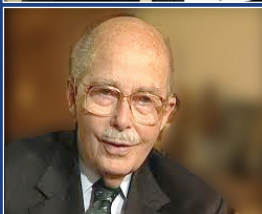


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Rédacteur en chef / Editor in Chief : Rosmarie Carotti

Tél. / tel.: 00352 4398 - 45506 - e-mail : rosmarie.carotti@eca.europa.eu

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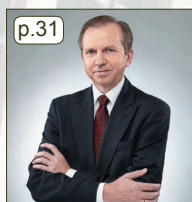
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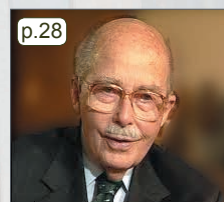
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NEW PUBLIC MANAGEMENT AS SEEN BY THE EUROPEAN COURT OF AUDITORS

By Dr Harald Noack, Member of the Court



Dr Noack was invited to speak on the topic “new public management” as seen by the European Court of Auditors on the occasion of a EURORAI seminar on 20 May 2011 in Bad Homburg/Germany. EURORAI is the European Organisation of Regional External Public Finance Audit Institutions which serves as a platform to exchange experiences and to promote cooperation on public sector financial control. EURORAI was founded in 1992 and its activities are directed by a Management Committee composed of seven members who meet at least once a year. A General Secretariat based in Valencia/Spain is in charge of administrating the organisation, which is mainly financed through annual subscription fees by its members.

Ladies and Gentlemen,

I was delighted to accept when invited to present the European Court of Auditors' views on New Public Management to this EURORAI Seminar. Globalisation brings challenges that require institutions – including the Commission, the driving force of European integration – to be strong, up-to-the-minute and efficient. In my view, the financial crisis in particular has once again made it clear that Europe is a Community project, and it is only as such that it can take shape and be made reality.

New Public Management is marked by a host of mantras, such as cost and results accounting, double-entry bookkeeping, an emphasis on outputs and outcomes rather than the evaluation of inputs, scorecards, e-government, the simplification of bureaucracy, the strategic analysis and critical appraisal of tasks, the optimisation of procurement processes, and information and knowledge management.

In this speech giving the European perspective, I shall focus on two very current themes: the modernisation of the European Commission's accounting system and the reform of the internal control system.

As you know, the European Court of Auditors is chiefly concerned with auditing the Commission's activity, including its management of EU resources in accordance with Article 317 of the Treaty on the functioning of the European Union (TFEU) of 9 May 2008. One important aspect of the Court's activity in this connection is its Statement of Assurance on the implementation of the EU budget, more generally known by the French acronym "DAS". The Statement of Assurance is used to certify the reliability of the EU's accounts and the legality and regularity of implemented projects.

It is important to note that, since 1994, the Court's opinions concerning the reliability of the accounts were an important reason why the Commission has made great efforts to reform its accounting system.

Allow me to explain the general framework of the system in more detail. In keeping its accounts, the Commission distinguishes between two approaches to accounting. These are:

1. budgetary accounting, which shows in detail how the budget is implemented; and
2. financial accounting, which includes a presentation of the balance sheet and the annual economic outturn account.

The reform of the Commission's accounting system was initiated in 2005, since which time the Commission has completely overhauled the way it keeps its accounts. In concrete terms, it has switched from cash accounting to accruals accounting. Under the new system, all revenue and expenditure is recorded when actually earned or incurred and not, as previously, when payment is made. This gives a far more accurate picture of the EU's financial situation.

The new system has many advantages. The first is that the EU now has a better overview of its outgoings and anticipated revenue. It is also easier to monitor cooperation with third parties. Another advantage lies in the improvement of information to the general public about the EU's year-end accounts. Next, balance-sheet assets and liabilities are presented in a clearer and more complete way, leading to greater overall transparency, which contributes in turn to political decision-making. To give a concrete example, payments made in the framework of EU-funded projects now are not booked as expenditure but appear as assets on the balance sheet. Compared with the previous system, they are both presented more accurately and are more easily verifiable.

What lay behind these changes? In this connection, a few words on the background to the reform. As early as 2002, the Commission adopted an action plan on the modernisation of the European Communities' accounting system. There were two parts to the plan: the introduction of a new accounting framework and the development of an IT system underpinning implementation. The action plan also foresaw the establishment of two committees: a supervisory committee and an advisory committee on accounting standards.

The Accounting Standards Committee was composed of representatives of a number of EU institutions, such as the Parliament, the Court of Justice and the Commission, and a few decentralised bodies or agencies, as well as external experts. It was chaired by the Commission's Accounting Officer. The committee was mandated to examine international accounting principles and adapt them to the specific circumstances of the EU. This led in April 2004 to the presentation of 15 draft accounting standards, which ultimately resulted in the accruals accounting proposal.

The international accounting principles that were considered for this purpose were the International Public Sector Accounting Standards (IPSAS) published by the International Federation of Accountants (IFAC). Where no suitable IPSAS was yet available, use was made of the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

Thus the EU took on board the principles of the IPSAS, and by this act of accommodation it advanced to the forefront of similar developments in the public sector.

Another significant Commission reform is the creation of an integrated internal control framework. It is planned to achieve this objective during the 2007-2013 period, but its origins go back much further – to 2004 and even earlier, to the reform that was triggered by the resignation of the Santer Commission. In 2004 the Commission reacted to the tenth Annual Report of the European Court of Auditors, which had once again issued a *qualified* Statement of Assurance. That same year, the Court published an opinion on the need for an effective and efficient control framework. It is possible to see this, among other things, as the underlying reason for the Commission's response.

The Commission also set itself the ambitious goal of obtaining a positive Statement of Assurance from the Court during the most recent Commission's term of office. However, this aim was not achieved, though I should point out that in all probability it will always be difficult to achieve such a goal, if for no other reason than the range and complexity of many EU funding schemes.

What is entailed in the reform of the control framework?

The Commission's approach broke down into four thematic areas:

1. Simplification and common control principles;
2. Management declarations and audit assurance;
3. The "single audit" approach; and
4. The need for improvements in certain EU funding sectors.

I shall now consider these four themes in a little more detail.

Simplification and common control principles

The three key words here are clarity, simplicity and consistency. The legal requirements relating to funding criteria must be made easier to understand, which may mean simplifying the regulatory framework in certain fields (such as research or public procurement). This would reduce the scope for Court findings that the rules have been misinterpreted or incorrectly applied. In this connection, general administrative expenditure should be more transparent, which would benefit both the final beneficiaries of funding and any intermediate bodies.

It was in the context of simplification that the concept of the "tolerable risk of error" in relation to the costs and benefits of controls was first addressed by the Court in its 2004 Opinion. The Court started from the understanding that this risk varies between budgetary areas, depending both on the costs of controls and on the inherent risk of transactions. The Court recommended that the European Parliament and the Council assess the political trade-off and considered that any legal framework should in preference take the form of guidelines. The current interinstitutional debate is still a work in progress that mainly concerns the "political" partners.

Management declarations and audit assurance

These themes point towards the greater use of audit certificates issued by external auditors or public officials. The idea extends to "national declarations", which were considered more closely in a 2007 opinion of the Court. Unlike "annual summaries", national declarations derive from a voluntary initiative by certain Member States. This is an issue which has given rise to intensive political debate, and on which I have my own informed opinion, but I do not intend to go into that here. The Court has stated in an opinion that it considers national declarations to be just one element on which to base its work.

"Single audit"

The term and concept of "single audit" originated in the Netherlands and the USA. The underlying aim is the need to reduce the risk of overlapping controls. Auditors should therefore be able to draw on previous controls at all levels. If applied systematically, the approach also makes it possible to reduce substantially the number of controls of the residual risk of error, thus limiting overall spending on controls. Ultimately, the "owner" of controls should be the European Union, not the respective control bodies. In order to convert this idea into practice, steps are being taken to enhance the sharing and coordination of audit measures among all parties. It is also crucial to undertake a detailed examination of control costs at all levels.

Need for improvements in certain EU funding sectors

It is both evident and inevitable that certain EU programmes are particularly subject to risk. For this reason, the internal control framework must be capable of flexible application. Controls of the Structural Funds in particular, which are part of my brief, are extremely complex – and until just a few years ago they were characterised by very high error rates. This sector is managed jointly by the Commission and the Member States, and it is striking for its many diverse layers, such as a range of paying agencies and implementing bodies.

The greater part of the Structural Funds is managed in this way. Some 80 % of the budget, including agricultural funds, is under joint management. Indeed, this is why it is so important for the Member States to manage resources in such a way as to minimise the risk of expenditure being affected by error. The Member States are therefore under an obligation to demonstrate as much to national and EU auditors.

I hope this presentation has made it clear that there are also initiatives at the European level which fall entirely within the scope of New Public Management. For other examples, let me draw your attention to the debate around evaluations of the use of the EU budget that are focused less on inputs and more on outcomes, as well as the fact that, following a peer review a few years back, the European Court of Auditors itself made substantial organisational changes. I realise that I have not been able to cover everything fully in the time available to me today, but I hope nonetheless that this has at least served as an introduction.

LA COUR DES COMPTES DE L'UNION EUROPÉENNE : MÉTHODES ET RÉSULTATS

Par Michel Cretin, Membre de la Cour des comptes européenne

Cet article a été publié dans le N°5 – Mai 2011 de la revue « Gestion & Finances Publiques », anciennement « La revue du Trésor », fondée en 1921



Michel Cretin, Membre de la Cour

En avril 2007, la Revue du Trésor publiait sous la plume de mon prédécesseur, M. Jean-François Bernicot, une présentation générale de la Cour des comptes européenne, institution supérieure de contrôle externe des finances publiques des Communautés européennes.

Le présent article actualise cette présentation en décrivant les changements intervenus sous l'effet de facteurs externes (Traité, élargissement) et internes (modifications de l'organisation de la Cour), précise les méthodes de travail et donne un aperçu de l'influence des rapports publiés par l'institution dénommée, depuis l'adoption du Traité de Lisbonne, la Cour des comptes de l'Union européenne (CCUE).

Le Traité de Lisbonne, adopté en décembre 2007, est entré en vigueur le 1^{er} décembre 2009. On sait qu'il se compose de deux textes complémentaires : un Traité de l'Union Européenne et un Traité sur le Fonctionnement de l'Union Européenne. Le premier confirme que la CCUE fait partie des « institutions de l'Union », cependant que le second (ci-après dénommé « le Traité ») précise sa composition, son rôle et son fonctionnement dans ses articles 285, 286 et 287. Le Traité a confirmé les dispositions antérieures relatives à la Cour, à deux exceptions (mineures) près : d'une part le changement de nom déjà mentionné, d'autre part la transmission du rapport annuel de la Cour aux Parlements des États Membres. Depuis avril 2007, la Cour a achevé son adaptation au dernier élargissement de l'Union à la Roumanie et à la Bulgarie, en accueillant deux nouveaux Membres (le nombre total des Membres du collège étant ainsi porté à 27) et en recrutant des auditeurs et des traducteurs par des concours organisés spécifiquement pour les ressortissants de ces nouveaux États membres.

A son initiative, la Cour s'est soumise à un examen de son organisation et de ses procédures par des représentants de quelques institutions supérieures de contrôle (ISC) nationales. Cette « Peer Review » (revue par les pairs) a conclu que les procédures et les méthodes mises en œuvre étaient parfaitement conformes aux normes professionnelles internationales et esquissé des pistes d'amélioration pour l'avenir¹. En 2010, la Cour a également modifié son organisation interne : les quatre groupes d'audit sectoriels (agriculture, fonds structurels, action extérieure, recettes, activités bancaires et agences) ainsi que le groupe horizontal CEAD² chargé de la coordination des travaux relatifs au rapport annuel, du contrôle de la qualité et de la méthodologie, sont devenus des chambres auxquelles est confiée désormais l'adoption des rapports spéciaux. La Chambre CEAD est responsable de la coordination et de la consolidation de tous les travaux relatifs au rapport annuel lequel continue à être adopté par la Cour en séance plénière.

1 The European Court of Auditors' Peer Review. Administrative Simplification at the ECA, <http://eca.europa.eu/portal/page/portal/audit/Audit%20documents>;

2 Chambre CEAD: coordination, évaluation, assurance et développement.

Les missions de la CCUE n'ont pas changé : elles consistent toujours, d'une part, à fournir au Conseil et au Parlement une déclaration d'assurance sur la fiabilité des comptes de l'Union ainsi que sur la légalité et la régularité des opérations sous-jacentes à ces comptes, assortie d'appréciations spécifiques par domaines d'exécution budgétaire et, d'autre part, à produire des rapports spéciaux sur la qualité de la gestion dans tel ou tel secteur de la politique de l'Union.

Concrètement, le **rapport annuel** de la Cour est publié en novembre de l'année qui suit l'exercice financier sous revue. Ce rapport comprend la déclaration d'assurance (connue sous son acronyme français : « DAS ») sur les états financiers présentés par la Commission aux autorités budgétaires (Parlement et Conseil). Cette déclaration est détaillée en autant de chapitres que de grands domaines de dépenses (agriculture, fonds de cohésion, action extérieure, etc.). Ce rapport est le résultat de deux types de travaux :

- une certification des comptes en tout point comparable à celle à laquelle procède chaque année la Cour des comptes française pour les comptes de l'État et ceux des organismes de sécurité sociale ;
- un examen de la légalité et régularité des opérations sous-jacentes aux comptes. Les résultats de ce contrôle de légalité générale (et pas seulement comptable) des opérations de l'exercice sont communiqués sous la forme d'une « opinion » de la Cour avec ou sans réserves. Dans ce cadre, le Traité autorise d'ailleurs, la CCUE à contrôler sur place toute personne physique ou morale, bénéficiaire final de financement issu du budget de l'UE.

Les **rapports spéciaux** correspondent aux rapports particuliers publiés par la Cour des comptes française et sont le résultat d'audits de gestion (parfois dénommés « de performance »). Ces audits sont de type qualitatif et visent à déterminer si les actions financées par le budget de l'Union respectent le principe de bonne gestion financière inscrit dans le règlement financier de l'Union³. Chaque année, la Cour adopte librement son programme d'audits devant déboucher sur des rapports spéciaux.

C'est à partir de ces deux catégories de rapports que le Parlement, ayant reçu l'avis du Conseil, donne décharge à la Commission. Cette décharge porte sur les comptes consolidés, sous la responsabilité de la Commission⁴, des institutions, organes et agences de l'Union. Elle prend la forme d'une résolution de décharge, élaborée par la Commission du Contrôle du Budget (CoCoBu) du Parlement et votée par celui-ci en séance plénière. Les résolutions de décharge comportent des recommandations, souvent reprises des rapports de la Cour, que la Commission a l'obligation de mettre en œuvre.

Compte tenu de l'importance du rôle qui lui est dévolu dans la surveillance des finances de l'Union, la Cour, a été amenée à préciser et à formaliser ses procédures et ses méthodes qui sont au fondement de l'autorité attachée à ses travaux et à ses conclusions. Après avoir exposé ces méthodes, on présentera quelques exemples de l'incidence que ses rapports ont pu avoir sur l'amélioration de la gestion financière de l'Union.

.....
3 Cité aux articles 310 et 317 du Traité et précisé dans le règlement financier (article 22), ce principe décline les trois critères bien connus d'économie (rapport entre les coûts et les moyens mis en œuvre), d'efficacité (rapport entre les coûts et les résultats) et d'efficacités (rapport entre les coûts et les objectifs).

4 En effet, la Commission demeure seule responsable de l'exécution du budget de l'Union, quel que soit le mode selon lequel telle ou telle partie de ce budget est exécutée (voir plus loin). L'article 317 du Traité introduit une disposition dont la portée devra être précisée. Il précise en effet que « la Commission exécute le budget en coopération avec les États Membres, ... sous sa propre responsabilité... » D'une part la responsabilité propre de la Commission est réaffirmée, mais, d'autre part, celle-ci agit dans ce domaine « en coopération avec les États Membres ».

1. LES METHODES

Comme la plupart des institutions similaires des États Membres, qu'elles soient constituées sous une forme collégiale ou placées sous l'autorité d'un auditeur général, la Cour exerce un contrôle a posteriori. Chaque année, elle détermine souverainement son programme de contrôle. Celui-ci est transmis, pour information, aux ISC de tous les pays membres de l'Union et publié sous forme de synthèse sur le site Internet de la Cour⁵.

La Cour notifie à ces ISC les contrôles sur pièces et sur place qu'elle entreprend. Deux raisons justifient cette pratique. Les ISC nationales sont les mieux placées pour informer les administrations concernées dont elles connaissent les modifications organisationnelles les plus récentes. En outre, le Traité (article 287) ouvre à ces mêmes ISC la faculté de s'associer à ces contrôles, en déléguant auprès des équipes d'audit de la CCUE, un ou plusieurs de ses propres auditeurs.

Pour assurer la fiabilité de ses conclusions, la Cour met en œuvre une procédure contradictoire, aussi bien avec les administrations des États Membres qu'avec la Commission. Mais les conclusions des audits effectués dans les États Membres sont des éléments de l'instruction en vue de la contradiction organisée avec la Commission, seule responsable de l'exécution du budget. Seules les réponses fournies par la Commission dans le cadre de la procédure contradictoire sont publiées avec les rapports de la Cour.

Sur le fond de ces procédures communes à l'élaboration de tous les rapports de la Cour, il convient maintenant de distinguer entre les méthodes utilisées pour arrêter la DAS et les méthodes des audits de gestion.

LA DAS ET SES METHODES

C'est en 2007 que la CCUE a publié sur son site Internet les méthodes mises en œuvre pour produire la DAS et, notamment, pour analyser les erreurs qui sont détectées par les auditeurs au cours de leurs contrôles⁶.

L'audit comptable.

L'audit comptable des comptes de la Commission est effectué auprès de ses services à Bruxelles et est confié à une division spécialisée au sein de la Cour (Chambre CEAD)⁷. Il vise à obtenir une assurance raisonnable que les états financiers (bilan, compte d'exploitation, tableau des flux de trésorerie, tableau des changements de l'actif net, annexe) préparés par la Commission à l'intention du Conseil et du Parlement donnent une image fidèle des opérations exécutées au cours de l'exercice et de la situation en fin d'exercice.

La Cour a critiqué à plusieurs reprises les insuffisances de la comptabilité communautaire qui, jusqu'en 2004, était une comptabilité de caisse. La grande transformation est intervenue avec la publication des comptes de l'exercice 2005 qui ont été établis en droits constatés. Cette transformation avait été préparée depuis 2001. En juin 2002, le Conseil a adopté un nouveau règlement financier des Communautés européennes⁸ qui :

- introduit le concept d'image fidèle,
- ainsi que le principe de la comptabilité en droits constatés (article 125),
- définit le périmètre des comptes des Communautés (article 185),
- énumère la liste « normalisée » des états financiers dont l'ensemble constitue les comptes annuels,

5 <http://eca.europa.eu/portal/pls/portal/docs/1/7062723.PDF>

6 <http://eca.europa.eu/portal/page/portal/audit/Audit%20documents>.

7 <http://eca.europa.eu/portal/page/portal/Organisation/Organisationchart1/CEADChamber>

8 Règlement 1605/2002 du Conseil du 25 juin 2002 portant règlement financier applicable au budget général des Communautés européennes (JO L 248 du 16.9.2002, p. 1).

- et précise (article 133) que les règles et méthodes comptables régissant l'établissement des comptes devront s'inspirer « *des normes comptables internationalement admises pour le secteur public [dont le comptable de la Commission] peut s'écarter lorsque la nature particulière des activités des Communautés le justifie.* »

On notera, au passage, la similitude de ce dernier texte avec celui de l'article 30 de la LOLF française.

Ces normes sont celles qui sont publiées par le Comité des normes comptables internationales du secteur public (International Public Sector Accounting Standards ou IPSAS). Sur cette base, le comptable de la Commission a établi 17 règles comptables qui s'imposent à toutes les institutions, organes et agences de l'Union.

Certaines dispositions retenues dans les IPSAS ont été adaptées au contexte de l'Union Européenne :

Périmètre de consolidation

Les comptes de l'Union européenne sont des comptes consolidés. Le périmètre de consolidation est principalement défini par la notion classique de contrôle, mais d'autres considérations interviennent également (par exemple les dispositions des traités). Le contrôle est essentiellement défini par les droits de vote. Au total 43 entités sont consolidées: 39 par intégration globale (toutes les « institutions » et agences de l'Union et quatre par mise en équivalence (il n'y a pas d'intégration proportionnelle).

En revanche, ne sont pas consolidés :

- le Fonds européen de développement (FED) qui est alimenté périodiquement sur la base d'accords bilatéraux entre les États Membres et l'Union. Il y a donc plusieurs FED en cours d'exécution. La Cour des comptes européenne formule chaque année, à l'intention du Parlement et du Conseil, une « déclaration d'assurance » spécifique sur les comptes des FED présentés par la Commission ;

- la Caisse de maladie qui gère le régime commun d'assurance maladie des agents des Communautés et qui a été retirée du périmètre à la demande de la CCUE car il est apparu qu'elle n'était pas contrôlée par la Commission (les comptes de la caisse de maladie sont certifiés par un commissaire aux comptes privé) ;

- la Banque Centrale Européenne qui est une institution au sens du traité de Lisbonne, mais dont le Traité a explicitement prévu qu'elle était autonome du point de vue de la comptabilité.

Enfin, la Commission a jugé qu'elle n'avait pas de contrôle ni d'influence significative dans les divers fonds de capital risque auxquels elle participe (elle détient par exemple une participation de 3% dans le capital de la Banque européenne pour la Reconstruction et le Développement). En conséquence ces participations sont traitées comme des « actifs disponibles pour la vente » (« available for sale »).

C'est le respect de ces normes qui est à la base du processus de certification mis en œuvre par la Cour qui, comme tout commissaire aux comptes procède: c'est notamment le cas du périmètre de consolidation.

- à une évaluation de l'environnement de contrôle,
- à la vérification du bon fonctionnement des procédures comptables clés et des procédures de clôture de fin d'année,
- au contrôle de la cohérence et de la vraisemblance des principales données comptables,
- aux analyses et aux rapprochements de comptes et/ou de soldes,
- à des tests de validation, fondés sur des échantillons concernant les engagements, les

paiements et des éléments spécifiques du bilan.

L'ensemble des travaux ainsi effectués fonde l'opinion d'audit de la Cour sur la fiabilité des comptes de la Commission.

L'audit de régularité

Il s'agit de l'aspect le plus original du travail de la Cour. En 1993, elle a dû concevoir une méthodologie ad hoc pour répondre aux nouvelles exigences imposées par le Traité de Maastricht. Cette méthodologie a été précisée dans un rapport spécial que la Cour a publié à l'occasion de la première déclaration d'assurance⁹. Ce modèle d'assurance de la Cour repose sur les quatre éléments suivants :

- l'évaluation de l'efficacité des systèmes de contrôle de l'exécution des opérations,
- la vérification sur place (auprès du bénéficiaire final du paiement) d'un échantillon représentatif d'opérations,
- les déclarations des directeurs généraux de la Commission,
- les travaux d'autres auditeurs s'il en existe.

Les deux premiers éléments constituent le cœur de ce modèle d'assurance.

L'analyse des systèmes de contrôle mis en place dans les États Membres consiste à apprécier le fonctionnement pratique des procédures administratives de gestion des paiements financés par le budget de l'Union et de leur capacité réelle à garantir la légalité et la régularité des opérations.

Ces systèmes étant nombreux (les seules dépenses agricoles sont effectuées par plus de 80 organismes payeurs sur l'ensemble du territoire de l'Union) et les missions de contrôle sur place nécessairement courtes, la Cour sélectionne donc chaque année un échantillon de systèmes à évaluer. A l'issue de l'audit, les systèmes peuvent être classés comme :

- « efficaces » pour atténuer le risque d'erreur au niveau des opérations,
- « partiellement efficaces », c'est-à-dire que les insuffisances affectent l'efficacité sur le plan opérationnel,
- « inefficaces » : les insuffisances sont généralisées et compromettent l'efficacité sur le plan opérationnel.

Les vérifications sur place portent en outre sur un échantillon de paiements représentatif d'une population donnée (par exemple, la population des aides agricoles directes). Un tel échantillon est déterminé par des méthodes statistiques analogues à celles qui sont mises en œuvre dans le cadre des sondages d'opinion. L'objectif est, là aussi, de pouvoir tirer de l'examen de l'échantillon des conclusions extrapolables à l'ensemble de la population. Il existe une relation entre la taille de l'échantillon à examiner et les risques d'erreur affectant une population donnée. C'est pourquoi l'analyse de l'efficacité des systèmes de contrôle des paiements est indispensable. Techniquement, la méthode d'échantillonnage utilisée par la Cour est celle du sondage en unités monétaire (en anglais « MUS », pour Monetary Unit Sampling). Les échantillons sont tirés de l'ensemble des paiements effectués au sein de l'Union par le service statistique de la Cour.

Le travail des auditeurs consiste à suivre le cheminement complet du paiement sélectionné à travers toutes les strates administratives (nationales et communautaires) par lesquelles il a transité jusqu'au niveau du bénéficiaire final. Sur cette base, ils concluent à la régularité ou à l'irrégularité d'une opération.

Si les erreurs détectées sont quantifiables, elles ont une incidence financière directe et mesurable. Il s'agit, par exemple, de la prise en compte d'éléments inéligibles dans le calcul du paiement (surévaluation de la surface d'une parcelle agricole, inclusion d'éléments de coût non remboursables dans une demande de subvention).

.....
9 Rapport spécial à l'appui de la déclaration d'assurance relative aux activités du budget général pour l'exercice 1994, accompagné des réponses de la Commission, du Parlement, du Conseil, de la Cour de justice, du Comité économique et social et du Comité des régions, Journal officiel n° C352 du 30/12/1995 p.0011-0092.

Les erreurs détectées sont considérées comme non quantifiables lorsqu'il est impossible de mesurer la part incorrecte du montant versé. Il peut en être ainsi, par exemple, lorsque l'irrégularité résulte de l'inobservation de certaines procédures de passation d'un marché public (non respect d'un délai, absence de certaines pièces).

Il est donc, en tous cas, nécessaire de porter un jugement sur la qualification d'une erreur. Le système de revue de la qualité et de décision de la Cour a pour objet de conduire à un jugement impartial¹⁰.

La prise en considération des erreurs quantifiables conduit à l'estimation, par extrapolation, d'un taux d'erreur affectant un domaine de politique européenne (agriculture, fonds de cohésion, aide extérieure, etc.). Obtenu par la mise en œuvre de procédures statistiques, ce taux est une estimation affectée d'une certaine probabilité. En d'autres termes, il se situe dans un intervalle déterminé par une borne basse (la limite inférieure du taux d'erreur) et une borne haute (la limite supérieure). Les procédures d'échantillonnage et d'extrapolation sont conçues pour permettre d'assurer que le taux d'erreur « réel » a 95 chances sur 100 de se situer à l'intérieur de cet intervalle. Le taux d'erreur retenu par la Cour est le « taux le plus probable » à l'intérieur de cet intervalle.

Pour chaque domaine, la Cour établit une appréciation spécifique qui comporte un jugement sur l'efficacité des systèmes de contrôle, un taux d'erreur estimé et une opinion sur le point de savoir si les opérations de ce domaine sont exemptes d'erreurs significatives¹¹ (opinion sans réserve), sont affectées d'un taux d'erreur significatif (opinion défavorable) ou si une partie limitée de la population est affectée par un taux d'erreur significatif (opinion avec réserves). L'appréciation spécifique comporte, en outre, des recommandations destinées à remédier aux déficiences constatées.

LES AUDITS DE BONNE GESTION FINANCIERE ET LEURS METHODES

La Cour a toujours publié des rapports spéciaux sur des sujets qu'elle choisissait elle-même. Mais le Parlement a souhaité obtenir davantage d'information sur la qualité de la gestion des fonds communautaires, au-delà de la régularité de la dépense.

En outre, à la suite, notamment, de la revue par les pairs conduite en 2007, la Cour a décidé de produire davantage de rapports spéciaux. L'objet de ces rapports est de porter un jugement détaillé, assorti de recommandations aux gestionnaires voire au législateur, sur tel ou tel aspect de la gestion budgétaire. Le choix des thèmes retenus est l'objet d'un débat approfondi au sein de chaque chambre et au sein de la Cour dans son ensemble. Les critères de choix sont multiples et vont de l'intérêt manifesté par le Parlement ou la Commission elle-même au souci de ne pas laisser de côté certains sujets de moindre importance financière, en passant par la nécessité de couvrir, sur une période donnée, les grands domaines de dépense, par la préoccupation de contribuer, en temps opportun, à la préparation des nouvelles politiques ou à la réforme des politiques existantes, par l'intérêt de donner un coup de projecteur sur une question d'actualité, etc.

En outre, ces choix programmatiques doivent être faits avec un certain sens de l'anticipation, car il faut compter au moins deux ans entre la décision d'inscrire un sujet au programme et la publication du rapport correspondant. L'élaboration d'un rapport passe en effet par la réalisation d'une étude de faisabilité fondée sur des visites aux services de la Commission ainsi qu'à un ou deux États Membres à titre exploratoire, la réunion d'une équipe et la préparation d'un programme d'enquête comportant en particulier de nombreuses missions sur le terrain, l'exécution de ces missions, la contradiction des

10 Dans la pratique, la coordination et la validation des travaux relatifs à la légalité et à la régularité des opérations sous-jacentes sont confiées à une unité spécialisée de la Chambre CEAD.

11 Le « seuil de signification » retenu par la Cour est de 2% du montant de la dépense budgétaire du domaine. Ainsi, pour l'exercice 2009, la Cour a conclu que les dépenses agricoles étaient affectées d'un taux d'erreur significatif ($\geq 2\%$), cependant que les dépenses administratives de l'Union ou les opérations de recettes budgétaires devaient faire l'objet d'une opinion sans réserve (taux d'erreur $\leq 2\%$).

constatations avec les États Membres concernés puis avec les services de la Commission, sans compter, à chaque étape, les problèmes et les délais nécessaires à la traduction (la Cour s'adresse en effet à chaque administration dans sa langue nationale).

Les rapports sont établis en s'appuyant sur une méthodologie qui est publiée sur le site Internet de la Cour depuis 2007¹².

Une des principales difficultés pour mesurer la qualité des dépenses tient à la grande dispersion géographique de fonds somme toute modestes (le budget de l'Union représente environ 1% du revenu des États Membres), à l'absence de bases de données permettant des comparaisons (les juridictions financières françaises, par exemple, disposent de bases de données sectorielles nombreuses : hôpitaux, collectivités territoriales, universités) et à l'absence d'indicateurs de performance budgétaire.

Pour contourner ces difficultés, la Cour choisit, selon le sujet abordé, de limiter ses investigations à des groupes de pays représentatifs de l'importance financière et de la diversité des modes de gestion d'une politique donnée. Ainsi la France est souvent retenue pour tous les sujets relatifs à l'agriculture.

En 2009, outre le rapport annuel et la DAS, la Cour a adopté 18 rapports spéciaux (audit de bonne gestion financière).

Le nombre de visites d'audit réalisées par la Cour dans les États membres de l'UE en 2009 s'est élevé à 300 dont 48 en France. Par ailleurs, 36 visites d'audit ont également été effectuées en dehors de l'Union.

2. LES CONSTATS ET RECOMMANDATIONS DE LA CCUE SONT UNE SOURCE D'AMÉLIORATION DE LA GESTION DU BUDGET DE L'UE

Conformément aux dispositions du TFUE, la CCUE « assiste le Parlement européen et le Conseil dans l'exercice de leur fonction de contrôle de l'exécution du budget »¹³. Les observations de la Cour sont régulièrement et majoritairement reprises par le Parlement à l'occasion de la procédure de décharge. Ceci contribue à exercer une constante pression sur la Commission pour améliorer l'exécution du budget, en particulier ses procédures de contrôle de gestion et d'audit interne pour prévenir les risques. En effet, le Traité oblige la Commission à tout mettre « en œuvre pour donner suite aux observations accompagnant les décisions de décharge et aux autres observations du Parlement européen concernant l'exécution des dépenses ainsi qu'aux commentaires accompagnant les recommandations de décharge adoptées par le Conseil »¹⁴.

Ainsi, « la Commission fait rapport sur les mesures prises à la lumière de ces observations et commentaires [...] sur les instructions données aux services chargés de l'exécution du budget » à la demande du Parlement européen ou du Conseil. Ces rapports sont également transmis à la Cour des comptes qui analyse ainsi les suites données à ses observations. Le résultat de son analyse fait l'objet d'une annexe à la suite de chaque chapitre du rapport annuel.

Principales constatations issues de la DAS

Comptabilité de la Commission

On a assisté depuis 2007 à une amélioration très sensible de la qualité des comptes publiés par

12 <http://eca.europa.eu/portal/page/portal/audit/Audit%20documents>.

13 Article 287 du TFUE.

14 article.319 du TFUE.

l'Union Européenne. Si la Cour des comptes européenne continue à formuler quelques observations sur leur fiabilité, elle considère qu'elles n'ont pas d'incidence significative sur l'image fidèle qu'ils donnent de la situation financière des institutions. Les comptes font ainsi l'objet d'une opinion favorable et sans réserve quant à leur fiabilité.

La Cour souhaite cependant que soit remédié à des faiblesses qu'elle a identifiées depuis 2007 résidant dans la complexité du système de gestion financière et de son cadre juridique et qui compromettent la qualité des informations en matière de comptabilisation des préfinancements et de séparation des exercices ainsi que celle des factures et déclarations de coûts dans les systèmes comptables de certaines directions générales de la Commission.

Reste enfin, la question de la comptabilisation des engagements de retraite pour laquelle la solution retenue par le comptable de la Commission est l'objet de critiques de la part du Parlement, mais que la CCUE a acceptée (voir encadré ci-après).

En 2004, le comptable de la Commission avait annoncé que « les États membres garantissant collectivement le paiement des prestations de pension selon la clé de répartition fixée pour le financement des dépenses, il peut être constaté à l'actif une créance sur les États Membres pour refléter ces engagements. Cette position sera reconsidérée lors de l'adoption par l'IFAC d'une norme IPSAS sur les engagements de retraite. »

En réalité, cette position de principe n'a pas été suivie d'effet et, depuis l'exercice 2005, la solution retenue a consisté à constater une dette au passif, sans créance à l'actif. Ce choix a fait l'objet de débats au sein du comité des normes en juillet 2006 et il a été maintenu. Le raisonnement est le suivant : l'article 83 du règlement du Conseil portant statut des fonctionnaires et autres agents des Communautés prévoit bien une garantie collective de paiement des prestations de retraite et la clé de répartition de cette charge, toutefois cette garantie ne constitue pas l'équivalent d'une créance certaine et exigible sur chaque État Membre pris individuellement et les conditions de constatation d'une créance à l'actif du bilan ne sont donc pas réunies.

Cette solution conduit à présenter un bilan faisant état, de manière systématique, d'une situation nette (« net assets ») négative. Cette situation est expliquée et justifiée en note au bilan. Toutefois, en raison de la situation déséquilibrée qu'elle met en évidence, elle continue à faire l'objet de critiques au Parlement Européen.

L'évaluation de la dette correspondante est fondée sur le fait qu'il s'agit d'un régime à prestations définies et elle suit la méthode proposée dans l'IPSAS 25 (publiée en février 2008) : la « projected unit credit method », méthode actuarielle qui prend en compte les droits des personnels en service et les augmentations prévisibles des rémunérations.

Au 31 décembre 2008, les engagements de retraite (et de couverture maladie des retraités) ainsi calculés s'élevaient à 37,5 milliards d'euros.

Légalité et régularité des paiements.

Pour tous les exercices financiers depuis 1994, la Cour a toujours émis des réserves sur la légalité et la régularité des opérations sous-jacentes, notamment pour celles relatives à la politique agricole et à la politique de cohésion. Il en a été ainsi en dépit du renforcement, pour la période financière 2007-2013¹⁵, des réglementations sectorielles propres à l'agriculture (renforcement des critères d'accréditation des organismes payeurs) et aux fonds de cohésion (une procédure d'évaluation de la conformité doit fournir à la Commission une assurance quant à la mise en place satisfaisante des systèmes de contrôle avant le remboursement de toute dépense). Ainsi, bien qu'aucun

15 Les budgets annuels de l'Union sont encadrés par des « perspectives financières » pluriannuelles arrêtées par le Conseil.

système de contrôle n'ait été qualifié d'inefficace par la CCUE en 2009, le taux d'erreur demeure « significatif » (voir plus haut) pour toutes les catégories de dépenses à l'exception des dépenses administratives.

Les dépenses des fonds de cohésion (36 milliards d'euros environ) sont affectées par un taux d'erreur particulièrement élevé. La Cour a ainsi estimé qu'au moins 11% des paiements effectués en 2008 n'auraient pas dû être remboursés par la Commission aux États membres. Ce taux d'erreur avait significativement baissé en 2009 tout en demeurant au-dessus de 5%.

Le taux d'erreur affectant les dépenses agricoles reste supérieur au seuil de matérialité de 2% de l'ensemble des dépenses de ce secteur. Toutefois ce taux reste bien inférieur à ceux établis pour les fonds de cohésion. Ceci tient essentiellement à la standardisation des procédures de dépenses imposée par la Commission aux organismes payeurs des dépenses agricoles et à la mise en place progressive des systèmes intégrés de gestion et de contrôle (SIGC) qui visent à prévenir et à corriger les erreurs. Ces dispositifs reposent notamment sur des bases de données informatisées qui permettent des contrôles croisés, des systèmes d'identification des parcelles agricoles et des systèmes de télédétection satellitaire.

Enfin, la Cour plaide au fil de ses rapports annuels pour une simplification du cadre réglementaire. En effet, dans de nombreux cas, les erreurs sont imputables à la trop grande complexité de la réglementation. Toutefois cette orientation générale doit être mise en œuvre avec prudence les opérations financées étant souvent complexes par nature (car elles doivent permettre d'atteindre des objectifs déterminés). La précision de la réglementation constitue dès lors une garantie contre le risque d'erreur.

Les résultats des travaux de la Cour sur la légalité et la régularité des opérations sous-jacentes pour l'exercice 2009 sont résumés dans le tableau ci-dessous.

Groupe de politiques	Taille de l'échantillon (nombre de paiements audité)	Montant (en millions €)	Erreur probable	Fréquence des erreurs	Évaluation des systèmes de surveillance et de contrôle
Agriculture et ressources naturelles	241	56 318	compris entre 2% et 5%	27%	partiellement efficace
Cohésion	180	35 467	> 5%	36%	partiellement efficace
Recherche, énergie et transport	150	7966	compris entre 2% et 5%	24%	partiellement efficace
Aide extérieure, développement et élargissement	180	6596	compris entre 2% et 5%	13%	partiellement efficace
éducation et citoyenneté	150	2153	compris entre 2% et 5%	31%	partiellement efficace
Affaires économiques et financières	80	732	< 2%	26%	partiellement efficace
Dépenses administratives et autres	57	9129	< 2%	7%	efficace

Source : rapport annuel pour l'exercice 2009

Principales constatations issues des rapports spéciaux

Le président de la Cour, M. Caldeira, a rappelé que « *la Cour est l'instigatrice de toute une série de réformes. Les incidences positives se sont parfois sentir plus rapidement. Ainsi, (en 2007), nous avons élaboré un rapport sur la mise en œuvre de la politique commune de la pêche, ce qui nous a permis de mettre au jour des déficiences importantes concernant la collecte des données relatives aux quantités de captures, au respect des quotas et aux sanctions des infractions. La Commission européenne a tenu compte d'un grand nombre de nos propositions dans la réforme de la politique de la pêche qu'elle a entrepris peu de temps après. Ce genre de succès est toujours gratifiant pour un auditeur* »¹⁶. **Rapport**

16 A propos de la Cour des comptes européenne, entretien avec Vitor Manuel Da Silva Caldeira, p 6-7, service infor-

spécial n°7/2007 relatif aux systèmes de contrôle, d'inspection et de sanction concernant les règles de conservations des ressources halieutiques communautaire¹⁷.

Des captures en baisse et des ressources halieutiques surexploitées sont des constats faits depuis des années et aujourd'hui largement partagés et qui traduisent l'échec de la Politique Commune de la Pêche (PCP). Pourtant, dès sa création en 1983, cette politique a eu pour objectif d'encourager une exploitation durable des ressources. La limitation des volumes des prélèvements, par la fixation de totaux admissibles de captures et de quotas nationaux, en constitue la pierre angulaire. L'audit qu'elle a réalisé auprès de la Commission et dans les six principaux États membres en termes de pêche ont amené la Cour à conclure que:

- les données de captures ne sont ni complètes ni fiables ce qui empêche la connaissance réelle des prélèvements et, par conséquent nuit, à la bonne application des taux de capture et des quotas;
- les dispositifs d'inspection n'assurent ni prévention, ni détection efficaces des infractions;
- les procédures de traitement des infractions constatées ne permettent pas d'attester que chacune d'elles fasse l'objet d'un suivi et, *a fortiori*, d'une sanction; s'agissant des actes contraires à la réglementation communautaire par un État Membre, le seul outil dont dispose la Commission qui ait démontré son efficacité est l'action en manquement devant la Cour de justice de l'Union mais ses caractéristiques en limitent l'usage et en font un instrument trop peu réactif.
- la surcapacité pèse sur la rentabilité de l'industrie de la pêche et, dans un contexte de diminution des captures autorisées, incite au non respect de ces limitations et affecte la qualité des données transmises; l'approche communautaire actuelle fondée sur la gestion de l'effort de pêche n'est pas de nature à résoudre ce problème de surcapacité.

La persistance de cette situation aurait de lourdes conséquences non seulement sur la ressource, mais également sur l'avenir de l'industrie de la pêche et des territoires qui lui sont liés. Si les autorités politiques souhaitent que la PCP atteigne son objectif d'exploitation durable de la ressource halieutique, les dispositifs actuels de contrôle, d'inspection et de sanction doivent être considérablement et rapidement renforcés.

En 2008, les recommandations du rapport sur la conditionnalité (Politique Agricole Commune)¹⁸ ont fait l'objet d'un intense débat et ont été intégralement reprises par le Parlement dans son rapport sur la décharge pour l'exercice 2007. Ce rapport relevait que le dispositif consistant à lier le paiement intégral des aides directes agricoles au respect de conditions en matière d'environnement, de bien être animal ou de sécurité alimentaire n'était pas efficace.

En 2009, le rapport sur le marché du lait¹⁹ avait fait l'objet d'une large couverture médiatique alors que la filière traversait une période difficile.

La Cour a également réalisé un audit relatif à la phase de développement et de validation du programme Galileo, créé dans le but de mettre en place un système global de navigation par satellite européen. Les constats dressés par la Cour ont été largement repris dans un rapport d'information de l'Assemblée Nationale française²⁰.

mation et presse, Gouvernement du Grand Duché de Luxembourg, février 2009

17 Source : Note d'information de la Cour des comptes européenne concernant le rapport spécial n°7/2007 relatif aux systèmes de contrôle, d'inspection et de sanction concernant les règles de conservations des ressources halieutiques communautaires.

18 Rapport spécial n°8/2008 « La conditionnalité est-elle une politique efficace ? »

19 Rapport spécial n°14/2009 : « Les instruments de gestion du marché du lait et des produits laitiers ont-ils atteint leurs principaux objectifs? »

20 <http://www.assemblee-nationale.fr/13/europe/rap-info/i2142.asp>.

Extrait du rapport d'information déposé par la Commission des Affaires Européennes sur l'état du programme Galileo, et présenté par M. Bernard Flesselles (pages 13 et suivantes)

[.....]

Le rapporteur [de l'Assemblée Nationale] soulignait que les dysfonctionnements ayant hypothéqué l'exécution des programmes tiennent aux limites du partenariat public privé prévu à l'origine. La Cour des comptes européenne, dans un rapport rendu en juin 2009, se montre particulièrement cinglante et va au-delà de l'analyse du rapporteur, en considérant que la Commission européenne ne s'est pas montrée à la hauteur de sa tâche, à la fois pour des raisons indépendantes de sa volonté, mais également parce qu'elle n'a pas su se doter des outils techniques nécessaires à la gestion d'un tel projet.

[.....]

Pour que la réorientation des programmes Egnos et Galileo, décidée à la mi-2007, ait une chance d'aboutir, la Commission doit considérablement renforcer la gestion des programmes en cause. Le rapport de la Cour comprend une série de recommandations destinées à aider la Commission dans cette tâche. Enfin, si l'Union européenne décidait de se lancer dans d'autres programmes d'infrastructure de grande envergure, la Commission devra s'assurer qu'elle dispose des outils de gestion appropriés. »

Cette dernière recommandation semble à votre rapporteur particulièrement importante. Elle implique une réflexion de l'Union européenne, pour ne pas dire un examen de conscience, préalablement à l'engagement d'autres projets industriels de ce type. Une répartition claire des mécanismes de gestion des projets devrait à l'avenir être un préalable à leur engagement.

De nombreux autres rapports pourraient être cités. La Cour signale d'ailleurs en annexe II de son rapport annuel, la liste des rapports spéciaux qu'elle a adoptés depuis le rapport annuel précédent. Ces rapports n'inspirent pas tous des réformes de grande ampleur susceptibles d'attirer l'attention d'un large public. Néanmoins, la variété des sujets abordés témoigne de la vigilance constante que la Cour exerce sur l'ensemble du budget de l'Union.

CONCLUSION

La conclusion de la stratégie d'audit 2009-2012²¹ que la Cour a publiée sur son site Internet rappelle la portée de l'action de l'institution et son engagement au service de la gestion publique : « *La Cour œuvre au renforcement de l'obligation de rendre compte, encourage la transparence et assiste le Parlement européen et le Conseil dans la supervision de l'exécution du budget de l'UE, notamment pendant la procédure de décharge. La Cour s'engage à être une organisation efficiente à l'avant-garde du progrès dans le domaine de l'audit et de l'administration du secteur public* ».

C'est dans cet esprit que la Cour veille en permanence à la validité et à l'efficacité de ses méthodes ainsi qu'à la pertinence et à la qualité des rapports qu'elle produit.

21 <http://eca.europa.eu/portal/pls/portal/docs/1/7132740.PDF>.

ALGEMENE REKENKAMER PRESENTS THE EU TREND REPORT 2011

By Michiel Sweerts, Attaché, Private Office of Gijs de Vries



The *Algemene Rekenkamer* (AR) – the Netherlands Court of Audit – was in Luxembourg to present the key findings of its EU Trend Report 2011¹ on 8 July 2011. Every year, the AR issues a report on the financial management of the EU funds in the European Union as a whole, its Member States and the Netherlands. In addition, the AR also took the opportunity to present its main conclusions of its audit of the Dutch EU Member State declaration. The Dutch EU Member State declaration covers all funds managed jointly by The Netherlands and the European Commission.

After welcoming his former colleagues, Gijs de Vries – Member of the Court and former Vice-President of the *Algemene Rekenkamer* – spoke of the need for greater cooperation between national Courts of Audit and the ECA, a wish also expressed by the European Parliament. The importance of the exchange of information and good practice between institutions was emphasised, although it was recognised that this takes great effort on all sides. Mr de Vries noted that this should not be limited to the DAS, but can be applied in particular to performance audits, something he wished to accentuate with a view to the upcoming meeting of the Contact Committee in October.

EU Trend Report 2012

Our Dutch colleagues commenced by presenting their concept for next year's edition of the Trend Report 2012 which will mark the publication of the tenth edition and will aim at an overview of all changes that have taken place in (EU) financial management. The overall structure will remain the same, but a more interactive, internet-based version will also be released in order to raise greater awareness. For the ECA, these kinds of innovative practices are worth watching and learning from.

In addition, extra attention will be given to the Netherlands "net position". This is somewhat of a new step for the AR. For several years, it has argued that the Netherlands' contribution to the EU budget should be included within the scope of the (audit of the) Member State declaration, although the Ministry of Finance has to date not agreed to do so. Views were exchanged on the publication of the GNI figures, the lack of consensus between the Netherlands' government and European Commission, as well as the so-called "Rotterdam effect" (which basically postulates that the Netherlands benefits from its position as a transit country for trade that passes through its harbours between the EU and third countries).

1 See <http://www.rekenkamer.nl/dsresource?objectid=91120&type=org>

Everyone was agreed, however, on the fact that GNI calculations are important and yet remain the least examined by all controlling bodies and so relations with, and access to, national statistical bodies was discussed.

National Declarations and the Pilot Project

The NCA's audit of the Dutch National Declaration was also presented. The Declaration 2010 is the fifth of its kind. It is addressed to the European Commission and the Dutch parliament and audited by the Dutch Court of Accounts. This year was of particular interest in light of the ECA's and NCA's coordinated audit of the two agricultural funds (EAGF and EAFRD) for the DAS 2010. The audit work carried out as part of the pilot project resulted in findings concerning weaknesses in some of the internal control procedures for procurement in rural development project, which was reported on by the NCA.

Although a formal evaluation has yet to take place, there were some positive reactions to the exercise at the meeting. Bearing in mind that each SAI has its own traditions, needs and priorities, which makes the adoption of any uniform approach difficult, the benefits of this project could already be felt. The AR informed us of how in next year's audit of the National Declaration use will be made of the ECA's own public procurement questionnaires. This demonstrates how small, practical steps can help make a difference in sharing good practice, and that this also reflects the quality of the ECA's approach and methods. Also discussed was the exploration of further common approaches to statistical sampling techniques.

Costs of control

The Trend Report's conclusions on the costs of control were an important element of the meeting². Present indications are that other SAIs are finding the same result. Questions were raised about the period covered (2007-2009), and what the likely effects would be on the findings if the full spending cycle had been covered. This also raised the issue of whether comparative analyses between the costs of control for EU and national spending programmes would provide any useful insights. While direct comparison may not be possible, some important lessons may be derived, including more clearly establishing the link between the cost of control and the rate of error, and the costs of controlling regularity compared with the costs of ensuring sound financial management.

The joint conclusions of the SAIs are expected to be published in October, while revisions to the Financial Regulation are still taking place.

Public Procurement

Public procurement garnered a great deal of attention. Specifically, consideration was given to the costs and benefits of the European dimension of the public procurement; the Court's contribution to the Commission Green Paper; methods for assessing errors in procurement; difficulties in performing cross-border comparative analyses on the application of procurement rules, i.e. are problems in procurement caused by the rules or the lack of proper transposition/application? For this last question, the Contact Committee Working Group on Structural Funds will be examining the theme of "simplification" next year.

.....
 2 The AR, in coordination with SAIs from Germany, Slovenia, Bulgaria, Hungary, Italy, Austria, Portugal, Slovakia and the Czech Republic (and with observers from the Polish, Maltese, Latvian, Finnish SAIs as well as ourselves), has estimated the costs of control in light of the Commission's proposals defining the Tolerable Risk of Error. It has concluded that, on the basis of its own calculations of the costs of control in Structural Funds, these were considerably lower than the Commission's own estimates. See also article by B. Blasiak-Nowak and M. Rajczewska "Estimating the costs and benefits of controls carried out within the framework of the management and control system of EU Structural Funds", ECA Journal No. 7, 2011 (July/August)

Rural Development

One of the subjects high on the AR's agenda for the meeting was the subject of rural development spending. The Trend Report has in the past tended to focus on regularity issues at the cost of looking at performance-related matters. For the 2012 report, one of the subjects that will be incorporated into the report is an assessment of the Commission's own insight into the effectiveness of its rural development policy. This will include an examination of all the evaluations the Commission has carried out, with a specific focus on the Netherlands, as well as a qualitative analysis. Meeting with Michael Bain and Robert Markus, Heads of Unit in Chamber I, proved to be valuable for the AR as they shared their perspectives and expertise in this area. This also presented an extremely interesting opportunity for cross-cutting learning for other ECA staff present. What came out of the meeting in particular was the tension between programming period and the multi-annual financial cycle, as well as discerning where the Commission's influence is likely to be greatest in these cycles – and even in which form of management – in order to maximise effectiveness.

Other subjects that were touched on included Traditional Own Resources (TOR) and the Commission's proposals to revise the Financial Regulation. The AR has recently carried out an audit into the effectiveness of customs duties collections, given the Netherlands' traditional role as a significant provider of TOR to the EU budget. The ECA has also looked at Dutch customs in the context of its Simplified Procedures performance audit. Recently, ECA was in the Netherlands to present its views at a conference for the Netherlands customs authorities.

The meeting demonstrated the high return that can be achieved from investing small amounts of time in addressing matters of common interest, and exchanging valuable information. We look forward to maintaining and strengthening the contacts with the AR, and to welcoming them back for the 2012 Trend Report.

ECA'S IMPACT ASSESSMENT AUDIT (SR 03/2010) ATTRACTS THE INTEREST OF THE ALGEMENE REKENKAMER

By Simone Melis, Algemene Rekenkamer

In the week of June 6, Simone Melis from the *Algemene Rekenkamer* (AR) – the Netherlands Court of Audit – visited the ECA to carry out interviews with staff who were involved in the audit on the Commission's Impact Assessment system. The audit led to SR 03/2010 "Impact assessments in the EU institutions: Do they support decision-making?". She had this opportunity because she won an internal competition organised by the AR (see box). Below she provides a brief account of her experiences at the ECA.

In the Netherlands, the government has just given the go-ahead to the implementation of a new system of impact assessments (IA). The objective of my research project is to gain insight in the added value of this instrument in the ex-ante analysis of policy effectiveness, and how this can be audited. The European Commission has built up broad experience with regard to the implementation of IA and is widely regarded as a front-runner in the field, and the ECA has published a special report on this topic in 2010. Therefore a study visit to both institutions was a logical step to take my research on this subject further.

In the last few months, I have spoken with various people in the Netherlands and at the Commission. This gave me a clear idea of the set-up of the Dutch and EU system of IA, and of their similarities and differences. During my week at the ECA I interviewed 7 individuals involved in the various stages of the audit including the team leader, a team member and Cabinet staff. I also had the opportunity to view relevant documents, such as the preliminary study and the audit planning memorandum.

I have been able to learn from the way the ECA has carried out its audit of this system from start to finish, what the good audit practices are and where there may be potential pitfalls. For example, the user survey and the scorecard analysis¹ would be useful research methods for us when carrying out such an audit – although for the latter I would perhaps suggest a more limited number of questions and taking a sample which covers all government departments². The involvement of QC from the early stages of the process and the extensive 'networking and marketing activities' both during the audit and after publication of the report are also good practices to take back to my home institution. Furthermore, I obtained some interesting insights into the ECA's practice in the field of issue analysis and drawing conclusions.

After returning to the NCA, it was decided that a preliminary study into ex-ante evaluations will be part of our work programme for the second half of 2011. The recently adopted Dutch IA system is part of this study, so I can immediately implement the 'lessons learned' from the ECA report in our work. The topic is especially relevant to our performance audit department because the new IA framework in the Netherlands is still being developed and it is regarded as a promising – but not yet perfect – instrument to contribute to evidence-based policy-making. Perhaps we could carry out a full audit specifically on Dutch IA in a couple of years, when the system has been fully implemented across all government departments.

There are two other activities that are directly linked to this study visit in which I am participating. I will be giving an internal seminar on the audit of impact assessments to my colleagues at the AR in November, drawing on the knowledge I gained during this study visit. Furthermore, together with a colleague I am acting as a 'sparring partner' for a governmental advisory body on regulatory management issues.

To sum up, it has been a very valuable learning experience for me, and a very efficient way to build up knowledge in this field which will feed into new audit work we will carry out at the AR. It has been very fruitful to exchange views on a range of

1 The scorecard analysis comprised assessing 115 IA reports as to whether the Commission had carried out its assessments in accordance with its own internal procedures and methodological guidance. It contained a checklist of over 100 questions.

2 In addition to the Secretariat-General of the Commission, the 5 DG's covered by the ECA's audit were those covered by Chamber II.

topics with my ECA colleagues – of course I hope that my interviewees have had the same experience!

Furthermore, it has also demonstrated to me the importance of knowledge-sharing between SAIs. I would therefore definitely recommend this 'internal competition' as an alternative, cost-effective training possibility for audit staff.

And finally, many thanks to the ECA for its hospitality!"

Competing for the best research proposal: the Algemene Rekenkamer's internal competition for research projects

Each year, the AR organises an internal competition for all audit staff to write a research proposal on a topic of their choice. The objective is to provide an auditor with the opportunity to carry out a short study in an area of interest which is in line with the AR's strategic goals. The project can be carried out in another SAI or (international) institution which is of relevance to the AR. The winner of the competition receives a budget of €2 500 to carry out the assignment (covering both person-weeks and travel expenses). Upon return, the auditor writes a report and presents the results of the research in an internal seminar.

The selection criteria for the proposals are the following:

- the concept (originality, scope)
- relevance of the topic to the AR (alignment with current audit work)
- feasibility (can the project be carried out within the set time and budget, is the partner institution willing to accept the request for a study visit)
- clear, concrete ideas on the way the research can contribute to building the knowledge-base of the AR in the field of interest

The programme is a very cost-effective way to promote learning between SAIs. It combines (intellectual) reward for staff with institutional learning and professional development. Because of the competitive element of the programme, the participants are highly motivated to ensure their project will be successful and that enhanced visibility will be given to their findings and conclusions.



Simone Melis (left), senior auditor at the Netherlands Court of Auditors, is awarded the best research proposal by Ellen van Schoten (right), Secretary-General of the Algemene Rekenkamer

FEE CONFERENCE ON AUDIT POLICY AUDITORIUM OF THE NATIONAL BANK OF BELGIUM, Brussels 30 June 2011

By Rosmarie Carotti



FEE is the Federation of European Accountants and this fourth FEE conference aimed at sharing and discussing the views of all relevant stakeholders in the European debate, amongst others, Michel Barnier, European Commissioner, James Doty, Chairman of the Public Company Accounting Oversight Board (PCAOB)(USA), Wouter Bos, Partner KPMG and Former Finance Minister of the Netherlands and Antonio Masip Hidalgo, Member of the European Parliament.

The FEE's objective was to bring together all stakeholders, with a particular focus on regulators and market participants, and the conference centred on two main themes: "Developing the Role and Value of Audit" and "Building a European Audit Market". FEE President Philip Johnson had invited the entire accountancy profession in all its diversity with a view to continuing the debate on audit policy and identifying the best options in the public interest following the consequences of the global financial and economic crisis. Discussion covered not just the role of the auditors but also the role of boards and management.

The European Court of Auditors takes great interest in the subject, particularly in the proposals of the Commission and the aspect of future regulation.

The EU has taken a number of measures to encourage a sustainable financial industry, including the establishment of the European System of Financial Supervision. As regards micro-prudential supervision, a major development is the establishment of three new supervisory agencies: the European Banking Authority (EBA); the European Insurance and Occupational Pensions Authority (EIOPA); and the European Securities and Markets Authority (ESMA).

The European Court of Auditors has issued a Position Paper on the consequences for public accountability and public audit in the EU and the role of the ECA in the light of the current financial and economic crisis.

In November 2010 the Court sent a President's letter *inter alia* to the Presidents of the European Council and the Commission to inform them of the Court's position on the audit and accountability arrangements for the planned European Stability Mechanism. How to divide the work

in this area between public and private audit as well as between European Institutions and Member State SAIs is an important question.



Mr Wouter Bos, Partner KPMG and Former Finance Minister of the Netherlands

Mr Wouter Bos, Partner KPMG and Former Finance Minister of the Netherlands, felt that it was time to build bridges between politics and accountancy as many people had lost trust and confidence in institutions.

Who or what was to blame for the crisis: the banks which had become excessively intertwined which each other? The investment banks and commercial banks? The incentives in the financial system? The lack of vision of the regulatory bodies? Or the accountants who did not raise the alarm when things went wrong?

The accountants' reaction to this criticism was to emphasise that they had acted in compliance with the laws and regulations. However, the search by the public and the politicians for the risks in the financial systems was perceived by the accountants as an attack on their professional integrity.

But a frank debate was possible and essential in the public interest. First, assurance was needed that the financial information provided was solid, and that the external auditor had had a critical look at it. But all of this would not provide assurance against risks arising in the future.

Without a legal framework and proper standards an accountant could not perform his work but Wouter Bos

felt that accountants should be given more space to issue a professional judgement beyond the financial statements. Far-reaching projects involving fundamental changes to the current system were ongoing at political level. Justified concerns were being raised but there was no point shooting down every proposal for change. Accountants needed to identify the lessons they had learnt and their contribution towards reducing systemic risks.

In recent years a lot had been invested in harmonising international rules, helping transparency. A new system of regulatory supervision was the real fundamental change that would have to contribute to confidence and trust in financial institutions.

Commissioner Barnier took an active part in this debate. The aim of the Commission was more intelligent supervision based on wide-ranging consultation and it had floated a number of reform proposals covering, among other things, improvements to the deposit guarantee system and compensation for investors. Basel Initiative measures would be presented at the end of July and, as prevention is cheaper than cure, there would be a range of measures concerning the banking resolution scheme at the end of September. In October there would be a revised directive on the markets in financial instruments (MiFID). There would also be a second Commission regulation on credit rating agencies.

With regard to audit, the Commission had taken the time to conduct large-scale consultation on last November's Green Paper, in order to secure the future of the audit profession by giving it an undisputable and undisputed structure.

There were three areas where action was required, all of which would be discussed during the FEE conference: independence, diversification of the audit markets, creation of a more integrated European market with stricter supervision.

The auditor's independence remained the *sine qua non* condition for retaining the auditee's trust and ensuring the quality of the work. Often auditors were too closely connected with the companies they audited, because the same audit company had provided the service for decades. Nor were auditors selected on the basis of regular and transparent calls for tenders. The Commission wished to extend mandatory rotation and restrict provision of so-called "ancillary", i.e. non-audit, services by the auditor.

Commissioner Barnier believed there should be common rules across the EU in this field and wondered if one shouldn't go as far as proposing "pure audit firms".

The second area was the diversification of the markets. Four large audit companies controlled 80 % of the European market. The Commissioner was not happy that the audit market was dominated to such an extent by four networks while there were other audit companies wishing to gain access to it. He also wished to create diversity in another market which was even more concentrated, i.e. the market for credit rating agencies. A number of courses of action to achieve diversification in the audit market were being given serious consideration, one of them being joint audits. He was also considering regular, transparent and more equitable tendering procedures.

The third major area was the creation of a European market and strengthening of supervision. At international level the market was still very fragmented. The solution was obviously to be found in greater European integration. Since its beginnings the Commission had encouraged the free movement of professional persons and was in the process of exploring a number of ways to make the audit market more European, starting with a European passport for auditors. The ultimate objective was automatic recognition for audit firms and a European audit quality label.

Another requirement was the harmonisation of auditing standards across the EU while avoiding any additional burdens which were not absolutely necessary for small audit firms.

As far as supervision was concerned, closer co-operation between European supervisors was required to ensure the proper functioning of the European market. Commissioner Barnier hoped that the audit supervision authorities would work and cooperate more closely within the framework of the new European Securities and Markets Authority, ESMA, which had been in operation since January 2011.

Lastly, communication between audit firms and regulators had to be improved and work had to be done on auditing standards. Transatlantic co-operation would also have to be strengthened because 80% of financial exchanges were transatlantic transactions. It was absolutely essential that this discussion with the United States should be a constructive one, an opinion shared by James Doty, Chairman of the Public Company Accounting Oversight Board (PCAOB), USA.

Brendan Nelson from the Royal Bank of Scotland, in his capacity as a major user of audit services, shared the objective of Commissioner Barnier, which was to protect shareholders and other stakeholders through ensuring the highest quality of audit, but had different views.



Mr Camara Rodriguez-Valenzue, FEE Vice-President et
Mrs Hilde Blomme, FEE Director

For him the issue was that of competition and choice in the listed company audit market. Was there sufficient competition in the audit market, especially for large companies and, secondly, did long-term relationships pressure independence and impair audit quality? Would a policy of mandatory rotation enhance audit quality, lead to more independent auditors or would it possibly decrease audit quality in the early years of a change-over?

He saw this as a global issue and considered the possible solutions of mandatory audit firm rotation and mandatory tendering. Although a more active tendering market was desirable, this evolution should be market driven and not imposed by statute or regulation. Market pressures would force companies to operate within certain retendering periods without the need for regulatory intervention.

On shared audits and the debate whether they increase or decrease audit quality, his experience was that joint audits could lead to gaps in coverage and inevitably increased costs.

Concerning the role of corporate governance and specifically the role of audit committees, he did not share the scepticism of the European Commission expressed in the Green Paper on audit policy. In the past ten years there had been a dramatic evolution in the effectiveness of company boards. This had been driven by the reaction to the Enron collapse but was also a consequence of economic reality.

Antonio Masip Hidalgo, the European Commission's rapporteur on the Green Paper and Member of the Legal Affairs Committee of the European Parliament, considered that the final draft of the Green Paper would enable the Commission to put forward ambitious legislative proposals. Ultimately, the contribution by the European Parliament's Economic and Monetary Affairs Committee, ECON, which was the result of broad agreement between the various political levels, had been more favourable to greater interventionism on the part of the competition authorities. ECON recognised the risks associated with providing non-audit services and considered that conflicts of interests were likely to arise where the audit firm offered other services to the same organisation. The Committee's most important proposal was to make joint audits obligatory. The Commission called for an examination of the potential benefits and costs of introducing compulsory audits of auditing firms, more particularly for small and financial firms. The draft report, which had the support of all the parliamentary groups, called on the Commission to conduct an impact study on external rotation and underlined the importance of the auditor's independence.

To conclude with the words of FEE President Philip Johnson "The auditor's role will change so let us look forward and embrace that change and ensure that proposals made are conducive to audit quality, have been subject to proper and due process and that an appropriate regulatory impact assessment has been undertaken".

Note: This article is not exhaustive. For those who want to know more about the conference please see: www.fee.be



REMISE DES PRIX JESÚS LÁZARO CUENCA 2010, 5 JUILLET 2011



Le Prix Jesús Lázaro Cuenca 2010 de la Cour des comptes européenne pour la recherche dans le domaine de l'audit du secteur public a été décerné conjointement à **MME SARA BELLEIL** et à **M. JOSÉ ANTONIO FERNÁNDEZ AJENJO**. Le discours d'ouverture a été prononcé par le Président de la Cour, M. Caldeira. Il a été suivi des discours de M. Miguel Lázaro González, fils de feu M. Jesús Lázaro Cuenca, et de M. Vojko Anton Antončič, membre du comité de sélection.

Conformément à sa mission et à ses valeurs, la Cour s'emploie à être à l'avant-garde de l'évolution de l'audit du secteur public. Le Prix de la Cour des comptes européenne pour la recherche dans le

domaine de l'audit du secteur public, qui est décerné tous les deux ans, s'adresse aux jeunes chercheurs issus des universités de l'Union européenne et auteurs d'une thèse récente de master ou de doctorat sur un sujet associé à l'audit du secteur public.

La provenance géographique variée des candidatures, la multiplicité des thèmes proposés et la qualité des contributions ont constitué déjà cette première année un succès de l'initiative de la Cour des comptes européenne.

Le jury international était composé de :

Mme Lourdes Torres Prada, Professeur de comptabilité et finances publiques à l'Université de Saragosse.

M. Vojko Anton Antoncic, ancien Membre de la Cour des comptes européenne, ancien Président de la Cour des comptes de la Slovénie et ancien Professeur de l'Université de Ljubljana ; et

M. Árpád Kovács, Professeur de l'Université de Szeged, ancien Président de l'Institution supérieure de contrôle de Hongrie et ancien Président du conseil de direction de l'INTOSAI.

Le Prix a été remis ex aequo aux deux lauréats : Mme Sara Belleil (auteur d'une thèse sur l'audit de la politique européenne d'aide humanitaire), et un professionnel et auditeurs espagnol, M. José Antonio Fernández Ajenjo (auteur d'une thèse sur le rôle de la Cour des comptes espagnole dans la lutte contre la corruption).

Je Journal a publié le résumé des deux textes dans son édition de juillet/août 2011

IN SEPTEMBER 2011 THE COURT SAYS :

HELLO TO

Mc GUINNESS	Marc
PARENTE	Jose
KOVACS	Peter
DELVAUX	Michael
BONCHEVA	Eva
FREIRE	Miguel
KIMBALL	Eva
RUGAJA	Liene

GOODBYE TO

MANICOLO	Romilda
VAN HOECKE	Mélanie
TABUREAU	Marylène
SKOG	Kristine
SANDEBRING	Adam
KRAINZ	Judith
GODEFROY	Ninon
VARBLANE	Els

SPAIN IN THE EU: THE FIRST TWENTY-FIVE YEARS 1986-2011

The book was presented on Monday 27 June 2011 by **Dr Joaquín Roy**, coordinator of the book, **Dr Cristina Blanco Sío-López**, co-author and Researcher at the CVCE and **Dr Susana Muñoz**, Member of the CVCE Management Committee in the presence of **Marianne Backes**, Director of the Centre Virtuel de la Connaissance sur l'Europe, **Ernst Moutschen**, Head of the Representation of the European Commission in Luxembourg, **Miguel Benzo Perea**, Spanish Ambassador to Luxembourg.



The book collects the contributions to an international conference organised by Prof. Joaquin Roy at the University of Miami in the US in commemoration of the 25 years of accession of Spain to the EU in 1986. The University of Miami was granted financial support by the European Commission for a three-year period (2008-2011) and was awarded a Jean Monnet chair when the programme was opened to the rest of the world.

The CVCE is an interdisciplinary centre of research and documentation on the European integration process, with a mission to create, disseminate and share knowledge in an innovative digital environment.

The main objective of the centre is to valorise the outcomes of its key areas of activity, namely:

- Interdisciplinary research on the European integration process in the XX and XXI centuries;
- Research, development and integration of tools and methods using state-of-the-art information and

communication technologies to support advancement in European Integration Studies.

The link to the CVCE is a project which is currently being developed in agreement with the Luxembourg authorities on the European integration progress of Spain and Portugal. As Dr Susana Muñoz explained, the project will follow a comparative approach examining the Spanish and Portuguese point of views and their impact on and contribution to the European Union.

Europe is permanently evolving. As Mr Ernst Moutschen, Head of the Representation of the European Commission in Luxembourg pointed out, if 26 years ago it was Spain, today it is Croatia, for which the Commission has just given green light for the accession.

The Spanish Ambassador recalled the result of the Spanish referendum with its 70% approval of the Lisbon Treaty and reported that despite the crisis people had a very positive view of the EU as a community of principles and values.

The book summarises what Spain has achieved in the last 25 years but does not deny the present crisis which is treated in the section on economy. Other aspects examined are the historical evolution of the country, the development of legal principles and law, and international relations.

Dr Cristina Blanco Sío-López analysed how belonging to the EU affects Spain and its relations with other countries within and outside the EU, in particular with Latin America, and discussed how Spain perceives the EU and how the Spanish look on European issues.



To purchase the book please contact the CVCE directly.

Centre Virtuel de la Connaissance sur l'Europe
Château de Sanem
L - 4992 Sanem
Email: cvce@cvce.lu
Tél : +352 59 59 20 1 - Fax : +352 59 59 20 555

JOSEF BONNICI APPOINTED MALTA CENTRAL BANK GOVERNOR



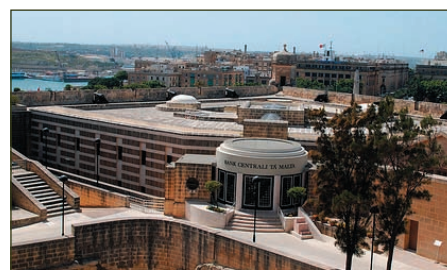
BANK ĊENTRALI TA' MALTA
BANK OF MALTA
CENTRAL BANK OF MALTA



Professor Josef Bonnici

Prof. Josef Bonnici, former Member of the Court (2004 - 2010) was appointed as Governor of the Central Bank of Malta for five years with effect from 1 July 2011 after serving as Director on the Board of the Bank since last January. The Central Bank of Malta was established in 1968.

When Malta joined the European Union in 2004, it became an integral part of the European System of Central Banks and in 2008, when Malta adopted the euro, the Bank became part of the Eurosystem.



THE LÉGION D'HONNEUR BESTOWED ON LOUIS GALEA, MEMBER OF THE COURT



Caption Malta, HE Mr. Daniel Rondeau, Ambassador of France to Malta, presents the Légion d'Honneur to Dr. Louis Galea

On the 24th of June, H.E. Daniel Rondeau, Ambassador of France to Malta, bestowed the Légion d'Honneur on Louis Galea, Maltese Member at the European Court of Auditors, former Speaker of the Parliament of Malta, and former Minister. The French Ambassador paid tribute to Dr. Galea as a statesman, as a convinced European, as well as the friend of literature and the arts. Mr Rondeau also highlighted Dr Galea's consistent efforts to enhance Maltese-Franco relations and the appreciation of the French language, arts and culture.

In his address Ambassador Rondeau said: "We are gathered here today, with your family and prominent representatives of the Maltese political community to celebrate the recognition, by the French Government, of your contribution as member and president of the Parliament, a leading minister of Malta, and, above all, a good friend of France. Through President Nicolas Sarkozy, France is bestowing upon you one of its highest honours, the '**Officier dans l'Ordre National de la Légion d'Honneur**', honouring a citizen of whom Malta can truly be proud of, a man full of charisma who had a leading role for a long time."

In his reply Dr Louis Galea stated that he accepts the distinction with pleasure and humility and that..."I interpret this not so much as recognition of any personal merits I may modestly have shown in the course of my public life, as much as further demonstration of the excellent friendship, respect and collaboration that for many years now characterises the Franco-Maltese relationship."

VISIT BY MR MICHAEL BODDENBERG, MINISTER OF STATE OF THE GERMAN LAND HESSE



Dr Harald Noack, Mr Michael Boddenberg, Mr Christian Günzel

On 30 June 2011 Dr Noack received a visit by Mr Michael Boddenberg, Minister of State of the Land Hesse. Mr Michael Boddenberg was accompanied by his Head of office Mr Christian Günzel. Mr Boddenberg is in charge of federal affairs and the official delegate of the Land Hesse at federal level (Bund).

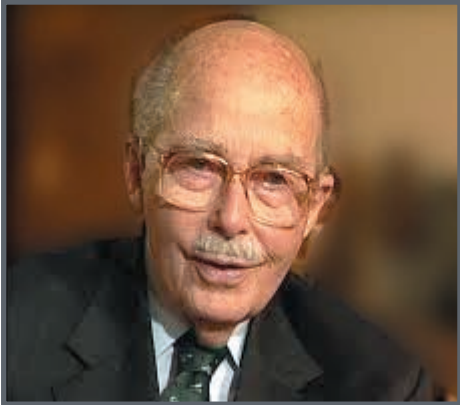
The information meeting started with a discussion on the organisational set up of the Court, followed by the Court's approach and procedures to conduct audits, including site visits from the Commission to final beneficiaries in Europe and worldwide. Afterwards, Dr Noack gave an explanation of the Court's premises and new building K3 presently under construction. The current audit on financial engineering and SMEs was also discussed briefly, followed by an exchange of views on EU procurement policy and the Commission's proposal to reform procurement rules. The meeting ended with ideas on new ways to promote Europe and to become a more active player in times of need, such as the on-going financial crisis.

A HISTORICAL LOOK BACK - OTTO VON HABSBURG

INTERVIEW WITH OTTO VON HABSBURG

By Frederik Godfried Hendriksz and Rosmarie Carotti

The interview was given in 1986 or 1987 when Otto von Habsburg was a Member of the European Parliament. The interview was the basis for a "Letter from Luxembourg" published by VOICE OF AMERICA. We are publishing the full interview here, and because of its value as a historical document, editorial changes have been kept to a minimum.



Mr Otto von Habsburg + 4 July 2011

Otto von Habsburg (20 November 1912 – 4 July 2011) was head of the House of Habsburg. As the eldest son of the last Austrian emperor, he was the last Crown Prince of Austria-Hungary from 1916 until the dissolution of the empire in 1918, a realm which comprised modern-day Austria, Hungary, Bosnia and Herzegovina, Croatia, the Czech Republic, Slovakia, Slovenia, and parts of Italy, Montenegro, Poland, Romania, Serbia and Ukraine.

F. G. H.: In the present-day division between East and Western Europe, where does the idea of "Middle Europe" stand? Is there a historical place for it, is there a future?

Otto von Habsburg: First of all I would like to underline that the idea of "Middle Europe" has expanded considerably, including in Western Europe, in the course of the last 4 – 5 years. It has become much more a reality than it was twenty years ago although it is a historic reality. What is "Middle Europe"? It is an entirely cultural identity. You can put it roughly that it is between what used to be Russia, that is to say something formed by the Pravoslav church with its whole system of social relations or political relations, and then what we consider in the narrow sense of the word, Western Europe, which is the non-Soviet Europe of today. In between there is this area, which has been formed by different religious communities, especially Catholics and the different forms of Evangelic and Protestant churches, of the Baltic States, Poland, what is now Czechoslovakia, Hungary, all the way down to the South, to the Adriatic Sea. This area has always been culturally part of the West but maintaining its own identity. "Middle Europe" is today clearly a political notion, a cultural notion, and especially that area of Europe where, beside the West, the notion of personal liberty and human rights has been the strongest.

F. G. H.: If it is a political notion, does that mean that economically it will play a part in the near future?

Otto von Habsburg: Not yet. You see, we have had now forty years of a completely new economic formation which has been created by the imperialism of the Soviet Union which, you just have to look at the economic structures

of Comecon, has oriented all these economies towards the basic industries of Russia. If you take, for instance, the industrial structure of Hungary or of Czechoslovakia, we are now producing in these countries mainly parts for something which is assembled in the Soviet Union. Comecon is a typical system of Soviet economic imperialism for the ruling of the countries of Central Europe. So it will inevitably take some time until these areas are separated. But that they want to be separated is quite obvious. I have as a spokesman of the political committee of this (European) Parliament to deal with a lot of people including those from Central Europe who are now under Soviet domination. Those people who come to us, of course, are Communists and are faithful party members. But they, too, when you just get to the bottom of their feeling, want to get rid of these Russians because they are for them an alien occupation.

R. C.: How do you see the concept of "Middle Europe" against the background of SDI (Strategic Defense Initiative)?

Otto von Habsburg: The SDI is probably one of the greatest things which we have had so far for the establishment of international peace. And I do feel very strongly that international peace is one of the preconditions of European reunification. In that sense I see SDI as a tremendous and direct hope for the nations of Central Europe to regain their independence and freedom.

R. C.: And what is your opinion on a two-speed Europe and the closer working relationship between Germany and France?

Otto von Habsburg: Well, of course, the foundation of European unification was always the understanding between France and Germany. That has been our starting point, which is going to be our base. You know, during the Second World War, I was once talking with General De Gaulle, who is in my opinion still one of the greatest statesmen whom we have produced in this century, about future European order and he said to me: The precondition to any European order is the revision of the Treaty of Verdun which you know was the Treaty which separated Europe under the heirs of Charlemagne and the reunification between the East and Western Franks. That is exactly what is the main element of the European reunification today.

F. G. H.: But there is a certain fear among the Western Europeans that the "Middle Europe" idea will draw people away from the NATO alliance into a neutral zone but does not seem to be very viable.

Otto von Habsburg: I would say first of all that the idea of neutral zone is tied to the existence of the situation as is. That is to say that some people believe that they can get out of the Soviet challenge by creating a neutral zone, which is, of course, absurd. But that an idea is absurd does not mean that it is not held by some of our international respectability, like Mr Blank, for instance. But on the other hand, I would say that, if there is a chance of European reunification, the problem of a neutral zone will no longer be posited.

F. G. H.: In other words, with Mr Brandt leaving the scene shortly, with Olaf Palme not there anymore, this idea may not live.

Otto von Habsburg: I am utterly convinced it may not live because it is absurd. And it is contrary to all the experiences of history and of our development.

F. G. H.: What is coming therefore is an opening up economically between EEC and Comecon with a push mostly from the satellite countries to more links with the EEC. Is that correct?

Otto von Habsburg: I would be absolutely opposed to an expansion of contacts between EEC and Comecon, for one reason: let's never forget one basic fact. In the Comecon treaty you have the disposition that all hard currency that Comecon exports must necessarily be paid into a Russian bank and the exporters are receiving the equivalent of the hard currencies in roubles which are convertible only within the Comecon area, so that the only solution for the

countries of "Middle Europe" is to have bilateral trade with the European Community. Our task is not to make foreign trade via the Comecon, but to make it on a bilateral basis. I am opposed even to diplomatic relations, for one reason: Comecon is not a bona fide political organisation. Our political organisations, like the European Community, are now recognized by 104 countries in the world. We have our own independent diplomatic relations; none of the Comecon countries has anything of that kind.

R. C.: Always talking about the ideal of Middle Europe, would it mean that at the end our countries will drift to the East or that those of the East would come closer to us?

Otto von Habsburg: The centres are going to come close to us. What will happen in Russia is quite another problem. There are the specific problems with which we do not have to deal. Russia in its present structure is a Euro-Asiatic continent of its own, with Asiatic problems facing China, the Islamic world. I once talked with General De Gaulle and I apologize for quoting General De Gaulle all the time, but I am a great admirer of his, I talked with him one day on the future of the Soviet Union and of Russia. He said to me "I have great pity for the Russians" because they had Algeria within their own borders. And that's exactly what is true. When you see the rising tide of Islamic populations with the Soviet Union, you see the rising tide of yellow people within the Soviet Union, the great crisis of the Soviet Union is going to come now. And I forewarn not only as a Western European, because I am a Central European, too. I am totally opposed at any political solution which would make Europeans die for Russian imperialism in the defence of its colonial empire.

R. C.: How will the role of Austria develop?

Otto von Habsburg: The role of Austria is linked inevitably to the European Community. A country, whose foreign trade is 60% with the European Community, cannot stay out of it. In my own opinion, it is high time for Austria to find an arrangement with the European Community, in which case I must say I am of the same opinion as the new Chancellor of Austria, Mr Vranitzky.

F. G. H.: The Atlantic Alliance has an economic article 2. Would there be room in that for "Middle Europe"?

Otto von Habsburg: I would say there would be, of course. All these articles are always based on adaptations to the

existing situation. We must clearly realise that the Atlantic Alliance, too, has had to undergo factual changes due to its long duration up to now. It will have to undergo other factual changes, too, and they would mean that if one day democratic self-determination is extended to Central Europe, as I am utterly convinced it will if we do not give in before that, then, of course, all these matters will be adapted to the situation as will be created by the self-determination of Central European nations.

R. C.: **Am I wrong, when I think that either you will one day have "Middle Europe" or you go on with an alliance within NATO?**

Otto von Habsburg: There is no opposition between the two notions. Middle Europe is going to come in with the Western Europeans sooner or later. It is inevitable. And that will be what we call "United Europe".

F. G. H.: **Economically, Europe has to really run to keep up with the world. I am thinking of the United States and Japan. Will "Middle Europe" develop fast enough with us?**

Otto von Habsburg: It will create on one hand unquestionably great problems for us in Western Europe, because we will have to make great efforts to permit "Middle Europe" to extricate itself from the system which was created by the Comecon and which it will take some time to undo. There will necessarily be some transitional period which we would have to prepare carefully. Here, frankly, there is some criticism of mine on the way things are handled at present within the European Community because we are not preparing sufficiently for what is obviously coming towards us. But if we prepare adequately, and I still entertain some hopes that this will be so, we can then assure a certain transition. On the other hand, certainly Central Europe will also create an additional element of strength for the European Community and its links with the West because, while we cannot always stay in the forms of the past - and the Atlantic Alliance, too, is something which is a passing thing - on the other hand, the partnership across the Atlantic, between the US and Europe, is a permanent interest of both sides. While up to now it was mainly an American protection over Europe, I am looking very much forward that we shall be successful in having a genuine partnership where each one of us will take his responsibility.

R. C.: **You say that we cannot live in the past all the time. At the same time, you cannot erase history. I think that there will be great opposition from a lot of countries to this idea of "Middle Europe" because of history, because the centre of this "Middle Europe" finally would be Germany.**

Otto von Habsburg: Not necessarily. You see, after all this "Middle Europe" of today is over 100 million people. If they are able to participate fully in the European Community, while certainly we should never underestimate the role Germany is playing and will continue to play in the European Community, this is an entirely different formula from what it used to be in the times of the national States. And if I see today the relationships between Germany and the countries of "Middle Europe", they have changed fundamentally. One fact, it is a little fact, but it is a very significant one, during the Prague spring the greatest element of health to Prague and the efforts to extricate the Czechs from the Soviet control, came from those Germans, the Sudeten-Germans, which had been expelled from the Bohemia/Moravia and who were now living in Germany. They were the ones most strongly interested in helping the Czechs. That shows that there is a genuine reconciliation which will permit us to start on a new basis which has not all the handicaps of the past.

A GROWING, SECURE AND OPEN EUROPE – A SHORT INTRODUCTION TO THE POLISH PRESIDENCY OF THE COUNCIL OF THE EUROPEAN UNION

By Mr Jan Borkowski¹, Secretary of State at the Ministry of Foreign Affairs of Poland



Mr Jan Borkowski, Secretary of State at the Ministry of Foreign Affairs of Poland

Priorities of the Presidency:

- European integration as a source of growth
- Secure Europe
- Europe benefiting from openness



A few facts and figures about Poland

Capital:	Warsaw (1.7 million inhabitants)
Population:	38 million
Area:	312 685 km ² (9th biggest EU country, sharing borders with Russia, Lithuania, Belarus, Ukraine, Slovakia, Czech Republic and Germany)
Currency:	złoty (PLN) = 100 groszy; 1 EUR = 4 PLN
GDP per capita:	62% (EU27 = 100)
Unemployment:	9,3%

On 1 July 2011 Poland became the fourth member state that joined the EU in 2004 to take over the Presidency of the Council of the European Union. Poland assumes European leadership responsibility after over 7 years of active participation in the European Union. We have gained a better understanding of the process and we thank all our EU partners for their generous support over many years which has helped make it possible.

As a newcomer to this role, Poland is especially grateful to Hungary for its fine work and advice in the first half of this year. Looking to the future, we are happy to co-operate closely with Denmark and Cyprus in our Trio to create a coherent programme for action into 2012.

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It has been 22 years since democratic changes in Central and Eastern Europe began with the Solidarity movement in Poland. In 1989, the first partially free elections ended Communism and led to a freely elected President, Lech Wałęsa in 1990. This was a significant step, which was followed by political and social changes in neighbouring countries and gave fruits like the fall of the Berlin Wall a few months later. We restored our freedom and dignity by mobilising around one bold idea and the values it represented – Solidarity.

Europe is now united and this is a profoundly successful story for our continent that should not be forgotten. This is a story of optimism, growth, teamwork and commitment. Europe has been gradually transformed for the benefit of us all.

This process continues. The European Union is changing at a pace and scope not seen for a long time. The economic crisis – the underlying cause of these changes – has demonstrated the strength of European integration, but the EU is still facing enormous changes. In many parts of the European Union public debts are growing, unemployment is stubbornly high and new jobs are not being created. At the same time, Europeans face other painful strategic questions: long-term energy supplies; migration and border control; fierce economic - and political - competition from other parts of the world; instability across North Africa and the Middle East. Above all, we face the issues around the Eurozone and Europe's financial markets.

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1. Mr Jan Borkowski, PhD – Secretary of State responsible for Parliamentary Affairs, European Information, Polish Diaspora and Consular Services. More details can be found at the MFA site: www.msz.gov.pl

A GROWING, SECURE AND OPEN EUROPE – A SHORT INTRODUCTION TO THE POLISH PRESIDENCY OF THE COUNCIL OF THE EUROPEAN UNION

All these problems are combining to test, as never before, some of our common deeply held assumptions of Europe-wide solidarity and common resolve. This is the situation facing the European Union as Poland takes its turn in the Presidency.

Now, I know what you're all wondering. You're asking yourselves: *"In their short few months leading the European Union, can the Poles really do anything new or add value? Especially when those problems facing Europe are so large and complex..."*

You're right to be realistic.

Very few Presidencies push through sudden directional changes or achieve dramatic policy leaps planned before the Presidency started. But a new Presidency brings renewed energy; a change of style; a chance to identify new themes; to plant policy seeds which may grow into sturdy plants, benefiting people across our continent and far beyond.

Yes, Europe is facing severe problems. In the months and years to come, Europe will need to take transforming, far-reaching decisions. Poland knows all about facing severe problems and we are ready to draw on the lessons of our experience. Our approach can be summed up in three words, describing the way we see the European Union and Poland's role in it:

- Growing
- Secure
- Open

* * * * *

First, we want a **Growing Europe**

Support for the EU

Poland has one of the highest levels of support for the EU. According to the recent polls almost 82% of Poles declare their support for EU membership. The high interest that the EU generates among young people is manifest in more than 1600 school European Clubs supported by the Ministry of Foreign Affairs and Ministry of Education.

All Europe's policy ambitions for ourselves, for our own neighbourhood and for our global reputation will falter, if we do not put our own economic house in order. A Europe struggling with its own financial credibility on global markets will not be growing, or secure. Its openness will be called into question. We all have to remember that Single Market is the biggest asset of the EU, even if its potential for growth is not entirely utilized.

Poland is not a member of the Eurozone, but the euro is our vital interest. It is our strategic goal to join the Eurozone when conditions are met. Poland joined the Euro Plus Pact precisely to show this commitment. As Poland moves towards Eurozone membership, it brings one of the EU's best performances in recent years -- that of sustained economic growth and sound financial management. We have a constitutional rule of capping debt to 60% of GDP which the government cannot breach, and additional expenditure rules that are now being developed as a consequence of the crisis. This prudent fiscal framework, together with a flexible economy and investment of EU funds helped keep us growing, even during the crisis.

Therefore, as the Presidency, we plan to play a full role in helping European partners identify the modern regulation framework the EU needs to move forward strongly and to grow faster. However, the foundation of future European success is not clever rules for clever money. It is Europe's people, working together hard and well to create value. The Presidency supports Commission proposals for reforming the Internal Market – the Single Market Act. As the Presidency, Poland will focus on several practical areas where Europe's own rules - and cautious, inflexible attitudes - are holding people back -- areas where we can make a difference to hundreds of millions of people.

The Polish Presidency will focus on following issues:

1. E-commerce must be a big part of the European market's future. Europeans are comfortable about online shopping in their own countries, but still uneasy about buying online from sites elsewhere in the Union. Some 60% of cross-border e-commerce is not happening due to legal constraints. We need to make progress on that.

For decades Europe was divided by the ugly Berlin Wall. That has been demolished - but far too many ugly little legal and regulatory walls still stop things from happening. Imagine if we got took down those walls, and how new ideas and new jobs would be created, how things would work much more smoothly. The Presidency will warmly support Commission proposals

to create a new legal area for EU-wide common sales contracts. This will bring people together across and beyond internal borders.

2. The internet is the basic tool of our time for getting necessary information for our lives. We should be not forced to limit ourselves when we cross the border. To achieve that, the EU needs cheaper roaming services. It makes no sense that simply by crossing from one part of the Union to another Europeans are deterred from cooperating online by high prices.

3. Less obvious, but no less strategic is the EU patent regime, which could save millions for our entrepreneurs and therefore encourage faster innovation. Measures like this can make a real difference. They set people free and they are on the table to be pushed through.

4. While this work goes on, Europe must invest for the future. This Presidency sees the first major moves to define the EU's next budget framework for 2014-2020. Pressures on national treasuries are strong, for all the obvious reasons. But Europe can not afford to step back from the strategic investment - and strategic solidarity - that the EU represents. This budget underpins the Europe 2020 strategy. We should also not forget that EU budget serves different purposes than national budgets.

The Presidency is confident that in the coming months this sensitive budget negotiation can get off to a fair and reasonable start. We will be setting the scene for a final budget deal next year, so our ambition is to work hard and fairly in order to clarify issues at stake and to understand what the Commission proposal means for every member state.

* * * * *

A Growing Europe needs a **Secure Europe**

Security depends on maintaining confidence – in our policies, our institutions, our communities, and ourselves.

The institutional and community framework includes border management policies that work, and enjoy the respect of citizens. Reasonable and orderly processes of migration help Europe. Chaotic pressure on Europe's borders brought about by events beyond our control creates serious new problems for many member states. This can even call into question our hard-won internal solidarity on free movement of people. The Polish Presidency will push for enhanced capacity to help Frontex deal with these unexpected crises.

At the most basic human level of security is food itself. A secure Europe means having ways to cope with shocks to global food supplies. Security also comes from biodiversity: balancing economic development with essential environmental protection. The Common Agricultural Policy has served Europe well, but it needs reform. The Presidency will promote good compromises which combine market-based reforms with continuing support where that makes sense, especially for less developed rural areas.

A Europe secure in itself articulates a credible and united voice in international affairs. Here the Lisbon Treaty opens up new ways to deploy different sorts of power, to formulate policy and to have a collective impact. The Presidency means to develop these options, pushing hard to bring together civilian and military operations, and supporting the High Representative as she builds up the EU's collective external policy networks.

* * * * *

Finally, an **Open Europe**. A growing and secure Europe is a generous Europe, extending its success to other countries.

This Presidency wants to see Croatia's Accession Treaty signed, and progress made with Turkey and Iceland. Serbia has made an important step towards EU membership by arresting General Mladic. Let's push ahead with helping all the countries of the Western Balkans move through their accession programmes in a positive and mutually reinforcing spirit.

Our Presidency will look East. And South.

In Eastern Europe there is still unfinished business. Opening things up to allow people and trade to move is the best way forward. Belarus is an extreme case, a country whose economic prospects are now in serious danger because of a banal

tyranny. The forces of reform need unwavering EU support. Ukraine and Moldova are in an incomparably better position – and we want to see it better still. We will push to conclude Association Agreements, more visa liberalisation and new free trade areas.

The Presidency will work to set up a new framework of cooperation between the EU and Russia. Poland of all countries in Europe knows just how important it is to get right Europe's relationship with its largest neighbour. Right in tone, right in substance.

All these policies and initiatives come together in September in Warsaw at the Eastern Partnership Summit. This hugely symbolic event brings together EU and central and eastern European leaders. It marks a new, important step in the integration of our continent and shows that Europe is not only focused on its internal processes but tries to reach out to our neighbours.

If Europe has unfinished business in the East, to the South the business is only beginning! Dramatic events are unfolding in North Africa and the wider Arab region. People are demanding accountable government, an end to clumsy oppression. As we know from our own continent, it's one thing to end a bad system – quite another to build a strong new one. Sustained reform means mobilizing the energy and discipline of one's own people. These changes in the region will take years, even decades. Not all these changes will be for the better. Some religious (including Christian) and ethnic minorities need and must have a special European policy voice. These countries need to find their own path. The EU will support them with the technology of democracy, in the best spirit of European solidarity and mutual respect.

Our Presidency will help get the right policy mix. The EU draws on the hard-won experience of Poland and the other countries which have cleared the rubble of oppression to build modern policies and free transparent institutions. We therefore plan a high level conference in December to share best practices from our transformation and help facilitate change and democratisation in the South.

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If one thing is certain in our uncertain world, it is this: that something unexpected - and probably unwelcome - will come along during the Polish Presidency. We'll be ready for that too as we were ready for big changes over the decades.

Poland takes its first EU Presidency in the spirit of solidarity and optimism. Knowing the learning lessons from the past we will try to work for our common future. We will be glad if you would join us in this experience at www.pl2011.eu.

Cultural dimension of the Presidency

CULTURE_QPL

Poland will use the time of its Presidency to also showcase Polish culture. As Poland has, for many centuries, been involved in intercultural dialogue, where artists of different nationalities have created their outstanding works and where Polish writers and painters have become an important part of the culture of other nations, thereby creating a common European heritage. Details and calendar of events could be found at www.culture.pl.

The Network corner is a the section of the Journal created in co-operation with the Network of the SAIs from the Candidate and Potential Candidate Countries, and the European Court of Auditors.

These SAIs are highly involved in the work of the Contact Committee via the Network, the Joint Working Group on Audit Activities (co-chaired by the Czech and Romanian SAIs) and SIGMA. Also the trainees from the Candidate Countries can be met in the corridors of the Court as they participate in the Internship Programme offered by the Court.

Unfortunately we do not all have the chance to work with our colleagues from these countries. In order to make these institutions better known, the DOP's Liaison Officer service and the members of the Network have decided to launch a series of articles presenting these various institutions.

This month we present The Supreme Audit Institution of Bosnia and Herzegovina (SAIBiH)



Bosnia and Herzegovina (BiH) is a heart-shaped country located in South Eastern Europe, in the centre of the Balkan Peninsula. With its diverse ethnic make-up, its varied landscapes and climate zones, and its long history as a place where different cultures meet and merge, Bosnia and Herzegovina is a unique country where, for centuries, people from all over the world have met and exchanged goods and ideas. The country's lifestyle is deeply rooted in its rich tradition, cultural heritage and natural beauties, but offers all the amenities of the West.



Bosnia and Herzegovina is, unfortunately, best known for the three-year war that occurred on Bosnian soil during 1992-1995. As a result of the war and its ethnic divisions, Bosnia and Herzegovina today finds itself with a very complex government structure which prevents a smoother post-conflict recovery process. As it dealt with reconstruction, BiH also faced the transition from socialism to a market-based economy. Nevertheless, sixteen years after the war, Bosnia and Herzegovina has made substantial progress in its overall economic and social development and the country is in the process of integrating into the European Union (EU).

The founding of the SAIBiH

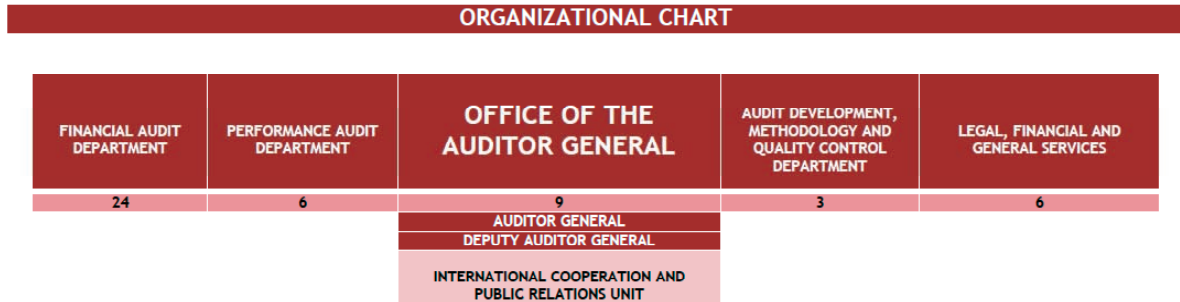
The SAIBiH was founded in 1999 when the first public-sector auditing law was adopted by the Parliament of BiH. The Law established an 'Office for Auditing Financial Operations of the Institutions of BiH', which was the official name of the SAIBiH at the time, as translated from local languages. The Law aimed to establish an independent, external auditing body whose purpose would be to ensure transparent, reasonable and accountable management of public funds. Thus established, the SAIBiH commenced its auditing activities and produced its first audit reports in 2001.

Increasing awareness and knowledge of public-sector auditing led to the Law being amended in 2006. The amendments were primarily aimed at strengthening audit independence and defining the appointment and status of the Auditor-General, as well as the SAIBiH's staff. The new Law reflected the needs, experience and environment of BiH and was fully aligned with European standards.

Human resources

Alongside the development of the legislative framework, there were ongoing efforts to develop the institution itself and to recruit qualified personnel. As no public-sector auditing tradition had previously existed in BiH, recruiting suitably qualified and competent staff was a difficult task. The institution's management therefore decided to adopt a combined approach by bringing together a team of several chartered accountants and auditors with abundant working experience and a larger

number of young graduates who were given the opportunity to specialise in public auditing and build a career at the SAIBiH. It is therefore no surprise that the average age of SAIBiH staff is under 35. At present, the SAIBiH employs 48 staff members.



The SAIBiH is headed by the Auditor-General, Mr Milenko Šego, who is seconded by Deputy Auditors-General, Mrs Božana Trninić and Mr Dževad Nekić.



Mr Milenko Šego, Auditor-General

International cooperation

The SAIBiH’s international cooperation is reflected in its membership of and activities within international professional associations. The SAIBiH has been an INTOSAI member since 2001 and a EUROSAI member since 2002.

Since it was founded, the SAIBiH, together with the two sub-national audit offices, has been involved in an institutional cooperation programme with the Swedish National Audit Office (SNAO) which has been implemented under the Memorandum of Understanding signed between BiH’s audit offices and the SNAO.

The SAIBiH has also successfully developed bilateral cooperation with other SAIs, in the form of joint seminars, visits, and exchanges of experience, audit skills and information. A very important aspect of international cooperation for the SAIBiH is its relationship with the European Court of Auditors (ECA).

The SAIBiH has a representative on the committee of liaison officers within the Network of Candidate and Potential Candidate Countries and the ECA, and also actively participates in the Network’s working groups.

Besides cooperation with other SAIs and professional organisations, the SAIBiH continuously establishes and maintains contacts with other international institutions/organisations such as the World Bank, USAID, SIGMA, GRECO, etc.

Scope



The SAIBiH is authorised to perform financial audits, performance audits and other special audits. Its mandate covers all BiH's public institutions, including off-budget funds and budget funds allocated to any other organisation or body. The SAIBiH is also responsible for auditing loans or grants awarded by international organisations to institutions or projects in BiH and public enterprises with state majority ownership. Within the general auditing process, the SAIBiH also performs IT audits.

Reports



The SAIBiH's main output is its audit reports, opinions and recommendations, which aim to improve the management of public funds. Over the past ten years, the SAIBiH has issued more than 500 audit reports and made thousands of recommendations. Although an awareness of the significance and implementation of its recommendations is a key mechanism for improving public transparency and accountability, there has been limited impact on the public sector. In recent years, however, this awareness has gradually increased, leading to a significant increase in the percentage of recommendations implemented, to more than 50% in 2009. Most recent activities undertaken by the SAIBiH concern the 2009 financial audit of BiH institutions, about which the SAIBiH has issued 68 audit reports. All reports by the SAIBiH, except for the few that contain confidential information, are made public and are regularly published on the SAIBiH's website.

Perspectives

For the SAIBiH to achieve a greater impact, it needs to do more than just produce audit reports and opinions. A holistic approach to the sustainable resolution of issues and the improvement of our auditees' management systems will make it easier to select the activities with which we can properly address key issues affecting cost-effective public-sector management. This calls for further development of the SAIBiH's existing functions, in particular financial and performance audit, as well as the design and introduction of new auditing processes (such as forensic and environmental audits) in order to keep pace with international trends and developments.

As for its strategic development, the SAIBiH will, in the years to come, focus particular attention on institution-building, professional development, consolidating the professional capacities of its staff and ensuring an adequate audit impact based on the six strategic priorities endorsed at the 2010 INCOSAI congress held in Johannesburg. The SAIBiH is committed to making further efforts to promote the independence of supreme audit institutions, implement the ISSAI framework, continue to fight fraud and corruption, and help promote accountability in the public sector.

For more information on the SAIBiH, please visit:

<http://www.revizija.gov.ba>

THE AUDIT METHODOLOGY OF THE EUROPEAN COURT OF AUDITORS FROM A HISTORICAL PERSPECTIVE

By Judit Fortvingler

**A paper submitted in fulfilment of the requirements of the grant awarded by
the European Court of Auditors and the European University Institute**



Born in Budapest, Hungary, in 1975.

Master of Science in Economics from University of Economic Sciences, Budapest. Member of the Hungarian Chamber of Auditors since 2010.

She studied monetary integration at the University of Maastricht, the Netherlands as a grantee of the cooperation between the Dutch and the Hungarian governments. After graduating, she worked for the National Bank of Hungary as an economy analyst for the households' net financial savings, from 1999 until 2006.

From 2006 until 2009, auditor for a private auditing company in Hungary, which has clients in both the private and the public sectors.

Assistant Professor at the University of Technology and Economics, Budapest, Faculty of Economics and Social Sciences, Department of Finance, from 2006.

Her subjects are accounting and auditing. The later also includes some aspects of auditing of the EU funds in Hungary.

PhD student, the subject of the doctoral thesis: "Auditing EU funds Europe wide: towards a common audit methodology".

Awarded by the Postgraduate Research Grant Programme 2009, that has been created by the European Court of Auditors in cooperation with the European University Institute, she made researches in Luxembourg and in the Historical Archives of the European Union, Florence. She prepared a paper on "The audit methodology of the European Court of Auditors from a historical perspective".

Acknowledgements

Many thanks to colleagues at the Historical Archives of the European Union in Florence and the European Court of Auditors in Luxembourg.

The help of professional staff at the State Audit Office of Hungary has been most appreciated.

Finally, the author gratefully acknowledges the assistance of all interviewees.

1. INTRODUCTION

1.1 Foreword

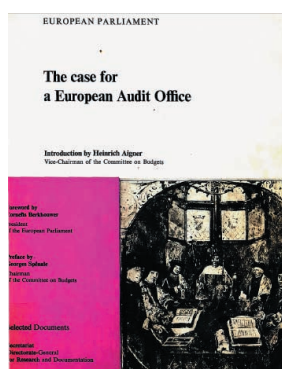
This opening chapter gives a brief background to the European Court of Auditors (ECA) and provides details of the legal framework and professional standards the ECA has to adhere to. The following chapter presents the significant milestones in the methodological evolution, and splits the overall period from the foundation into phases. The aim of the research was not to give a full and detailed picture of the methodology itself, but rather to identify the key elements of the process.

Finally, also discussed is the rationale for further research and how it can be developed into a more complex doctoral thesis.

1.2 The birth of the ECA

Prior to the establishment of the European Court of Auditors, the external audit function of the Community was carried out by two bodies: an Audit Board for the accounts as a whole and, on the other hand, an Auditor for the operational revenue and expenditure of the European Coal and Steel Community. Owing to the enlargement of the Community, and the parallel growth in the size of the budget, it became apparent that the Audit Board was not in a position to ensure the expected quality of external control of the Community's finances.

In 1973, Heinrich Aigner published a report, *The Case for a European Audit Office*, which initiated the idea of putting the question of transforming the Audit Board into a European Audit Office on the agenda. After a two-year debate, the European Court of Auditors was established, and it started its operation a few years later; the long story of its methodological evolution began.



source: www.eca.europa.eu

1.3 Legal framework

From the legal point of view, the roots of the ECA go back to the Treaty of Brussels in 1975, when certain financial provisions were amended and the ECA was created. Becoming operational in 1977, the ECA was established as an external body to replace the preceding audit bodies and to foster transparency and credibility for European finances. With the entry into force of the Maastricht Treaty (TEU - Treaty on European Union) in 1993, the role and the power of the ECA was remarkably strengthened, as it became one of the institutions of the European Union.

The Treaty of Amsterdam, effective from 1 May 1999, authorised the ECA to perform sound financial management audits and to seek remedy at the Court of Justice in pursuing the fight against fraud even when other European Union institutions are affected.

The Treaty of Nice, in 2001, stressed the importance of the cooperation between the ECA and the Supreme Audit Institutions of the Member States, and laid down that the ECA should be composed of one Member from each of the Member States.

According to the Treaty on the Functioning of the European Union (TFEU), the tasks of the ECA are set out as follows¹:

- examining the accounts of all the revenue and expenditure of the Union and of all bodies, offices or agencies set up by the Union;
- issuing a statement of assurance, known as the DAS (*Déclaration d'Assurance*) after its French acronym, for the European Parliament and the Council concerning the reliability of

the accounts and the legality and regularity of the underlying transactions;

- examining whether all revenue has been received and all expenditure incurred in a lawful and regular manner, and whether the financial management has been sound.

The ECA has a mandate to perform audits both based on records and on the spot in any institution, agency etc., which manages EU funds, even in the Member States, down to the final beneficiaries. While doing so, the ECA and the audit bodies of the Member States “shall cooperate in a spirit of trust while maintaining their independence”²

In addition to the Treaties, the Financial Regulation (FR) lays down the basis for the whole budget cycle, from drafting through to implementation. As such, the FR mentions the special powers which the ECA has. While performing its audit task, the ECA is empowered to consult all information and documents considered to be of importance.

Based on its activity, the ECA produces different types of publications:

- annual reports for each financial year;
- special reports on specific questions (result of performance and compliance audits);
- specific annual reports concerning European Union bodies (result of financial audits);
- opinions at the request of other EU institutions.

1.4 Professional standards

In performing its audit tasks laid down in the TFEU and the FR, the ECA adheres strictly, insofar as they apply to its work, to internationally accepted standards: the International Standards on Auditing (ISA) and the International Standards on Assurance Engagements (ISAE), both issued by the International Federation of Accountants (IFAC), the INTOSAI standards, and the European Implementing Guidelines for the INTOSAI Auditing Standards. The process to converge the ECA's standards and international ones is of crucial importance because it seriously influenced the evolution of the ECA's methodology. Consequently, there is unquestionably a need to give a summary of the fundamental standards.

The first significant sign of efforts towards the harmonisation of internationally accepted standards in the ECA's practice was in 1991, when the Contact Committee of the Presidents of the Supreme Audit Institutions of the European Union established an ad-hoc working group on auditing standards. The group was designed to develop guidelines based on the INTOSAI Auditing Standards, accepted at the 1992 INTOSAI Congress, which are applicable in the European Union and serve as a common methodological point of reference. In 1994, the group prepared a set of eight draft guidelines, and identified the need for further ones. At this stage, some important issues were raised³:

- what are the benefits of adopting the INTOSAI standards and European guidelines in particular; what problems might be encountered if the ECA did adopt them?
- to what extent are the INTOSAI standards and European guidelines compatible with the ECA's Audit Manual and the approach it has adopted for the DAS audit?
- are these standards and guidelines compatible with the TEU and the FR?
- what are the implications of adopting the INTOSAI standards and European guidelines for both the ECA's internal functioning and the ECA's external relations?

Even at the beginning of the work, all agreed that the adoption and implementation of the INTOSAI Auditing Standards and developed guidelines would be beneficial for the ECA, and voted for a test period for the standards.

At this stage, the ECA's audit manual was under revision and the European Guidelines were taken into consideration in this process.

In addition to the INTOSAI Standards, the birth of ISAs in 1991, transforming the former guidelines to standards, was also a fundamental element of the framework for the ECA's work.

In 1997, the ECA adopted the Court Audit Policy and Standards (CAPS) that served as a framework for the implementation of the revised Audit Manual⁴. The CAPS, codifying the ECA's practice, did not involve significant changes but synthesised three fundamental sources:

- the INTOSAI Auditing Standards;
- the IFAC International Standards on Auditing; and
- the ECA's audit policy.

The CAPS, the INTOSAI, and IFAC standards are structured in approximately the same way, only their scope differs in a few respects. Nevertheless, the adoption of the CAPS was considered to be of huge importance as it formally declared the use of harmonised standards in the ECA's practice.

The adherence to relevant international standards has since remained a high priority and has constantly been under review. The ECA's Quality Assurance system, launched in 1998 as an *a posteriori* tool, has monitored compliance with CAPS from time to time. Not only did the internal quality assurance system evaluate the compliance but also external reviewers assessed it. In 2008, the International Peer Review of the European Court of Auditors⁵ reached the conclusion that the ECA conformed to international auditing standards.

To conclude this part, the ECA has made noteworthy efforts to comply with international standards in the past twenty years, and reviews have proved that those were effective.

2. THE EVOLUTION OF THE METHODOLOGY

The ECA's methodology has been evolving for decades, and has been highly influenced by both internal and external factors. On the one hand, the aforementioned development in compliance with standards has strongly affected the methodology in use. On the other hand, the progress of the ECA's methodology relates remarkably to the institutional evolution of the ECA. Finally, the task of issuing the DAS on the reliability of the EU accounts and on the regularity and the legality of the underlying transactions necessitated the development of a DAS methodology itself.

When examining the methodological evolution, it must be borne in mind that the ECA principally carries out two different types of audit, which has had a considerable influence on the dynamic of the development itself. Financial audits concentrate on reliability, legality and regularity^a issues, while performance audits deal with sound financial management^b. Depending on the period under examination, methodologies of the two types of audit were developed, in some cases, with diverse dynamics or often in parallel.

The efforts devoted over the decades to developing a methodology have resulted in a well-structured, four-level methodological framework. This chapter provides details of the phases^c of the evolution of the ECA's methodology, from its foundation until recent developments.

2.1 Phase 1 (from 1975-1993)

Once the formal organisational structure of the ECA had been set up, the next question was how the tasks laid down in the Treaty of Brussels should be implemented. The goals were clear, but the manner of implementing them was challenging, especially given the diversity of the ECA's Members.

After starting its operation in 1977, the ECA first had to establish a philosophy, and so it was unrealistic to expect any rapid effect⁶. Given the diversity of auditing practices in the Member States, the ECA first had to establish its approach to auditing⁷.

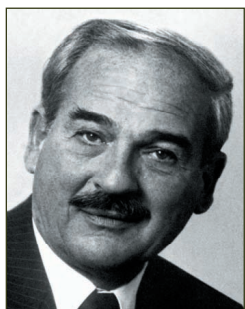
a. Reliability: examining the accounts of all the expenditure and revenue of the EU and the EU institutions. Legality and regularity: checking the legality and regularity of the underlying transactions of EU money.

b. Sound financial management: checking if the financial management of the EU has been sound.

c. The whole process of the evolution is divided into three phases, as detailed later.

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In the first few months, the ECA tried, as a starting point, to define its objectives, including determining what the phrase “good financial management” really means⁸. The ECA concerned itself with a value-for-money (VFM) type of audit. Meanwhile, the formation of audit working groups and the creation of rules of procedure were also of fundamental importance in order that the ECA could start its audit operations. Although there was no formal methodology used in audits at that time, its development had already started. As stated in the first Rules of Procedure, the President of the ECA was responsible for ensuring (guaranteeing) uniform auditing procedures across the various sectors being audited. A general department was set up with the responsibility of improving audit procedures and of drawing up reference material for auditing⁹, which can be seen as the root of methodology.



André J. Middelhoek
President from
12 January 1993 to
31 December 1995
source: www.eca.europa.eu

In 1978, André J. Middelhoek, who later became president, prepared a paper on working methods¹⁰. He enumerated a wide range of audit methods, which were relevant to the ECA's work. Methods differed depending on whether the regularity and legality or the evaluation of financial management was under examination. In general, methods were split into two categories:

- examination of individual transactions;
- system / procedures examination.

As regards regularity and legality, Middelhoek emphasised the need for computer-based auditing, the use of audit programmes, and sampling methods instead of 100 % checks. To perform the tasks entrusted to it by the Treaty, in 1978 the ECA adopted a broader approach, the *systems approach*, for examining legality and regularity. By definition, a systems approach refers to the concept that “the auditor seeks to rely, as far as possible, on the systems of management and internal control applying to the particular Community body or activity being audited”¹¹ on the assumption that

the auditee has an internal control function. In fact, the ECA could not hope to be able to examine each of the millions of transactions associated with the EU budget, thus the systems-based approach seemed to work.

As for the evaluation of financial management, the core concept demanded effectiveness and efficiency, and thus concerns about “why” (objectives), “how” (to implement the objectives), and “how much” (cost-benefit analyses) were raised. Those years can be seen as the period of trying to define the relationship between working methods and the work programme, in the absence of a clear, written methodology. Noteworthy efforts were made to analyse working methods, i.e. for the accounts of 1978, in order to establish *common guidelines*¹² applicable to different areas, among which methods were also included, to foster a more common approach. Nevertheless, the terms “methodology” or “manual” were not even mentioned.

Concerning financial management, Middelhoek proposed four criteria by which it could be evaluated:

- *materiality*: refers to “relatively considerable impact in financial terms”, no detailed definition was given;
- *generality*: systematic weaknesses rather than incidental cases should be considered;
- *objectivity*: “factual substance” of information presented; and
- *political sensitivity*: consideration of political significance.

Despite the fact that Middelhoek's paper can hardly be judged as a methodology or even a broad approach to auditing, it can definitely be considered as a pioneer of the later methodological evolution by analysing audit methods. Still, the constructive approach to audits remained unsolved.

Building on the outcome of Middelhoek's work, a working party started its operation in autumn 1978 which resulted in an exhaustive report on the audit of financial management. That was the first remarkable attempt to set down a common approach to auditing funds by the ECA. The study¹³ was completed in January 1980, and was presented at the Court meeting by Middelhoek. The novelty of the study was that it broke down the concept of sound financial management into three subcategories: economy, efficiency and effectiveness. In other words, the requirement to investigate “whether the financial management has been sound”¹⁴ implies the analysis of the aforementioned “3Es” (economy, efficiency and effectiveness).

THE AUDIT METHODOLOGY OF THE EUROPEAN COURT OF AUDITORS FROM A HISTORICAL PERSPECTIVE

Table 1 - The "3E" concept

	economy	efficiency	effectiveness
definition	resources are available at the right time, in the right place/quantity/quality, at the right price	relationship between the goods and services produced (output) and the resources employed (input)	degree of goal fulfilment in a cost-effective way
financial management tasks	choosing resources in various quantities and qualities at various prices	appropriate organisation and operation	high degree of effectiveness
audit tasks	systems are established in a proper manner, collect evidence to prove the choice of type, quality and price	evaluate whether the management establishes adequate procedures	justify that there is a clear link between activities and main objectives
limitations of audits	misinterpretation if carried out without considering the output	efficiency alone does not exclude waste of resources	

source: DEC 13/80

In addition to the analyses of the abovementioned core components, the study also introduced a simple model for auditing financial management. Forming an opinion on financial management clearly includes prior examination of:

- individual transactions/projects;
- systems operated by the management.

The model was built on the existence of a strong inter-relationship between transaction-based and systems-based audits. If there are deficiencies in a transaction, the grass roots have to be revealed in order to be able to eliminate procedural weaknesses deriving from the system itself. On the other hand, system weaknesses have to be reflected at transaction or project level by estimating the possible effect.

The study also defined, for the first time, the fundamental parts of auditing the financial management:

- review of the whole area, selection for examination;
- preliminary survey of selected subjects;
- execution;
- reporting.

At the *selection stage*, one has to take into account different aspects of subjects (i.e. the size, the importance, high risk of management problems). At the *preliminary stage*, the selected subjects are investigated in a broader sense. This step has crucial importance with respect to the following stage, the *planning of audits*. Afterwards, the *execution of the audit* requires significant resources primarily focused on the auditee's monitoring systems. Taking the systems-based approach as a starting point, if an auditor sees the systems are failing, further examinations must be undertaken resulting in more intensive substantive tests. Finally, the outcome of the auditing is summarised in *reports*.

To sum up, the report in question had two main achievements. First, it set out an exhaustive description of the concept of the "3Es." Secondly, it gave a comprehensive picture of the stages of financial management, as it had never been defined before. It is important to emphasise that the approach dealt mostly with the audit of financial management, and not with legality and regularity.

In addition to the report on the audit of financial management, the year 1980 can be seen as a threshold from the methodological point of view. The establishing of audit groups in 1980 gave rise to a special unit, the ADAR Group (Audit Development and Reports)¹⁵, which focused on, amongst other tasks, the development of audit practices by moulding the diversity into a common approach, which later resulted in the Audit Manual.

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A few years later, in a progress report on financial management audit¹⁶ it was stated that, despite the efforts, there was still no consistent approach to that type of audit. To remedy the situation, a pilot project for defining the basis for a common approach and standards was proposed. As a starting point, Aldo Angioi^a suggested a study for the Structural Funds alone so that the feasibility of a comprehensive approach could be judged. However, this proposal, a trial for Structural Funds alone, was not implemented.

In seeking to define a common basis for a methodology, it was a substantial milestone when Middelhoek submitted the *Audit Guidelines* to the President and the Members of the ECA in 1983.¹⁷ These guidelines, developed on the basis of the audit notices used until then, were intended to reinforce the consistent approach to auditing and to form the basis for the later Audit Manual.

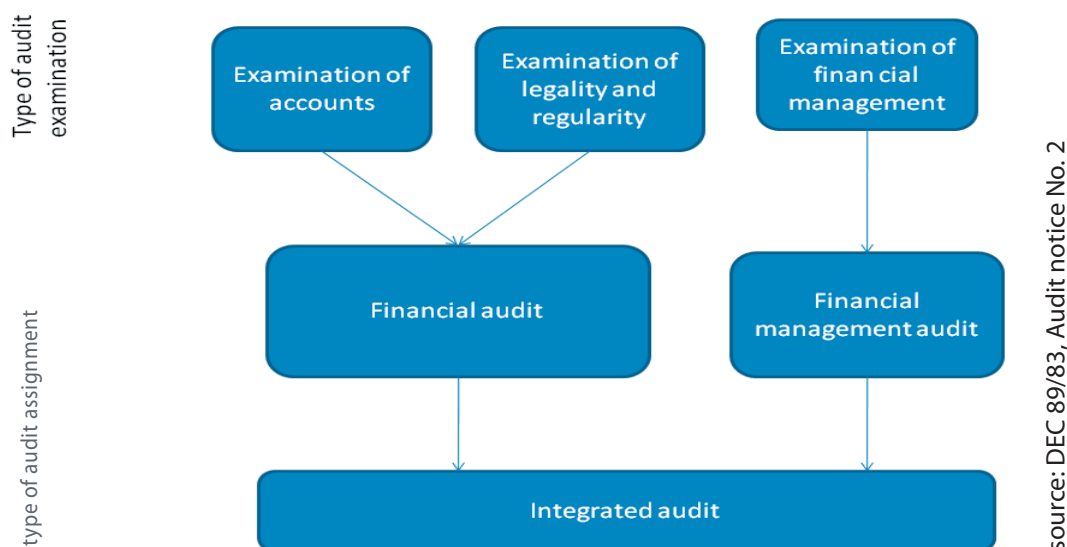
Table 2 - Audit notices in 1983

No.	Title of notice	Status
1	Conduct of audit inquiries	unchanged
2	The ECA's audit approach	revised
3	Ascertaining, documenting and evaluating systems and controls	revised
4	Audit working papers	revised
5	Financial management audit	unchanged
6	In-depth examination of the systems and procedures of the Commission	unchanged
7	Procedural arrangements for the Annual Report	unchanged
8	Planning and programming the audit	new
9	Internal procedural Manual on Audit Reports and Opinions	unchanged
10	Financial Audit	new

source: DEC 89/83

As regards the scope of the audit, the Guidelines made a distinction between the examination of the accounts, that of legality and regularity, and the examination of financial management, complying with the provisions of the EC Treaty and the FR. Nevertheless, there is a relationship between these tasks: in order to operate in a legal and regular manner, a reliable accounting system (reliable accounts) is required. Additionally, the audit of the accounts serves as a basis for the examination of the regularity, legality and financial management. Consequently, the guidelines offered an "integrated audit" if there was an overlap between financial and financial management audits.

Diagram 1 - The concept of integrated audit



Concerning the audit approach, all agreed that examining every transaction of the Community was unreasonable due to the aspects of cost-effectiveness and the existence of the internal control system of the auditees themselves. The ECA had previously applied the systems-based approach, and the Guidelines reaffirmed this viewpoint. According to the systems-

a. President of the ECA from 21 December 1989 to 31 December 1992.

based approach, the auditors seek to find, as far as possible, evidence of a well-designed and appropriately managed system, in order to be able to place reliance on these systems, which eventually decreases the amount of detailed testing. Irrespective of the type of audit, whether financial audit or financial management audit, the systems-based audit approach should contain certain phases:

- planning;
- system evaluation;
- execution of audits;
- reporting.

The Guidelines gave descriptions of the different stages of auditing, detailed hereafter.

Planning

Within the set of audit notices, one quite extensive audit notice¹⁸ has been devoted to planning (and programming) the audit. At the planning stage, the annual work programme has been transformed into more detailed planning documents:

- the audit planning memorandum (APM): overall strategic plan for the audit;
- the audit programme: converting the strategic plan into detailed audit tasks;
- the job budget: estimating the necessary human resources of the audit assignment, and comparing that with the resources used.

System evaluation

As compared with the study detailed previously, one can conclude that a new phase, the system evaluation, was incorporated. At the system evaluation stage, auditors assessed whether the internal control systems had operated appropriately to ensure that the accounts are fair, the revenues and the expenditures are legal and regular, and finally, financial management is sound.

Execution

Depending on the type of audit assignment, the execution stage may vary in nature. To obtain reasonable assurance as to whether the “accounts are materially legal and regular,” which is the main goal of financial audits, a combination of three types of audit procedures has to be applied:

- compliance tests to evaluate whether controls operate properly in practice;
- an analytical review of trends, variances, etc.;
- substantive tests of the underlying transactions.

If one considers the range of tools an auditor applies nowadays, it can be seen that the methods have not basically changed. Nevertheless, the interaction between elements has undergone a remarkable evolution so far.

The main objective of *compliance tests* is to find out whether reliance can be placed on the control systems, which highly influences the auditor’s procedures. If there is any sign of system weaknesses, it is not worth investing time in compliance tests, as the area of substantive testing cannot be limited. Consequently, compliance tests should only be used if a clear link between such type of tests and substantive testing can be determined. The Guidelines included further principles for determining the volume of transactions that needed to be tested in order that the auditor could form an opinion on the operation of internal controls. The maximum number of transactions to be tested is:

$$\text{max} = \frac{\text{total value of population concerned}}{\text{materiality limit}}$$

(sample of 30 items is a minimum)

As can be seen in the formula, a new phrase was introduced. According to the *materiality limit approach*, the maximum value of errors that remained undetected can be appended to an amount previously set by the auditor. In other words, the materiality limit is a threshold that represents the maximum tolerable error. Although establishing the materiality depends on a degree of professional judgement on the part of the auditor, the guidelines suggested that the materiality limit for Community bodies should lie between 0.5 and 2 percent.

The *analytical review procedures* highlighted in the Guidelines seek to determine the areas where detailed substantive testing is required. These audit procedures offer a wide range of:

- trend analysis;
- computation and explanation of ratios and variances; and
- review of other internal or external bodies.

Carrying out analytical procedures needs a lower rate of investment in both time and staff. Moreover, they help to identify which elements of the accounts are likely to be materially correct or incorrect. Therefore, the extent of substantive testing can be determined; if there is a likelihood of significant errors, extended substantive testing will be unavoidable.

Compliance tests and analytical review procedures present indirect evidence concerning the examination of the accounts, legality and regularity. When applying *substantive testing*, as direct evidence, a set of transactions is selected and tested to obtain, together with indirect evidence, reasonable assurance as to whether the revenue and the expenditure are materially legal and regular, and the accounts are free from material misstatements. Substantive tests have to provide evidence in connection with the ECA's audit objectives:

Table 3 - The audit objectives

Audit objectives	Evidence required confirming the following for the account balances or transactions being tested
Legality and regularity	The existence, nature, value and classification are in conformity with all relevant regulations.
Completeness	All amounts relating to the entity at the ^e ccounting data are included.
Valuation	The amounts recorded in the accounts are a reasonable reflection of the value of the underlying assets, liabilities, revenue or expenditure.
Existence	The assets, liabilities or events underlying recorded account balances or transactions actually exist at the appropriate accounting dates.
Propriety	The recorded account balances or transactions relate entirely to the entity being audited.
Presentation (and classification)	All recorded account balances and transactions, as well as the underlying elements and facts, are properly presented in terms of the purposes for which the accounts are prepared and in accordance with appropriate accounting principles.

source: DEC 89/83, Audit notice No. 8

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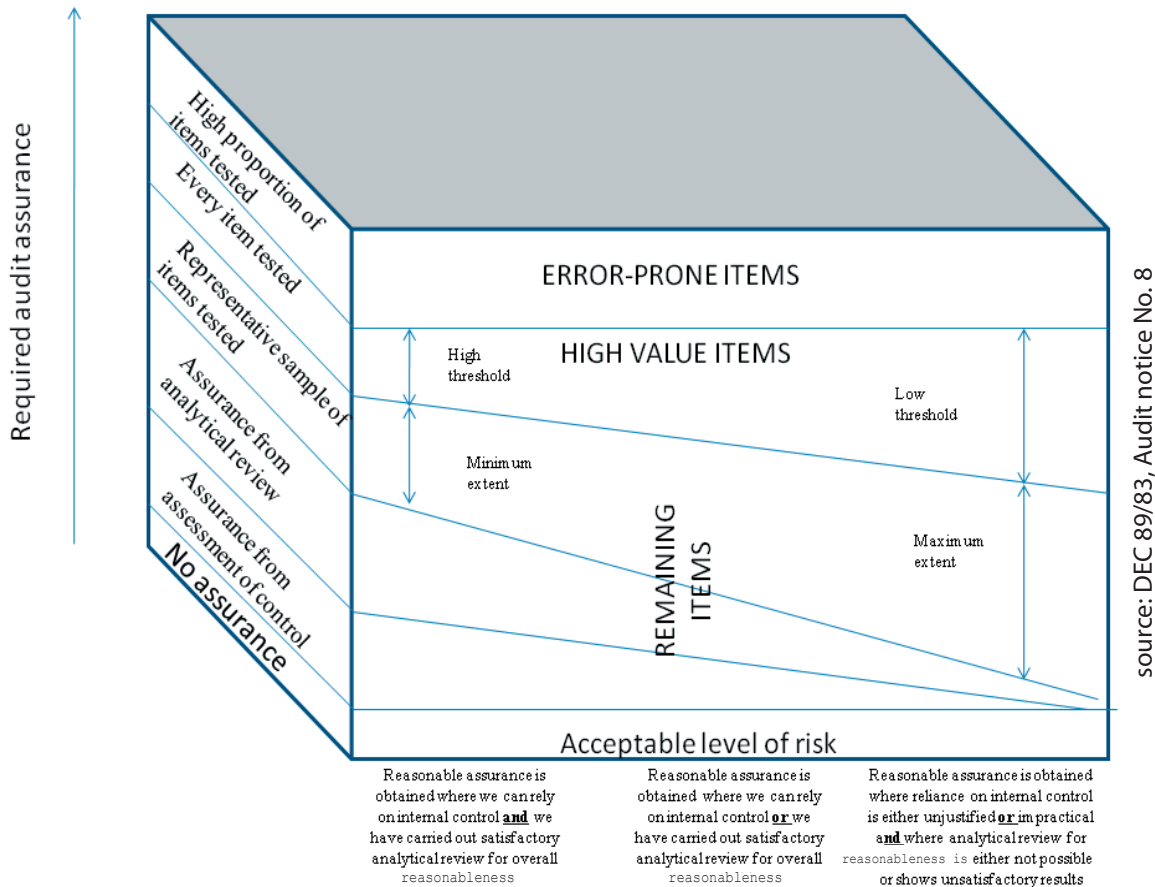
The systematic presentation of audit objectives was considered of fundamental importance as it was the first time that they had been defined in writing in an audit notice, forming the basis for the ECA's first manual a few years later.

With respect to the extent of the substantive testing, the Guidelines suggested that transactions (or items) should be classified into three categories:

- *error-prone items* are likely to be incorrect. These items should be verified separately to avoid misleading conclusions from the sample and should be revealed during the system evaluation phase, compliance tests and analytical procedures;
- *high-value items* which have special importance. Any high-value errors may result in significant errors in total;
- *remaining items* form the sample basis.

The relationship between the above elements can be illustrated as follows:

Diagram 2 - Different sources of audit assurance



According to the approach, the higher the expected degree of assurance from substantive tests, the higher will be the number of high-value and sample transactions to be verified, as the overall audit assurance required, which has remained 95 percent since the publication of the Audit notice, strongly relates to substantive tests.

THE AUDIT METHODOLOGY OF THE EUROPEAN COURT OF AUDITORS FROM A HISTORICAL PERSPECTIVE

Table 4 - The degree of audit assurance required from substantive tests

Verification situation	Internal control and analytical review satisfactory	Internal control satisfactory	Analytical review satisfactory	Neither internal control nor analytical review satisfactory
Overall audit assurance required	95%	95%	95%	95%
Overall audit risk tolerable	5%	5%	5%	5%
Risk of audit procedure failing to detect any evidence or error:				
Evaluation of internal control	37%	37%	100%	100%
Analytical review for overall reasonableness	37%	100%	37%	100%
Substantive testing of accounts	37%	14%	14%	5%
Audit assurance required from substantive test	63%	86%	86%	95%
Appropriate extent factor	1	2	2	3

source: DEC 89/83, Audit notice No. 8, Annex 2

Bearing in mind the audit assurance required from substantive tests, the Guidelines described how the extent of the substantive tests can be calculated following these consecutive steps:

1. determination of:
 - a. the total value of the population (all the items / transactions);
 - b. the materiality limit;
 - c. the degree of audit assurance required from substantive testing (and the extent factor);
 - d. the extent value = materiality limit / extent factor;
2. deduction of the high-value items and error-prone items from the population;
3. determination of:
 - a. the sample size = total value of the normal population / extent factor;
 - b. the total number and value verified is in addition to the error-prone and high value items.

As a result of substantive testing, the most likely error projected, including the outcomes of the sample of the normal population as well as that of error-prone and high-value items, can be determined and be compared on an aggregated basis with the materiality limit.

In comparison with the Assurance Model introduced in DAS practices in 2005, inspired by the revised DAS approach, the audit notices still did not use the terms “inherent” and “control” risks ^a, as those are the consequences of the evolution of ISAs. Instead, the assessment of analytical review and internal control came about. Nevertheless, the approach can be regarded as the predecessor of the current assurance model.

.....
 a. Inherent risk, as part of the audit risk, represents the auditor's assessment that there may be a material misstatement in the financial statements, without taking the effectiveness of the related internal controls into account. Control risk, also considered as an element of audit risk, refers to the deficiencies of the internal control system: it fails to detect or prevent a material misstatement from occurring.

On the other hand, the Guidelines again underlined that the soundness of the financial management had to be evaluated according to the “3E” concept. The Guidelines stressed that not only are the terms economy, efficiency, and effectiveness essential, but also the different management tasks (i.e. goal setting, implementation, monitoring) at each level should be covered in financial management audit assignments.

A separate audit notice was devoted to working papers for internal purposes, which had never been formalised before. The Guidelines used the terms *permanent audit file* and *current audit file*, which are applicable in current audit practices too. Working papers which are of continuing importance for successive audits are recorded in the permanent file, while the current file contains the documents in respect of the performance of the audit providing evidence for the auditor’s opinion.¹⁹

Reporting

Finally, regarding the reporting stage, the tools used for external communication (annual reports, other annual reports, obligatory or non-obligatory opinions, and special reports) were enumerated in the Guidelines, following the stipulations laid down in the Treaty and the Financial Regulation.

In the late 80’s, noteworthy efforts were devoted to harmonising the financial audit, owing to the need to bring audit methods together and lay down a common approach to financial audits. Through the reorganisation of ADAR’s role, an increased level of harmonisation was expected in the field of financial audit²⁰.

It was a significant achievement in the evolution of the ECA’s methodology, and the fruit of considerable effort by ADAR, when the ECA published its first *Audit Manual* in 1990, the content of which mainly dealt with financial audits. Levy describes²¹ the Manual not as an operational guide but as “codified practice on systems audit which can be used for Value



The first Audit Manual ²²

for Money (VFM) audits.” The Manual introduced the term VFM audit to replace the term financial management audit. To sum up the significance of the written Manual, it was a complete systematisation of the former audit notices, guidelines and unwritten practices.

2.2 Phase 2 (from 1993-2005)

When the Maastricht Treaty came into force in 1993, the ECA was affected in two main respects. First, it was ranked as a European institution, which increased its power and independence. Second, under the provisions of Article 248 of TEU: “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;” which highly influenced working methods and expanded its work.

Levy pointed out that the challenge of the DAS may have distracted resources from VFM audits as that required investment in sampling rather than techniques of system analysis²³. There was no doubt that in order to meet the requirements, the ECA had to find the right sampling techniques to ensure the required assurance for issuing the DAS. Additionally, more intensive audit activity became necessary in Member States²⁴, all the way down to the financial beneficiaries of funds.

Regarding audit sampling techniques, the ECA had decided to use *monetary unit sampling* (MUS) for underlying transactions²⁵. At the beginning of its application, a sample of 600 transactions was taken with regard to both payments and commitments, later reduced to a sample of 400. The tasks also included on-the-spot audits at the final beneficiaries in the Member States. The result from the sample was extrapolated to the whole budget, while the required level of assurance remained unchanged at 95%.

THE AUDIT METHODOLOGY OF THE EUROPEAN COURT OF AUDITORS FROM A HISTORICAL PERSPECTIVE

Not only did the DAS requirement affect the ECA's work and methods but external factors did too. While ADAR was revising the ECA's Audit Manual, the case for European Auditing Guidelines, initiated by the desire for harmonisation among the National Audit Institutions (NAIs), was put on the agenda. The European Auditing Guidelines, based on the INTOSAI Auditing Guidelines, were developed by an ad hoc group, which was established by the Contact Committee of Presidents of the EU NAIs²⁶ in 1991. The ECA's approach with respect to DAS audits proved to be consistent with the aforementioned guidelines. Nevertheless, differences in non-DAS audits between the European Auditing Guidelines (EAG) and the Audit Manual (AM) have been revealed.

Table 5 - Differences between the European Auditing Guidelines and the Audit Manual

Subject	Differences identified
Audit evidence	EAG emphasise explicitly that audit evidence must be competent, relevant and reasonable. In AM, implicit reference.
Evaluation of risk	EAG analyse audit risk and examine the impact of high risk areas. In AM, implicit reference.
The examination of systems	AM suggests that the auditor should examine the systems of internal control, and then should test their effectiveness. EAG recommend that the auditor should go directly to substantive tests if it is more effective and economical based on professional judgement.
Audit sampling	EAG provide more detailed guidance on sampling, also for non-DAS audits.

source: DEC 161/94

In 1997, the ECA adopted the revised Manual and the Court Audit Policies and Standards as referred to in Chapter 1.4. In 1998, the European Implementing Guidelines for the INTOSAI Auditing Standards were issued, with a preface by the President of the ECA, Dr Bernhard Friedmann. These exhaustive guidelines used the term "performance audit" as a synonym for VFM audit and audit of sound financial management (SFM) in connection with the examination of economy, efficiency and effectiveness ("3Es").

The novelty of the Guidelines and the revised Manual was that both described the mathematical model of audit risk with an insight into the components of that type of risk ^a.

Moreover, the concept of materiality, the significance of professional judgement and the relationship with audit risk were in particular emphasised.

As a result of learning by experience, another revision of the "old manual" took place in 2000. The changes, due to revision, were initiated by the process that emerged from the need to harmonise internationally accepted "external standards" and internal practices. As regards the amendments, distinct parts were devoted to the statement of assurance and to the audit of sound financial management.

a. Mathematical model: $AR=IR*CR*DR$ where AR is audit risk, IR is inherent risk, CR is control risk, DR is detection risk. Detection risk is attached to the likelihood that the auditor will not detect a material misstatement.

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source: GA 185/99

In 2000, a remarkable ambition for further development of the ECA's SFM practice developed²⁷. ADAR, assisted by the Sound Financial Management Audit Advisory Group (known as the "SFM group"), was expected to work out the module for SFM audit in the Manual. Beyond their freedom to act, and the expertise of its members, the SFM group was expected to adhere to certain principles, some of which related to methodology:

- "the starting point for SFM audits should usually be an examination of relevant key management processes and the related control procedures", and as such its aim is to help the management overcome flaws and improve;
- the quality of management information is a matter that should be considered in every SFM audit preliminary study;
- the tendency to devote more effort to preliminary studies, since the introduction of the new Manual, must be transformed into standard practice;
- using a "no surprises" approach, full openness and transparency with auditees (especially the Commission);
- as a new point of view, SFM audits should emphasise positive developments and spread best practices of financial management.

As a result of the efforts put in, the ECA adopted the first performance audit module of the Manual, "Planning SFM audits", in 2001.

In line with the above principles, in 2001 ADAR arranged for the Audit Manual to be available on the Internet with the aim of demonstrating transparency and initiating cooperation between the ECA and the NAIs²⁸. Since then, the manuals have been accessible to interested third parties.

The introduction of Activity-Based Management (ABM) together with Activity-Based Budgeting (ABB), allocating resources according to consistent political priorities based on pre-defined objectives, encouraged the ECA to establish a task force to examine the effects of these changes to its approach and organisation. It produced a report in 2005²⁹, which stated that it was not impossible to comply with ABB/ABM, but there were still some arguments of importance. Obviously, an annual report including remarks on all 31 policy areas would have been out of the question and would have resulted in fragmentation of reports, not to mention the fact that it would have required more resources. As regards the impact on the organisation, the task force considered that the ECA should carry on financial audit within a single division as before and not within the context of the respective policy. As for the audit approach, it was not modified by the introduction of ABM, rather the examination of the "relevance of objectives, and the reliability of impact and output indicators" was of priority. In other words, ABM reflects the auditee's (the Commission's) approach to SFM, which clearly has to be taken into account in performance audits.

A few months later, the new module of the manual, "Programming of the ECA's work"³⁰, reflected the necessary changes. Interestingly, it introduced for the first time the term of *Portfolio of Potential Audit Tasks* (PPAT). The PPAT can be describe as a stand-by and up-to-date set of potential audit tasks including a list of audit topics, ranked by priority on commonly accepted criteria, with underlying arguments for proposals. The programming guidelines³¹ identified the criteria on which the topics have to be assessed (risk, materiality, relevance, and coverage can be low, medium, or high) and to be established by priority (low, medium and high). The programming module formalised a two-level planning system with the application of a five-year *Audit Strategy*, which summarises areas of special interest and sets up goals and a framework for the audits, and the adoption of an *Annual Work Programme* (AWP) based on PPAT. The AWP contains the list of recurrent and permanent tasks and the resources allocated to them.

At the beginning of 2005, the framework for performance audits, as a module of the manual, was approved³². The framework supports the common understanding:

- what is meant by performance audit and how does it relate to "evaluation"?
- what are the main differences between financial audits and performance audits?
- what are the basic questions in performance audits, and how should one apply the 3E concept?
- what are the key components of the audit process?

Regarding the audit process, a new element appeared in comparison with previous guidelines or manuals.

Diagram 3 - Key elements of the audit process



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The appearance of management of the audit and quality control as a component of the process must be strongly related to IFAC's issuing of the International Standard on Quality Control 1 (ISQC 1), which has required the establishment and record of quality control policies and procedures since 2005.

Quality must be embedded into all stages of the audit cycle instead of concentrating quality checks at the end. This requirement implies that there will be:

- ex-post quality reviews to assess the quality of work done;
- quality checks built into the audit process, supported by checklists;
- ongoing quality assurance reviews of procedures and a strong commitment to applying them.

The year 2005 also saw important methodological improvements in respect of the DAS. The ECA set up a three-member Project Team from its members in order to update methodology. As a result of these efforts, the ECA adopted the revised DAS approach in February 2006, which was applicable for the first time for the 2006 DAS. The question may arise as to what extent it amended the methodology that had been used for over 10 years and what elements the revised approach, described by the ECA as "an evolution, not a revolution"³³, incorporated. The principal areas of amendment were the following:

1. the development of the assurance model with prior assessment of inherent and control risk in order to reach the expected confidence level of 95 percent and materiality of 2 percent;
 2. setting up a hierarchy between the sources of evidence;
 3. introduction of decision trees;
 4. more extensive examination of the work of other auditors;
 5. strengthening risk analysis in planning.
1. The DAS Project Team recommended the introduction of an *assurance model*, the development of which was strongly based on the model of the UK National Audit Office, with modifications reflecting the special characteristics of the ECA's audit environment. The use of the terms "inherent" and "control risks" in the model reflects the evolution of the components of audit risk that took place in the late 90's in both international standards and the ECA's methodology.

Table 6 - The Assurance Model

Assessment of inherent risk	Not high			High		
	excellent	good	poor	excellent	good	poor
Evaluation of supervisory and control systems	↓	↓	↓	↓	↓	↓
Residual level of substantive testing	Minimum	Standard	Focussed	Standard	Standard	Focussed
Minimum degree of confidence to be derived from substantive testing (%)	45	67	92	67	80	95

source: DEC 009/06

The assurance model suggests that if the auditor evaluates the supervisory and control system and determines that it is unable to prevent or to detect and correct errors, *focused substantive testing* has to be carried out with an expected confidence level of over 90 percent. If the inherent risk is high and supervisory and control systems are excellent or good, or the inherent risk is not high and the supervisory and control systems are good, *standard substantive testing* has to be performed. In this case, the assurance derives from substantive testing with a minimum confidence level of between 67 and 80 percent. If the auditors consider the inherent risk is not high and the supervisory and control systems

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are excellent, a significant part of the overall assurance can be drawn from controls assurance, and the confidence of the *minimum substantive testing* is diminished to 45 percent. Obviously, the residual level of substantive tests strongly relates to the sample size.

According to the model, the level of confidence to be obtained is dependent on the outcome of the assessment of inherent risk and the evaluation of the supervisory and control systems. As compared with the concept rooted in the former audit notices of the 80's, the model presented in the guidelines for DAS work is more complex and in line with the standards adopted by the ECA.

However, it is important to keep in mind that the assurance model is a useful tool for planning; its application, on the other hand, does not replace the professional judgement of the auditor.

2. The proposed hierarchy between the sources of evidence the ECA can rely on is composed of two types. In the context of auditing EU funds, the principal sources derive from the examination of the supervisory and control systems and substantive testing, while the other two main sources, the work of other auditors and analysis of annual activity reports and declarations of the Director-General, can also be taken into account when finalising an audit.
3. The guidelines contained a set of decision trees, which embraced the entire process from planning to the latest stage, forming an audit opinion. For instance, complex decision trees were developed in the fields of the assurance model and drawing of audit conclusions, all with the aim of supporting the auditors' work.
4. Relating to the work of other auditors, the guidelines reveal that the extent to which the ECA intends to rely on this field considerably depends on whether auditors operate within or outside the framework of the supervisory and control systems. In current practice, the parts of those systems are not usually regarded as audit evidence for the ECA but might be at a later stage.³⁴ On the other hand, the work of auditors outside the internal control systems, mainly the Supreme Audit Institutions (SAIs) in Member States, can be considered as audit evidence for the ECA.

According to the amendment of the FR, "Member States shall produce an Annual Summary (AS) at the appropriate national level of the available audits and declarations"³⁵ first submitted in February 2008. The AS can be regarded as a sort of summary, being unaudited, instead of a source of conclusive audit evidence which the ECA can rely on for the DAS. Instead, National Declarations (NDs), audited by SAIs, have a potential use for the ECA's work in shared management areas, and can be evaluated as other auditors' (other SAIs') work for DAS purposes in line with the International Auditing Standards. In the pursuit of a positive DAS, Member States could provide assurance by NDs for the money they have spent from the EU budget, which would improve the financial management of EU funds in shared management on the one hand, and would allow the Member States to take responsibility for those funds on the other hand. Some Member States have, on a voluntary basis, already issued NDs as an element of accountability in addition to the AS. In the Netherlands, for example, the Minister of Finance signs the declaration on behalf of the government, and extra assurance is derived from the independent opinion of the Dutch SAI. In Sweden, the declaration, issued by the Government, and signed by the Prime Minister and the Minister of Finance, is an element of the Annual Report to Central Government, which is audited by the Swedish National Audit Office. The National Audit Office (NAO) audits the national declaration of the UK. In order to use audited NDs as audit evidence, the ECA must be convinced that the underlying audit work has been ISA and "ECA compliant". To achieve this assurance, a common base and methodology, however, there needs to be the political will on the part of the Member States and the ECA.

As regards the aspect of reliance on the work of other auditors, the ECA has launched a *Pilot Project on co-ordinated audits*³⁶ focusing on the examination of the legality and regularity with the DAS approach in the participating Member States (Denmark, the Netherlands and the Czech Republic). The underlying principle of the project is that the ECA would take into account outputs certified by SAIs, such as audited national declarations, in the DAS process if those were more common and better structured. The Project on Joint Audits, taking place simultaneously with DAS methodology development, is expected to be finalised by spring 2011.

5. Finally, the guidelines stressed that reinforcing risk analysis is a matter of importance. Both the assessment of inherent risk and the overall evaluation of the supervisory and control system at each level should be used as an input; the detailed risk analysis can be used as a basis in the planning process, reflected in the audit planning memorandum (APM).

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In some respects, 2005 can be regarded as a landmark. It saw the introduction and the continuous updating of the ECA's Manual, with separate modules for different types of audit, and a complex framework was about to be introduced.

2.3 Phase 3: the current audit methodology of the ECA (from 2006)

The next important milestone in the evolution of the methodology can be considered to be when Vítor Caldeira, Dean of the CEAD (Coordination, Evaluation, Assurance and Development) Group and the current President of the ECA, presented a proposal for a Performance Audit Manual³⁷, together with an explanatory memorandum, to the members of the CEAD Group in October 2006.

The significance of the proposal, to a certain extent a paradigm shift, was that not only had a separate Performance Audit Manual been developed, but also a multi-level reference framework had been worked out. This approach broke with the practice of audit methodology being incorporated into the different modules of a single audit manual.

Table 7 - The reference framework

Level 1	Treaty, Financial Regulations & other legal instruments Court's Rules of Procedure Court's Mission Statement		
Level 2	International Audit Standards (INTOSAI & IFAC) Court Audit Policies and Standards (CAPS)		
Level 3	Performance Audit Manual	Financial Audit Manual	General Audit Procedures Manual
Level 4	Guidelines - Toolbox		

source: GA 324/06

The former Audit Manual contained parts relevant to financial audits, performance audits, and general procedures related to both types of audit, while CAPS also included audit procedures. As intended, the new reference framework was developed to remedy those overlaps.

Level 1 includes the legal framework for the ECA, which determines its mandate and mission, and the Rules of Procedure. *Level 2* contains international standards relevant to auditing, and the CAPS built upon INTOSAI and IFAC standards. *Level 3*, regarded as the most complex part, is composed of three different manuals:

1. the Performance Audit Manual (PAM);
2. the Financial Audit Manual (later re-named the Financial and Compliance Audit Manual – FCAM); and
3. the General Audit Procedures Manual (re-named the Vademecum of General Audit Procedure - VGAP).

Finally, *Level 4* comprises internally produced guidelines to provide information on audit techniques and the toolbox, which aims to present references to external sources such as INTOSAI, SAIs, etc. Recently, CEAD has devoted considerable effort to developing guidelines on audit techniques and data analysis³⁸, to be incorporated into level 4.

With regard to level 3 of the reference framework, the modules of the old manual, adopted by the ECA in December 2006, composed the basis for the PAM. The intention in preparing the PAM was not to write a “cookbook” type of manual, but rather to lay down a sound methodology base and facilitate a general understanding of performance audits, in conjunction with the professional judgement of the auditor. PAM has been rather descriptive in nature, forming the basis for a common understanding. During its development, associates carried out an analysis of the manuals and best practices of Supreme Audit

Institutions (e.g. those of Sweden, the UK and Canada), and INTOSAI and EUROSAI guidance was also taken into account.

The VGAP of level 3 deals with subjects which are common to financial, compliance and performance audit. Some areas of interest relate to Fraud, Statements of Preliminary Findings (SPF), Quality Control and Quality Assurance. The development of the VGAP and the FCAM by the CEAD Group has been intended to be simultaneous and a matter of priority.

The planning memorandum for a “stand-alone financial manual”³⁹ presents several rationales. The old manual had not been significantly changed to reflect the development in audit methodology, especially concerning ISAs by IFAC, nor the revised DAS approach. Finally, the concept of the new reference framework was initiated to develop a manual for financial and compliance audit applicable to both the DAS (reliability of the accounts and the legality and regularity of the underlying transactions), and also other financial and compliance audits^a.

The basis for the FCAM is the revised DAS approach compliant with INTOSAI and IFAC standards. To ensure consistency, the structure of the FCAM was intended to follow that of PAM: phases of planning, execution and reporting. During the development of the FCAM the ECA established a “Think Tank” on the DAS methodology, as proposed in the Audit Strategy 2007-2012, to support the further development of the DAS to be reflected in the FCAM⁴⁰. By the end of 2009, the Think Tank had prepared an “Issue Analysis” paper which contained all the internal and external expertise in this field and a final report with recommendations in 2010. The FCAM is expected to be finalised in 2011, and the revised DAS methodology can be taken into consideration subsequently⁴¹.

3. FURTHER RESEARCH

3.1 *The background of the research and its rationale*

The most problematic budgetary area of the European Union is the Cohesion Policy, carried out under shared management. In the context of shared management, it accounted for over 80 percent of the total budget, and the implementation is delegated to the Member States, while the overall responsibility remains with the European Commission. However, the Member States themselves have to put adequate control mechanisms into place, and under EU legislation they are free to organise control systems in the way they want to, given their institutional and administrative framework.

The ECA has from time to time revealed flaws in the system and emphasised the importance of effective primary controls set up in the Member States where the money is spent.⁴²

In his presentation on the 2009 Annual Report to the Committee on Budgetary Control of the European Parliament⁴³, Vítor Caldeira, the President of the ECA, emphasised that cohesion policy is the only budgetary area where the estimated error rate is still over 5 percent. Most of the errors derive from deficiencies in public procurement at national level, while the rest stem from payments to beneficiaries for costs that cannot be reimbursed. In the ECA's view, a significant proportion of the errors could have been detected, and eventually corrected, at national level in the control chain, before being submitted to the European Commission.

In its Opinion No 2/2004, the ECA highlighted the deficiencies of the internal control system and proposed an internal control framework to reinforce the effectiveness of the control function at the Commission and national levels. Inspired by this opinion, the Commission suggested a “Roadmap to an Integrated Internal Control Framework,” and adopted the “Action Plan towards an Integrated Internal Control Framework” in January 2006. A few years later, an impact report on the Action Plan found that the introduction of the framework contributed significantly to the reduction of errors. In parallel, for the first time, the ECA did not give the “red light” to any of the supervisory and control systems. Still, most of the errors occur at the final beneficiary level, so there is much to be done in Member States to strengthen their control effectiveness.

Subsequently, Opinion No 6/2007 on the annual summaries of Member States; ‘national declarations’ of Member States; and audit work on EU funds of national audit bodies⁴⁴ aimed to enhance the accountability of Member States. The opinion raised three related issues, out of which one (AS) became compulsory, while the rest became optional. First, the mandatory application of AS, as an element of the internal control system in the chain-based model in shared management areas, was required by the revised FR. Secondly, the ECA suggested that NDs, addressed to national parliaments, could also contribute

a. The compliance audit is a comprehensive review of adherence to laws and regulations.

to the improvement of the internal control. Thirdly, the voluntary initiatives of issuing reports on NDs by SAIs would be the sort of conclusive audit evidence the ECA could fully rely on.

The application of Annual Summaries itself, encouraged by the process for improving the internal control of EU spending, hardly lived up to expectations. A study⁴⁵ on Annual Summaries in the field of shared management, whose purpose was to evaluate the compliance, added value and the effect of such AS on the Member States, pointed out that, in accordance with Opinion No 6/2007, the accountability at Member States' level could be increased by the issuing of a management representation on the adequacy of control systems, as well as the accuracy and regularity of the underlying transactions, which should be subject to external audits. As stated earlier, only a few of the Member States issue a ND and have it audited by their SAI.

A few years later, the ECA emphasised in its Opinion No 1/2010 that there was still room for the Commission, together with Member States, to improve the quality of the AS so as to raise the level of assurance drawn from them.

An important prerequisite for relying on the SAIs' work as audit evidence for the ECA is to be convinced that the audit practice in the Member States tends to comply with common standards. The Contact Committee Working Group on Common Auditing Standards and Comparable Audit Criteria, founded in 2006 and chaired by the ECA, had the mandate "to develop common auditing standards and comparable audit criteria, based on internationally recognised auditing standards applicable in the EU area"⁴⁶. As a result, the Working Group, which finished in October 2010, prepared three documents in addition to the final report and the resolution: "Information on SAI practices in auditing EU funds/policies within the framework of INTOSAI standards" concerning:

1. the SAIs' mandates and audit activities in the EU field – the result of a "mapping exercise";
2. Compliance Audit;
3. Performance Audit.

To a certain extent, the Working Group failed to accomplish its original goal as no standards were developed. Nevertheless, it enhanced the cooperation between the SAIs and provided examples of the auditing of EU funds in different Member States.

To conclude, the Cohesion Policy under shared management is the most risky business of the EU where Member States have clear responsibility. In the past, there have been several initiatives to improve the internal control systems and to enhance the accountability of Member States, where SAIs can also play an important role by auditing NDs.

One of the problems is often the lack of political commitment by the Member States to increase or even accept accountability. On the other hand, as long as the underlying methodology is not common, one can hardly expect improvement in the way different auditors rely on each others' work, regardless of whether they are internal or external

3.2 Research plan

The doctoral thesis, to be finalised in the near future, examines the auditing system for EU funds from a methodological point of view. The title of the research is "*Auditing EU funds Europe-wide: towards a common audit methodology?*" and it is divided into three sub-sections:

1. The definition of a common audit methodology within the ECA

The evolution of the methodology, based on constant adherence to auditing standards, is presented in this chapter, from the foundation of the Court until recent developments. The main stages of the process are highlighted rather than the complete details. The outcomes of the research are included in this paper.

This part is mainly based on internal documents of the ECA, consulted at the Historical Archives of the European Union in Florence and at the European Court of Auditors in Luxembourg, and interviews with ECA auditors.

2. The Hungarian approach to auditing Structural Funds

This section examines how the management and the control system of the Cohesion Policy are structured in Hungary:

- what are the roles of the authorities involved?
- what kind of audit do they carry out?
- what kind of methodology do they apply in their audit practices?
- do they rely on each other's work?

On the other hand, the State Audit Office of Hungary (SAO) is under examination as a player in the field of auditing EU funds. In 1990, soon after the transition, Istvan Hagelmayer, the first President of the SAO, suggested establishing relations between the ECA and the SAO. The initiatives later embedded methodological transfer at different stages of Hungary's relationship with the EU (e.g. Phare twinning project in the period when Hungary was a candidate country). The research on this topic is well worth examining.

- what kind of methodologies does the SAO use as its basis?
- to what extent does the SAO adopt the ECA's methodology?
- how is the cooperation between the ECA and the SAO achieved?

On the one hand, this section is based on interviews with employees at the authorities involved and those of the SAO and, on the other hand, on the available written material on methodology.

3. Is a common methodology possible, realistic and desirable?

Starting with the ECA's Opinion No 2/2004, the main possible stages towards attaining the goal of a common methodology are considered and supported by arguments. In order to come to a conclusion in the Hungarian context, international examples of the single audit model are investigated. On the analogy drawn from the patterns, the aspects of the feasibility of the model are at the heart of the thesis. In short, it would definitely require a clear hierarchy of the authorities involved, through defining chain-based actors, a clear legal framework, and common standards and manuals to be applied. Moreover, it can scarcely be carried out unless auditors have an excellent IT background and expertise. Finally, there is unquestionably a need for commitment on the part of the SAO and the authorities in Hungary, as well as commitment at the highest political level. Finally, the aim is to develop a model for the audit and the control of the Structural Funds with a view to reducing the rate of irregular payments by making the system more transparent, effective and free of duplication.

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