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Thank you for your continuing support for the Journal.

Rosmarie Carotti
Editor-in-chief
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Introduction

Like many Supreme Audit Institutions (SAIs) the Court of Auditor’s (ECA/Court) development of its performance audit (PA) capacity was not strictly planned but rather evolved and developed out of its financial and compliance audit work. This paper presents a brief account of that journey of development which has already lasted 35 years and of the key milestones in creating a sustainable performance audit practice (see figure 1). It also describes the challenges faced today in carrying out efficient and high impact audits and the continuous need to evolve and develop when it comes to adding value.

A pocket history of performance audit at the ECA

On 25th October 1977 when the ECA officially came into existence many challenges faced the new Court, not least of which was to define the nature of its audits, including answering the fundamental question: what does the term “sound financial management” (SFM) as expressed in the 1957 Treaty actually mean. While the powers and responsibilities of the ECA were established in the Treaty of Brussels (1975) and the General Financial Regulation of the Communities, the term sound financial management was not defined.

At its first meeting in October 1977 the ECA interpreted SFM as incorporating opinions on alternative and more economical ways of implementing policies through an analysis of costs and benefits, and also assessing whether funds were used efficiently. In doing so it decided to embrace a broad North European approach to external auditing in keeping with the managerial and governance ideas enshrined in the New Public Management (NPM) paradigm. (NPM argued that by giving public service managers autonomy to operate at arms-length from policy decision-makers and be directly accountable for production and operational issues would improve the quality and efficiency of public services. While this increased the likelihood of tensions between the ECA and its main audited entity, the European Commission (EC), this tension was later eased somewhat by the ECA’s application of a “no surprises approach”, where audited entities were consulted during each stage of the audit. However, it was not until 1992 and the Treaty of Maastricht that the requirement for the European Union (EU) budget to be implemented “in regard to the principles of sound financial management” was introduced, later defined in the revised Financial Regulation as the “3 Es” (economy, efficiency, and effectiveness).

5 Financial Regulation applicable to the general budget of the European Union
Figure 1 – Significant events

Chronology of significant events in the period

1977 Establishment of the ECA
1992 Treaty of Maastricht: the ECA becomes an institution; ECA responsible for preparing the annual statement of assurance (SOA); Art. 205 introduces the principle of sound financial management.
1999 European Commission resigns and new Commission introduces a reform programme including activity-based management and activity based budgeting
2004 Enlargement of the EU to 25 Member States
2006 Publication of the ECA’s Performance Audit Manual
2007 The Lisbon Treaty (the TFEU came into force in 2009) recognised the responsibility of Member States for implementing the budget under shared management arrangements
2008 Peer review of the ECA by SAIs of Austria, Canada, Norway and Portugal
2014 Peer Review of the ECA by SAIs of France, Germany and Sweden
2016 ECA’s Reform programme

In 1980 the ECA published an innocuous special report on subsidies towards mountain and hill farming. While the audit’s objective, audit questions, criteria and methodology remained largely invisible to the reader, the facts, audit findings and conclusions presented in the report revealed it to be the ECA’s first special report addressing SFM issues. Going beyond issues of regulatory compliance and financial probity, it questioned the appropriateness of the compensatory allowance aid in addressing the aims of the EC Directive; it criticised the lack of efficiency in the granting of aid, due to the dearth of relevant statistical data; it decried the poor quality of performance monitoring, and it recommended more systematic research be undertaken into the effects of aid. This would be the first milestone in the ECA’s experience of performance auditing and perhaps the first of many such observations the ECA would make on the management of the EU budget. In the 20 year period that followed the ECA would produce 144 special reports, an average of seven reports a year, all focusing on SFM issues (Figure 2).

In 1992 with the ratification of the Maastricht Treaty, the ECA, while being bestowed with the status of ‘institution’, was also presented with the unenviable task of submitting annually to the budgetary authority a statement of assurance (SOA) on the reliability of the accounts and their underlying transactions. In the intervening 20 years this has proved to be a formidable task for the institution in terms of audit methodology, dedicated resources, and its perceived added-value in light of the elusive “positive” SOA on the underlying transactions. While the ECA’s elevated status may have ‘levelled the playing field’ in its relations with the EC and other stakeholders, the exacting nature of the annual SOA on resources limited the ‘marge de manoeuvre’ of the ECA in carrying out performance audits and other discretionary tasks.

Across the ‘playing field’ the EC was also ‘renovating its house’ with an initiative launched in 1995 (SEM 2000 initiative - Sound and Efficient management) aimed at modernising and improving finance and resource management systems of the Commission. The initiative included the creation of a consultative group consisting of representatives of Finance and Budget Ministers of Member States, in which ECA Members participated. One of its operational conclusions was that ‘greater account should be taken of Member States’ responses to the Court of Auditors reports and (that) the Commission will reflect actions taken by the Member States...
in its follow-up report to the budget discharge*. However, it was not the management actions of the Member States that would lead to the most calamitous event in the history of the European Commission.

In October 1997 at a ceremonial session of the ECA to mark its 20th anniversary, Mr Jacques Santer, then President of the EC, in referring to the SOA, expressed his delight “that this new instrument has helped make the Member States aware of their responsibility in managing Community funds” and that he was “determined to improve the Commission’s budgetary and administrative culture”. However, some six months later dramatic events led to the resignation of the EC on 15 March 1999, following the publication of a report on fraud, mismanagement and nepotism in the EC by a Committee of Independent Experts. The new Commission introduced a reform programme, which included new methods of managing the budget called “activity based management” and “activity based budgeting”. According to the reform programme, this would provide a framework for improved resource allocation and an increased focus on the measurement of results and performance against measurable objectives.

**Building professional capacity**

In the year 2000, as a complement to the EC’s reform programme, the ECA established the Sound Financial Management Audit Advisory Group (SFM Group) to advise it on the further development of SFM audit practices at the ECA. In the Group’s report, adopted by the ECA in June 2000, it made an important distinction as regards SFM auditing (in comparison with financial and compliance auditing), stating:

“In the SFM context, the examination of management processes and controls is an essentially positive process, which aims to identify areas and ways in which problems can be overcome and management can be improved.”

This requirement for balanced reporting and seeking improvements was a change from the exception reporting of financial and compliance audits and was contained in the first International Organisation of Supreme Audit Institutions’ (INTOSAI) auditing guideline on performance auditing*, and later confirmed in the ECA’s newly issued Performance Auditing Manual (PAM) in 2006.

“Performance auditing is an independent examination of the efficiency and effectiveness of government undertakings, programs or organizations, with due regard to economy, and the aim of leading to improvements”.

Following the work of the SFM Advisory Group, in 2003–2004, the ECA prioritised its development of SFM audit methodology and organised seminars to gather and analyse experiences of colleagues concerning SFM audits†. In building a sustainable audit capacity the ECA also acquired knowledge and advice from other SAIs, which it then analysed and processed into auditing procedures, and in consultation with auditors, customised them to the needs and requirements of the ECA. Secondly, management buy-in at the highest level was achieved to provide strong solid leadership in obtaining a consensus and maintaining consistency during the development process. One important decision taken in the developmental process was the re-naming of the “SFM audit” to “performance audit” (PA) at the suggestion of the Swedish ECA Member, on the basis that the previous term was considered too narrow and might limit the audit to areas of financial management. It was argued that as the Treaty did not oblige the ECA to carry out something called “sound financial management audit”, the ECA could decide for itself how such an audit would be carried out. This decision was an important one not only in terms of not limiting the scope of its audit mandate, but also in aligning the ECA’s auditing procedures and practices with the newly adopted INTOSAI guidelines for performance auditing, which provided a broad and common framework (to all SAIs) for carrying out such audits.

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8 DEC 064/00 DEF A framework for the further development of the Court’s sound financial management audit practice, internal document, p.3, internal document.


10 DEC 167/03 DEF, paragraph 14, internal document.
In 2006 the ECA developed a separate performance audit manual, the PAM. During a seminar organized to introduce this new methodology, the Swedish National Audit Office’s (Riksrevisionen) performance audit expert enthused audit staff to embrace this new audit process:

“Creativity is the most important factor in future. Learning and development is getting more and more important in the public sector. Today we are faced with unpredictability, flexibility, the need to relearn and to please the clients.”

The ECA’s methodology developers also exhorted staff to “move to audit which focuses on performance achieved” rather than “work which often limits itself to systems-based audit”. They also reminded staff that the reader of the reports “wants questions answered… and to know ‘how’ it is possible to improve”.

Progress is rarely linear

The production of performance audit reports by the ECA has not been exactly linear in the period since 2000 (Figure 3). There were a number of factors at work here. Firstly, oftentimes performance audits were treated as research projects addressing broad ambitious performance questions, and carried out over a two to three year period from initial planning to report production and promotion. Therefore, after a year of high production, audit teams might take a further three years to reach that peak of production again. Secondly, as audit teams were not solely dedicated to PA work, these “discretionary” audits often unsuccessfully competed for limited resources with the ECA’s permanent and obligatory audit product, the SOA. Thirdly, the enlargement of the EU in 2004 adversely impacted on the ECA’s audit practices and decision-making ability, which was later addressed through internal restructuring and delegation of decision-making powers to audit chambers. Lastly, it could be argued that the production of 23 reports in the year 2000 was not comparable to similar reports produced post-2006 when the new audit manual and formalised audit procedures were introduced. In the period Pre-2006 auditing methods were less sophisticated vis-à-vis later data collection and analysis techniques and the structure and contents of the earlier reports were also simpler in terms of visual data and reporting formats.

![Figure 3 – Performance audit reports 2000 to 2014](image)

In the intervening period, the focus of performance audits has slowly been diversifying from a systems-orientated approach to examining performance management, to one which also assesses results delivered and problems tackled. The use of innovative and diversified data collection and analysis techniques, such as electronic surveys, focus groups, and experts, has also expanded to accommodate these different audit approaches and to tackle more diverse and informative audit questions. However, audit development is an iterative process, and in 2014 an international peer review of the ECA’s performance audit practice (conducted by the SAIs of France, Germany and Sweden) concluded that further efforts were needed to develop a sustainable PA capacity. In particular, it highlighted the need to address the quality of the ECA’s audit recommendations and suggested that more add value could be provide to stakeholders by analysing the causes of problems, errors and weaknesses, and producing more action-oriented audit recommendations in reports.

The accountability landscape is slowly changing

The European Parliament (EP) is one of the main addressees of the ECA’s performance audit reports. It uses them to facilitate parliamentary scrutiny through the discharge procedure in which it exercises control over the implementation of the Union’s budget. From the parliament’s perspective the discharge is a political work of annually clearing...

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13 The European Court of Auditors (2014) International Peer review of the European Court of Auditors
or absolving the EC of its stewardship of the EU budget, by “signing off” and closing the accounts. In this context, the ECA’s performance audits provide independent information and analysis which allows for a broad debate on the political objectives and results achieved by audited entities.

One perpetual accountability conundrum attached to the EU budget is the role of Member States. Although the entire budget is implemented under the responsibility of the EC, the Treaty of Lisbon in 2007 recognised the responsibility of the Member States for implementing the budget under shared management. However, from an accountability perspective, how best can the EP address the stewardship of Member State authorities, who are directly responsible for approximately 80% of EU funds spent under shared management arrangements (and are also the source of the majority of irregular expenditure from the budget)?

One recent innovation from the EP to enhance accountability has been to require the EC to present an annual evaluation report based on results achieved with the Union’s finances (Article 318 of the TFEU). In its opinion on the EC’s first evaluation report, the ECA stated that the evaluation report:

“should be the starting point for a fundamental Commission re-think about its reporting and accountability systems” … “and that it should systematically build into its multiannual programmes performance indicators and milestones that would allow it to evaluate …whether the defined objectives and intended impacts are likely to be achieved” and that “This would be a further step on the path towards measuring effectiveness” (p.2).

Prophetically, some seven years earlier, the ECA’s SFM Group had divined this outcome in 2000:

“although it will be some time before systems are in place to generate and transmit this information …It is possible that the discharge authority will, in the near future, call upon the Court to indicate on a systematic basis, whether the information it receives from the Commission is reliable, relevant and timely… the Court may soon have to develop methodologies and procedures for systematic audits of evaluations and performance data”…and have to deal with the extra complication because much of the information will originate in the Member State authorities”.

And had also recognised the future need to also include the Member State authorities in its performance audit findings and audit recommendations:

“Our reports will have to address two issues: what the Commission could have done better, either by itself or in managing its relations with the Member States; and how the Member States could have done things better… the Court should not shy away from pointing out areas where management by Member State authorities could be improved…”

It is clear that the EC’s first two Article 318 evaluation reports failed to satisfy the ECA and the EP; although better direction, guidance and consultation from the start might have improved the outcome. However, a significant accountability challenge remains as regards the division of competences and responsibilities between the EC and the Member States in terms of evaluation.

Nevertheless, things are moving in the right direction. Five years on, the evaluation report has improved somewhat, and the EC promises that the 2017 report will provide better and more complete information on performance. Also, in order to meet the Europe 2020 strategy targets and initiatives, for the 2014-2020 programming period for Cohesion policy, in 2013 the Commission introduced “an EU budget focused on results approach” by which special arrangements (Partnership Agreements) were agreed with Member States to re-enforce the performance framework (milestones, targets, and measureable results) by which European Structural and Investment funds are programmed, managed and accounted for. Similarly, under the Common Agriculture Policy (CAP) each expenditure measure must be monitored and evaluated in

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15 DEC 064/00 DEF A framework for the further development of the Court’s sound financial management audit practice, internal document (p.2), internal document.


A short history of performance audit at the ECA and the Challenge of adding value continued

order to improve its quality and demonstrate its achievements18.

One of the key issues of course (as was alluded to by the ECA’s SFM Group in 2000) is whether Member State authorities will have appropriate organisational structures and governance tools in place to implement such an approach. But it’s not just technical capacity. Adopting a successful results-oriented approach to management requires that all aspects of the system, at all levels of management, must actively support and facilitate this approach, from inspirational leadership, to bottom-up engagement19. It is generally acknowledged that such an accountability mechanism in a complex policy environment is not straightforward not only due to causal attribution difficulties, but also in terms of meaningful and coherent definitions or ‘results’ and performance which would allow aggregation and reporting across diverse socio-economic setting. Finally, there remains the open question of proportionality and cost-benefits of efforts for administrations where EU co-financed programmes receive 50% or more co-financing from national administrations.

The accountability landscape is indeed changing. It has previously been argued that until the Union’s budget follows a performance budgeting model, driven by objectives, results and meaningful indicators, the performance assessments by the ECA’s performance audits will fall short of their full potential in supporting parliamentary scrutiny20. Hopefully, in a few short years we may be able to collect the harvest and test the fruits of such labours.


The impact of performance audits can be viewed in different ways

Supreme Audit Institutions use a variety of means (qualitative and quantitative) for assessing their own performance. Some, like the ECA, use key performance indicators including stakeholders’ appraisals, experts reviews of products, presence in the media, and the number of recommendations implemented, among others. In this regard, for 2014 the ECA reported21 that 94% of its stakeholders (EP, EC, and Council) considered the ECA’s reports as being useful to their work. It also reported a cumulative implementation rate for all its audit recommendations in the period 2011 – 2014 of 69% as well as a high level of media interest in its reports. While the EP’s Committee on Budgetary Control is the main addressee of the ECA’s reports, the ECA is increasingly adding further value by presenting its reports to specialist committees of the EP and at international fora. It also actively shares its performance audit methodology through capacity building programmes with other SAIs and public administrations.

Some SAIs like the UK NAO calculate the financial impact of their work in terms of a ratio of annual savings against audit costs. However, one of the pitfalls of such an atomistic approach is that it implies that the governance system is continually generating inefficiencies and that “the patient, while comfortable, is not really getting any better”. It also perhaps misses the larger impact that SAIs have in improving trust and legitimacy for the public domain as a whole, and in addressing the changing requirements of their various of stakeholders, including the issues reflected by the general public interest22.

In recent years the Netherlands Court of Audit (NCA) has attempted to address one of the perceived shortcomings of its performance audits, that is, their responsiveness and immediate relevancy to the general public, the citizen. In a research paper, the Director of performance audit at the NCA states

that:

“by focussing on objectives, targets and criteria… the auditor misses the true explanation of disappointing agency or programme performance … without reflecting on… whether those performance indicators actually relate to society’s real problems and stakeholders’ concerns”.

Accordingly the NCA encourages its performance auditors to take a participatory, responsive approach with the audited entity and stress the need for learning. This takes two phases: firstly in analysing stakeholders’ perceptions of the audit; and secondly, by using expert-panels to discuss intermediate findings and possible remedies or improvements. Between 2009 and 2011 it also carried out, what it provocatively terms ‘reality check studies’ to provide parliament with information on whether a new policy or programme really works in the ‘real world’; from the perspective of citizens and businesses. The NCA took the problem-oriented approach to performance auditing and pro-actively identified problems affecting these groups and how programmes and measures had addressed them. Rather than solely taking an accountability position, reality check studies evaluate whether individual programmes are working on the ground and effectively addressing the intended issues. Their results show that prior to introducing policy measures, policy assumptions are not always tested, and that much of the complexity in management arrangements is self-imposed.

Remaining relevant and true to the principles of performance auditing, based on the principles of good governance, is a permanent challenge for SAIs and practitioners. In recent years the ECA has expanded its areas of interest into good governance by examining the application of EU directives concerning State Aid regulations and the Services, and also financial and banking regulatory mechanisms; areas which have little direct financial significance to the EU budget but have high potential impact for the Union and the life of its citizens. Such innovations are important to ensure not only that the work of the ECA remains relevant and has high impact, but that it retains and safeguards its central role and function as a Supreme Audit Institution of the EU operating at European level, which bestows on it distinct powers and responsibilities.

The view ‘from over the fence’

Another way to measure the impact of one’s work is to “put oneself in the shoes” of the recipient of audit, the audited entity or “client”: Interviews conducted with managers in the EC in 2015 in the context of a quality review of the ECA’s audit recommendations, provided interesting insights into their perceptions of the usefulness of PA recommendations. In general terms, while recommendations were understood and generally appreciated and accepted, some recipients were a little underwhelmed by their potential impact. These perceptions were mediated by the nature of the area under audit (e.g. high expenditure vs. low expenditure), and the specific scope and impact of the audit. For example, it was argued that while the auditors understood the larger picture, sometimes a lack of knowledge on the specificities of processes, risked recommending actions disproportionate to the deficiency identified. In one case, following a subsequent cost-benefit analysis by the audited entity, the ECA’s recommendation to develop an IT tool would have been extremely expensive to implement, so alternative solutions were sought.

A reoccurring concern of managers was the context in which PA reports were issued and how the discharge authority (Council and EP) might (mis)interpret the audit messages; so that something that might be considered a “normal” finding, might take on dramatic importance. Similarly, there was a perception that the audit messages were generally negative and that perhaps the focus of audits could be more intuitively based and focused on essential issues.

Nevertheless, recommendations were generally accepted and often welcomed by the EC, particularly where they allowed the EC to use the ECA’s authority as a means of encouraging and disseminating good practices in the services. Apart from recommendations, audited entities also valued the pedagogical aspect of their performance audit experience as it sometimes required them to look into pre-existing projects they were unfamiliar with, resulting in a learning experience for new teams.

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Some final thoughts

The ECA’s reform programme, introduced in January 2016, transforms the ECA into a task-based organisation with a re-focusing of resources away from processes and onto quality outputs. To this end, processes and procedures have been updated to provide efficiency gains and greater responsiveness to needs; hierarchical layers have also been removed to create a flatter and more flexible organisation. Opportunities are also being identified to better harness existing expertise to create new value-adding products of benefit both within the organisation and to stakeholders. And lastly, considerations continue on the role played by the SOA as a contribution to good governance, so that just like one’s favourite old re-upholstered couch, which you cannot bear to part with, it complements the ‘newly decorated living-room’.

A particular differentiating feature of performance auditing is that it aims to add value by identifying good practices and recommending improvements to management systems. As auditors are unlikely to be subject-matter experts in all areas being audited, this important objective can only be effectively achieved by engaging, and collaborating with the audited entity, as an independent entity, in the search for best practices. Recent studies have suggested, in the content of a renewed accountability model, that it is now time to “rebalance” the accountability-improvement axis in favour of emphasising the learning and developmental role of PA. The ECA’s traditional role as the purveyor of accountability information does not have to be sacrificed in order to investigate and report intelligently on ways of improving performance.

But sometimes focusing on “what works right” about a process or system rather than on what doesn’t work heightens the positive potential of managers and decision-makers. Perhaps accountability and auditing would be best served by a “name, shame, and acclaim” policy.

As we reflect back on some lessons learned to date, we conclude that the comprehensive results-oriented budgetary and performance management system in Member States, anticipated some 15 years ago, is still some way off from being realised. In the meantime, the performance audit capacity of the ECA must, as far as possible, address its main stakeholders’ needs for independent, coherent and comprehensive analysis on the implementation of the EU budget and its governance framework. Worthwhile change needs to go through an iterative process, a cycle of testing and re-evaluating, as we “rise another step on the ladder”. But like the climber we too should be cognizant of the demands of our environment as we maintain a “firm foothold” in our performance auditing practice, and the safeguarding of its independent and distinctive purpose and nature.

Sailing into new waters with EU’s Multi-annual Financial Framework?
Impressions from the MFF Conference in Amsterdam, 28 January 2016

By Gaston Moonen, head of private office of Alex Brenninkmeijer

Smooth transition into the Dutch presidency

From the 1 January 2016 the Netherlands took over the Council Presidency from Luxembourg. The transition took officially place on 7 January and went smoothly, as expressed in the change of logo. Cost-wise the Dutch intend to keep up their reputation of being tight on the budget: their overall presidency costs should be half the amount spent during their last presidency period in 2004. The re-utilisation of the 2004 logo has to be seen in that framework and along the lines of ‘don’t fix it if it ain’t broken.’

At the same time the Dutch intend to do more with less. The goals they have set for their presidency are quite ambitious and necessarily so given the problems the European Union is currently facing. During its presidency the Dutch government holds three basic principles as key for the Union: a Union that focuses on essentials; a Union that creates innovative growth and jobs; and a Union that connects with society. Within these three principles the Dutch have identified the following four priorities: 1) migration and international security; 2) Europe as innovator and job creator; 3) sound and future-proof European finances and a robust Eurozone; 4) forward-looking policy on climate and energy.

MFF reform

It is in relation to this third priority that the Dutch government, at the request of its parliament, decided to organize a conference on the Multi-annual Financial Framework (MFF). The negotiations for the new MFF, applicable from 2021 onwards, will start early 2018 and the Dutch want to initiate a discussion on how to create a fundamental change in European finances so that the EU budget can be better used to address the multiple crises facing Europe. Until now the MFF has reflected a delicate balance cemented in the budget. Any ‘external’ pressure to this balance meets many barriers, and not only procedural. Through an open and interactive discussion the Dutch want to start a longer-term reflection on reforming the MFF. They invited over 150 representatives of the highest levels of government from all 28 member states, the European Commission, the European Parliament and several other European organisations to convene in Amsterdam on 28 January 2016. Discussions were held under the Chatham House rules.

The conference was structured around four main themes, organised in parallel sessions, preceded and succeeded by plenary sessions with a keynote address and thoughts and conclusions brought forward from the parallel sessions. The four themes were: 1) the ‘ideal’ EU budget; 2) financing the EU budget; 3) responding to new priorities; 4) the negotiation process. The Dutch government invited Alex Brenninkmeijer to share his thoughts on the basis of his experiences as ECA Member in an intervention on the third theme, and to participate in the discussion panel during the second plenary session. This gave Alex Brenninkmeijer ample opportunity to share his thoughts on the underlying principles for achieving real European added value.

Conference scene

The participants of the conference were mainly housed in hotels situated on the southern banks of the narrow lake called the ‘IJ’, located just north of the Amsterdam’s main railway station. This enabled the hosts to bring in all the guests by boats, which was not only practical because of security reasons but also picturesque, with nice views of buildings and 17th century ships. For Alex Brenninkmeijer and me it brought back old sailing memories on the ‘IJ’, albeit in different eras (picture). During this boat trip we met Jorge Nunez Ferrer, CEPS-research fellow and author of the briefing paper for the conference. In his paper he raised some provocative thoughts on what kind of budget the EU needs, what kind of principles can underpin EU own resources, what kind of flexibility is currently in the
EU budget and whether it is sufficient, and how to avoid an MFF process that is dominated by ‘juste-retour’ interests and in which ‘net balances’ play a dominant role in long term allocation decisions. He also shared some interesting thoughts on the implementation of financial instruments, not only on its success in attracting private funds but also where this success takes place. Food for thought for possible audit topics...

The conference scene was not only located on the water but partly also in an impressive building temporarily created specifically for the Council presidency. Apparently still feasible in the envisaged tight Dutch budget. Most of the meetings under the Dutch presidency will take place in this location. With Alex Brenninkmeijer being treated as VIP I could hitchhike along, avoiding security checks and the lines for registration.

Steve Jobs shuffle

The plenary session in the morning was highlighted by opening statements by the Dutch Minister of Foreign Affairs, Bert Koenders, and the keynote address delivered by Commission’s Vice-President Kristalina Georgieva. She gave her address with such an ease and flair that would have made Steve Jobs jealous and which I recognised with pleasure from the presentation she gave during her Budgeting for Performance conference in September 2015.

The speakers highlighted the achievements obtained with the EU budget but also the challenges that need to be addressed, also by means of the EU budget. In the past the MFF was too often characterised with the EU budget as scoreboard, which became an end in itself. This zero-sum game not only feeds mistrust among MFF participants but also mistrust among EU citizens in how the EU set its priorities. The EU budget should be seen as a story board, not a scoreboard, and as a mean to realise common objectives. And when results are lacking the reaction should be to spend less, not more, and find out what is going wrong.

Also underlined was that the EU, as a young union, has often shown the ability to overcome a crisis and to become stronger: the euro crisis is one such example. With the refugee crisis many measures are still needed, including budgetary ones. The EU will need to demonstrate to its citizens that their money works for them. EFSI, as a new financial instrument, is an example of that. The new MFF will have to bring an equilibrium between those who want to have a multi-annual financial ‘peace’ in the EU and those who want a budget more oriented towards the major changes in the world.

Underlying principles instead of policy discussions

During the four parallel sessions -, one for each theme- the main goal for the participants was to identify a number of main principles that could underpin the theme at issue. Besides Alex Brenninkmeijer, Commission’s Vice President Jyrki Katainen and British Financial Secretary David Gauke were speakers for the third theme ‘Responding to New Priorities’. They underlined the benefits of financial instruments as new budgetary instruments and the need to be selective in policy priorities and advance agreements on budget arrangements for emergency needs. Alex Brenninkmeijer raised key questions like why citizens currently have low trust in policy making at both national and EU level and whether EU policies really addresses citizens’ concerns. He pinpointed at three principles in relation to these concerns:

- the EU budget should deal with those issues that provide real EU added value, i.e. issues that member states clearly cannot solve on their own;
- solidarity in addressing these real issues instead of own interests; and
- loyal cooperation among Commission and member states to enable the EU to work effectively.

Underlying principles instead of policy discussions
member states to find €3 billion to finance the Refugee Facility for Turkey to address urgent refugee needs. Also striking in my view were the comments made about the MFF as a (negotation) process with a momentum of its own. This is a situation that many MFF participants are not happy with but just have to swallow, often because of time and peer pressure.

Flexibility, European added value and subsidiarity

During the second plenary session a panel existing of Kristalina Georgieva, Jens Spahn, Mario Monti, Jean Arthuis, David Gauke, Alex Brenninkmeijer, and Janusz Lewandowski, moderated by Bert Koenders, presented a number of principles that should be guiding for the new MFF. The three principles most often mentioned were: flexibility, European added value and subsidiarity. There was also the notion that change on the income side and on the expenditure side are politically linked and a solid financial budgetary backbone is essential to set clear policy priorities.

In a rapidly changing world more flexibility will be needed: changing circumstances demand different policies and also different funding. European added value is clearly a principle that everyone can support but is notoriously difficult to define. The European Court of Auditors highlighted the concept in its opinion 1/10 and since underlined the need for EU decision makers to use it as a guiding principle for EU policy choices in several of its reports, and most recently in its briefing paper for the MFF mid-term review. Encouraging, also for the Court, is that at the conference it was felt important to have this theme in the overarching framework for the EU budget. However, as a guiding selection criterium for policy choices it will need more flesh on the bone since it is currently also defined as the opposite of subsidiarity, a principle also embraced by many of the participants. It should be feasible to define value, including European value, as more than a digital cost-benefit exercise, giving ground to the idea that the EU budget should not be just a collection of numbers but an expression of values and aspirations. Or as some said: value added also entails value driven.

The need to address citizens’ values was mentioned by several speakers but most outspoken was perhaps Alex Brenninkmeijer during the second plenary session.
While referring to the numerous pictures of citizens in the background of the conference room he said: 'For many people the MFF discussion is a digital debate, talking about money. It can also be perceived as a political debate, having to do with power. From the perspective of citizens their main concern is about values. The EU has lost its capacity to make a clear narrative to explain what is happening with citizens’ money: where does the EU provide added value? A continuous feedback is necessary to provide information on added value. If we get a confirmative reply from citizens whether the EU actions provided added value then getting their approval for an EU budget should not be a problem.'

The conference was closed with several reflections by Dutch Minister of Finance Jeroen Dijsselbloem.

**MFF Conference: so what?**

Nice conference, nice talking but will the policy-decision makers also do the walking? Will all good intentions materialise in real change from a zero-sum scoreboard MFF to a storyboard MFF that addresses common interests and values instead of pork-barrel type of excesses? Or as one participant during the parallel session that I attended bluntly said (indeed a Dutchman): so far nothing new compared with the previous MFF exercise. We will have to work harder on new principles and practices to prevent it being the same with member states sticking to the same entitlements. The proof of the pudding is in the eating; in 2020 during the next MFF closure. But the Dutch government wants to act earlier, presenting the results of the conference to the informal General Affairs Council in April and also to the subsequent ECOFIN in April 2016. Also depending on the outcome of these Council discussions member states may decide to adapt their MFF approach. The Dutch government feels committed to further explore possible ways forward to improve and reform the MFF.

**Presidency tie**

Both Alex Brenninkmeijer and I look back at a successful participation in an unusual conference for the ECA to participate in. Clearly several participants shared dissatisfaction about the previous MFF process, a necessary ingredient for willingness to change. Even more important was the sharing by participants of one of the main concepts highlighted by the ECA as essential focal point for deciding on EU priorities: the principle of EU added value and the idea to aim for values as such to underpin also the EU budget. The plea of Alex Brenninkmeijer to focus on common values as guiding principles for MFF policies choices was shared by several speakers and one of the core outcomes of the conference.

We left the conference the same way as we came: by boat, this time heading for Amsterdam’s main railway station from where Alex Brenninkmeijer would head south to Utrecht and I a bit further south, towards Luxembourg. But before leaving the conference we managed to ‘score’ a Dutch presidency tie for our intern Miguel Schuppan. So we could go home with a tangible result...and make his day.
At the end of January, Augustyn Kubik, the ECA Member from Poland, presented the 2014 Annual Report to the Polish Parliament and government administration. The three day visit started with a presentation of the ECA’s main product to the European Union Affairs Committee of the Sejm. The second day was devoted to the presentation of the Annual Report to the joint Committees for Budget and Public Finance and for Foreign and European Union Affairs of the Senate. Both presentations were followed by lively sessions of questions and answers.

On the last day, Augustyn Kubik visited the Ministry of Development, where he was received by Jerzy Kwieciński, the Secretary of State responsible for the use of EU structural funds in Poland. First, Augustyn Kubik and Jerzy Kwieciński held a joint press conference, discussing the main ECA findings and the quality of EU spending in Poland.

After the press conference, Augustyn Kubik gave a detailed presentation of the ECA’s 2014 Annual Report to the management and staff of the Ministries of Development, Finance and Agriculture and Rural Development. This session was followed by a spirited discussion: many participants offered various comments and examples and asked a lot of pertinent questions. A common concern was the excessive complexity of rules and heavy control requirements.

Apart from the three presentations, the ECA’s main findings presented in the 2014 Annual Report were also the subject of Augustyn Kubik’s meetings with Stanisław Karczewski, speaker of the Senate, Barbara Dolniak, Deputy speaker of the Sejm and Konrad Szymański, Secretary of State in the Ministry of Foreign Affairs responsible for EU matters.

During the whole visit Augustyn Kubik consistently gave the same message about the need for a “wholly new approach” to how we invest EU funds. He stressed the importance of adjusting the budget to the long-term strategic priorities of the Union and improving the budgetary mechanisms to respond to crises. The recurrent theme was performance: Augustyn Kubik repeated that all spending has to serve a purpose and lead to clearly defined objectives and that for all those who manage the EU funds, achieving such objectives should be at least as important as compliance with rules and regulations. The overall reception of this main message in Poland was very positive.
**Special report N°16/2015**

**Improving the security of energy supply by developing the internal energy market – how to audit the unauditable**

By Erki Must, auditor in Chamber 2

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The audit on security of energy supply

The ECA recently published a Special Report entitled “Improving the security of energy supply by developing the internal energy market: more efforts needed”\(^1\). This performance audit was overseen by UK Member Phil Wynn Owen. Several aspects of the subject matter and the way the audit was organised made the report interesting to read and the overall experience something fellow auditors might learn from.

When, in the spring of 2014, I was tasked to lead a team of colleagues through the preparation and execution of a performance audit on a subject of security of energy supply in Europe, my overwhelming feeling was not optimistic. On the one hand, I was excited that there was a possibility to design what was primarily a full scale policy audit, something I have hoped the Court of Auditors would engage more with. On the other hand, the security of energy supply is a subject matter that has too many meanings in order exactly to pinpoint the most appropriate audit approach.

Despite these challenges, the audit was carried out and now, after the publication of the report, I can conclude that we managed to deliver an audit on something that seemed in the first instance virtually unauditable. This article provides some insights about how we did the audit and its results.

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From energy security to internal energy market

At the start of the audit, the conflict in Ukraine was actively in the headlines. In relation to the unpredictable future of gas interconnections through Ukraine to Western and Southern Europe, the sustainability of energy delivery in the European Union became an urgent issue of concern. Obviously, there are no international standards on how to audit a threat of energy disruptions due to purely political reasons. Therefore, the first task for the team was to define an audit approach that would make the security of energy supply auditable.

We based our work on the International Energy Agency definition for the security of energy supply that was: “Uninterrupted availability of energy sources at affordable cost.” This definition led us to: (1) energy infrastructure, which enables the availability of energy sources, and (2), energy markets, where the cost of energy sources is defined.

The European Union has defined its policy in this field through the concept of the “internal energy market.” This is the regulatory and infrastructure set-up that should allow the free flow and borderless trade of gas and electricity across the territory of the EU. In the most recent European Commission communication on the European energy security strategy, which was published on 28 May 2014\(^2\), the Commission states that: ‘The key to improved energy supply lies first in a more collective approach through a functioning internal energy market and greater cooperation at regional and European levels, in particular for coordinating network developments and opening up markets …’. In order to develop an internal energy market, it is necessary both to establish rules for how the gas and electricity energy markets will function and to seek to ensure that there is adequate infrastructure in place for this purpose.

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\(^1\) Special Report 16/2015 was published on 15 December 2015. The full text of the report in 23 EU languages can be found on our website eca.europa.eu

The rules for the functioning of the internal energy market take several forms. The first stage is the development of a legislative framework which establishes the principles for the development of internal electricity and natural gas markets and the regulatory conditions under which energy should be traded. This legislative framework has been developed, to date, through three ‘packages’ of EU secondary legislation (see Figure 1).

But also EU funding was involved

When the regulatory framework and the need for infrastructure were defined as the first and the second pillar of the audit, it was obvious that for this stool to stand stable, a third pillar would also be necessary. The European Union has invested, or plans to invest, through several financing instruments altogether more than €11 billion into development of EU energy infrastructure between 2007 and 2020 (see Figure 2).

Equipped with sound information to design the approach, we proposed an Audit Planning Memorandum in which the main audit question aimed at verifying whether the implementation of internal energy market policy measures and EU spending on energy infrastructure have provided security of energy supply benefits effectively. This main audit question was further developed into sub-questions in the three areas described above.
Practical arrangements of the audit

Four energy policy regions were selected for the audit. We visited altogether 7 Member States (Bulgaria, Estonia, France, Lithuania, Poland, Spain and Sweden), the Commission and the Agency for the Cooperation of Energy Regulators (ACER) in Ljubljana. The audit field work took six months to complete. Thanks to the joint effort of the team, the reporting Member and his office and the director, the audit was carried out on time, both in terms of audit weeks and planned delivery dates.

In each Member State visited, the team met with the representatives of the responsible ministries, energy regulators and with companies providing transmission services. During the meetings both the policy, including national decisions and the state of EU co-financed energy infrastructure projects, were discussed. The openness and co-operation of the Member States’ authorities was universal and much appreciated.

The main conclusions and recommendations

As an overall conclusion the audit states that: “the EU’s objective of completing the internal energy market by 2014 was not reached. Financial support from the EU budget in the field of energy infrastructure has made only a limited contribution to the internal energy market and security of energy supply; the EU is still a patchwork of local, national and regional markets rather than a single internal energy market”.

The audit report is, I hope, well written and interesting to read. The participation of Phil Wynn Owen and his team led to a well edited and balanced report. During the process of drafting probably all words in the body of the document were changed at least once but the overall structure of the report remained the same from the first draft until publishing. I’m proud of that, because, for me, it shows that we had well thought-through messages that were based firmly on the audit findings.

The report made nine recommendations, eight of which addressed were to the Commission and the other to both the Commission and Member States. One of the recommendations, which proposed introducing ex-ante conditionality for EU co-financing was not initially accepted by the Commission, though they signalled some movement in their thinking at the European Parliament’s ITRE committee hearing on the report.

Presenting the report

The report was presented by the reporting Member, Wynn Owen, to the Budget Control Committee (CONT), and the Industry Research and Energy Committee (ITRE) of the European Parliament while Gareth Roberts from the UK Cabinet and I introduced it to the Energy Working Group of the European Council.

The debate in the Parliament Committees focused on the Commission’s slow progress in approving Network Codes and initiating infringements against Member States that have not yet implemented the key energy market regulations. The Parliament also supported our recommendation to introduce certain conditionalities for EU co-financing of energy infrastructure projects from the Connecting Europe Facility in order to assure that the projects would be effectively used and have a true impact on the energy markets. The Council Working group focussed their attention on the recommendation to further introduce multinational regional energy infrastructure operators (TSOs).

How to audit the unauditable?

Based on the above described experience, I would propose three main learning points for future audits:

1. Special Reports that are primarily policy based are possible and rewarding, but, in order not to get lost in the subject matter, a well-thought through evidence collection plan is needed.
2. Writing a report for a policy audit needs sensible messages and it is good if all involved in the drafting agree on them early in the process.
3. Subject matters such as the security of energy supply, which are not easily measurable, can nevertheless be audited if the approach is based on universally accepted definitions and underlying regulations or policies.

The reception and debates in the European Parliament and Council prove that timely policy audits that have well targeted recommendations will receive significant attention and could change the way certain policy and expenditure fields are regulated and managed in Europe.
Results Measurement at the EIB

A conference with the EIB in the ECA’s premises was organised by the private office of Henri Grethen, ECA Member on 27 January 2016

By Rosmarie Carotti

Sabine Bernabè, EIB senior economist, presented the framework for assessing results ex ante and at completion. Ivory Yong Prötzel, EIB head of operations evaluation, and Bastiaan de Laat, EIB evaluation expert described the processes and methodological aspects of ex-post evaluation at the EIB.

The EIB Results Measurement Framework

The EIB Results Measurement Framework was launched in 2012 and three years later the project completion measurement was introduced. ReM is also the response to a request from the European Parliament.

ReM is used for the EIB operations outside the EU not only to strengthen the appraisal process, but to enhance the Bank’s ability to monitor and report on the actual results achieved, tracking results throughout the project cycle.

ReM contributes to policy objectives, project quality and soundness, based on results and focuses on EIB additionality – beyond the market alternative.

In 2013 indicators have been harmonised with other IFIs. Indicators have also been harmonised with the European Commission within the framework of the EU “blending platform” for developing projects that require a mix of grant and loan funding.

With its enhanced Results Measurement Plus (ReM+), the EIB is exploring how to get closer to impact financing. ReM+ is implemented for projects financed under the Impact Financing Envelope, which is used to finance high risk – high impact projects in the ACP region.

The evaluation culture in the EIB

The EIB evaluates independently and systematically against objectives by using performance indicators and targets. The EIB defines a theme on which to evaluate; all sectors are evaluated, each one of them at least every five years, but not all projects.

Differently from other institutions, the EIB does not think that the results framework should be used exclusively to prioritise and select projects ex-ante, even if the EIB continues with cost/benefit analysis and thinks that the results framework can complement it.

The evaluation culture in the EIB is changing from talking how much money is spent to what is achieved with that money. There is increased transparency and accountability and an effort to facilitate monitoring and ex-post evaluation.

The EIB aims at getting closer to measuring impact on a systematic basis but a big issue remain the reliability of data and indicators.

Another challenge for the EIB and all institutions is how to use the result-based management usefully but not too rigidly.

These were important lessons that the speakers shared with the ECA. The presentations were followed by a lively discussion on the EIB’s place in the set-up of the European institutions and on the EIB’s democratic accountability.
Prime Ministers in Greece: The Paradox of Power

By Rosmarie Carotti

Presentation to the ECA staff by Prof Kevin Featherstone and Prof Dimitris Papadimitriou. Nikolaos Milionis, ECA Member introduced the guest-speakers who had had been invited by the ECA Financial and Economic Gouvernace (FEG) team
11 January 2016

Introduction

Professor Kevin Featherstone and Professor Dimitris Papadimitriou have had a long-term interest in reform capacity of Greece.

In their book “The limits of Europeanization”, the authors had argued that the ability to take forward reform was highly constrained and undermined by a number of structural conditions. They had examined pension reform, privatisation and labour market reform and identified that the reform capacity of Greece was constrained by a disjointed corporate system affecting the relation between unions, business and government, and by a cultural behaviour of clientelism. These kinds of conditions were identified in wider economy as affecting the structural reform capacity in Greece well before the Eurozone crisis began.

But the capacity to deliver reforms has many dimensions. In their presentation to the ECA staff, Professor Kevin Featherstone and Professor Dimitris Papadimitriou presented their analysis of Greece's capacity or incapacity to reform as contained in their most recent book “Prime Ministers in Greece – The Paradox of Power”. The thesis of the authors which focuses on five prime ministers from 1974 to 2009 is that the government itself is a factor for determining the capacity for reform.

The government’s machine

The Greek system of government suffers from a ‘paradox of power’. The Constitution provides the prime minister with extensive and often unchecked powers. Yet, the operational structures, processes and resources surrounding the prime minister undermine his or her power to manage the government.

Building on an unprecedented range of interviews and archival material, professor Featherstone and professor Papadimitriou set out to explore how this paradox has been sustained.

The ability of the prime minister and his staff to control and co-ordinate the government is very limited. Not only to control and co-ordinate the government from the centre but also ideas, functions of strategically planning, assessing or evaluating policy are squeezed at by the incapacity of the centre of government. The prime minister is in fact an emperor without clothes.
**How to explain the absence of change**

No prime minister has brought about a lasting change. Change has been limited by the institutional and cultural constraints. The constraints of a prime minister are multiple. Most prime ministers have had a relatively small supporting office. This exists in an archipelago structure of separate ministries and public bodies of different legal status.

There also is a weakness of the cabinet system itself. The full cabinet typically meets infrequently and is far too large to be a decision-making body. Full cabinet meetings are often rather used by the prime minister to make a declaration to his government.

In terms of the operation of the cabinet system, it is a system without the practice of taking minutes. There also is a weakness of the cabinet system to co-ordinate as there are very few cabinet sub-committees and inter-ministerial committees to co-ordinate policy across individual ministries. And there is discontinuity in many of the cabinet’s activities.

Another feature is that the administrative culture is very much based on legal formalism. Decisions are passed up to the hierarchy with an assumption that the middle and lower ranks are not to make decisions of that kind. The absence of trust affects the way affects the way prime ministers see their job and set themselves up at the top of the governmental structure. Cultural disposition for clientelism creates a systemic risk for governance.

Professor Featherstone and Professor Papadimitriou argue that even in the crisis period there has not been a fundamental change.

**Nemesis: the Troika**

Why did it take the Troika to get change? The answer is the endemic constraints, the lack of technical expertise, and a discontinuity of personnel which has an impact on the institution’s knowledge and efficiency.

The Troika has certainly broken a taboo and brought a close monitoring of what is going on in individual departments and more attention to audit and evaluation of the system. It is a huge cultural shift, although the interventions of the Troika were often seen as diktats.

In 2013, the Troika insisted on a secretariat general for the coordination of the government and the distinction between administrative and political functions but it remains unclear how it will be implemented.

The need of change therefore remains a strong feature in the Greek system and substantial change will need external support in the long term.
How far can Europe intervene into national administrative processes?

Interview with Prof Kevin Featherstone, Eleftherios Venizelos Professor of Contemporary Greek Studies and Professor of European Politics and Director of the Hellenic Observatory within the European Institute at LSE, and Prof Dimitris Papadimitriou, Professor of Politics at the University of Manchester and the Director of the Manchester Jean Monnet Centre of Excellence

By Rosmarie Carotti

R. C.: What is the reason for your visit to the ECA?

Kevin Featherstone: We are here because there is an overlap of interests. The ECA naturally is concerned with the way in which the Commission is engaged in the bail-outs of Greece. The book which we published overlaps to some extent in that what we are identifying is a weakness at the top or the very centre of government. It relates to the question of capacity or incapacity to coordinate the reform programme, to see the implementation of the conditions set in the memorandum.

R. C.: Certainly, capacity building was the main aim of the Commission’s technical assistance to Greece but the ECA’s special report on the subject refers to the period 2010-2015, while your book analyses the period 1974-2009. It identifies however similar weaknesses to the present.

Kevin Featherstone: That was the idea. We wanted to look at how current conditions were created in normal times, before the crisis and the bail-outs. Why did Greece end up with this kind of problem, with the dysfunctionality of governments at the centre?

We argue that over the period of the crisis there have been attempts to change, but the problems continue. There hasn’t been any transformation in the way the government operates.

R. C.: From today’s perspective, how was the Troika support managed by the Greek government?

Dimitris Papadimitriou: The support of the Troika has many different components. The Troika was there to implement a fiscal programme, to identify a number of issues relating to public administration and governance reform. Also the European Commission through its task-force intervened in Greece to make recommendations about the absorption of structural funds, the re-organisation of ministerial bureaucracy etc..

The answer to how Greece has dealt with this assistance is not a black and white story. There are cases where the system has worked better than in others. In some areas, for example of administrative reform, the task-force has done a good job and the Greek government has taken on board many of the recommendations and implemented them. In other parts of administrative reform, like the co-ordination of the government, the Troika has
come up with a number of suggestions, some of which were implemented but did not produce the expected results. In 2013, for example, the Troika insisted on the creation of a new General Secretariat for the co-ordination of the government. So far, this reform has not led to significant improvement in how the government operates.

Part of the problem here, of course, is how the Greek authorities internalise this reform and implement it. They did not show real commitment to the spirit or letter of the suggestions. Also some of these suggestions were made to Greece without a detailed knowledge of the local conditions, and were therefore defeated by the system.

What distinguishes between failure and success is how cleverly these conditionalities were put together, how the Greek government took ownership of them and how effectively they were monitored during the implementation.

**R. C.: How could one improve the implementation of the Troika and EU recommendations?**

**Dimitris Papadimitriou:** Here you need to distinguish between long-term and short-term changes. It is unrealistic and indeed misguided to expect that all of Greece's problems will be resolved in three years. Indeed, Greece has a number of problems, but also all countries of the EU have their own sets of problems created over centuries. The problem of clientelism or corruption does not get resolved overnight. Processes need to be put in place over a long time.

**R. C.: Greece still has a debt of €320 billion.**

**Dimitris Papadimitriou:** This is not something which will be resolved quickly. In fact all countries in the Eurozone have debts that never get repaid. The issue is not whether Greece reduces this debt by 30 or 40% but whether Greece is put in a position where it can service its debt and maintain its payments. There is a lot of misconception about sovereign debt in this regard. There is no country in the world that does not have debt. The difference between Greece and the other countries is whether the country has credibility. This is where good policy becomes important in order to borrow from the market and convince creditors that they will be repaid.

**Kevin Featherstone:** The Greek case with the Troika highlights a very challenging agenda for the European Union as it goes forward in the future. Greece is not unique in having poor quality public administration, if we look at the World Bank's world-wide governance index. But of course the Greek case is challenging to the EU because of the successive bail-outs, the lack of reform and the failure to return to sustainable growth. The challenge to the EU is how to support a sovereign government which has problems of administrative capacity. I truly think that this is going to be a bigger issue in the next decade. I think Greece is only the start. The experience highlights the need for continuing capacity for Europe to support, to intervene, and bring about the enhancement of institutions at national level. The new “Structural Reform Support Service” in the Commission President's Secretariat is a first step to something that will become of long-term consequence.

**R. C.: You seem to give a political function to that service which goes beyond technical assistance.**

**Kevin Featherstone:** No, I would see it primarily as technical assistance. But it is a function which of course is subject to many political sensitivities. Can Europe intervene deeply in national administrative processes? There is a political sensitivity about accepting this, but I think Europe has got to wake up to the objective need for support and technical assistance in many Member States which have weak institutions. The Greek case helps highlight the future.

One problem, in the absence of any kind of federal Europe, is the political sensitivities of intervening at national level. Another problem is the inability of Europe to decide what model of administrative efficiency should be required. We are not quite clear what we would ask of Greece or any other country. We know that Greece has a dysfunctionality which needs addressing. However, we do not know which model they should apply. At the moment we are taking very small steps with the Structural Reform Service and the President’s General Secretariat.

Still on support, I guess that for the foreseeable future Europe has to be invited by a member state to provide help. This is a question of political will. At the moment we need to build up Europe’s capacity to provide the required support. I think it highlights
the problem of the European Union facing weak domestic institutions, and how this should be tackled in a deeper integrated Europe.

R. C.: You heard that the ECA is going to publish a special report on the delivery of technical assistance to Greece. The ECA's auditee is the Commission and not the Member States. Could this be perceived as a weakness in the way we work?

Dimitris Papadimitriou: That is a very good point. Assuming that the ECA's role is to make sure that the European taxpayer's money gets spent wisely and considering that potentially money from the European taxpayers is channelled to Greece, there is a strong argument to be made. The ECA, here, and of course its national counterpart in Greece, need to assess how the money gets spent. The problem with Greece's bail-out is that the fund that provides the money is outside the normal institutional framework of the EU. The bail-out of Greece - unfortunately, in my opinion - did not come from the EU's own budget. It came out of a fund that operates under inter-governmental procedure, outside the framework of the EU. As such Greece's bail-out suffers both in terms of its democratic legitimacy and oversight by institutions like the European Parliament. It also suffers in terms of ex-post analysis of the value for money it provides, and creates a gap by not allowing European taxpayers to know if the money has been well spent.

By means of a conclusion, many of the voices aggressively opposing the bail-out in many countries would have been moderated if somebody had been able to demonstrate that democratically elected officials were accountable for the bail-out plans and could be held responsible if the strategy does not work.
The second Young EUROSAI Conference (YES 2.0) was organised by the Office of the State Comptroller and Ombudsman of Israel under the theme ‘Supreme Audit Institutions and the Individual’ (SAI&I), setting the tone for inspiring discussions about the role of public audit in the context of substantial technological developments and empowered individuals.

YES 2.0 followed in the footsteps of the first Young EUROSAI Conference held in Rotterdam in November 2013 and responded to the conclusions and recommendations of the IX EUROSAI Congress which urged to carry forward the spirit of the Young EUROSAI movement. It continued to develop a community of young audit professionals who share knowledge and experience between the different SAIs and debate over common challenges thereby promoting cooperation to the benefit of all EUROSAI members.

Three questions on the impact of SAIs addressed the main theme of the conference:

1. The public effect of SAIs – how SAIs can make a difference to, and improve the lives of individuals;

2. The professional effect – how SAIs’ work impacts on the individual staff of audited bodies and how SAIs’ staff interact with them;

3. The personal effect – how SAIs’ organisational environment affects auditors as individuals.

The conference made several recommendations on these issues, including (1) emphasising capacity building in the area of communications and incorporating sustainability issues in audits, (2) acquiring new skills and specialisations in the field of information seeking, handling and analysing, as well as using new software designed to deal with vast amounts of information, and (3) integrating high-tech instruments into the everyday working process of SAIs and accepting failures as a part of the growing and improving process even in a ‘zero errors’ culture.

Overall, 77 participants from 40 countries and organisations, with an average age of 30 and an average work experience in their SAIs of 3 ½ years, attended the event. The conference was organised around 2 plenary sessions, 10 open-mic. and 5 TED Talk style presentations, and 22 workshops, covering a wide variety of topics ranging from sustainable development to data visualisations and from communication strategy to fiscal policy audit. Two keynote speakers framed the discussions with a sociological portrait of Generation Y and a crash course on social and organisational networks, while the working sessions were delivered by the participants themselves.
We represented the ECA at this Young EUROSAI conference and led the workshop ‘Pointers for strategy and compliance audit’ drawing heavily on our day-to-day work. Our goal was to introduce and discuss with participants two audit approaches at different stages of maturity at the Court: the recently introduced concept of strategy audit, for which we used the Europe 2020 strategy as a case study, and the well-established legality and regularity audit. The workshop was attended by 18 participants representing 10 SAIs including Estonia, Israel, Poland, Portugal and Serbia. They provided valuable input which could be used to develop our audit approach further, to increase stakeholders’ interest in and understanding of our work and thus to improve the quality of our audit reports.

YES 2.0 was not a traditional conference; it was an enriching professional and social experience for the participating young professionals. The two days of workshops and presentations were a marathon of fresh ideas, lively discussions and experience-sharing among very pro-active participants. In order to break the boundaries of traditional audit conferences, the organisers also encouraged participants to informally present their SAIs to small groups of colleagues. The fact that everyone followed their own combination of working sessions also encouraged participants to share and compare notes.

The next Young EUROSAI conference will be hosted by the National Audit Office of Estonia and will probably take place in 2017.

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1 We learned some interesting facts and figures about the Office of the State Comptroller and Ombudsman of Israel: it was established in 1949 as one of the first institutions in the fledgling State of Israel and also fulfils the function of Ombudsman. It has one of the most extensive audit scopes in the world which extends to around 1 500 bodies; it issues 120 audit reports and follows up on around 16 000 complaints every year; it has approximately 550 employees who examine legality, orderly management, moral integrity and economy, efficiency and effectiveness; it also audits political parties, enforces the rules for prevention of conflict of interest for high state officials and protects whistleblowers. A visual summary is available here: https://www.youtube.com/watch?v=CBh-yixtb6o
The Second Young EUROSAI Conference (YES 2.0), held in Jerusalem, Israel, from 9 to 12 November 2015, took Supreme Audit Institutions and the Individual SAI&I as its central theme.

We, as the representatives of the younger generation and the future leaders of our respective organisations, enjoy a unique perspective. We consequently, possess the ability to contemplate, discuss, debate, exchange and present fresh questions, problems and ideas - as well as possible solutions - regarding the challenges, opportunities, difficulties and risks arising from the technological and social developments of our times. Indeed, in doing so we are fully aware of the need to maintain a strong and ongoing collaboration with well-established professional traditions of our SAIs’ preceding generations.

In coming years, we will be compelled to cope with the challenges, opportunities, difficulties and risks arising from the technological and social developments thoroughly discussed and debated at YES 2.0. Accordingly, we present the following Conclusions and Recommendations. We strongly believe that they should serve as a source of inspiration for all EUROSAI and INTOSAI activities.

WE, THE MEMBERS OF THE SECOND YOUNG EUROSAI, CONFERENCE (YES 2.0)
THE PUBLIC EFFECT

Considering that -

We are in the midst of a sweeping technological and social revolution highlighted by an "information explosion" and exponential growth in data. In this era, more than ever, the public seeks the most relevant and reliable data.

Younger generations reveal impatience as regards long textual reports and complex analysis.

National social groups are coalescing into international ones, sometimes organised within virtual social networks. The concept of the nation-state is being debated.

The growth in the importance attached by society to human rights in general and the needs and interests of vulnerable groups, in particular, is affecting the social landscape.

Sustainability issues are cross-cutting and cross-border, but also have an effect on the individual’s everyday life, and on society as a whole.

Accountability and a result-driven approach have become a main public expectation from any entity that affects people lives.

Recommend that -

A strong emphasis be put on capacity building in the areas of communications strategy, New Media, online social networks, conveying complex ideas by using simplified tools, such as infographics.

SAIs find ways to empower citizens and strengthen citizens’ involvement and influence by engaging them in the audit process.

SAIs reshape their role to include the promotion and protection of human rights, and vulnerable groups in society. To this end, they should develop the required professional criteria and standards.

Sustainability issues should often be included in audits.

SAIs should develop tools to measure their performance, and publish an accountability report.
THE PROFESSIONAL EFFECT

Considering that -

Modern public administration is characterised by vast complexity, on the one hand, and a very narrow specialisation by its various units, on the other hand.

Most information created by audited bodies is digital and accessed using online devices; sometimes data is stored outside the physical premises of the audited body.

The vast amount of data produced by audited bodies grows exponentially and requires the use of Big Data “digging” tools, potentially compromising the right to privacy of officials and audited bodies’ employees.

Recommend that -

New skills and specialisations in the field of information gathering, handling and analysis become part of the SAI skillset in order to cope with the complexity and interdisciplinary nature of the audited bodies.

SAIs make use of new computer programs designed to deal with vast amounts of information.

SAIs should develop new work methods suitable for dealing with huge amounts of information while compromising as little as possible the privacy of the audited bodies’ employees.
THE PERSONAL EFFECT

Considering that -

Ethical aspects of audit work and auditors’ conduct have a profound impact on the efficacy of auditor-auditee relations as well as the auditor’s public status.

Generation Y auditors ask “what’s in it for me” and look for personal impact and gain. They also challenge formalities, and tend towards informal working processes and communication inside their own SAs, and with the workers of audited bodies.

A family-friendly work environment (e.g., flex-time and working from a remote location) is essential in increasing both employee identification and job satisfaction resulting in enhanced productivity.

Young auditors use high tech. devices in many aspects of their personal, as well as their professional, lives. In places where the use of these devices is uncommon, they might feel restrained and frustrated.

Experimenting in new working processes can help SAs and auditors to improve and develop; failures are part of the process.

Sharing ideas between young auditors of different SAs, and debating common challenges, are a key element in the learning and improvement process of young auditors.

Recommend that -

Ethical aspects of audit work and auditors’ conduct be reviewed, and customised if necessary.

SAs put more emphasis on Generation Y auditors’ needs, ideas, and conduct. High level audit management should be open-minded and encourage young auditors to initiate new audit topics and new ways to tackle the audit work. Special consideration should be given to programs for the promotion of young leaders, and to modifications that will promote a family-friendly work environment.

Informal working processes and ways of communication should be encouraged.

High tech. devices must be integrated as much as possible into the everyday working processes of SAs.

Failures are a natural part of the learning process, and should be accepted as such even in a “zero error” cultural mindset.

SAs should encourage cross-border interactions between young auditors of different SAs.
Therefore -

WE RECOMMEND THAT:

1. EUROSAI’s young movement should be continued - YES Conferences should take place on a regular basis, every two or three years.

2. A permanent framework, such as a EUROSAI Young Leaders’ Task Force, should be set up to deal with the aforementioned challenges and risks faced by SAIs, especially in the areas of delivering the Message in the New Media Age; Big Data and Privacy; Citizens’ Engagement and Involvement in the Audit Process; Recruitment, Training and Career Development of the next generation; Promotion and Protection of Human Rights and Vulnerable Groups.

3. EUROSAI, as a leading-by-example organisation, should strive to create, as part of INTOSAI, a global community of young colleagues.
More attention to results needed to improve the delivery of technical assistance to Greece

The Task Force for Greece was established in 2011 by the European Commission to support implementation of the Economic Adjustment Programme with a broad range of technical assistance. This report examines whether the Task Force fulfilled its mandate and whether the assistance provided for Greece made an effective contribution to the reform process. We found that overall the Task Force proved itself as a functioning mechanism for delivering and co-ordinating complex technical assistance activities. However, there were weaknesses in the design of some projects and only mixed results in terms of influence on the progress of reform.

This report was published on 16 February 2016 and is available on our website www.eca.europa.eu.

EU support for rural infrastructure: potential to achieve significantly greater value for money

The EU co-finances investments in rural infrastructure with the aim to improve competitiveness of the agricultural and forestry sectors and increase the quality of life in rural areas. This audit examined whether the Member States and the European Commission have achieved value for money with the funds allocated. The audit found that the need for EU rural development funding was not always clearly justified, coordination with other funds was weak and selection procedures did not systematically direct funding towards the most cost-effective projects. The Commission and the Member States have not collected adequate information on the effectiveness or efficiency of the measures funded, making it difficult to direct future policy and manage the budget by results.

This report was published on 29 February 2016 and is available on our website www.eca.europa.eu.
2014 report on the follow-up of the European Court of Auditors' Special Reports

Following up the Court’s Special Reports is a necessary element in the cycle of accountability and helps to encourage the effective implementation of recommendations by the Commission and the member states. The current report presents the results of the Court’s fourth review of the Commission’s follow-up of a sample of 44 recommendations from eight Special Reports over the period 2009-2012. Our review showed that the Commission implemented 89% of our recommendations in full or in most respects, 8% in some respects, while 3% were not implemented. We also recommend that the Commission should carry out some improvements to its follow-up practices.

This report was published on 26 February 2016 and is available on our website www.eca.europa.eu
Public integrity and trust in Europe: surprising results during EUPAN conference
Brussels, 20-21 January 2016
By Raphael Debets, attaché in the private office of Alex Brenninkmeijer

Mrs Alina Mungiu-Pippidi1 from the Hertie School of Governance in Berlin is a principal investigator. She presented an objective measurement of public integrity in the EU. Citizens often have subjective perceptions of trust and corruption. Only a very small percentage of citizens has personally experienced cases of bribery or clientelism. Yet it has a tremendous impact on the overall perception in society about the occurrence of corruption within institutions and is a major factor in explaining low levels of trust. Within the EU, there is a temptation to overestimate the power of law, rules and of formal institutions related to informal practices. Surprisingly (or not), countries which deal best with trust and integrity attract more private investment and have less regulation.

EUPAN’s mission (European Public Administration Network2) is to contribute to the improvement of the performance and quality of public administration. Representatives of the European member states and academic experts were invited by EUPAN to discuss two studies: One on ‘Public Sector Achievement in 36 Countries’3 and the other on ‘Public Integrity and Trust in Europe’4.

Four high-level experts from different European member states reflected on the results of the reports, which fed the discussion by the participants. Each expert chaired a workshop, with their essay as input for discussion.

During the first workshop based on the essay ‘The Culture of Institutionalised Distrust’5 it became clear that it is essential to create an environment that enables quality and performance of public services, as well as, trust in society towards politicians and the civil service. It is also a core value within public administrations. ‘Culture of Institutionalised Distrust’ is not a new phenomenon, but it appears that nowadays it has a much more serious consequence. This is due to the increasing social expectations of citizens and companies about public administration. Scholars distinguish high- and low-trust cultures. The former ones are characteristic of Northern Europe and to a lesser extent Western Europe. Low-trust cultures are predominant in Southern and Central Europe6. Polls show a decline of trust in society, notably in Western Europe, towards politicians and administrations. In Western Europe this correlates with diminishing levels of trust in European institutions. Also, data show an important decline of trust in Southern European Countries7. In ‘new’ member states however, where trust in national institutions has traditionally been weak, trust in European institutions is higher since they are regarded as a countervailing power.

Civil service systems based on merit values as opposed to systems that are dominated by vested interests and where favouritism prevails, correlate

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1 Alina Mungiu-Pippidi, Professor of democracy studies. www. againstcorruption.eu
2 http://www.eupan.eu/en/events/show/?tid=147
5 Stanislaw Mazur. Professor at the Cracow University of Economics, Faculty of Economics and International Relations, Poland.
6 See Hertie study, page 10.
7 See Hertie study, page 19.
positively with trust and the overall quality of performance. This became clear during the workshop inspired by the essay ‘Civil service merit values between employment security and flexibility’. Employment security is an important ingredient of a merit-based system, although its extent may vary depending on the stage of development of the system itself and maturity of society: high-trust societies with highly-performing civil administrations may allow for more flexible labour arrangements without undermining the quality of performance. European countries have different departure points when addressing merit values and different balances between employment security and flexibility. Whilst one country may need more flexibility, another country may have to strengthen employment security to guarantee basic merit values in the civil service. Transparency in itself contributes to trust among citizens and economic actors. There is no blueprint on how to achieve this. Several speakers stressed the importance of recruiting young people, as they bring along new skills and find it easier to “speak truth to power”.

Merit-based administrations are (in general) more transparent, therefore more likely to develop feedback systems and are more open to change. This was the conclusion of the workshop based on the essay ‘Feedback for a better performing public sector’. Participants in this workshop reflected on how feedback by independent institutions such as courts, auditors and ombudsmen, and direct feedback by citizens as users of public services, can guide the public sector. The issue that feedback systems can only flourish in an open and cooperative context was specifically addressed.

The primary argument of the Hertie-study is that evidence-based integrity policies are within reach, notwithstanding the fact that the context in each individual Member State is different and that there is no uniform solution. Tailor-made national strategies should be designed to gradually catch up in terms of institutional performance or governance standards. The Hertie study warns that the mantra ‘more rules’ is an ineffective one in this process. It states: ‘EU funds come with the most restrictive rules in the world, but still we find that in many member states and sometimes even in the European institutions such funds are distributed non-competitively’.

From a point of view of good governance, it is essential to invest seriously in education.

The fourth workshop centred on the theme and essay ‘Education across Europe – performance, public trust and the European idea’. Discussions showed that corruption strengthens brain-drain within the EU: skilled people who put their faith in merit-based systems will move elsewhere. As such, it constitutes a barrier to (European) economic convergence.

The EUPAN conference also discussed the value of measuring the quality of government performance. Scholars have since long debated cause and effect with regard to quality of public administration and economic performance. Insight in the performance of public administration and good governance from the private sector was discussed with Mr Bruinshoofd. He argued about the direct relationship between governmental performance and economic prosperity: “Institutional quality and economic development reinforce each other over the longer term, but we argue that institutional quality leads this virtuous circle”.

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8 Tiina Randma-Liiv. Professor of Public Management and Policy, Ragnar Nurkse School of Innovation and Governance, Tallinn University of Technology, Estonia.
9 Alex Breninkmeijer. Professor of institutional aspects of the Rule of Law, University of Utrecht.
11 Miguel St. Aubyn. Professor of Economics, ISEG (Instituto Superior de Economia e Gestao), Lisbon School of Economic & Management, University of Lisbon, Portugal.
The level of governmental performances and good governance are of extreme importance for private companies in deciding whether or not to invest in a particular member state.

Obviously political context matters. This also applies to the recommendations made by the Commission in the European Semester. Only five years ago the idea of a Semester with recommendations to member states would have been dismissed as unrealistic and (probably) undesirable as well. Today it is an important instrument in promoting stability and economic convergence. EUPAN could and will discuss how it may contribute to its further development.

The surprising results (i.e. less restrictive rules stimulates trust and good governance motivates private companies to invest) presented are intended to serve as input for the Dutch Presidency of the European Union. It is part of the ongoing international dialogue on strengthening evidence based integrity and anti-corruption policies for the public administration. In the first half of 2016, two follow-up meetings, on 28-29 April and on 16-17 June, will take place in Amsterdam.

14 http://english.eu2016.nl/
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