Figure 1***).

Figure 1

2017 expenditure audited



Payments are made to support activities as varied as farming and the development of rural and urban areas, transport infrastructure projects, research, training for unemployed people, support for countries wishing to join the EU and aid to neighbouring and developing countries.

About two thirds of the budget is spent under what is known as 'shared management', with individual Member States distributing funds and managing expenditure in accordance with EU and national law (e.g. in the case of expenditure on ' Cohesion' and 'Natural resources').

This year, 'Natural resources' made up the largest share of our overall audit population (56 %), while, in contrast to previous years, the share of 'Cohesion' spending was relatively small (8 %) owing to the low level of accepted expenditure in 2017.

What we found

EU accounts present a true and fair view

The EU accounts for 2017 were prepared in accordance with international public sector accounting standards and present, in all material respects, a true and fair view of the EU's financial results for the year and its assets and liabilities at the end of the year.

We are therefore able to give a clean opinion on the reliability of (i.e. 'sign off') the accounts, as we have done every year since 2007.

EU expenditure is legal and regular, except for cost reimbursements

We test a sample of transactions from across the EU budget to provide estimates of the extent to which revenue and the different spending areas are affected by error. For more information on our audit approach and the estimated level of error, see pages 47-48.

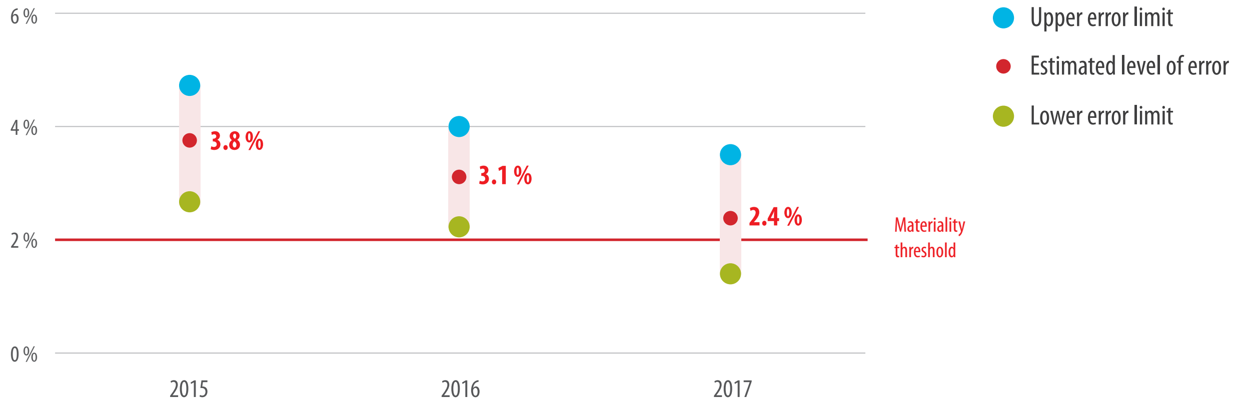
We conclude that **revenue was free from material error**.

For 2017, we issue a **qualified opinion** on payments from the EU budget.

For **expenditure**, we estimate the level of error in expenditure as a whole at 2.4 % (see ***Figure 2***). This compares to 3.1 % in 2016 and 3.8 % in 2015.

Figure 2

Estimated level of error for the EU budget as a whole (2015-2017)



Note:
We use standard statistical techniques to estimate the level of error. We are 95 % confident that the level of error for the population lies in the range between the lower and upper error limits (for more details, see Chapter 1, Annex 1.1 to the 2017 annual report).

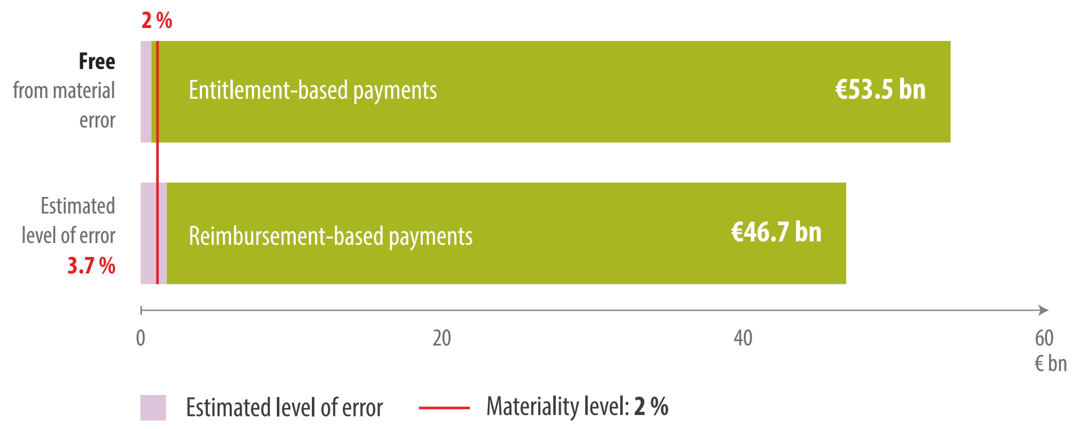
The way EU funds are disbursed has an impact on the risk of error

Our 2017 audit results confirm our findings for 2015 and 2016: namely, the manner in which expenditure is disbursed has an impact on the risk of error.

Errors were confined mainly to **cost reimbursements**, which this year accounted for 47 % of our audit population. For those parts of the EU budget where payments are made on the basis of cost reimbursements, we estimate the level of error at 3.7 % (4.8 % in 2016). The error rate for **entitlement payments** was below our materiality threshold of 2 % (see ***Figure 3***).

Figure 3

About half of the 2017 expenditure audited was free from material error



We therefore conclude that error is not pervasive and that, with the exception of cost reimbursements, **2017 payments** were legal and regular.

What are entitlement and cost reimbursement payments?

EU spending is characterised by two types of expenditure involving distinct patterns of risk.

- Entitlement payments, which are based on meeting certain conditions; such payments include student and research fellowships (under 'Competitiveness for growth and jobs'), direct aid for farmers ('Natural resources') and salaries and pensions for EU staff ('Administration').

- Cost reimbursements, where the EU reimburses eligible costs for eligible activities. This category covers, for example, research projects (under 'Competitiveness for growth and jobs'), investment in regional and rural development and training schemes ('Cohesion' and 'Natural resources') and development aid projects ('Global Europe').

'Natural resources' had the largest share of audited expenditure (56 %). 'Direct support', consisting mainly of direct aid payments to farmers, accounted for 74 % of this area and was free from material error. 'Rural development, market measures, the environment, climate action and fisheries' is the other component of 'Natural resources'.

'Competitiveness for growth and jobs' made up the second largest share of audited expenditure (15 %) and was affected by material error. Most errors in this area were due to the reimbursement of ineligible personnel costs, other ineligible direct costs or ineligible indirect costs.

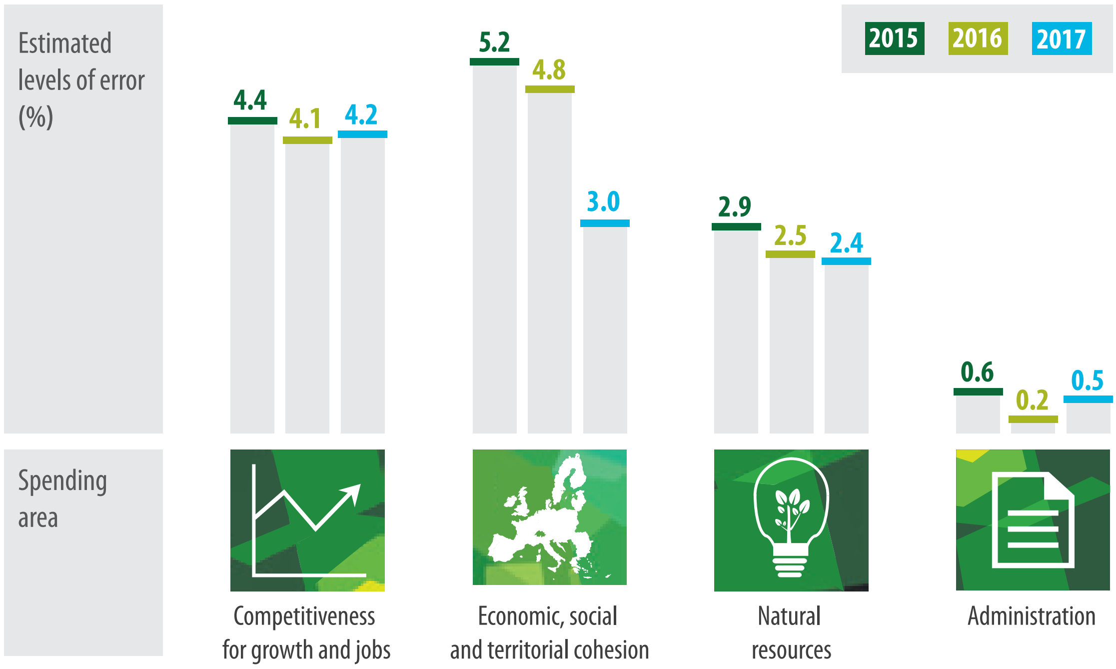
The error rate estimate for 'Cohesion' takes account of all errors which either Member State audit authorities or we ourselves have quantified, and adjustments are made for all relevant financial corrections by either the Member State authorities or the Commission. On this basis, we estimate that the level of error was material.

'Administration' was free from material error. Most expenditure in this area takes the form of salaries, pensions and allowances paid by EU institutions and bodies.

Figure 4 compares the estimated levels of error in the various spending areas between 2015 and 2017. Further information on results in revenue and each spending area is given on pages 22 to 45 and in the relevant chapters of the 2017 annual report.

Figure 4

Comparison between estimated levels of error for EU spending areas (2015-2017)



% The estimated level of error is based on quantifiable errors which we identified through our work, notably the testing of a sample of transactions. We use standard statistical techniques to draw this sample and to estimate the level of error (see Chapter 1, Annex 1.1 to the 2017 annual report).

In certain circumstances, we take corrective action into account when estimating the level of error

The Member States and the Commission apply corrective measures in cases of irregular expenditure and when errors in payments have not been detected earlier in the process. We seek to take account of these measures in our audit results where they are taken prior to payment or before our examination. We then check the results of applying these corrections and adjust our estimated level of error where appropriate.

Moreover, sufficient information was available for Member State authorities to prevent, or to detect and correct, a significant proportion of errors prior to declaring the expenditure to the Commission. Had this information been used by national authorities to correct errors, the estimated level of error for the overall spending on ‘Competitiveness for growth and jobs’ would have been 2.7 % and below the 2 % materiality threshold for ‘Natural resources’.

The individual components of the Commission's information on regularity are not always in line with our findings

Each Commission directorate-general produces an annual activity report. This includes a declaration in which the Director-General provides assurance that the report properly presents financial information and that transactions under his/her responsibility are legal and regular. All directorates-general provided estimates of their levels of error, which are broadly in line with ours for 'Natural resources' and 'Administration' and lower than ours for 'Competitiveness for growth and jobs' and 'Cohesion'.

We report suspected fraud to OLAF

Fraud is an act of deliberate deception to derive benefit. Our estimate of the level of error in the EU budget is therefore neither a measure of fraud nor of inefficiency or waste. Rather, it is an estimate of the money that should not have been paid out because it was not used in accordance with the applicable rules and regulations.

We report all suspected fraud cases detected during our audit work to OLAF, the European Union's anti-fraud office. It is then up to OLAF to investigate and follow up these cases, where appropriate in cooperation with national judicial authorities. For 2017, we found **13 instances of suspected fraud** in the 703 transactions that we audited for our statement of assurance and for other performance and/or compliance audits (2016: 11).

We forwarded these cases to OLAF, along with six other cases brought to our attention by the public. The instances of suspected fraud concerned the artificial creation of the necessary conditions for EU financing, the declaration of costs not meeting the eligibility criteria and procurement irregularities.

Want to know more? Full information on the main findings can be found in Chapter 1 of our 2017 annual report.
The full text of our annual report can be found on our website (http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=46515).

Budgetary and financial management faces challenges

Outstanding budgetary commitments continue to rise

In 2017, the EU committed €158.7 billion (99.3 %) of the amount available for commitments. However, payments were €124.7 billion, considerably lower than budgeted, mainly due to Member States submitting fewer claims than anticipated for the multiannual programmes of the 2014-2020 European Structural and Investment (ESI) funds.

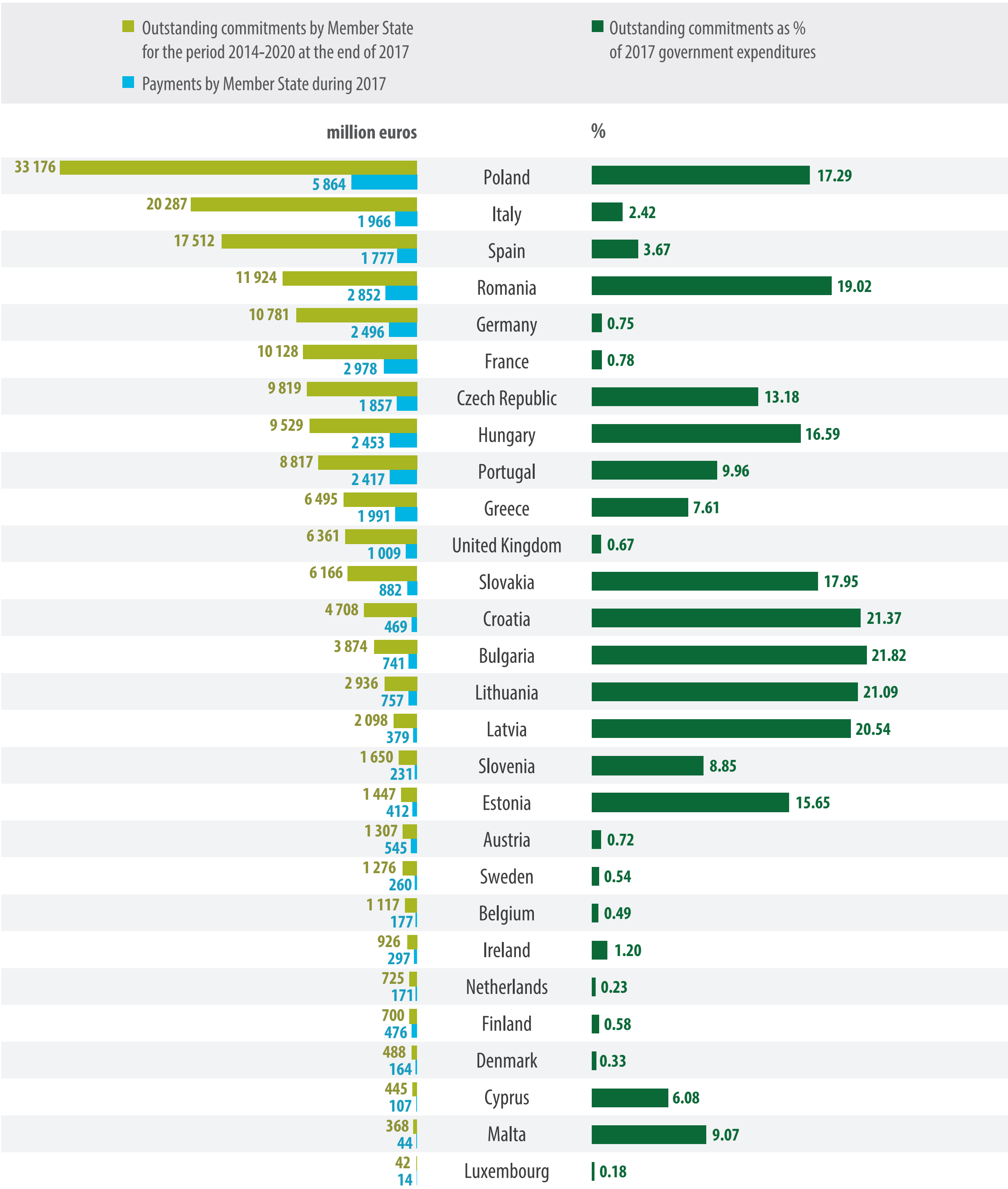
The almost full use of the amount available for commitments, combined with the low level of payments, increased outstanding budgetary commitments to a new record of €267.3 billion. Considerably higher payment needs towards the end of the current MFF may lead to pressure on the ceilings for payment appropriations and a significantly increased risk that available payment appropriations will be insufficient to settle all payment claims. We consider that a more accurate payment forecast would help to manage this risk.

Using available resources from the ESI funds is still proving challenging for Member States

In several Member States, outstanding commitments from the ESI funds in 2017 are quite significant, especially compared to total annual government expenditure (see ***Figure 5***). By the end of 2017, the overall average absorption rate (16 %) for the 2014-2020 MFF was even lower than in the corresponding year of the previous MFF (2010: 22 %). This was mainly due to the later closure of the previous MFF, the late adoption of legal acts, difficulties in implementing the new requirements for the current MFF and the change in the de-commitment rules from n+2 to n+3, and the administrative burden linked to overlaps between MFF periods. We also wish to highlight the possible impact of this on project quality and the importance of a sufficiently stable legal framework.

Figure 5

Outstanding commitments of ESI funds at the end of 2017



More flexibility in the EU budget but risk of payments backlog remains

The mid-term review of the MFF has made the EU budget more flexible. It has increased the global margin for payments (GMP), which makes it possible to carry over unused payment appropriations to future years. Moreover, special instruments have been enhanced. The amounts available for the Emergency Aid Reserve and for the Flexibility Instrument have been increased by €0.7 billion. In addition, it has been made possible, from 2017 onwards, to transfer to the Flexibility Instrument amounts lapsing from the European Globalisation Adjustment Fund and the European Union Solidarity Fund.

These measures have been helpful, but may not be enough to make the EU budget sufficiently flexible to address possible future challenges. Furthermore, the issue of whether to count special instruments within the ceilings for payment appropriations has not yet been resolved. This uncertainty adds to the risk of a payments backlog.

The EU budget continues to face significant exposure

The EU budget continues to face an accumulation of legal obligations to make payments at a future date, subject to various conditions. These obligations include contingent liabilities in the form of guarantees that may need funding if a future event occurs.

When presenting legislative proposals that include the creation or addition of sizeable contingent liabilities, we recommend that the Commission accompany these with an overview of the total value of contingent liabilities supported by the budget, together with an analysis of stress-test scenarios and their possible impact on the budget.

The announced withdrawal of the United Kingdom from the Union in 2019 poses additional challenges for the EU budget.

Want to know more? Full information on the main findings on budgetary and financial management can be found in Chapter 2 of our 2017 annual report.

Better use of performance information needed

The Commission uses performance information to manage programmes and policies, although appropriate action is not always taken when targets are not met

The aim of performance information is to provide an indication as to whether policies, projects and programmes are achieving their objectives efficiently and effectively. Performance information should be used to design the necessary corrective measures, and to support the Commission's decision-making.

Last year, we reviewed how the Commission's approach to performance reporting compared with good practice. This year, we have looked specifically at the Commission's use of performance information in relation to spending programmes and the development, implementation and evaluation of policies.

We conclude this section by recommending that the Commission:

- streamline and simplify the strategic frameworks governing the implementation of the EU budget, thereby reinforcing accountability for results and increasing clarity and transparency for all stakeholders;
- include up-to-date performance information in performance reporting on progress made towards achieving targets and always take, or make proposals for, appropriate action when these targets are not met;
- streamline indicators on the performance of the EU budget and improve the alignment between high-level general objectives and specific programme and policy objectives;
- provide information in the core performance reports on how performance information has been used in decision-making;
- introduce measures and incentives to foster a greater focus on performance in the Commission's internal culture, building on the progress already made.

Twenty-eight special reports on a wide range of topics published in 2017

We regularly assess performance in our special reports, most of which are based on performance audits or a combination of compliance and performance assessments. In our 2017 reports, we checked in particular whether the objectives of selected EU policies and programmes had been met, whether results had been achieved effectively and efficiently and whether EU funding had provided added value. The following page lists all 28 special reports published in 2017.

Want to know more? Full information on our assessment of performance can be found in Chapter 3 of our 2017 annual report.

Our special reports — which are mainly performance audits — are available in 23 EU languages on our website (http://www.eca.europa.eu/en/Pages/AuditReportsOpinions.aspx?ty=Special report&tab=tab4).

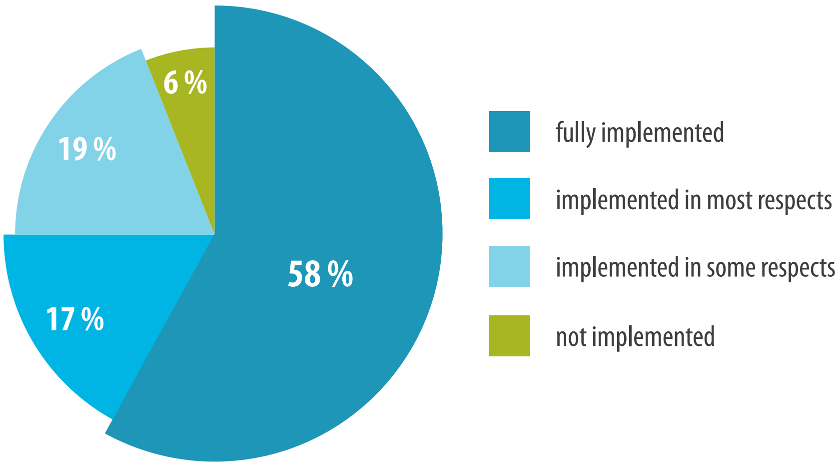
The Commission implements a high proportion of our recommendations

We review annually the extent to which the Commission has taken corrective action related to our recommendations. In line with our strategy for 2018-2020, we will be following up all performance audit recommendations we made to the Commission 3 years earlier.

This year's analysis of follow-up covered 100 recommendations issued in our special reports published in 2014. The Commission has implemented 75 recommendations fully or in most respects. We found that just six recommendations had not been implemented at all (see ***Figure 6***).

Figure 6

Many ECA recommendations issued in 2014 have been implemented



A closer look at revenue and spending areas

Revenue
€139.7 billion

What we audited

Our audit covered the revenue side of the EU budget, which finances expenditure. We examined certain key control systems for calculating and collecting own resources, and a sample of revenue transactions.

Contributions from Member States based on their gross national income (GNI) and revenue from value added tax (VAT) accounted for 56 % and 12 % respectively of the EU's total revenue in 2017. These contributions are calculated using macroeconomic statistics and estimates provided by Member States.

Traditional own resources (TOR), consisting mainly of customs duties on imports collected by Member State administrations on the EU's behalf , contributed a further 15 % of EU revenue. The remaining 17 % of EU revenue came from other sources (e.g. contributions and refunds arising from EU agreements and programmes, the surplus from the 2016 financial year, fines imposed by the Commission and default interest).

What we found

Affected by material error?
No

Estimated level of error:
0.0 % (2016: 0.0 %)

Overall, the revenue-related systems we examined were effective. For TOR, however, we found that some controls were only partially effective. We also found that there was room for improvement in the Commission's actions to safeguard EU revenue in some areas. In particular, there were weaknesses in its management of the risk of under-valued imports in relation to TOR and in its verifications on the VAT-based own resource. Weaknesses in both these areas may affect the Member States' contributions to the EU budget.

What we recommend

We recommend that the Commission:

- improve its monitoring of import flows, including making wider use of data mining techniques to analyse unusual patterns and their underlying reasons, and act promptly to ensure that due amounts of TOR are made available;

- review the existing control framework and better document its application in verifying Member States' calculations of the VAT-based own resource.

Want to know more? Full information on our audit of EU revenue can be found in Chapter 4 of our 2017 annual report.

Competitiveness for growth and jobs
€14.9 billion

What we audited

Our audit covered expenditure on research and innovation, education systems, job creation, the digital single market, and renewable energy and energy efficiency, as well as that seeking to modernise the transport sector and improve the business environment, particularly for small and medium-sized enterprises (SMEs).

For 2017, expenditure of €14.9 billion was subject to audit in this area. Most spending took the form of grants to public or private beneficiaries participating in projects.

Research and innovation expenditure, which accounted for 53 % of spending under this sub-heading in 2017, is made through the seventh framework programme for research and technological development 2007-2013 (FP7) and Horizon 2020, the framework programme for 2014-2020.

What we found

Affected by material error?
Yes

Estimated level of error:
4.2 % (2016: 4.1 %)

The principal risk to the regularity of transactions is that beneficiaries declare ineligible costs which are neither detected nor corrected before the Commission reimburses them. Indeed, we found that most errors related to the reimbursement of ineligible personnel costs, other ineligible direct costs (e.g. travel and equipment costs not related to the project) or ineligible indirect costs declared by beneficiaries. They included calculation errors, lack of supporting evidence for declared costs and costs incurred outside the allowed time period (see examples in ***box***).

Examples: Ineligible costs

In one case we examined, an SME beneficiary had used an incorrect methodology to calculate hourly rates and over-declared the working hours of some employees. Furthermore, all employees working on the project were actually employed by a sister company which was not part of the grant agreement.

In another case, a beneficiary had declared future charges which, at the time when the Commission accepted the costs, had been neither invoiced nor paid, and there was no evidence that the related works had actually been performed.

Sufficient information was available to prevent, or to detect and correct, a significant proportion of errors. Had this information been used to correct errors, the estimated level of error for the overall spending on 'Competitiveness for growth and jobs' would have been 1.5 percentage points lower.

We also found several cases of delays in the project coordinator's distributing EU funding to the other project participants. Although some of these delays were understandable, we note that any delays in transferring EU funds can have serious financial consequences for project participants, especially SMEs.

Rules for Horizon 2020 and the Connecting Europe Facility

We have previously reported that Horizon 2020 has simpler funding rules than FP7. However, the rules on personnel costs continue to be difficult to understand and apply. This is confirmed by our audits and the Commission's audits, which show a persistently high level of error in personnel costs.

We noted vague eligibility rules open to interpretation in other programmes too. Under the Connecting Europe Facility (CEF), there is no guidance on the evidence required to demonstrate that a cost has been incurred, which is a prerequisite for eligibility. We see that further simplifying and clarifying the rules would improve financial management and harmonise the treatment of beneficiaries.

Commission reporting on legality and regularity

The annual activity reports of the Directorates-General for Research and Innovation and for Education, Youth, Sport and Culture, and those of the Education, Audiovisual and Culture Executive Agency (EACEA) and the Research Executive Agency (REA), gave a fair assessment of the financial management by directorates-general and agencies in terms of the regularity of underlying transactions. Overall, the information provided corroborated our findings and conclusions. We also noted a further harmonised approach for determining the estimated amounts at risk among the Commission services implementing research and innovation programmes.

For research and innovation, we reviewed the Commission's sampling and audit methodology underlying the legality and regularity information in the annual activity reports, as well as audit files held at the Commission and by the private audit firms conducting audits for the Commission on FP7, Horizon 2020 and Erasmus+.

Our work on the Commission's and national agencies' ex post audit strategy and methodology for Erasmus+ showed that the audited national agencies and authorities had put adequate supervisory and control systems in place. However, in two of the three cases reviewed, we identified weaknesses in the thoroughness and documentation of the checks performed by the independent audit bodies selected by the national authorities.

The private audit firms had not fully harmonised their FP7 audit programmes.

The Horizon 2020 audit programmes were consistent, but the available audit documentation was insufficient for a full review. Furthermore, since our assessment did not cover the private audit firms conducting audits on behalf of the Commission, we cannot conclude on the quality of the ex post audits for Horizon 2020.

Performance assessment

We assessed the Commission's reporting on the performance of the sampled research and innovation projects. Although most projects had achieved their expected outputs and results, there were cases where the reported progress was only partly in line with the agreed objectives or where the costs reported were not considered reasonable in view of the project progress achieved. Furthermore, in some cases, the project outputs and results had only been partly disseminated.

What we recommend

We recommend that the Commission:

- as regards Horizon 2020, further clarify the eligibility rules on personnel costs, review the personnel costs methodology and complete the list of issues in certain countries;
- as regards the CEF, improve the level of awareness among beneficiaries of the eligibility rules, in particular by drawing a clear distinction between an implementation contract and a subcontract;
- promptly address the weaknesses identified by the Commission's Internal Audit Service in the EACEA's Erasmus + grant management process and in the monitoring of research and innovation projects.


Want to know more? Full information on our audit of EU expenditure on 'Competitiveness for growth and jobs' can be found in Chapter 5 of our 2017 annual report.

Economic, social and territorial cohesion

€8.0 billion

What we audited

Spending under MFF sub-heading 1b 'Economic, social and territorial cohesion' ('Cohesion') focuses on reducing development disparities between the different Member States and regions of the EU and strengthening all regions' competitiveness. For 2017, expenditure of just €8.0 billion was subject to audit in this area. This was due to the low level of accepted expenditure; the figure is likely to increase substantially for 2018.

Expenditure is managed under the responsibility of two directorates-general at the Commission. The first is the Directorate-General for Regional and Urban Policy (DG REGIO), which mainly supervises implementation of the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) and accounted for 65 % of our audit population. The second is the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL), which mainly monitors implementation of the European Social Fund (ESF) and accounted for 35 % of our audit population.

The management of expenditure is shared by the Commission and Member States and involves the co-financing of multiannual operational programmes from which projects are funded.

For the first time, our audit related to closure payments for the 2007-2013 programming period and to cleared expenditure for 2014-2020 under a revised control and assurance framework. Taking into account the revised framework, this year our audit covered the work of audit authorities and the Commission. We drew a statistically representative sample of transactions that audit authorities had already examined and reviewed their work. For transactions where we identified shortcomings, we then also re-performed their audit at beneficiary level.

The aim of our audit was to contribute to the overall statement of assurance and to assess the new control and assurance framework and the extent to which it can be relied upon. This with a view to possibly making increased use of it in the future and, therefore, identifying where further improvements are needed.

What we found

Spending area affected by material error?

Yes

Estimated level of error[1]:

3.0 % (2016: 4.8 %)

1 This estimate includes 50 errors previously detected by Member State audit authorities and takes account of corrections worth a total of €101 million for expenditure from both periods.

The number and impact of the errors we found indicate that weaknesses persist with regard to the regularity of the expenditure declared by managing authorities. Financial instruments contributed most to our estimated level of error, followed by ineligible costs (see example).

Example: Ineligible loans approved for financial instruments under shared management

ERDF co-financing for loans must primarily (i.e. above 50 % of the total value of loans) be used to support SMEs. However, one of the financial instrument we audited had invested almost 80 % of the approved total value of loans in companies that were not SMEs. Neither the audit authority nor the Commission detected this breach of the basic eligibility requirement set by the legislator.

Assessment of the work of audit authorities

Audit authorities' work is a critical part of the new assurance and control framework for ensuring the regularity of 'Cohesion' spending. This year, therefore, we placed greater emphasis on examining key elements of their checks.

In several cases, our review of audit authorities' work revealed shortcomings that affected the reliability of the reported residual error rates. We found weaknesses relating to the scope, quality and documentation of their work and the representativeness of their sampling. The Commission did not identify these issues. In all assurance and closure packages we examined, the audit authorities had reported a residual error rate below 2 %.

However, because of the additional errors we detected, our recalculated rate was above 2 % for six of the 12 assurance packages we audited for the 2014-2020 period and three of the 10 closure packages we audited for 2007-2013.

The Commission's work and its reporting of the residual error rate in its annual activity reports

Annual activity reports (AARs) are the Commission's key tool for reporting whether it has reasonable assurance that the control procedures put in place ensure the regularity of expenditure. The revised control and assurance framework was designed to ensure that each year's residual error rates are below the materiality threshold of 2 %. However, for 'Cohesion', the 2017 AARs of DGs EMPL and REGIO give a number of different rates as a measure of the expenditure at risk. They include residual error rates for each assurance package in the accounting year from 1 July 2015 to 30 June 2016. In our view, these rates are the only ones for which the Commission could have the necessary assurance from audit authorities and its own regularity work.

Moreover, further improvements are needed to the Commission's work of accepting accounts, validating individual residual error rates and establishing an overall residual error rate.

Our work shows that the overall residual error rates presented for the accounting year 2015/2016 in the Commission's AARs are underestimated, and we currently cannot rely on them.

Performance assessment

One of the main objectives of the regulatory provisions for the 2014-2020 period was to focus more on performance and results. Our review of 113 completed projects showed that, in general, there is a clear link between output objectives at operational programme and project level. Where they existed, most targets were reported to have been met, at least partially. However, many performance measurement systems lack result indicators, which makes it difficult to assess a project's overall contribution to specific OP objectives.

What we recommend

We recommend that the Commission:

- ensure that the audit arrangements for financial instruments managed by the EIF are adequate at the level of financial intermediaries;
- propose legislative changes for the post-2020 financial framework to exclude the reimbursement of VAT to public bodies from EU funds;
- address the weaknesses we have identified in its verification of the audit authorities' work in the context of the Commission's regularity audits;
- address the complexity of the information presented on the 2014-2020 control and assurance framework in the AARs of DG REGIO and DG EMPL;

- ensure that audit arrangements are changed in accordance with the proposal for financial instruments in the post-2020 regulatory framework so that only the actual use of funds at final recipient level is used for the calculation of residual error rates;
- disclose an overall residual error rate for 'Cohesion' for each accounting year;
- carry out sufficient regularity checks to conclude on the effectiveness of the audit authorities' work and obtain reasonable assurance on the regularity of expenditure at the latest in the AARs it publishes following the year for which it accepts the accounts.

Want to know more? Full information on our audit of EU expenditure for 'Economic, social and territorial cohesion' can be found in Chapter 6 of our 2017 annual report.

Natural resources
€56.5 billion

What we audited

This spending area covers the common agricultural policy (CAP), the common fisheries policy (CFP) and part of EU spending on the environment and climate action. For 2017, expenditure of €56.5 billion was subject to audit in this area.

The CAP is the basis for EU spending on agriculture. Its three general objectives set in EU legislation are:

- viable food production, with a focus on agricultural income, agricultural productivity and price stability;
- the sustainable management of natural resources and climate action, with a focus on greenhouse gas emissions, biodiversity, soil and water;
- balanced territorial development.

Management of CAP spending is shared with the Member States. It covers:

- the European Agricultural Guarantee Fund (EAGF) — direct payments, which accounted for 74 % of the spending in this area;
- the European Agricultural Fund for Rural Development (EAFRD), which co-finances rural development programmes together with the Member States and accounted for 19 % of spending;
- EAGF — market measures, which accounted for 5 % of spending.

CAP expenditure is channelled through some 80 paying agencies, which are responsible for checking the eligibility of aid applications and making payments to beneficiaries.

The CFP is also managed by the Commission and the Member States under shared management.

The Commission manages the EU's environmental policy centrally. The programme for the environment and climate action (LIFE) is the largest instrument for spending in this area.

What we found

Affected by material error?
Yes

Estimated level of error:
2.4 % (2016: 2.5 %)

The Commission and the Member State authorities had applied corrective measures that reduced our estimated level of error for this chapter by 1.1 percentage points. However, for a significant proportion of transactions containing quantifiable errors, the national authorities had sufficient information to prevent, or to detect and correct, the errors before declaring the expenditure to the Commission. Had the national authorities made proper use of all the information at their disposal, the estimated level of error for this chapter would have been 0.9 percentage points lower.

Direct payments were free from material error

Agricultural land surface is the main variable for direct payments. Continuous improvements in control systems helped to keep the level of error in 2017 below the 2 % materiality threshold.

'Greening payments' are intended to support farmers that adopt practices beneficial to the climate and the environment. As part of our testing of 121 direct payments, we visited 35 beneficiaries receiving greening payments; only in one case did we find a direct breach of the greening requirements. As we have previously indicated, the greening requirements are undemanding and largely reflect usual farming practice. For more information see our special report 21/2017 'Greening: a more complex income support scheme, not yet environmentally effective'.

Rural development, market measures, the environment, climate action and fisheries

The level of error remains high in these spending areas.

The main sources of error were non-compliance with eligibility conditions, the provision of inaccurate information on areas or animal numbers and beneficiaries' non-compliance with agri-environmental commitments (see example).

Example: Beneficiary did not meet the agri-environmental commitments

We examined a case where a farmer received aid under a measure for the environmental optimisation of agronomic techniques and irrigation. In order to receive the aid, the beneficiary had to commit to planting certain crops on part of the holding, reducing the use of chemical fertilisers and water in irrigation and keeping cultivation and irrigation registers. We found that the beneficiary had not complied with any of these commitments. After our visit, the paying agency launched a procedure to recover the aid.

Directorate-General for Agriculture and Rural Development's reporting on legality and regularity

The adjusted error rates for the main spending areas of 'Natural resources' presented in the Directorate-General for Agriculture and Rural Development's (DG AGRI) 2017 annual activity report are consistent with our audit conclusion that the level of error in spending on 'Natural resources' as a whole was material, and that EAGF direct aid schemes, representing 74 % of spending under this MFF heading, were not materially affected by error.

Since 2015, certification bodies in the Member States have been required to give an opinion on the legality and regularity of the paying agencies' expenditure. The certification bodies' work feeds into the Commission's assurance model for CAP spending: DG AGRI takes their work into account when calculating the adjusted error rates for the main spending areas. However, further improvements are required if the Commission is to achieve its objective of using the certification bodies' work as its primary source of assurance on the regularity of CAP spending.

Performance assessment

The geospatial aid application (GSAA) is a web application that farmers can use to submit area-based aid claims online for processing by paying agencies. The paying agencies must make the GSAA available to all beneficiaries of area-based aid by 2018.

We visited more than 100 farms to examine the use of the application and surveyed 24 paying agencies on its introduction. The majority of the area aid applicants we visited had already used the GSAA, leading to fewer errors and time-savings in most cases. However, 23 % of the farmers interviewed were still submitting applications without using the GSAA.

We examined 29 rural development investment projects to assess their performance. Overall, the eligibility conditions were aligned with the priorities identified in the rural development programmes and the selection procedures were appropriate. The beneficiaries we visited generally carried out the sampled rural development investment projects as planned, and Member States checked that costs were reasonable. However, Member States made little use of simplified cost options.

What we recommend

We recommend that the Commission:

- assess the effectiveness of the Member States' actions to address the causes of errors for payments for market measures and rural development, and issue further guidance where necessary;
- carry out a closer examination of the quality of the certification bodies' transaction testing;
- check the implementation of the remedial action taken by Member State authorities, where the Commission found it could place no or limited reliance on a certification body's work;
- monitor progress made by the paying agencies in supporting farmers not yet using the GSAA and promote best practices, in order to maximise the benefits and achieve full implementation of the new system before the regulatory deadlines.


Want to know more? Full information on our audit of EU expenditure on 'Natural resources' can be found in Chapter 7 of our 2017 annual report.

Security and citizenship
€2.7 billion

What we audited

This spending area groups various policies whose common objective is to strengthen the concept of EU citizenship by creating an area of freedom, justice and security without internal frontiers.

For 2017, expenditure of €2.7 billion was subject to audit in this area. This amount covered border protection, immigration and asylum policy, justice and home affairs, public health, consumer protection, culture, youth, information and dialogue with citizens. It is a relatively small but increasing share of the EU budget (approximately 2 % in 2017).

A significant share of spending is done through 12 decentralised agencies on which we report separately in our series of specific annual reports.

'Migration and security', which accounts for 45 % of spending, is largely implemented through shared management between the Member States and the Commission. The most important funds under this heading are:

- the Asylum, Migration and Integration Fund (AMIF), which aims to contribute to the effective management of migration flows and bring about a common EU approach to asylum and immigration;
- the Internal Security Fund (ISF), which aims to achieve a high level of security in the EU.

These funds began in 2014, when they replaced the SOLID programme ('Solidarity and management of migration flows'), and will run until 2020.

In addition to selected systems, we examined a small number of transactions covering the main policies of this spending area.

Given the size of this sample, we are not in a position to calculate a representative error rate for 'Security and citizenship' as we have for other spending areas.

What we found

Our examination revealed inconsistences in the way Member States have treated the eligibility of value added tax declared by public bodies, which undermines the sound financial management of EU spending. In addition, we found that the AMIF/ISF reporting requirements in place for the 2017 accounts prevented the Commission from obtaining all the necessary financial information it requires for supervision.

What we recommend

We recommend that the Commission:

- provide guidance to Member States on using EU funds in accordance with the principles of sound financial management. In particular, the AMIF/ISF implementing guidelines should specify that, when public bodies implement EU actions, the EU co-financing may not exceed the total eligible expenditure excluding VAT;

- require Member States, in the annual accounts of their AMIF and ISF national programmes, to break down the nature of the amounts they report into recoveries, pre-financing and expenditure actually incurred; and report in its annual activity report from 2018 onwards the actual spending per fund.

Want to know more? Full information on our audit of EU expenditure for 'Security and citizenship' can be found in Chapter 8 of our 2017 annual report.

Global Europe
€8.2 billion

What we audited

This spending area covers expenditure in the fields of foreign policy, support for EU candidate and potential candidate countries and development assistance and humanitarian aid provided to developing and neighbouring countries (with the exception of the European Development Funds — see pages 43 to 45).

For 2017, expenditure of €8.2 billion was subject to audit in this area, with spending disbursed across more than 150 countries. Spending is implemented either directly by a number of directorates-general at the Commission (either from their headquarters in Brussels or through EU delegations in recipient countries), or indirectly by beneficiary countries or international organisations, using a broad range of cooperation instruments and delivery methods.

Given the small size of the sample, we are not in a position to calculate a representative error rate for 'Global Europe' as we have for other spending areas.

What we found

With EU contributions to the general budget of recipient countries (budget support), the Commission has considerable flexibility in deciding whether eligibility conditions have been met. Any weaknesses in financial management leading to misuse at national level will not lead to errors in our audit. This is also the case for EU funds that are pooled with those of other international donors and not earmarked for specific items of expenditure. In such cases, costs are considered eligible under EU rules as long as the pooled amount includes sufficient eligible expenditure to cover the EU's contribution.

Our tests on transactions revealed some control weaknesses in the Commission's systems affecting second-level procurement procedures (procurement carried out by a beneficiary), and in the reimbursement of the salaries of resident twinning advisors (RTAs) seconded to EU-funded projects.

Compliance reporting by the Directorate-General for Neighbourhood and Enlargement Negotiations

As in previous years, as part of its efforts to reduce errors in payments, the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) commissioned a study to assess the residual error rate (RER) in expenditure in this area. As in our previous assessments of the study, we have found its methodology broadly fit for purpose and effective. We however identified a number of areas for improvement, such as a risk-based stratification of the population, the degree of judgement left to the contractor for error estimates for individual transactions, and errors dropped.

When reviewing DG NEAR's 2017 annual activity report (AAR), we noticed that it had made considerable efforts to address our recommendations on the overstatement of corrective capacity and had adopted a prudent approach when analysing recovery orders.

Performance assessment

In addition to checking regularity, we assessed performance aspects for seven completed projects. All of the examined projects had clear and relevant performance indicators. Their logical frameworks were well structured, and their outputs were realistic. However, we found a number of issues in how the projects were implemented. These issues detracted from the projects' performance (see example).

Example: Performance-related issues in projects visited

We examined two cases in which the cost of transporting supplies was much higher than the value of the supplies themselves. In the first case, it had cost €152 000 to transport goods worth €78 000. In the second case, it had cost €131 500 to transport merchandise worth €70 150.

What we recommend

We recommend that the Commission:

- provide the external contractor carrying out the next residual error rate study with more precise guidelines on checking second-level procurement;
- stratify the population for the next residual error rate study based on the inherent risk of projects, with more weight placed on direct management grants and less on budget-support transactions;
- disclose in the next annual activity report the limitations of the residual error rate study;
- review current guidance to beneficiaries of projects implemented under indirect management with the aim of ensuring that planned activities are executed in a timely manner and that project outputs are actually used, so to obtain the best value for money.

Want to know more? Full information on our audit of EU expenditure for 'Global Europe' can be found in Chapter 9 of our 2017 annual report.

Administration
€9.7 billion

What we audited

Our audit covered the administrative expenditure of the EU's institutions and other bodies: the European Parliament, the European Council and the Council of the European Union, the European Commission, the Court of Justice of the European Union, the European Court of Auditors, the European Economic and Social Committee, the European Committee of the Regions, the European Ombudsman, the European Data Protection Supervisor and the European External Action Service.

In 2017, expenditure of €9.7 billion by the EU institutions and other bodies was subject to audit. This amount comprised spending on human resources (about 60 % of the total), buildings, equipment, energy, communications and information technology.

The results of our audits of the EU agencies, other decentralised bodies and the European Schools are reported in specific annual reports which we publish separately, and in a consolidated summary of these audits.

Our financial statements are audited by an external auditor, and the audit report is published in the Official Journal of the European Union and on our website.

What we found

Affected by material error?
No

Estimated level of error:
0.5 % (2016: 0.2 %)

Our examination of systems did not reveal any significant weaknesses overall. However, we found areas where there was scope for improvement. These are addressed by the following recommendations.

What we recommend

We recommend that the Parliament:

- improve the guidelines on selection and award criteria for procurement procedures in the context of the revision of the Financial Regulation;
- strengthen the procedure for groups of visitors to submit declarations of expenditure when it next revises its rules on receiving groups of visitors.

We also recommend that the Commission improve, as soon as possible, its systems for managing statutory family allowances.

Want to know more? Full information on our audit of EU expenditure for 'Administration' can be found in Chapter 10 of our 2017 annual report.

European Development Funds
€3.5 billion

What we audited

The European Development Funds (EDFs) provide EU assistance for development cooperation to the African, Caribbean and Pacific (ACP) countries and overseas countries and territories (OCTs). EDF spending and cooperation instruments aim to overcome poverty and to promote sustainable development and the integration of the ACP countries and OCTs in the world economy.

For 2017, €3.5 billion of expenditure was subject to audit in this area. The EDFs are funded by the EU Member States and are implemented either through individual projects or through budget support (a contribution to a country's general or sector budget). Each EDF is governed by its own financial regulation.

The EDFs are managed outside the framework of the EU budget by the European Commission (which manages the biggest part) and the European Investment Bank.

What we found

Reliability of the EDF accounts:

The 2017 accounts present fairly the financial position of the EDFs, the results of their operations, their cash flow and changes in net assets.

Is EDF revenue affected by material error?

No

Are EDF payments affected by material error?

Yes

Estimated level of error:

4.5 % (2016: 3.3 %)

As in the area of Global Europe, the Commission has considerable flexibility in deciding whether eligibility conditions have been met, and misuse of EU funds at national level will not necessarily lead to errors being identified in our audit. This is also the case for EU funds that are pooled with those of other international donors and not earmarked for specific items of expenditure. In such cases, costs are considered eligible under EU rules as long as the pooled amount includes sufficient eligible expenditure to cover the EU's contribution.

Expenditure not incurred accounted for 42 % of the overall rate of error in the EDFs (see example below). Other significant types of error include missing essential supporting documents, and non-compliance with procurement rules.

Example: Expenditure not incurred

We examined a natural resources management project and found that the Commission had erroneously reimbursed €2 million more than the implementing partner had declared as expenditure. When examining individual expenditure items, we found that three were affected by error, as the declared amount had not actually been incurred in full.

For a number of transactions containing quantifiable errors, the Commission had sufficient information at its disposal to prevent, or to detect and correct, the errors. Had the Commission made proper use of all the information available to it, the estimated level of error for expenditure for the EDFs would have been 2.8 %.

Compliance reporting by the Directorate-General for International Cooperation and Development

As in previous years, as part of its efforts to reduce errors in payments, the Directorate-General for International Cooperation and Development (DG DEVCO) commissioned a study to assess the residual error rate (RER) in expenditure in this area.

In the 2017 RER study, no substantive testing was carried out for 67 % of the transactions because full reliance was placed, incorrectly or without proper justification, on previous control work. Due to this, combined with the errors we detected, we conclude that the 2017 results cannot be compared to those from previous years. This has an impact on the residual error rate. The Commission did not properly monitor the work carried out by the RER contractor and therefore was unable to prevent the problems from occurring.

DG DEVCO’s 2017 annual activity report only included a reservation related to grants in direct management. This reservation was based on the results of the RER study. Had the RER study followed the same prudent approach as that applied in previous years, the outcome of the study, and therefore the declaration of assurance, would probably have been different.

DG DEVCO's control system is based on ex ante checks conducted before the expenditure claimed by beneficiaries is reimbursed. In this year too, the frequency of the errors we found — including some contained in final claims which had been the subject of ex ante external audits and expenditure verifications — continues to indicate the presence of weaknesses in these checks.

What we recommend

We recommend that the Commission:

- closely monitor the implementation of the residual error rate study, in particular to ensure that, where full reliance is placed on previous control work, this is in line with the applicable methodology and properly justified;
- again disclose in the annual activity report the limitations of the residual error rate study, which assumes that the untested population is free from error;
- take decisive steps to enforce the guidance on accepting expenditure to avoid excess clearings;
- adopt measures to ensure that only incurred costs are certified as expenditure for Africa Infrastructure Trust Fund transactions;
- add an indicator to monitor the age of advance contributions to trust funds;
- propose a relevant solution to the EDFs' budgetary and accountability inconsistencies as part of the current post-Cotonou studies.

Want to know more? Full information on our audit of the EDFs can be found in our 2017 annual report on the activities funded by the 8th, 9th, 10th and 11th European Development Funds.

Background information

The European Court of Auditors and its work

The European Court of Auditors (ECA) is the independent external auditor of the European Union. We are based in Luxembourg and employ around 900 professional and support staff of all EU nationalities.

Our mission is to contribute to improving EU financial management, promote accountability and transparency and act as the independent guardian of the financial interests of EU citizens.

Our audit reports and opinions are an essential element in the EU accountability chain. They are used to hold to account those responsible for implementing EU policies and programmes: the Commission, other EU institutions and bodies, and administrations in Member States.

We warn of risks, provide assurance, indicate shortcomings and good practice and offer guidance to EU policymakers and legislators on how to improve the management of EU policies and programmes. Through our work, we ensure that EU's citizens know how their money is being spent.

Our output

We produce:

- **annual reports**, mainly containing the results of financial and compliance audit work on the EU budget and the European Development Funds, but also on budgetary management and performance aspects;
- **special reports**, presenting the results of selected audits on specific policy or spending areas, or on budgetary or management issues;
- **specific annual reports**, on the EU's agencies, decentralised bodies and joint undertakings;
- **opinions**, on new or updated laws with a significant impact on financial management — either at the request of another institution or on our own initiative;
- **review-based publications**, such as:
  - **landscape reviews**: descriptive and analytical documents on complex, large-scale policy areas or management issues, in which we set out our accumulated experience and knowledge of the selected topic, often from a cross-cutting perspective;
  - **briefing papers**: similar in nature to landscape reviews, but addressing more focused topics;
  - **rapid case reviews**: presenting and establishing facts surrounding very specific issues or problems, including, if necessary, an analysis to help understand those facts.

Audit approach for our statement of assurance at a glance

The opinions in our statement of assurance are based on objective evidence obtained from audit testing in accordance with international auditing standards.

As stated in our 2018-2020 strategy, we aim to apply the attestation approach to our entire statement of assurance, meaning that we would base our audit opinion on the Commission's (management) statement. This has been the case for our work on the reliability of accounts since 1994. This year a pilot exercise to extend this approach to EU expenditure was carried out in the area of 'Economic, social and territorial cohesion'.

Reliability of the accounts

Do the EU annual accounts provide complete and accurate information?

Hundreds of thousands of accounting entries are generated by Commission directorates-general each year, taking information from many different sources (including Member States). We check that accounting processes work properly and that the resulting accounting data are complete, correctly recorded and properly presented in the EU's financial statements. For the audit of the reliability of the accounts we have applied the attestation approach ever since our first opinion in 1994.

- We evaluate the accounting system to ensure it provides a good basis for producing reliable data.
- We verify key accounting procedures to ensure they function correctly.
- We make analytical checks of accounting data to ensure they are presented consistently and appear reasonable.
- We directly check a sample of accounting entries to ensure the underlying transactions exist and are accurately recorded.
- We check financial statements to ensure they present the financial situation fairly.

Regularity of transactions

Do the EU income and expensed payment transactions underlying the EU accounts comply with the rules?

The EU budget involves millions of payments to beneficiaries, both in the EU and in the rest of the world. The bulk of this spending is managed by Member States. To obtain the evidence we need, we assess the systems by which income and expensed payments (i.e. final payments and clearing of advances) are administered and checked, and we examine a sample of transactions.

Where the terms of the relevant international auditing standards have been met, we review and re-perform the checks and controls carried out by those responsible for implementing the EU budget. We thus take full account of any corrective measures taken on the basis of these checks.

- We assess the systems for revenue and expenditure to determine their effectiveness in making sure transactions are regular.
- We take statistical samples of transactions to provide a basis for detailed testing by our auditors. We examine the sampled transactions in detail, including at the premises of final recipients (e.g. farmers, research institutes or companies providing publicly procured works or services), to obtain evidence that each underlying event exists, is properly recorded and complies with the rules for making payments.
- We analyse errors and classify them as either quantifiable or not. Transactions are affected by quantifiable error if, based on the rules, the payment should not have been authorised. We extrapolate the quantifiable errors to obtain an estimated level of error for each area in which we make a specific assessment. We then compare the estimated level of error against a materiality threshold of 2 % and assess whether the errors are pervasive.
- Our opinions take account of these assessments and of other relevant information, such as annual activity reports and reports by other external auditors.
- We discuss all our findings both with the authorities in the Member States and with the Commission so as to confirm our facts are correct.

All our products are published on our website (http://www.eca.europa.eu).
More information on the audit process for the statement of assurance can be found in Annex 1.1 to our 2017 annual report.
Our website contains a glossary of the technical terms we use in our publications (https://www.eca.europa.eu/Lists/ECADocuments/GLOSSARY_AR_2017/GLOSSARY_AR_2017_EN.pdf).

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EU law and related documents
For access to legal information from the EU, including all EU law since 1951 in all the official language versions, go to EUR-Lex at: http://eur-lex.europa.eu

Open data from the EU
The EU Open Data Portal (http://data.europa.eu/euodp/en/data) provides access to datasets from the EU. Data can be downloaded and reused for free, both for commercial and non-commercial purposes.

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A word on the '2017 EU audit in brief'

The '2017 EU audit in brief' provides an overview of our 2017 annual reports, in which we present our statement of assurance as to the reliability of the accounts and the legality and regularity of the transactions underlying them. It also outlines our key findings regarding revenue and the main areas of spending under the EU budget and the European Development Fund, as well as findings relating to budgetary and financial management, the use of performance information and follow-up of our previous recommendations.

The full texts of the reports may be found at www.eca.europa.eu or in the Official Journal of the European Union.

The European Court of Auditors (ECA) is the independent external auditor of the EU. We warn of risks, provide assurance, highlight shortcomings and good practice and offer guidance to EU policymakers and legislators on improving the management of EU policies and programmes. Through our work we ensure that EU citizens know how their money is being spent.

EUROPEAN COURT OF AUDITORS

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