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PRODUCTION

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OFFICIAL VISIT TO THE COURT OF AUDIT OF THE REPUBLIC OF SLOVENIA, 18-19 MAY 2009

By James MCQUADE, Cabinet of the President

The purpose of the official visit was to develop further relations with the Slovenian Court of Audit and to help promote the importance of cooperation between the ECA and national supreme audit institutions, in particular the contribution made to building and maintaining the confidence and trust of EU citizens in their political authorities.

On 18 May 2009, Mr Caldeira and Mr Antončič held talks with Dr Šoltes, President of the Slovenian Court of Audit, and the Deputy-Presidents and Supreme State Auditors. This was followed by a meeting with the Mayor of Ljubljana, Mr Zoran Jankovič. In the afternoon, Mr Caldeira was received by Danilo Türk, President of the Republic of Slovenia.

On 19 May 2009, Mr Caldeira met with Dr Pavel Gantar, President of the National Assembly before addressing the National Assembly of the Republic of Slovenia on the cooperation between the ECA and national audit bodies in the audit of EU funds. Afterwards, Mr Caldeira and Dr Šoltes held a joint press conference with local media about the visit and the role of the ECA and national audit bodies, in particular in the context of the current economic and financial crisis.



“AUDITING EU FUNDS – ACCOUNTABILITY AND TRANSPARENCY”

By Vitor Caldeira, President of the European Court of Auditors



photo-BOBO

President Vitor Caldeira with Mr Danilo Türk, President of the Republic of Slovenia

President, Honourable Members,

It is a great honour for me, as President of the European Court of Auditors, to have the opportunity to speak to you here today in the Chamber of the National Assembly of the Republic of Slovenia. I would therefore like to thank you President Dr Pavel Gantar and President of the Court of Audit Dr Igor Šoltes, for making it possible.

I am conscious that I stand before you in a young democratic political institution that has already accomplished much. Amongst other things you have made an instrumental contribution to steering Slovenia towards its successful accession to the European Union in 2004. Since then Slovenia has been the first of the “EU 10” to introduce the euro in 2007 and, in 2008, the first to hold the rotating presidency of the Council of the EU.

Political leadership towards ever greater European cooperation and integration is becoming increasingly important in the face of global challenges, such as the current financial and economic crisis and the prospect of climate change. Meeting these challenges will require coordinated action at national, EU and international level as well as the mobilisation of substantial public funds.

The success of the political institutions of the Union both at national and EU level to provide this leadership to the EU will depend on the ability to retain the confidence and trust of EU citizens - the ratification process of the Lisbon Treaty and the coming elections for the European Parliament remind us that the confidence and trust of EU citizens can never be taken for granted.

I believe that independent audit institutions such as the European Court of Auditors and the Slovenian Court of Audit play an essential role in helping to maintain the confidence and trust of EU citizens.

That trust needs to be built on **accountability and transparency**. In modern democratic societies **independent audit** has a key role to play in this process. In a European Union of 27 Member States, it requires the **cooperation and coordinated efforts** of independent audit institutions at both national and EU level.

Accountability and transparency are the building blocks of citizens' confidence and trust; they enable citizens to know their money is being spent wisely and to see improvements. Parliamentary scrutiny is a key process for achieving this. It is not an easy task. Legislation is often necessarily technical, the sums involved are vast, and implementing policies involves many different public and private actors, particularly in an EU of 27 Member States.

In such a complex environment, maintaining accountability and transparency means ensuring implementing arrangements are simple, responsibilities are clear, and appropriate information is available.

This brings me to why **independent audit at EU and national level is essential for accountability and transparency**.

First, audit provides relevant, reliable and impartial information and opinions in order to facilitate public scrutiny of the executive powers.

Auditors report publicly on whether government accounts are reliable, whether the applicable rules and regulations have been complied with, and whether resources were used economically, efficiently and effectively. This is often referred to as providing assurance.

National constitutions provide national audit institutions with the necessary mandate, powers and independence to answer these questions. The EC Treaty does the same for the European Court of Auditors (ECA).

Secondly, auditors help to promote well designed arrangements for ensuring accountability and transparency by providing independent advice to policy makers and decision takers to help them shape and scrutinise new legislative and budgetary proposals.

The ECA does this by providing recommendations in reports, publishing opinions on draft EU legislation, and contributing to the public debate on the use of EU funds. In this way, the ECA has helped shape many initiatives to improve the management of EU funds, including the ongoing EU budget reform process.

The question sometimes asked, however, is “Why can't EU funds either be audited by the ECA or by national audit institutions, why do they need to be audited by both?”

The answer has to do with the way that EU policies and the EU budget are currently drawn up and implemented.

First, over 90% of the funds in the general budget of the EU come out of national budgets funded by national taxes, and 80% of EU expenditure passes through national budgets, notably funds for agriculture and structural measures. These funds are, therefore, managed and controlled by both the EU Commission and by authorities at national, regional and, even, local level.

Secondly, EU initiatives such as the revised Lisbon Strategy and the European Economic Recovery Plan, fix common goals to be achieved by a mixture of actions that fall both within the competence of EU institutions and outside it.



President Vitor Caldeira with Mr Pavel Gantar, President of the National Assembly

So, some overlap between the mandates of the ECA and national audit institutions is unavoidable. However, we have distinct and complementary roles and perspectives concerning the use of EU funds. National audit institutions audit how authorities within their Member State meet their responsibilities to raise and use EU funds. The ECA audits EU policies, not Member States, and it does so from the EU level all the way down to the final beneficiary of EU funds within the Member State.

In this way, EU citizens get assurance not only about their national institutions but also about other Member States' national institutions and about EU institutions. In addition, national audit institutions help to improve financial management within their Member States, whilst the ECA contributes to the sharing of best practice between Member States and to improving the performance of EU institutions themselves.

Citizens also want the audits they pay for to be carried out as efficiently and effectively as possible. In the EU context, **cooperation and coordination are key to the efficient and effective audit of EU funds.**

The ECA and national audit institutions, therefore, cooperate bilaterally and multi-laterally to help minimise the audit burden. However, we can only do this within the confines of the existing framework governing the management and control of EU funds whilst respecting our mandates and professional auditing standards.

At this point, I would like to say that we, at the ECA, are fortunate to have as a Member, Dr Antončič, a former President of the Slovenian Court of Audit, who contributes considerably to the mutual understanding and fruitful cooperation of our respective institutions.

Cooperation and coordination help us improve the efficiency and effectiveness of our audits in a number of ways.

First, national audit institutions help facilitate the audit missions of the ECA in their Member State - I would also like to thank the colleagues of the Slovenian Court of Audit for their assistance in facilitating the Court's audit missions to Slovenia.

Secondly, we try to use each other's work as far as we can. In its annual report and special reports the ECA cites as evidence corroborating its own findings relevant reports of the national audit institutions.

Thirdly, we seek to develop common standards, approaches and methods in the audit of EU funds. The main forum for doing this is the "Contact Committee of the Heads of the Supreme Audit Institutions of the EU Member States".

To give you an example, in December 2008 we discussed "the EU budget review" and the "Lisbon Strategy" and, in February this year, we focused on the "Role of the EU SAIs in the current economic and financial crisis".

But there are limits to the improvements in the audit of EU funds that we can be achieved within the audit profession. An efficient and effective system of internal control over the use of EU funds is also necessary. Increasing priority is being given to this issue at EU and national level.

The European Commission is currently implementing an "Action plan towards an integrated internal control framework" for EU funds which takes into account the principles recommended by the ECA in its opinion on "the single audit model".

2007 also saw the introduction of Annual Summaries produced by Member States of results of audits already required by existing EU regulations.

At the same time, the European Parliament, with the support of some national parliaments, has been encouraging Member States to make National Declarations about their use of EU funds. A number have already done so.

Furthermore, certain national audit institutions have also begun to certify the use of EU funds by their national authorities. And many, like the Slovenian Court of Audit, have had dedicated departments for the audit of EU funds for some time now.

However, it should be emphasised that the ECA will only be able to use national declarations and national audit work on EU funds if they are of adequate and comparable scope, approach and timing. To achieve this will need further cooperation and coordination between the European Commission and Member States' authorities as well between the ECA and national audit institutions.

Therefore, political institutions, including the EU and national parliaments, have an important role to play in providing leadership to improve the arrangements, not only for managing and controlling EU funds, but also for auditing EU funds.

President, Honourable Members

As the often quoted African proverb says, if you want to travel quickly go alone; if you want to travel far go together. The European Union is on a journey, we have far to go and great challenges in front of us.

These challenges will require leadership from national political institutions, such as yours, and your EU level counterparts, towards ever greater European co-operation and integration. By cooperating and coordinating our efforts to promote accountability and transparency, independent audit institutions, like the Slovenian Court of Audit and European Court of Auditors, can help to retain the confidence and trust of EU citizens. We look forward to playing our role in meeting these challenges together.

It has been an honour for me to address you today, thank you.



INTERVIEW WITH MR IGORS LUDBORŽS, MEMBER OF THE COURT WHO ATTENDS THE EVENT « FOUNDING FATHERS ON THE FUTURE OF EUROPE » hosted by the EUROPEAN CENTRAL BANK

By Rosmarie Carotti



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From left to right : Mr Helmut Schmidt, Former Chancellor of Germany, Mr Valéry Giscard d'Estaing, Former President of France and Mr Jean-Claude Trichet, President of the European Central Bank

Valéry Giscard d'Estaing, Former President of France and Helmut Schmidt, Former Chancellor of Germany were guest speakers at this event held on 2 April 2009 in the Alte Oper in Frankfurt. The discussion was led by Jean-Claude Trichet, President of the European Central Bank.

Interview by Rosmarie Carotti

R. C. : Mr Ludboržs, you grant this interview because you think that it is important that the European Court was invited to participate in the celebrations of 10 years of the euro organised by the European Central Bank.

Igors Ludboržs : Yes, I was there to represent the Court. President Caldeira had been handed a personal invitation, but because of urgent business matters it was agreed that I would attend the event which was hosted by the European Central Bank on 2 April 2009 in the Alte Oper in Frankfurt. Under the title « Founding Fathers on the future of Europe » Valéry Giscard d'Estaing, Former President of France and Helmut Schmidt, Former Chancellor of Germany had been invited to share their experience. The discussion was led by Jean-Claude Trichet, President of the European Central Bank.

R. C. : Why you and not another fellow Member of the Court ?

Igors Ludboržs : Probably because of my responsibilities as a Member of Group IV which is in charge of auditing Borrowing, Lending and. Banking activities.

R. C. : How were you received by Mr Trichet ?

Igors Ludboržs : I was received very warmly. I had met him on several occasions in the framework of our auditee/auditor relationship, but this occasion was different and definitely a pleasant one.

R. C. : How has the work of the Court and your work of auditor been affected by the euro ?

Igors Ludboržs : I joined the Court only in May 2004 when the euro was already in place. So I have no recollection of former times, but we do need to remember that there is still a number of Member States which have their own national currency, one of them being my own country, Latvia.

R. C. : You are an economist and you have a strong interest in history. Being a Member of the Court, coming from Latvia, what did it mean to you to meet Mr Giscard d'Estaing and Mr Helmut Schmidt ?

Igors Ludboržs : For me they have a significant symbolical meaning. It was a unique opportunity to touch history, to see living history and to listen to these personalities. In the light of today's knowledge and experience, do they think they took the right decision ? It is a rare chance to be able to discuss this. I call it a success when a politician has the opportunity to see in his lifetime what influence his ideas and dreams have determined and to realise he is appreciated by so many people.

R. C. : Were there elements which were new to you ?

Igors Ludboržs : I did not know, for example, what Mr Trichet said when introducing the gentlemen. He said that they had had similar careers, both being elected to the Parliament, both becoming Minister of Finance and then, within only three days, one becoming Chancellor of Germany and the other President of France.

R. C. : Usually, when one looks back at achievements of a life, one sees everything in a rosy light. Did you have the impression that this was the case?

Igors Ludboržs : At moments I was tempted to think that but when so many people share this rosy view, it cannot but be real and factual. The appreciation of what had happened and how it had happened was in fact shared by everybody: central bankers, politicians, business people and others. No doubt, the figures speak in favour of the euro.

R. C. : There was also talk about SDR (special drawing rights) and reserve currency.

Igors Ludboržs : There was a question put forward by the representative of China in Frankfurt. The talk about this reserve currency is much related to the recent financial crisis. While in the past the US dollar has been used worldwide as reserve currency, this might become now questionable for a number of reasons.

R. C. : Regulation was a very important issue and the opinions differed on the necessity and the extent of regulation. Do you think that the Court could have a role to play there ?

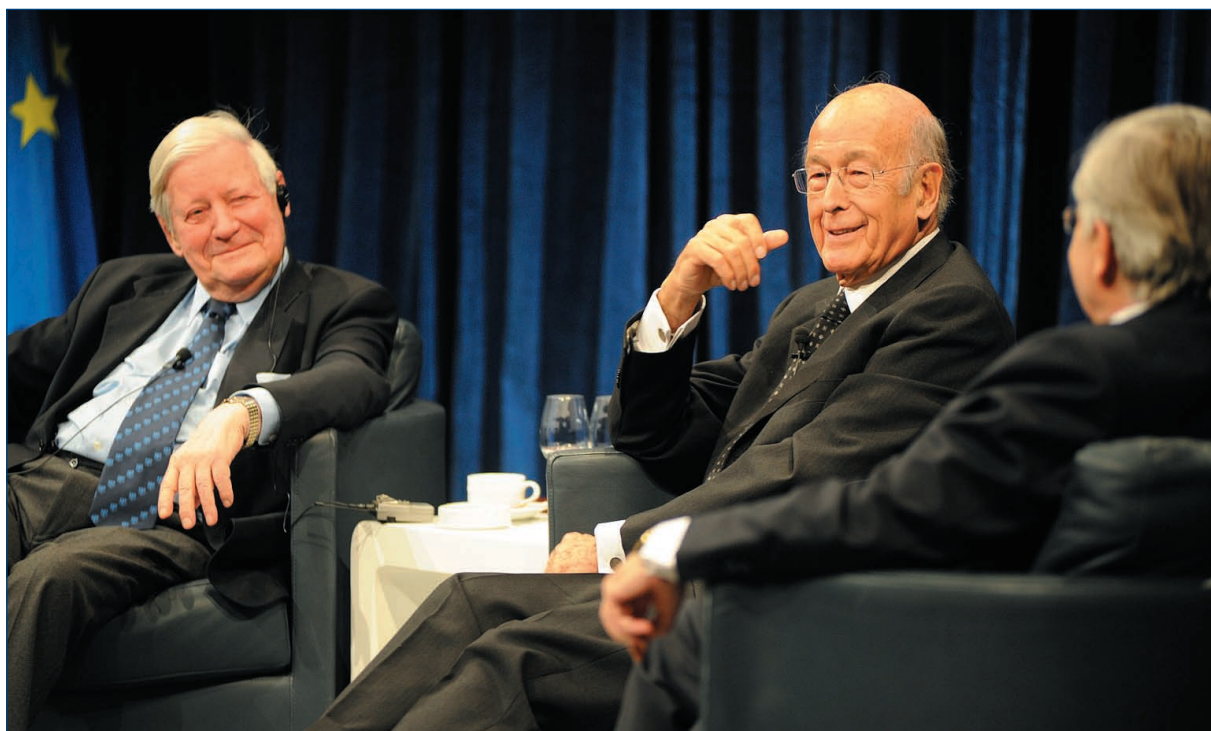
Igors Ludboržs : Your point is based on the following consideration: The recent crisis proved that in a global integrated market the problems which originated in one country soon spread worldwide. In this respect, the idea of having worldwide supervision and/or regulation is a good one. Is it feasible? That is a different issue. I do believe that there is need to do something but do the will and the capacity to do so exist ? Then, as an alternative, there is the issue of strengthening regulation and supervision at European level. This is in my mind a good idea, whereby the second one does not exclude the first one.

R. C. : Who would have to push for this regulation ? Does the Court have a potential role in that ?

Igors Ludboržs : There are a number of players, the Member States, the European Commission, the European Parliament, the European Central Bank, the National Central Banks as well as different regulators and supervisors at European level.

The supervisory function was historically for Central Banks but recent history shows that many countries in Europe prefer to have a split between monetary issues and supervisory functions.

**MR IGORS LUDBORŽS ATTENDS THE EVENT
« FOUNDED FATHERS ON THE FUTURE OF EUROPE »**



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From left to right : Mr Helmut Schmidt, Former Chancellor of Germany, Mr Valéry Giscard d'Estaing, Former President of France and Mr Jean-Claude Trichet, President of the European Central Bank

Many Central Banks are therefore responsible for the monetary policy and the special supervisory authorities have been established to supervise and regulate the financial markets, namely banks, insurance companies, etc. I cannot see a Court of Auditors, either national or European, being the supervisor. But of course, one could go on arguing that it is good to have some type of audit on the supervisory function.

R. C. : Coming back to the event, in the light of your background, which of the two men, Helmut Schmidt or Giscard d'Estaing, do you consider most influential ?

Igors Ludboržs : From the perspective of my country, both have been equally important as founding fathers of the European monetary system. If I look now, I believe that the Former French President is more relevant as he is currently involved in the think-tank or reflection group on the future of Europe in which our former President of Latvia, Mrs Freiberga, also takes part. It is a good idea to collect the knowledge and experience of people who have shaped history.

R. C. : Is it useful that the Court participates in such high-society events ? What did you bring back from this event ?

Igors Ludboržs : In terms of visibility of the Court, it is a very good idea to attend such events. As to your question, what I brought back from this meeting, I have one remark and it is not so pleasant. Amongst other things, Mr Giscard d'Estaing and Mr Schmidt discussed the functioning of the EU institutions and mentioned several institutions. They were quite positive about the European Parliament, critical about the Commission, but I was disappointed that there was no word, neither about the Court of Justice nor about the Court of Auditors.

R. C. : Will you report back to the President of the Court and in which form ?

Igors Ludboržs : I certainly will report back orally to the President and also to my colleagues, but not in writing. I believe that we can do more in order to make sure that in future no personality will exclude the Court of Auditors.



PRESENTATION OF THE COURT'S ANNUAL REPORT 2007 TO THE ITALIAN SENATE - Rome, 12 February 2009

By Paolo Rexha, Italian Cabinet



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Massimo Vari, Member of the Court, presented the Court's annual report 2007 at the Italian Senate, in Rome, on 12 February 2009. Speakers at the event were the President of the Senate, Renato Schifani, the Vice President of the Commission, Antonio Tajani, the Minister for European Policies, Andrea Ronchi, the President of the Senate Committee for European Policies, Rossella Boldi, and the President of the Italian Court of Auditors, Tullio Lazzaro.

The meeting was attended by Members of the Italian and European Parliament, judges and auditors of the Italian Court of Auditors and personalities of the political and academic world.

Mr. Schifani, who opened the works, observed that such event witnesses the growing interest in the Court's work in both Italy and the European Union as a whole, and defined the European Court of Auditors as an essential safeguard for the reliability, legality and regularity of the European Union's accounts.

He then recalled that the Senate unanimously ratified the Treaty of Lisbon in the full awareness of the opportunities that it would create in terms of the democratization of the Union via the increased role of the European Parliament and the involvement of national parliaments in the creation of Community law.

It is in this context that one should see the role of the Court of Auditors as a means towards achieving the fundamental requirements of the transparency and accountability of the Community budget.

Today, in the face of a worsening economic crisis and the impact that this may have on national budgets, the Court's work in auditing Community expenditure has become more crucial than ever.

The President of the Senate stressed the importance for all the Member State administrations, including the local ones, to whom an ever-increasing share of the management of Community projects is entrusted, of enhancing their control activities on the use of the Union's resources, in accordance with the observations made by the Court of Auditors.

Mr. Schifani also mentioned the need for simplification of legislation. A lot of errors and waste are the result of complex interpretation of unclear provisions and tortuous procedures. With regard to this aspect, he ensured the commitment of the Senate against those elements of complexity giving rise to ambiguity in the interpretation of Community law and its implementation in the national system.

PRESENTATION OF THE COURT'S ANNUAL REPORT 2007 TO THE ITALIAN SENATE

Further efforts must be made, as regards the qualitative aspects of expenditure, both in drawing up the budget and in the assessment of its implementation.

He then added that reliability of accounts, administrative rigour, the capacity to avoid waste, and efficiency and effectiveness of public authorities may enhance confidence in the Union which sometimes seems to weaken and waver in some sectors of European public opinion. Nevertheless, more than ever has the European model shown vitality and validity, with its increased control activity safeguarding investors from the more extreme speculative activities and its protection system of workers and citizens.

He recalled that aspects which yesterday may have seemed to represent a lack of financial dynamism or even a barrier to the productive system have now been revealed as economic antibodies and stabilisers which, in Europe, reduce the risk of a rapid rush towards a recessive spiral.

Today, the future of Europe can be seen to be better than it was the case just a few years ago. We must be confident, bearing in mind that an institution is only as strong as the consensus supporting it.

Mr. Schifani stated that the European Union will strengthen its role and its credibility if it is able to avoid the divisive temptation to defend short-sighted national selfishness and re-launch its own model of development in the face of a very rapid and far ranging enlargement process.

Europe will have to be able to increase co-operation and co-decision to face the great common challenges like immigration, unemployment and economic recession, transnational criminality, the active defence of peace and the realisation of intelligent measures to protect the environment.

The President of the Senate concluded his speech - to leave the floor to Massimo Vari - giving his personal thanks to the European Court of Auditors for the work it has done and giving it his best wishes for the tasks that await it, with a commitment to meet again in the very same place as a sign of the importance that the Italian Senate attributes to its work.

Mr. Vari said to be honoured to present the annual report of the Court and thanked Mr Schifani for his help and understanding in hosting this event.

The Member of the Court highlighted the following issues. The Protocol No 1 to the Treaty of Lisbon on the role of National Parliaments in the European Union requires the Annual Report of the Court of Auditors to be forwarded to the National Parliaments at the same time as it is sent to the European Parliament and the Council. This provision is based on both systematic and practical factors. With regard to the former, the Protocol refers to the decision to enhance the role of the National Parliaments, who are called upon by Article 12 of the consolidated Treaty on European Union to contribute "actively" to the proper functioning of the Union, in compliance with, among other things, the principle of subsidiarity. As for the practical issues, the provision follows a trend which has gradually become established over time: namely the shift of the centre of gravity of the implementation of the European budget towards the authorities of the individual Member States. It is to be considered that today, around 80% of expenditure is implemented under a system of "shared management": this means, in practice, that competence is delegated by the Commission to the Member States. Given this legislative framework, it would be unthinkable for the National Parliaments, the highest seats of political representation, to remain outside the debate on management issues concerning the Community budget.

As for the annual report, for the first time since the introduction of accruals-based accounting in 2005, the Court has issued a positive opinion on the consolidated annual accounts of the European Community, concluding that the latter give a fair presentation of the financial position and the results of the operations and associated cash flows.

The question of the legality and regularity of the operations upon which the accounts are based is another matter. For 2007 the Court has issued a positive (unqualified) opinion with regard to revenue and, with regard to expenditure, only for commitments and payments in the area of "Economic and Financial Affairs" and "Administrative expenditure".



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In the other areas of expenditure (and in particular cohesion policy, which represents more than a third of the budget), the Court found that payments are still, despite various measures, materially affected by errors.

The Court carries out its own work in a complex environment, characterised by expenditure in favour of millions of beneficiaries in a legally diverse and, geographically, extremely vast area.

In order to limit the risk of irregular payments, there exist various levels of controls and monitoring, under the competence of the Member States and the Commission (so-called internal control). The Court, for its part, in addition to substantive tests, assesses the suitability of the supervision and control systems in the Member States and at the Commission.

The Court, in its opinion on Single Audit issued in 2004, stated that each successive level of control should build upon the results of the previous one, thus giving rise to a “chain” assurance system.

On the basis of the Court’s suggestions, the Commission launched a specific “action plan” at the beginning of 2006, and established an “integrated internal control framework”, in the context of which the control systems of the national administrations would also play a fundamental role of synergetic support.

The annual report for 2007, whilst recognising the significant progress achieved by the Commission in carrying out the aforementioned action plan, the importance of which needs no reiteration, nevertheless states that there is not yet sufficient information to allow the relevant results to be fully assessed.

As for “financial corrections”, this expression refers to mechanisms for recovering incorrect reimbursements from the beneficiaries, or for saddling Member States, where the latter are found responsible for having administered the expenditure incorrectly or for having omitted to carry out the necessary controls. On this point, the Court found a severe lack of reliable information and concluded that the effectiveness of the measures introduced by the Commission in order to remedy the consequences of the errors is still only very partial.

Mr. Vari, after having reviewed the specific assessments of the individual chapters of the report dedicated to the various types of expenditure - Agriculture and natural resources, Cohesion, Research, Energy and Transport, Education and Citizenship, External Aid, Aid to development and enlargement – described the measures for the future suggested by the Court. The annual report, in addition to emphasising the need to improve first and foremost the system of lower level controls, raises two other important issues.

The first concerns the relationship between the controls and their associated costs. Clearly, on-the-spot checks of all payments would reduce the risk of error to zero. But it would be an almost impossible task, with unsustainable costs. Hence the discussions currently underway between the Court and the other European Institutions concerning the desirability of establishing a level of “tolerable risk”, setting, for each area, a point of equilibrium between the risk of error and the cost of controls. The Court is of course aware of the political importance of a decision on this matter, which should therefore be a matter for the budget authorities, operating and acting in the name of the citizens of the Union.

The second point concerns the need to consider the issue of simplification, starting with an observation that could be described as obvious, which is that well-designed regulations that are clear to interpret and simple to apply reduce the risk of error, allow controls to be streamlined and consequently reduce their cost.

It is also important to highlight the trends in the budget that mark the direction Europe is moving in. In this respect it is worth recalling the specific commitment of the Preamble to the Treaty on European Union to deepening the “solidarity between [the] peoples while respecting their history, their culture and their traditions”. The Community budget, be it in concrete or abstract terms, is a vector of solidarity. And this is also true of the 2007 budget.

In this regard, suffice it to consider the cohesion policy, which aims to overcome regional disparities through investments in infrastructure. This form of intervention is even more essential since the latest enlargement, which has widened the gaps in income and growth between Member States.

Other relevant examples are the aid given to populations affected by natural disasters, or afflicted by severe social problems; the European solidarity fund, created following the floods of the summer of 2002; the globalisation adjustment fund, designed to provide aid to workers made vulnerable by global competition; external aid, by means of which the Community, by contributing to international stability, also plays the role of partner in sustainable development; and also, lastly, the common agricultural policy itself, the most recent version of which has added a clear social vocation to its original economic purpose.

Finally, the budget is at once the model of and the driving force behind European construction, since on the one hand its qualitative composition reflects, in financial terms, the trends and directions of European integration; and on the other, it acts as a catalyst and provides essential tools for the advancement and implementation of political objectives.

Aware of this correlation, the Commission has recently launched a process of public consultation on a topic whose title seems particularly significant: “Reforming the budget, changing Europe”.

The Court has also been invited to contribute to this general discussion. Convinced that sound financial management must first be based on rules which are conducive to good behaviour, the Court’s hope, above all, is that the expenditure programme will be inspired by the goals of clarity of objectives, simplification, realism, transparency and accountability.

On the assumption that, especially in times of financial turbulence and economic instability, it is particularly important for interventions to create European added value, the Court has suggested the idea of redesigning the expenditure programmes in terms of specific and quantifiable results (“results-based” payment), so that immediate and direct account can be taken of the additional benefits arising from Community aid.

In conclusion it is fundamental to highlight the importance of controls and the role of the Court as external auditor, which consists, of course, of assessing the work of those responsible for management, but also of making observations and recommendations to improve their performance and their results. All this with a view to creating a virtuous circle based on dialogue between the Institutions and founded on the awareness that we are all called upon to contribute, within our own competence, to the process of building Europe.



Mr. Vari then left the floor to Mr. Ronchi who stressed how solidarity in European policies is more important than ever in the current difficult economic context. However, to help recover from recession, these policies must be accompanied by legislative simplification measures, rational expenditure and effective controls.

Mr Tajani introduced his speech by observing that the Court, with its role of watchdog of the financial interests of European citizens, enhances the credibility of the actions of the European Union. The Commission, together with the Member States, is increasing its efforts to face the economic crisis. He pointed out that investing in infrastructures, particularly in the trans-European networks, is one of the most effective measures to stimulate demand. The European Economic Recovery Plan of December 2008 foresees a growth of the European financial

commitment through an increased role of the European Investment Bank, set to significantly increase its financing of climate change, energy security and infrastructure, and implement a Loan Guarantee Instrument for transport projects to stimulate greater participation of the private sector. The Commission will also launch a 500 million euro call for proposals for TEN-T projects, whose activities are planned to start before the end of 2009.

In 2008 the Commission - aware of the importance of maximising the impact of its work - published an action plan to strengthen its supervisory role under shared management of structural actions, the core of its solidarity policy.

Mr. Tajani also expressed its view in favour of the simplification of regulation. As an example of the Commission's efforts on this important issue he mentioned the case of Marco Polo, the funding programme for projects which shift freight transport from the road to sea, rail and inland waterways. The Commission has just recently modified its regulation to ensure a higher rate of use of its funds.

The Commissioner thanked the Court in particular for the observations which followed the audit concerning the Galileo Programme. The Court's recommendations are helping the Commissions in managing this complex project with the aim of ensuring the European citizens that resources are used in the most efficient and effective way.

After Mr. Tajani, Mrs Boldi was called upon to address the meeting. She recognized the importance for European citizens to receive from the EU credible answers to the problems caused by the economic and financial crisis. EU credibility really depends on the transparency of its work and on the use of its financial resources. In this context the European Court of Auditors is the institution that gives a fundamental contribution to ensuring democratic control in Europe. It would be extremely useful to launch, every year, after the publication of the Annual report, a public debate in the Parliament. It should be a debate not only for the experts but more importantly for ordinary citizens, so that they could have a chance to feel that they are part of the European project. They would be able to appreciate that in this great project solidarity is pursued applying the principles of transparency, accountability and control.

The works were closed by Mr Lazzaro who observed that the European Court of Auditors and the Italian Court of Auditors signed in June 2008 a Memorandum of Understanding that commits the two Courts to mutual assistance in the implementation of their duties. He shared with the other speakers the idea that legality and sound financial management audit are of utmost importance in times of economic crisis, and expressed his wish for closer links between the Italian Court of Auditors and European institutions.



ARE WE FACING THE END OF PROFESSIONALISM ? – THE ROLE OF THE REPORTING ACCOUNTANT - ARE THEY BEAN COUNTERS OR MARKET DRIVERS?

By Rosmarie Carotti

Photo : Steve Eastwood



Sir David Tweedie, Chairman of the IASB at the CCAB Seminar held in the Hilton in Luxembourg on 4 June 2009.

Why do we need global accounting rules ? Sir David explains that since globalisation started, 20% of the New York stock exchange consists of overseas stocks. 700 companies in London are from overseas, and the number is growing. That's why people want to understand the accounting rules. Who understands the accounting rules

applied in Korea or China ? That's why these countries are going to use IFRS. This is not about different accounting techniques, but about macroeconomics, investment, rules and trade. And that's why IFRS are spreading worldwide.

Take the EU. You can't have a single market with 27 different ways of accounting, you have to have just one.

117 countries use IFRS in various ways and you can see how it is spreading. If you look at the fortune of 500 global companies, 194 use IFRS, 153 use US GAAP and 153 use national standards. Many of those will switch to IFRS in the coming years. China's conversion started in 2007, Israel adopted IFRS in 2008, Chile adopted this year ; Brazil will next year, Korea, India, Japan, Argentina, Canada in 2011, Indonesia, Malaysia and Singapore in 2012. Only one major country is left, the USA.

Sir David and the IASB made an agreement with the major American standard setter, to identify where the differences lay and adopt the standards which were the best. The idea was to get rid of the reconciliation process. Gradually IFRS and the US GAAP would become the same, following thus the highest common denominator, not the lowest.

What the Americans did not understand was that Europe had to deal with different cultures. In 2006 therefore a strategy was developed trying to converge the conceptual framework. Rather than merging complex and outdated standards, the ACC and the American FASB agreed to write new standards.

The IASB expects to finish the new standards by 2011, as the US want to make a decision in 2011 allowing companies to move to IFRS. If the USA do not move to IFRS, no other convergence agreement will be signed.

However, there is a problem with IFRS in the USA, in that IFRS use a « principle based » rather than « rule-based » approach. The question is whether people can accept principle based standards, with no exceptions and a core principle. It will be a rather interesting situation !



IT IS ALL ABOUT SPREADING THE ETHICS WORLDWIDE INTERVIEW WITH SIR DAVID TWEEDIE, CHAIRMAN OF THE IASB

By Rosmarie Carotti

R. C. : Sir, how do you feel about the move towards IFRS made by the European Institutions ? Are there improvements you would like to see be made ?

Sir David Tweedie : There are. When we started, we inherited 34 standards that were written by my predecessors. Nearly half of them needed to be changed and Europe set the date of 2005. This was impossible and now I am actually in the process of transforming probably ten of those standards in a major way together with the United States. In two years time the US has to make a decision whether to take IFRS or not. Our aim is to change some fairly fundamental standards, including IAS 39, in a very major way, hopefully with the US. But we are going to change it anyway even if they do not do it. And this will be the biggest change for them.



Photo : Steve Eastwood

R. C. : I just was actually going to ask you, if you feel a pressure from the EU or the US to change the IFRS standards ?

Sir David Tweedie : Different pressures. In last October the EU pressured us to allow reclassification from different categories. We did not generally think that was the right thing to do but we understood the argument ...that in the crisis the Americans allowed it while we did not. What has happened since then is that the Americans have changed the impairment rules on "available for sale". We were surprised at that, we were not consulted, it created a difference. Not surprisingly then, certain banks and certain EU officials said they wanted the same in Europe. We have a much bigger project, which we are trying to complete by the end of the year and which would make this all redundant. We are intending to simplify IAS 39. We will issue something in July 2009 proposing this and finalise it by September so as to be available for use for December's year end. It is much more fundamental than what the Americans are doing. Instead of four categories of financial instruments available, sale, trading, held to maturity, and loans, we have two, fair value and cost.

R. C. : I was going to ask you, if you will go for fair value.

Sir David Tweedie : No, we will not go for fair value. We never have. You will be allowed to put in cost where you know the cash flows, e.g. loans. Fair value is the rest where you do not know the cash flows, equities, derivatives etc. We are proposing that we should allow companies where they have got something where the cash flows are uncertain but they haven't bought it for trading (and they are going to hold it as a strategic investment or a long, long-term investment) to show it outside profit. But the gains and losses will never go in profit not even when they sell it. It will just be shown separately. All the impairment rules and all the recycling rules are causing all these problems.

The other thing it does, because we can see it coming, is that banks reclassify certain items out of fair value into cost. Now as the markets start to rise they want to put them back again, but they are not allowed to under the present rules. There are severe penalties for that. We are proposing to get rid of these restrictive rules. You can sell out of cost anytime you want, but you will show the gain and cost separately from the fair value gains. No prohibition but full transparency.

R. C. : Coming back to the EU. Do accrual accounting and applying the IPSAS really make sense for budgetary purposes ?

Sir David Tweedie : I think so, because ultimately cash flow accounting does not reflect what is happening. I think the trend worldwide is going for accrual accounting. It is going to take a while but you can see it coming. Even the US is talking about it, the UK is talking about it, and you can see it spreading.



R. C : **The financial crisis is the subject at the moment. Were the standard setters at fault or was it the auditors who should have seen the crisis coming ?**

Sir David Tweedie : The real origin of the crisis was the ridiculous lending that went on in the banks and their “originate and distribute model”. If the banks had had good risk management and control of the loans, there would not have been a problem. But they just scattered the stuff, and people buying these products did not understand what there were buying. Incentive schemes encouraged management to make these loans. There

was a whole lot wrong with the system. How could the credit rating agencies, I was querying them, give triple A to these instruments ? The general view in the banking industry, who had losses of 4% on the sub primes, was to create structures with a 30% subordinated part of the securities (which combined all these sub prime loans), and 70% which was rated triple A, so that the losses were covered 7,5 times. The losses blew right through the subordinated part into triple A part.

Did the potential regulators fail ? Were they concerned about it ? What we did not realise, though Basel now realises it, is that banks distributed in America and in certain parts of Europe, all the profits they made in the good times. They kept nothing back. It was either dividends or buy backs. That has to be stopped.

R. C. : **I was going to ask you your personal opinion on « dynamic provisioning » in the banking sector.**

Sir David Tweedie : That relates to this. I won't go back to the question what accounting we did wrong. Let's just take the regulators. We have discussed with them the incurred loss model, the model which we have in accounting and which means that you have to have an event before you provide. It does not mean the defaults of the individual persons. It just means that statistics show that if this happens you are going to get the defaults. The minute that happens, you provide. In Europe those provisions have been coming later than in America even if the words are virtually the same. We do not know why that is.

The banking regulators have suggested that we should perhaps move to what we call an « expected loss » model and don't wait for the event. You know when you have a portfolio of loans, why don't you make a provision for the life of the loans, not the life of the cycle ? They are five year loans. Write off the loss you expect evenly over the five years, so it is not all coming at the end. We are going to “expose” that in a preliminary paper in July and a draft standard for October. To the bank regulators who want the cycle provisions, we say that there are no losses. To do the cycle provision is stopping distributions.

The potential regulator should come up with a formula which says which part cannot be distributed in good times and how to release it in bad times. So, it is flexible capital which moves up and down. That would force banks to hold capital back which previously they had just been giving away. That's what we are discussing at present with Basel. We can have expected losses going through the income statements and unexpected losses as a way of appropriating capital that should help in the next crisis which hopefully is years and years away.

The other aspect of accounting is that people ask if fair value has caused it. When you look at the ATC report, loans caused the losses and the banks to go down. It was not fair value.

I think that we need to learn lessons about capital provisioning, probably expected losses and let's simplify 39 into these two categories, so that you know clearly what you are doing. At the moment it is a ten year old standard which we inherited and which is too complicated.

R. C. : **Basically, you accept part of the guilt. All the same go, let me go back to the auditors. Should they not have seen it coming earlier ?**

Sir David Tweedie : It depends on the banks, if they have actually recognised the losses. Because the IMF says no. The blame lies with the bankers. Bluntly speaking, they made these stupid loans and the risk management could not cope with it.

Look at Japan. In 1990, the Japanese banks realised that they had lent into a property market which collapsed and they were carrying massive bad debts which they did not write down. Nobody would trust the banks anymore and give money to them, the banks would not lend to each other. It recovered only when they started to write these loans off. That is the big danger for us. We have to recognise the losses.

R. C. : In this global context, is there a danger for the EU of losing sovereignty up to a certain point by adopting the IFRS ?

Sir David Tweedie : Yes, that is the US' problem as well. They think we are a European organisation and have exactly the same argument : why should we let these guys in London dictate to us, we have always done our own. That's the problem of being global.

And then you have arbitrage. Last October the EU wanted us to change to EU-US standards. Now, they want us to change to what they have just done. As long as the standards are different, people want to pick out the best for themselves. US bankers are looking for things in our standards and telling Congress to apply them. We have got to have the same standards.

Yes, you give up a bit of sovereignty but the system is designed in a very balanced way with six trustees coming from Europe, six from North America, six from Asia-Oceania, four from the rest of the world. And on the Board there are four from Europe, four from America, four from Asia and four others. It is very balanced, so that no one dominates.

To the US we have said quite bluntly that they have got about a quarter of the Board and more than a quarter of the trustees. And there is a monitoring Board which checks that the trustees are doing their work. The Chairman of the ACC is on the Board along with four other people, including EU Commissioner Charley McCreevy. We meet with the FASB three times a year to try and make sure that our standards are coming together.

The US have to make their decision in 2011; they cannot postpone after nine years of convergence accepted by the rest of the world. We will not sign another convergence agreement unless they agree. Why should there be different standards in Beijing, Brisbane, Boston and Brussels ? And this will be the first real global agreement.

R. C. : Who would audit the implementation of the standards ?

Sir David Tweedie : It would have to be at national level. We need international audit standards, and regulators to operate under the same basis. We cannot have different regulators and have arbitrage in that way. Most of Europe is well enforced. If the Americans say they cannot trust IFRS, my view is that if it were the US-GAAP they would have the same problem. It is not the standards; it is how it is done. That's why we need good auditing. If you haven't got good auditing, forget the whole thing and you should not accept the standards; put a premium on the investments in these companies because you can't trust the numbers. IFRS will reduce the cost of capital. At present, who understands Korean accounting, who understands Chinese accounting ? You have to go in, you have to investigate, it costs, and they charge you for that.

IFRS = International Financial Reporting Standards
GAAP = Generally Accepted Accounting Principles
IASB = International Accounting Standards Board
ACC = American Audit Committee
FASB = Financial Accounting Standards Board
IPSAS = International Public Sector Accounting Standards



By Rosmarie Carotti

At the invitation of the President of ECA, Mr Vitor Manuel Caldeira, Members and staff of the Court came to discuss a background paper on the work of the DAS « Think-Tank ».

Under the provisions of article 248 (1) of the Treaty : « The Court of Auditors shall examine the accounts of all revenue and expenditure of the Community (...) The Court of Auditors shall provide the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions (...) This statement may be supplemented by specific assessments for each major area of Community activity ».

This « Statement of Assurance » is generally known by its French acronym DAS (Déclaration d'Assurance).

The DAS has two facets : an audit of the accounts and an audit of the legality and regularity of the underlying transactions. It is important to know that the DAS derives from audits carried out covering the year preceding the publication of the ECA's Annual Report

Faced with the dynamically changing environment and given past experience and lessons learnt, it is necessary to regularly develop and adapt the DAS methodology. Besides, the « Audit Strategy of the European Court of Auditors 2009-2012 » adopted by the Court in February 2009 identified a number of aspects of the « DAS audit design » where further development might be considered.

This seminar was therefore organised to explore the way forward for the DAS by giving all auditors involved in this exercise an opportunity to share their views. In addition, a discussion forum has been created to receive suggestions.

There was a great response from the audience and President Caldeira did not have an easy task keeping the many comments structured around the four categories set for the discussion :

- 1) Dealing with changes in the Court's audit environment
- 2) The Court's DAS methodology
- 3) Managing the work
- 4) Presenting and communicating the work

Mr Manfred Kraff, Director of the CEAD- B, recalled that professional ethics require complying with generally accepted international auditing standards. He referred to the work recently done on International Standards of Supreme Audit Institutions (ISSAIs). How should they be taken into account in the ECA's financial and compliance audit work ?

At the level of the compliance audit, the Court has, for the first time in the history of the DAS a framework, although it has not yet been adopted at the highest level. The Compliance Audit Sub-Committee has however approved at the end of March 3 documents : ISSAI 4000, ISSAI 4100 and ISSAI 4200. The latter, which carries the title « Compliance Audit Guidelines Related to Audit of Financial Statements », is of particular interest for the Court, which complies with all three.

The situation is slightly different for the ISSAIs on financial audit, the series from 1000 to 2999, which adapts the standards on financial auditing to the public sector environment. In particular, ISSAI 1705 « Modifications to the Opinion in the Independent Auditor's Report » states clearly that the opinion has to have a clear title indicating whether it is an unqualified opinion, or whether it is a qualified or an adverse opinion. An introductory paragraph has to explain why the SAI came to its conclusion. This paragraph has to describe all elements which give rise to qualification. If quantification is possible, the impact of the matters identified must be indicated. Otherwise, it must be explained why quantification is not possible.

Can and should more be done to take into account financial corrections and the multi annual nature of much EU spending ? Multiannuality is foreseen in the financial regulation. Art. 28a states that the Commission has to ensure an adequate management of the risks related to the legality and regularity of the underlying transactions taking into account the multiannual character of programmes as well as the nature of the payments concerned. The financial regulation foresees recoveries whenever there is a problem of legality and regularity but there are also provisions of clearance of accounts or financial corrections procedures at the level of the Commission.

The provisional version of the consolidated accounts 2008 includes a very interesting section 6 on the recovery of undue payments. The Commission has included in its accounting system a new functionality which allows identifying for which errors corrections have been made. Compared to last year, the amounts of section 6 doubled. Last year showed 1.5 billion, this year nearly 3 billion. In the Structural Funds alone, the amounts increased by 4 times, to 1.6 billion.

Can and should more/better use be made of work performed by other auditors. Two categories of auditors need to be considered. There are the external auditors, 3 Supreme Audit Institutions (SAIs) which issue within their mandate an opinion on the use of EU funds and about 20 of which issue reports containing information on the use of the EU funds in the Member State. The Court is keen to see how cooperation between institutions can be implemented and a Contact Committee Working Group is already at work, analysing how to ensure that common auditing standards and criteria are applied.

One interesting aspect could also be the use of auditors/control bodies from within the internal control system which represent the second category of other auditors. Certifying bodies and other authorities provide error rates based on tests of thousands of projects and transactions. One could introduce re-performance procedures instead of the Court's traditional audit approach of substantive testing. This would certainly amount to a revolution and therefore needs very careful consideration.

Are the needs and expectations of stakeholders fully taken into consideration ? The peer review raised the question whether audits on the spot were really necessary and invited the Court to discuss this issue. Besides, the European Parliament and the Council have often asked the Court to issue a kind of DAS per Member State and per policy area.

All this led to a long discussion on the DAS, the requirements set out in the Treaty, the feeling many have that the DAS has taken over the Annual Report.

Multiannuality and pluriannual correction mechanisms are also seen by many as a contradiction to the annual DAS exercise which has to cover a specific financial year.

The definition itself of stakeholder needs to be reviewed. Who are the stakeholders, institutions, universities, final beneficiaries ? Their needs vary.

A new future for the DAS cannot ignore IT systems. The experience of other SAIs shows the importance they attach to IT systems audit particularly at the beginning of the audit.

Should there be more emphasis on risk-based stratification in sampling ? This question of methodology led to a debate on advance payments against interim payments and final payments and the Court's ability to identify high risk areas and authorities and low risk areas and authorities...

Should the collection of evidence go beyond the minimum defensible audit approach so as to allow comparisons between years and areas of EU spending? Is it sufficient to audit just up to the point where it becomes evident that the rate of error is too high to issue a clean opinion ? How can the stakeholders, the public, be informed that things are improving or deteriorating ?

A discussion about a so-called negative assurance is ongoing in the Compliance Sub-Committee. If a system is known to be bad, can a negative assurance be drawn in order to back up a qualified audit opinion ? Such a negative assurance has not yet been included in the draft ISSAI but will be on the agenda for the discussions starting in 2010.

Should underlying transactions be redefined to better reflect the application of accruals based accounting by the Commission and to improve consistency across the Court? All the rules in the financial regulation and sectorial regulations, cover payments and commitments but not the key element of accruals based accounting (such as accrued or deferred charges). Looking at Chapter 9 of this year's AR, the Court is faced with the fact that virtually no rules exist up to the end of the implementation because everything is based on advance payments and just at the closure all the prefinancing is transferred into expenses.

How should Annual Activity Reports be handled in the context of the DAS ? Should the results of this work be presented in the Annual Report or as a separate report ? Is it useful to have a Chapter 2 of the AR dealing with Annual Activity Reports or would it be better to deal with the Annual Activity Reports in the different annual assessments, as the Annual Activity Reports imply today an enormous time constraint for the Court?

How can the relation between the resources allocated and impact achieved be optimised ? How can the current procedures be streamlined and reinforced in order to offset existing weaknesses such as delays, insufficient quality, excessive work load ? The Court's auditors are in fact faced with very tight deadlines for the DAS and the statistics show an enormous amount of overtime linked to the DAS.

There are qualitative assessments in many areas of the DAS work. In this context, the peer review indicates that there is a risk of consistency between the work carried out by the audit groups and the conclusions of the different audit groups. How can the Court ensure consistency in the application of the required « professional judgement » of its auditors in the evaluation of audit results, within and between policy areas and over time ?

All these reflexions led to an interesting discussion. The creation of one DAS group was proposed. It is felt that quality improvements are needed and it is deplored that often the eligibility rules have been loosened in order to reach a positive DAS. It is also felt that the Court does not give enough attention to the annual activity reports.

The last point concerned the presentation and communication of the work of the Court. Should the domains of specific assessments presented in the AR be redefined ? The financial imbalance between the different clusters reflects in a way the imbalances between the different activities in the EU budget.

Should the structure of the opinion be changed ? Should there be a single opinion for both, the legality and regularity of the underlying transactions and for the reliability of the accounts ? Is it compatible to have an adverse opinion on the legality and regularity of underlying transactions and at the same time to have an unqualified opinion on the reliability of the accounts ?

The DAS Think Tank – CEAD Seminar brought Members and officials working for the DAS in the Court together for an open and honest discussion of the challenges of auditing the EU accounts. It will need some time to analyse in depth the many stimuli provided for the Court's future work. The exercise is proving to be exciting. The Court can look back at over 15 years of DAS work. It is time to draw conclusions and show possible ways forward.



MANY STAKEHOLDERS ARE INTERESTED IN THE COURT'S WORK! :

PRESENTING SPECIAL REPORT "EC DEVELOPMENT ASSISTANCE TO HEALTH SERVICES IN SUB-SAHARAN AFRICA" TO THE WORLD HEALTH ORGANISATION (WHO) IN GENEVA

By Gerald Locatelli, Head of Unit, EDF, Julian Chapman, Audit Team Leader and Johannes Madsen, Attaché, Private Office of Jan Kinšt



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Do you sometimes wonder what is the real interest in our audit work outside the EU institutions themselves? Well, here we are on 2 April 2009 at the headquarters of the World Health Organisation (WHO) in Geneva.

We have come because the reporting member, Jan Kinšt, has accepted an invitation from WHO Assistant Director General, Susanne Weber-Mosdorf, for the audit team to present Special Report (No 10/2008) on EC development assistance to health services in sub-Saharan Africa to representatives of WHO's management. Obviously, this represents an exceptional opportunity to bring the Court's work to a strategically important audience outside the EU Institutions and thus to increase the likely impact of the report.

We are surprised when we enter the meeting room on the top floor of WHO's main building. In front us are 25 high level officials, including four of WHO's Assistant Directors General, waiting to hear what we, as auditors, have to say about an area for which they represent the UN system's core expertise. We note later that out of the 25 participants only seven do *not* use the title "Doctor". Still, as we have been invited, we are confident that we have something to say which is interesting and worthwhile - even for such an audience.

To prepare her colleagues for the meeting Ms Weber-Mosdorf has circulated a comprehensive brief containing references to and extracts from both the report itself and the European Parliament's resolution¹ on it as well as underlining the interest it has generated in the media (including an article in *Le Monde*²) and civil society.

Following a brief introduction, Julian presents the report's main findings and recommendations, highlighting the following³:

- the financial resources allocated by the EC since 2000 to improve health services in sub-Saharan Africa have been below policy commitments.⁴
- the Commission has had insufficient health expertise to ensure the most effective use of health funding.
- the Commission contributed significant funding to help launch the Global Fund but has not given the same attention to strengthening health systems and actual disbursement rates from the Global Fund have been slower than for the European Development Fund (EDF).⁵
- the Commission has made little use of Sector Budget Support (SBS) in the health sector and General Budget Support (GBS), which was used much more widely, has not been used effectively.

1 The text of the European Parliament's resolution available here: <http://www.europarl.europa.eu/sides/get-Doc.do?pubRef=-//EP//TEXT+TA+P6-TA-2009-0138+0+DOC+XML+V0//EN&language=EN>

2 "*L'Europe ne tient pas ses promesses en Afrique*", *Le Monde*, 15 January 2009.

3 Read full report here: <http://eca.europa.eu/portal/pls/portal/docs/1/2482316.PDF>

4 The report establishes that financial allocations to the health sector in sub-Saharan Africa have not increased since 2000 as a proportion of its total development assistance despite the Commission's MDG commitments and the health crisis in sub-Saharan Africa. They also fall short of the European Parliament's benchmark of allocating 20% to basic health and primary and secondary education in country programmes.

5 Comparing disbursements from the Global Fund after the first three years of implementation with the disbursements to health intervention from the EDF during the same period, the accumulated disbursements from the Global Fund were at 26% while they reached 36% for the EDF.

MANY STAKEHOLDERS ARE INTERESTED IN THE COURT'S WORK!

- the Commission has not paid sufficient attention to ensuring that the different aid instruments are used together in a coherent way.

In response to the presentation the WHO representatives raise a number of points in support of the findings and stress that some of our observations also apply to the wider donor community. Among the issues raised are:

- delays in Global Fund disbursements and the Commission's potentially greater role in pushing for improvements through its representation on the Board of the Global Fund.
- the lack of coordination among donors which continues to be an obstacle to effective aid to the health sector
- the growing recognition of the fact that donors do not sufficiently ensure there is a sound health policy in beneficiary countries as a basis for their interventions and the need to support the development of better policies with more detailed costing
- the fact that support to health systems is generally inadequate in developing countries – Ministries of Health are facing critical situations, hence;
- the importance of regular flows of aid to support the recurrent costs of public health service delivery, which is why budget support could eventually become a useful financing modality, although it is yet to prove effective in practice
- the possibility of WHO helping the European Commission address some of the Court's recommendations, for example, by providing expertise to Commission delegations locally where and when necessary and feasible

Concluding the meeting, Ms Weber-Mosdorf requests a large quantity of hard copies (initially she says "millions") of the Special Report so that it can be distributed to the delegates at the forthcoming World Health Assembly, the annual general meeting of all WHO's 192 Member States. She wants the report to be brought to the attention not only of the donor community but developing countries too. WHO also intends to use the report as a basis for an intensive dialogue with the European Parliament and the European Council as well as the Commission on how EC support to the health sector can be made more effective, particularly in the context of supporting the Millennium Development Goals.

We return to Luxembourg with a sense that the effort put into the audit was worth it. The three of us, together with the rest of the audit team⁶, have helped grow this Special Report, each with our respective roles, from its "conception" in the preliminary study report in the Spring of 2007, through the long slog of the audit work in Luxembourg, Brussels and African health ministries, hospitals and clinics, to the report writing, the contradictory procedure, the press conference, the COCOBU meeting and the web-streamed discussions in the plenary session of the European Parliament⁷. This being said, we have a strong feeling that not only the EU Institutions but also many other stakeholders - the donor community, developing countries, NGOs and policy institutes and universities - are not yet done with this report. It could have a much longer life as its findings and recommendations continue to foster reflection and action in the years ahead.

6 Helmut Fiebig, Patricia Le Briand, Yannick Marie, Eulalia Reverte I Casas

7 Watch it here: <http://www.europarl.europa.eu/wps-europarl-internet/frd/vod/player?currentSei=SE11&date=20090311&language=fr>



ADMINISTRATIVE SIMPLIFICATION

«3RD CONTROLLING CONFERENCE OF INTERNATIONAL PUBLIC ORGANISATIONS» IN THE ECA ON 8-9 JUNE 2009

By Rosmarie Carotti



On 8-9 June 2009, the European Court of Auditors received in its premises the representatives of 25 different international organisations. The conference was announced under the title « 3rd Controlling Conference of International Public Organisations », although the subject was administrative simplification. To understand the title, one needs to know the history of this series of conferences which were intended to discuss key performance indicators and controlling issues.

The 1st Controlling Conference of International Public Organisations was organised by the European Central Bank and the European Patent Office in September 2007, in Frankfurt. It was on Key Performance Indicators and Resource Controlling in International Public Organisations ».

The 2nd Controlling Conference of International Public Organisation was organised by the European Patent Office in Munich in June 2008. There were presentations on KPIs and benchmarking and other planning and controlling issues.

The aim of this 3rd Controlling Conference of International Organisations was to learn about Administrative Simplification through practical examples, the exchange of experience and networking.

In this context, the name of the conference seemed no longer up-to-date and it was proposed to change it into « Conference on International Public Organisation Management » for the next conference to be held in Geneva.

Mr Vitor Caldeira, President of the ECA, warmly welcomed the participants. He stressed that the Court attaches a major importance to simplification in a more general perspective: clarification and simplification of legislation, streamline of management and control's procedures, and more efficiency of its own Governance arrangements.

“Over the last years Court's audit reports have illustrated a high level of error in some areas, in part due to the risk associated with the many beneficiaries claiming EU funds according to complex rules and regulations. The weaknesses in the design and operation of management and control systems also contributed to the problems identified.

To decrease the level of error the Court has recommended the simplification of regulations, streamlining internal control procedures and better monitoring and reporting. These recommendations have been systematically followed-up by the Budgetary Authority: European Parliament and Council.

For example, in the discharge resolution for the 2007 budget, European Parliament calls upon the Commission and Member States to take measures to clarify and simplify regulations and procedures. The request applies to areas of shared management such as in agricultural and cohesion spending as well as direct management spending for research or culture and education.

ADMINISTRATIVE SIMPLIFICATION

Let me underline that the Court's 2009 work programme foresees an audit on the Commission's impact assessment system in the context of its legislative simplification initiative "Better regulation".

Further developments to improve EU public finances will depend largely on the success of the EU budget review exercise. The Court's contribution to the public debate launched by the European Commission in 2007 in its communication "Reforming the Budget, Changing Europe", focused on one of the main questions put by the Commission in its Communication: "How could the effectiveness and efficiency of budget delivery be improved?"

It was recalled first that, with the exception of payments under the Agriculture Schemes, the EU budget part finances the activities of private and public agents rather than providing goods and services to EU citizens directly. And secondly, implementing the budget requires multi-level governance arrangements involving EU institutions and governments (national and regional) of Member States and, in some cases, third countries and international organisations.

At the level of expenditure programmes, the Court suggested that the key to achieving efficiency and effectiveness lies in the design of expenditure programmes."

But crucial principles as simplification and efficiency must be reflected also in the Court's own Governance arrangements. This strategy flows with the Court's own reform process sustained by the recommendations of the Court's Peer Review of 2008.

Mr Eduardo Ruiz Garcia, Secretary General of the ECA, pointed up that the challenges in public management were similar to those in the private sector. The issue was how to manage the resources in an efficient way. In the public sector this means, by definition, to maximize the results reducing the cost of the administration and to solve the conflict between the costs of support and the costs of operation.

To do it better, faster and cheaper, this is the aim. To reduce costs for procurement, recruiting, controlling, auditing while maintaining and increasing quality. For that, the conference provided an academic contribution and some practical examples. It also facilitated an exchange of experience, showing similar difficulties and problems, and indicating solutions.

The conference moderator was Mr Marc Hostert, national detached expert in the Private Office of Mr Grethen, Member of the Court. He proved again to be a creative contributor who mastered the subject and who was also instrumental in getting Luxembourg's experience into the debate.

Here are listed the main contributions:

"Experiences of administrative simplification achieved at CERN with emphasis on the Human Resources area"

Mr Jean-Marc SAINT-VITEUX, Head of Services, Procedures & Social Group, Human Resources Department, CERN

"Administrative simplification in the Portuguese State administration"

Mr Elisio BORGES MAIA, Head of Staff, State Secretary of Administrative Modernisation, Portugal

"Administrative simplification"

Prof. Gisela FÄRBER, Deutsche Hochschule für Verwaltungswissenschaften, Speyer, Germany

"Dematerializing the relationship with the Public Administration"

Mr Pierre SCHILLING, Chargé de Direction du Service e-Luxembourg au Ministère de la Fonction Publique et de la réforme administrative, Luxembourg

"The ECA's Peer Review"

Mr John SPEED, Director of CEAD in the European Court of Auditors

"Reforming a Central Bank"

Mr Lars HEIKENSTEN, Member of the European Court of Auditors



Par Patrick Rost, END

La CCOP à Luxembourg, le 28 avril 2009

Les organismes de certification se prononcent sur la véracité, l'intégralité et l'exactitude des comptes des organismes payeurs de la PAC, en prenant en compte le système de gestion et de contrôle mis en place¹. La Commission prend sa décision d'apurement après consultation de ces rapports de certification. Les organismes de certification constituent ainsi un maillon essentiel de la chaîne de contrôle interne des dépenses agricoles. Cette mission est assumée en France par la Commission de Certification des Comptes des Organismes Payeurs des dépenses agricoles (CCCOP).

Le cabinet français a pris l'initiative d'inviter le 28 avril 2009 la CCCOP à Luxembourg. Le Président de la CCCOP, Monsieur Gabrié, était accompagné des rapporteurs spéciaux Messieurs de Sigalony et Lombois, et d'une auditrice Madame Marcadé. Au cours de cette journée, M. Manfred Kraff, directeur, leur a présenté la méthodologie DAS (Déclaration d'assurance) et M. Edward Fennessy, directeur, l'organisation du groupe d'audit 1. M. Michael Bain, chef d'unité, a ensuite présenté NR5 et approfondi les questions relatives à la prise en compte des travaux des organismes de certification.

Les débats, parfois très techniques, ont été riches et trois thèmes ont particulièrement intéressé la délégation :

- La méthode d'échantillonnage et la détermination du taux d'erreur dans le cadre des travaux DAS ;
- Les limites à l'exploitation par la Cour des travaux des organes de certification (problématique des contrôles sur place des bénéficiaires finaux) ;
- L'évolution du rôle des organismes de certification.

A l'issue de cette fertile journée d'échanges entre acteurs impliqués dans l'audit des dépenses agricoles, tous ont conclu au grand intérêt réciproque de telles rencontres.

1 Article 7 du règlement (CE) n° 1290/2005.



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