



EUROPEAN
COURT
OF AUDITORS

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Speech

Luxembourg, 10 October 2019

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

**Presentation of the European Court of Auditors' 2018 Annual Report
to the Economic and Financial Affairs Council (ECOFIN)**

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ECA Press

12, rue Alcide De Gasperi – L-1615 Luxembourg

E: press@eca.europa.eu @EUAuditors eca.europa.eu

President,

Ministers,

Ladies and gentlemen,

As President of the European Court of Auditors, I would like to thank you for setting aside time for our 2018 Annual Report, in which we present to you our assessment of the state of the European Union's financial management.

We have audited the EU's consolidated accounts for 2018. In our view, they present a true and fair view of the EU's financial position.

For revenue accruing to the EU budget, we did not detect a material level of error. We therefore once again issue an unqualified opinion on the regularity of the revenue side of the EU budget.

For the expenditure side, we once again issue a qualified audit opinion on the regularity of payments, as we have done for the past two years. In other words, the errors we found in our audit were not pervasive and therefore do not result in an inaccurate presentation of the EU's actual financial position.

This is one of the key findings of our audits, as it confirms that the EU's financial management has improved steadily over the last few years. It is an encouraging sign that not only the Commission, but also the Member States, have managed to sustain the progress noted over the last two years.

A "qualified opinion" is a "yes, but". Yes, payments have mainly been regular, *but* there are still problems.

In the area of expenditure, the traditional "headline" of our Statement of Assurance, we estimate the level of error at 2.6%¹. That means we estimate that 2.6% of payments should not have been made because they were not used in accordance with EU rules. A level of error greater than 2% is deemed material.

However, I will never tire of stressing that this does not mean 2.6% of payments from the EU budget have been wasted. Even where the rules for a certain payment have not been followed, this expenditure may nevertheless have achieved its purpose in that particular case.

In presenting this overall estimate, it must be stressed that a significant part of the expenditure we audited did not have a material level of error. In particular, however, this overall estimate obscures an important distinction: the way in which funds are disbursed has a major impact on the risk of error. You may find this insight helpful for future legislation.

¹ Lower limit: 1.8%, estimated level of error: 2.6%; upper limit: 3.4%. AR Ch. 1.15.

For expenditure subject to complex rules, the level of error is estimated at 4.5%, which is relatively high. Such expenditure represents around half the EU budget². It mainly concerns “reimbursement-based payments”, where beneficiaries have to submit claims for eligible costs they have incurred – think research projects or regional and rural development projects.

By contrast, the risk of error is lower for expenditure subject to simpler rules, mainly “entitlement-based payments”. Here, beneficiaries receive payment if they meet certain conditions – think direct aid for farmers or student fellowships.

Ladies and gentlemen,

During my visits to European capitals, I have already had the opportunity to inform some of you in person about the change in the Court of Auditors’ approach as part of its multi-annual strategy. I have had nothing but positive feedback and support, for which I am very grateful to you.

The Court of Auditors sets out to base its statement of assurance on an attestation approach, meaning that, in future, we intend to review the audit work of others, particularly the Commission, which itself draws on its own checks and those carried out at national level via shared management, instead of carrying out ever-increasingly laborious audits ourselves in every case where others have already done so.

That is to say, we want to use the work already done by others – provided their results are reliable. You will see from our Annual Report that we are often critical of many of the checks carried out by Member States and the Commission (for example, some 126 different authorities are involved in auditing Cohesion expenditure at national level). This often makes it difficult to use and rely even more extensively on the results of such work. And it is also fair to say that the Commission is making considerable efforts to continue to improve on the work done by different national authorities.

We are therefore advancing our work with the Commission to establish the conditions necessary to progress towards attestation. I would like to take this opportunity to thank Commissioner Oettinger for his support, and I look forward to moving the process forward with his successor.

I should now like to turn to the different policy headings, and highlight some of our key findings.

For the MFF heading “Competitiveness”, we found substantially fewer errors than last year (2%). Ineligible personnel costs are still the main source of errors in the area of research.

On Economic and Social Cohesion, we estimated a level of error of 5%. The number and impact of the errors we detected show that there are still persistent weaknesses regarding the regularity of the expenditure declared by

² 50.6%.

national managing authorities. Ineligible expenditure on projects was a key problem, and this was compounded by certain countries adding further national conditions to already-complex EU conditions (“goldplating”).

On Natural Resources, we estimated a level of error of 2.4%, which was a mixture of ineligible costs declared, inaccurate information on areas or animals, public procurement problems, and administrative errors. However, direct payments as a whole were free from material error. This is good news.

On Security and Citizenship, we highlight shortcomings in the application of public procurement rules, but also system weaknesses in the Member States concerning the Asylum and Migration Fund and the Internal Security Fund.

Ladies and gentlemen,

The audit work which I have presented to you today shows that although many problems remain, the EU has been consistent for the third year in succession in meeting high standards of accountability and transparency when spending public money.

However, given the growing challenges the Union has to face with a budget of only around 1 % of the Gross National Income generated by all Member States combined, it is crucial that EU spending is not only legal and regular, but also delivers results. And, in the future, the European Court of Auditors will be paying even closer attention to precisely this.

Our focus is on the added value of European action. Every euro spent at European level should bring added value that would not be achieved if it were spent at national or regional level.

I would be grateful if you could support us in this by giving us your ideas and suggestions for our future work.

I would like to finish with a word of thanks for the Finnish Council presidency. Our cooperation and interaction with you were excellent and, I think, mutually beneficial. I hope to continue this excellent cooperation next year with the Croatian Council presidency, and look forward to doing so.

Thank you for your attention. I should be happy to take any questions or comments you may have.