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Speech

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Speech by Klaus-Heiner Lehne, President of the European Court of Auditors

Presentation of the ECA's 2019 annual report

Committee on Budgetary Control – European Parliament

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Check against delivery.

The spoken version shall take precedence.

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Madam Chair (Ms Hohlmeier),

Rapporteurs and Shadow Rapporteurs for the Discharge,

Honourable Members,

Commissioner (Hahn),

Presidency of the Council,

Ladies and gentlemen,

I'm glad to be here with my colleague Tony Murphy whom you know already, but who for the first time he joins me in his capacity as our Member responsible for the annual report.

This year is a **challenging year**, unlike any other. As always in our European Union, **big crises** lead to **big steps forward** and innovations which we had thought impossible only a few months before.

And therefore, whilst I am here presenting you the Court of Auditors' annual report for the year 2019, we all have in mind the big decisions and agreements which shape EU spending and financial management **for the next seven years**, on the MFF, and on Next Generation EU.

As the European Union's independent external auditor, we have done everything we could to **continue providing an effective public audit service** in the EU since the outbreak of the Covid-19 pandemic.

What did we find?

On expenditure, we estimate that the overall error rate remained **stable** – from 2,6% for 2018, to **2,7%** for 2019. This headline of course masks considerable differences between policy areas.

In the area of **Competitiveness**, we estimated an increased error rate (4%), mostly relating to ineligible costs. The further simplification of complex rules on personnel costs is certainly part of the solution here, as we have been saying for a number of years. We also reviewed audits carried out by both the Commission and external auditors working on its behalf – and found them only to be partly reliable – there is still a clear margin of progress.

In **Natural Resources**, we noted improvements bringing the estimated level of error to 1,9%, which when taken together with other evidence produced by the control system, lead us to conclude that the error in

this area is close to materiality. This is **good news**, in particular for Direct Payments, mainly based on the area of agricultural land declared by farmers, which continue to be **well beneath** materiality and which represent 70 %, i.e. a large majority of spending under this heading. However, rural development market measures, fisheries and climate action, which represent the remaining 30 % of spending under this heading remains affected by a material error. On the expanded role of national **certification bodies** since 2015, having re-performed some their audits, we require a number of improvements, in line with the Commission's assessment of these audits.

In the area of **Administration**, we find no material error, in line with the past two years.

In **Cohesion**, where **national audit authorities** play a critical part in the assurance and control framework, we reviewed the work of 18 such authorities and continue to find errors which they had not detected. We estimated the error in this area to be **4,4 %**, taking into account corrections made by Member States authorities, which is lower than last year, but still remains material. The errors that audit authorities had not detected and other shortcomings in the residual error rates reported by the two Commission DGs in charge, REGIO and EMPL (a risk at payment of 3,1% and 2,2% respectively), are reflected in the **Commission's** error estimations which we therefore consider to be **underestimated**. If the national authorities and the Commission can clear this up in future years, we might very well be in position to **rely more** on the work of Member States audit authorities and their results or even **attest** their assessment. But we are not there yet. I know the Commission's strong determination to reach this goal, and we need big efforts at all levels to reach it.

Why do I insist so much on Cohesion?

It's quite simple: for several years we have made a difference between spending we consider as **high-risk**, for example Cohesion, and those we consider low-risk. High-risk spending contains material error at an estimated rate of **4.9 %** (2018: 4.5 %).

So what happened in 2019? Despite a few better or worse nuances here and there, there was no **fundamental** change in the underlying policy areas, and weaknesses in ex-post checks persisted.

But the **proportion** of high-risk expenditure, in particular Cohesion, increased (53%). This is not a problem in itself – it is good and expected that Cohesion spending increased. No one is to blame for that. But it implies that material error now affects most of our audit population – the error is therefore pervasive. And that is why - for the financial year 2019 - the Court of Auditors decided to issue an **adverse opinion** on spending, rather than a qualified opinion as in previous years.

This should **not** be seen as some sort of indictment of the Commission on its own – after all **Member State authorities** manage approximately 74% of EU expenditure. Each entity has a role in the chain, and oversimplification will get us nowhere.

It should also **not** be seen as a sign of any **backsliding** in management after three consecutive years where we were able to give qualified opinions on expenditure. If you look at the situation a decade ago, we have come a long way, and **there is no backsliding** but rather **persistent structural problems** in some areas which need to be addressed. We need **clear and simple rules** for all EU finances - and we also need **effective checks** on how the money is spent and whether the intended results are achieved.

What matters more than our overall conclusion or headline is the reality on the ground and our conclusions for the different spending areas, which are **very diverse**, and I invite you to look into these areas as you prepare the Parliament's decision on the discharge in the next weeks and months.

Madam Chair, Ladies and Gentlemen,

I speak to you in the context of the setting up of the **next financial period**. We are looking at an almost doubling of EU spending in the coming years – for once the word “historical” might not be an overstatement. My plea to you therefore is: let us **learn from our experience**, in order to set up the best possible system in the MFF, and in Next Generation EU. The EU has a single chance to get this right.

Therefore let us **protect the EU's financial interests** against irregularities and fraud – and I know the CONT Committee is our strong ally in this respect. In 2019 we sent OLAF nine cases of suspected fraud discovered as part of our audits, and I hope we will be able to have similarly close relations with the European Public Prosecutor as soon as it finally becomes operational, initially in 22 countries. The Treaties require of the Member States **efficient and independent justice systems** to fiercely protect the EU's financial interests exactly as if they were national financial interests, and I know your committee's commitment which helped reach the important political agreement between co-legislators last week which incorporates several of the recommendations the Court made earlier on in its Opinion – and I congratulate in particular co-rapporteur Mr Sarvamaa.

Let us also learn from previous experience by launching of the new financial period **as soon as possible**. It is of course important to get things right, but bear in mind that by the end 2019, the last but one year of the current seven-year budget, only 40 % of the agreed EU funding for the seven-year period has been paid out, with some Member States having used less than a third – you can find the summary table country

by country in our Audit in Brief. As you can see, the difficulty in **absorbing EU funds** is a continuing issue on the ground, whatever the goals or requirements fixed at political level. This has contributed to inflate the *reste à liquider*, which reached €298 billion by the end of 2019, and which will have to be addressed through appropriate measures, not only for the current but also for the next MFF.

Ladies and Gentlemen, and I conclude here,

In these times of crisis, the Member States and the European Commission have a tremendous responsibility for managing the EU's finances in a sound and efficient way. Our annual report, which I'm glad to discuss with you today, shows that **further efforts** are needed. And you, as directly elected Members of Parliament, have a **great responsibility** in exercising legislative and political control to ensure this happens.

Thank you for your attention.