

2015 discharge: EU general budget, European Commission and executive agencies

2016/2151(DEC) - 14/07/2016 - Court of Auditors: opinion, report

PURPOSE: presentation of the Annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2015.

CONTENT: the Court of Auditors published its 39th annual report on the implementation of the general budget of the Union for the year 2015.

This report follows a two-part structure:

- the first part contains the statement of assurance and a summary of the results of the audit on the reliability of accounts and on the regularity of transactions;
- the second part presents the findings on budgetary and financial management.

The statement of assurance (DAS) concerning the reliability of the EU's annual accounts and the legality and regularity of transactions is the central element of this report.

DAS: the Court concluded that the consolidated accounts of the European Union for the year ended 31 December 2015 **present fairly**, in all material respects, the financial position of the Union as at 31 December 2015, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with the Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector.

Revenue: revenue underlying the accounts for the year ended 31 December 2015 is legal and regular in all material respects.

Expenditure: expenditure recorded in 2015 is materially affected by error. The estimated level of error for payments underlying the accounts is 3.8 % Progress can be seen in this regard compared to previous years but remain persistently above the materiality threshold of 2 %.

Management mode has a limited impact on level of error. The same estimated level of error under shared management with the Member States (4.0 %) is found and for expenditure managed directly by the Commission (3.9 %).

The highest levels of error were found in spending under:

- economic, social and territorial cohesion (5.2 %);
- competitiveness for growth and jobs (4.4 %).

Key findings and messages to the Court's DAS: other comment made by the Court may be summarised as follows:

- **Reimbursement spending was most affected by error:** the correct calculation of payments to recipients of funding often depends on information provided by the recipients themselves. This is especially significant in the area of reimbursement activities. EU spending by programme expenditure type includes the following errors: (i) for reimbursement expenditure, the estimated level of error is 5.2 % (2014: 5.5 %); (ii) typical errors in this area include ineligible costs contained in the cost claims, ineligible

projects, activities and beneficiaries, and serious infringement of public procurement rules; (iii) for entitlement programmes, the estimated level of error is 1.9 % (2014: 2.7 %), with typical errors including small over-declarations by farmers of agricultural areas.

- **Corrective measures:** corrective action by authorities in the Member States and by the Commission had a positive impact on the estimated level of error. Without this action, our overall estimated level of error would have been 4.3 %. Although steps have been taken by the Commission to improve its assessment of risk and the impact of corrective actions, there is still scope for improvement. If the Commission, authorities in the Member States or independent auditors had made use of all information available to them, they could have prevented, or detected and corrected a significant proportion of the errors before the related payments were made.

- **Payments:** amounts to be paid in the current and future years remain at a very high level. However, the Commission has not produced a cash flow forecast covering the next 7 to 10 years. Such a forecast would enable stakeholders to anticipate future payment requirements and budgetary priorities.

- **Financial instruments:** the increasing use of financial instruments, not directly funded by the EU budget nor audited by us, poses higher risks for accountability and the coordination of EU policies and operations.

- **Performance based budget:** the Court noted that there has been some progress in the indicators used by the Commission to measure performance, but shortcomings remain. Management objectives also need to be better developed at the level of the Commission's directorates-general.

- **Horizon 2020:** although there have been improvements when compared to the Seventh Framework Programme, the Commission is still limited in its ability to monitor and report on the performance of the programme. The links between the Commission's 10 new political priorities and Europe 2020/Horizon 2020's strategic framework need further clarification.

- **Follow-up of Commission recommendations:** despite an overall reasonable level of awareness of our recommendations to Member States, there is a wide variation in the level of formal follow-up and, as a result, only moderate evidence of changes in national policy and practice.

Analysis of budgetary implementation by groups of expenditure and recommendations from the Court: expenditure that did not fulfil the necessary conditions to be charged to EU-funded projects continues to make the greatest contribution to the overall estimated level of error (ineligible costs included in cost claims: 42 % of the overall estimated level of error). Two other major contributors to the estimated level of error were incorrect declarations of area by farmers (19 %) and ineligible projects/activities or beneficiaries (16 %). Serious errors in public procurement (11 %) contributed considerably less when compared with 2014.

- **Competitiveness for growth and jobs** (€14.5 billion): the estimated level of error in spending on 'Competitiveness for growth and jobs' remains relatively higher than other spending areas. Much of the expenditure is made on a cost reimbursement basis and most of the errors were related to the reimbursement of ineligible personnel or indirect costs declared by beneficiaries.
- **Economic, social and territorial cohesion** (€53.9 billion): the expenditure for 'Economic, social and territorial cohesion policy' is the second largest in the EU budget and has the highest estimated level of error. This makes it the biggest contributor to the overall estimated level of error (half of the total). Almost all of the expenditure takes the form of cost reimbursement. Ineligible expenditure in the beneficiaries' cost declarations and the selection of ineligible projects, activities or beneficiaries contribute to three-quarters of the estimated level of error for 2015 for this spending area. Errors due to the infringement of public procurement rules represent one-seventh.

- **Natural resources** (€58.6 billion): ‘Natural resources’ has the largest share of the EU budget and also contributes significantly to the overall estimated level of error due to its high estimated level of error for 2015 (nearly a third of the total). **Overstated claims of agricultural areas** were the highest contributor to the estimated level of error in this spending area (more than half). Errors related to ineligible beneficiaries, activities or expenditure contributed to one-fifth. The European Agricultural Guarantee Fund (EAGF) accounts for more than three-quarters of expenditure under ‘Natural resources’ but is significantly less affected by error (2.2 %) than rural development (5.3 %). The latter is characterised by higher levels of error in investment spending, where agricultural businesses are subsidised on the basis of reimbursement of eligible spending.
- **Global Europe** (€6.9 billion): for ‘Global Europe’, the Commission’s acceptance of payments for works, services or supplies that had not been delivered, together with ineligible costs reimbursed by the Commission account for two-thirds of the total estimated level of error. The most frequent type of error identified by the Court’s audit work was ineligible expenditure claimed by final beneficiaries. This involves spending on activities not covered by contracts or incurred outside the eligibility period. Other errors found related to the acceptance and clearance of payment by the Commission for services, works or supplies that had not yet been incurred by the beneficiary, or for which the beneficiary could not provide us with supporting documentation to justify the expenditure.
- **Security and citizenship** (€2.1 billion): nearly a third of the spending is done through decentralised agencies which the Court reports on separately in our specific annual reports for agencies. The Court identified limitations in the Commission’s assessments of Member States’ management and control systems for the 2007-2013 SOLID programme (‘Solidarity and Management of Migration Flows’). Furthermore, the Commission performed relatively few ex post audits in Member States on programmes it considered to be low risk. However, this reduces the reliability of Member States expenditure for the SOLID programme.
- **Administration** (€9 billion): administrative expenditure had the lowest estimated level of error (0.6 %) and was free from material error.

Recommendations from the Court: lastly, to conclude its annual report, the Court noted that there has been a noteworthy decrease in the estimated level of error for ‘Economic, social and territorial cohesion’; ‘Competitiveness for growth and jobs’ and ‘Natural resources’. Slightly higher levels of error than in 2014 were detected for ‘Global Europe’ and ‘Administration’.