2017 discharge: EU general budget, European Commission

2018/2166(DEC) - 12/07/2018

PURPOSE: presentation of the annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2017.

CONTENT: the Court of Auditors published its 41st annual report on the implementation of the general budget of the Union for the year 2017.

Statement of assurance (DAS)

For 2017, the Court expresses a qualified opinion on the regularity of the transactions underlying the 2017 accounts. The expenditure recorded in 2017 covering spending on a reimbursement basis is materially affected by error. The estimated level of error for payments made on a reimbursement basis is 3.7%. The overall estimated level of error (2.4%) is still above the materiality threshold. Payments made on an entitlement basis are not affected by a material level of error.

The Court concludes that payments for 2017 are legal and regular, with the expenditure recorded in 2017 covering spending on a reimbursement basis. It believes that the EU accounts present a true and fair view of the EU's financial position.

Brexit

The report also assessed the potential impact on the 2017 accounts of the United Kingdom's withdrawal from the European Union. On 29 March 2017, the United Kingdom (UK) formally notified the European Council of its intention to leave the European Union (EU). On 22 May 2017, the negotiations started for the withdrawal agreement between the EU and the UK.

Part Five (Financial Provisions) of the draft withdrawal agreement of 19 March 2018 concerning the financial settlement states that the UK will pay all its obligations under the current and previous Multiannual Financial Frameworks as if it were still a Member State.

Based on this, the Court concluded that the accounts as at 31 December 2017 correctly reflect the withdrawal process.

Main observations of the Court of Auditors in relation to the 2017 DAS

Corrective measures

The Commission and the Member State authorities had applied corrective measures that directly affected 16 of the transactions sampled. These measures reduced the estimated level of error by 1.1%. Had the national authorities made proper use of all the information at their disposal, the estimated level of error for this chapter would have been 0.9% lower.

Fraud

In 2017, the Court found 13 instances of suspected fraud in the 703 transactions that it audited for the statement of assurance and for other performance and/or compliance audits (2016: 11). These cases were

forwarded to OLAF, along with six other cases brought to attention by the public. The instances of suspected fraud concerned the artificial creation of the necessary conditions for EU financing, the declaration of costs not meeting the eligibility criteria and procurement irregularities.

Budgetary and financial management: the main risk and challenges for the future budgets

In 2017, the EU committed EUR 158.7 billion (99.3%) of the total commitment appropriations of EUR 159.8 billion available in the adopted budget. Taking into account the special instruments, amounts committed exceeded the MFF ceiling by 3.1 billion.

As in 2016, total payments in 2017 were much lower than anticipated. They were EUR 18.2 billion below the ceiling set in the MFF. In anticipation of lower payments, the budgetary authority set the initial 2017 budget at EUR 134.5 billion, EUR 8.4 billion below the MFF ceiling for payment appropriations of EUR 142.9 billion. The low level of payments was mainly due to lower than anticipated claims being submitted by the Member States for the multiannual programmes of the 2014-2020 European Structural and Investment (ESI) funds.

The Court noted that in 2018-2020, the risk that available payment appropriations will be insufficient to settle all payment claims will increase significantly. A more accurate payment forecast for the future years would help to manage this risk.

Absorption rates

By end of 2017, the overall average absorption rate for the 2014-2020 MFF was even lower than in the corresponding year of the previous MFF (2010: 22 %). This was mainly due to the later closure of the previous MFF, the late adoption of legal acts, difficulties in implementing the new requirements for the current MFF and the administrative burden linked to overlaps between MFF periods.

Abnormal backlog of unpaid claims

There remains a risk of an abnormal payments backlog until 2020. Payments should gradually increase between 2018 and 2020, as payment claims are likely to rise substantially. There remains a risk of an abnormal payments backlog developing.

Outstanding commitments from 2014-2020 MFF

Payment appropriations in the next MFF will need to cover outstanding commitments from the 2014-2020 MFF and new programmes of the next MFF. Another possibility is to reduce commitment appropriations for programmes under the next MFF.

By the end of 2017, the Commission had not yet produced a comprehensive, long-term projection that fully complies with the Interinstitutional Agreement.

Analysis of budgetary implementation for the main MFF headings

- Competitiveness for growth and jobs

Expenditure of EUR 14.9 billion was subject to audit in this area. Most spending took the form of grants to public or private beneficiaries participating in projects. Research and innovation expenditure, which accounted for 53 % of spending under this sub-heading in 2017, is made through the seventh framework programme for research and technological development 2007-2013 (FP7) and Horizon 2020, the framework programme for 2014-2020.

The overall audit evidence indicates that the level of error in spending on 'Competitiveness for growth and jobs' was material.

The Court recommended: (i) clarifying the eligibility rules for Horizon 2020 on personnel costs; (ii) improving the level of awareness among beneficiaries of the eligibility rules for the CEF, in particular by drawing a clear distinction between an implementation contract and a subcontract; (iii) addressing the weaknesses identified by the Commission's Internal Audit Service in the Education, Audiovisual and Culture Executive Agency's Erasmus + grant management process and in the monitoring of research and innovation projects.

- Economic, social and territorial cohesion

Expenditure of just EUR 8.0 billion was subject to audit in this area. This was due to the low level of accepted expenditure; the figure is likely to increase substantially for 2018. Expenditure is affected by material error. Around 90 % of expenditure is reimbursement-based, and the errors here essentially reflect different categories of ineligible costs (in particular personnel and other costs, ineligible projects and beneficiaries).

The Court recommends that the Commission: (i) ensure that the audit arrangements for financial instruments managed by the EIF are adequate at the level of financial intermediaries; (ii) propose legislative changes for the post-2020 financial framework to exclude the reimbursement of VAT to public bodies from EU funds; (iii) address the complexity of the information presented on the 2014-2020 control and assurance framework in the AARs of DG REGIO and DG EMPL.

- Natural resources

Expenditure of EUR 56.5 billion was subject to audit in this area. As a whole, this area is materially affected by error. However, direct payments from the EAGF account for around three quarters of expenditure in this area and are free from material error. Direct payments to farmers are entitlement-based and have benefited from simplified land eligibility rules and an effective ex-ante control system (IACS) that allows automated cross-checks between databases.

The Court continue to find a persistently high level of error in the other spending areas (rural development, EAGF market measures, environment, climate action and fisheries). Expenditure in these areas is mostly disbursed through reimbursement of costs. Ineligible beneficiaries, activities, projects or expenditure contribute around two thirds of the estimated level of error for this MFF heading.

The Court recommends assessing the effectiveness of the Member States' actions to address the causes of errors for payments for market measures and rural development, and issue further guidance where necessary.

- Security and citizenship

Expenditure of EUR 2.7 billion was subject to audit in this area. This amount covered border protection, immigration and asylum policy, justice and home affairs, public health, consumer protection, culture, youth, information and dialogue with citizens. It is a relatively small but increasing share of the EU budget (approximately 2 % in 2017).

- Global Europe

Expenditure of EUR 8.2 billion was subject to audit in this area, with spending disbursed across more than 150 countries. Given the small size of the sample, the Court was not in a position to calculate a representative error rate for 'Global Europe' as it has for other spending areas.

- Administration

This area is free from material error. In 2017, expenditure of EUR 9.7 billion by the EU institutions and other bodies was subject to audit. This amount comprised spending on human resources (about 60 % of the total), buildings, equipment, energy, communications and information technology.