



FAQ

ECA/14/49

Luxembourg, 5 November 2014

2013 Annual Report - Frequently Asked Questions

1. Has the ECA signed off the 2013 accounts?

Yes. The ECA has signed off the 2013 accounts as reliable (given a 'clean opinion'), as it has for every financial year since 2007. The ECA concludes that the 2013 accounts present fairly, in all material respects, the financial position of the EU and its results for the year.

As well as the opinion on the accounts, the ECA is also required to give an opinion – based on its audit testing – on whether **the underlying** payments were made in accordance with EU rules. **For 2013, the estimated level of error in these transactions was again too high at 4.7% for the ECA to give a clean opinion on the regularity of expenditure.**

2. Is EU financial management getting better?

The estimated error rate has not changed greatly over recent years, but has been consistently above the "materiality threshold"ⁱ of 2%. The situation varies from one policy area to another, although it is only acceptable in EU administrative spending. ([See diagram](#))

The ECA has repeatedly recommended improvement in control systems at Member State and EU levels and further simplification of the rules to improve the quality of spending and reduce the level of error.

3. So what does the 4.7% estimated error rate mean?

4.7% 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 with what the Council and Parliament intended with the EU legislation concerned.

ECA Press

Damijan Fišer – Press Officer

12, rue Alcide De Gasperi - L-1615 Luxembourg

T: (+352) 4398 45410 M: (+352) 621 55 22 24

E: press@eca.europa.eu @EUAuditorsECA Youtube: [EUAuditorsECA](https://www.youtube.com/EUAuditorsECA) eca.europa.eu

Typical errors include **payments for beneficiaries or projects that were ineligible or for purchases of services, goods or investments without proper application of public purchasing rules.** (See [diagram](#))

4. The total amount of EU budget in 2013 was €148.5 billion and the error rate was 4.7%. Does that mean that €7bn of EU money was wasted?

In the past, some commentators have multiplied the total EU budget by the error rate and came up with a total for “money wasted”. **This approach is simplistic and can be misleading.** In its testing the ECA checks whether EU money has been spent on the purpose for which it was intended, whether costs charged are properly calculated, and eligibility conditions have been met.

Some of the errors involve money which did not meet eligibility conditions: for example, support given for research by a company classified as ‘small or medium’, whereas it was wholly owned by a large company. Some involve breaches of procurement rules, such as awarding an additional construction contract for an airport directly to a company, without giving other potential tenderers a chance to make their offers at the best possible price.

In these cases EU funds may have had some positive impact and provided some benefit even though they did not fully respect the conditions related to their use. On the other hand, some legal and regular expenditure may still be wasteful, such as a motorway built without any regard to traffic needs.

5. How do errors occur?

Errors occur when beneficiaries do not comply with the rules when claiming EU funding. To be eligible for EU funding, beneficiaries are required to comply with specific EU and, in some cases, national rules. These rules are in place to try and ensure that the spending takes place for the purposes intended by the Council and Parliament.

Errors occur when these rules are breached. For example, project promoters not respecting public procurement rules or research centres claiming for reimbursement of costs not linked to the EU-funded projects or farmers not honouring their environmental commitments. The 2013 Annual Report provides examples of errors found during audit testing.

6. If the estimated error rate for payments is 4.7% for 2013, does this mean that 95.3% of the EU budget was spent in accordance with the rules?

No. The ECA’s opinion on EU spending is based on an extensive sample covering all spending areas. The sampled transactions are audited in detail and the errors found are quantified and used to calculate an estimated error rate.

But there are many errors that the ECA does not quantify, such as less serious breaches of procurement rules, failures to comply with rules on publicity, or incorrect transposition of EU directives into national law. These errors are not included in the ECA’s estimated error rate.

7. Are the errors found cases of fraud?

In the large majority of cases, no. Fraud is a deliberate act of deception to gain a benefit. Although cases of deliberate actions to perpetrate fraud can be difficult to identify during usual audit procedures, the ECA finds a number of suspected fraud cases each year in its audit testing. All these cases are reported to OLAF, the European Union’s anti-fraud office, which investigates and follows-up as necessary in co-operation with Member State authorities.

8. Who is to blame here - the Member States or the European Commission?

Ultimately, the blame rests with those who make incorrect claims for funding. However, control systems at both Member State and EU level should prevent such claims being processed in the first place, or detect and correct them after the event. According to the ECA audit, these control systems are – in general – only partly effective. That is why there are errors in payments.

The ECA estimates the error rate for expenditure co-managed by the Commission and the Member States at 5.2%. For the rest of operational expenditure, which is directly managed by the Commission, it is 3.7%. Many incidences were found of weaknesses in management and control systems at both Member State and Commission level.

Shared management areas, such as agricultural and cohesion spending, represent 80% of the EU budget. There is potential to use control systems more effectively to reduce the error rate. The ECA concluded that for a large proportion of the errors found, national authorities had sufficient information available to have detected and corrected many of them before claiming reimbursement from the Commission. This could have significantly reduced the error rate, for instance from 6.7% to 2.0% in the rural development, environment, fisheries and health spending area.

9. The Commission can claim money back from Member States if it has been wrongly spent. How much impact does that have on the error rate?

Financial corrections and recoveries are taken into account in the error rate estimated by the ECA, if they recover erroneous payments made during the same year. This happens when the incorrect expenditure has been identified and excluded from the declaration sent by the Member State concerned to the Commission and/or has led to recoveries from beneficiaries during the year. However, these conditions are only sometimes met.

For 2013, corrective and recovery action by authorities in Member States and the Commission had a positive impact on the estimated error rate. Without this action the overall estimated error rate would have been 6.3% instead of 4.7%.

The 2007-2013 spending period provided limited incentive for Member States to claim correctly, since they could just withdraw erroneous claims and replace them with new ones, without in most cases losing money from the EU budget. The rules governing cohesion policy during the new 2014-2020 period reduce the scope for this sort of practice. The impact of this change should be seen in future spending.

10. What do you mean by a “focus on results”?

EU and Member State financial managers should be paying more attention to what EU-funded projects and activities are achieving, and not just concentrating on whether they have been completed in accordance with the rules. For example, spending on airports and roads that people will actually use and funding green projects which actually do help the environment.

The 2013 Annual Report PRESS PACK is available in 23 EU languages on www.eca.europa.eu

ⁱ The materiality threshold below which errors do not have a significant impact.