

Joint Committee for EU Affairs
23 November 2022

The 2021 Annual Report and select audits of the EU auditors

Tony Murphy

President of the European Court of Auditors



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Today's agenda



2021 EU key figures



2021 annual report



Special reports



Additional EU funding sources

2021 EU key figures



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2021 EU Key figures

Revenue totalled
€ 239.6 billion

**Ireland:
€ 3 billion**



Expenditure totalled
€ 181.5 billion
= 1.3% of EU GNI

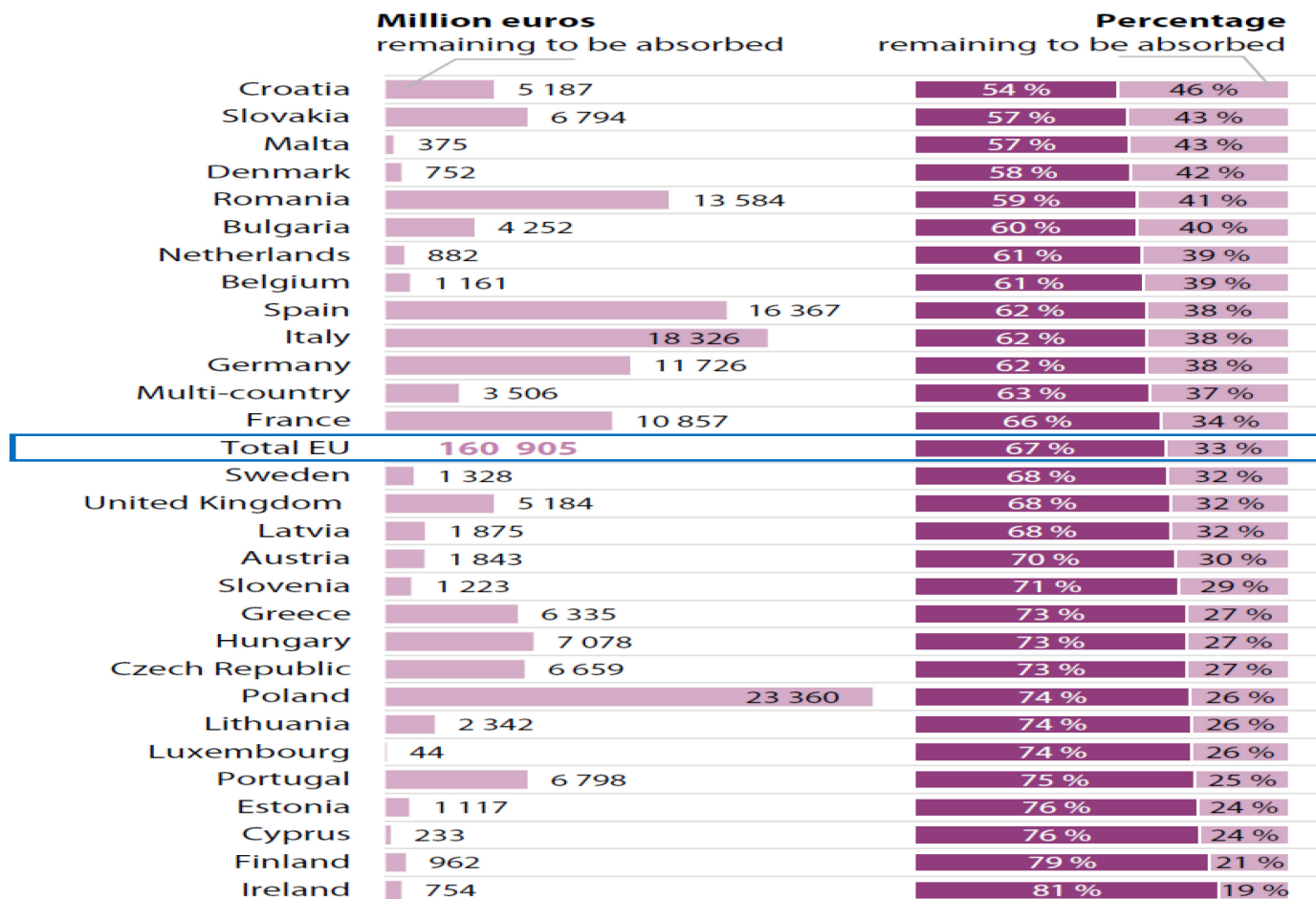
**Ireland:
€ 2.7 billion**

= approx. € 400 for each EU citizen

Ireland remains a net contributor to the EU budget

Absorption of EU funds

Figure 7 – 2014-2020 ESIF absorption levels (excluding NGEU resources)



Source: European Court of Auditors.

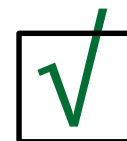
2021 annual report



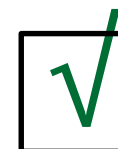
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2021 Annual Report - Main findings

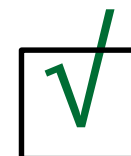
- Clean opinion on the **reliability of the 2021 accounts**



- Clean opinion on **revenue**



- Clean opinion on the expenditure of the **RRF**



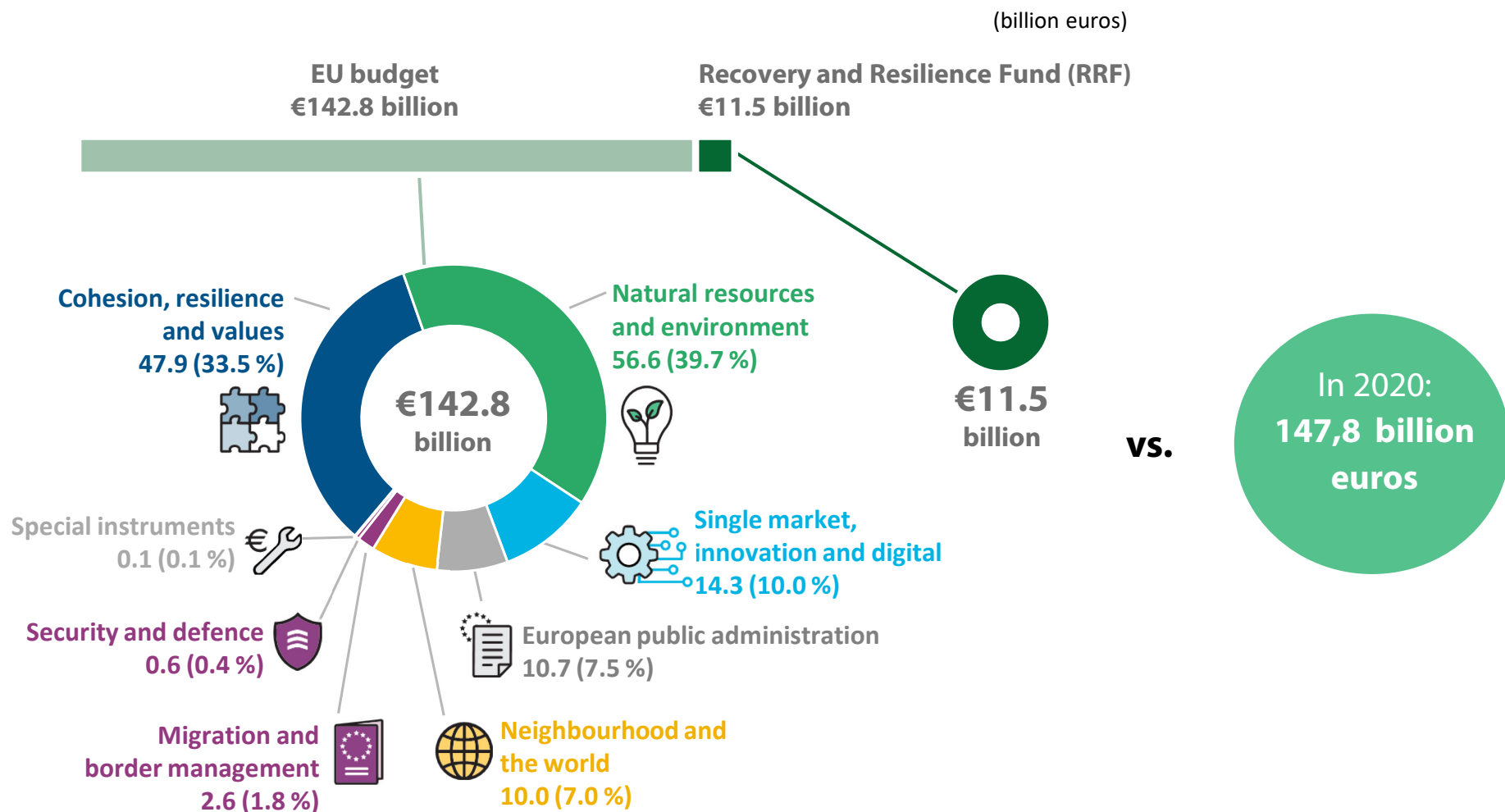
- **Adverse** opinion on expenditure for the EU budget



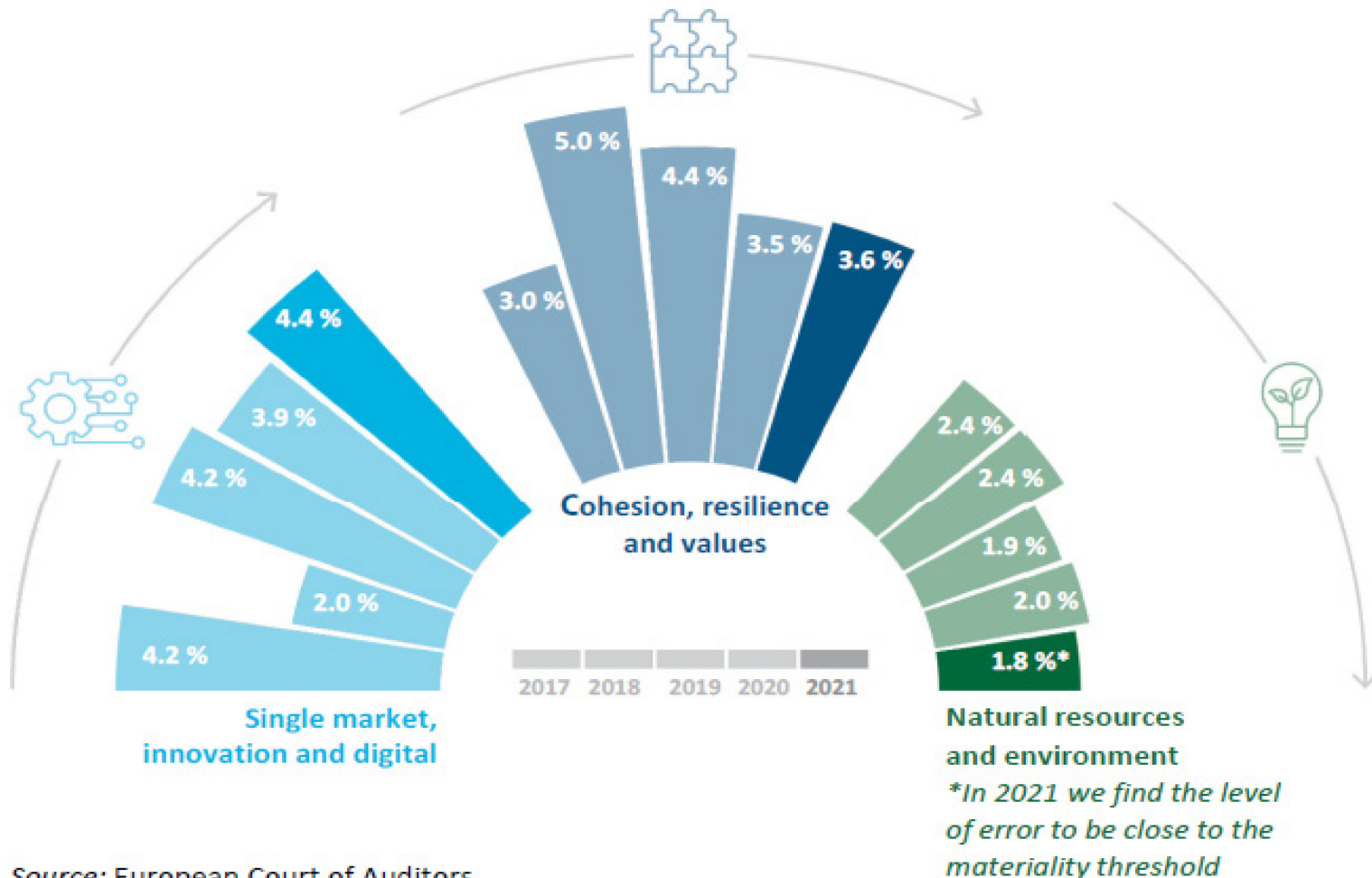
The **estimated level of error in payments is 3.0 %** (in 2020: 2.7 %)

- Material error in a substantial part of our population
- Weaknesses still remain in ex-post checks

Our 2021 audit population - by MFF



Estimated levels of error for budget areas (2017 -2021)



Contribution to the estimated level of error – high-risk expenditure

<i>error type</i>	<i>error contribution</i>
ineligible costs	40%
ineligible projects, activities or beneficiaries	24%
procurement and state aid	19%
lack of supporting documents	12%
other	5%

Annual Report 2021 – Chapter 5

Economic, territorial and social Cohesion



Amount subject to audit	Affected by material error?	Estimated most likely level of error
€47.9 billion	Yes	3.6 % (2020: 3.5 %)

Slight increase of error rate compared to 2020

Wide spread in types of errors



We tested 243 transactions

Ireland were selected as part of sample this year

Ineligible projects contributed most, followed by **infringement of internal market rules**, **ineligible expenditure** and the **absence of essential supporting documents**

We **cannot currently rely** on the Commission figures!

Ireland – Chapter 5

Economic, territorial and social Cohesion



Amount subject to audit	Affected by material error?	Estimated most likely level of error
€47.9 billion	Yes	3.6 % (2020: 3.5 %)

Ireland is among the EU countries that receives the lowest amount of funds from this spending area (€188 million).

SIMPLIFIED COST OPTIONS (SCOs)

- **We find errors relating to their use**

- **Potential to reduce administrative workload and errors**

- **Applying flat rates**
- **Standard scales of units of cost**

Chapter 6 - 2021

Natural Resources



Amount subject to audit	Affected by material error?	Estimated most likely level of error
€56.6 billion	Close to materiality	1.8 % (2020: 2.0 %)

In 2020 the error rate was 2%

Direct payments as a whole were free from material error

Ireland received the 9th highest amount of funds from Natural Resources

Ireland was sampled this year: Finding from this sample:

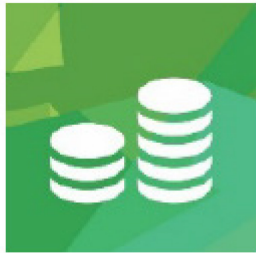
an over-declaration of area leading to a quantifiable error

Main sources of error:

- ineligible beneficiaries, activities or costs;
- the provision of inaccurate information on areas;
- non-compliance with procurement or grant award rules;
- administrative errors

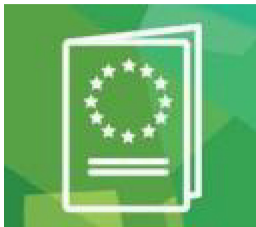
Rural development and market measures with complex eligibility conditions increase the risk of error

Ireland in the Annual report - 2021



Revenue – Ireland a sampled member State

Amount subject to audit	Affected by material error?
€239.6 billion	No – free from material error in 2021 and 2020



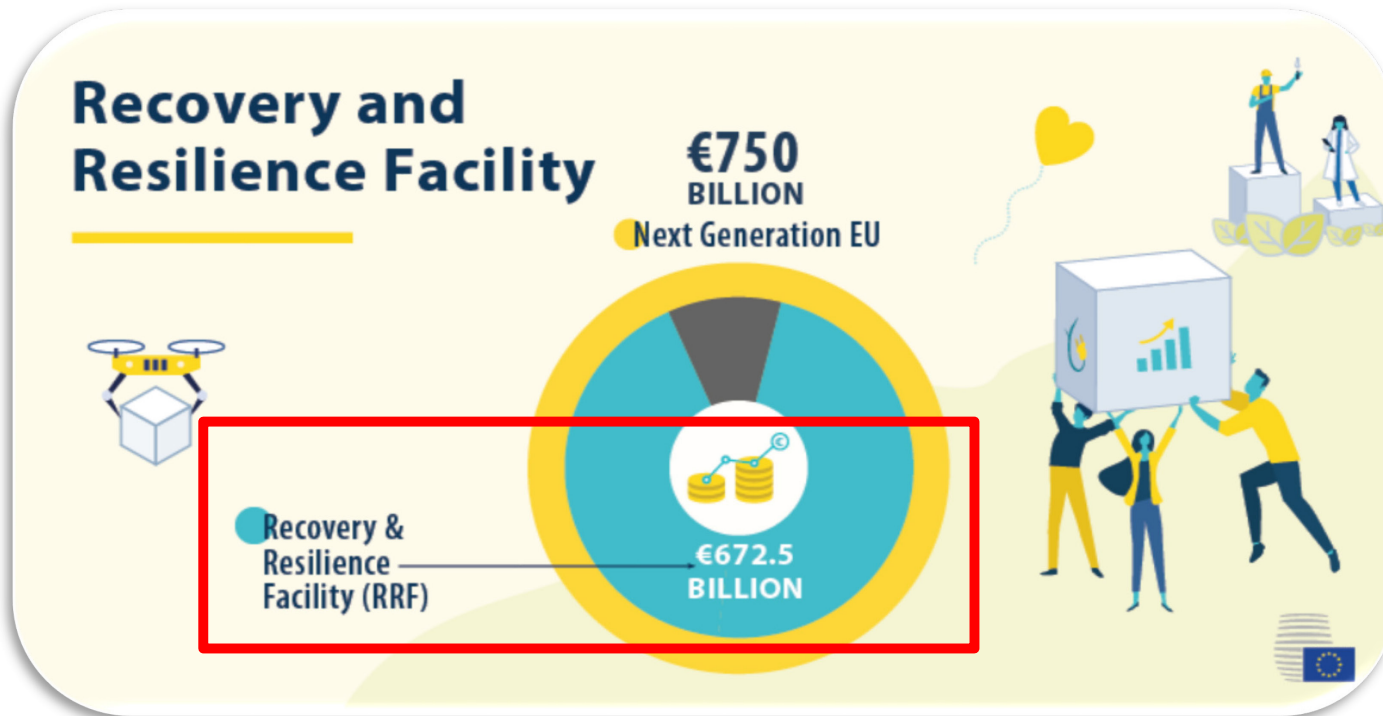
Migration and border management Security and defence – Ireland part of sample

€3.2 Billion

Box 7,1 - *Provision of emergency accommodation (including meals) to asylum-seekers. The Irish authorities used a call for expressions of interest to rent rooms at hotels and guesthouses.*

We audited the procurement procedure that led to the signature of contracts with hotels and guesthouses.

New in 2021 Annual Report – Recovery and Resilience Facility (RRF)



We issue a separate opinion on the legality and regularity of RRF spending

RRF Chapter 10 - What did we find ?



❖ **We issued a clean opinion on the RRF**



❖ **One of the milestones, relating to a Corporate Income Tax reform, was not satisfactorily fulfilled**


❖ **Other weaknesses - insufficiently robust criteria for the milestone and insufficient and documentation of work**

Suspected fraud detected during our audit work

- **15 instances of suspected fraud** reported to OLAF in 2021 audits
 - ↳ from which OLAF has already opened 5 investigations
- One of these **instances and one additional case reported to EPPO**
- Suspected fraud cases had **various reasons**
- From our audit work between 2011 and 2021, OLAF **recommended the recovery of a total of 537 million euros** relating to 43 cases



2021 annual reports - Wrap-up

- **Clean** opinion on *reliability of the 2021 accounts and revenue* and
- **Clean** opinion *RRF expenditure – **first year – one payment*
- The estimated level of **error in payments** is material at 3.0 % (2020: 2.7 %).
- **Weaknesses in ex-post checks remain**
- **High-risk** sub-population of expenditure concerns **63 % of our audit population**
- **Substantial amount of expenditure affected by a material level of error**
 Adverse opinion on EU budget expenditure

Special reports

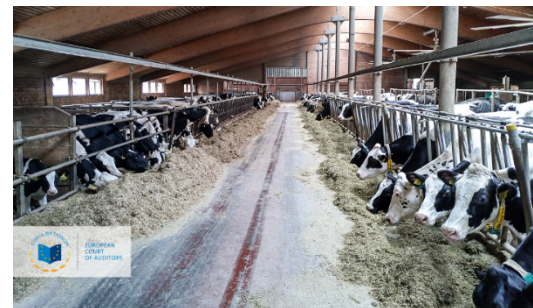


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Special reports

Published 2021

- Long-term unemployment 🇮🇪
- CAP and climate 🇮🇪
- Milk and dairy production 🇮🇪
- Passenger rights during COVID 19 crises



Published 2022

- Procurement of vaccines for COVID 19
- Data in the CAP 🇮🇪
- ERDF support for SME competitiveness 🇮🇪
- 5G roll-out in the EU



Special reports

Ongoing

- GNI verification 🇮🇹
- Budget Galaxy
- Climate targets
- RRF Control system

Work Programme 2023 +

- Energy Union
- Rule of law in the EU
- CAP strategic plans
- Public Procurement



Additional EU funding sources



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RECOVERY & RESILIENCE FACILITY (RRF)

- Ireland is due to receive up to €915 million under its National Recovery and Resilience Plan (NRRP) between 2021 and 2026.
- Ireland's NRRP comprises reforms and investments which support the following three priorities:
 - ❖ **Priority 1 - Advancing the Green Transition –**
 - ❖ **Priority 2 - Accelerating and Expanding Digital Reforms and Transformation**
 - ❖ **Priority 3 - Social and Economic Recovery and Job Creation -** (*€181 million on 3 Investments and 6 Reforms*)
- Ireland has not yet requested pre-financing under the RRF. Ireland's first instalment under the facility is €395.5 million and was due to be paid in the last quarter of 2022, but will now likely be paid in 2023.

BREXIT ADJUSTMENT RESERVE (BAR)



- **Ireland** will receive **approximately € 1.165 billion in grant form** from the **Brexit Adjustment reserve fund** over the period 2021 to 2025 to mitigate the adverse economic, social, territorial consequences of the UK withdrawal.
- Commission approves total of **€920.4 million pre-financing** for Ireland, payable over three years 2021 – 2023.
- Ireland received **€361.6 million in December 2021** and **€276.7 million in May of 2022**. Ireland is due to receive a further pre-financing payment of **€282.2 million in 2023**.

Ireland in the Court of Auditors



- Currently there are 22 Irish staff members working at the ECA
- We are currently looking for up to 6 new seconded national experts from all Member States
→ deadline for application *31 January 2023*
- The government's "A Career for EU" strategy aims to increase the number of Irish people successfully applying for positions in the EU Institutions → www.dfa.ie/eujobs/

Thank you for your attention!

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Press Release

Luxembourg, 13 October 2022

EU spending: auditors find increased errors

Errors in spending from the EU budget have increased, according to the European Court of Auditors (ECA). While the auditors conclude in their annual report, published today, that the EU's accounts for the 2021 financial year give a true and fair view, and that revenue can be considered error-free, payments are still affected by too many errors. The auditors also identify risks in relation to the EU funds that have been made available in response to the coronavirus crisis and the war of aggression in Ukraine. For the first time, the report includes a separate opinion on the EU's temporary recovery instrument, the Recovery and Resilience Facility (RRF).

The auditors find that the overall level of errors in spending from the EU budget increased in 2021, to 3.0 % (2020: 2.7 %). Nearly two thirds of the audited expenditure (63.2 %) was considered high-risk, also an increase compared to 2020 (59%) and before. The rules and eligibility criteria governing this type of expenditure are often complex, which makes errors more likely. Material error continues to affect high-risk expenditure, at an estimated rate for 2021 of 4.7 % (2020: 4.0 %).

Adverse opinion on EU budget expenditure

As in the last two years, the auditors conclude that the level of error for high-risk expenditure was pervasive, and have issued an adverse opinion on the EU's spending in 2021.

The estimated level of error is not a measure of fraud, inefficiency or waste: it is an estimate of the amount of money that was not used in full accordance with EU and national rules. However, during their work the auditors also identified 15 cases of suspected fraud (compared to six in 2020). They reported these cases to the European Anti-Fraud Office (OLAF), which has already opened five investigations. One case was reported in parallel to the European Public Prosecutor's Office (EPPO), along with an additional case that the ECA had identified in 2021.

"With the war of aggression in Ukraine, the energy shortage, the coronavirus pandemic and climate change, the EU is being forced to deal at one and the same time with the consequences of an unprecedented series of crises", said ECA President Tony Murphy. "Such an environment creates increased risks and challenges for the EU's finances and makes it all the more important that the European Commission manage them soundly and effectively. Through our work, we play an important role in ensuring this."

The purpose of this press release is to convey the main messages of the annual report adopted by the European Court of Auditors. The full report is on eca.europa.eu.

ECA Press

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First opinion on RRF expenditure

This year the audit covered for the first time the RRF, the main component of the EU's €800 billion "NextGenerationEU" (NGEU) package, which is intended to alleviate the economic consequences of the pandemic. While EU budget expenditure is based on the reimbursement of costs and compliance with conditions, under the RRF Member States receive funds in exchange for achieving predefined milestones or targets. In 2021 just one payment was made from the RRF, to Spain. The auditors found that one of the 52 milestones included in the Spanish payment request had not been fully met, but did not consider the associated impact to be material. However, the auditors identified weaknesses in the Commission's assessment of the milestones, and call for improvements in future assessments of the same kind.

The auditors note that compliance with other EU and national rules does not form part of the Commission's assessment on the legality and regularity of payments under the RRF and is therefore not covered through the ECA's opinion. This aspect will be looked at separately through future audits when the European Commission work in this regard has been completed. Furthermore, the effectiveness of the different reforms contained in the milestones would rather be a topic for future dedicated special reports.

Response to the pandemic and the war of aggression in Ukraine increases budgetary risks

The total exposure of the EU budget to potential future obligations more than doubled in 2021, from €131.9 billion to €277.9 billion. This was mainly due to the issue of €91.0 billion in bonds to finance the NGEU package and a €50.2 billion increase in financial assistance to help Member States protect jobs and workers affected by the pandemic.

The auditors also warn of the risks that the war of aggression in Ukraine poses to the EU budget. At the end of 2021, Ukraine had outstanding loans with a nominal value of €4.7 billion under multiple EU programmes. The European Investment Bank has also granted Ukraine loans, covered by EU guarantees, to the value of €2.1 billion.

Outstanding commitments from the EU budget decreased in 2021, mainly because of delays in the implementation of shared management funds under the 2021-2027 MFF, and stood at €251.7 billion at the end of 2021 (2020: €303.2 billion). However, total outstanding commitments (including €89.9 billion for the NGEU) reached a record high of €341.6 billion. The ECA points out that significant differences persist in Member States' absorption of the European Structural and Investment Funds (ESIFs) from the 2014-2020 budget. While Ireland, Finland and Cyprus, for example, had called up more than three quarters of the money allocated to them, the three EU countries where the absorption rate was lowest (Croatia, Slovakia and Malta) had only used a little more than half of their committed amounts.

Open questions regarding the Commission's rule of law letter to Hungary

In their report the auditors refer to the written notification which the Commission sent to Hungary in April 2022, triggering the procedure that may lead to measures against a Member State for breaches of the rule of law. In its annual management and performance report (AMPR), which provides key information on its internal control and financial management, the Commission does not disclose how this notification may affect the regularity of expenditure in Hungary.

Background information

In 2021, EU budget spending amounted to €181.5 billion, the equivalent of 2.4 % of the Member States' total general government spending and 1.3 % of their gross national income. Taking account of RRF spending, total payments from the EU in 2021 were €228.0 billion. About three quarters of this was spent under shared management, a system under which the Member States distribute funds, select projects and manage the EU's expenditure.

Each year, the auditors audit EU revenue and expenditure, examining whether the annual accounts are reliable and whether income and expenditure transactions comply with the applicable rules.

An 'adverse' opinion means that the auditors have identified widespread problems. In reaching their opinion, the auditors test samples of transactions to obtain statistically based estimates of the extent to which spending under the EU budget are affected by error. They measure the estimated level of error for this spending against a threshold of 2 %, this being the rate above which irregular spending is considered to be material.

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