

EU SPENDING

A myth-buster

Riddled with fraud?

Billions lost?

Accounts a bad joke?





In Brief

The catchphrases quoted on the cover have little to do with reality. Below, we debunk the most common **myths** about the EU accounts and spending. The inside pages will give you more details.

'Auditors (*) say EU spending is riddled with fraud'

They do not. What the auditors usually find is not fraud but errors at the different stages of the financial procedure, particularly at the level of the final beneficiary. To give an example, in 2009, OLAF, the EU's independent anti-fraud office, needed to open four investigations based on the hundreds of transactions checked by the auditors.

Read more: [Diagnosis](#)

'EU's bookkeeping is a mess'

It is not. The EU accounts for the years 2007, 2008 and 2009 received a clean bill of health from the auditors.

Read more: [Solutions](#)

'Auditors say billions are lost'

They do not. They indicate the percentage of payments in some areas which may have been affected by errors (based on a sample they audited). This is not the same as saying that a specific amount was lost or wasted. Even where there are errors, the project may have been successfully finalised and the money affected by the error may have been paid back by the beneficiary or authorities responsible.

Read more: [Impact](#)

'EU money would be better spent if it were managed at national level'

In fact, as much as 80 % of the EU budget is spent by national or regional governments in Member States. These governments are responsible for selecting beneficiaries and are first in line for ensuring that the money is spent correctly.

Read more: [Impact](#)

'My taxes pay for mismanagement in other countries'

When errors or weaknesses are found, corrections are imposed on the project or country at fault.

Read more: [Solutions](#)

(*) i.e. the European Court of Auditors, which issues its report on the EU accounts and spending every year.

Diagnosis

Do not confuse errors with fraud. The auditors' main diagnosis is that there are too many **errors, usually made by the end-users of EU funding.**

EU payment system: fair, yet risky

Unlike national spending, most EU money is spent through reimbursing payment claims from individuals and organisations. This is both an advantage of the system, as money can go directly to local projects, and a risk factor: with millions of such claims every year, errors are bound to occur.

These errors should be prevented or corrected by the control systems.

Error rate falling

To evaluate EU spending, the auditors apply three levels of error range (expressed as % of payments volume):



red light: more than 5 %



yellow light:
between 2 % and 5 %



green light: less than 2 %

Thanks to persistent action, the occurrence of errors in EU spending has fallen significantly in recent years, according to the auditors. In 2009, between 2 % and 5 % of payments (in value) may have been affected by errors (the rate in previous years was above 5 %). This means at least 95 % of all EU payments were free of errors with financial impact.

Typical errors

- inadequate documentation
- reimbursement of costs not actually incurred
- reimbursement conditions not respected (EU programmes set detailed criteria on who can be paid, which activities and purchases may be reimbursed, for which period, etc.; a payment will be considered ineligible if any of these criteria is not met or incorrectly applied, e.g. during tendering procedures)
- overestimated payment claims

Rules to respect

Complex projects may involve a lot of EU money and they have to respect many rules. A bridge construction project, for instance, must:

- pass environmental impact assessment
- pass cost-benefit and earnings-potential assessments
- respect state aid rules
- respect eligibility rules
- respect ceilings for co-financing rates
- respect public procurement rules
- respect publicity requirements
- have error-free payment claims
- be implemented within the correct period
- keep sufficient supporting documents for up to 12 years, etc.

These rules are there to prevent fraud or mismanagement and to ensure good value for money. The side effect is increased complexity, which makes errors more likely to occur.



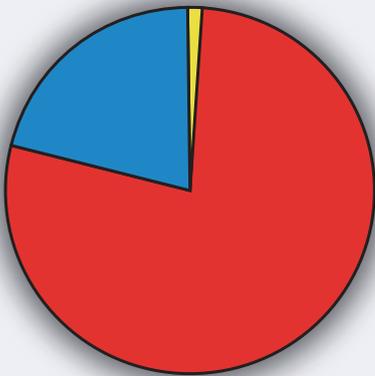
Impact

Errors do not necessarily mean **money** was wasted or that it is lost for the EU budget.

Governments have a role to play

The Member States are responsible for preventing and correcting errors for most EU funding: they spend some 80 % of the EU budget. If they fail, the European Commission will intervene and may suspend payments or impose corrections (see the next page). Final responsibility for how the EU budget is spent rests with the European Commission.

Who is responsible for preventing errors (share of the total EU spending)



- Member states
- European Commission
- International organisations and third countries

Errors' financial impact can be corrected

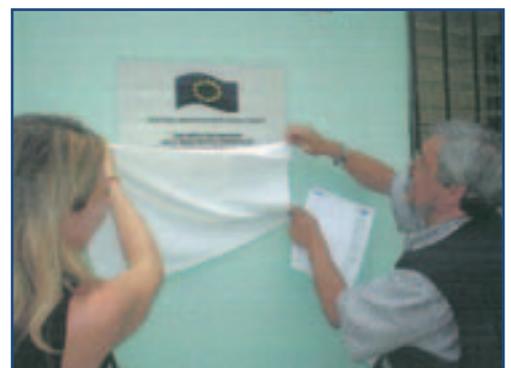
- If the error is apparent from the documents accompanying the claim, it may be corrected instantly, before the payment is made.
- Errors may also be discovered later, e.g. by periodic checks or independent audits. EU projects run over several years and corrections are usually applied to final payments.
- The European Commission may apply further corrections at the final evaluation of the project or closure of the programme, on the basis of its own or the Court of Auditors' audits.

Projects may be successful despite errors

Errors do not necessarily put in question the end result.

At the closing controls of a project in Guatemala, errors were found in four tenders for the supply of medical equipment and construction of healthcare centres.

The global evaluation of the programme was positive: its actions were cost-effective and involved about 130 000 beneficiaries. Out of 65 objectively verifiable indicators (such as the number of upgraded health facilities, percentage of households connected to potable water systems, etc.), 61 have been fully accomplished: an effectiveness rate of 94 %!



Medical facilities delivered: opening of a new centre in Guatemala.

Solutions

The European Commission is **serious** about eliminating errors in EU spending. See what is being done to improve financial management.

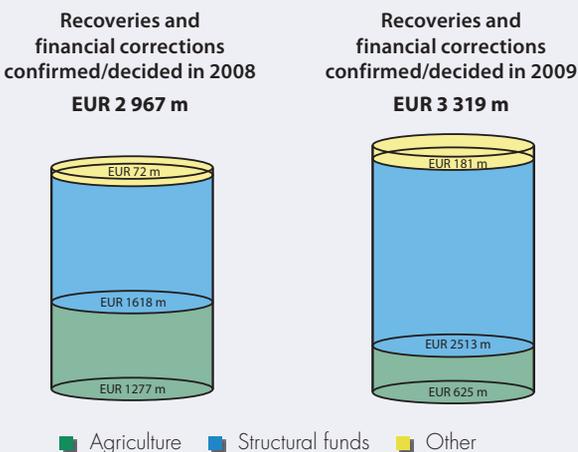
Controls

Independent scrutiny of EU spending is crucial in preventing errors. When an organisation applies for a grant, external audits may be required to verify its accounts and financial situation. Independent auditors may also be asked to certify that a request for payment is correct and backed by proper documentation. Audits of whole programmes are commissioned by national and EU authorities. The European Court of Auditors audits each year EU accounts, revenue and spending. Finally, the national governments (through the Council's Budget Committee) and the European Parliament's Budgetary Control Committee scrutinise the use of EU funds. Then the Parliament votes on giving the European Commission clearance on the accounts and budget.

Clawback

EU control systems aim to ensure that errors are identified and the resulting undue payments are recovered. Ideally, corrections are applied to beneficiaries or projects at fault. When this is not possible or when the exact amount is difficult to calculate, the European Commission may apply flat-rate corrections on a Member State whose control system proved ineffective.

Undue payments recovered



Simpler rules

The current Financial Regulation (EU's central financial manual) along with simplified implementing rules make life easier particularly for small beneficiaries. Rules for particular programmes are also regularly reviewed and simplified. Flat-rate payments are more widely used, thus avoiding complex calculations where errors were more likely.

To learn more:

http://ec.europa.eu/budget/documents/financial_regulation_en.htm

Transparency

Do you want to know who received EU money, and how much? The EU keeps its payments transparent: this information is only a few clicks away! For those who received EU funds directly from the Commission (e.g. in areas like research or education), payment details are disclosed to the public through a central user-friendly online database. For EU funds distributed by national authorities, this information is available on national websites.

To learn more:

http://ec.europa.eu/contracts_grants/beneficiaries_en.htm

Modern accounting

The European Commission uses accrual accounting (an accounting system similar to that of private companies), which places the EU at the forefront of the worldwide movement of public sector bodies to accrual accounting.

The accounts of each EU body included in the consolidated EU accounts are signed by its respective Accounting Officer; then the Chief Accounting Officer of the European Commission signs off the EU accounts as a whole.

To learn more:

http://ec.europa.eu/budget/documents/publications_en.htm



To learn more about the EU budget:

http://ec.europa.eu/budget/index_en.htm

To learn more about EU funding opportunities:

http://ec.europa.eu/contracts_grants/index_en.htm

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European Commission

