



EUROPEAN COMMISSION

Directorate General for International Cooperation and Development

Resources and Centre of Gravity of Human Resources in Delegations
Audit and Control

DEVCO's Residual Error Rate

Results for 2014
and
Analysis of data 2012 – 2014

Working Document

Rev. 2

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Executive summary¹

The residual error rate (RER) has regularly decreased: from 3.63% in 2012 to 3.35% in 2013 and to 2.81% in 2014. The error frequency has remained rather stable around 29% over the period 2012–2014. Some positive issues can already be pointed:

- Budget Support is almost free of errors.
- Works, services and supplies are also almost free of errors.
- The errors linked to non-recovery of funds previously identified as being ineligible have decreased dramatically over the period 2012–2014.
- The new ECA methodology on procurement only applies to contracts signed in 2011 or after, so far there is no case of a 100% error according this methodology.

The bulk of the errors are due to three types of beneficiaries: international organisations, NGOs and public bodies.

Transactions where the contracting partner is an International organisation (IO), are cause of almost 30% of the total RER. During the period 2012-2014 there has been a slight improvement but the share in the total RER and the frequency of error remains still high in 2014, especially for transactions under indirect management.

NGOs and public bodies (other than States) received grants mainly under Direct Management and represent around 52% of the total RER. The error frequency is also very high - If we add grants for private companies, these beneficiaries are cause of almost 60% of the total RER. These errors affect mainly transactions linked to sectorial and thematic activities.

The main type of error is the lack or inadequate documentation, which accounts for more than 40% of the total RER in 2014 (and more than 50% in 2013). Over the period under review there is a dramatic increase in other errors due to ineligible expenditure and legality and regularity issues (35% of the total RER in 2014).

The next steps will be:

- 1) to review and complete the action plan set up in May 2013;
- 2) to examine if some control measures could be better targeted;
- 3) to check if any reservation in future AARs could be better focused / limited to some specific issues.

¹ It should be noted that the error rate cannot be calculated for specific issues, these error rates would be in unrepresentative and of limited statistical value.

1. Evolution of the RER (2012 – 2014)

Three RER studies have been carried out on expenditure concerning the years 2012, 2013 and 2014. Some lessons can already be drawn from those 3 studies carried out with the same methodology.

Table 1.1. Evolution of the share in the RER (2012–2014)

ERROR RATE	2012	2013	2014
Measured errors	2.67%	2.75%	2.34%
Estimated errors	0.96%	0.60%	0.47%
Total	3.63%	3.35%	2.81%

The error rate has decreased from 3.63% in 2012 to 3.35% in 2013 and 2.81% in 2014. This represents a decrease of 22.6% in three years. The estimated error rate has decreased by more than 50% while the measured error rate has only decreased by 12%.

Table 1.2. Evolution of the frequency of transactions affected by error by type of error (2012–2014)

FREQUENCY	2012	2013	2014
Measured errors	16.7%	19.9%	23.9%
Estimated errors	100.0%	100.0%	100.0%
Total errors	31.4%	25.3%	28.9%

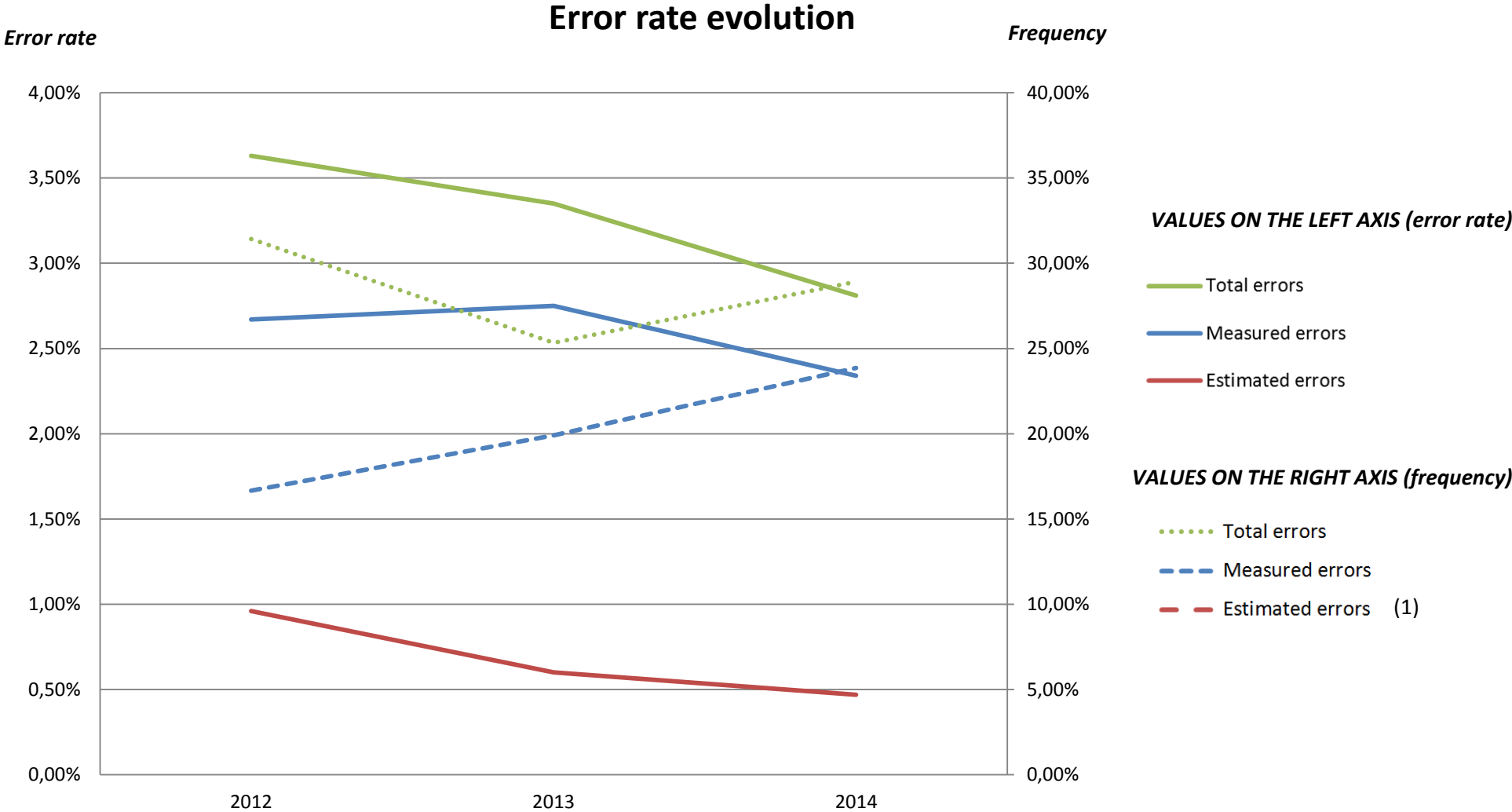
While the total number of errors has decreased by 14% from 71 to 61 between 2012 and 2014, the frequency of errors remained relatively stable around 30%, comparable with the figures given by the annual reports of the European Court of Auditors (ECA).

The first six transactions (less than 3% of the total of the sampling) with the highest contribution to the overall error rate represent almost 50% of the total RER. There is no evidence that the error rate can be linked to specific legal instruments, geographical areas, management modes, or type of control as shown by the table below.

Table 1.3. Dispersion of transactions affected by error (2014)

	6 first transactions	10 first transactions
Cumulative error rate (percentage points)	1.36%	1.71%
Part of the total error rate	48.4%	60.9%
Geographical breakdown	3 Africa 2 HQ 1 Asia	4 Africa 2 HQ 2 Asia 2 Caribbean
Legal Instruments	4 DCI 2 EDF	6 DCI 3 EDF 1 EIDHR
Management mode	4 Grants 2 IO	8 Grants 2 IO
Type of error	5 Documentation 1 Other errors	5 Documentation 3 Other errors 2 Estimates
Type of control	2 Indirect Management IO 4 Direct Management (1 NGO, 1 IO, 1 private company and 1 public body)	3 Indirect Management (2 IO, 1 public body) 7 Direct Management (3 NGO, 1 IO, 1 private company, 1 public body, 1 member state)

Graph 1.1. Evolution of the share in the RER and frequency of transactions affected by error (2012–2014)



(1) All estimated errors are included (means that the frequency is 100%).

2. Analysis of the errors by legal instruments

Table 2.1. Transactions affected by error by instrument (2014)

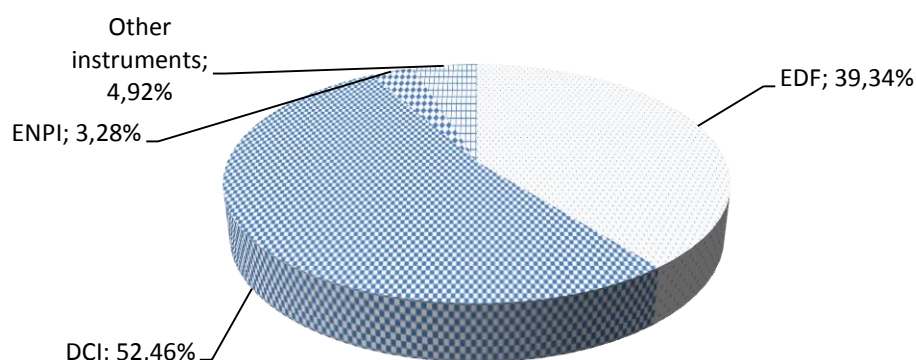
INSTRUMENT	Selected sample	No of tr. affected by error *	Frequency (1)	Share of transactions with errors (2)
EDF	84	24	28.6%	39.34%
DCI	86	32	37.2%	52.46%
ENPI	25	2	8.0%	3.28%
Other instruments	16	3	18.8%	4.92%
TOTAL	211	61	28.9%	100.00%

* Estimated errors are included.

(1) See graph 2.2.

(2) See graph 2.1.

Graph 2.1. Percentage of transactions affected by error by instrument (2014)



Graph 2.2. Frequency of transactions affected by error by instrument (2014)

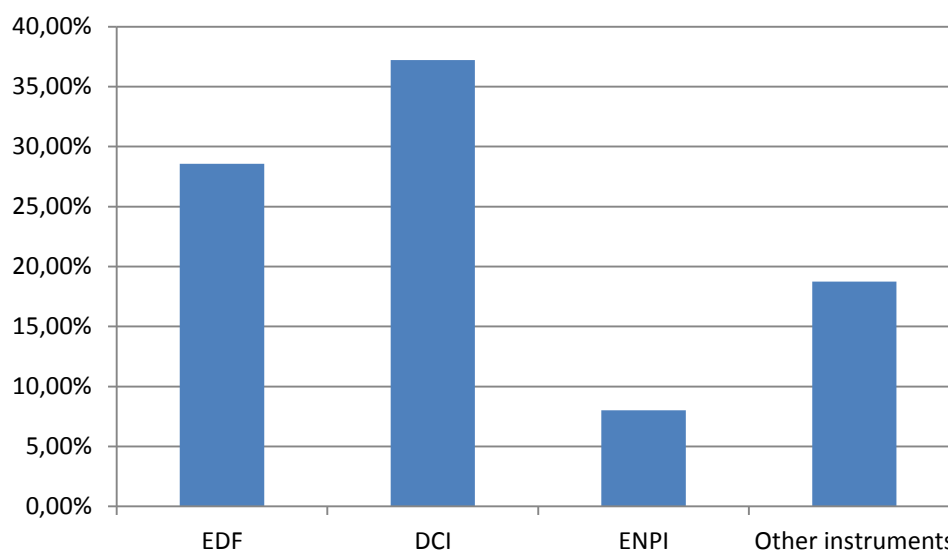


Table 2.2. Evolution of share in the RER by instrument (2012 – 2014)

ERROR RATE	2012	2013	2014
DCI	2.29%	1.60%	1.58%
EDF	1.20%	1.10%	1.07%
ENPI	0.02%	0.02%	0.05%
Other instruments	0.12%	0.63%	0.11%
Total RER	3.63%	3.35%	2.81%

Table 2.3. Evolution of the frequency of transactions affected by error by instrument (2012 – 2014)

FREQUENCY	2012	2013	2014
DCI	31.6%	37.9%	37.2%
EDF	34.3%	22.1%	28.6%
ENPI	14.3%	6.7%	8.0%
Other instruments	33.3%	33.3%	18.8%
TOTAL	31.4%	25.3%	28.9%

Graph 2.3. Evolution of the share in the RER and frequency of transactions affected by error by instrument (2012 – 2014)

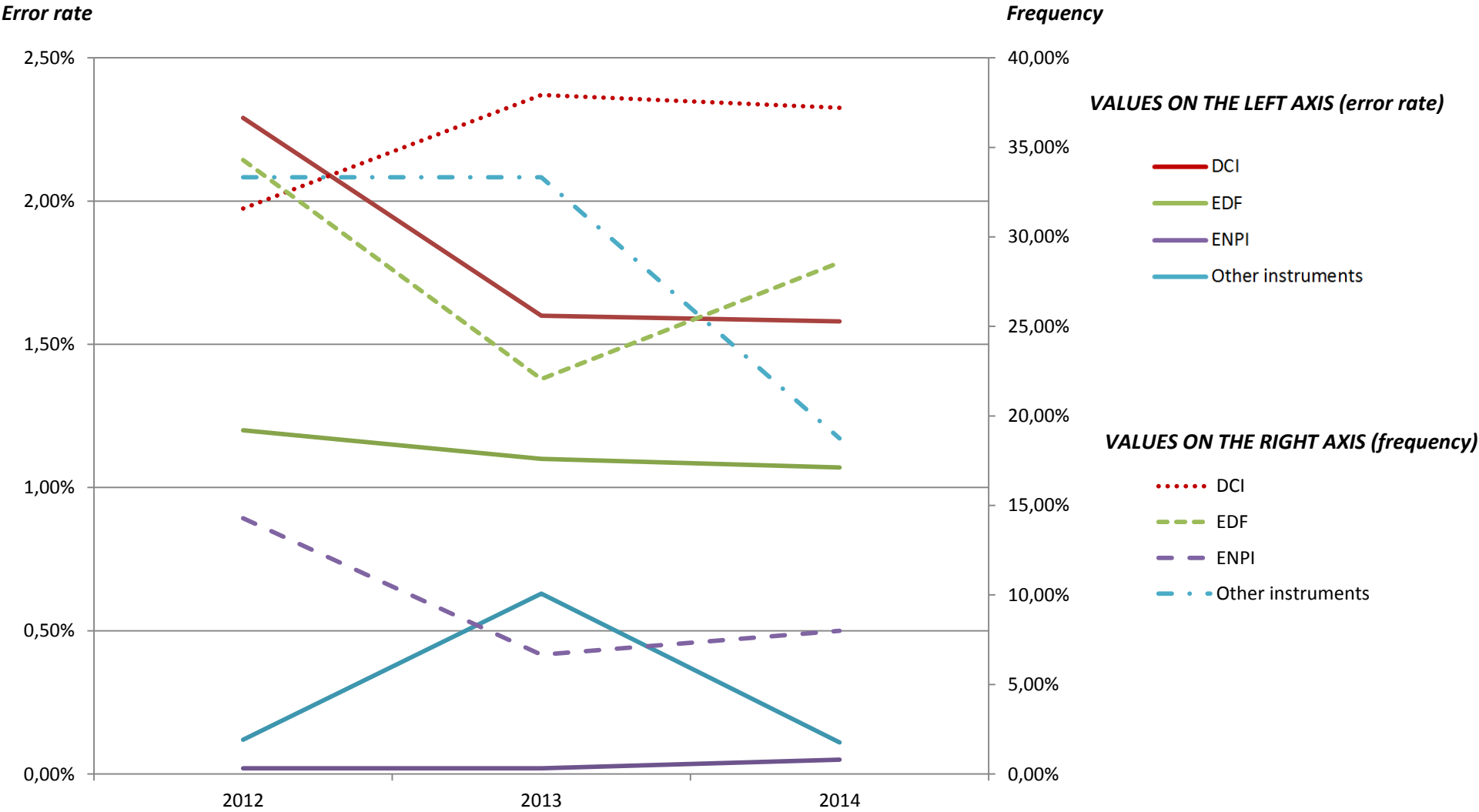


Table 2.4. Evolution of the share in the RER by sectorial and thematic activities (2012–2014)

ERROR RATE	2012	2013	2014
Total	0.37%	1.49%	1.31%
Percentage of the total RER	10.2%	44.5%	46.6%

* Data to be obtained from Moore Stephens

Table 2.5. Evolution of the frequency of transactions affected by error by sectorial and thematic activities (2012–2014)

FREQUENCY	2012	2013	2014
Total	31.6%	52.4%	42.6%

In 2013 and 2014 sectorial and thematic activities represented around 45% of the overall RER and the frequency of errors was largely above the overall average. As shown in graph 2.4., the main errors occurred within the DCI. The type of error is firstly the lack of or inadequate documentation and secondly the other errors due to ineligible expenditures and legality and regularity issues.

- In 2014, 56% of the RER can be attributed to the **DCI (Development Cooperation Instrument)** and during the period 2012 – 2014 its share has always been above or close to 50%. From 2012 to 2014 the share of the thematic lines has dramatically increased. For thematic lines the number of errors in 2014 was 17 out of 32 for all DCI and represented 67% of the RER that affected the DCI (1.58%) as shown in table 2.6.

Table 2.6. Evolution of the share in the RER by thematic instrument DCI (2012–2014)

ERROR RATE	2012	2013	2014
Total DCI thematic	0.37%	1.25%	1.21%
DCI total	2.29%	1.60%	1.58%

Table 2.7 Evolution of the frequency of transactions affected by error by thematic instrument DCI (2012–2014)

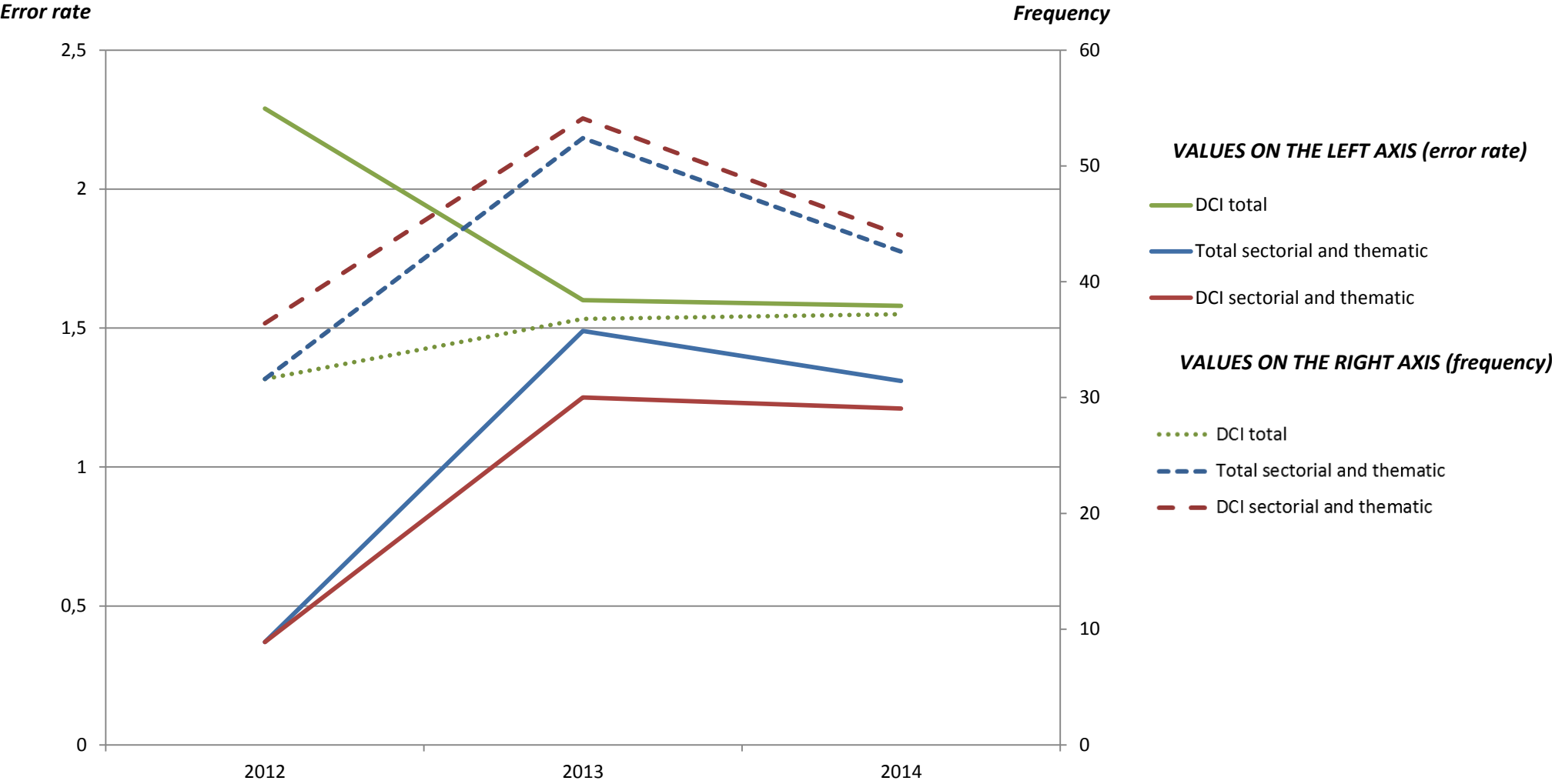
FREQUENCY	2012	2013	2014
Total DCI thematic	36.4%	54.1%	44.0%
DCI total	31.6%	36.8%	37.2%

Frequency of errors for DCI in the Asian region has been high over the period 2012-2014 (above 20%), while in 2013 and 2014 the share in the total RER remained low (+/- 0.06%).

- The part of the RER which can be attributed to the **EDF (European Development Fund)** during the period 2012–2014 has fluctuated between 33% and 38%. The frequency of errors in EDF transactions is at the overall frequency level.

It appears that over the last three years the RER for EDF is structurally below or equal to the total RER. In 2014, 16 out of the 24 errors (i.e. 2/3 of errors) linked to the EDF are attributable to international organisations, but represent 40% of the total of the share of the RER. (See more details in part 4.1.)

Graph 2.4. Evolution of the share in the RER and frequency of transactions affected by error by sectorial and thematic activities (2012 – 2014)



3. Analysis of the transactions affected by error by type of transaction

Table 3.1. Transactions affected by error by type of transaction (2014)

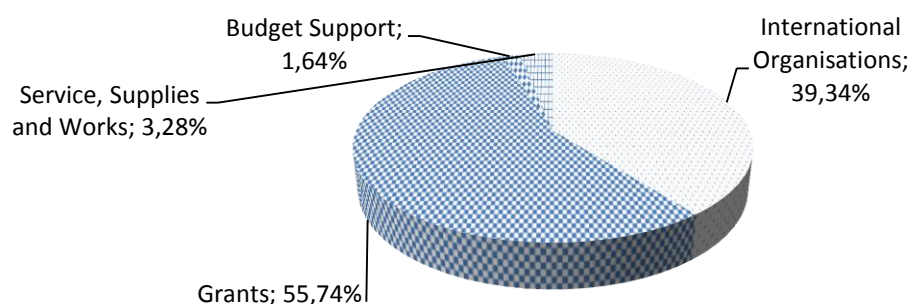
TYPE OF TRANSACTION	Selected sample	No of tr. affected by error*	Frequency (1)	Percentage of transactions affected by error (2)
International Organisations	57	24	42.1%	39.34%
Grants	77	34	44.2%	55.74%
Budget Support	35	1	2.9%	1.64%
Service. Supplies and Works	42	2	4.8%	3.28%
TOTAL	211	61	28.9%	100.00%

* Including estimated errors

(1) See graph 3.2.

(2) See graph 3.1.

Graph 3.1. Percentage of transactions affected by error by type of transaction (2014)



Graph 3.2. Frequency of transactions affected by error by type of transaction (2014)

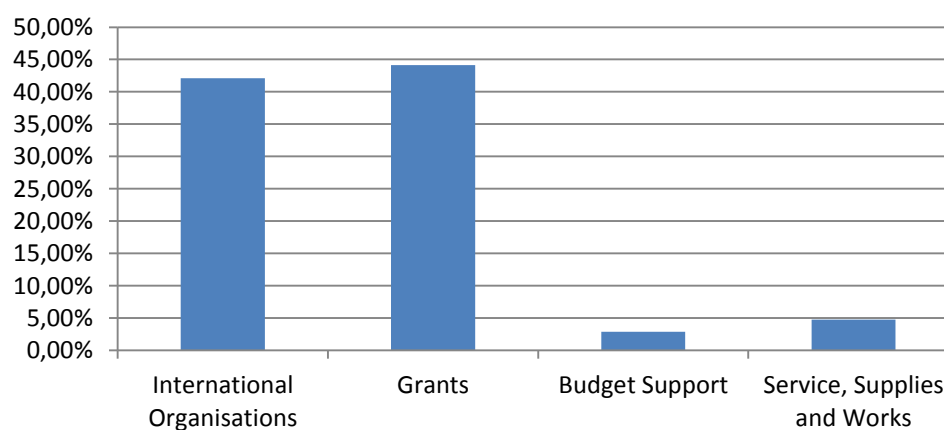


Table 3.2. Evolution of the share in the RER by type of transaction (2012 – 2014)

ERROR RATE	2012	2013	2014
International Organisations	1.36%	0.98%	0.81%
Grants	1.17%	1.95%	1.94%
Budget support	0.00%	0.00%	0.01%
Services Supplies and Works	1.10%	0.42%	0.05%
Total error rate	3.63%	3.35%	2.81%

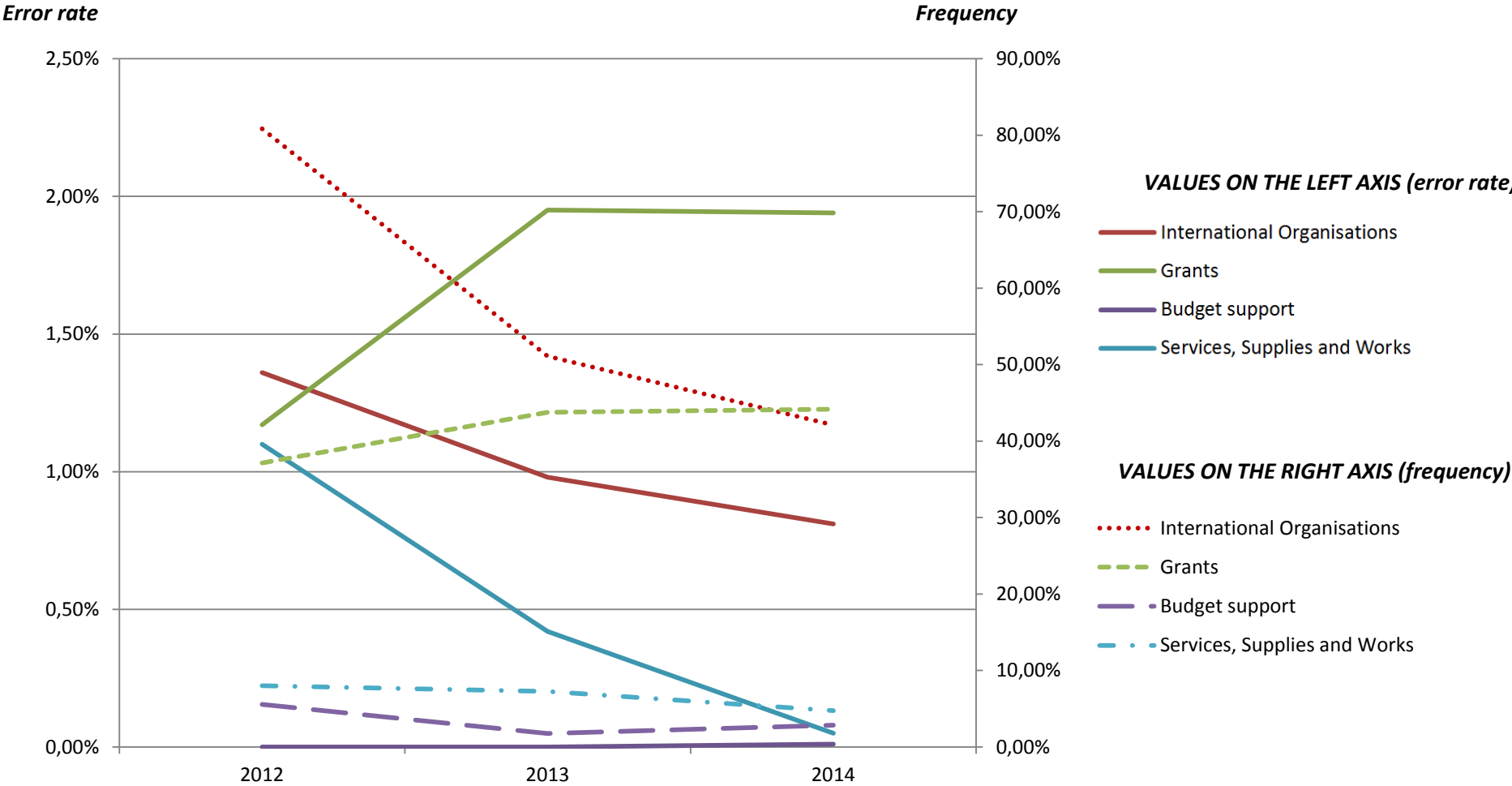
Table 3.3. Evolution of the frequency of transactions affected by error by type of transaction (2012 – 2014)

FREQUENCY	2012	2013	2014
International Organisations	80.9%	51.1%	42.1%
Grants	37.1%	43.8%	44.2%
Budget support	5.6%	1.8%	2.9%
Services Supplies and Works	8.0%	7.3%	4.8%
Total RER	31.4%	25.3%	28.9%

The bulk of transactions affected by error are linked to international organisations (IO) and grants. During the period 2012–2014 there is a small improvement for IOs, both for the share in the RER and the frequency. The situation degraded dramatically for grants. These two categories are dealt with in more detail in paragraphs 4.1. and 4.2.

Over the years 2012 to 2014 the share of Budget support in the total RER was negligible and the frequency of errors is very low (3% in 2014), compared to the average frequency of around 30%. In total, 146 Budget Support transactions have been examined over the last three years, 5 of which have been subject to a mostly non quantifiable error.

Graph 3.3. Evolution of the share in the RER and frequency of transactions affected by error by type of transaction (2012 – 2014)



4. Evolution of the share in the RER of transactions affected by error by error type (2012 – 2014)

Table 4.1. Evolution of the share in the RER by error type (2012–2014)

ERROR RATE	2012	2013	2014
Procurement	0.55%	0.42%	0.00%
Missing documentation	N.A.	1.72%	1.21%
Non-recovery	1.31%	0.30%	0.14%
Other beneficiary errors	N.A.	0.31%	0.99%
Estimates	0.96%	0.60%	0.47%
Total	3.63%	3.35%	2.81%

Table 4.2. Evolution of the percentage of transactions affected by error by error type (2012–2014)

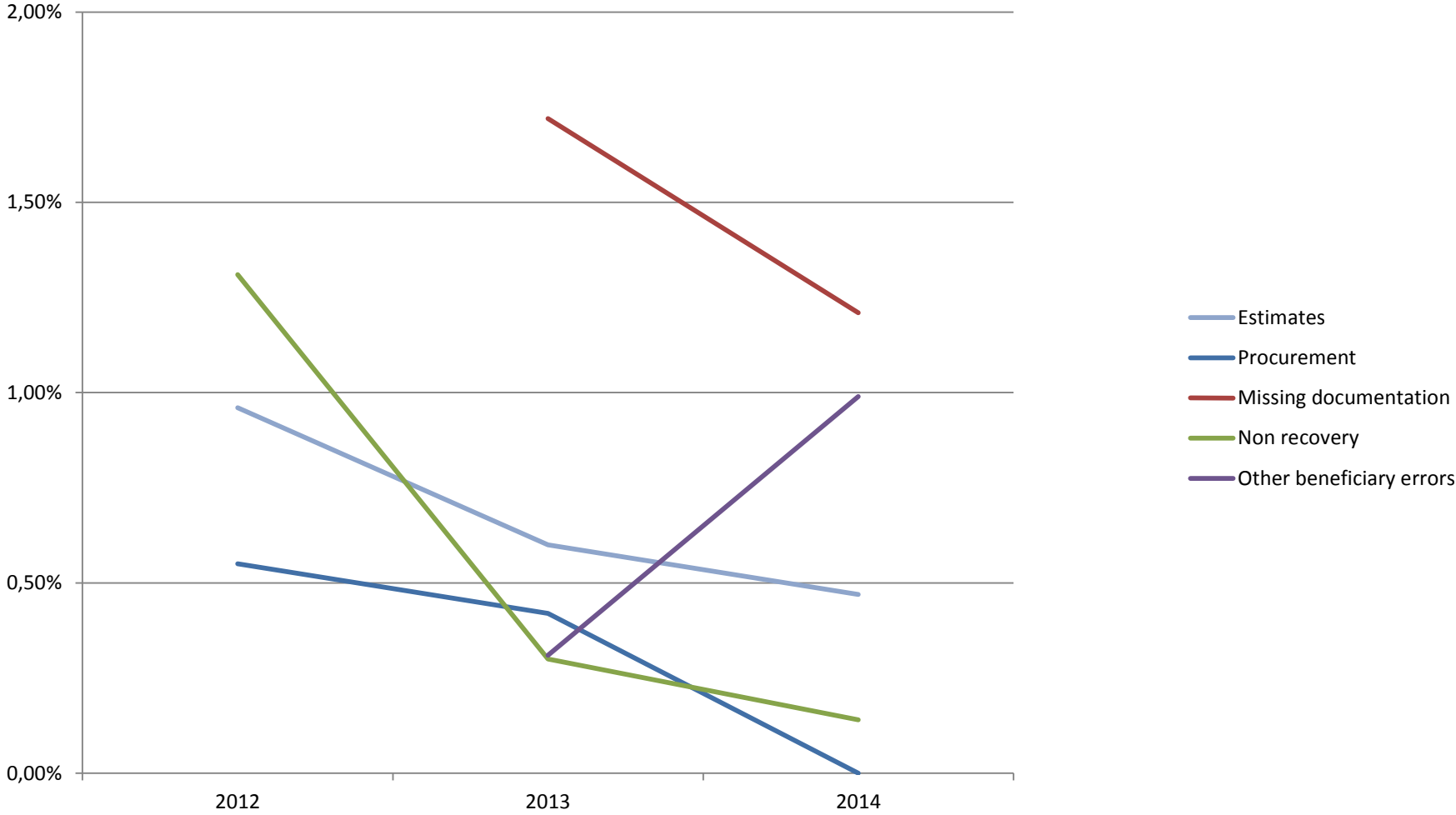
PERCENTAGE	2012	2013	2014
Procurement	15.2%	12.5%	0.0%
Missing documentation	N.A.	51.6%	44.1%
Non-recovery	N.A.	8.9%	7.5%
Other beneficiary errors	N.A.	9.1%	31.7%
Estimates	27.0%	17.9%	16.7%
Total	-	100.0%	100.0%

The lack of documentation or inadequate documentation is the first cause of error. In 2013 and 2014, if the missing documentation would have been available and no other type of errors would have been detected, the overall RER would have been around 1.6%, i.e. clearly below the materiality threshold of 2%.

In 2014 there was a sharp increase in beneficiary errors due to other ineligible expenditures and legality and regularity issues. This type of issue represented almost one percentage point, i.e. 35.2% of the overall RER.

Errors of non-recovery, i.e. those linked to the absence or insufficient follow up of audit findings have dramatically decreased from 1.31% (or 36.1% of overall RER) in 2012 to 0.14% (5% of overall RER) in 2014.

Graph 4.1. Evolution of the share in the RER by error type (2012–2014)



4.1. The evolution of the share of the RER linked to IOs

Table 4.1.1. Evolution of the share of the RER by error type linked to IOs (2012–2014)

ERROR RATE	2012	2013	2014
Estimates	-	0.23%	0.11%
Non recovery	0.34%	0.07%	0.07%
Missing documentation	-	0.40%	0.09%
Other beneficiary errors	0.01%	0.28%	0.54%
Total	1.38%	0.98%	0.81%

Table 4.1.2. Number of transactions affected by error by error type linked to IOs (2012–2014)

TRANSACTION NUMBER	2012	2013	2014
Estimates	27	6	4
Non recovery	0	2	1
Missing documentation	1	4	6
Other beneficiary errors	10	11	13
Total	38	23	24

Over the period 2012–2014 there was a steady decrease in the contribution to the overall RER by international organisation while the share in the total RER is stable around 29% in 2013 and 2014.

The availability of information improved in 2013 and 2014 and the lack of recoveries has become low in 2013 and 2014. In 2014, five transactions linked to the World Bank Group and two transactions linked to the African Union are concerned by the recovery issues.

The other errors linked to ineligible expenditures and legality and regularity issues have increased sharply during the years under review. In 2014 the main errors were due to the non-respect of dates for expenditure, actual cost below those claimed, or lack of authorisation by the EU.

Table 4.1.3. Main IOs concerned by errors (other than non-recovery) in 2014

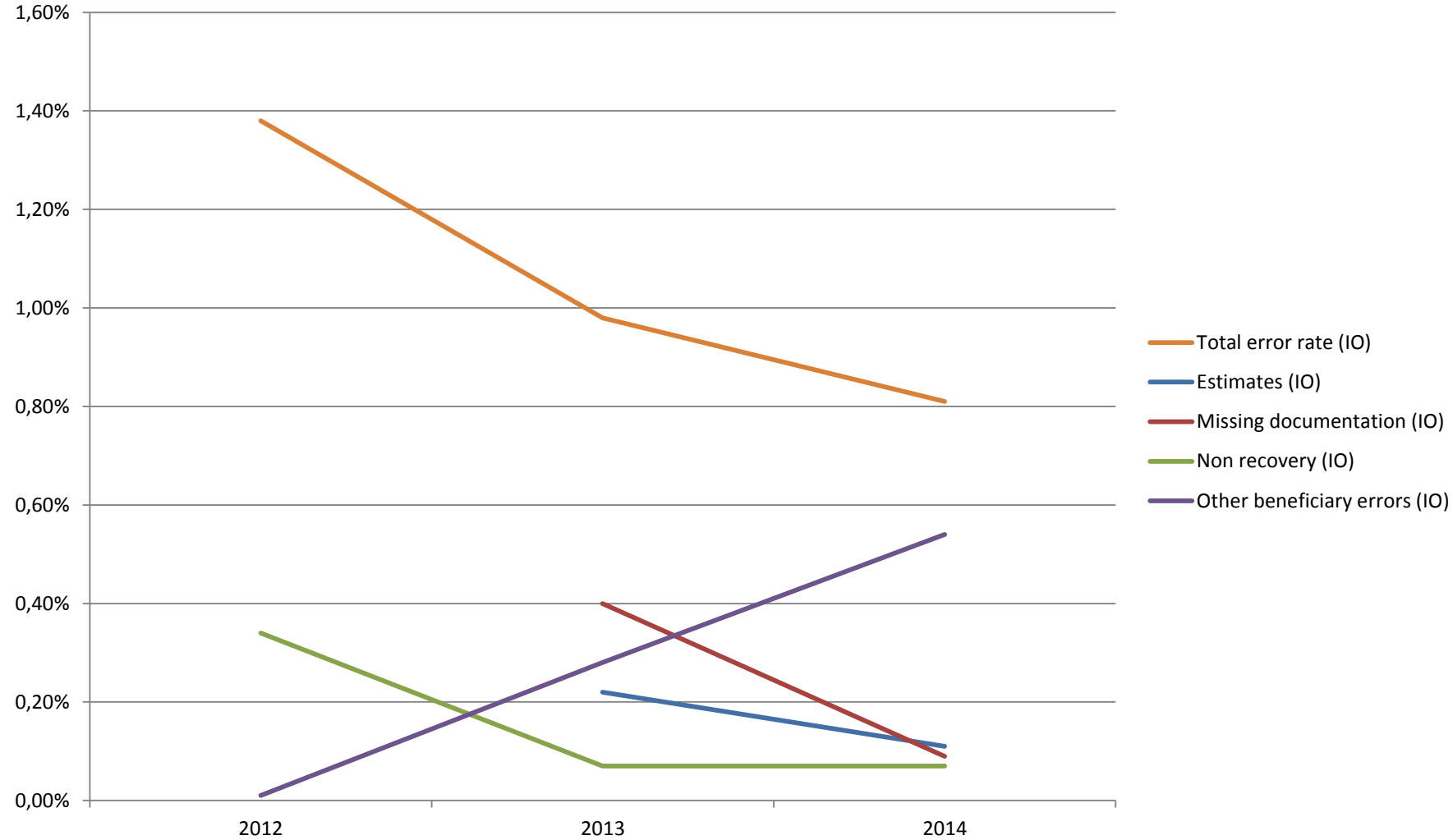
IO	Number of transactions	Contribution to the overall RER in percentage points
UNDP	6	0.25 ²
IFAD	2	0.27
FAO	2	0.04
Council of Europe	1	0.05 ³
UNODC	1	0.04
Red Cross	1	0.03 ⁴

² One estimate for 0.03.

³ Estimated.

⁴ Estimated.

Graph 4.1.1. Evolution of the share in the RER by error type linked to IOs (2012–2014)



4.2. The evolution of the share in the RER linked to Grants

Table 4.2.1. Evolution of the share of the RER by error type linked to Grants (2012–2014)

ERROR RATE	2012	2013	2014
Estimates	0.43%	0.38%	0.36%
Missing documentation	0.01%	0.90%	0.33%
Non-recovery	0.47%	0.10%	0.07%
Other beneficiary errors	0.26%	0.57%	1.18%
Total	1.17%	1.95%	1.94%

Table 4.2.2. Number of transactions affected by error type linked to Grants (2012–2014)

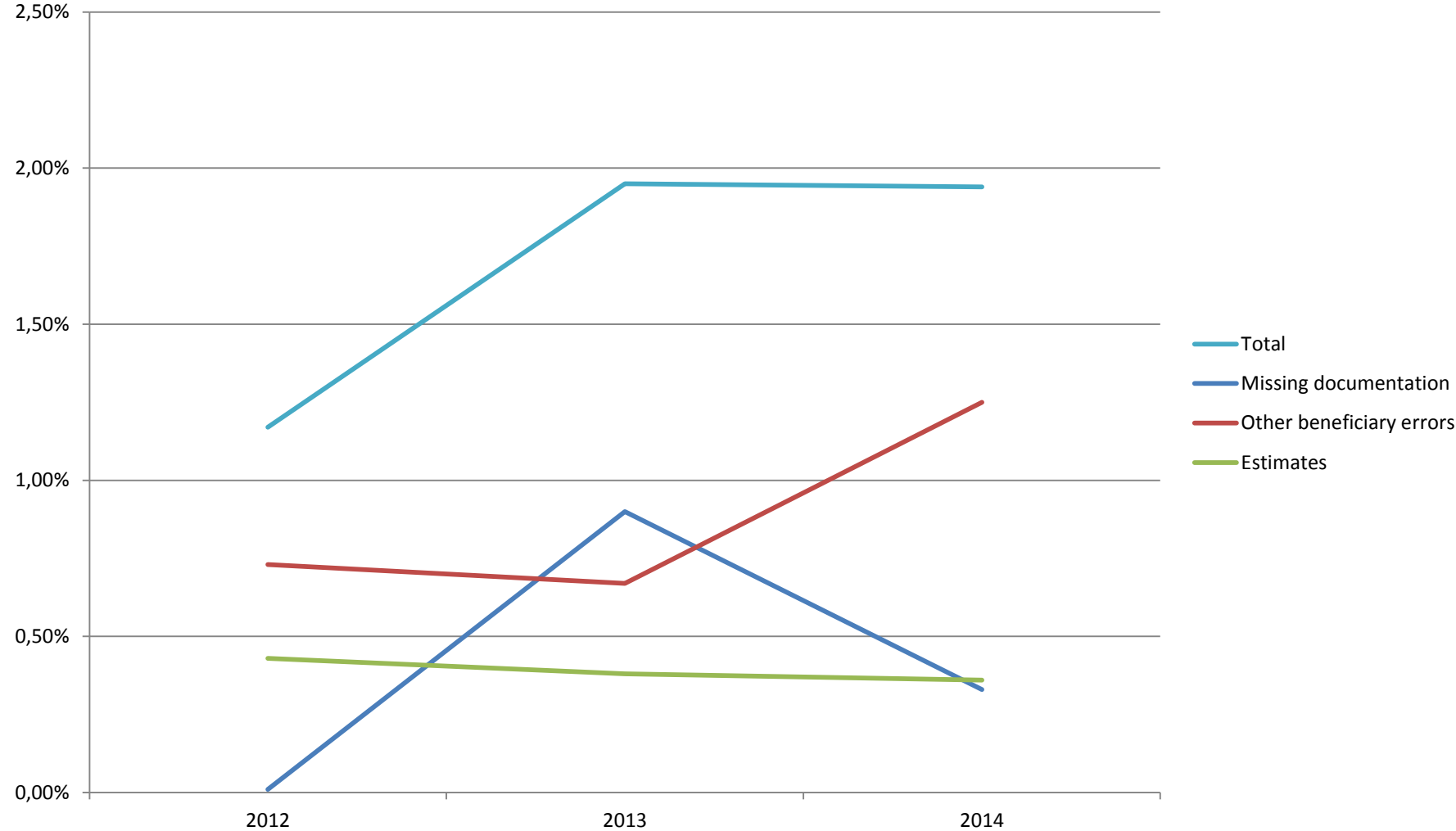
TRANSACTION NUMBER	2012	2013	2014
Estimates	13	9	10
Missing documentation	1	10	9
Non-recovery	1	4	1
Other beneficiary errors	11	5	14
Total	26	28	34

From 2012 to 2014, errors linked to grants have increased both in terms of their share in the overall RER (from 32.2% to 69.0%) and in terms of number of transactions (from 36.6% to 55.7%).

Missing documentation remained an important issue in 2013 and 2014.

The errors linked to non-recovery have steadily decreased while the errors other than missing documentation have dramatically increased, due to ineligible expenditures and legality and regularity issues.

Graph 4.2.1. Evolution of the share in the RER by error type linked to Grants (2012–2014)



5. The evolution of the share in the RER by type of control⁵

Table 5.1. Share in the RER by implementing partner (Indirect Management, 2013-2014)

Beneficiary	2013	2014
IO	0.95%	0.65%
Third States	0.87%	0.16%
Private companies	0.00%	0.00%
Public bodies	0.01%	0.08%
NGO	0.03%	0.04%
Member States	0.00%	0.00%
Total Indirect Management	1.86%	0.93%
Percentage out of the total	55.5%	33.1%

Table 5.2. Evolution of number and frequency of transactions affected by error by implementing partner (Indirect Management, 2013-2014)

	2013		2014	
	No of transactions	Frequency	No of transactions	Frequency
IO	21	46.7%	18	38.3%
Third States	10	23.3%	6	14.3%
Private companies	0	0.0%	0	0.0%
Public bodies	1	50.0%	1	100.0%
NGO	2	50.0%	1	25.0%
Member States	0	0.0%	0	0.0%
Total Indirect Management	34	26.8%	26	27.7%
Percentage out of the total	60.7%	-	42.6%	-

⁵ This is an indicative analysis, which will be detailed in depth in the coming weeks.

Table 5.3. Share in the RER by implementing partner (Direct Management, 2013-2014)

Beneficiary	2013	2014
IO	0.02%	0.20%
Third States	0.38%	0.01%
Private companies	0.34%	0.21%
Public bodies	0.01%	0.53%
NGO	0.74%	0.90%
Member States	0.00%	0.02%
Budget Support	0.00%	0.01%
Total Direct Management	1.49%	1.88%
Percentage out of the total	44.5%	66.9%

Table 5.4. Number and frequency of transactions affected by error by implementing partner (Direct Management, 2013-2014)

	2013		2014	
	No of transactions	Frequency	No of transactions	Frequency
IO	3	42.9%	7	53.8%
Third States	2	40.0%	1	20.0%
Private companies	3	10.7%	2	11.8%
Public bodies	1	33.3%	3	60.0%
NGO	12	44.4%	20	42.6%
Member States	0	0.0%	1	100.0%
Budget Support	1	1.8%	1	2.9%
Total Direct Management	22	23.4%	35	28.2%
Percentage out of the total	39.3%	-	57.4%	-

6. Conclusions

Two main points should be emphasised:

- The share of the international organisations and the sectorial and thematic activities (carried out by DCI legal instrument) represent nearly 2/3 of the RER in the years 2013 and 2014.
- The main source of error over the last three years is due to lack or insufficient documentation.