



ANNUAL ACTIVITY  
REPORT

EUROPEAN COURT OF AUDITORS

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ANNUAL ACTIVITY REPORT 2007

EUROPEAN COURT OF AUDITORS

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Luxembourg: Office for Official Publications of the European Communities, 2008

ISBN 978-92-9207-005-2

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*Printed in Belgium*

PRINTED ON WHITE CHLORINE-FREE PAPER

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# PRESIDENT'S FOREWORD



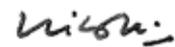
Bringing the European Court of Auditors closer to EU citizens is one of our key objectives and part of our mission to promote transparency and accountability. I, therefore, take great pleasure in welcoming you to the first annual activity report of the European Court of Auditors. It provides an overview of the Court and an account of its activities in 2007, a year in which it celebrated its 30th anniversary as the external auditor of the EU dedicated to contributing to improving financial management and acting as the independent guardian of the financial interests of its citizens.

The main contribution the Court makes is through its audits and reports which help the auditee to improve their financial management and which assist the Discharge Authority (the European Parliament and Council) in overseeing the implementation of the EU budget. This report gives an overview of audit reports published in 2007. It highlights the main conclusions issued on the implementation of the EU budget 2006 and on the sound financial management of EU funds.

The Court not only reports on past financial management, it also actively contributes to building the EU's financial control framework. The year 2007 was a significant one for the management of EU funds. The section, 'The Court's view', summarises the Court's opinion on important developments relating to Member States' accountability and the Court's contribution to the public consultation on budgetary reform launched by the European Commission.

None of the Court's achievements in 2007 could have happened without the commitment, skills and capacity of its 850 staff. They are the key asset of a forward-looking organisation striving for continuous improvement. This first annual activity report gives details of the Court's reform process which started in 2006 with a self-assessment. The year 2007 saw progress on implementing the resulting action plan and, at the end of the year, the launch of a 'peer review' conducted by a team of auditors from the national audit institutions of Austria, Canada, Norway and Portugal. An early achievement of this process of reform was the following statement of mission, vision, values and strategic objectives which will guide the activities we look forward to reporting on in future years.

I hope you enjoy reading our first annual activity report and find it useful.



Vítor Manuel da Silva Caldeira  
*President*

# MISSION, VISION, VALUES AND STRATEGIC OBJECTIVES

## MISSION

The European Court of Auditors is the EU institution established by the Treaty to carry out the audit of EU finances. As the EU's external auditor, it contributes to improving EU financial management and acts as the independent guardian of the financial interests of the citizens of the Union.

## VISION

An independent and dynamic Court of Auditors, recognised for its integrity and impartiality, respected for its professionalism and for the quality and impact of its work, and providing crucial support to its stakeholders to improve the management of EU finances.

## VALUES

## Independence, integrity and impartiality

Independence, integrity and impartiality for the institution, its Members and staff.

Providing adequate output to stakeholders without seeking instructions or succumbing to pressure from any outside source.

## Professionalism

Keeping high and exemplary standards in all professional aspects.

Being involved in EU and worldwide public audit development.

## Adding value

Producing relevant, timely, high-quality reports, based on sound findings and evidence, which address the concerns of stakeholders and give a strong and authoritative message.

Contributing to effective improvement of EU management and to enhanced accountability in the management of EU funds.

## Excellence and efficiency

Valuing individuals, developing talents, and rewarding performance.

Ensuring effective communication to promote a team spirit.

Maximising efficiency in all aspects of work.

## STRATEGIC OBJECTIVES

The European Court of Auditors has set itself the following strategic objectives to accomplish its mission:

## Professionalism

Robust methodology, appropriate audit strategy, development of public audit practice, common auditing standards and audit criteria on EU funds, collaboration with EU supreme audit authorities (SAAs), effective 'Community control framework'

## Output

Selection of appropriate audit topics, timeliness, clarity and readability of reports, quality-of-performance audits, increase its reports' impact

## Stakeholders

Increase relations with auditees to foster understanding of the audit process and to achieve a wider acceptance of the audit results; development of contacts with the European Parliament and the Council as budget and discharge authorities; effective communication with EU citizens

## Learning and growth

Learning from the peer-review exercise in order to strengthen and develop the organisation, methods, processes and output and to maximise efficiency; implementation of effective and dynamic human resources policies; high-quality professional training; upgrading infrastructure; implementation of IT policies

# THE COURT'S ROLE AND WORK

## WHAT IS THE ROLE OF THE COURT?

The European Union has a budget of approximately 120 billion euro, around 1 % of the gross national income (GNI) of its 27 Member States. Compared to national budgets this is a small share. However, for some Member States funds from the EU play an important role in financing public activities and the total amount is close or equal to the GNI of some countries e.g. Romania. The composition of the budget has evolved over time, agriculture and cohesion policies being its major components (see **Box 1**).

The budget is decided annually — within the context of seven-year financial frameworks — by the Council, i.e. representatives of the Member States, and the directly elected European Parliament. The European Commission proposes the budget and is also responsible for implementing it. A very significant proportion — notably agricultural and cohesion spending — is implemented in cooperation with the Member States. Depending on the spending schemes, national administrations may be responsible for setting spending strategies, selecting beneficiaries and projects and making payments. A specific feature of Community expenditure is the high percentage of payments based on claims submitted by the beneficiaries themselves, be they farmers or project managers throughout the Union.

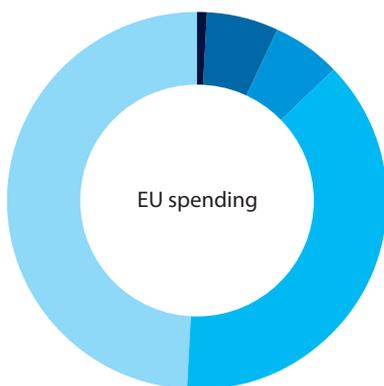
### BOX 1 — WHAT DOES THE EU SPEND ITS MONEY ON?

The EU budget is financed through financial contributions from Member States (based mostly on national GNI) as well as customs and agricultural duties. The EU budget is to a large extent directed to other causes than national budgets, partly due to differences in responsibilities. For example, the Union is not responsible for social security systems, usually a large part of national spending.

Since the 1960s, agricultural spending, typically through payments to farmers across the Union, has been the largest part of the budget although its share is now decreasing. In 2008, a bit less than half the budget is aimed at preservation and management of natural resources, mainly agriculture and rural development.

Ever since the 1980s, a major part of spending has been directed towards cohesion — i.e. regional and social development — co-financing a wide range of projects from road construction in Slovakia to courses for the unemployed in Denmark. In 2008, spending on sustainable growth, of which the lion's share is for cohesion, is planned at 38 % of the budget. This heading also includes a large part of the EU funds directed to research.

The EU furthermore spends significant amounts on development and humanitarian aid as well as support to countries close to the Union or candidates to join it. About 6 % of the budget is needed for financing the administration of the Community institutions.



Citizenship, freedom, security and justice



1%

The European Union as a global partner



6%

Administration



6%

Cohesion — Sustainable growth



38%

Agriculture — Preservation and management of natural resources



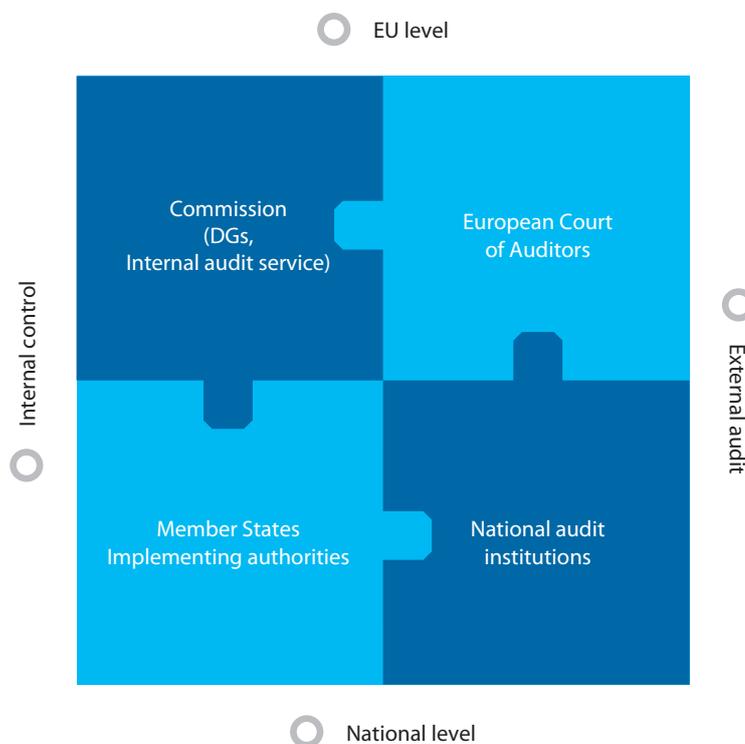
49%

In democratic societies there is a need for complete and accurate publicly available information as a basis for debate and decision-making both to improve financial management and to ensure accountability. The EU, like its Member States, has an external auditor as an independent guardian of the financial interests of the citizens. As the external auditor of the EU, the European Court of Auditors checks that EU funds are correctly accounted for and spent in compliance with rules and legislation with due consideration for achieving best value for money, irrespective of where the funds are spent.

The results of the Court's work are used by the Commission, the Parliament and the Council as well as by Member States, to improve financial management of the EU budget. The Court's work provides an important basis for the annual discharge procedure whereby the Parliament, basing its decision on recommendations from the Council, decides whether the Commission has met its responsibility for the execution of the previous year's budget. Despite its name, the Court has no judicial powers.

In the areas of the budget where management is shared, Member States cooperate with the Commission in setting up supervisory and control systems — internal control — to ensure that funds are spent properly and in accordance with the rules. Internal control thus has an EU as well as a national dimension. In addition to the work done by the Court, many national audit institutions audit European funds that are managed and spent by national administrations.

### Overview of internal control and external audit of the EU budget



## WHAT DOES THE COURT PRODUCE?

The Court carries out three different types of audits<sup>1</sup>: financial, compliance and performance. These address the three following questions.

- Do the accounts present fairly, in all material respects, the financial position, results and cash flow for the year, in accordance with the applicable financial reporting framework? (financial audit)
- Are activities, financial transactions and information, in all material respects, in compliance with the legal and regulatory frameworks which govern them? (compliance audit)
- Is the financial management sound, i.e. are the funds used kept to a minimum (economy), are the results achieved with the least possible resources (efficiency) and have objectives been met (effectiveness)? (performance audit)

Most of the Court's financial and compliance audit is carried out in the context of its annual statement of assurance which is presented in the annual report on the implementation of the EU budget. The EC Treaty requires the Court to give such a statement — or opinion — on the reliability of the accounts and the legality and regularity of underlying transactions. In this context, underlying transactions are typically payments from the EU budget to final beneficiaries. The annual statement of assurance is generally known by its French acronym DAS (*déclaration d'assurance*).

<sup>1</sup> For more information about the Court's methodology please consult the manuals on the Court's website ([www.eca.europa.eu](http://www.eca.europa.eu)).

## HOW DOES THE COURT AUDIT?

The Court's audit of the EU accounts is carried out in line with international standards on auditing (ISA), which are applied by the public and the private sector. Existing international standards on audit do not, however, cover the kind of compliance audit undertaken by the Court to the same extent. The Court takes an active part in the development of international standards by standard-setting bodies (Intosai, IFAC)<sup>2</sup> alongside national audit institutions.

In order to provide assurance as to whether the payments comply with legal and regulatory frameworks, the Court draws on the results both of its examination of supervisory and control systems, intended to prevent or detect and correct errors of legality and regularity, and of a sample of the transactions (payments) themselves (see **Box 2**). When systems are tested and found to be reliable, then fewer transactions can be audited by the Court in order to come to a valid conclusion on their legality and regularity. Other sources, such as the work of other auditors, are also used to support the Court's conclusions.

In performance audit, the Court uses a variety of audit methodologies to assess management and monitoring systems and information on performance against criteria derived from legislation and the principles of sound financial management.

When selecting which performance audits to carry out, the Court aims to identify audit subjects which are likely to yield the greatest impact in terms of identifying potential improvements in the economy, efficiency and effectiveness of EU spending.

<sup>2</sup>

Intosai: International Organisation of Supreme Audit institutions.  
IFAC: International Federation of Accountants.

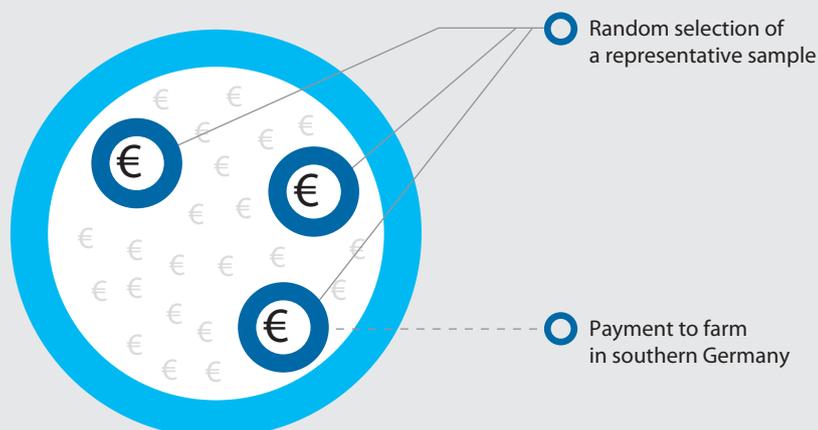
## BOX 2 — THE COURT'S ON-THE-SPOT AUDITS OF PAYMENTS FROM THE EU BUDGET

The Court does not have the resources to audit in detail all the transactions of the EU budget. In the framework of the DAS, it therefore uses statistical sampling techniques to provide a result which is representative of the population as a whole. This involves randomly selecting a representative sample of underlying transactions from all areas of the Union budget, for example agriculture, for detailed testing. The Court traces these transactions down to the final recipients of the aid, for example a farmer in southern Germany. The Court then performs checks on the spot, such as measuring the size of the farmland, to verify the compliance of the claim with reality.

The statistical nature of the Court's sample means the results can be extrapolated over the population in question, i.e. a specific revenue or expenditure area, and together with information arising from the evaluation of systems, used as a basis for an overall audit opinion. In practice, the Court compares the results of its tests of statistical samples against what it considers an acceptable limit — or materiality threshold — to determine the nature of the opinion to be given.

This is an illustration of how the Court identifies transactions for detailed testing. In practice, the Court's sampling procedures are more complex, e.g. using two-stage sampling in order to improve the efficiency of audit work.

### Population of all agricultural payments



# GOVERNANCE AND ORGANISATION

## ○ STRUCTURE OF THE ECA

The Court of Auditors operates as a collegiate body of 27 Members, one from each Member State. All audit reports and opinions are adopted by the college. It also takes decisions concerning the Court's organisation and administration.

The Court organises itself around five audit groups, to which Members are assigned. As the organisation chart shows (see page 17) there are four sectorial groups, covering different parts of the budget (Preservation and management of natural resources; Structural policies, transport, research and energy; External actions; Own resources, banking activities, administrative expenditure, Community institutions and bodies and internal policies). Each group is chaired by a Dean, elected by the Members of the group from amongst their number for a renewable two-year term.

A fifth audit group (CEAD or Coordination, communication, evaluation, assurance and development) is responsible for 'horizontal' matters such as the coordination of the statement of assurance, quality assurance, the development of the Court's audit methodology and communication of the Court's work and output.

An Administrative Committee, composed of Members representing all audit groups, prepares all administrative matters for a formal decision by the Court.

## ○ THE MEMBERS

The Members of the Court are appointed by the Council, after consultation of the European Parliament, following nomination by their respective Member States. Members are appointed for a renewable term of six years. They are required to perform their duties in complete independence and in the general interest of the European Union.

Apart from being part of the college, taking the final decisions on audits and opinions as well as on broader strategic and administrative issues, each Member is responsible for his or her own tasks, primarily within auditing. The audit work itself is in general carried out by the auditors in the audit units coordinated by the Member responsible, with the assistance of a private office. He or she then presents the report at group and Court levels and, once adopted, to the European Parliament, Council and other relevant stakeholders.

On 1 January 2007, with the accession of Bulgaria and Romania, two new Members, Mrs Nadejda Sandolova and Mr Ovidiu Ispir, joined the Court. One year later, on 1 January 2008, three new Members, Mr Michel Cretin (France), Mr Henri Grethen (Luxembourg) and Mr Harald Noack (Germany), joined the Court in replacement, at the expiry of the terms of office of their predecessors. In addition, the mandates of four Members (Greece, the Netherlands, Austria and the United Kingdom ) were renewed by the Council for a term of six years.

# EUROPEAN COURT OF AUDITORS 2008

## PRESIDENT



Vítor Manuel  
da SILVA CALDEIRA (PT)



Hubert  
WEBER (AT)



Maarten B.  
ENGWIRDA (NL)



Máire  
GEOGHEGAN-QUINN (IE)



David  
BOSTOCK (UK)



Morten Louis  
LEVYSOHN (DK)



Ioannis  
SARMAS (EL)



Július  
MOLNÁR (SK)



Vojko Anton  
ANTONČIČ (SI)



Gejza Zsolt  
HALÁSZ (HU)



Jacek  
UCZKIEWICZ (PL)



Josef  
BONNICI (MT)



Irena  
PETRUŠKEVIČIENĖ (LT)



Igors  
LUDBORŽS (LV)



Jan  
KINŠT (CZ)



Kersti  
KALJULAIK (EE)



Kíkis  
KAZAMIAS (CY)



Massimo  
VARI (IT)



Juan  
RAMALLO MASSANET (ES)



Olavi  
ALA-NISSILÄ (FI)



Lars  
HEIKENSTEN (SE)



Karel  
PINXTEN (BE)



Ovidiu  
ISPIR (RO)



Nadejda  
SANDOLOVA (BG)



Michel  
CRETIN (FR)



Harald  
NOACK (DE)



Henri  
GRETHEN (LU)

## ○ THE PRESIDENT

The European Court of Auditors is headed by a President who is elected for a renewable term of three years by the Members from amongst their number. His or her role is that of *primus inter pares* — first amongst equals. He or she chairs the Court meetings, ensures that Court decisions are implemented and that the institution and its activities are soundly managed.

The President represents the Court in its external relations, in particular with the discharge authority, the other EU institutions and the supreme audit institutions of the Member and beneficiary States.

On 16 January 2008, Mr Vítor Manuel da Silva Caldeira, the Portuguese Member, was elected as the Court's 11th President.

## ○ THE SECRETARY-GENERAL

The Secretary-General is the most senior member of staff in the institution and is appointed by the Court for a renewable period of six years. He or she is responsible for the management of the Court's staff and administration, including professional training and a translation service comprising one unit for each official language, except Irish (22 languages). The Secretary-General is also responsible for the Court's secretariat.

On 1 July 2007, the mandate of the present Secretary-General of the Court, Mr Michel Hervé, was renewed.

## ○ THE STAFF OF THE COURT

The European Court of Auditors has a staff of around 850 (836 on 31 December 2007) comprising auditors (484), translators (162) and administrative support. The Court's audit staff have a broad range of professional backgrounds and experience from both the public and private sectors, including accountancy, financial management, internal and external audit, law and economics. Like all other EU institutions, the Court employs nationals from all Member States.

## ORGANISATION CHART

## PRESIDENCY

Vítor Manuel da SILVA CALDEIRA,  
President

- Supervision of the performance of the Court's work
- Relations with the Community institutions
- Relations with SAs and international audit bodies
- Legal matters
- Internal audit

**AUDIT GROUP I**  
 PRESERVATION AND MANAGEMENT  
 OF NATURAL RESOURCES

Hubert WEBER, Dean  
Gejza Zsolt HALÁSZ  
Olavi ALA-NISSILÄ  
Július MOLNÁR  
Kikis KAZAMIAS  
Michel CRETIN

- EAGF — financial audit
- CAP — central systems
- EAGF — markets
- EAFRD
- IACS
- EFF, environment and public health

**AUDIT GROUP II**  
 STRUCTURAL POLICIES, TRANSPORT,  
 RESEARCH AND ENERGY

David BOSTOCK, Dean  
Massimo VARI  
Harald NOACK  
Kersti KALJULAIID  
Ovidiu ISPIR  
Henri GRETHEN

- Structural policies — financial audit
- Structural policies — performance audit
- Transport, research and energy — financial audit
- Transport, research and energy — performance audit

**AUDIT GROUP III**  
 EXTERNAL ACTIONS

Maarten B. ENGWIRDA, Dean  
Jacek UCZKIEWICZ  
Karel PINXTEN  
Máire GEOGHEGAN-QUINN  
Jan KINŠT

- Cooperation with developing countries (general budget of the European Union)
- Pre-accession and neighbourhood policies
- European Development Funds (African, Caribbean and Pacific States)

**AUDIT GROUP IV**  
 OWN RESOURCES, BANKING ACTIVITIES,  
 ADMINISTRATIVE EXPENDITURE,  
 COMMUNITY INSTITUTIONS AND BODIES  
 AND INTERNAL POLICIES

Ioannis SARMAS, Dean  
Irena PETRUŠKEVIČIENĖ  
Juan RAMALLO MASSANET  
Morten Louis LEVYSOHN  
Igor LUDBORŽS  
Nadejda SANDOLOVA

- Own resources of the European Union
- Administrative expenditure of the institutions of the European Union
- Internal policies of the European Union
- Borrowing, lending and banking activities
- Community agencies and other decentralised bodies

**CEAD GROUP**  
 COORDINATION, COMMUNICATION,  
 EVALUATION, ASSURANCE  
 AND DEVELOPMENT

Josef BONNICI,  
Member responsible for the DAS, Dean  
Vojko Anton ANTONČIČ,  
Member responsible for ADAR  
Lars HEIKENSTEN,  
Member responsible for communication  
Olavi ALA-NISSILÄ (AG I)  
Jacek UCZKIEWICZ (AG III)  
Kersti KALJULAIID (AG II)  
Irena PETRUŠKEVIČIENĖ (AG IV)

- Audit methodology and support
- Quality control
- Communication and reports
- Audit supervision and support to financial compliance audit
- Reliability of the accounts and of management representations

## SECRETARIAT-GENERAL

Michel HERVÉ,  
Secretary-General

- Human resources
- IT and telecommunications
- Finance and administration
- Translation

# OVERVIEW OF AUDIT REPORTS AND OPINIONS<sup>3</sup>

The results of the Court's financial and compliance audits are mainly published in annual reports on the general EU budget and on the European Development Funds (EDFs), as well as in specific reports on the Union's agencies. The results of its performance audits are published in special reports over the year. The Court also publishes opinions on draft legislation that has an impact on financial management.

## ANNUAL REPORTS ON THE 2006 FINANCIAL YEAR

### ○ ANNUAL REPORT ON THE IMPLEMENTATION OF THE EU BUDGET

As the Court has repeatedly stated in its annual reports on the implementation of the general budget of the EU, the key to good management of the EU budget is sufficient, appropriate internal control systems operated by the Commission and Member States. Over the past few years, the Court has recognised the Commission's efforts to promote and apply improved internal control and management procedures covering both the reliability of EU accounts and the legality and regularity of the transactions recorded in them. The 2006 annual report continued this tradition by identifying areas of improvement — some significant — as well as setting out the large areas of expenditure where the situation continues to remain unsatisfactory.

The Court concluded that the 'Final annual accounts of the European Communities' setting out the implementation of the 2006 EU budget presented fairly, in all material respects, the Communities' financial position and the results, except for the overstatement of accounts payable and pre-financing in the balance sheet. Further progress was therefore considered to be required for the newly introduced accruals accounts to be totally satisfactory and meet their full potential to provide reliable management and oversight information.

<sup>3</sup>

The intention of this section is to introduce, rather than to provide a summary of, the Court's reports and opinions. Readers are requested to refer to the full texts as adopted by the Court — available on the Court's website ([www.eca.europa.eu](http://www.eca.europa.eu)) — for further details.

For areas of the budget covering the majority of payments recorded in the 'Final annual accounts of the European Communities' — agriculture (primarily in areas of spending not covered by the control system IACS), structural policies, internal policies and a significant proportion of external actions — the Court provided an adverse opinion on the legality and regularity, concluding that payments in these areas of expenditure are still materially affected by error. For payments in these areas, supervisory and control systems only partly succeeded in managing the risks of errors related to legality and regularity of transactions. The Court emphasised that complicated or unclear eligibility criteria or complex legal requirements had a considerable impact on the legality and regularity of transactions.

However, the Court noted a marked reduction in the estimated level of error in agricultural transactions and concluded that, where properly applied, IACS was an effective system to limit the risk of irregular expenditure. Moreover, the Court concluded that the transactions underlying commitments and revenue were free from material error, as were payments related to administrative expenditure, the majority of pre-accession strategy and parts of external actions (see [Box 3](#)).



### BOX 3 — SUMMARY OF THE LEGALITY AND REGULARITY OF UNDERLYING TRANSACTIONS BY AREA OF EXPENDITURE

The table below summarises the overall assessment of supervisory and control systems, as outlined in the relevant chapters of the 2006 annual report, and gives the broad results of the Court's testing of representative samples of transactions. Systems are classified as 'partially satisfactory' where some control arrangements have been judged to work adequately whilst others have not. Consequently, taken as a whole, they might not succeed in restricting errors in the underlying transactions to an acceptable level. For 'Functioning of supervisory and control systems' over administrative expenditure, the report draws attention to some weaknesses.

The table below highlights the key elements but cannot present all of the relevant details. Readers are recommended to refer to the body of the 2006 annual report for a complete analysis.

Specific assessments of the 2006 annual report	Functioning of supervisory and control systems	Error range
Own resources		
Common agricultural Policy IACS non-IACS	 	Overall for CAP IACS  non-IACS
Structural operations		
Internal policies		
External actions	 	Headquarters and delegations Implementing organisations
Pre-accession strategy Phare/ ISPA Sapard	 	 
Administrative expenditure		

Functioning of supervisory and control systems	Satisfactory	Partially satisfactory	Unsatisfactory
Error range	Less than 2% (below materiality threshold)	Between 2% and 5%	Greater than 5%

## ○ **ANNUAL REPORT ON THE EUROPEAN DEVELOPMENT FUNDS (EDFS)**

In 2007, the Court also published an annual report on the European Development Funds (EDFs). While the opinion on the reliability of the EDFs accounts was unqualified, the opinion on the legality and regularity of the underlying transactions was qualified in respect of payments authorised in the beneficiary States under the responsibility of delegations, because of a material level of error in these transactions.

## ○ **OTHER ANNUAL REPORTS**

A further 28 specific annual reports, pertaining to the European agencies and other decentralised bodies, were adopted in 2007, as well as an annual report on the operational efficiency of the management of the European Central Bank.

## SPECIAL REPORTS PUBLISHED IN 2007

The Court published a total of nine special reports in 2007. The reports examined financial management issues in a wide range of areas — from cooperation within the field of VAT in the EU Member States (8/2007) to capacity development in faraway countries such as Angola and Vietnam (6/2007).

The Court's work identifies many different types of problems, with diverse consequences. The weaknesses identified by the Court in the European institutions' spending on their own buildings (2/2007) show that some EU funds have been spent unnecessarily in this area. The shortcomings observed in the report on fishery control, inspection and sanction systems (7/2007) could have serious consequences for both the fisheries resource and the future of the fishing industry. Notwithstanding different types of spending in the different areas of the EU budget, several common themes can be identified in the Court's reports, such as those listed below.

- While **funds** should be spent **both quickly and efficiently**, there can be tensions in achieving both aims at the same time. This theme is covered in a report on Structural Funds mid-term processes (1/2007) as well as in one on the Commission's management of the CARDS programme in the western Balkans (5/2007).
- Although planning can never guarantee effectiveness, it is of significant importance. Issues concerning **strategic and long-term planning** were addressed in reports on EU institutions' expenditure on buildings (2/2007) and on the evaluation of EU research and technological development (RTD) framework programmes (9/2007) as well as in two reports related to foreign aid: one on the CARDS programme and one on the effectiveness of technical assistance in the context of capacity development (5/2007 and 6/2007).
- Commission evaluations are a key element of its performance management system, both to assess performance and to identify improvements where necessary. Undertaking them too early in the programming cycle means that there will be insufficient progress and relevant data to assess. On the other hand, evaluating later may reduce the possibilities for making timely changes for the current period and improvements for the next. **Timing issues with regard to evaluation** were addressed in both the report on Structural Funds mid-term processes (1/2007) and the report on RTD evaluation (9/2007).

- Evaluations, as well as audits, are harder to carry out if there is a lack of [clarity in the objectives](#) of spending programmes, another topic addressed in these two audits. Unclear objectives not only make programmes hard to evaluate and monitor, but, more importantly, present a risk to their effectiveness.
- The management and control of EU spending are governed by complex regulations, which need to be clear and unambiguous to ensure funds are spent as intended. The [existence of clear definitions and rules](#) is of importance if funds are to be collected or used as intended. This issue was addressed in reports on the European Refugee Fund (3/2007) and on checks carried out by Member States on exports of agricultural products (4/2007). A lack of common definitions is one of the factors that can make cross-Member-State data less complete, comparable and reliable. This can have an impact when the data are used as the basis for decisions, such as the allocation of funds.
- Aspects of [data quality](#) were covered in the Refugee Fund report (3/2007) as well as in the fisheries report (7/2007).

## Special reports published in 2007

1/2007:	The implementation of the mid-term processes — Structural Funds 2000–06
2/2007:	The institutions' expenditure on buildings
3/2007:	Management of the European Refugee Fund (2000–04)
4/2007:	Physical and substitution checks on export refund consignments
5/2007:	The Commission's management of the CARDS programme
6/2007:	The effectiveness of technical assistance in the context of capacity development
7/2007:	The control, inspection and sanction systems relating to the rules on conservation of Community fisheries resources
8/2007:	Administrative cooperation in the field of value added tax
9/2007:	Evaluating the EU research and technological development (RTD) framework programmes — could the Commission's approach be improved?

## OPINIONS PUBLISHED IN 2007

The Court also contributes to improving the financial management of EU funds by providing opinions on proposals or financial management issues. These opinions are required as part of the process of adopting financial legislation <sup>4</sup>, or can be delivered at the request of one or other of the EU institutions <sup>5</sup>. The Court of Auditors may also produce opinions on its own initiative.

The Court's opinions cover issues relating to specific areas of expenditure, e.g. two opinions in 2007 related to new regulations for the European Development Funds (2/2007 and 9/2007). They can also cover broader issues of financial management in the EU, e.g. the Court's opinion (6/2007) on annual summaries, national declarations and audit work by national audit bodies.

Opinions draw on the Court's expertise with respect to EU financial management developed over years of audits: in some cases specific audits are referred to. For example, in the opinion on ensuring the correct application of the law on customs and agricultural matters (3/2007) the Court referred to a recommendation in a previous special report that the Commission should take measures to improve the reliability of sources of information on fraud. A recurring theme in the Court's opinions is the need for simplification (see e.g. 7/2007 on the financial regulation applicable to the general budget of the European Communities).

In a 2007 opinion (6/2007) the Court set out its position on annual summaries, as well as the voluntary initiatives by some Member States to give so-called national declarations on EU funds. This opinion is presented in detail under the heading 'The Court's view'.

<sup>4</sup> Article 279 of the Treaty.

<sup>5</sup> Article 248, paragraph 4.

## Opinions adopted in 2007 <sup>6</sup>

- Opinion 1/2007 on the draft Commission regulation (EC, Euratom) amending Regulation (EC, Euratom) No 2342/2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the financial regulation applicable to the general budget of the European Communities
- Opinion 2/2007 on the draft Council regulation amending the financial regulation applicable to the ninth European Development Fund
- Opinion 3/2007 on a proposal for a regulation of the European Parliament and of the Council amending Council Regulation (EC) No 515/97 on mutual assistance between the administrative authorities of the Member States and cooperation between the latter and the Commission to ensure the correct application of the law on customs and agricultural matters
- Opinion 4/2007 on a draft Commission regulation (EC) amending Regulation (EC) No 1653/2004 on a standard financial regulation for the executive agencies pursuant to Council Regulation (EC) No 58/2003 laying down the statute for executive agencies to be entrusted with certain tasks in the management of Community programmes (SEC(2007) 492 final)
- Opinion 5/2007 on the proposal for a Council regulation on the financial regulation applicable to the Euratom Supply Agency
- Opinion 6/2007 on the annual summaries of Member States; 'national declarations' of Member States; and audit work on EU funds of national audit bodies
- Opinion 7/2007 on a draft Council regulation amending Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the financial regulation applicable to the general budget of the European Communities
- Opinion 8/2007 on a proposal for a Commission regulation (EC, Euratom) amending Commission Regulation (EC, Euratom) No 2343/2002 on the framework financial regulation for the bodies referred to in Article 185 of Council Regulation (EC, Euratom) No 1605/2002 on the financial regulation applicable to the general budget of the European Communities
- Opinion 9/2007 on the proposal for a Council regulation on a financial regulation applicable to the 10th European Development Fund

<sup>6</sup> The Court decides whether to publish its opinions publicly on a case-by-case basis, depending on considerations of confidentiality and general interest. Most opinions of the Court have been published in the *Official Journal of the European Union* and are available on the Court's website.

# FOLLOW-UP AND IMPACT

Public auditing plays a key role in helping modern democracies run efficiently. Through audit activities, the ultimate stakeholders, in this case the citizens of Europe, are being informed about whether their money is being spent in a correct and useful way. In this sense, public auditing is a key component in ensuring accountability and a useful contribution to public debate. As such, the impact of the Court's work is important.

The Court's audits provide information directly to decision-makers in the institutions concerned — in the European context, primarily the Parliament, the Council, the Commission and the Member States. They can take action on this information, with or without reference to the audit conclusions.

While the main impact of the Court's audit is through its published reports, there is also impact during the length of the audit process. In particular, all audits involve the presentation of detailed findings, sent to the auditee to confirm the veracity of the Court's observations. The final report text is also subject to a 'contradictory procedure'. The auditee's — mainly the Commission — replies are published together with the reports. In many of these replies, the auditees recognise the problems identified by the Court and set out steps that they intend to take to address them.

Once the auditing work is finished and a report has been published, it is analysed and used by the Parliament and Council, in exercising their political oversight over the use of the budget. The Court's reports provide a basis for the Council's recommendation and Parliament's decision on the annual discharge of the budget.

In the discharge procedure for the 2006 budget, the Court's conclusions, particularly in the area of structural policies, were given considerable attention. The Parliament's 2006 discharge resolution refers to an action plan which the Commission proposed as a direct consequence of the Court's annual report conclusions. It also requests quarterly reports on the implementation of the action plan and better insight into corrective action taken on errors and weaknesses.

The special reports are also taken into consideration during the discharge procedure. However, due to the fact that they are published throughout the year they have normally been presented and discussed at an earlier stage at Parliament and Council meetings.

An example of what can happen is provided by the recent report on building expenditure (Special Report No 2/2007). On this, the Parliament replied that it shared the Court's concern in relation to interinstitutional cooperation; in fact, the Parliament had already instructed its administration to draw up a report examining the feasibility of establishing a European Buildings Authority which would be responsible for the construction and maintenance of the buildings of the EU institutions and bodies.

Another example is the Court's audit report on checks carried out by Member States on exports of agricultural products (Special Report No 4/2007). The Council and Commission acted promptly on the recommendations made by the Court by amending the relevant legislation.

The impact of audit reports can be increased if they are taken up by the relevant media by stimulating wider attention and debate. The media provide the most direct information to citizens. The Court's annual report will usually get significant media coverage, but several of its special reports have also been followed with interest by the press.

One report which attracted a large amount of media attention was the report on fisheries (Special Report No 7/2007). An Extraordinary Fisheries Council was held to discuss the Court's report and the Commission launched a process which will probably lead to legislative changes to address the shortcomings identified. This is an example of a report which, due to its relevance and timing, has provided particularly valuable input into the decision-making process.

This section has given some indications of the impact of Court reports published in 2007. Follow-up information on the Court's previous observations is given in the respective chapters of the Court's annual report. The most common observation made by the Court in its latest annual report is that, while some action has been taken, the weaknesses previously identified remain at least partly unsolved.

When considering the impact of the Court's work, its opinions should also be taken into consideration. The Court intends to develop its analysis of the impact of its work — both audits and opinions — over longer periods of time. An example of such impact is outlined in **Box 4**.

#### **BOX 4 — THE COURT'S 'SINGLE AUDIT' OPINION**

The Court has published several opinions over the years relating to how the overall system of internal control of the EU budget can be developed. A landmark contribution in this respect was issued in 2004: the 'single audit' opinion (2/2004). In this opinion the Court suggested that all internal control should be defined and implemented within a single integrated framework, following common standards and ensuring an appropriate balance between costs and benefits. The 'single audit' opinion was a point of reference for the Commission but also for the Court, in 2007 for example in its comments on how effective

and efficient internal control is defined in the updated implementing rules of the financial regulation (1/2007). The integrated control approach is reflected in the Commission's 2006 action plan towards an integrated internal control framework. The Commission has taken steps to emphasise the role and responsibilities of the Member States in internal control, including a new requirement for annual summaries of opinions, declarations and audits carried out under the regulations of the individual spending areas.

# THE COURT'S VIEW

## NATIONAL SUMMARIES AND DECLARATIONS

Initiatives have been taken by the Commission and Member States to increase the participation of Member States in the accountability process for EU funds. This is a partial response to the problem of material levels of errors of legality and regularity in major areas of the budget, notably those where management is shared between the Commission and Member States.

Significant recent developments include the requirement for Member States to provide annual summaries of the available audits and declarations, the voluntary initiatives by some Member States to issue national declarations, and the decisions by some national audit bodies to issue audit reports on the management of EU funds. In its Opinion No 6/2007, the Court considers that all these elements, if properly implemented, could stimulate improved management and control of EU funds. The opinion sets out the conditions under which such elements could give added value and be used by the Court according to the requirements of international auditing standards.

Since **Annual Summaries** form an integral part of the internal control system, the Court will assess, as part of its standard audit procedures, their contribution to overall internal control. If they highlight strengths and weaknesses, annual summaries can stimulate improved overall control of EU funds in shared management areas.

**National Declarations** are voluntary initiatives of certain Member States, provided at the highest level and addressed to national parliaments. Although they do not themselves constitute conclusive audit evidence, they can be considered to be a new element of internal control, and may contain useful information about the implementation of the EU budget.

The Court recognises the potential benefits of national declarations and national audit work in raising awareness within Member States of the importance of internal control of EU funds.

The work done by national audit bodies (**National Audit Certificates**) on the legality and regularity of EU expenditure or on national declarations may constitute audit evidence for the Court if it can satisfy itself as to the suitability and quality of the audit work done in accordance with international auditing standards. In this case, the Court will take these certifications from national audit bodies into account when planning and undertaking its work.

National declarations and national audit certificates conclude control systems. National declarations may also provide specific opinions on the legality and regularity of transactions. Experience suggests that the major risk for the latter occurs in the reliability of the information supplied by beneficiaries when claiming EU funds, not in the way that the information is processed by Member States or by the Commission. A declaration that systems are functioning as required by EU regulations may not in itself provide assurance as to the legality and regularity of the transactions concerned.

Recognising the need for an increased role for national audit bodies in the overall framework of accounting for EU spending, the Contact Committee of EU Supreme Audit Institutions has set up a working group for the harmonisation of auditing standards and criteria, tailored for the EU area. Common standards of approach and methods may increase the potential for the Court to rely on the work of the national audit bodies, subject to the need to obtain direct evidence of the quality of that work.

## REVIEW OF THE EU BUDGET

The Commission published a consultation paper in September 2007 to stimulate an open debate on EU finances as part of a wide-ranging review of the budget.

The Court issued a contribution to the debate in early April 2008 in which it highlighted key principles which should be taken into account when designing new programmes to ensure they achieve European added value, namely clarity of objectives, simplification, realism, transparency and accountability. The Court recommended among other things that consideration be given to:

- recasting expenditure programmes in terms of outputs rather than inputs;
- making better use of the concept of tolerable risk when designing and deciding on expenditure programmes;
- the degree of discretion to be given to national or regional authorities in managing and accounting for expenditure programmes;
- whether the VAT-based own resource is still an appropriate part of the own resources system, and advocated a review of all compensatory arrangements based on the guiding principles for the own resources system, namely, equity, transparency, cost-effectiveness, simplicity and the Member State's ability to contribute.

# THE COURT'S WORK IN 2007 AND BEYOND

## AUDIT WORK CARRIED OUT IN 2007

Every year the Court outlines its future audit work in a work programme which is presented to the Budgetary Control Committee of the European Parliament and is made available to the public on the Court's website. The work programme informs stakeholders about new and ongoing audits as well as upcoming reports. The Court monitors the implementation of the work programme in order to have a basis for improvement in the following years.

The year 2007 was characterised by a significant increase in the number of adopted specific annual reports pertaining to the European agencies and other decentralised bodies. The number of special reports and opinions was similar to previous years. The annual reports on the general budget and the European Development Fund were published as planned.

Final outputs	2004	2005	2006	2007
Number of special reports	10	6	11	9
Annual reports (EDF included)	1	1	1	1
Specific annual reports	23	20	23	29
Opinions	2	11	8	9

With regard to financial and compliance audit, 2007 was the first year the Court's new audit assurance model was implemented, with the aim of obtaining sufficiently robust results in the most efficient way.

The Court also chose to provide a greater level of information on the DAS results, in particular on the results of transaction testing. The Court believes that this — together with schematic information on the results of systems assessments — provides useful monitoring information to allow progress in financial management to be measured.

## ACTION PLAN AND PEER REVIEW

The Court is dedicated to continuous improvement in all aspects of its work. In 2005, the Court decided to subject itself to a peer review. This involves high-ranking officials from a small number of supreme audit institutions evaluating the organisation and/or output of a fellow institution, based on standards and in the light of their professional experience. As all supreme audit institutions carry out comparable work, peer reviews can provide a unique input for improving audit institutions.

As part of the preparation for the peer review, the Court carried out a self-assessment exercise in 2006, which gave the organisation the opportunity to identify its strengths and weaknesses.

In 2007, the Court approved an action plan to address the weaknesses identified. It covered a total of 23 measures, of which the following six were the subject of task forces comprising both Members of the Court and staff from different parts and levels of the organisation:

1. Vision, mission, strategic objectives, planning
2. Governance (leadership), structure and organisation
3. Internal performance indicators
4. People and internal communication
5. External stakeholders and communication approaches, external communication policy
6. Improving quality of reports

Outputs from these task forces in 2007 included new mission, vision and values statements, as well as strategic objectives for the Court, a new strategy and guidelines for internal communication and a report on how to improve the quality of reports. The peer review started at the end of 2007.

## **IMPROVING THE QUANTITY AND QUALITY OF AUDIT WORK**

Several of the adopted strategic objectives concern the output of the institution. The Court aims to enhance the impact of its audits by selecting topics which are relevant and by improving the timeliness, clarity and readability of its reports. It has also set out to increase the number and improve the quality of its performance audits.

The year 2007 was one when a great deal of effort was put into further developing the methodological basis of the Court's work, an important element in ensuring qualitative audit work. The Court carried out considerable work in order to develop a new audit manual covering financial and compliance audits. The manual is to be finalised in 2008.

The Court's new performance audit manual was adopted in late 2006, making 2007 the first year that this guidance was available to auditors. To further improve the quality of the Court's performance audit work, additional guidelines have been developed and several seminars and training sessions have been held.

The Court also stepped up its ambitions concerning the use of information technology. In the new IT strategy adopted in 2007, the Court stated that it aimed to develop its ability to conduct IT audits and to turn the use of computer-assisted audit techniques (CAATs) in financial and performance audits into a standard practice.

It is important that the quantity and quality of the Court's output can be assessed in an appropriate manner. The Court is in the process of developing performance indicators which should enable it to give a range of information on its performance in upcoming annual activity reports. In the future, the Court envisages developing a methodology for assessing the cost efficiency of the institution.

### 30th anniversary of the Court

In 2007, the European Court of Auditors celebrated its 30th anniversary as the external audit institution of the European Union.

The celebrations started by enhancing the Court's presence (seminars, information stands, etc.) in most of the capitals of the Member States of the European Union during the activities related to the 2007 Europe Day.

In addition, an exhibition dedicated to the Court's first 30 years was inaugurated on 17 October 2007. The exhibition was composed of a series of thematic panels, a diaporama of over 150 photos and video extracts and the presentation of numerous documents.

The Luxembourg Central Bank marked the occasion by issuing a silver commemorative coin.

On 18 October 2007, the European Court of Auditors held a seminar on 'The future of public audit in the EU' with the participation of a number of high-ranking EU-level experts and senior figures from the institution. One session was dedicated to debating 'The challenges of auditing EU funds', while another focused on 'The future of public auditing and accountability'.



## IMPROVING NON-AUDIT ASPECTS OF THE COURT

Many of the tasks in the action plan focus on communication. In 2007, more effort was put into developing this area. Among other things, a new website was launched, information material concerning the annual report was published in a more accessible format and the Court agreed on a new procedure for presenting its special reports to the Budgetary Control Committee of the European Parliament.

Other developments, mostly directly or partly connected to the action plan, were the modernisation of the Court's accounting system and new strategy documents concerning human resources and IT. The Court also started to modernise its information systems in the areas of audit, translation, knowledge and communication, management information and human resources.

In 2007, the Court furthermore made progress with its preparations for a second extension of its main building, which is needed due to the recent and planned increase in staff.

## AUDIT WORK TO BE CARRIED OUT IN 2008<sup>7</sup>

In 2008, the Court will, as in previous years, provide an annual report on the European Development Funds, as well as specific reports on the European agencies and other bodies in addition to its annual report on the 2007 EU general budget.

EU general budget spending is planned in seven-year cycles, so-called financial frameworks. The year 2007 was the first of the new financial framework, which is focused around policy delivery. The Court is taking this opportunity to better reflect an earlier change: the move by the Commission to activity-based budgeting and management, and the organisation of the budget in 31 policy areas, covering some 220 activities. The 2007 annual report will be presented in terms of groupings of policy areas, which are closely but not completely based on the new headings in the financial framework.

**Box 5** presents the selected audit tasks, by audit group, that have been completed or are in the process of being concluded and are likely to be published as special reports during 2008 or early 2009.

**BOX 5****Preservation and management of natural resources**

The implementation of milk quotas in Members States which joined the EU on 1 May 2004

The management of EU support for the public storage of cereals

CAP clearance of accounts procedures

**Structural policies, transport, research and energy**

The procedure for the preliminary examination and evaluation of major investment projects for the 1994–99 and 2000–06 programming periods

The EU Solidarity Fund: how rapid, efficient and flexible is it?

Intelligent energy 2003–06

The effectiveness of structural measures spending on waste water treatment for the 1994–99 and 2000–06 programming periods

Instrument for structural policies for preaccession (ISPA) 2000–06

Are executive agencies a valid tool for the implementation of the EU budget?

**External actions**

European Commission rehabilitation aid following the tsunami and Hurricane Mitch

The effectiveness of EU support in the area of freedom, security and justice for Belarus, Moldova and Ukraine

**Own resources, banking activities, administrative expenditure, Community institutions and bodies and internal policies**

Binding tariff information (BTI)

European agencies: getting results

Banking measures in the Mediterranean area

Treasury management of the Commission

When selecting new audit tasks, the Court has identified a number of priority areas for particular attention in 2008. These include:

- innovation and the internal market;
- human capital;
- sustainable energy;
- the Commission's strategy to simplify the regulatory framework for European business and citizens.

# INTERNATIONAL COOPERATION

## COOPERATION WITH EU NATIONAL AUDIT INSTITUTIONS

The EC Treaty stated that the ECA shall undertake its audit in 'liaison' with the supreme audit institutions (SAIs) of the Member States, while the Treaty of Amsterdam later added that 'the Court of Auditors and the national audit bodies shall cooperate in a spirit of trust while maintaining their independence'. This was further developed by the Treaty of Nice, where Declaration 18 of its Final Act explicitly invited the ECA to set up a Contact Committee with the SAIs of the Member States where all heads of the SAIs and the Court meet each year to discuss issues of shared interest. Day-to-day contacts are maintained through liaison officers appointed by each institution. Working groups have been set up to help develop common positions and practices.

A Court delegation participated in the 2007 annual Contact Committee meeting of the heads of SAIs of the European Union hosted by the National Audit Office of Finland on 3 and 4 December in Helsinki. The main focus of the meeting was on 'Risk management, tolerable level of risk and the integrated internal control system in the management of EU funds', with the aim of discussing the role of supreme audit institutions within this area.

The Court will host the next Contact Committee meeting on 1 and 2 December 2008.

In 2007, two liaison officer meetings were held in order to prepare the Contact Committee meeting. The first meeting was held on 23 and 24 April in The Hague and the second meeting on 11 and 12 October in Luxembourg, chaired by the ECA. Both meetings discussed recent developments related to the management of EU funds, and reviewed the work of the task force on cooperation, which looks at the Contact Committee itself, how it works and how it could be improved, by putting forward proposals to ensure its efficient operation. The meeting also reviewed the activities of the various working and expert groups, which have been established by the Contact Committee in order to examine specific topics of mutual interest.

The Court participated in meetings of the network of the candidate and potential candidate countries (Turkey, Croatia, the former Yugoslav Republic of Macedonia, Albania and Bosnia and Herzegovina). The heads of the SAIs of the candidate and potential candidate countries and the European Court of Auditors met on 11 and 12 June 2007 in Skopje (former Yugoslav Republic of Macedonia).

An important issue, if one wants to improve practical cooperation in auditing EU funds, concerns the auditing standards used. Against this background, the Contact Committee decided, in 2006, to establish a working group, chaired by one of the Members of the Court, Mr Josef Bonnici, in order 'to develop common auditing standards and comparable audit criteria, based on internationally recognised auditing standards tailored for the EU area'. During 2007 the first meetings were held at the European Court of Auditors in Luxembourg. A progress report by the working group was presented to, and a resolution adopted by, the Contact Committee in Helsinki in December 2007.

## OTHER INTERNATIONAL COOPERATION

The Court continued its active involvement in and contribution to the improvement of international auditing standards and practices through its participation in European and international organisations for public audit institutions, Eurosai and Intosai respectively.

The Court is represented on the Eurosai environment working group and on the IT working group, and participates in the Eurosai Training Committee. The Court hosted a seminar on 'Analysis of the most frequent problems of SAs regarding IT' in Luxembourg on 17 and 18 April 2007, and a seminar on 'Performance audit — Where do we stand?' from 4 to 6 December 2007.

Since becoming a full member of Intosai in 2004, the Court has actively participated in the Financial Audit Subcommittee (FAS), the Compliance Audit Subcommittee (CAS) and the Performance Audit Subcommittee (PAS). The Court participated in all FAS meetings held in 2007 and played an active role by providing input to the guidelines issued and discussed. The FAS nominated the ECA representative (Mr Jesús Lázaro Cuenca) as one of the FAS representatives on the Steering Committee of the Professional Standards Committee project on audit quality. The Court also participated at the CAS meeting in January 2007 in New Delhi. Moreover, the Court's Translation Directorate provided resources for proofreading in Spanish and German.

The Court also participated in the XIXth Intosai Congress (Incosai) from 5 to 10 November 2007 in Mexico, which discussed two principal themes: 'Management, accountability and audit of public debt' and 'Performance evaluation systems based on universally accepted key indicators'.

In 2008, the Court will continue its active involvement in Eurosai and Intosai working groups, seminars and meetings.



Contact Committee in Helsinki, December 2007

# HUMAN RESOURCES

## HUMAN RESOURCES POLICY

The Court's main asset is its staff. Staff members have a broad range of academic and professional backgrounds and the quality of their work and their commitment is reflected in the institution's output. The Court recently updated its human resources policy, focusing on recruitment, training, career development and improving working conditions.

## PROPORTION OF MEN AND WOMEN

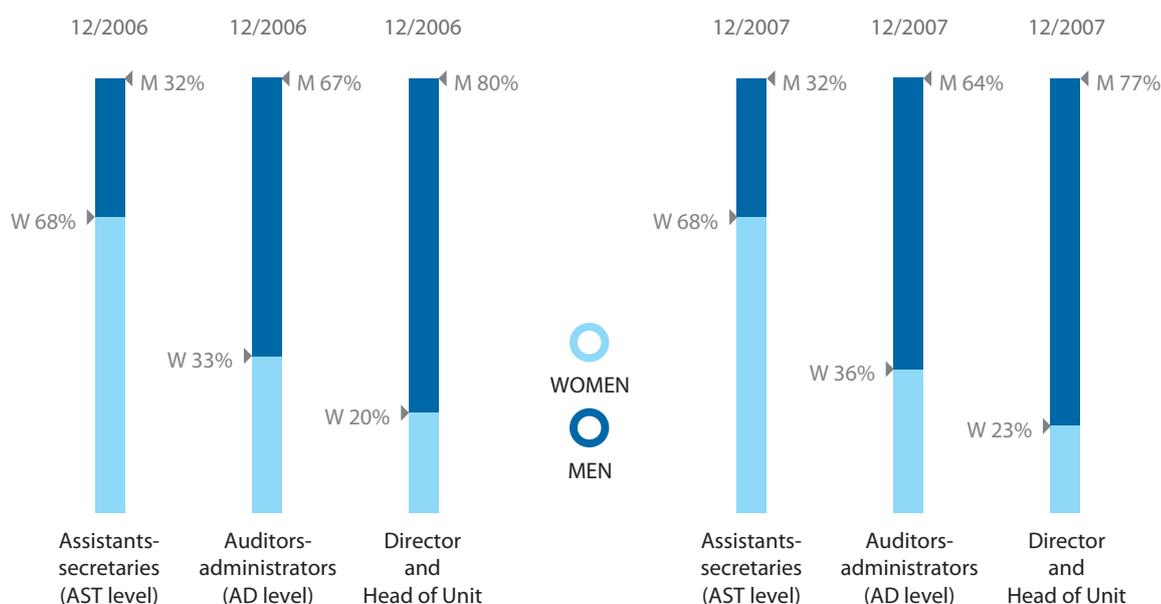
On 31 December 2007, the 836 staff members in active service at the Court (officials and temporary and contract staff, but excluding Members, seconded national experts and trainees) was made up of men and women in almost equal proportions. The proportion of women employed by the institution has increased since 2001, as shown in the chart below as a result of the Court's efforts to achieve gender balance.

**Proportion of men and women in the Court's staff**



The chart below analyses the proportion of men and women by level of responsibility at 31 December 2007. Like the other European institutions, the Court applies a policy of equal opportunities in its human resources management and recruitment and recognises the need to be more active in promoting more women to higher management levels at the Court. Of the 56 directors and heads of division/unit, 13 (23 %) are women, which represents a 3 % increase compared with 2006. Most of them are employed in the Translation Directorate and in the administrative departments.

### Proportion of men and women by function group



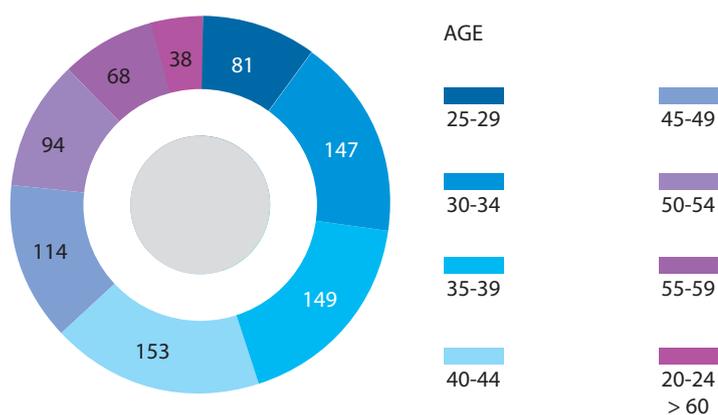
## RECRUITMENT

The Court's recruitment policy follows the general principles and employment conditions of the EU institutions, and its workforce comprises both permanent civil servants and staff on temporary contracts. Open competitions for posts at the Court are organised by the European Personnel Selection Office (EPSO). The Court also provides traineeships to a limited number of university graduates for periods of three to five months.

In 2007, the Court recruited 179 employees: 117 officials, 35 temporary staff and 27 contract staff. This high number reflects the progress made to fill vacant posts in 2007. Recruitment depends on the availability and sufficiency of reserve lists from EPSO competitions and can be lengthy and result in unusual levels of vacant posts. The Court is continuously trying to shorten delays in the recruitment process.

## AGE PROFILE — CAREER OPPORTUNITIES

The graph below shows that the Court is a 'young' institution (63 % of staff members are below 44 years of age). The 102 Court employees who are 55 or over include 27 of 56 directors and heads of division/unit, which means extensive renewal of senior management in the next 5 to 10 years.



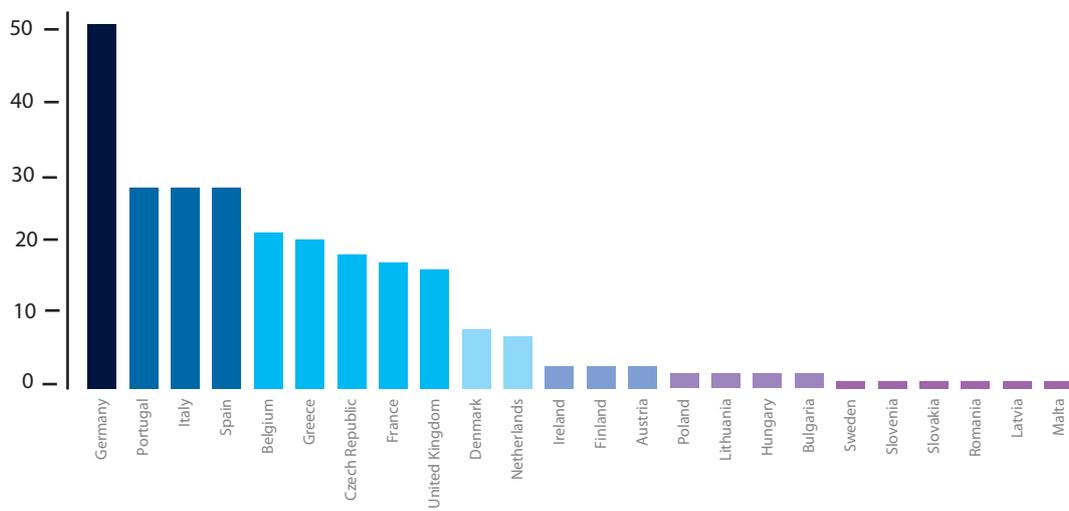
## AUDIT VISITS

The Court's audit work requires auditors to make visits (known as 'missions') to Member States and other recipient countries of EU funds to obtain appropriate audit evidence. These visits are normally to central and local administrations involved in the processing, management and payment of EU funds and the final beneficiaries who receive them. Audit teams generally comprise two or three auditors and the length of an audit mission usually may be up to two weeks depending on the type of audit and travelling distance. Within the EU, the audit visits are often made in liaison with the supreme audit institutions of the Member States visited, which provide useful logistical and practical support.

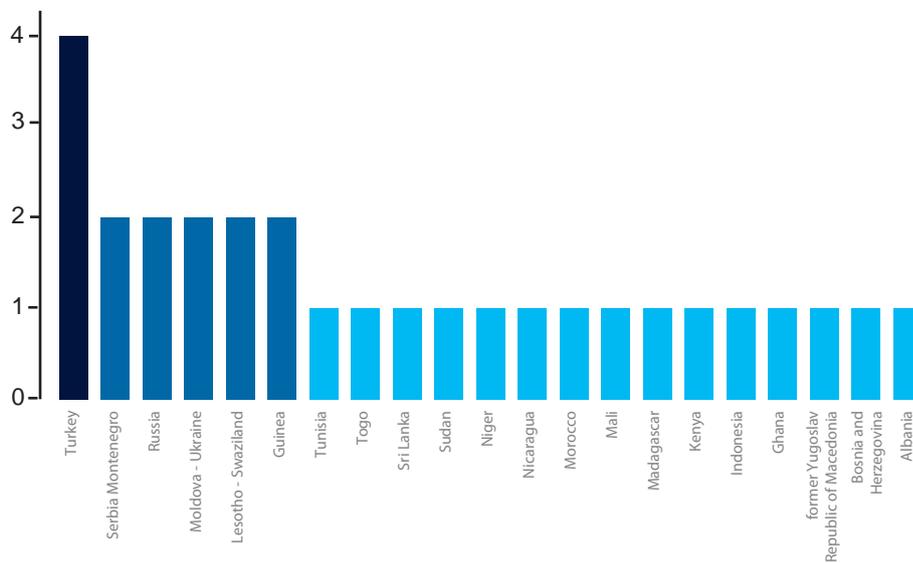
In 2007, the audit missions involved travel costs of EUR 0,49 million (EUR 0,43 million in 2006). This is an essential investment in order to provide sufficient audit coverage at all levels and locations of the management of EU funds.

The following graphs provide a summary of the number of audit missions undertaken by the Court within EU Member States and outside the Union in 2007.

### 2007 missions — Member States



### 2007 missions — Candidate countries and non-member countries



## PROFESSIONAL TRAINING

The audit profession requires continuous training. Furthermore, the specificities of the Court's audit environment create a need for auditors with good linguistic skills.

In 2007, the Court's staff had an average of 12 days of professional training. Technical training activities grew significantly in comparison with 2006. The major developments as regards courses were the introduction of courses on the Court's performance audit manual and guidelines, on the Commission's accounting rules, on the use of the accruals-based accounting (ABAC), SAP financial systems and on other information technology and IT audit applications. In 2007, language courses represented 52 % of the total number of days devoted to training.

The Court has adopted a directional plan for training for the years 2008–11 which aims at developing professional training over the next few years, with a focus on training courses aimed at implementing personal development plans for each member of staff. Furthermore, the Court is studying the possibility of creating a European Public Sector Auditor Diploma (PSAD).

**Box 6** presents the staff of one selected unit or division within the Court, providing an insight into the work carried out, the people concerned, their background and professional experience.

## BOX 6 — THE FISHERIES REPORT — THE RESULT OF SUCCESSFUL TEAM WORK

The Court's 2007 report on the control, inspection and sanction systems on fisheries (Special Report No 7/2007) attracted a large amount of attention from policymakers as well as media. Articles in many newspapers and the quick reactions, both at Commission and Council levels, showed the relevance and timing of the report. At the root of this success was a team of a dozen Court auditors, in close cooperation with the reporting Member, Mr Kikis Kazamias, and his cabinet.

Mr Emmanuel Rauch, a French auditor who has been working at the Court for several years and his colleague Mr Alejandro Ballester, from Spain, were the team leaders of the audit during the preparatory phase in the autumn of 2005. The audit included missions in six

Member States, ranging from Denmark to Italy, both at central levels of administration, to understand the control systems, and to main ports in order to assess how they worked in practice. When the language skills of the team were not sufficient, help was given by the Court's translation staff.

The audit team took great pride in having contributed to the gradual awakening of policymakers to the serious consequences of the way the Community fisheries policies are being carried out. Interest in the audit has also been shown by other audit institutions — providing inspiration and knowledge for example to an upcoming audit on a similar subject in countries around the Baltic Sea.



### From left to right, from the bottom up

#### 1st row

Alejandro BALLESTER GALLARDO, Administrator (ES — 5 years within the Court); Kikis KAZAMIAS, Member of the Court (CY — 3 years within the Court); Riemer HAAGSMA, Administrator (NL — 30 years within the Court); Emmanuel RAUCH, Auditor (FR — 14 years within the Court).

#### 2nd row

Jean-Marc DANIELE, Attaché of private office (FR — 5 years within the Court); François OSETE, Auditor (FR/ES — 23 years within the Court); Robert MARKUS, Auditor (NL — 13 years within the Court); Bertrand TANGUY, Administrator (FR — 3 years within the Court); Pietro PURICELLA, Auditor (IT — 11 years within the Court).

#### 3rd row

Anne POULSEN, Translator (DA — 16 years within the Court); Maria del CARMEN JIMENEZ, Assistant auditor (ES — 15 years within the Court); Cecile RAMIREZ, Secretary (FR — 5 years within the Court); Neophytos NEOPHYTOU, Attaché of private office (CY — 3 years within the Court); Krzysztof ZALEGA, Administrator (PL — 4 years within the Court).

Other members of the team (not on the picture)

Valéria ROTA, Administrator (IT — 8 years within the Court); Adeline DOMINGUES, Secretary (FR — 8 years within the Court); Juha VANHATALO, Administrator (FI — 3 years within the Court); Paul STAFFORD, Administrator (UK — 18 years within the Court).

# FINANCIAL INFORMATION

## BUDGET

The Court's budget represents approximately 0,1 % of the total EU budget, or around 1,8 % of the EU administrative and institutional budget. It has increased by 17 % over the last three years. This increase is primarily related to the consequences of the EU enlargements of 2004 and 2007.

Another notable increase concerns the Court's building appropriations (fixed assets almost doubled between 2006 and 2008), which address the need to accommodate future, newly recruited staff in the Court's second extension, called 'K3', which will be completed by 2013.

The table below shows how the appropriations are distributed between different budget lines. Staff appropriations amount to approximately 72 % of the total in 2007.

BUDGET	2006	2007	2008
Use of appropriations	<i>Final appropriations (1 000 EUR)</i>		
Members of the institution	11 350	11 270	12 061
Official and temporary staff	77 907	82 583	88 712
Other staff and external services	4 223	4 014	4 248
Missions — travel	3 100	3 000	3 212
Other expenditure relating to persons working for the institution	1 923	2 056	2 286
<b>Subtotal Title 1</b>	<b>98 503</b>	<b>102 923</b>	<b>110 519</b>
Immovable property	6 287	8 126	12 110
IT & T	4 575	5 518	5 879
Movable property and associated costs	1 320	1 396	1 147
Current administrative expenditure	807	435	425
Meetings, conferences	352	872	876
Information and publishing	1 353	1 810	1 813
<b>Subtotal Title 2</b>	<b>14 694</b>	<b>18 157</b>	<b>22 250</b>
<b>Total Court of Auditors</b>	<b>113 197</b>	<b>121 080</b>	<b>132 769</b>

## INTERNAL AUDIT SERVICE

The purpose of the Court's Internal Audit Service is to assist the Court in achieving its objectives by a systematic and methodological evaluation of risk management, internal control and management procedures. The Internal Audit Service also makes proposals designed to improve the efficiency of the Court. This requires a constant evaluation of the internal control systems within the Court in order to assess their effectiveness. More generally, the performance of individual services in implementing policies, programmes and actions with a view to bringing about continuous improvement have to be assessed.

In 2007, the work of the Court's Internal Audit Service focused on financial audit (including support to the Court's external auditor), reviewing *ex ante* verification, the implementation of the internal control standards, the Court's recent building extension (the so called 'K2' building) and the Court's recruitment process.

The Court's Audit Committee — composed of three Members of the Court and a person of appropriate standing from outside — monitors the activity of the internal auditor and ensures his/her independence. It also discusses and takes note of the internal auditor's work programme and reports and requests (if necessary) the internal auditor to carry out special audits. The Committee held eight meetings in 2007.

## EXTERNAL AUDIT OF THE COURT

In its audit opinion for the year 2006 (provided on 28 September 2007), the external auditor of the Court stated:

'In our opinion, the financial statements give a true and fair view of the financial position of the European Court of Auditors as at 31 December 2006 and of its operating results for the year then ended, in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002, the implementing rules thereof, generally accepted accounting principles and the European Court of Auditors' internal rules.'<sup>8</sup>

Furthermore, the external audit work did not disclose any facts which might cast doubt on the adequacy of the administrative and accounting procedures or internal control or the compliance of financial management with applicable regulations.

European Court of Auditors

**Annual Activity Report 2007**

Luxembourg: Office for Official Publications of the European Communities

2008 — 45 pp. — 21 x 29.7 cm

ISBN 978-92-9207-005-2

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EUROPEAN COURT OF AUDITORS

OFFICE FOR OFFICIAL PUBLICATIONS OF THE EUROPEAN COMMUNITIES

L-2985 LUXEMBOURG



ISBN 978-92-9207-005-2

