

## EU Annual Budget Auditing process

5 November 2014

Every year the European Union's annual budget is audited by the European Court of Auditors (ECA) who report, usually around November, into the previous year.<sup>1</sup> This has become a hardy perennial event in the calendar of europhobic politicians and press to misrepresent and attack the EU and today's publication has proven no exception. Recently however the practice has become far more serious, with even the UK Prime Minister David Cameron repeating the same gross misrepresentation on the record in the House of Commons on 27<sup>th</sup> October 2014 when he said:

“Obviously, I have great sympathy with my hon. Friend on the fact that the EU accounts are not signed off every year”<sup>2</sup>

This brief has been produced to challenge these misunderstandings and shed some light on what is a complicated but eminently comprehensible process.

Budget responsibility and accountability is of course crucial, but to present the EU audit process as a “fail” verdict is entirely misleading.

### **What does the ECA do?**

The ECA assesses the EU budget by looking at three main areas:<sup>3</sup>

1. Revenue (money received by the EU).
2. Commitments (money returned by the EU to member states to spend within their territory on the EU programmes they administer).
3. Payments (money actually spent by the EU)

The entire report is based around working out the percentage “error” in each of these areas. Any “error” beyond 2% will lead to the ECA issuing an adverse opinion. The adverse opinion covers the entire accounts as a whole.

### **“Error” is not “fraud”**

An “error” does not constitute fraud. As the commission points out in its reply to the ECA an error, even a documentary one, in a procurement process will show up in the audit, but it is not fraud and such errors are not uncommon across governments.<sup>4</sup> The money spent in such a cases could have actually been spent and the project completed successfully but if all procedures have not been followed then it will still be classified as an “error”.<sup>5</sup>

In July 2014 the Commission published the annual “Protection of the European Union's financial interests” report, which detected fraud in just 0.2% of all EU funds.<sup>6</sup>

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<sup>1</sup> Full report [ECA Annual Report on the Implementation of the Budget 2013 (published 2014)] available here:

[http://www.eca.europa.eu/Lists/ECADocuments/AR13/AR13\\_EN.pdf](http://www.eca.europa.eu/Lists/ECADocuments/AR13/AR13_EN.pdf)

Summary [ECA EU Audit in Brief (2014)] available here:

[http://www.eca.europa.eu/Lists/ECADocuments/AB\\_2013/AB\\_2013\\_EN.pdf](http://www.eca.europa.eu/Lists/ECADocuments/AB_2013/AB_2013_EN.pdf)

<sup>2</sup> House of Commons, (27<sup>th</sup> October 2014)

<http://www.publications.parliament.uk/pa/cm201415/cmhansrd/cm141027/debtext/141027-0001.htm#14102723000315>

<sup>3</sup> ECA Annual Report on the Implementation of the Budget 2013 (published 2014), p.11.

<sup>4</sup> ECA Annual Report on the Implementation of the Budget 2013 (published 2014), p.113.

<sup>5</sup> EU Commission Fact Sheet, *Annual report of the European Court of Auditors – Frequently Asked Questions* (2014). [http://europa.eu/rapid/press-release\\_MEMO-14-1420\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-1420_en.htm)

<sup>6</sup> ECA “Protection of the European Union's financial interests” Report (2014)

[http://ec.europa.eu/anti\\_fraud/documents/reports-commission/2013/1\\_act\\_part1\\_en.pdf](http://ec.europa.eu/anti_fraud/documents/reports-commission/2013/1_act_part1_en.pdf)

## **The UK accounts would “fail” far worse**

The UK finances are not audited in anywhere near the same level of detail. As far back as 2005 Sir John Bourn, UK Comptroller and Auditor General, stated that if he applied the ECA values to the UK Governments budget in 2005 he would have been unable to pass the entire UK Government Budget.<sup>7</sup>

### **Myth: “the accounts were not signed off”**

This is not true:

- The accounts have now been signed off for many years.
- Revenue described as completely “legal and regular”.<sup>8</sup>
- Commitments described as completely “legal and regular”.<sup>9</sup>

The final section of the assessment of the ECA, “Payments”, was not rejected but the ECA did state that it was affected by “error” and that more could be done to improve the situation in future. This is not a rejection, as the House of Lords Select committee for the EU noted as far back as 2006 whilst discussing the same issue:

“We share the concern raised with us by the European Court of Auditors that their decision not to give a positive Statement of Assurance can be misunderstood. We recognise that the lack of a positive Statement of Assurance does not necessarily indicate that high levels of fraudulent or corrupt transactions have taken place.”<sup>10</sup>

### **Myth: the EU bureaucracy is inefficient and corrupt**

The often cited myth of the enormous and inefficient Brussels bureaucracy is also shown to be inaccurate since the ECA said there was only a 1% error in this department and the control systems in place were effective.<sup>11</sup>

In 2013 the overall error for the EU was 4.8%, down from 7% in 2007.<sup>12</sup>

### **Responsibility of Member States for the EU finances**

The report also emphasises the significance of Member States to this process, often providing insufficient information for the ECA to sign off. The authors wrote:

“As in 2012, for a large proportion of the transactions affected by error in the shared management areas, *authorities in the Member States had sufficient information available to have detected and corrected the errors before claiming reimbursement from the Commission.*” (emphasis from the ECA)<sup>13</sup>

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<sup>7</sup> House of Lords, Select Committee on the EU Examination of Witnesses Questions 190-199, (6 June 2006):

<http://www.publications.parliament.uk/pa/ld200506/ldselect/lducom/270/6060607.htm>

<sup>8</sup> ECA Annual Report on the Implementation of the Budget 2013 (published 2014), p.11

<sup>9</sup> Ibid.

<sup>10</sup> House of Lord, *Fiftieth Report on the European Union* (7 November 2006), item 146.

<http://www.publications.parliament.uk/pa/ld200506/ldselect/lducom/270/27010.htm>

<sup>11</sup> ECA Annual Report on the Implementation of the Budget 2013 (published 2014), p.241.

<sup>12</sup> ECA EU Audit in Brief (2014), p.8

<sup>13</sup> ECA EU Audit in Brief (2014), p.4.