Fostering trust through independent audit

The European Court of Auditors’ Strategy for 2018-2020
Contents

Pages

3  The EU 2018-2020: A demanding environment

4  In 2018-2020 the ECA will contribute to addressing the challenges of the EU

5  Our strategic goals for 2018-2020

6  Improve the added value of the Statement of Assurance in the context of today’s EU financial management

7  Increased focus on performance aspects of EU action

8  Get clear messages across to our audiences

9  Gear our organisation to our products

10 Concluding remarks: Contribute to fostering trust in the EU in 2018-2020
The EU 2018-2020: A demanding environment

The years 2018-2020 will be a crucial period for the European Union. Pivotal decisions lie ahead. Developments in overall EU policy, EU financial management and our professional environment pose formidable challenges, but also present opportunities for the European Court of Auditors (see chart).

Challenges and opportunities in the ECA’s environment

- **EU POLICY**
  - Major policy challenges like migration, security, the financial crisis, climate change, Brexit, investment in people and infrastructure, free trade and globalisation
  - New policy areas and instruments
  - Impact through administrative action and regulation (i.e. without spending)
  - Assessing Europe 2020
  - What comes after Europe 2020?
  - Deepening economic and financial governance of the European Union

- **EU FINANCIAL MANAGEMENT**
  - Increasing complexity in financing the EU, effects of Brexit
  - "Budget focused on results"
  - Increased maturity / reliability of internal control systems
  - Inflexible MFF and annual budgets
  - Aligning EU spending with EU objectives
  - Assessing 2014-2020 MFF
  - What kind of MFF 2020+?

- **PROFESSIONAL ENVIRONMENT**
  - Technology: data mining, digital audit, open source
  - Evaluation methods (incl. social sciences)
  - Evolving evaluation landscape
  - International accounting and auditing standards and methods
  - Communication with other auditors (such as Supreme Audit Institutions/INTOSAI, EUROSAI, Contact Committee)
  - Developing staff skills
Trust in the EU diminishes if added value is not demonstrated

Challenges bring opportunities for improvement and efficiency. However, they also place strain on EU resources and capabilities, and entail risks to value for money and delivering the intended impact. Successfully addressing the challenges ahead will require capable and well-informed decision-making and prioritisation. People need to be able to see that the EU acts with integrity, applies the rule of law, spends taxpayers’ money carefully, is clear about its objectives and achieves the results it has promised.

Failure to demonstrate that positive results are achieved with EU money and EU action will diminish the trust of the citizens in the EU. The perceived distance between EU citizens and institutions is now an existential threat to the EU.

In 2018-2020 the ECA will contribute to addressing the challenges of the EU

We believe that the ECA is well placed to address the challenges and opportunities of EU governance and the appropriate spending of EU funds, and therefore through independent audit - to help EU citizens decide if they can trust EU institutions to deliver results for them.

... because it is our mission

2017 marks the 40th anniversary of the ECA. As the EU’s external auditor, our mission is to contribute to improving EU financial management, to promote accountability and transparency and to act as the independent guardian of the financial interests of the citizens of the Union. The ECA warns of risks, provides assurance, indicates shortcomings and successes, and offers guidance to EU policymakers and legislators on how to improve the management of EU policies and programmes and ensure that Europe’s citizens know how their money is being spent.
… because of the values we uphold

Our values are accountability, transparency, professionalism, integrity, impartiality and responsiveness.

… and because we will take strategic action

Through our 2018-2020 strategy, we aim to add value by giving EU citizens, decision-makers and those involved in implementation new and timely insight into and understanding of EU budgets, policy areas and regulations. The ECA will aim to set out what the EU’s powers are in specific policy areas, what has been achieved by using those powers, and what action is needed to meet future challenges. With our independence, capacity and resources, we will support public scrutiny, improvement, innovation and learning in the EU public sector and thereby contribute to trust in how the EU and its institutions address today’s challenges.

The ECA’s main products

- **Annual reports** containing the results of financial and compliance audit work on the European Union budget and European Development Funds, but also budgetary management and performance aspects
- **Special reports**, presenting the results of selected performance and compliance audits of specific spending or policy areas, or budgetary or management issues
- **Review-based publications** such as landscape reviews and briefing papers
- **Opinions** on new or updated laws with a significant impact on financial management
- **Specific annual reports** on the EU’s agencies, decentralised bodies and joint undertakings

Our strategic goals for 2018-2020

Our service to EU citizens and their representatives needs to evolve in order to adapt to challenges and seize new opportunities. Our product range (see box) will be improved in the next three years by enhancing the added value of the Statement of Assurance in the context of today’s EU financial management, focusing our products on performance, producing clearer messages for our audiences and gearing internal processes better towards our products.
Improve the added value of the Statement of Assurance in the context of today’s EU financial management

Trust in EU financial management can be strengthened if citizens and their representatives are assured that the applicable rules are complied with. Our Statement of Assurance (SoA) on the reliability of the EU accounts and the legality and regularity of the underlying transactions has contributed to significant improvements in complying with EU rules (see box). Positive developments in management and control systems give us the opportunity to take a fresh look at the SoA audit approach. Currently, our SoA audit relies mainly on direct testing of compliance by a large random representative sample of payments.

In the 2018-2020 period, our SoA audit approach will be adapted to benefit from the improved situation of EU financial management (see below). This will allow us to focus our attention and resources on assessing whether the EU is delivering results for its citizens and – if necessary – look into targeted compliance issues of EU financial management.

The ECA’s SoA has contributed to significant improvements in EU financial management over the past 20 years
- A positive audit opinion on the reliability of the EU accounts since 2007
- Significantly fewer errors in EU payments
- More accountability and transparency in EU financial management
- Better control systems leading to better prevention, detection and measurement of error at the Commission and in the Member States
- Better corrective action when errors are detected
- Simplification introduced through better regulation

The 2018-2020 SoA approach will continue on the basis of the ECA’s Treaty mandate and in full accordance with international public-sector audit standards. We will assess the options of using the legality and regularity information provided by auditees, including the corrective action they have taken. This SoA approach would include more qualitative elements and is expected to lead to a reduction in the ECA’s own direct testing of payments. It should contribute to the cost-effectiveness of our SoA and not increase the audit and control burden. We will closely consult our stakeholders and auditees.

The design of the SoA approach will occur alongside a wider renewal of the ECA’s Annual Report and will include the strengthening of annual reporting on performance and information on EU action in Member States and regions (see initiatives under the next strategic goal).
Increased focus on performance aspects of EU action

EU citizens and their representatives not only expect assurance that their money is spent in accordance with the applicable rules, but also want to know if the intended results have been achieved. We have been reporting on the added value and performance of EU funds and policies since our early days as an institution, but today’s environment provides new challenges and opportunities. Between 2018 and 2020, we will focus our output on assessing performance in the following ways.

**Assess better the added value of EU action**

In future, we will address actual performance issues more often, such as achievement of the intended results and impact and how EU action matters to citizens. In view of reform pressures on the EU, we will also assess, whenever possible, if action at EU level was the best way to achieve the desired outcome and whether more or less EU-level intervention would be needed in view of the objectives of the funding or policy. We will report in a balanced way by recognising achievements and taking account of inherent limitations.

**Take a broad view of EU action**

EU action takes effect in multiple ways within broad, interconnected policy areas alongside national, regional or local public-sector action. We will undertake broad reviews of EU action in various policy areas, for example by producing ‘landscape reviews’. This will enable citizens and their representatives to see EU spending and administrative action as part of a bigger picture. These broad assessments will also help us identify specific EU measures that merit more attention in the form of targeted audits.

**Provide rapid answers to pressing and targeted questions on EU action**

The impact of our reports depends on their relevance, quality and timing. We will improve the timeliness of our products by focusing them on the most relevant issue (e.g. through *quick special reports*). Timing is particularly relevant if our work is needed in response to a current event or urgent stakeholder request. In this area, we will introduce a new product in the form of ‘rapid case reviews’ with a narrow scope, focused on establishing facts about specific issues within a short time.

**Compare the methods and results of EU action better**

Identification and promotion of good examples and practice of the way EU funds and policy are implemented will be reinforced. As EU action is often implemented in Member States, it can therefore be expected that results will vary geographically depending on different circumstances and administrative practices. We will assess such differences whenever possible and useful for mutual learning of how best to implement EU funds and policy.

**Increase the impact of our recommendations on improving EU action**

In our reports, we make numerous recommendations aimed at improving the performance of EU funds and administrative action. Mindful of the practical challenges of our auditees, we will take care that our recommendations address shortcomings in a cost-effective way. Where necessary, we will also address potential shortfalls in the legal framework. All relevant recommendations will be rigorously followed up and the conclusions of this follow-up will be published.

**Report annually on the performance of EU action**

In recent years, stakeholders have shown that they require more frequent information on the performance of EU funds, and the European Commission aims to reinforce its reporting on performance by means of the ‘budget focused on results’ initiative. We will further develop our recurrent assessment of the performance of the budget overall, of multi-annual financial framework headings and of major individual EU funds.

**Provide insight into EU action against fraud and corruption**

Through our work, we contribute to protecting the EU’s financial interests. In 2018-2020, we will provide additional insight into EU action against fraud and corruption. This includes providing more information on fraud and corruption risks, and the quality of prevention and detection systems at the European Commission, other implementing bodies and OLAF.
Get clear messages across to our audiences

Our scrutiny of EU action can increase trust in the EU only if we manage to communicate our findings and recommendations clearly. This is even more important today as many information sources are competing for the attention of policy makers and implementers. Our impact on improving EU action will depend on how well we connect with our stakeholders (see box).

Between 2018 and 2020, we will improve and make better use of relationships with our partners, in particular in the following ways.

The ECA connects with:
- the political authorities responsible for oversight (i.e. the European Parliament, Council of the EU, national parliaments and national governments);
- the auditees responsible for managing EU funds and policies (in particular the Commission and national authorities);
- other auditors (such as the Member States’ Supreme Audit Institutions);
- the media;
- other partners (such as universities, think-tanks, NGOs and interest groups);
- and, as far as possible, EU citizens directly.

Reach out to the EP, Council and national authorities

In recent years, the ECA has deepened its exchanges with the European Parliament, e.g. by establishing more regular contact with specialised committees. To be successful in influencing decision-making on EU financial management and other administrative practices, our products and related recommendations also need to reach the Council and Member State authorities. We will work on enhancing the quality of our exchanges with the Council of the EU at the political and technical levels, as well as with national parliaments and governments. This will be achieved by taking greater account of national media landscapes in addition to EU correspondents. The multi-lingual approach of our staff and our reports will facilitate this process.

Target decision points in the EU policy cycle

Decisions about EU funds and policies are made at a few key moments, mostly when existing programmes and regulations are being reviewed and renewed or when the EU’s multi-annual budget, the Multiannual Financial Framework, is being renegotiated. We will make our reports and opinions more timely so that they are available for the European Parliament and the Council when needed for the purpose of reviewing legislation.

Build key messages and reiterate them across the product range

We have recently increased both the range and quantity of our products. We are trying to identify cross-cutting findings arising from various work in many fields in a more effective manner. We will use this information to formulate consistent key messages and identify horizontal issues based on findings in many areas and then streamline them into our entire product range. These key messages will thus receive more attention and have greater leverage.

Establish a more continuous dialogue about our products

We traditionally centre our communication around our final reports. In future, we will also communicate better on planned work, work in progress and intermediary results such as risk analysis and briefings. Interacting with the outside world on our work in progress will improve our products and maximise the impact of our work.
The aim of increasing our impact and connecting better with citizens will require more work on the narrative our reporting presents, supported by a clear structure and avoidance of jargon. Efforts will be made to create a compelling narrative out of the evidence gathered and the data analysed during our audits.

At the moment, we offer standardised products such as the annual report and special reports. Although these reports are often very comprehensive, they generally contain only part of the information we gather during our audits. Moreover, important information contained in these reports might not have reached all relevant stakeholders. To overcome this, we will produce derivatives of our reports tailored for key stakeholder groups. Where feasible, this may include underlying datasets. These briefing products will combine findings from several of our reports and may include the results of work by other auditors or evaluators.

### Gear our organisation to our products

Our 2013-2017 strategy led to our institution being reorganised in order to make us more flexible and more focused on our core business: audit. We will now use our enhanced capabilities to achieve our 2018-2020 strategic goals. Furthermore, in the years to come, we will exploit technology better with a view to innovation in our audit work and will put our knowledge to better use in our products.

#### People

Our staff are our key asset and our institution’s expertise lies with them. Longer careers and limited resources for recruitment make life-long learning and internal mobility crucial parts of our HR policy. We will exploit and increase our staff’s knowledge and diversity by improving the connections between individuals. We will also strengthen the links between our staff and expert communities outside our institution.

#### Technology

Technology offers far-reaching possibilities for innovation in audit work. *Big data and open data* give us options like correlation, network or mass text analyses. Inexpensive data-visualisation tools allow us to uncover audit findings and communicate them better in our reports. We will make full use of new technologies in our audits.

#### Planning

Our agility and innovative capacity depend on how we steer our future work. In planning our work, we will take into account five broad priority areas for 2018-2020 (see box). We will make this process not only more responsive to the needs of our stakeholders but also more flexible so as to be able to react to developments in the Union.

**The ECA’s priority areas for planning our work in 2018-2020**

- Sustainable use of natural resources and addressing climate change
- Investment in cohesion, growth and inclusion
- Migration, security and global sustainable development challenges
- Functioning single market and sustainable monetary union
- Financing and administering the Union accountably and efficiently

#### Process

Our audit process includes rigorous procedures to check the audited facts with the Commission and other audited entities. In addition, we have a comprehensive engagement quality control system for all our final products. We will make an effort to lighten and speed up our audit process further without compromising the quality of our products.
Concluding remarks: Contribute to fostering trust in the EU in 2018-2020

In addressing the strategic goals by 2020, we will - through independent audit - have provided insight into what works and what does not work in EU spending and other action. This should help improve the way the EU functions and is understood, which in turn contributes to fostering trust in the EU. We will issue a Statement of Assurance which adds more value in the light of recent improvements in EU financial management and which continues to drive future improvements. We will produce reports that are better at addressing the most pressing question for EU citizens: ‘What is achieved with EU money and other intervention?’ Our products will make more of a difference as we manage to communicate our findings better. Lastly, our internal organisation will put our staff, technology and knowledge to full use for the benefit of our products.

Providing rational arguments is the essence of our authority as an auditor. However, in order to foster trust, our audit work has to relate to the concerns of our ultimate stakeholder, European citizens, today and in the future. Ultimately, the EU is not about figures, but about people.