EUROPEAN COURT OF AUDITORS

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FAQ

Luxembourg, 4 October 2018

2017 Annual Report - Frequently Asked Questions

1. What is the role of the European Court of Auditors as regards the EU budget?

Every year, we **check the EU accounts and provide an opinion** on two questions: whether the accounts are accurate and reliable, and whether the EU budget was spent according to the rules.

This 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).

In 2017, EU spending totalled €137.4 billion.

2. Has the European Court of Auditors signed off the 2017 accounts?

Yes.

We have signed off the 2017 accounts as reliable (given a 'clean opinion'), as we have for every financial year since 2007. We conclude that the 2017 accounts present fairly, in all material respects, the financial position of the EU and its results for the year.

As well as our opinion on the accounts, we are required to give an opinion – based on our audit work – on whether the underlying payments were made in accordance with EU rules. There has been a sustained improvement in the estimated level of error in payments over the last few years: 2014: 4.4%, 2015: 3.8%, 2016: 3.1%, 2017: 2.4%. Moreover, in 2017, a significant part of the audited expenditure – mainly entitlement payments – was not affected by a material level of error.

Therefore, for the second year running, we have issued a **qualified opinion** on 2017 payments. Until these last two years, our opinion on the regularity and legality of spending had been adverse for every year since 1994.

ECA Press

Mark Rogerson – Spokesperson T: (+352) 4398 47063 M: (+352) 691 55 30 63
Damijan Fišer – Press Officer T: (+352) 4398 45410 M: (+352) 621 55 22 24
12, rue Alcide De Gasperi - L-1615 Luxembourg
E: press@eca.europa.eu @EUAuditors eca.europa.eu

3. 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, i.e. not present in the entire population.

An “**adverse**” opinion indicates widespread problems.

4. What is a “material level of error”?

In audit terminology, this means the level below which **errors are not regarded as having a significant effect**. A material level of error is a level of error that is likely to influence the decision of the intended users of the audit report. Both we and the European Commission use a 2% threshold to determine materiality.

5. What are “entitlement/reimbursement payments”?

Entitlement payments are based on meeting certain conditions. Such payments include, among others, direct aid for farmers (under ‘Natural resources’), student and research fellowships (under competitiveness spending), and salaries and pensions for EU staff (under ‘Administration’).

Reimbursement payments are made when the EU reimburses eligible costs for eligible activities. Such payments are made, for example, for research projects (under competitiveness spending), investment in regional and rural development and training schemes (covered by expenditure under ‘Economic, social and territorial cohesion policy’ and ‘Natural resources’) and development aid projects (under ‘Global Europe’).

6. Is the EU’s financial management getting better?

Yes.

There has been a sustained improvement in the estimated level of error in payments over the last few years, from 4.4% in 2014 to 2.4% in 2017. Moreover, in 2017, about half of the audited expenditure examined was free from material error. We have also seen in our audits in recent years that the internal controls at the Commission and in the Member States have been significantly strengthened.

7. But there is still a 2.4% estimated level of error. What does that mean?

2.4% is an estimate of the **amount of money that should not have been paid out** from the EU budget, because it was not used in accordance with EU rules and thus does not comply either with what the Council and Parliament intended with the EU legislation concerned 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 proper application of public purchasing rules.

8. Does that mean that 2.4% of EU money was wasted?

No.

This approach can be misleading because there is an important 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 met. That is what the figure of 2.4% refers to.

Some of the errors involve payments which did not meet eligibility conditions: for example, incorrect area declarations by farmers, or support given for research by a company classified as 'small or medium', even though it was wholly owned by a large company. We found such a case in European Regional Development Fund co-financing for loans, which must primarily be used to support SMEs. However, one of the financial instruments we audited had invested almost 80% of the loans in companies that were not SMEs.

In these cases, EU funds may still have had some positive impact and provided some benefit, even though they did not fully respect the conditions relating to their use. On the other hand, some legal and regular expenditure may still be wasteful, such as port infrastructure built without adequate regard to future freight levels.

9. How do errors occur?

Errors occur when people or organisations **do not comply with the rules** when claiming EU funding. To be eligible for EU funding, they are required to comply with some specific EU rules and, in many cases, also with national rules. These rules exist to ensure that spending does not interfere with the functioning of the internal market (such as procurement rules and state aid rules) and takes place for the purposes intended by the Council and Parliament.

Errors occur when these **rules are breached** - for example, farmers submitting an incorrect agricultural area, project promoters not adhering to public procurement rules, or research centres claiming for reimbursement of costs not linked to EU-funded projects. For instance, in one case we examined, an SME 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 farmer received conditional aid although he did not comply with any of the agri-environmental commitments.

The 2017 annual report provides further examples of errors found during our audits.

10. Do the errors found constitute cases of fraud?

In the great majority of cases, no.

Fraud is a deliberate act of deception to gain some advantage. Although cases of fraud can be difficult to identify during standard audit procedures, we find a number of suspected fraud cases each year in our audit testing.

In 2017, we found 13 instances (11 in 2016) of suspected fraud out of approximately 700 transactions audited. All these cases are reported to OLAF, the European Union's Anti-Fraud Office, which investigates and follows up as necessary in cooperation with Member State authorities.

11. Both the Commission and the Member States have powers to prevent errors and correct them where they occur. How much impact does this have on the level of error?

Overall, corrective action by authorities in the Member States and by the Commission had a positive impact on the estimated level of error.

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

For instance, had this information been used, the estimated level of error would have been below the 2% materiality threshold in 2017 for overall spending on 'Natural resources". We believe this demonstrates that existing controls are adequate, but they must be enforced properly.

12. Last year, you said that the ECA was moving towards a new, single audit approach. What have you done differently for 2017?

2017 was the first year that a significant part of spending from all areas of the EU budget was made according to the **new rules** applicable to the 2014-2020 multi-annual financial frameworks (MFF). Meanwhile, the internal controls at the Commission and in the Member States have been significantly strengthened, so that we expect to be able to rely more on them when it comes to assessing the regularity of spending.

We aim to apply **attestation approach** to our entire statement of assurance, which means that we would form our audit opinion on the Commission's (management and control) statement.

For 2017, the auditors piloted this new approach in the area of Cohesion, which made it clearer where shortcomings persist, both at the European Commission and in the Member States. This helps to promote accountability and further improve the management of EU finances.

Following this pilot, we intend to **expand the project** next year to other spending areas. This will also enable us to focus time and resources on "performance audits" - checking whether EU policies are actually effective and spending programmes are delivering the best possible value for money. As an example, this year 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. Checking that money has been spent in accordance with the rules is all-important but it is not enough. We should also look more and more at what has been achieved with it.

The 2017 annual report, including the PRESS PACK, is available in 23 EU languages at eca.europa.eu