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Speech

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Speech by Vítor Caldeira, President of the European Court of Auditors

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President,

Ministers,

It is an honour to present the Court's annual reports to the Council.

As you may know, this year we have called for a "wholly new approach" to EU investment and spending.

We have done so for three main reasons:

- First, the EU and Member States have recognised the need to fund **major new challenges**;
- Second, serious **long-standing EU financial management problems** remain to be addressed; and
- Third, the **mid-term review** of the Multi-Annual Financial Framework provides an opportunity for a fundamental re-think of priorities and some funding schemes.

It was encouraging to hear the positive reaction of Commission Vice-President Georgieva and the Members of the European Parliament, when I presented this message to the Parliament last month.

Ministers,

It is clearly a very difficult time for the EU and the Member States. Europe is facing **major challenges** on many fronts:

- the refugee and security crises;
- meeting energy needs and climate goals; and
- generating sufficient economic growth and jobs.

Public funds are needed to address these challenges, and it is essential that those funds are well invested.

The EU budget is an important source of funds at EU level. Our report shows that it could be invested better and more quickly to meet the challenges Europe is facing.

But for that to happen, long-standing financial management problems - that we highlight in our report - need to be addressed.

First, a number of **financial backlogs** have built up.

The EU budget is over-committed and projected to remain so for the foreseeable future.

Some Member States are struggling to absorb the EU funds they have been allocated.

There also continues to be a high-level of unused funds in financial instruments.

Tackling these backlogs would serve to free up funds so they can be used where they are most needed.

In our view, the flexibility of the EU budget is a key issue to address in the mid-term review.

Second, too much money is still not spent in accordance with the EU's financial rules.

There is a **persistently high-level of payment errors**. The overall estimated error rate for payments in 2014 was 4.4%, and it has been stable now for the last three years.

We recognise that the Commission and Member States have made progress in recent years in preventing and correcting errors.

But, once again, our report shows that many more errors could have been corrected by national authorities if all the information available had been used.

In fact, in the most error prone areas under shared management, the level of error could have been halved.

That said, EU spending programmes and schemes are inherently risky because payments still largely depend on information supplied by the final beneficiaries themselves.

Our analysis shows that there is scope to design spending schemes that are less error prone, in particular by simplifying payment conditions and procedures.

It also shows that the estimated level of error is more strongly related to the type of spending scheme than to whether or not they are under shared management.

That is why we recommend that the Commission focus its analysis for the mid-term review on the design of certain schemes, to identify where there is scope for “error proofing”.

Fewer errors and better corrections would improve the quality of spending and free up funds for use elsewhere.

This brings me to the third area for improvement, **the performance of the EU budget**.

We found that the Multi-annual Financial Framework could be better aligned to the Europe 2020 strategy, both in terms of periods and priorities.

We also highlight the fact that high-level EU targets and political aims are not translated into clear operational objectives at lower levels.

That is a pre-requisite for effective management and reporting on performance.

Finally, EU financial management would also strongly benefit from **improved transparency**. It is crucial to ensuring citizens’ trust.

In our report, we recommend that the Commission take action to improve transparency about:

- the EU’s long-term cash flow needs,
- payment errors and financial corrections, and
- the results of spending the EU budget.

But it is equally important to ensure transparency for EU policies not directly funded from the EU budget.

New ways of funding EU policies should not put financial risks beyond public scrutiny and audit.

New funding arrangements have developed in response to specific crises. In each case, we have warned of the need to ensure effective public accountability and audit arrangements from the outset.

I am pleased to say that our warnings are being heeded. The Single Resolution Mechanism, in particular, gives the Court a clear public audit mandate.

But there is a risk that accountability may suffer if funding arrangements become too fragmented overall.

Ministers,

The mid-term review provides an opportunity to develop a **wholly new approach** to EU financial management, to use funds better to address new challenges and to resolve the longstanding problems I have highlighted.

In our view, if the EU is to invest its money better and more quickly:

- decision-makers must ensure that investments better match the Union's changing priorities;
- legislators must simplify instruments, so they deliver better results at lower risk to taxpayers; and
- financial managers must ensure that available resources are used more efficiently.

The Court stands ready to contribute to the institutional dialogue in the context of the mid-term review.

Based on our audit experience, we plan to develop our contribution around what we may call the "three pillars" for ensuring European added value for citizens:

- First, objective setting;
- Second, delivery mechanisms; and
- Third, audit and accountability arrangements.

President, Ministers,

The Court of Auditors stands alongside the Council and the other European Institutions at this very difficult time.

Defending our Union and ensuring the wellbeing of our citizens will place a great burden on our common resources.

Helping to ensure that those resources are used to their best effect will continue to be the principal task of the European Court of Auditors.

Thank you for your attention.