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## ECA was active in XXII INCOSAI in Abu Dhabi

Directorate of the Presidency

The ECA delegation, led by President Klaus-Heiner Lehne, Danièle Lamarque and Bettina Jakobsen, participated in various plenary sessions and sub-sessions at the 22nd International Congress of Supreme Audit Institutions (XXII INCOSAI) that was held between 7 and 11 December 2016 in Abu Dhabi in the United Arab Emirates (UAE). INCOSAI was attended by more than 600 delegates from all over the world, representing the 194 members of INTOSAI and stakeholders.



*INCOSAI, the highest organ of INTOSAI - International Organization of Supreme Audit Institutions - is held once every three years. The congress offers all INTOSAI members an opportunity to share experiences, discuss issues, and approve resolutions and recommendations to improve government accountability worldwide. Participants include delegations of member Supreme Audit Institutions (SAIs) as well as representatives of the United Nations, the World Bank and other international and professional organisations.*

### Key outcomes of the congress

This year's congress was a milestone event as it was an opportunity for several crucial developments to be discussed and for the INTOSAI community to reflect and decide on the way forward.

The congress adopted the revised INTOSAI statutes which are more closely aligned to the current structure, strategy and objectives of the organisation.

Member SAIs adopted INTOSAI's next strategic plan for 2017-2022 which aims to increase the contribution the organisation makes to improving accountability and transparency in public management around the globe. The Standing Committee on Emerging Issues will assist the INTOSAI Governing Board in monitoring progress in achieving the strategic plan. An accountability report will be presented to the members at the next INCOSAI in 2019, reporting on activities and the extent to which the established cross-cutting priorities, goal and objectives are being achieved.

At the end of XXII INCOSAI, member SAIs adopted the Abu Dhabi Declaration which sets out the key outcomes of the congress and how they will guide INTOSAI in the years to come. Standard setting, capacity building and knowledge sharing remain the cornerstones of INTOSAI's activities. INTOSAI will continue to provide a global public voice and seeks ways to strengthen collaboration with the United Nations and other stakeholders. The INTOSAI community will also actively seek to make a meaningful contribution to the United Nations' 2030 Agenda for Sustainable Development and agreed to set up an expert group to drive and support the process. In parallel, the congress expressed its commitment to use all bodies, regions and tools of INTOSAI to further advance its core ambition to enhance standard setting and professional support to SAIs.

### ECA involvement: PSC, FIPP, SDGs and peer reviews

The ECA successfully played a key role in both the preparation of the Abu Dhabi Declaration and in the process leading to its adoption, working closely with the SAI of the UAE and the other SAIs involved.

In addition, the ECA was considerably involved in the preparatory work leading to the discussions at the congress on how the INTOSAI community can make an effective contribution to the United Nations' 2030 Agenda for Sustainable Development with its seventeen Sustainable Development Goals (SDGs).

President Lehne delivered a keynote speech on this theme during the opening plenary session. Klaus-Heiner Lehne challenged participants to reflect on how they will maintain momentum on the SDGs after the congress and how new insights and acquired knowledge on the main challenges and best practices can be shared among the INTOSAI community and to the wider world.



Klaus-Heiner Lehne, ECA President

## ECA was active in XXII INCOSAI in Abu Dhabi *continued*

ECA Member, Bettina Jakobsen, moderated a sub-session on reviewing the preparedness of governments to implement the SDGs. SAIs and stakeholders discussed the challenges and opportunities they faced, including: the level of commitment of governments in their countries to the 2030 Agenda; SAIs' ability to start reviewing SDG preparedness; and ways of how to carry out the work and optimise collaboration and knowledge sharing among SAIs. Bettina Jakobsen also presented a summary of these issues during the closing plenary session of the congress.



Bettina Jakobsen, ECA Member

At the congress, the ECA formally took over as vice-chair of the Professional Standards Committee (PSC) along with the Brazilian SAI as the chair. This prestigious appointment comes at a critical time, with INTOSAI reviewing its framework for standard-setting processes in order to further improve and strengthen this core activity.



Taking over the PSC baton

After the symbolic ceremony of the passing of the baton, ECA Member Danièle Lamarque, outlined together with the President of the SAI of Brazil (Tribunal de Contas da União / TCU), Aroldo Cedraz de Oliveira, the priorities that the PSC will pursue in the coming years in terms of role, structure, process, framework and standards.



Danièle Lamarque, ECA Member

The new Forum for INTOSAI Professional Pronouncements (FIPP) and the revised INTOSAI Framework of Professional Pronouncements (IFPP) were also the subject of one of the breakaway sub-sessions of the Congress. ECA Director Neil Usher gave an overview of the terms of reference and the changes being envisaged as part of the new framework.



Neil Usher, ECA Director

In another session, ECA Director Geoffrey Simpson gave a presentation on peer reviews. The ECA is an active member of the Subcommittee on Peer Reviews, one of the work streams of INTOSAI's Capacity Building Committee (CBC), and one of the main contributors of the revised ISSAI 5600 (the INTOSAI guideline for peer reviews). In his presentation, Geoffrey Simpson spoke about the ECA's recent peer review experiences at the SAIs of Latvia, Spain and Switzerland, highlighting differences in the objectives, scope, approach and results. He also shared some insights on the ECA's last peer review of 2013 and the outcomes of this exercise, as well as on the overall lessons learned from being an active peer reviewer and reviewee.



Geoffrey Simpson, ECA Director

## CIPFA international seminar Beyond base camp



From left to right: David Walker, Nenad Pacek, Drew Cullen, Klaus-Heiner Lehne, Ian Ball, Lazaros S. Lazarou, Lewis Hawke

*The CIPFA International Seminar is a key event for finance professionals and auditors working in the public sector. President Klaus-Heiner Lehne gave the welcome address and Lazaros S. Lazarou, the Member responsible for the ECA's Annual Report, moderated and concluded the seminar. ECA Member Kevin Cardiff participated in the panel session on "Scrutiny and audit in an uncertain world". Peter Welch, the Director of Chamber 5, contributed to the session on "Accountability and good governance in public services", discussing how the CIPFA/IFAC framework on good governance was used in our recent Special Report No 27/16.*

By Rosmarie Carotti

**Welcoming address: Klaus-Heiner Lehne**, ECA President

**Opening address: Ian Ball**, CIPFA International; **Lazaros S. Lazarou**, Chair, ECA Member

President Lehne welcomed CIPFA to the ECA's premises in Luxembourg. He underlined how the title of the seminar "Beyond Base Camp" marks the crucial challenge public financial management is facing today. The available financial resources have to be used in the most effective and efficient way. This is money that citizens have entrusted to public institutions. But taxpayers have to a certain degree lost trust in these institutions. The EU must make sure that financial rules are correctly applied, it must deliver value for money and it must provide transparency and assurance. "We have to create a financial system for regaining the trust of citizens", President Lehne said.

Ian Ball, Chair of CIPFA International referred in his opening address to the changing environment as one which has increased social and economic pressures on communities and on the public sector. CIPFA shares values with the ECA and campaigns actively for good financial management and governance, and assists governance around the world on public sector issues.

The move from cash to accrual accounting is a very substantial shift. There has been significant progress in the last decade, but there are serious challenges ahead for many countries, including having the capacity to run the financial system. Another problem is that governments are insufficiently focused on long-term issues of sustainability. That short-term thinking can have a very damaging effect on trust. There also is a backlash against globalization and reluctance to enter into free trade agreements, and not just in the US.

CIPFA is engaged in the re-launching of the whole systems approach (WSA) to public financial management (PFM). The original version of PFM was developed in 2010 through CIPFA in the UK. It is now time for an update. The whole systems approach takes a holistic view to public financial management where the various parts have to cooperate in an integrated and coordinated fashion. It applies to four levels of governance and to all the stages in the financial management process.

### **Keynote speech: Delivering financially sustainable public services in an uncertain world**

**Nenad Pacek**, President, Global Success Advisors GmbH; Co-Founder, CEEMEA Business Group

The uncertainty in the global economy and what it means for many governments around the world, the frequency of economic crises and the volatility in developing markets due to commodity prices were the subject of the keynote speech delivered by Nenad Pacek.

Something is failing with economic policies around the world, Nenad Pacek says, if you allow a small group of individuals to be the sole beneficiaries, thus ignoring societies. This is a complete failure of economics.

Quantitative easing to pro-actively inflate the US economy 2010-2014 was a good fiscal stimulus, but about half of that printed money ended up in financial institutions. Instead of lending to individuals who might be risky customers these financial institutions started to lend bonds to governments and buy governments securities in developing markets.

Governments were easily able to raise money during that time. A lot of cash went into emerging markets assets inflating the values of their currencies. A lot of products were imported. It was a good period for economic growth. But when this trend stopped, a sort of panic settled in and big funds started to take money out of the emerging markets.

Nenad Pacek sounds a warning that nobody is controlling capital inflows and outflows. Developing markets are forced to open up their capital accounts in the name of free markets and liberalization. Big financial institutions are playing the game and volatility will remain for many years to come.



Nenad Pacek

Financial institutions also used the freshly printed money to buy futures of various commodities. Interestingly, the pricing of commodities has shifted away from physical markets to futures' markets. Today 97.3% of all oil futures made in transactions do not result in a trader taking the physical possession of the commodity. And again, nobody is controlling the figures. When commodity prices go down, governments have no money and have to go to financial institutions to borrow. Suddenly there is an economic crisis.

Another failure of economic development is that we are living in a world where large parts of the planet are unable to produce anything of added value. Many countries remain impoverished because they have not been given proper advice on how to develop.

We will help this mega volatility to continue happening in the future: inflows of cash going into developing markets and then leaving in panic, and then enthusiasm about commodity prices which, after a while, fall again. Many governments in emerging countries are not ready when the outflow happens.

While the US Federal Reserve, the Bank of England, the Bank of Japan were inflating growth into their markets, the ECB was not allowed to do so. In 2015 a loophole in the ECB Charter was found. The idea was not to buy freshly issued government bonds but to go to commercial banks and buy the bonds from them. Later this was expanded to also buying corporate bonds. In absolute value, the ECB has printed more than € 1 trillion, and the programme will probably run beyond March 2017.

The positive impact of the ECB's quantitative easing) on European growth, the economies, and the government finances was that it helped the European exporters. More people in Europe could find a job. A very important point for government finances is that because the ECB is creating so much demand for government bonds in the open market, the euro has gone down and countries can borrow money at low. All of this is beneficial and at the moment the EU is growing at around 1.5% this year.

### Panel session 1: Reaching your peak in improving public financial management

**Lewis Hawke**, Head of the Secretariat, PEFA  
**Ian Ball**, Chair, CIPFA International



**Panel session 2: Scrutiny and audit in an uncertain world**

**David Walker**, Senior Strategic Advisor, PwC,  
Former US Comptroller General

**Tim Gilling**, Deputy Chief Executive, Centre for  
Public Scrutiny

**Kevin Cardiff**, ECA Member



Linking to the issue on how to deal with the volatility of government finances, the PEFA document “Framework for assessing public financial management” was presented to the seminar. PEFA is a tool for assessing the status of public financial management. A PEFA assessment provides a thorough, consistent and evidence-based analysis of PFM performance at a specific point in time. The PEFA methodology can be reapplied through successive assessments to track changes over time. PEFA has so far been used by 150 countries and looks in particular at performance. It is a standardised methodology which can be applied to all countries.

SAIs can learn lessons from the Whole System Approach (WSA) and from PEFA. The WSA was developed in 2010 with the aim of supporting governments in improving the function of PFM systems. The revised WSA is a highly integrated system with useful lessons for SAIs, and PEFA is an important diagnostic tool.

The session “Scrutiny and audit in an uncertain world” touched upon the issue of globalisation and gaps between those who have and those who have not. There are increasing intergenerational challenges there. There also is a real need to transform current financial reporting and auditing around the world. From a financial reporting perspective, accruals need to be adopted at world-wide basis; international accounting and reporting standards have to be applied.

Where money is important, performance is too. The public wants value for money to be assessed. Another hot issue is the long-term sustainability of audit policies, how to guarantee oversight, insight and foresight.

Work experience was contributed by the Centre for Public Scrutiny and by the ECA.

### Panel session 3: Accountability and good governance in public services

**Cathal Long**, Research Officer, ODI  
**Peter Welch**, Director, ECA

### Panel session 4: Financial and performance reporting developments

**Ian Carruthers**, Chair, IPSASB  
**Thomas Müller-Marqués Berger**, Partner, EY, Chair of IPSASB Consultative Advisory Group  
**Arman Vatyan**, Financial Management Sector Leader for Central Asia Governance, World Bank

### Panel session 5: Integrated reporting – the new kid on the block

**Philippe Peuch-Lestrade**, Deputy CEO, IIRC  
**Gillian Fawcett**, Head of Governments Faculty, CIPFA



In the first part of session 3 the Uganda Budget Transparency Initiative was discussed. Uganda has reached a good international transparency ranking, although the corruption perception index for Uganda remains high. The message is that transparency in isolation does not change much. We need to think how to invest in feedback loops.

Peter Welch from the ECA talked about assessing good governance in the public sector framework in the ECA's audit on Commission governance.

The panel discussed governance trends and key PFM indicators from the World Bank's perspective and the IPSASB achievements and future plans. 2017 is in fact the 20<sup>th</sup> anniversary of the start of the IPSAS programme. This led then to discuss the development of EPSAS, the starting point of which had been the sovereign debt crisis and the lack of comparability of Member State accounting approaches. The plan is for EPSAS to be cast into a legal framework by 2019; it foresees a transition period of 5 years.

The panel discussed integrated reporting, which means transforming management for both the public and the private sector. Integrating reporting is a market led initiative, it was said. Better dialogue and not just more information is needed to rebuild trust. The stakeholders need to be associated with this process. Auditors cannot just list facts retrospectively, but also have to anticipate decisions in order to be able to take into account changing situations. There is a case for change. Value creation is very much the new kid on the block for the public sector. And integrated reporting allows thinking in the short, the medium and the long term.

Lazaros S. Lazarou thanked CIPFA on behalf of all participants for the interesting event and Ian Ball closed the meeting on behalf of CIPFA. The event has provided delegates with tools, insights and useful experience for the challenges public management has to face.

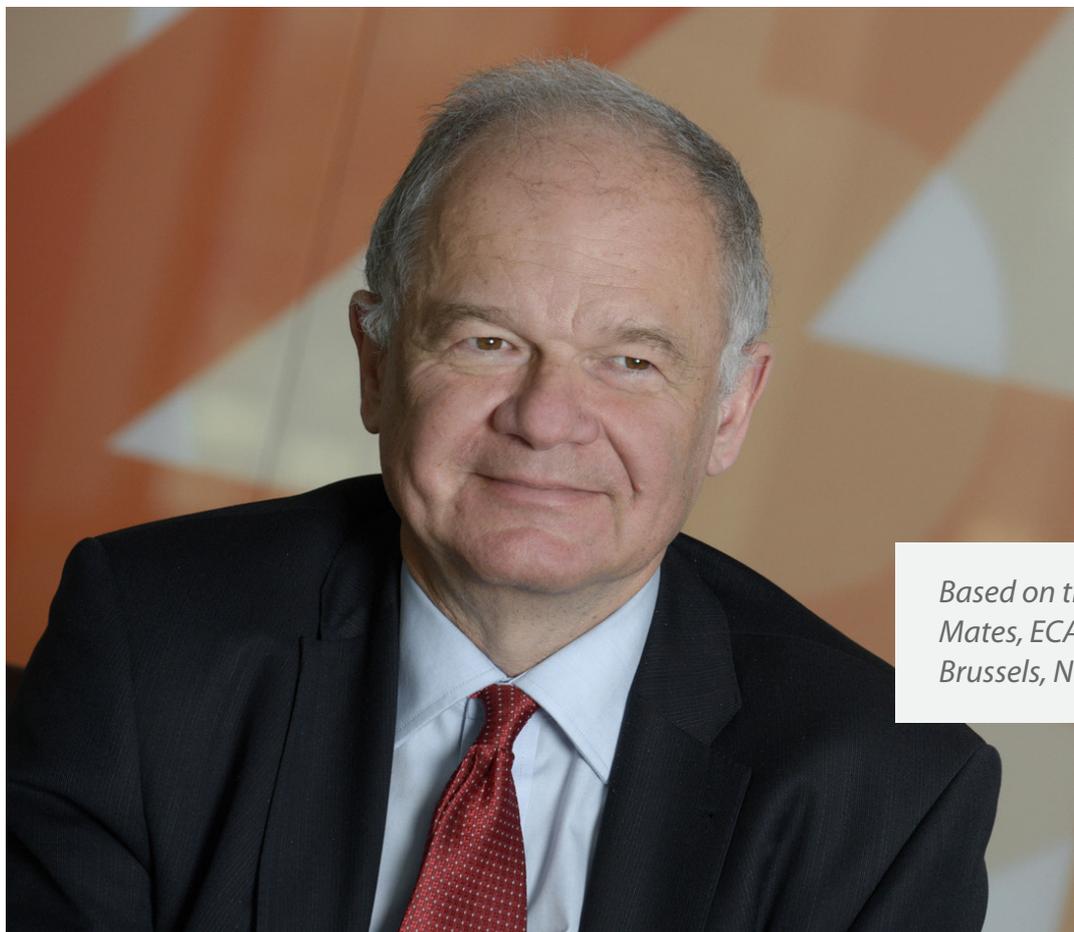


Philippe Peuch-Lestrade



Gillian Fawcett

## Special Report No 29/2016: “Single Supervisory Mechanism - Good start but further improvements needed”



*Based on the speech given by Neven Mates, ECA Member, Press brief, Brussels, November 17, 2016*

### Background

In response to the global financial crisis, in 2012 the EU leaders decided that euro-area banks should be brought under micro-prudential supervision of the newly established Single Supervisory Mechanism (SSM).

This decision was motivated by the severe disruption in financial systems in many EU economies. After years of supervisory forbearance and excessive risk-taking, many lending institutions were forced to turn to governments for financial support, which had to be shouldered by taxpayers.

To reduce such risks in the future, the EU policy-makers decided to establish the SSM.

In this system, the ECB would host and play a pivotal role. It would directly supervise almost 130 largest banking groups, which comprise about 1200 supervised entities, and manage the micro-prudential supervision of the euro-area banking sector as a whole. National Competent Authorities (NCAs) would also perform many functions in this system, including supervision related to consumer protection and anti-money-laundering controls, and they would provide resources for the micro prudential supervision performed by the ECB. Under the guidance of the ECB, the NCAs would be in charge of micro-prudential supervision of smaller banks.

## Special Report No 29/2016:

### “Single Supervisory Mechanism - Good start but further improvements needed” *continued*

Given the importance of this project, ECA decided to audit (i) how the ECB set up the complex system of the SSM, (ii) how it organized its work, (iii) what governance structures it has established, (iv) how it addressed the accountability arrangements and (v) finally, how the ECB has organized and provided resources for both off-site supervision and on-site inspections.

#### What the ECA found

The ECA found that a complex supervisory structure was established relatively quickly. The new supervision mechanism was put in place in only 13 months, and about 1000 new staff were recruited, which was a unique task. However, the ECA also found that the complexity of the new system proved to be a challenge in many respects. For example, the new mechanism relies to a high degree on coordination and communication between ECB staff and staff appointed by participating Member States.

Organizationally, the SSM Supervisory Board does not exercise control over the budget for supervisory activities and human resources, which have remained under the authority of the Governing Council of the ECB and its Executive Board. Moreover, while the ECB is bound by legislation to observe a clear separation between its monetary and supervisory functions, some ECB departments provide services to both functions without conducting a risk analysis that would minimize possible conflicts of objectives.

Most importantly, the ECB did not properly analyse its staffing needs in advance, and thus seems to be currently suffering from staff shortages.

Moreover, in performing direct supervision of the largest banking groups, the ECB has to rely very much on staff resources provided by NCAs. Only 12% of all on-site inspections so far have been led by ECB staff, while 92% of all inspection team members have come from NCAs. To some extent, it was surprising that the Supervisory Manual stipulates that inspections are as a rule headed by NCA staff, which might put at risk the legislators' intention of placing responsibility for full and effective supervision of large banks on the ECB.

Similarly, the ECA found several indications, confirmed by a recent communication of the Supervisory Board, that current staffing levels for Joint Supervisory Teams (JST) and inspection teams are insufficient.

The ECB also lacks a system for evaluation of the suitability and performance of staff provided by NCAs in terms of conducting off-site and on-site supervision.

However, in our report we were only partially able to assess the operational efficiency of the ECB management in running off-site and on-site supervision, given that the ECB declined to share with us many documents necessary for the audit. The ECB reasoned that the auditors' requests went beyond their mandate, which is defined as the audit of “operational efficiency of the management”. The ECA considers that it is the auditors' prerogative to define which documentation is necessary to carry out the audit and is currently considering its options for addressing this issue.

## Special Report No 29/2016: “Single Supervisory Mechanism - Good start but further improvements needed” *continued*

The auditors' experience from this audit confirms the assessment by national Supreme Audit Institutions (SAIs), which have warned that an audit gap has emerged since the introduction of the SSM owing to the fact that ECA's mandate does not cover the full scope of previous national mandates over supervisory authorities in some Member States. The ECA's report provides information on international practice in this area.

On a positive note, it has to be stressed again that the very complex SSM mechanism was set up and made operational within a very short timeframe.

Moreover, the ECB has accepted 12 out of 13 recommendations provided in the report, whereas the last one was accepted partly. The part that was not accepted relates to the influence of SSM Supervisory Board officers over the ECB's budget for supervisory activities, and the issue of shared- services. The ECB view is that the Supervisory Board cannot exercise control over the supervisory budget or human resources, as it is not a decision-making body of the ECB but rather a body added to the ECB institutional structure by the SSM Regulation, which is a secondary legislation. On shared services, the ECB considers that strict implementation of this principle would increase costs and decrease efficiency. However, the ECA notes that its recommendation did not ask that the use of shared services be excluded but rather, that resultant risks need to be recognised and assessed.

Finally, except for the access issues, the ECA found that the ECB's management and staff were very cooperative in the production of the report and attentive to concerns we raised.

## Special Report No 24/2016: More efforts needed to raise awareness and enforce compliance with State aid rules in cohesion policy

By Margit Spindelegger, head of private office of Oskar Herics and Gert Rammeloo, head of task



From left to right: Angelika Zych, head of task, Ildiko Preiss, attachée, private office of Henri Grethen, Gert Rammeloo, head of task, Niels-Erik Brokopp, principal manager, Margit Spindelegger, head of private Office of Oskar Herics, reporting Member

### Introduction / audit scope and approach

According to the Commission, total State aid spending in the 2007-2013 programme period amounted to € 504 billion. The Commission estimates that € 139 billion of State aid spending, or over 25% of the total, was spent in cohesion policy. Chamber II therefore carried out an audit to examine the extent to which Member States were aware of State aid rules in cohesion policy, comparing their rate of State aid error detection to the one of the Commission and our own. At the level of the Commission, the audit team looked in addition to the Commission's analysis of errors - its awareness of which categories of error in which Member States were most problematic - as well as the actions taken when errors were detected. With an eye in particular on the 2014-2020 programme period, the team analysed key actions taken by the Commission that impacted the State aid policy and legal framework.

## Special Report No 24/2016: More efforts needed to raise awareness and enforce compliance with State aid rules in cohesion policy

*continued*

### Audit findings

Upon analysing the ECA's previous annual compliance audits the auditors found, first of all, that State aid errors were a significant source of errors. On average they contributed 13.5% to our annual estimated level of error in cohesion policy for the 2010-2014 period (which amounted to 5.7%). The errors with the highest financial impact were those where the beneficiary received too much State aid, for example because it was awarded a bonus for being an SME while not actually being an SME, or where there was no incentive effect, meaning the beneficiary was not able to demonstrate that the aid was necessary to carry out the project. Almost 20% of audited State aid-relevant projects were affected by State aid errors in that same period. An analysis of a sample of audit reports from the Directorate-General for Regional and Urban Policy (DG REGIO) revealed a similar rate of detection. The auditors found that at Member State level, however, based on evidence from a questionnaire addressed to the audit authorities and corroborated by an analysis of their yearly audit reporting to the Commission, audit authorities detected State aid errors in fewer than 4% of State aid-relevant projects – a detection rate which is five times lower than at EU level.

Weaknesses in analysing State aid errors and in internal coordination affected the Commission's ability to support Member States and ensure compliance with State aid rules, according to our auditors. They found that in the 2007-2013 programme period, DG REGIO and the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) did not have a comprehensive overview of State aid errors across categories of error or across Member States; though the DGs started to develop a database called MAPAR (Management of audit processes, activities and resources) towards the end of this period which should allow this kind of analysis for the 2014-2020 programme period. The auditors also noted that DG REGIO did not systematically consult the Directorate-General for Competition (DG COMP) on State aid issues related to major projects until the end of 2012, following the Leipzig Halle judgment of the General Court in March 2011<sup>1</sup>. There is a risk that some of the 440 major projects approved before that time (out of a total of 918 approved for the 2007-2013 programme period representing over € 75 billion of EU contributions), are not compliant with State aid rules. Still, in November 2012 the Commission issued a guidance note to Member States stating that it did not intend to examine systematically compliance of major infrastructure projects which it had already approved beforehand.

According to the auditors, the Commission issued few financial corrections following non-compliance with State aid rules. For example, the yearly monitoring exercises carried out by DG COMP during the 2009-2014 period, whereby it examined the design and implementation of aid schemes in the Member States, led to only one recovery order of just € 0.3 million, while the 220 aid schemes with reported aid expenditure (out of about 2 400 aid schemes with reported aid expenditure per year) which were monitored during that time accounted for almost € 50 billion. This was despite DG COMP finding different kinds of problems in over 35% of the monitored schemes, more than 20% of which affected

<sup>1</sup> Joined cases T-443/08 and T-445/08, Leipzig Halle.

## Special Report No 24/2016: More efforts needed to raise awareness and enforce compliance with State aid rules in cohesion policy

*continued*

compatibility (in which case DG COMP can issue recovery orders). More specifically, problems were found in 32.9% - slightly below average - of schemes designed under the General Block Exemption Regulation (GBER), although fully 37.5% of them affected compatibility. DG REGIO, for its part, issued 18 financial corrections with a State aid component covering seven Member States in the 2010-2014 period, as a result of its own audits, audit authorities' reporting and the ECA audits, comprising 11 financial corrections of € 38.4 million in total which were solely related to State aid and 7 financial corrections which were partially related to State aid, where the State aid component is impossible to quantify.

The auditors found that several initiatives taken by the Commission have the potential to address non-compliance with State aid rules. Most significantly, our auditors say, the Commission has launched a State aid action plan in March 2015, strongly increasing training courses provided to Member States, it has introduced ex ante conditionalities, including on State aid, which further promote administrative capacity, and it has significantly increased the scope of the GBER. According to the auditors, aid measures designed under the GBER are simpler and less administratively burdensome than notified aid schemes, although more responsibility is shifted to Member States, as the Commission is not notified for these schemes. Member States getting more responsibility however risks increasing the number of State aid errors.

### **Recommendations**

We have made a number of recommendations to the Commission to raise awareness of and improve compliance with State aid rules in cohesion policy. Most of our recommendations were accepted and for several of them the Commission has already started implementation.

## Presentation of the 2015 ECA Annual Report in Lithuania

By Aušra Maziukaitė, secretary in Rimantas Šadžius' private office

Rimantas Šadžius, as a newly appointed ECA Member from Lithuania, presented the 2015 ECA Annual Report in Lithuania for the first time. The presentation took place just after the 2015 Annual Report was presented in CONT.

The presentation included the key findings and the main observations of the 2015 Annual Report, as well as the results on the ECA's latest financial and performance audits carried out in Lithuania such as special reports 'EU nuclear decommissioning assistance programmes in Lithuania, Bulgaria and Slovakia: some progress made since 2011, but critical challenges ahead' and 'Implementing the EU budget through financial instruments – lessons to be learnt from the 2007–2013 programme period'.

Furthermore, Rimantas Šadžius gave short overview of the Court's position on the 2014–2020 Multiannual financial perspective mid-term review, briefly presented results of the Court's performance audits in economic and financial management as well as new organisation of the Court and its audit priorities for 2017.

Rimantas Šadžius meeting with Algirdas Bukevičius, Prime Minister of the Republic of Lithuania



## Presentation of the 2015 ECA Annual Report in Lithuania *continued*

During his visit, Rimantas Šadžius gave presentations to all important stakeholders – Parliament, Government, President’s Office, National Audit Office and Media.

Overall, the presentation of the 2015 Annual Report received high attention and great exposure due to several press publications, interviews in radio and participation in the Lithuanian TV “Good morning, Lithuania”.



Rimantas Šadžius presenting the 2015 Annual Report to Dr Arūnas Dulkys, Auditor General of the National Audit Office of the Republic of Lithuania

In light of new elections for the Lithuanian Parliament, Rimantas Šadžius intends to present the 2015 Annual Report and other relevant Court’s audit results to the newly elected Parliament’s members and to the various parliamentary committees as well as the new Government.

# Braced to meet the challenges ahead: Presentation of 2015 annual report to key Maltese stakeholders

By Leo Brincat, ECA Member



Leo Brincat's courtesy meeting with the President of Malta, Marie-Louise Coleiro Preca

DOI - Photo - Reuben Piscopo

The message conveyed to the stakeholders addressed in Malta primarily Government, the National Audit Office and parliamentarians when presenting the Audit Report 2015 was that transparency and sound financial management are key for reforms to succeed. In doing so, such a process will be helping each and every individual Member State to feel braced to meet the challenges ahead.

In all my meetings I came across a deep interest in the source of budgetary funds, how they are spent, what is the present financial situation, whether the accounts represent a true and fair view and how the EU is ensuring value for money for the actual spend of the EU budget.

It was evident that all stakeholders were eager to find out whether the European institutions are transparent in the way in which they manage these finances, even more so at a time when public interest and awareness are becoming increasingly evident as to the determination of whether there were errors, waste and/or potential fraud during the past financial year.

There was much interest in the need for the Commission to produce cash flow forecasts that would enable stakeholders to anticipate future payment requirements and budgetary priorities.

## Braced to meet the challenges ahead: Presentation of 2015 annual report to key Maltese stakeholders needed" *continued*

Leo Brincat's official meeting with the Minister for Finance Prof. Edward Scicluna



I took every occasion to explain and provide an indicative list of the increasingly growing number of Special Reports produced by the Court in the past months; as well as of the Landscape Reviews that depict a panoramic view of the topical issues and priorities through a cross-cutting approach.

Much interest was shown in specific issues: primarily the increasing use of financial instruments; the EU disbursement of development aid to third countries; the need for benchmarking in value for money audits; Brexit; the monitoring of corrective action taken on past irregularities; as well as the practical measures envisaged to ensure that genuine trust is generated through the practical application of citizen based policies and strategies.

There was general consensus that the stakeholder base should be widened as much as possible in a manner whereby ordinary citizens and taxpayers can feel the difference of the changes underway.



Leo Brincat with the Deputy Speaker of the House of Representatives Censu Galea

## Braced to meet the challenges ahead: Presentation of 2015 annual report to key Maltese stakeholders needed" *continued*



Leo Brincat presenting the ECA AR 2015 to members of relevant Parliamentary Committees

Photo: DOI - Pierre Sammut

It was nevertheless very clear that a strengthened communications strategy will go a long way towards enhancing public awareness of the scope and remit of the ECA itself as 'the financial conscience' of the EU.

The presence of Alberto Gasperoni, the Principal Manager of Chamber V, who delivered a presentation on Chapter IV Revenue to both the NAO and the Joint Parliamentary Committees on Public Accounts, Foreign & European Affairs as well as Economic Issues, added much value to the sessions held.

Fruitful meetings were held: with the President of the Republic of Malta, Marie-Louise Coleiro Preca, who showed much interest in the Court's work programme particularly vis-à-vis third countries; with the Deputy Speaker of the House of Representatives; the Prime Minister Joseph Muscat; as well as the Minister for Finance Prof. Edward Scicluna, with whom enhanced interinstitutional issues were discussed with a view to strengthen the outreach of the ECA itself.

Leo Brincat's official meeting with the Senior Management of the National Audit Office Malta



## Braced to meet the challenges ahead: Presentation of 2015 annual report to key Maltese stakeholders needed" *continued*

In my interventions, I emphasised the need for all Special Reports to reach the relevant authorities, ministries, entities and departments to ensure that the best practices recommended were given due consideration and attention.

During my intensive visit I was interviewed on how the ECA is putting its mission statement into practice on the programme Il-Pjazza on OneTV as well as on the future challenges ahead in the prime time news bulletin on TVM.



Leo Brincat with staff of the National Audit Office Malta

Photo : DOI - Kevin Abela



*Dr Ivanka Visnjic from ESADE Business School's department of Operations, Innovation and Data Sciences in Barcelona gave a presentation at the ECA on Design Thinking. Dr Visnjic also teaches an executive education programme on «Strategic Innovation and Design-Thinking» at the Luxembourg School of Business.*

## “Design Thinking”

14 December 2014

By Rosmarie Carotti

Zacharias Koliass, HR Director, introduced Dr Ivanka Visnjic who in her work focuses on business model innovation and in particular innovation with product innovation.

Design Thinking applies as much to the public sector as to the private sector. In Singapore, for example, Design Thinking is already used to improve public services. But public innovation can go even further than a theoretical analysis on how to improve services, making them more effective and efficient through implementing new solutions. Innovation labs like the Danish Design Centre favour collaboration as a tool (see article on “Better Policy through Design” in ECA Journal 12 2015). Innovation labs are used to facilitate the process of innovation the world over, including within the European institutions.

Dr Ivanka Visnjic recalled how in the last ten years companies have shifted from problem-solving to a solutions based business model. Creative and entrepreneurial skills have become more and more important. Unlike analytical thinking, design thinking includes stimulating as many ideas as possible.

Dr Ivanka Visnjic focused on the five-stage model proposed by the Institute of Design at Stanford. The five stages are as follows: Empathise, Define (the problem), Ideate, Prototype and Test.

Design Thinking is a user-centred innovation method which implies understanding the user to uncover insights that will give direction to create innovative solutions. The first step is empathising, which means gaining an understanding of the problem the stakeholder faces. The next step is to define the problem and collect as many ideas as possible to solve it. Then follows prototyping, and finally testing and refinement. But the five stages can also occur in parallel and the cycle may be repeated many times.

Design Thinking seems on the face of it an easy tool. But it also requires rules. Who sets these? This might well be a hierarchical issue, as the ensuing discussion brought to the fore.



The Professional Training team and other members of staff that assisted them for the Training Day

## Fête (Faites) de la Formation – Training Day 2016: a day dedicated to knowledge

By Maria Evangelia Thymaki,  
for Professional Training

The ECA's Training Day, or *Fête (Faites) de la Formation*, is an annual event that was first launched in 2014. It offers an extensive programme of activities to promote lifelong learning by focusing on what it involves and what it can do for ECA staff, both professionally and in the private sphere.

The third annual Training Day was held on 17 November 2016 and welcome speeches by the ECA President, Klaus-Heiner Lehne, the ECA Secretary-General, Eduardo Ruiz García, and the Vice President of the European Investment Bank (EIB), Román Escolano, marked the start of the event. Román Escolano gave a presentation entitled 'The EIB: The EU bank - supporting EU objectives', providing an overview of the bank's activities and how its funding of eligible projects hinges on the EU's political priorities.

As has been the case since 2014, a wide range of training options were offered for different profiles and tastes. There were workshops targeting auditors, managers (organised by the European School of Administration) and assistants, as well as for staff interested in improving their soft or IT skills.

## Fête (Faites) de la Formation – Training Day 2016: a day dedicated to knowledge *continued*

As part of the ECA's key strategy of knowledge development and exchange, this year an Audit Fair was organised for the first time where colleagues from other SAIs and NGOs presented their audit methodologies to ECA staff. In total, six different audit presentations were given by colleagues from Spain, Denmark, Norway, Lithuania, Germany and Switzerland. The presentations concerned benchmarking, real-time audits, surveys of end-users, joint audits, programme evaluation, and ways to keep track of cash flows. Each presentation was followed by a Q&A session, enabling ECA staff to benefit fully from the external experts' expertise and to exchange experiences with them.

Within the framework of the ECA's reform which was implemented earlier this year, transforming the institution into a task-based organisation, workshops for managers were also part of the programme. The trainers elaborated on how management skills could be improved through personal development, despite changes or limited resources. They also demonstrated how interpersonal relations and interaction, as well as authority and power perception within the institution's organisational culture, are a sine qua non in achieving successful partnerships with one's hierarchy.

Different training approaches were used for the various activities, all of which took place in a relaxed atmosphere. For example, participants were encouraged during a workshop to play the Bamboleo game as a means of identifying the impact of decision-making within a team and of understanding how specific factors can ensure the success of a team that is undergoing constant changes. Dancing or following the rhythm of music were also original methods used for team-building in other activities. For those interested, different ways of handling stressful situations by means of proper dietary habits, specific daily exercises and breathing techniques were also presented.

As well as specialised or general knowledge-based training activities and those concerned with well-being, there were also workshops on the 'Threat of terrorism' and how staff can best prepare for the eventuality of a terrorist attack, and on the precautions to take to prevent such situations from occurring. This workshop enabled participants to familiarise themselves with the steps to follow in the event of an attack, and stressed the importance of keeping calm.

For staff interested in obtaining more information about training possibilities, tools and services, the European School of Administration and the National Institute for the Development of Continuing Vocational Training (Institut national pour le développement de la formation professionnelle continue, INFPC) presented their programmes at stands on the ECA's premises and answered participants' questions.

In conclusion, 25 workshops took place on the day, only some of which have been described in this article. However, mentioning all of them is not the aim here. What is important is whether, in the end, the event was of interest to the ECA's staff and whether they could benefit from it. The statistics about the day provide an answer to this question: a total of more than 530 registrations were submitted and 375 members of staff participated in the activities offered, with an overall satisfaction rate of 80%, proving that the ECA's Training Day was a success. Henry Ford, the founder of the Ford Motor Company, once said: «The only thing worse than training staff and having them leave, is not training and having them stay». This shows why training is an integral part of the European Court of Auditors, as the annual Training Day is an event where learning is not simply encouraged but celebrated.

**Special  
Report  
N°28/2016**

Published on  
8 December 2016

**Dealing with serious cross-border threats to health in the EU: important steps taken but more needs to be done?**

A key milestone in building a stronger EU health security framework was the adoption in 2013 of a Decision on serious cross-border threats to health. The EU Health and Research Framework Programmes also support actions related to this framework. The audit found that the decision on serious cross-border threats to health indeed represents an important step for dealing better with such threats in the EU, but that significant weaknesses affect the implementation of the health security framework. More needs to be done to address these weaknesses for the Union to take full benefit from the established mechanisms. The ECA therefore makes a number of recommendations mainly aiming at accelerating and strengthening the implementation.

[Click here for our full Special Report](#)

**Special  
Report  
N°32/2016**

Published on  
7 December 2016

**EU assistance to Ukraine**

In this report the ECA examines whether Commission and European External Action Service assistance was effective in supporting the transformation of Ukraine into a well governed state in the areas of public finance management and the fight against corruption, as well as in the gas sector during the 2007-2015 period.

Overall, EU assistance to Ukraine has been partially effective in these three domains. Until 2014, EU assistance had limited impact. Despite the new impetus for reform since 2014, the results achieved so far remain fragile. This report sets out five recommendations for improving EU assistance.

[Click here for our full Special Report](#)

# Subject brief

## The ECA's Special Reports

By Rosmarie Carotti

### Special reports focus mainly on performance issues

The special reports of the European Court of Auditors (ECA) on selected audit topics cover a wide range of audit subjects which assess whether the EU's intervention was managed in accordance with the principles of sound financial management and/or compliance with the rules governing them. Like the annual reports, they form an integral part of the discharge procedure for the EU budget.

The ECA's special reports are mainly performance audits. They involve an examination of programmes, operations, management systems and procedures of bodies and institutions that manage EU funds, to assess whether they are achieving economy, efficiency and effectiveness in the use of those resources.

The objectives, scope and content of special reports have evolved over the decades. Who were the addressees: the Commission or the Member States? Were Member States addressed individually or as a whole? What trends arose? How were the recommendations received by the auditees? There is no straightforward answer to these questions. The ECA has undergone major changes over the years and continues to reform and develop as it responds to new challenges and stakeholders' expectations.

### A list of special reports is available at the ECA's library

The special reports were in the first years often directed to the institutions and bodies of the former Community and not to the public. The ECA produced its first special report in 1978 "Observations on the functioning of the European Association for Cooperation (E. A. C.)". The report was never published. Neither were two other reports in 1979, one on the mission expenses of the Members of the Commission and another one on STABEX.

In its early days the ECA mainly criticised Community legislation. The special reports on the application of regulations often did not contain recommendations as such, rather an analysis and description of the management of a programme directed at the Community as a whole. Member States however were individually named when inadequacies were detected.

It is interesting to note that in preparing for its "Special Report of 1981 on the securities, deposits and guarantees furnished in respect of operations that give rise to expenditure from the EAGGF, Guarantee Section", the ECA sent on 4 September 1979, through the national Courts of Auditors, a questionnaire to all Member States on the application of the Regulation in 1978.

## Subject brief

### The ECA's Special Reports *continued*

In its "Report in response to the conclusions of the European Council of 18 June 1983", the ECA not only drew attention to the weaknesses which it considered were undermining the financial management of Community affairs, but also offered specific suggestions as to how the situation might be improved. The document covered Community revenue, Community expenditure, EAGF-Guarantee, Structural Funds and Development Aid.

The ECA also stressed for the first time that in spite of the Commission's responsibility under Article 205 of the EEC Treaty for implementing the budget, tasks were in practice shared between the Commission and national administrations or management committees which effectively represented the Member States.

A clear statement was made by the ECA in SR 1/86 on the contract measures for the expansion of markets for milk and milk products financed by proceeds of the co-responsibility levy in its conclusions on the dual management system, where the ECA stated that the Commission should not directly be involved in the direct management of this expenditure.

Special reports are made on the ECA's own initiative but it is worthwhile to mention that SR 1/85 on the common organisation of the market in olive oil was made in response to a letter from the President of the European Parliament, requesting the ECA to make a report on the olive oil sector. The audit involved an examination of the system of management and control of the chief measures having an impact on the Community budget.

#### **The policy fields**

It is not surprising that from the start the Common Agricultural Policy has accounted for the biggest share of special reports. The ECA's objective has been to carry out a systematic evaluation of both Community (or EU) and national procedures.

With the Special Report 4/86 on financial and technical cooperation with India, the ECA focused for the first time in its special reports on the EU's external policy field asking for a better definition of the aims of the Community's cooperation with India. This report was followed by others on food aid supplied to India and the management of counterpart funds in respect of food aid on the Indian market.

In the nineties it became more and more relevant that the communities' activities were carried out in conformity with environmental criteria and requirements. An example is the Special Report N°3/92 concerning the environment.

Information systems gained particular significance in audits of European Union activities where they had been explicitly established by regulation. In February 1994, the ECA published Special Report N° 6/93 concerning the European research and development programmes in the field of information technology (the ESPRIT programmes). The ECA's aim was not only to audit the quality of the administrations' management of the ESPRIT programmes, but also to assess the extent to which these

## Subject brief

### The ECA's Special Reports *continued*

programmes were, in fact, a “strategic” instrument to achieve the objectives assigned to them by the Treaty, the framework programmes and the Council decisions in which the specific programmes were adopted.

The other major policy fields covered in special reports were Cohesion policy, Structural Funds, External Aid and EDF. Susanne Neheider, a 2008 ECA grant recipient, wrote in November 2011 on the ECA's special reports (1979 – 2008): “The Common Agricultural Policy easily accounts for the biggest share of special reports published by the European Court of Auditors, with 94 reports appearing between 1979 and 2010. The Court compiled a total of 262 special reports between 1978 and 2010<sup>1</sup>. The large number of reports on agricultural policy is put into perspective somewhat when related to the share of agricultural expenditure in the EU budget. To this end, Figure 1 shows the expenditure shares of four fields compared to the share of special reports in the respective fields. The comparison is divided into three periods of equal length (1979-1988, 1989-1998, 1999-2008). Only special reports on budget expenditure topics are taken into account. Special reports on budget revenue topics have therefore not been included. The fields of research, energy and transport have also been excluded. The total figure of 16 special reports on these three themes throughout the period precludes any meaningful comparison with the share of expenditure. In total, 205 special reports were included in the analysis. The external aid field also covers the fields of enlargement and development, including the European Development Fund (EDF). Although the EDF is not part of the normal EU budget, special reports on these themes also deal with EDF issues.

Between 1979 and 1988 a disproportionately large number of reports dealt with administrative expenditure. In the remaining two reference periods the share of reports corresponds more or less to the share of administrative expenditure. The share of special reports on agriculture is somewhat lower at all times than the high share for agricultural expenditure. In all three periods, proportionally far fewer reports on structural themes were compiled than funds deployed for structural purposes. This might suggest that the Court of Auditors, in terms of the comparative analysis of the two major areas of expenditure, i.e. agricultural policy and structural policy, views agricultural policy as more problematical than structural policy. Based on this conclusion, the comparison also shows an unchanged pattern over time.

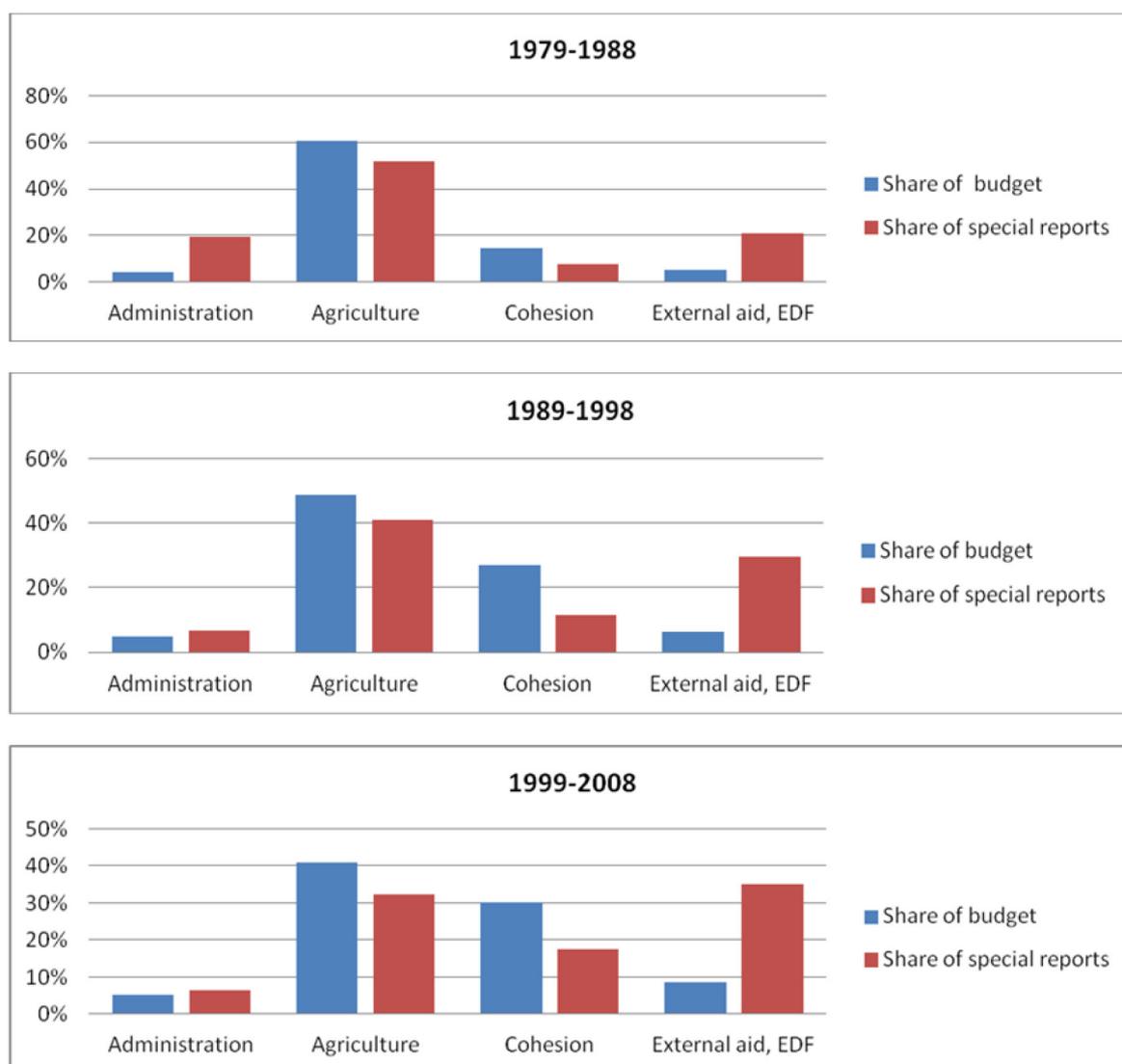
It is noticeable that themes involving the EU's external policy fields are the subject of a great many special reports. With 76 reports during the whole of the period 1978 to 2010, they rank second behind agricultural policy in terms of the most common themes. Their respective share of special reports in all three reference periods is three times higher than the share of expenditure for external aid and the European Development Fund. EU expenditure on humanitarian aid and development aid and expenditure within the enlargement framework such as pre-accession aid therefore give rise to special reports by the Court of Auditors with particular frequency.

<sup>1</sup> Not including special reports on the European Coal and Steel Community.

## Subject brief

The ECA's Special Reports *continued*

**Figure 1: Comparison of shares of expenditure for different policy fields with the share of special reports on the respective fields**



Sources: own calculations based on (European Commission 2008), (European Commission 2010), historical archives of the European Union, European Court of Auditors.

By itself, the share of special reports produced by the Court of Auditors cannot be regarded as an approximate reflection of the problems in a field. There are many other factors which may influence the activities of the Court of Auditors.

## Subject brief

### The ECA's Special Reports *continued*

#### Assessing and measuring the impact of the ECA's performance audit reports

In 2006, the ECA launched an initiative to enhance its audit practice. A broad self-assessment was undertaken and the results from this review formed the basis for the development and implementation of a strategic plan and action plans in key areas. The peer review of 2007 was the next step in the initiative. The team consisted of experienced auditors from the supreme audit institutions of Austria, Canada, Norway, and Portugal. One of the recommendations to the ECA was to place greater emphasis on performance audits.

It was also noted that assessing and measuring the impact of the ECA's performance audit reports was a necessary element in the cycle of accountability. The peer review team highlighted that the recommendations made in special reports, as well as those set out in the Statement of Assurance, should be followed up and reported on in order to inform external stakeholders on the measures taken in response to the ECA's audit work.

The ECA's performance audit methodology did require that a follow-up audit should take place two to three years after the publication of a special report. The peer review team noted however that over the previous two years only four of the 20 published special reports had been followed up.

#### Obstacles to an overall picture of performance in the EU

##### *Comparison between Member States*

The aim of special reports is to reach a valid conclusion on EU expenditure but often there is a lack of information about what was actually achieved, and the benefits this brings, because the information available concerns individual countries. This does not allow an overall picture of performance in the EU, nor allow comparisons to be made between member states.

In order to make a valid, statistically significant, comparison among member states, beneficiary states and/or regions, it would be necessary to sample a much larger number of projects.

##### *Naming of third parties in the ECA's reports*

Regarding the naming of third parties in the ECA's reports, the judgment in the *Ismeri* case<sup>2</sup> was that "The Court might in certain cases be required to give the names of third parties directly involved in serious malfunction of the EU institutions".

It is however important to note that the third party cited also has a right of reply.

<sup>2</sup> Case T-277/97 *Ismeri Europa v ECA* concerning criticisms made by the ECA in Special Report N° 1/96 on the MED programmes.

## Subject brief

### The ECA's Special Reports *continued*

#### *EU added value not easily recognisable*

EU added value is the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone. In the past the EU often remarked that the added value of a programme was not easily recognisable. An example was the ECA's report 2009 on Public Health.

There was also a recurrent failure to set out and establish how Union spending expected to achieve the intended objectives. This was the message of the report N°8/2009 on "Networks of excellence" and "Integrated projects" and the report on "Intelligent energy" of the same year.

Securing EU added value is however fundamental to the achievement of sound financial management and more and more at the centre of the ECA's concerns. Of the 19 special reports adopted in 2013, seven addressed the issues of EU added value and/or deadweight. Examples are the ECA's special report on the LIFE programme, the ECA's special report on the European Globalisation Adjustment Fund.

#### *Deadweight*

A linked concept, negatively affecting EU added value, is that of deadweight: when applied to EU grants, this refers to the extent to which a beneficiary would have undertaken the project even in the absence of the EU support.

The ECA concluded that the likelihood of deadweight was high in its audit of EU support to the food-processing industry, in the field of agriculture, in the Marco Polo programme, as well as in certain financial instruments.

#### *Focus on absorption rather than on results*

When spending EU funds in the 2007-2013 programming period, the focus was on absorption. The Commission has put in place new arrangements for the 2014-2020 period with the aim of increasing its focus on results.

Furthermore, in the ECA's view, the lack of focus on performance demonstrated a more fundamental problem. The principle of shared

management relies on trust: that Member States – who part-fund projects – manage EU funds as carefully as they do their own resources. In practice, however, Member States' highest priority is to ensure that their allocations are spent in full.

#### **The ECA's contribution**

##### *ECA contributes to better law-making*

The ECA's reports can have impact at various stages of the legislative process such as primary legislation, secondary legislation (such as implementing regulations) and revisions.

## Subject brief

### The ECA's Special Reports *continued*

Better regulation is a responsibility of all EU institutions involved in the legislative process. In its Special Report 3/2010 "Impact Assessments in the EU institutions: do they support decision making?" the ECA examined in particular whether the Commission's impact assessment procedures appropriately supported the development of the initiatives it took, and whether the content and the presentations of the Commission's impact assessment reports were appropriate.

The period under examination was 2003 – 2008 and the audit by the ECA involved *inter alia* an international comparison of impact assessment systems, an analysis of a sample of Commission impact assessments, interviews and surveys with people involved in performing, reviewing and using the Commission's impact assessments, both within and outside the Commission.

The findings and the recommendations of the ECA's special report were taken into account in the 3133<sup>rd</sup> Competitiveness Council meeting on 5 and 6 December 2011. The ministers stressed the need for EU institutions to improve the use of impact assessments and enhance the presentation and quality of assessments, so as to allow for better evidence-based decision-making and high quality legislation.

#### *The ECA's contribution to EU financial accountability in times of crisis*

The financial crisis which started in 2007 and the resulting changes in the economic policy set-up of the Union raised new challenges for accountability and transparency. The public sector in Europe had to take on huge financial costs. The new measures and institutional arrangements introduced were sometimes complicated and with unclear responsibilities. The ECA established the FEG project team responsible for the performance audit in the domain "Financial and Economic Governance".

The ECA has since produced a significant number of special report on the work of this project team. The latest is on the Single Supervisory Mechanism (see page 13).

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## **EDITION HIGHLIGHTS**

**02 ECA active in XXII INCOSAI in Abu Dhabi**

**08 CIPFA international seminar**

**13 Special Report No 29/2016 on the Single Supervisory Mechanism**

**16 Special Report No 24/2016 on State aid**

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- XXII INCOSAI in Abu Dhabi: Eca President Klaus-Heiner Lehne  
- ECA Member Rimantas Šadžius meeting with Algirdas Bukevičius, Prime Minister of the Republic of Lithuania  
- ECA Member Leo Brincat's Courtesy Meeting with the President of Malta Marie-Louise Coleiro Preca