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

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ECA Press

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President,

Ministers,

Vice-President of the Commission Georgieva,

It is an honour to present the Court's annual report on the 2013 financial year to the Council.

This is an important moment of change for Europe. A new European Commission is facing many important challenges.

One challenge is to improve the management of the EU budget. It has three main elements: spending the money available, ensuring compliance with the EU's financial rules, and achieving valuable - and visible - results for citizens. An *omne trium perfectum*, as Commission President Juncker might say.

Honourable Ministers,

At the start of this new spending period, the Court's 2013 annual report says EU financial management is not yet good enough overall.

As regards **spending the EU budget**, over €148 billion worth of payments were made from the EU budget in 2013, almost 99% of the maximum available for the year.

The Court concludes that those transactions were properly accounted for in 2013, which means that we have now signed off a clean audit opinion on the reliability of EU accounts every year since 2007.

We did not find a "black hole" in the EU accounts as has been described in certain press reports. What we do note in our report is that, despite the high level of payments, the total outstanding financial obligations of the EU rose by a further €9 billion to €322 billion by the end of 2013.

We make the point that this is one of a number of signs of the growing pressure on EU cash-flows. And it is in this context that we recommend that the Commission anticipate potential funding shortages for EU programmes by preparing appropriate cash-flow forecasts.

It is also why we call on the Commission to ensure advances and upfront investments from the EU budget reflect real cash-flow needs. An example we give is that less than half of the €14 billion paid in to **financial engineering instruments** since 2007 had actually reached final beneficiaries by the end of 2013.

This is one risk of using financial instruments. Another risk is that the more you leverage public funds, the further removed the money gets from public accountability and audit. Without the right arrangements in place, financial instruments risk making it more difficult to see where the money is going, whether the conditions for using it are being met, and what results are being achieved.

This is a point we have highlighted not only in our annual report but also in two recent landscape reviews, one on public accountability and audit gaps and the other on the risks to EU financial management.

And I raise the point again today because it is highly relevant in the context of the Commissions' recently announced Investment Plan for Europe. The new **European Fund for Strategic Investments** will ultimately rely on guarantees from the EU budget to raise private finance, so the principles of transparency, accountability and public audit should be respected.

Ministers,

The EU budget gets spent but too many payments are still not in **compliance with the rules**.

The Court estimates that the overall error rate for payments is 4.7% in 2013, compared to 4.8% in 2012. This is significantly above the "materiality threshold" of 2%, as has been the case for all the years the Court has audited the EU accounts.

In 2013, all areas of expenditure were affected by a material level of error. The only exception was the €10.6 billion euro the EU spent on its own administration.

The Court estimates that the error rate is higher for the 80% of EU funds, where management responsibility is shared between the Commission and Member States. We estimate the error in shared management at 5.2% compared to 3.7% in the other areas, which are mostly managed directly by the Commission. As can be seen from the additional analysis in our overview of cohesion and agriculture spending during the 2007-2013 period, the Court finds errors in all Member States.

Corrective actions by the Commission and national authorities certainly help to keep the overall error rate down, but our evidence suggests significantly more could be done under the current arrangements to prevent errors in the first place.

For example, the Court's error rate in rural development could, in principle, have been reduced from 6.7% to 2.0%, if national authorities had used all the information they had at their disposal before submitting claims to the Commission for reimbursement.

The main sources of error that national authorities should watch out for are the same as in previous years: ineligible claims, serious breaches of public procurement rules, and incorrect declarations of agricultural areas.

In the Court's view, prevention is better than correction because such errors of regularity also put at risk the efficiency and effectiveness of EU spending. This brings me to the third main message in our annual report.

Ministers,

In the Court's view, financial managers at EU and national level should focus more on results when spending EU money.

During the 2007-2013 programming period, the focus was primarily on spending the money available, secondly on complying with the rules, and only then – and to a comparatively limited extent – on **achieving results**.

This reflects a fundamental feature of EU budgetary management arrangements. Officials at Member State and EU level have been under considerable pressure to spend, because otherwise they may lose the funding, but they have lacked equivalent incentives to achieve results with the money.

This needs to change during the new programming period. Our annual report provides many examples, drawn from among the 19 special reports the Court adopted in 2013, to show how better focus on results could enhance performance.

The Commission has signalled its willingness to move from a culture of spending towards a culture of performance. Three elements will be necessary for success:

- First, a genuine commitment, at EU and national level, to getting the best results possible with limited EU funds.
- Second, suitable targets for the results to be achieved as well as reliable information on progress towards achieving them; and
- Third – and most important - incentives to reward good performance and to sanction poor performance.

At the same time, the overall results achieved with EU money could - and should - be more visible. In this regard, the Court recommends that the Commission improve the coverage given in its annual evaluation report to the European added value of the EU budget and to the contribution it makes towards achieving the Europe 2020 strategy goals. We also note that the Commission's ability to do that will depend - to a very large extent - on the quality of the information available at national level.

President, ministers,

Improving EU financial management is not about choosing between spending the money, complying with the rules, and getting results. It is about managing to do all three at once.

We know this is not straightforward. We highlight the risks involved in our landscape review on EU financial management. However, the task would be easier if the EU budget were more manageable, with fewer spending priorities, clearer objectives and simpler arrangements for spending the money. These are key lessons of the 2007 to 2013 budgetary period. As I hope our work also shows, the Court is fully committed to assisting the Council, the other EU institutions, and Member States' authorities to improve EU financial management and accountability over the current budgetary period.

Thank you for your kind attention.