



EUROPEAN
COURT
OF AUDITORS

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Speech

Luxembourg, 8 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 European Parliament's Committee on Budgetary Control (CONT)**

Brussels, 8 October 2019

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Madam Chair,

Distinguished Members of the CONT Committee,

Commissioner Oettinger,

Representatives of the Council Presidency,

Ladies and gentlemen,

I would like to thank you for setting aside time for the Court of Auditors this morning, even though I know you are very busy with the hearings for the incoming Commission.

As I have not yet met all of you, please allow me to introduce myself: my name is Klaus-Heiner Lehne. I have been President of the Court of Auditors since October 2016, and only last week had the privilege of being re-elected to my position for a further three years. I am here to represent the Court's 28 Members, who have all contributed in their different roles to our common endeavour. We look forward to meeting you all personally as soon as possible, and also, Madam Chair, to welcoming you to our offices in Luxembourg as soon as a date can be agreed.

My purpose here this morning is to provide you with a snapshot of the EU's financial management. In our annual report, and in particular with our statement of assurance, the Court assesses whether the money which you, as Parliament, put into the budget last year was spent legally, regularly, and of course effectively. In short, rather like a doctor carrying out your annual medical, our job is to establish which parts of the body are working well, which parts may be more problematic, and what the deeper causes of any problems may be.

Our audit teams, led by my colleague Lazaros Lazarou and the different Members responsible for the individual chapters, have gone far and wide to examine the accounts, revenue and expenditure covering all parts of the EU budget for 2018. We discussed our findings frankly and intensively with the Commission and, where necessary, with the Member State administrations that implement EU funds – this you can see for yourselves by reading their replies. Our final assessment takes account of all relevant information that was provided during this extensive fact-clearing process.

As we do every year, we have audited the EU's consolidated accounts for 2018. In our view, they present the EU's financial position fairly in all material respects, and are not affected by material mis-statements. We noted that the Commission has continued to work towards strengthening its processes for calculating the employee benefits liability (for EU staff), an area which we will keep under review.

Secondly, for revenue accruing to the EU budget, we did not detect a material level of error.

- o We looked at the Commission's systems for ensuring that the various sources are properly calculated, collected and reported, as well as at a number of Commission recovery orders and national systems. In all three Member States we visited (Spain, Italy and France), we noted weaknesses in the management of established duties yet to be collected.
- o We also found that the Commission's inspections of traditional own resources were not supported by a structured and documented risk assessment. For example, the Commission does not rank Member States by level of risk; therefore, we could not be sure that the inspections focus properly on the areas of highest risk for the collection of own resources for the EU budget.
- o We also noted the Commission's prompt action to issue a general reservation regarding the GNI data used to calculate France's contribution because the data was of insufficient quality; and its decision for the third year in succession to issue a reservation for customs duties collected by the United Kingdom concerning imports from China.

Thirdly, in the area of expenditure, the traditional "headline" of our Statement of Assurance, we estimated the level of error at 2.6%¹. This means that we estimate that 2.6% of payments should not have been paid out from the EU budget because they were not used in accordance with EU rules. However, this overall estimate obscures an important distinction: the way in which funds are disbursed has a major impact on the risk of error.

For expenditure subject to complex rules and representing around half the EU budget², mainly "reimbursement-based payments" where beneficiaries have to submit claims for eligible costs they have incurred – think research projects, employment-related projects, regional and rural development projects, and developments projects in non-EU countries – the level of error is estimated at 4.5%, which is relatively high.

By contrast, the risk of error is lower for expenditure subject to simpler rules, mainly "entitlement-based payments", where beneficiaries receive payment if they meet certain conditions – think direct aid for farmers, administrative expenditure, student fellowships or budget support for non-EU countries. In other words, around 50% of our population is free from material error.

This is why, for the third year in succession, we have issued a "qualified opinion" on expenditure – meaning "yes, but". We see this as an encouraging sign that the Commission and Member States have sustained the progress we noted in the previous two years. Our auditors found some good things to say about low-risk areas, but at the same time serious issues still need to be tackled in high-risk areas, an aspect I will come to shortly.

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

² 50.6%

As part of its own multi-annual strategy, the Court of Auditors sets out to base its statement of assurance on an attestation approach, meaning that, in future, we intend to provide assurance on the Commission's management statement, which itself draws on its own checks and those carried out at national level via shared management. I am convinced that "the path is made by walking", that is by taking concrete steps – perhaps modest ones at first – to reach the common-sense goal of being able to rely on work already done by others.

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. However, I would also stress that even in the key area of Cohesion, our auditors observed a number of improvements and noted good practices. 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 and certification bodies.

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.

Distinguished Members, 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. We also noticed, despite the Commission's efforts, that start-up companies and SMEs were more error-prone than other, perhaps more experienced or larger, beneficiaries. For example, we audited one SME in the United Kingdom which had carried out its first-ever EU project, declaring costs totalling 1.1 million euros. Up to a third of the value of the items we audited contained material errors. We also found that the checks were not effective as regards the costs of large research infrastructure: in two out of three cases audited, we found major overclaims (75 000 and 130 000 euros) despite extensive prior checks by the Commission. As we stressed in the legislative opinion we sent to you last year, we see a lot of potential for simplifying European research programmes. In our view, the Commission's proposal for the new Horizon Europe for 2021-2027 addresses at least some of the underlying sources of the errors which we find in our audits. It is now up to the Parliament and the Council to finalise this legislation. Our auditors remain at your disposal if you require additional expertise during these negotiations.

On Economic and Social Cohesion, we estimated a material level of error (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 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"). Public

procurement is also a sticking point, for example where a public authority awards certain services without issuing a call for tender.

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 (accounting for 72% of spending under this heading) were free from material error. This is good news, and we found that several factors made a significant contribution to preventing and reducing errors: the land parcel identification system (LPIS), the possibility for farmers to submit claims online, and the preliminary cross-checks carried out on farmers' aid applications. When we look at other sorts of payments, the rules are more complex and this increases the risk of errors. For example, we audited a case in Poland where different members of the same family had applied separately for support to develop a pigsty, claiming that they operated independent SMEs. However, taken together - and this was the reality our audit discovered – the family company did not meet the conditions for support for SMEs.

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

Under the heading "Global Europe", large amounts of EU funds are spent through international organisations, as you are well aware. However, this year we experienced difficulties again in obtaining essential supporting documents in good time for three transactions implemented by UNICEF and the World Food Programme. We believe that this lack of cooperation by international organisations in forwarding the documents or information we need to carry out our audits is unacceptable. I am therefore grateful that the Commission has accepted our recommendation and will introduce a system of immediate contacts for international organisations. Our auditors also found a number of cases of ineligible expenditure. These include, for example, the case of an international organisation which charged the EU for 31 plane tickets for a staff retreat in Jamaica. Obviously, such ineligible costs need to be recovered.

Lastly, under the MFF heading "Administration", we estimated a non-material level of error. However, there are two points that I would like to highlight here: firstly, we found a number of weaknesses in the Commission's checks concerning the allocation of family allowances to EU staff. Secondly, and I think, Madam Chair, that this might be of special interest to the Committee, we found significant weaknesses in the procedures organised by the Parliament and the Commission when they strengthened the security of their buildings following the terrorist attacks of recent years. We found that some of the framework contracts used allowed for work to take place on the basis of a single quotation from a contractor. We found negotiated procedures with a single candidate or where no tender had been published. We believe that the argument of extreme urgency, which would be needed to depart from the usual procurement rules, was not demonstrated, as it actually took several months to launch these procedures.

Ladies and gentlemen,

Before I conclude, I should like to say that the Court of Auditors is keen to take cooperation forward on all fronts with you here in the CONT Committee. We remain at your disposal during the new discharge procedure on which we have just started work this morning, and would also be more than happy to present whichever of our Special Reports you would like to hear more about.

This annual report is not like previous ones. We find ourselves at a crossroads – a fresh legislative term, one Member State in the process of withdrawing from the EU, and the other 27 Member States in the last stretch of negotiations on the Multiannual Financial Framework for 2021-2027. 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, this is definitely not a moment for self-congratulation. We expect the incoming Commission and the Member States to sustain these effort and build upon them. And we are counting on all of you here to ensure that this is the case.

Thank you for your attention. As usual, my colleague Mr Lazarou and I should be happy to take any questions or comments you may have.