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Speech

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Speech by Klaus-Heiner Lehne, President of the European Court of Auditors

Presentation of the ECA's 2015 annual report
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The spoken version shall take precedence.

ECA Press

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Madam Chair,
Vice-President Georgieva,
Honourable Members of the European Parliament,

It is a great honour for me to present the European Court of Auditors' 2015 Annual Report to you this year – my first year as President of the Court and indeed my first month in the job.

Events since the end of 2015 are shaking the foundations of the European Union and, as a result, we have entered a period of introspection. The question on everyone's mind is: why are so many citizens turning their back on the European project? I believe part of the answer to that question is that we – the European institutions – have, to a degree, lost the trust of our citizens. In the months and years to come, a major challenge for the EU will be to regain that trust. And I believe the European Court of Auditors will have an important role to play in that process. So, over the next few minutes, I would like to look ahead to what needs to be done as well as looking back at what we found in our 2015 report.

It is clear that there should be reform. But whatever shape that reform may take, it must be built on solid financial foundations. Whether the EU has 28 members or 27, sound financial governance will remain just as important. In the Court's view, four elements are particularly important.

First, the EU must keep good accounts. People cannot even begin to trust us if they do not believe we are looking after their money properly and keeping a good account of how we are doing that.

The EU accounts for 2015 were prepared in accordance with international standards and present, in all material aspects, a true and fair view. We were therefore able, once again, to give a clean opinion on their reliability.

However, the amounts of money to be paid in the current and future years remain at a very high level. And the Commission has not produced a cash-flow forecast covering the next seven to ten years. Such a forecast would enable stakeholders to anticipate future payment requirements and budgetary priorities. It would also contribute to rebuilding trust. The medium-term payment forecast made by the Commission is one step into the right direction.

Secondly, the EU must make sure its financial rules are correctly applied.

The money going into and out of the current EU budget is accurately recorded, but too many mistakes are still made when spending it, mostly in the Member States. The estimated level of error, which measures the level of irregularity, is 3.8 % for 2015 payments. This is broadly similar to recent years but still above our materiality threshold of 2 %.

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 %).

The good news is that corrective action by authorities in the Member States and by the Commission had a positive impact on the estimated level of error. Otherwise, it would have been above 4 %.

And the Commission does provide an assessment of the impact, for 2015, of potential, future corrective action.

But although the Commission has taken steps to improve its assessment of risk and of the impact of corrective action, there is still scope for improvement.

Recovering enough money to get the level of error below two per cent would be a laudable achievement. But we continue to believe that prevention is better than cure.

It would be much better for the European taxpayer if the Commission and the Member States spent more of the money properly in the first place, rather than having to spend time going to the trouble and expense of clawing it back after mistakes have been found.

If the Commission, authorities in the Member States 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 corresponding payments were made.

Our results also suggest there is scope to reduce errors by improving the design of spending schemes.

One of the major influences on the level of error is the difference in risk patterns between reimbursement schemes, where the EU reimburses costs for eligible activities on the basis of declarations made by beneficiaries, and entitlement schemes, where payments are made subject to conditions being met. The level of error for reimbursement (5.2 %) is more than twice the level for entitlement (1.9 %).

People cannot trust a system they do not understand. Improving the design of spending schemes will reduce error and allow people to make use of the schemes with greater confidence.

Madam Chair, honourable members

At a time when prosperity cannot be taken for granted by many, our citizens need to know that every euro spent on their behalf is being spent well first time around and to best possible effect.

That also means ensuring that sufficient funds can be directed to agreed policy priorities, with enough in reserve to cope with a crisis. Under the current arrangements, both have proved difficult.

For these reasons, my predecessor talked of the need for a “wholly new approach”.

It is still too soon to tell when or whether that will become a reality. But we have already seen the mid-term review of the current spending plans.

It contains a number of legislative proposals to improve budgetary flexibility and to simplify financial rules. The Court will provide its opinion on the proposals in due course.

We welcome the focus on results called for once again by the European Commission. But the dimension still lacking is value for money – and that brings me to the third element of sound financial governance.

Our citizens want and need to see the EU securing value for money. They need to feel that they are getting a better deal than their own national authorities could have managed alone.

But did EU projects deliver value for money in 2015? Were their objectives realistic from the outset? Were the costs involved reasonable – where “reasonable” is defined against a clear benchmark? Was the programme or project more or less expensive than it would have been under a different level of government?

These are questions to which there cannot be a simple answer until the right reporting arrangements are in place.

This year, we highlight the challenges the Commission faces in reporting on the results of Horizon 2020 spending on research and innovation.

In Horizon 2020, we found that although there had been improvements compared to the Seventh Framework Programme, the Commission was still limited in its ability to monitor and report on the performance of the programme. The links between the Commission's 10 new political priorities and Europe 2020/Horizon 2020's strategic framework need further clarification. This lack of clarity may also be affecting other EU activities.

There has been some progress in the indicators used by the Commission to measure performance, but shortcomings remain. Management objectives also need to be better developed by the Commission's Directorates-General.

Again, we welcome the Commission's call in the mid-term review for simpler and more integrated reporting on the implementation and management of the EU budget.

It is something we have recommended for a number of years.

We have also said that further action should be taken when value for money is not achieved.

If all the money has been spent in accordance with the rules and properly accounted for, that is currently the end of the matter. But it should not be.

There need to be real incentives to achieve value for money rather than just hitting spending targets and avoiding breaking the rules.

Because, even if all the money is accounted for and all the rules are followed , that does not guarantee that EU-funded projects will deliver value for money.

If people cannot tell whether the system is working for them, we cannot expect them to trust it.

They need to see tangible results and the resources spent in order to achieve them. This relationship – the value delivered by spending the money – needs to be made much clearer.

Madam Chair, honourable members

Trust also requires transparency and assurance, and these represent the fourth element of good financial governance.

The Commission needs to report to Parliament and to the public on the right things, and what is reported needs to be properly checked and independently audited.

However, the increasing use of financial instruments, which are neither directly funded by the EU budget nor audited by us, poses greater risks in terms of accountability and the coordination of EU policies and operations.

Our audits not only provide independent assurance: they also provide an opportunity to make recommendations on how to improve the EU's financial governance.

A high proportion of our recommendations are accepted and implemented by the Commission.

But despite a reasonable overall level of awareness of our recommendations to the Member States, the level of formal follow-up varies greatly. As a result, we see only moderate evidence of changes in policy and practice at national level.

Madam Chair, honourable members, the EU's financial governance needs to improve. The EU has to make the right reforms and make them soon.

The time for decision is fast approaching. We will present our comments and suggestions on the Commission's proposals, and we look forward to discussing them further.

If we are to create an EU financial system capable of regaining our citizens' trust, the EU institutions need to work together. I am confident that we can do so.