

On November 10, 2015 the European Court of Auditors (ECA) presented its [annual report](#) on the European Union budget. In it, the ECA invokes “a wholly new approach” for investments and spending from the European Commission as well as the member states, reacting to the evidence of irregular use of the European funds. Predictably, after the report’s publication, voices of concern were raised in the European political sphere, especially from Eurosceptic parties. In Britain, the UK Independence Party declared that the “[massive increase in errors and fraud in the EU budget](#)” is part of a “[systemic failure](#)” of the European Union. In the Netherlands, the Party for Freedom attributed the [misspending to southern and eastern European countries](#) profiting from the Dutch taxpayer’s good faith. In France, the National Front denounced the financial waste produced by an “[ineffective and antidemocratic techno-structure](#)”. While all these reactions try to fit the report’s content to different political ideas, all of them consider it, to a certain extent, as the convincing evidence of some malfunctioning of European institutions.

## Putting things into perspective

To what extent does the report actually support such a conclusion? First, some background information: the ECA was established in 1977 as the “fifth formal institution” of the European Union. Its functions are similar to those of a supreme audit institution, such as the French Cour des Comptes or the British National Account Office. Each year, the ECA provides a performance and a financial evaluation of the EU’s budget expenditures. Based on such evaluation, the European Parliament decides whether to grant the budget’s discharge to the European Commission. This step is by no means irrelevant: it was a discharge denial that led, in 1997, to the resignation of the Santer Commission, following accusations of funds mismanagement.

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According to political scientist [Brigid Laffan](#), the ECA gained institutional salience in the

1990s by successfully exploiting two types of political opportunity. First, the growing politicization of the EU's budget highlighted the conflict between net contributors and net receivers among the member states. By advocating “better spending” of European funds, the former were natural allies of the ECA within the European Council. Second, the European Parliament—itsself seeking institutional recognition—gave visibility to the ECA's work. This came at the expense of the European Commission, whose budget management has since been subjected to under increasing constraints by this “alliance”.

The main point made by the ECA in its latest annual report can be summarized in one figure: 4.4%. This is the estimated level of error for payments made in 2014. It is, in other words, a measure of the irregularities in transactions between the European Commission and EU funds recipients. These irregularities can be quantified roughly in €6.3 billion. Most of the commentators, including Eurosceptic ones, focused on this number as a direct measure of the “costs of frauds”. For example, the UKIP declared that the measure denotes “[irregular, and possibly illegal](#)” spending. However, as the ECA clearly specifies, the level of payment error is not a measure of “fraud, inefficiency or waste”. In fact, in the report the term fraud is mentioned fewer than ten times, and always referring to the European Anti-Fraud Office, to which 22 instances of “suspected fraud” were forwarded by the ECA. In addition, the term “illegal” is never mentioned in the report.

*Cost and benefit calculations cannot be established as a mere technical measure, but call for political decisions*

To be sure, the measure of irregularities is still high: the threshold that the Court considers a “tolerable risk of error” is 2%. When the extrapolated error rate is above this threshold, the ECA gives a qualified or adverse opinion—as it happened with the 2014 budget. But is this convincing proof of a “systemic failure” of the European Union? Not really: first, if we consider the error measurement over a longer period of time, we notice that the error rate has mostly declined over the years. In 2006 it was above 7%, it reached a low point in 2009 (3%), slightly rising again after that: 4.8% in 2012 and 4.7% in 2013. While certainly not a historical low, 4.4% nonetheless confirms a recent decreasing trend. This demonstrates the beneficial effects of controls by both the Commission and the Member States, to which the Court ascribes a 1.6% reduction in the level of payment error. Overall, what this trend signals

is—contrary to what the ECA’s detractors say—an improvement in the accountability of the EU budget process(es).

## A matter of politics

Second, one should understand what the ECA’s threshold really means. According to the Court, a control system is “[a trade-off between the cost \[...\] of checks and the benefits these procedures brings](#)”. Cost and benefits vary across budgetary areas. For instance, the current report highlights that the error rate for entitlement programmes, such as research fellowships, is lower (2.7%) than for cost reimbursement schemes, such as training ones (5.5%). The overall threshold, however, is aggregated over the entire budget, so that it does not necessarily a correct measure for every budgetary chapter. Moreover, the Court recognizes that cost and benefit calculations cannot be established as a mere technical measure, but call for political decisions. As the Commission noted in a 2008 communication on the concept of tolerable risk of error, “[political decision-makers understand that some schemes are inherently risky \(...\) accepting that some errors will occur, to be corrected only after detection](#)”. So, the information contained in the measure of expenditures irregularities is by itself not sufficient for the sort of assessments made by Eurosceptics. It must be complemented by information on the political nature of the decisions made by the EU when determining the budget.

The ECA’s Annual Report is a highly useful document for those who want to follow the debate on and evolution of the functioning of European institutions. It conveys a sense of direction to the efforts made by other European institutions to better spend the European taxpayers’ money. Still, it is important to keep in mind that that the measures employed by the Court are not able, by themselves, to establish whether the EU is “systemically failing,” as the latter should be a political rather than technical evaluation. The information provided by this (as well as other) summary statistics can only go so far: principles of sound financial management are certainly not able to encapsulate all the parts that constitute a genuine political decision.

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