

# European Court of Auditors



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# “THE FUTURE ROLE OF THE ECA: CHALLENGES AND POSSIBLE REFORMS”

## Extract from the speech by Vítor Caldeira, President of the European Court of Auditors Hearing of the Committee on Budgetary Control of the European Parliament 30 May 2012



Mr Vítor Caldeira, President of the European Court

The Lisbon Treaty re-affirmed the legal framework for the Court. The Court's mission, derived from the Treaty, highlights our role in promoting public accountability and assisting the European Parliament and Council in overseeing the implementation of the EU budget as well as the related goals of contributing to improving EU financial management and protecting the financial interests of citizens.

We are committed to using the audit experience and partnerships we have developed for over thirty years to help the EU address the serious public accountability challenges it faces. Those challenges fall into two main categories.

The first category relates to the EU budget. This is a decisive point in the cycle for reforming the financial and legal frameworks governing the implementation of the EU budget. The Court has made public contributions on budget reform, the new financial regulation, the decision on the own resources system, and the regulations covering the main areas of expenditure for the period 2014 to 2020.

These reforms imply significant changes that will alter the financial management risk landscape. The stated priority of the reforms is to “focus on results” by simplifying funding rules, increasing conditionality and leveraging the EU budget. They raise a number of important issues for public accountability and audit.

So what further reforms might the Court need to make to meet the challenges ahead?

Like other EU institutions, the Court needs to be prepared to operate in an increasingly fast changing and uncertain environment. And like other institutions, the new Multi-annual financial framework will require us to increase our added value to the EU and its citizens, while respecting budgetary constraints.

In this context, I think we should distinguish between possible reforms that would require legislative proposals by other institutions and those that we could carry out now ourselves under the current legal framework.

The composition, appointment procedure, and collegial nature of the Court are fixed in the Treaty. It is not for an external auditor to question these decisions by the EU's political authorities. However, we are ready to provide input or to comment on the implications of other's proposals - as indeed we did in the run up to previous changes to the Treaty. In fact, I would like to make three observations - on behalf of the Court - which I believe are relevant to any reflections the political authorities of the EU might have on this issue.

First, SAIs across the world are organised on a number of different bases that reflect their history, constitutional positions, mandates and powers. Similarly, the creation and development of the Court has reflected the wider changes in the governance, powers and composition of the EU as well as in the public audit profession. Based on the results of the peer review in 2008, the Court considers the current arrangements are sufficient and appropriate for it to fulfil its specific mission under the Treaty as an SAI. In particular, we consider that sufficient safeguards already exist for ensuring the independence, integrity and impartiality of the Court. Therefore, we suggest that the effectiveness in this respect of the current arrangement should provide a benchmark for assessing the benefits of any proposed alternatives.

Second, in considering the potential costs or savings of alternative arrangements, it is important to bear in mind the roles Members of the Court play in the audit process and communicating with stakeholders. Members are responsible for carrying out and reporting on individual audit tasks. They are also responsible for

communicating with members of other EU institutions, national authorities, national parliaments, the media and citizens. In addition, they facilitate cooperation with Member State SAIs at the highest level.

Third - and arguably most importantly – I return to the point I made at the start: the position and role of the Court should be seen in the wider institutional and European context. Developments in EU governance have created a need for a broad reflection on the public accountability and the audit structure of the Union as a whole. The Court’s organisational set up should reflect its role and position in that structure.

Within the current legal framework, there is clearly much more we can do. Our scope for action has been considerably increased by the adoption of new rules of procedure in 2010.

The new rules have already enabled the Court to streamline its decision-making so that audit reports and opinions are now adopted by Chambers of 5 to 6 members rather than the full college. The new rules also provide a flexible framework for managing the Court’s resources and for implementing our next strategy for 2013 to 2017, which we are currently in the process of establishing. Our key concern is to find ways to increase our added value over the period while respecting budgetary constraints. To achieve that goal, we must develop our products and services, work closely with our partners, and organise ourselves efficiently.

Since 2009, the Court has focused considerable efforts on developing its products and services. We have developed a number of new products such as public contributions on EU budget reform, on the main risks and challenges for EU financial management, on public procurement and on the implications for public accountability and audit of measures taken in response to the financial and economic crisis. A report following up our recommendations will be published this year.

Over the period, we have also developed our annual report. The report on financial year 2010 had a number of new features, including a chapter on getting results from the EU budget. The annual report on 2011 will include new specific assessments in agriculture and cohesion. Mrs Kaljulaid will say more on this - and other related points - later in the hearing. Developing our products and services will continue to be a priority. Overall, I think the challenge for the next few years will be to focus our products and services on helping the EU to address the main accountability challenges it faces.

It also goes without saying that the added value of the Court is directly linked to the use made of our work by this Parliament and our other partners in the accountability process. Strengthening our contacts and communication with our partners will, therefore, also continue to be a priority for the Court. Strong partnerships, particularly with this Committee, help the Court to target its work where it is most needed and valued.

We also recognise that the value of our work depends on the confidence of our partners in our professionalism. We are committed to applying the highest professional standards and being at the forefront of developments in public audit and accounting. The 2008 peer review report on the Court endorsed our audit management framework and it has been instrumental in directing our efforts to improve quality further. A new peer review involving the SAIs of Germany, France and Sweden will focus on the Court’s performance audit work. We will keep this Committee informed of the developments.

Last – but not least – we recognise that we need to keep improving our efficiency as an organisation. Since 2009, we have made considerable efficiency gains in our administration that have led to posts being transferred to audit services. I believe we need to go further over the next period. I think we need to look at how we can add value more efficiently. Broadly speaking, the Court adds value by transferring the knowledge it acquires through audit to our partners. To become a more efficient knowledge-based organisation, we will need to see how we can streamline the key processes by which we create and transfer that knowledge to our partners, in particular this committee.

# TOWARDS A EUROPEAN COUNCIL OF AUDIT?

Interview with **Mr Jan KARLSSON**, former President of the ECA

By **Rosmarie Carotti**

**Jan Karlsson became the Swedish Member of the European Court of Auditors in 1995. In January 1999 he became President of the Court. He participated in the meeting of the European Parliament's Committee on Budgetary Control on 30 May 2012 on the Future role of the ECA – challenges ahead and possible reform. On the future of the ECA, he granted the Journal this interview on 7 June 2012.**

Photo: BCL



Mr Jan Karlsson, former President of the ECA , Mrs Rosmarie Carotti

**R. C.: Sir, you propose a change to the Treaty and an Auditor general to lead the European Court of Auditors. Would this improve the work of the institution?**

**Jan O. Karlsson:** First of all, the Court functions well, the professionals of the Court are extremely well qualified and the fact that the Court is now working in Chambers is a great step forward.

The idea of an Auditor general has to do with leadership and management. You can't find one single handbook in management where having 27 managing directors is recommended.

Mr Tobisson and I are both former Members of the ECA and we wrote that we wanted the operations of the Court to be led by one Auditor general on his or her own authority, assisted by two deputies.

The idea was to have clear personal leadership.

It was always absolutely clear that it would be necessary to have a link between the institution and the Member States, but this could be organised in a different way rather than having one member from each country.

The way Lars Tobisson and I sketched it out was that we create a European Council of Audit with one member from each European country but that the member would not permanently reside and work in Luxembourg.

We thought the Council of Audit should have two duties: one, to adopt the working programme of the institution and the other, to say the final word on the budget, leaving it to the Auditor general to carry out what was decided by the Council.

That means that members would, so to speak, move back to capitals and that in each country we would have one counsellor in a body which is primarily responsible not for the institution, but for the general issues of the budget and the work programme.

**R. C.: It is a fascinating idea but which would entail a change of the Treaty. Don't you think people have had enough of changes of the Treaty?**

**Jan O. Karlsson:** I could not agree with you more. The last change of the status of the ECA was decided five minutes to twelve, so to speak. The initiative was taken by the chair country at that time, by Prime Minister Ruud Lubbers collaborating with the Dutch Member of the Court, who was then André Middlehoek.

The idea that Lars Tobisson and I had was that when we were preparing for the last Treaty change we should announce our plan. And it had come rather far. It was during the German chairmanship. But right before the Berlin summit, there were such big problems, and if I remember correctly, there were some large differences between the Polish government and the old members of the Union, particularly Germany. Chancellor Merkel, who was new in office at that time, made it absolutely clear: "sit in the boat and do not make any changes now".

We will have changes to the treaty from time to time. I would like to encourage a discussion now, so that we are well prepared when the next treaty change comes about, that we have a proposal ready.

**R. C.: Would the citizen perceive it as a positive change right away? Would the Court play a smaller political role, no political role or an increased political role?**

**Jan O. Karlsson:** I think that the citizens quite agree with the fact that you should run an institution with one person and not with 27.

What do you mean by "political role"? The Court is the referee. We should not take the ball and play the game. We should see to it that the game is played fairly.

I would say that the ECA would more adequately fulfil the role that the treaty already presupposes. I remember when we had the crisis in 1999. There were some members who wanted to make political statements then. It was my duty to see that they stopped that. It was very important at that time that the Court stay away from exactly that, because it was the Court's reports and the Court's work that set the basis for the solution of the crisis. If we had intervened into the political game then, it would have been like the referee stealing the ball during the match.

**R. C.: Key-word "financial crisis". You also launched the idea that the Court should audit the national accounting of the Member States in the framework of the computing of the revenue for the EU budget.**

**Jan O. Karlsson:** It has to be done - of course together with the national audit bodies. I see it in two steps. First of all, we have to strive for common definitions.

**R. C.: Despite the many meetings between the ECA and the liaison officers from the Supreme Audit Institutions, we are far from it.**

**Jan O. Karlsson:** As I pointed out in my speech in European Parliament, it has to do with the fact that the ECA has not been given a leading role in that process. I see the role of Parliament as going to the Council and seeing to it that the ECA takes the leadership here. We know what happened when we did not have these common concepts. We had had a lot of mis-accounting. It is very difficult to say whether we really know what we are talking about when we talk about GDP.

What has been missing all those decades is a leading role for a European institution, and that could be the ECA.

**R.C.: Who else could it be?**

**Jan O. Karlsson:** I think it should be the ECA, otherwise we could go to the OECD together and ask them to help us out. I think, the right thing is to do the job ourselves and then it is the ECA that does it, and that governments ensure that their national boards work loyally with the ECA to find a solution. We know what happens when we do not do it; this is the situation that we have right now. It would have been interesting to speculate where we would have been if we had created such a situation fifteen years ago.

# THE BRIGE FORUM DIALOGUE

## « IMMIGRATION AND INTEGRATION IN EUROPE »

**The speakers were Mr Vítor Manuel Caldeira, President of the European Court of Auditors and Vice- President of the Bridge Forum Dialogue, Mr Jan O. Karlsson, former President of the European Court of Auditors and former Swedish Minister for Migration and Development Cooperation, and Mr Cem Özdemir, Co-Chairman of the German Green party.**

By Rosmarie Carotti



Photo: BCL

From left to right: Mr Cem Özdemir, Mr Vítor Manuel Caldeira and Mr Jan Karlsson

President Vítor Caldeira chaired the discussion on this topic which is one of the most urgent and controversial issues in European politics. A draw-back for the EU is, in fact, the recent decision taken by the Ministers of the Interior of the EU to give Member States the possibility to re-establish border controls in the Schengen area.

On the other hand, Europe needs immigration to address European demographic decline and to maintain a skilled and competitive workforce in Europe. The problem is how to manage legal immigration while fighting against illegal immigration and human trafficking.

Mr Caldeira summarised the main points in the EU's developing immigration policy. Since Maastricht, a number of rules have been adopted that constitute the so-called "EU Migration and Asylum Law and Policy", and the European Court of Justice plays a significant role in supervising this regime.

In the EU context there are three categories of migrants:

First, there are "inwards migrants", who migrate from one Member State to another. The Maastricht Treaty of 1992 provided them with the status of "Citizen of the European Union". They have many rights including those of voting in municipal and European Parliament elections in their country of residence.

Second there are migrants European States not in the EU, and third, there are non-European migrants. The "Blue Card" scheme enables qualified migrants from outside the EU to have easier access to jobs and educational facilities inside the EU.

The Commission considers integration as a challenge. Once legally settled in the EU, the migrants should be integrated into all the aspects of social life. Until now, integration has basically remained within the competence of individual Member States, with varying degrees of success.

Mr Karlsson shared the point of view that Europe plays a very important role in how to handle future governance of migration. For him, Europe is interesting from a demographic point of view, and to speak about migration one has to start with demographics.

Long ago, Europe was the part of the world which was developing and growing the fastest and which went out to populate the rest of the world. For a very long time, migration meant to leave Europe and build a life elsewhere, in North-, South-America, Australia, you name it. The turning point, when the net movement changed from emigration to immigration, came as late as in the 1980's.

That is very important when we discuss how it comes that the peoples of Europe have found it so difficult to adjust to the fact that nowadays the idea is to get to Europe.

Migration also has to do with life expectancy and birth-rates. Today, the average birth-rate in Europe is about 1.5 and almost all population increase is because of migration.

To overcome the problem of the ageing population we can persuade people to stay in the labour market longer, mobilise more women into the labour market, find ways to conciliate production and reproduction, which is the Scandinavian model. But the truth is that even if we combine these two actions in a feasible way, they will not be enough to cover the gap to make social insurance, pension schemes sustainable. We will need a deep increase in immigration to Europe.

We will also need to have a social organisation, so that people who come here really have the chance to work at capacity. That is integration.

The paradox is that from a political point of view, this is not a very popular statement and there is reluctance from the Member States to let Brussels decide. On the other hand, a common platform was a great defence when 9/11 occurred as well as during the financial crisis.

The Council and European Parliament say we should have more Europe, but Mr Karlsson suggests a more sophisticated approach to open up to migration, which is not to harmonise labour policies, but to coordinate them. And he refers to the report of Commissioner Malmström which proposes the creation of such a mechanism in Europe.

More needs to be done to achieve the successful integration of migrants into the societies in which they settle. Migration is a global thing run by national governments, integration has a local dimension. Where do they meet and what is the role of the EU in it? A proactive policy would mean migration together with integration.

Mr Cem Özdemir then took the floor. As party leader of the German Green Party, he told his personal experience of a German of Turkish descent who grew up in a small town at the time when there was no Schengen agreement.

To those who claim that multiculturalism has failed, he asks what the alternative is. He stands for more solidarity, burden-sharing among Member States and a liberal immigration policy, which combines humanitarian and economic interests. On the basis of human rights and a broad liberal conviction, he requests access to a fair asylum procedure and a more liberal visa regime for neighbouring countries.

In light of the mismatch between supply and demand in the labour market, he considers the blue card a good starting point, but the final aim should be permanent citizenship.

In line with this, convinced that education is the key to change things, he appeals to universities to become attractive for international students, offering them not only a temporary place where to study, but also a permanent place to work.

Finally, we all live in a globalised world and Europe will have to adjust to it. How can a globalised world can go together with the idea that multiculturalism has failed?

# THE COURT'S OPINION ON THE COMMISSION'S EVALUATION REPORT

**On Monday 11 June President Vitor Caldeira hosted the annual meeting between the Members of the Court and a delegation of European Commissioners. Fourteen Commissioners, led by President José Manuel Barroso, visited the ECA in the framework of the annual meeting between the two EU institutions.**

**By Mogens Uhd Nielsen, Private Office of Mr Otbo**

The Court's newly adopted opinion\* on the Commission's first evaluation report was one of the points on the agenda. Mr Henrik OTBO, Danish Member of the ECA, presented, on behalf of the Court, the opinion to the Commission delegation.

Since the entry into force of the Lisbon Treaty (1 December 2009), Article 318 of the Treaty (TFEU) has required the Commission to submit to the Parliament and Council an evaluation report on the Union's finances based on the results achieved. It follows from Article 319 of the Treaty that the evaluation report is one of the documents to be examined by the Parliament and Council during the discharge procedure.

The Court received the first evaluation report on 21 February 2012. As from the 2011 discharge procedure, the Commission will aim to adopt the evaluation report by mid-November each year.

Following a request from European Parliament (2009 discharge decision from 10 May 2011), the Court decided to make an opinion in which it states that:

- ° The evaluation report could contribute to increasing accountability with regard to the results and impact stemming from the EU budget.
- ° But in its current form the report is vague, short on substance and, consequently adds limited value.
- ° The Commission, the Parliament and the Council need to consider the content, scope and timing of the report.

The Court suggests that this evaluation report should be the starting point for a fundamental Commission re-think about its reporting and accountability systems (i.e. focus on results rather than compliance).

This will require some different, but not necessarily additional, reporting arrangement. The Commission should systematically build into its multiannual programmes performance indicators and milestones and evaluate at intermediate points.

The Commission has pointed out, in the evaluation report, that attempting to cover all programmes financed by the Union every year would run the risk of resulting in a long, unfocused report. The Court suggests in the opinion that the Commission, the Parliament and the Council need to discuss the scope and content of the evaluation report.

The evaluation report is part of the discharge procedure. Accordingly, the Commission has stated that it intends in the future to adopt it by mid-November each year. This is at the same time as the Court's annual report is published. However, the Parliament has asked the Court to present its observations on the evaluation report at the same time as the Court's annual report. For the Court to do so, it would need to receive this document significantly earlier.

During the exchange of views, President Barroso expressed an overall appreciation of the opinion from the Court, and added that the Commission intends to develop the evaluation report further.

\* <http://eca.europa.eu/portal/pls/portal/docs/1/15154862.PDF>

# FUTURE DEVELOPMENTS - AND CHALLENGES FOR PUBLIC ACCOUNTABILITY - WHAT KIND OF EUROPEAN UNION DO WE FORSEE?

**Dr LOUIS GALEA, Member of the Court of Auditors and Dean of Chamber IV, was invited by the President of the European Economic and Social Committee (EESC) to the Committee's plenary in Brussels where he gave a speech , 23 May 2012**

**By Raymond Cachia-Zammit, Private Office**



(481 Plenary session EESC)

*As the Member responsible, until recently, for the audit of the EESC, Dr Galea had the opportunity to follow more closely the work of the EESC , a forum for representatives of employers, of the employed, and of civil society in the Member States.*

*In his speech, Dr Galea described the function and work of the Court and placed this into the context of recent developments and potential future challenges. These can only heighten the need for a credible and effective public accountability framework, including a pivotal role for the Court.*

*The following is the concluding part of Dr Galea's speech.*

## "Future developments and challenges for public accountability

The Court is currently undertaking a revision of its own strategy. The thrust of this exercise is to understand what aspects of our own operation need to adapt both to new developments within the EU as they unfold, as well as to new opportunities which can make the Court's own operations more efficient and effective.

There are three specific processes which are worth mentioning in this respect: the Europe 2020 strategy; the various initiatives dealing with the economic and financial crisis; and the upcoming budgetary and administrative reforms linked with the Multi-Annual Financial Framework and Staff Regulations reforms.

The proposals for Europe 2020, include amongst other things: seven flagship initiatives; a proposed shift in the emphasis towards the need for more regulatory rather than budgetary measures; a shift away from direct funding towards budget support measures, with an emphasis on funding results rather than inputs; and a direction towards EU investment instead of subsidies, bringing a higher degree of financial sophistication and relying on financial leverage by attracting private participation.

Such changes inevitably require an evolution in the Court's audit approach. EU regulatory intervention does not always require budgetary measures, making it less straightforward for the Court of Auditors to assess the impact of such initiatives, including whether or not they may pose a risk to financial

interests of the Union itself. The shift from testing inputs based funding to outputs/result based funding is of course a second challenge. It makes the need for a clear definition of goals and results ever more important. The involvement of private participation would also require attention to ensure full accountability of public funds at stake.

The second group of measures currently being discussed by the Court, are the measures put in place or being developed to manage the impact of the financial and economic crisis. It revealed the need for intense political collaboration, for rapid decision making, and for collective responsibility. Changing rules pertaining to 27 Member States rapidly is a challenge. New measures and also new treaties in relation to the Eurozone have been developed and the Court contributed to ensure that adequate public accountability provisions were developed.

The Multi Annual Financial Framework and, in the same sense, the proposed Staff Regulations reform, both call for institutions within the Union to continue delivering their services more efficiently. In this context, there must be a further emphasis on prioritisation, something which is always a difficult task. This leads me to my last point of reflection

#### What kind of European Union do we foresee?

I personally grew up in a post-war Europe that was struggling with a political vision of a unified Europe. It was, so far as I lived the passage of my home country Malta into the European Union, a political project. But once membership became a reality, I witnessed something different occur. In a very short time, the younger generations of Maltese Citizens have embraced the practical benefits of European membership, and in their personal life as well as in their work and entrepreneurial ventures, they see the integrated European single market, single currency and citizenship, as very practical benefits in their daily lives. They indeed are shaping their future on the assumption of this reality.

In contrast, it seems that from a political perspective, as we follow, for example, the events of the financial crisis unfold day by day in Member States, as we follow the debate on the fiscal, economic and financial crisis develop, we find a very different sentiment towards the subject of political integration.

My personal observation is that citizens are increasingly referring to the European Union as the centre of gravity responsible for finding the solutions to take us out of the crisis and back on the path of sustainable growth. Current events testing governments resolve to act in unison require and may eventually open the door to a stronger economic governance structure, perhaps even deeper fiscal governance integration, than that at present.

The challenge of course is whether at a time of austerity, of hardship in Member States, citizens will sign up for further integration as a way forward. The case will surely be made by EU institutions that Europe will emerge stronger from this phase, but in my view, not unless they can also demonstrate that any further integration of governance at a European level will be matched by a credible public accountability framework which safeguards its democratic legitimacy.

From a financial point of view, the EU has a budget equivalent to about 1% of Gross National Income of all Member States. It seems to me that the European project still requires much more advocacy both for improving the impact and relevance of its institutions, and also for converging the efforts of all Member States towards common objectives.

There is one other final reflection. In this time of crises, we have seen numerous economists and politicians grapple with the challenges being faced. I am persuaded that preventing another similar situation will need a revisit of a number of very deeply embedded assumptions in our current policy models. Solutions require looking at issues with a fresh outlook, possibly drawing lessons from a multitude of disciplines rather than from within the confines of prevailing economic thought. In all this, the young generations have a special part to play. We need today's young men and women to recast themselves into the democratic process, to use their talent and energy to shape innovative solutions and models for competitive growth, and for them to own a vision of their own future.

# DECREASING THE ERROR RATE AND IMPROVING ACCOUNTABILITY: CONTRIBUTION OF THE COURT OF AUDITORS

**Assoc. Prof. Dr. LADISLAV BALKO, PhD. Member of the European Court of Auditors at the EPP Group hearing on Horizon 2020: “The Future of the Research in the EU”, Brussels, 6 June 2012**

By Branislav Urbanič, Head of Private Office \*



From left to right: Mr J. Guliński, Mr L. Balko and Mr C. Ehler

“Error rate” and “accountability” are notions with which the European Court of Auditors – the EU’s external auditor – deals on daily basis. Indeed, according to the Treaty on the Functioning of the European Union as well as according to its mission statement, the Court assesses the collection and spending of EU funds, by examining whether financial operations have been properly recorded and disclosed, legally and regularly executed and managed so as to ensure economy, efficiency and effectiveness. In its Annual Reports, the Court communicates, among other information, the error rates per groups of policy areas. The Court thereby acts as an accountability mechanism, assisting not only this Parliament and the Council in overseeing the implementation of EU budget, but also the Commission and other implementing bodies in improving the EU financial management.

In its Annual Reports, the Court has repeatedly pointed to the main sources of errors in the research policy area. The main risk to regularity is associated with the interim and final payments for research Framework Programmes (FPs), because beneficiaries may overstate their costs or include ineligible costs in their cost statements, which may not be detected and corrected by the supervisory and control systems of the Commission before the reimbursement. This risk is exacerbated by the complexity of the rules for calculating eligible costs and the requirement for beneficiaries to allocate personnel and indirect costs to projects, while deducting various items considered ineligible for EU co-financing.

Indeed, the reimbursement of actual costs under the current Seventh Framework Programme for research and technological development (FP7), is complex – the beneficiary has to classify the direct costs attributable to the project into cost categories (i.e. type of activity - research, demonstration, management and other, and type of costs – personnel, subcontracting, other direct), then specify indirect costs as a percentage of direct costs, and multiply the total amount of direct and indirect costs by one of the three reimbursement rates, the use of which depends on the type of activity and on the legal status of the beneficiary.

\* The text actually pronounced was slightly shorter so as to respect the allocated speaking time.

As an effective accountability mechanism, the Court does not only point to the sources of errors and the error rates, but also makes recommendations to the Commission with a view to improving financial management. Thus, already in its **2008 Annual Report**, the Court recommended that the Commission should not only ensure rigorous application of the controls, in particular by improving the reliability of audit certificates and by effectively implementing its ex-post audit strategy, but also further simplify the funding rules for the next – Eighth - Research Framework Programme (which at the time did not yet have the name Horizon 2020), while maintaining the objective of a cost-effective control system sufficient to provide reasonable assurance of the regularity of the expenditure. Since its **2009 Annual Report**, the Court has also been making recommendations aiming to encourage the Commission to raise the independent auditors' awareness of the eligibility rules when certifying the cost statements.

But the Annual Reports are not the only products through which the Court contributes to improving the financial management and accountability. For example, already in its **Special Report No 1/2004** concerning the performance audit of the Fifth Framework Programme (FP5), the Court pointed out that the complexity of the rules for fixing the Community financial participation hinders the effective management of financial and administrative aspects of the FP5 and is an unnecessary complication for participants, and that the RTD Framework Programmes need to be implemented using a common set of principles and procedures.

Furthermore, in its **Opinion No 1/2006** on the proposal for the FP7 Rules for Participation, the Court expressed a view that the system to calculate and report direct costs should be based on a single cost system that would be applicable to all funding schemes and sufficiently flexible to be used by all types of legal entities participating in indirect actions. The system should be transparent, robust and simple-to-administer, and allow the participants to apply their usual cost accounting practices as far as possible.

Thus, in the light of these considerations, the overall concept of the proposed next Framework Programme for Research and Innovation Horizon 2020<sup>1</sup>, based, on a single set of rules (one FP implemented through one Specific Programme and one single set of Rules for Participation), a single direct cost reimbursement rate for all participants and activities in the same action (instead of 3 rates), and a broader acceptance of the beneficiaries' cost accounting practices, appears to be a step in the right direction, and a considerable simplification.

One of the main novelties of the proposed Horizon 2020 Rules for Participation is also a single flat rate for indirect costs of 20% of total direct eligible costs, with the participants no longer having an option to charge actual indirect costs. I know that, although the Competitiveness Council of 30-31 May last week agreed on the main elements of the overall Horizon 2020 package, the single flat rate for indirect costs is one of the particular issues that had been raised, in the context of financial sustainability for some participants, during the discussions of the Council's Research Working Party, as summarised in the Presidency report of 24 May 2012. Given the ongoing preparatory work on the Court's opinion on the Rules for Participation and pending its approval by the Court, I cannot give a concrete view on this issue today. However, as an idea, in the previous Opinion No 1/2006 on the FP7 Rules for Participation (which of course concerned a different proposal made in different circumstances), the Court considered that participants should be able to charge negotiated flat rates for indirect costs, established in accordance with their usual cost accounting practices, whereby the reasonableness of such rates would need to be demonstrated during the proposal negotiation.

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1. More information on Horizon 2020 can be found on the dedicated website:  
[http://ec.europa.eu/research/horizon2020/index\\_en.cfm?pg=home](http://ec.europa.eu/research/horizon2020/index_en.cfm?pg=home)

But let me return to **decreasing the error rate**. In 2007 and 2008, the Court found material error (with a most likely error rate between 2% and 5%) for the research policy area. The results of the 2009 audit confirmed, to a large extent, the findings from the previous two years - the Court estimated the most likely error rate to be between 2% and 5%, and actually closer to 2%, thereby confirming the downwards trend of the error rate for the last three years. This continued in the 2010 Annual Report the Court estimated the most likely error rate for the research and other internal policies to be below 2% for the totality of the payments (including advances). However, the Court found a material level and frequency of error in the FP6 and FP7 interim and final payments, which are more error prone than advances. Thus, it remains to be seen whether the positive trend will continue in 2011.

According to the Commission's Communication on Horizon 2020, decreasing the error rate is one of Horizon's three simplification goals, next to reducing the administrative burden and costs for participants and accelerating processes. From the point of view of the European Court of Auditors, any simplification measure will be a real success only if it also contributes to bringing down the levels of error reported by our Institution.

However, simple rules, on their own, do not suffice – take the example of VAT under FP7. The rule itself could not be more simple – unlike for instance in the Structural Funds and despite a different proposal made in the Court's Opinion No 1/2006 on the FP7 Rules for Participation, VAT is never eligible. And, yet, VAT errors feature among the errors most frequently made in FP7 cost claims. Under Horizon 2020, the VAT paid, which cannot be refunded to the beneficiary according to the applicable national legislation, will become eligible cost. This follows from the combined reading of the Horizon 2020 Rules for Participation and of the Commission's legislative proposal for the **new EU Financial Regulation**<sup>2</sup>, to which the Horizon 2020 Rules for Participation refer. However, clear guidance documents and their uniform interpretation and application will be crucial here, for instance, as regards when exactly the VAT is considered non-refundable. I shall add that the legislative proposal for the new EU Financial Regulation will for instance also directly remove the obligation of grant beneficiaries to establish interest bearing bank accounts on pre-financing, and that the Court of Auditors has issued a detailed **Opinion – No 6/2010** - on this legislative proposal.

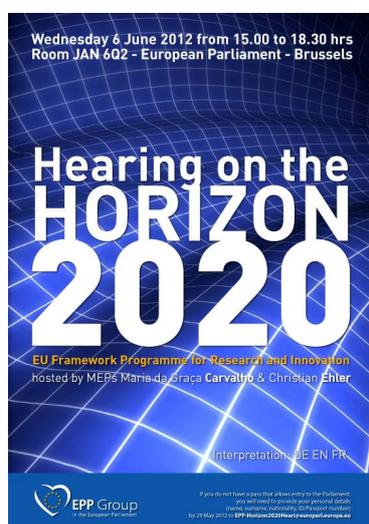
Moreover, the simplification, which was one of the driving factors of the past changes to the EU research funding rules, is not an easy process, as it requires reconciling a number of factors, such as reconciling the need of having simple and unambiguous rules with the need to guard the accountability and to avoid susceptibility to irregularities, or with the need for a broader flexibility of the scheme so as to meet a wide range of policy objectives. Also, any radical simplification has to be reconciled with the need to maintain stability, legal certainty and alignment with other schemes.

Another major simplification measure proposed in the Horizon 2020 Rules for Participation is the removal of the time-recording obligations for staff working exclusively on a Horizon 2020 project. This simplification measure, as well as the proposed reduction of the number of audit certificates on financial statements (by requiring only one such certificate at the end of the project) needs to be seen in a broader accountability context: Reporting is an important element in ensuring accountability and thus, *per se*, reporting requirements (if not excessive) contribute to good management of public schemes for funding research. Also, the Court's recent audits confirmed that the audit certificates on financial statements are still only a partially effective control in ensuring the regularity of payments (and thus a low level of error), and the Court reiterated its recommendation that the Commission should endeavour to raise the awareness of the certifying auditors of the cost eligibility criteria.

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2. Proposal for a Regulation of the European Parliament and of the Council on the financial rules applicable to the annual budget of the Union, COM(2010) 815 final, 22 December 2010

Before concluding, let me address one more issue relating to the error rates and accountability: The proposal for a Regulation establishing Horizon 2020 mentions, among other things, a revised control strategy shifting focus from minimisation of error rates towards risk-based control and fraud detection, with a view to reducing the control burden on participants. It is true that any effort to rationalise the requirements is primarily about striking a better balance between risks and controls. In this regard, already in its **Opinion No 2/2004** on the 'single audit' model, the Court pointed out that there is a trade-off between the cost and benefits of checking expenditure. Nevertheless, a possible consideration, as regards such new control strategy, could be whether it entails a risk of an increase in the error rate because it is not certain that ex-ante control mechanisms will be effective enough to substitute the ex-post corrective mechanisms with a view to ensuring a decrease in the error rates. I would also like to point to the Court of Auditors' **Opinion No 1/2010** on "*Improving the financial framework of the EU budget: Risks and challenges*", according to which "*Simplification should remain a priority when reforming the rules and regulations of existing or new expenditure programmes and schemes because rules and regulations that are clear to interpret and simple to apply not only decrease the risk of error but can also reduce the control costs.*" However, the Court has also consistently recommended that simplification should not be at the expense of accountability for public money.

To **conclude**, overall, Horizon 2020 is an ambitious proposal which aims at improving the performance of the EU research spending, and which involves both opportunities and risks. The effects of the measures proposed in Horizon 2020, including a possible reduction in the error rates reported by the Court of Auditors, will become evident only once those measures are adopted by the EU legislative authorities, and are being implemented, in close coordination, by the Commission and other bodies managing the programme. As is often the case, the devil lies in the detail, and thus one crucial element in this regard will be uniform and coherent implementation of the new rules by these bodies and the Commission, but also consistently across the various Commission services. The coherence of implementation may reduce the administrative burden placed on beneficiaries and make it easier for them to be aware of the requirements and respect them, thereby also reducing the error rate. In this regard, the Court of Auditors is currently also carrying out a **performance audit concerning the FP7**, which will address the main audit question: "*Did the Commission ensure an efficient implementation of FP7?*" The aim of this audit is, next to providing the Court's view on the effectiveness and efficiency of the implementation of the FP7, also contributing to the operational set-up (i.e. the development of Commission implementing guidelines) of Horizon 2020.



# PRESENTATION OF THE SPECIAL REPORT N° 6/2012 : EU ASSISTANCE TO THE TURKISH CYPRIOT COMMUNITY BY MR DAVID BOSTOCK, MEMBER OF THE COURT TO THE PRESS IN BRUSSELS ON 23 MAY 2012

By Rosmarie Carotti

Mr David Bostock gave an overview of what this audit report was about. It was about the way which the Commission implemented Council regulation N° 389 of 2006 which established an instrument of financial support for encouraging the economic development of the Turkish Cypriot community. It was about spending taking place in a period from February 2006 to September 2011 and it was in particular about what was found in a sample of 34 contracts which between them accounted for about 97.5 million euro. That is about a third of the allocations to the instrument during that period.



Mr David Bostock,  
Member of the Court

What questions were asked? An audit is hierarchy of questions. It was asked whether the Commission had managed this instrument effectively. To answer that question, the focus was put on two more detailed questions: was the Commission able to draw an assistance programme which reasonably reflected the objectives of the Council; and was the Commission able to put in place appropriate arrangements to implement the measure?

The second question was whether the individual projects financed through this programme achieved their intended results and whether they were likely to be sustainable, to continue operating in a reasonably satisfactory way.

The audit was not about whether the programme was contributing to the political objectives of the unification. It was not about the EU's trade policy with respect to the northern part of Cyprus\*, nor was it about providing an opinion on the legality and regularity of transactions, the accuracy of the accounts. It was a performance audit.

The main conclusions were that the Commission did well in developing a programme notwithstanding the very significant constraints it had to face. The objectives of the programme were reasonably reflected in the interventions that were funded. The arrangements the Commission made in order to run the programme were largely effective. However the single largest project, the seawater desalination plant did not succeed.

\* The phrase "northern part of Cyprus" is a geographical term used to designate the areas of the Republic of Cyprus in which the Government of the Republic does not exercise effective control.

The programme did achieve some positive results; the Court however has doubts about whether a number of the projects are sustainable.

The context of this programme was special and difficult. The political context was clearly complicated. The regulation's objectives were written in very broad terms. There was a very general overall objective and then a series of quite wide ranging specific objectives: social-economic development, development of

infrastructure, reconciliation, confidence-building measures, support to civil society, bringing the Turkish Cypriot community closer to the EU and helping to prepare for adoption of the *acquis communautaire*.

But the Commission was able to develop a programme which covered and appropriately prioritized all the sectors in the regulation's objectives. The Commission also showed some ingenuity in managing the programme in the particular circumstances pertaining in the northern part of the island. The Commission could not operate through the Member State authorities, because the northern part of Cyprus is out of the effective control of the Government of the Republic of Cyprus, nor could it set up a delegation in the northern part of Cyprus, because it is legally part of the EU and not a third country. The Commission set up a task-force in its headquarters and then supported that by a programme management office which was based in the northern part of Cyprus. The method the Commission chose to implement the programme and to mitigate the risks were, in the Court's view, largely appropriate.

However, all is not perfect. The local support office had to refer all key decisions back to Commission headquarters. That induced certain inflexibility into the procedures.

The staff contracts were very short, too short for them sometimes to manage projects. Some projects were managed jointly with the UNDP, the United Nations development programme, and the Court found weaknesses in some of the contract arrangements for projects financed through UNDP.

The money was paid towards five objectives. First area was development and restructuring of infrastructure. Telecommunication was a significant area of investment and here the equipment was generally delivered but there were problems about the accompanying technical assistance and sustainability of improving things in this area. It is a question of modernising telecommunication and of introducing competition into telecommunications.

In the water area, except the mentioned desalination plant, there were also successes. There is the Nicosia water distribution network which is a benefit to both communities in the island of Cyprus and there is the construction of the new waste water treatment plant. In addition, some equipment for water sampling and testing was provided. In the latter area the Court has some doubts about whether the water testing will continue to function as effectively as it ought to be.

The second big area was promotion of social and economic development. Here there was expenditure on road development and under that over 200 farmers or entrepreneurs and 40 communities benefitted from grants. This was a positive outcome. The questionable aspect of the outcome is where all this takes in terms of preparing the northern part of Cyprus for the application of EU type rural development policies, which was the overall intention of that part of the policy.

Urban and local infrastructure was another significant area. Here there are some very visible benefits of EU support to this programme. There are additional crossing points along the green line and the restoration of the Bedestan, a major cultural heritage and tourist site in the north of Nicosia.

Third area: Fostering of reconciliation, confidence-building measures and support to civil society. Support was provided to the Committee on Missing Persons, an extremely sensitive and very human area. Between March 2007 and May 2009 remains of 155 missing persons were returned to their families.

The Commission financed Council of Europe seminars to give Turkish Cypriot and Greek Cypriot participants a better insight into the challenge facing the island and the programme also funded 6.5 million of the 9 million euro total for demining since 2007.

Fourth area: Bringing the Turkish Cypriot community closer to the EU. Here there was a scholarship programme to contribute to reducing the isolation of the Turkish Cypriot community. It enabled 400 students and teachers to live and study abroad for one year. The Court notes a problem in this area, because of the rather compressed time-frame that the Commission had for the whole programme. Also in this area, the programme financed arrangements to provide better information about the EU including an "InfoPoint" office and a website in English and Turkish.

Fifth, last but not least, preparation for the *acquis communautaire*, which is EU jargon for the vast mass of laws, procedures and customs that members of the EU have to apply, in view of the eventual integration of the whole island into the EU.

Here, the Court looked at one particular project, air quality monitoring, and found that some good work had been done. Air quality monitoring equipment and some technical assistance had been provided; however again some question-marks about sustainability remain.

The Court normally produces a set of recommendations but knows the political context in which it makes recommendations. This case was a bit special, because the Court had to make recommendations in ignorance of the success prospects of the time-table in the reunification talks about the future of Cyprus. So the Court produced recommendations having three possible scenarios in mind. Scenario number one: no settlement in the short-term and the decision by the EU political authorities to continue to provide significant further funding. Here, the Court made a series of detailed recommendations.

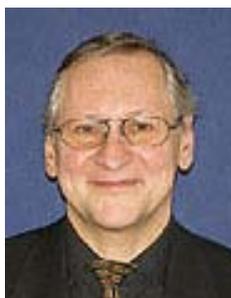
Second scenario: if the EU political authorities decide not to continue a large scale assistance programme. Then, the Commission should draw up an action plan to scale down or phase out the Task-Force's operation.

Third scenario: if the political settlement leads to an early end to the de facto division of the island, the Court recommends that the Commission should develop a proposal for a programme to enable the whole island to benefit from EU membership following reunification.

# PRESENTATION OF SR 4/2012 ON TRANSPORT INFRASTRUCTURES IN SEAPORTS

The Journal had the opportunity to talk with Mr Luc T'JOEN, principal auditor and team leader in the TRE unit, about this seaports report of Chamber II, presented in the Court on 8 June 2012. The report is the work of the Performance Audit unit of Transport and Energy under Ossi Louko, head of unit. The report was adopted by Chamber II, headed by Dr Harald Noack, on 15 February 2012 and presented to the press by the reporting Member, Mr Ovidiu Ispir at the end of April 2012.

Interview by Rosmarie Carotti



Mr Luc T'Joen, auditor

## R. C.: Why and when was it decided to make an audit on seaports?

**Luc T'Joen:** The topic was put in our portfolio in 2009 after the reorganisation of the Court, which allowed us to focus more on Transport and Energy. Before, our unit dealt with "Transport, Research and Energy". Whereas in the reorganisation we lost the "Research" bit, which went to Chamber IV and for which we did quite a lot of performance audits (FP5, FP6, Research Infrastructures), we got in return competence for the structural funds spent in the transport and energy field. The term "structural funds" comprises European social funds (ESF), European regional development funds (ERDF) and cohesion funds (CF).

The structural funds are big money transfers to the regions to allow them to finance their regional development: they account for 347 billion euro in 2007-2013, and transport is by far the largest spending area with 75 billion. The regions manage these funds and the Commission negotiates the funding framework, adopts the operational programmes and supervises their implementation under the shared management rules, as explained in the report.

We chose this infrastructure audit because transport infrastructure, except for a rail TEN-T audit done in 2010, had not been subject to a performance audit since 1993 (SR 1/93) and because of the enormous amounts of money involved. For transport, for the period 2000-2006, 59 billion euro were spent on transport investments; for the current period 2007-2013, the amount will be 85,4 billion whereas for the new Multi-annual financial framework (2014-2020), the final amount to be spent on transport will be around 100 billion euro. Let me give you the current set of expenditure Chamber II is responsible for auditing and some data of the amounts involved: be aware that in the structural funds amount (the first line of the list), 75,6 billion of the 347 billion also involves spending on transport.



## Audit field Chamber II

	<u>Amount in million €</u>
	<u>Period 2007-2013</u>
Structural Funds (ESF, ERDF, Cohesion Fund)	347 462,30
Transport Network	7 798,20
Pre-accession operations (IPA)	4 892,60
Energy project to aid economic recovery	3 832,60
EU satellite navigation programmes (EGNOS and Galileo)	2 684,40
Research related to transport & energy	1 860,70
Nuclear decommissioning	1 786,90
Solidarity Fund	1 172,20
Intelligent Energy-Europe programme	719,70
Programme for Employment & Social solidarity (PROGRESS)	578,60
Marco Polo II Programme	423,30
Social dialogue	277,80
European Globalisation Fund	184,30
Energy Network	157,60
Other (administrative expenditure, agencies and other actions individually below 150 MIO €)	4 198,30
<b>Total</b>	<b>378 029,50</b>

Audit Chamber II / Selection of performance audit tasks

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At the time of the preliminary study, we concentrated on all expenditure on water transport (projects for seaport infrastructures, Ten-T-projects dealing with water transport, inland waterway projects, Motorways of the Seas projects and Marco Polo projects for transport services) as water transport was the second most important transport mode (after road transport). After an issue analysis session with all the team-members, the cabinets and CEAD to put all facts and risks on the table, we all agreed that the highest risks for waste was in the seaports area and that we should “go into the docks”.

**R. C.: Let’s move to the special report and the response it got.**

**Luc T’Joen:** It is quite clear that there are new ideas and styles inside the report. We have evidence of massive waste in this area, we have data and pictures of empty ports and quays lying idle in lots of places. If only 18% of the 726 million euro of EU funds audited on a randomly selected sample of 6,2 billion are effectively used, we talk really about massive amounts of taxpayer’s money, which are not used properly, in times of austerity for the citizens. We therefore decided in Chamber II, during a “Drawing conclusions” session with all involved, that it would be better to be completely transparent, and name “the good, the bad and also the ugly” to clarify the situation (the objectives, usage and sizes of the projects are very different), to increase the impact but also to help these ineffective projects to become effective soonest.

Many press articles came out as a result of the report and quickly after its publication, a memo circulated from a Member of the Transport Committee of European Parliament requesting to also have a discussion of the report in the EP Transport Committee and not only in the COCOBU, which indicates that there is also political attention for this report, which it merits.

**R. C.: The four countries you chose for the audit are all in the South. In the report you say that they account for the highest spending. How can that be, when basically all the markets are in the North? Why did seaports in the North, for example Rotterdam, not ask for funds?**

**Luc T’Joen:** First of all, let me confirm that the so-called “richer countries” in the North do not fulfil the basic requirements for receiving the same amounts of structural funds as the “poorer ones”: this is the basics of the cohesion spirit which is measured through statistical data agreed upfront and which is in the regulation. Secondly, the seaports in the North make huge investments too (eg. Maasvlakte II in Rotterdam, Deurganckdok in Antwerp to name just a few), but they are able to collect private funds for this mainly from operators owning the concessions on the port terminals. These ports in the North would have loved a recommendation coming from the Court saying to stop the money streams going to Southern ports, because it would strengthen their competitive position, but such a recommendation would be a clear error. Let me explain.

Currently, the intra-EU transport flows work as follows: think of goods shipped in containers from China that go to Europe via the Suez Canal with final destination North of Italy (say Milan). Already in 2008, Mr Valente de Oliveira (the Motorways of the Seas co-ordinator) indicated in his annual report that the main container carriers do not stop in almost any of the Mediterranean ports (eg Genoa, La Spezia, Marseille), but they prefer to sail 5 days longer and go to Antwerp, Rotterdam or Hamburg for delivering the goods to their final destination. Some of these containers are put on train wagons, but this phenomenon has a particularly massive (thousands of trucks each day!) road traffic flow from North to South as a result and, looking at the map of the world, I agree with the co-ordinator: “this makes little sense”.

So, we have to continue to strengthen our ports in the South of Europe. That is the idea behind the continuous funding streams through the structural and cohesion funds. This is why the report, in spite of the waste observed, suggests: to continue investing in ports, but to spend the money wisely.

**R. C.: What is then the problem?**

**Luc T’Joen:** The transport policy is about sustainability in times of ever growing transport demand, and since 1992, the transport policy line indicates that we need to take the trucks off the road and switch to

other transport modes (sea, rail, inland waterways), thus including putting freight cargo on ships. The White Paper 2001 says the same and the White Paper 2011 confirms everything.

What we observe is that while the policy says something, the funding goes the opposite way, especially when it concerns regional funds. When the policy says “Do all that is necessary to take traffic off the road and invest in the other modes, including multimodality” (I can quote several Council and Presidency conclusions on this), the majority of the structural funding goes into... building roads: Although I can understand that through accession, many Eastern European countries have the possibility to upgrade their road networks, we have foreseen to spend 40 billion euro in the 2007-2013 period only on building roads in Europe. In our report, we have given a specific example in Sicily of how policy and funding do not match. The Sicilian operational programme (OP) 2000-2006 provided for the building of an entire new port in Gela to decongest road traffic. This investment was even secured with an important part of private funds investments. However, it was taken out after adoption of the OP without any clear reason and the money was diverted to... build a highway (Palermo-Messina) instead.

That is the problem: the spending of EU money should be in line with the EU-policy even if there is shared management. Not only is this a provision that is foreseen in the regulation, it also makes sense in practice in this case.

**R. C.: What is the answer of the Commission?**

**Luc T’Joen:** We were congratulated and thanked by the Commission officials responsible for the transport policy who said they were aware of the problem but finding it difficult to do something about it. Now, they are using the report to try to do change things: for them, the “business as usual” is out of the question with this report. The officials from DG REGIO informed us that they will look into the empty ports before closing the programmes so that there will be no financial amounts paid for unused infrastructures. Let’s see the results when we will do a follow-up in a few years time.

However, we want to see already now concrete results for any other projects funded. That’s why in our recommendations we have set two conditions for continuing investing into seaports. As money is scarce and should be well spent: we request first of all that a coherent long term port development plan for the region is agreed upon by all entities involved, whether they be public authorities (national, regional, local; transport, environmental bodies) and private operators so that everybody agrees on what the most urgent priority is for building. This should give us a certain level of guarantee that once an infrastructure is built, it will be used. Secondly, if nevertheless the project funded would not be effective, the money needs to be taken back.

**R. C.: There are press claims that the EU also invests in seaports where containers will never be unloaded, because there are no roads to transport the goods further.**

**Luc T’Joen:** I fully agree that this is an issue, but this also comes back to the “chicken and egg” problem. Of course, we should limit the number of seaports to fund to those having a potential for growth; only then it makes sense. Therefore, there should be a coherent long-term port-development strategy at a higher level, where everybody supports the development and whereby funds are directed towards ports that are capable of ensuring sufficient maritime activity, including proper hinterland connections. That is our first recommendation in the report. By simply looking at the map, you will notice that it sometimes is wishful thinking that sufficient maritime activity will take place in places where there is no hinterland available or where connections are so costly that they will never be built. The Commission (DG MOVE) is currently surveying the interested seaports population to go on that route.

**R. C.: All this puts a question mark on the policy planning of the Commission.**

**Luc T’Joen:** The policy has to be revised if there is so much waste, but the Court cannot and should not interfere there; this is not our task. There is a long list of indicators which can be used to measure

the performance of seaports. The Commission has just recently finalised a study which comes up with about 225 parameters which were then condensed in seven big ones. Let me mention just some of those: reliability of all types of port services available, hinterland market potential, throughput costs, travel time to get at final destination, efficiency of inspections of all types, container handling and storage space, quality of inland connections.

But in our audit, we didn't assess those. Basically, we have done two things in our audit. We have looked at the objectives of the randomly selected projects, to assess whether they were in line with the Operational Programme under which they were funded (and which should be in line with the policy). Then, we checked if the projects had been built and if yes, if they were used and if yes, how they were used: did they bring along quantitative and/or qualitative improvements?

The result, which was for us also a bit of a surprise, is in the report: some constructions were not yet finalised, some of those which were built were not used and most of them that were used were not used effectively, meaning that there was no improvement after the construction (no added passengers, no added cargo, no added containers, no added safety or security).

**R. C.: How was your contradictory procedure with the Commission?**

**Luc T'Joens:** We gave the Commission the data of the port authorities, the evidence of the regional authorities, the pictures, that's it. Already in the SPF phase, we were providing the facts to the regions where we found empty ports as well as infrastructures not being used and nobody contradicted us. One of the interesting facts of this audit was that only in a very few number of cases, there was an ownership of the project, maybe as a result of the number of years of delays and the excessive number of permits needed to be able to build. Nobody felt responsible, as the regional authorities did not care about the project once it was built: their task was to supervise the construction. The Commission did not see it to be their responsibility either and therefore, docks were laying there without ships, and ports were empty.

**R. C.: The report covers the period 2000 - 2010. Is that not too long a period?**

**Luc T'Joens:** The report was published and presented officially in April 2012. I agree that we should try to improve our own time performance and have a sort of "fast track procedure" for reporting and publication, even if this would mean renegotiating some arrangements with the Commission, but that is of course not only in the auditors hands.

Having said that, the publication of our report occurs just during the discussion in Council and Parliament of the "Connecting Europe Facility", which is a 37 billion investment in transport infrastructure for the next Multi-Annual Financial Framework, out of which 10 billion will come from the cohesion funds. The idea of the whole discussion is to centrally manage the 10 billion instead of using shared management. The report really comes into the heart of the discussion and could influence the debates.

**R.C.: What does "Connecting Europe Facility" mean?**

**Luc T'Joens:** The idea behind the "Connecting Europe Facility" is to finalise the European network (so that it is not a "patchwork" as Commissioner Kallas indicated recently). This means providing co-funding for building the vital connections so that we achieve a "core" network with main corridors by 2020 and a "comprehensive" network by 2050. In this context, the environmental aspects as well as sustainability will gain in strength and importance in future.

**R. C.: Could you sum-up, in one sentence, your message to the Commission?**

**Luc T'Joens:** The Commission should ensure that money is well spent by adequately negotiating and supervising (there is obviously a problem there), but also by increasing the added value of its intervention in the major projects and cohesion fund projects for which it is directly responsible. We hope to have contributed positively to this with the publication of this report.

# THE PARTICIPATION OF NEW TECHNOLOGY-BASED FIRMS IN THE EU FRAMEWORK PROGRAMMES FOR RESEARCH AND TECHNOLOGICAL DEVELOPMENT

By Dr. Lorenzo Pirelli, ECA auditor



Dr. Lorenzo Pirelli

**This article summarizes the main findings of a study on the participation of young innovative high-tech firms in EU co-funded R&D projects. The study has been carried out by Dr. Lorenzo Pirelli, an ECA official, in the context of his PhD research at Politecnico di Milano (Italy), under the supervision of Prof. Massimo G. Colombo, Dr. Evila Piva, and with the collaboration of Dr. Diego D’Adda and Andrea Lucchini. The study, based on an extensive sample of European new technology-based firm (NTBFs), investigates the firm and project characteristics affecting the likelihood for these firms to participate and coordinate R&D projects co-funded by the EU Framework Programmes (FPs) for Research and Technological Development.**

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## Introduction

The EU research and innovation policy is increasingly relying on R&D collaborative projects to foster knowledge sharing and re-combination between partners from different sectors and countries to overcome its “innovation gap”, consisting in the poor exploitation of research results into economic activity and jobs in the EU, compared to its key competitors, Japan and the US in particular (Commission’s mid-term review of the Lisbon Process, 2005). Moreover, the Commission has often declared the intention to put the needs of SMEs and in particular innovative firms at the heart of its research and innovation policies and to support their active participation in EU co-funded projects (Small Business Act for Europe, EC, 2008). To do so, the EU allocated, since 1984, constantly growing annual budgets to the FPs – doubling nearly every 10 years. In the FP7 (2007-2013) only, 32 billion euro (equal to 60% of its budget) have been allocated to the Cooperation Programme, under which R&D projects are being funded. Even though these budgets are estimated to account only for around 5% of the total public RTD funding within the EU and its Member States (European Court of Auditors, Special Report 9/2007), FPs represent the main single programmes for funding R&D collaboration in the EU (Eurostat, 2011). Also in view of the future Horizon 2020 and Cosme programmes, the most relevant budget increase will concern initiatives aimed at favouring the participation of (young) innovative firms (EC, 2011).

## Literature review

R&D collaborative projects have emerged as “efficient means of organizing complex R&D processes” (Calia, 2007), as they promote inter-organizational learning and enable the exploitation of complementarities (Koppers and Pyka, 2002; Rycroft, 2003). Their recent growth is linked with the increasing need for complex and multidisciplinary skills, often dispersed in the innovation system, required to any firm to develop innovation (Laredo, 1998 and Gassmann, 2006), resulting in the rise of the Open Innovation Paradigm (Chesbrough, 2003). The basic requirement to access FPs’ funding to include in the project at least five different organizations from at least three different countries (Defazio, 2009) ensures the provision of a diversity of resources, which need to be combined effectively (Rethemeyer and Hatmaker, 2006). In fact, partners look for new and complementary resources but through established and trustable relations: this leads to the fundamental challenge in managing these projects as diversity provides the resources but unity is required to manage the partners’ relational complexity (Ospina and Saz Carranza, 2010). This makes the governance system crucial to ensure project effectiveness (Bou et al., 2009). In particular, in EU R&D projects the role of the coordinator implies significant control on the resources and information exchange flows, management of the relationships with the Commission and greater possibilities to influence the project objectives and activities (Laredo, 1998; Breschi and Cusmano, 2004).

## Conceptual framework

This study proposes a conceptual framework (Table 1) based on the systematization of the key project characteristics, identified by the literature, into four groups:

- 1) characteristics representing sources of complexity, related to partners' diversity and relational complexity, that increase diversity and thus the potential for innovation but also the managerial problems in terms of coordination and integration;
- 2) characteristics favouring a sense of unity and trust among partners, that limit the managerial complexity and, thus, the recourse to hierarchical structures.
- 3) other characteristics, with unclear effect, such as network duration and density;
- 4) characteristics related to the need for centralized and formalized governance structures, which are affected by the combined level of the previous characteristics.

Figure 1. General conceptual framework of the key project characteristics and of their trade-offs and effects on the project governance.

	SOURCES OF COMPLEXITY (≈ DIVERSITY, RELATIONAL COMPLEXITY)	SOURCES OF UNITY (≈ TRUST, PROXIMITY)	OTHER CHARACTERISTICS	GOVERNANCE
PROJECT CHARACTERISTICS	Degree of openness Number of partners Partners' diversity Partners' market comp. Collaboration intensity	Goals consensus Basicness orientation Geogr. proximity Partners exp. collab.	Duration Network density	Need for centraliz/ formaliz
Degree of openness Number of partners Partners' diversity Partners' market comp. Collaboration intensity		—	?	+
Goals consensus Basicness orientation Geogr. proximity Partners exp. collab.	—		+	—
Duration Network density	?	+		+/?
Need for centraliz/ formaliz	+	—	+/?	

Therefore, the empirical analyses first identify the characteristics of the NTBFs participating to EU projects and, then, investigate in detail the project and firm characteristics influencing their likelihood to be the project coordinator, alleged to be a difficult task for an inexperienced firm when coordination complexity increases.

### The sample

The sample of NTBFs participating in EU funded R&D projects originates from the merge of two data sources: VICO and CORDIS databases. The former is a database developed within the EU project named VICO<sup>1</sup> containing accounting, investment and performance data on 8,370 NTBFs operating in seven European countries (Belgium, Finland, France, Germany, Italy, Spain and the United Kingdom). All companies were founded after 1984, were independent at foundation (i.e. not controlled by other firms) and operate in "medium/high-tech sectors", according to the Eurostat classification (2009) of economic activities in the EU. The database is composed of 759 Venture Capital (VC)-backed and 7,611 non VC-backed firms (control group). The latter is the online database<sup>2</sup> of the European Commission containing data on the cost and

1 <http://www.vicoproject.org/> project funded by FP7 (theme SSH-2007-1.2.3)

2 [http://cordis.europa.eu/guidance/welcome\\_en.html](http://cordis.europa.eu/guidance/welcome_en.html)

funding amount, contract type, duration, coordinator contacts, number and nationality of the partners of R&D projects co-financed since 1986 from the budget of the European Communities through the FPs. The CORDIS database contains these data for the sample of 700 NTBFs included in the VICO database which participated in at least one project, for a total of 1,736 projects participated.

Table 1 and 2 show, respectively, the breakdown by nationality and by industry of the 700 NTBFs participating in EU R&D projects, compared to the entire VICO-database.

Table 1: Breakdown by nationality of the 700 firms participating in EU R&D projects, compared to the entire VICO-database.

Countries	N° of firms sample	% sample	N° firms entire VICO-database	% VICO-database
Belgium	100	14,3%	915	10,9%
Finland	39	5,6%	760	9,1%
France	203	29,0%	1728	20,6%
Germany	58	8,3%	1340	16,0%
Italy	140	20,0%	1057	12,6%
Spain	51	7,3%	876	10,5%
United Kingdom	109	15,6%	1694	20,2%
<b>TOTAL</b>	<b>700</b>	<b>100%</b>	<b>8370</b>	<b>100%</b>

Table 2: Breakdown by industry of the 700 firms participating in EU R&D projects, compared to the entire VICO-database.

Industries	N° of firms sample	% sample	N° firms entire VICO-database	% VICO-database
Internet	68	9,5%	974	11,6%
TLC	24	3,4%	386	4,6%
Software	233	33,2%	3757	44,9%
ICT Manufacturing	133	19,7%	1504	18,0%
Biotech & pharmaceuticals	157	22,3%	868	10,4%
Other high-tech manufacturing	29	4,0%	459	5,5%
Other high-tech services	56	7,9%	420	5,0%
<b>TOTAL</b>	<b>700</b>	<b>100%</b>	<b>8370</b>	<b>100%</b>

It is interesting to note that some countries, like Germany or the UK, are under-represented in the FP projects. On the contrary, Belgian, French and Italian NTBFs are over-represented in such projects. This might be linked to the relatively low availability of Venture Capital and national public sources of funding in these countries, compared to Germany or the UK, that pushes NTBFs to look for the EU co-funding. It is remarkable to note that three fourths of the NTBFs participating in EU projects operate in Software, ICT and Biotech & Pharmaceutical sectors.

Another interesting comparison is between the percentage of VC-backed firms in the sample and in the entire VICO-database. In fact, while only 10% of the VICO-database firms are VC-backed, more than 23% of the firms participating in the EU projects also received VC funds, suggesting the existence of some complementarity between the participation in the EU projects and the firms' capacity to attract VC funds.

Concerning the projects participated by the 700 NTBFs included in the VICO database, the vast majority (94%) of the sample projects were funded under FPs 4, 5, 6 and 7. This is due to both the fact that most of the VICO firms did not exist at the time of FPs 1, 2 and 3, and to the fact that the budgets of the first FPs were relatively small.

Table 3: Breakdown of the sample projects by FP.

Framework Programme	N° of projects	% of projects
FP1	10	0,6%
FP2	35	2,0%
FP3	55	3,2%
FP4	283	16,3%
FP5	499	28,7%
FP6	501	28,9%
FP7	353	20,3%
<b>TOTAL</b>	<b>1736</b>	<b>100,0%</b>

### Statistical and econometric analyses

On average, each NTBF participated in 2,5 projects, with half of the sample firms participating in more than one project (consider Table 4), suggesting the existence of some learning curves in the application process and project participation.

Table 4: Number of projects participated per firm.

Number of projects per firm	N° of firms sample	% of firms sample
1	345	49,3%
2	126	18,0%
3	74	10,6%
4	45	6,4%
5	31	4,4%
6	17	2,4%
7	19	2,7%
8	18	2,6%
9	7	1,0%
>10	18	2,6%
<b>TOTAL</b>	<b>700</b>	<b>100,0%</b>

Previous (and repeated) experience seems to matter also for being project coordinator: as shown in Table 5, out of the 82 NTBFs that coordinated at least one project, more than one fourth are 'serial coordinators' (22), for a total of 117 projects coordinated by a NTBF. Moreover, as shown in Table 6, for 69 out of these 117 projects, the firm acting as coordinator had previously participated in an EU project and in 22 cases the coordinator had already participated in more than 3 projects.

Table 5: Breakdown of the number of projects coordinated per firm coordinator.

N° of projects coordinated	N° of firms	% of firms
1	60	73,2%
2	15	18,3%
3	2	2,4%
>3	5	6,1%
<b>TOTAL</b>	<b>82</b>	<b>100,0%</b>

Table 6: Number of projects participated per firm before being project coordinator.

N° projects participated before being project coordinator	N° of firms sample	% of firms sample
0	48	41,0%
1	24	20,5%
2	13	11,1%
3	10	8,5%
>3	22	18,8%
<b>TOTAL</b>	<b>117</b>	<b>100,0%</b>

The sample projects have on average 14,2 partners, with 55% of the projects having no more than 10 partners, 29% having between 11 and 20 partners, and only 16,5% of them having more than 20 partners (consider Table 7). The 117 projects coordinated by a NTBF are on average much smaller (7,1 partners): they are often micro-projects of less than 6 partners and, in 85% of the cases, projects with no more than 10 partners. This observation seems in line with the theoretical predictions suggesting that when project size and, then, coordination complexity increases, a more centralized and formalized governance is required – that a NTBF can hardly ensure.

Table 7: Breakdown by size of the sample projects, compared to those coordinated by a NTBF.

Project size (N° of partners)	N° of sample projects	% of sample projects	N° of projects coordinated by a NTBF	% of projects coordinated by a NTBF
1-5	246	14,2%	47	40,2%
6-10	712	41,0%	53	45,3%
11-15	327	18,9%	10	8,5%
15-20	164	9,4%	4	3,4%
> 20	287	16,5%	3	2,6%
<b>TOTAL</b>	<b>1736</b>	<b>100,0%</b>	<b>117</b>	<b>100,0%</b>

Also in terms of geographical dispersion of the project partners – measured through a normalized Herfindahl index<sup>3</sup> – the projects coordinated by a NTBF are on average less heterogeneous in terms of nationalities represented: only 4.5 different countries are on average involved in projects coordinated by a NTBF compared to 6.3 for the entire sample projects (corresponding respectively to a Herfindahl index of 0.61 vs 0.72). As shown in Table 8, only about 8% of the projects coordinated by a NTBF have a Herfindahl index of geo-diversity above 0.8, compared to 33% of the entire sample projects. Also this finding seems to be in line with the proposed conceptual framework according to which geographical diversity represents a source of complexity demanding for stronger governance structures that a NTBF can hardly ensure.

<sup>3</sup> The Herfindahl index to measure the project diversity in terms of geographical dispersion of the partners has been constructed using the following formula:

$Hindex_n = 1 - \sum_i x_i^2$  where  $x_i^2$  is the squared percentage of the nationality  $i$  in the project  $n$ .

This Herfindahl index has been normalized to transform it in a range (0,1) to allow comparison among projects with different numbers of nationalities represented.

Table 8: Breakdown by geographical diversity of the sample projects, compared to those coordinated by a NTBF.

Herfindhal index of geo-diversity	N° of sample projects	% of sample projects	N° of projects coordinated by a NTBF	% of projects coordinated by a NTBF
0.0 - 0.2	32	1,8%	9	7,6%
0.2 - 0.4	18	1,0%	0	0,0%
0.4 - 0.6	201	11,6%	29	25,2%
0.6 - 0.8	914	52,7%	70	59,1%
0.8 - 1	571	32,9%	9	8,4%
<b>TOTAL</b>	<b>1736</b>	<b>100,0%</b>	<b>117</b>	<b>100,0%</b>

Even in terms of project duration, projects coordinated by a NTBF are on average shorter (27 months) than the entire sample projects (35 months). 46% of the projects coordinated by a NTBF lasted up to 2 years, compared to only 25% of entire sample projects, as shown in table 9. Also this finding is in line with the proposed conceptual framework and with the observations of the Marimon report (Evaluation of the effectiveness of the New Instruments of FP6, EC, 2004).

Table 9: Breakdown by duration of the sample projects, compared to those coordinated by a NTBF.

Project duration (in months)	N° of sample projects	% of sample projects	N° of projects coordinated by a NTBF	% of projects coordinated by a NTBF
1-12	78	4,5%	18	15,4%
13-24	362	20,9%	37	31,6%
25-36	727	41,9%	42	35,9%
37-48	397	22,9%	20	17,1%
49-60	137	7,9%	0	0,0%
>60	35	2,0%	0	0,0%
<b>TOTAL</b>	<b>1736</b>	<b>100,0%</b>	<b>117</b>	<b>100,0%</b>

Concerning the average EU funding per project no statistically significant difference exists between the entire sample projects and those coordinated by a NTBF: the funding per project partner is only slightly smaller when the project is coordinated by a NTBF (229,714€ versus 244,717€).

The econometric estimates provide empirical confirmation that the project size, duration and geographical diversity are inversely correlated to the likelihood for a NTBF to coordinate an EU project. In addition, they strongly confirm that previous participation in a EU project and previous coordination makes respectively more likely for a NTBF to participate and coordinate another project. Moreover, econometric analyses prove the significant positive impact of VC financing on both participation and coordination. The observed impacts of the above mentioned project characteristics seem to be independent from the nationality and the industry in which the firm operates.

### Policy implications and future developments

This study on an extensive sample of EU R&D projects participated by NTBFs highlighted that young, inexperienced high-tech start-ups are unlikely to participate in EU projects and to coordinate them, especially when these are large, long-term oriented and geographically heterogeneous. These findings are expected to support EU policy makers, who declared the intention of placing the needs of the SMEs and in particular start-ups at the heart of the research and innovation policy in designing and funding projects having characteristics really favouring the active role of such firms. The general underlying

objective of favouring European integration and the creation of a unique European research area induced policy makers, especially in FP6, to support very large and heterogeneous projects (i.e. the Networks of Excellence). However, this strategy seems to be in contrast with the needs of innovative high-tech firms, which require small, short-term oriented and not too heterogeneous projects. This implies also reducing the application and coordination costs, for example by simplifying the procedures and providing projects with the legal provisions for balancing the power relations among diverse partners, in order to encourage also unexperienced partners to hold the key position of project coordinator. An incremental development of this research will consist in considering other project and partners' characteristics in the analyses such as the relative size of the partners, the intensity of the collaboration and the strength of the relationships (e.g. using social network analysis indicators looking at the flows of knowledge and exchanges among partners). To better identify the sources of diversity, it could be useful to employ more sophisticated measures of heterogeneity, considering the physical distance among partners and geo-centrality of the coordinator, the partners' previous experiences and background (to better appreciate the cognitive proximity, suggested as an important determinant of effective collaboration). Another attractive research direction is about investigating the degree of complementarity or substitution between EU / national / venture capital funding. This would provide very interesting information for policy makers and would highlight the possible existence of quality 'certification' effects for NTBFs, which are often facing a funding gap problem.

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## CELEBRATION OF THE 150TH ANNIVERSARY OF THE ESTABLISHMENT OF THE TURKISH COURT OF ACCOUNTS 28-29 May 2012



President Caldeira participated in the celebration of the 150th anniversary of the establishment of the Turkish Court of Accounts.

President Caldeira gave a speech on the role of SAIs in ensuring transparency and accountability, as part of a symposium marking the event, chaired by Mr Terrence Nombembe, President of INTOSAI.

As a very tangible example of the cooperation between the Turkish Court of Accounts and the ECA, President Caldeira highlighted the traineeship programme. Thanks to this programme, 19 auditors of the Turkish Court of Accounts have been given the opportunity to spend several months working at the European Court of Auditors.



## VISIT TO THE STATE AUDIT OFFICE OF CROATIA 4-5 June 2012

President Caldeira accompanied by Mr Geoffrey Simpson, Director of the Presidency and Liaison Officer, were welcomed by Mr Ivan Klešić, Auditor General of the State Audit Office of Croatia. They took part in a meeting with SAO management and discussed co-operation between the two institutions within the context of accession of Croatia to the European Union.

President Caldeira and Mr Simpson were also received by Mr Ivo Josipović, President of the Republic of Croatia and met with Mr Boris Šprem, speaker of the Croatian Parliament.



Mr Vítor Caldeira, President of the ECA and Mr Ivan Klešić, Auditor General of the State Audit Office of Croatia

## SPECIAL REPORT N°7/2012

### THE REFORM OF THE COMMON ORGANISATION OF THE MARKET IN WINE: PROGRESS TO DATE



In 2008, the Council adopted a reform of the common organization of the market in wine aimed at improving the competitiveness of EU wine producers and balancing supply and demand. The financially most important components of the reform were two aid schemes, one for the grubbing-up of vineyards and the other for the restructuring and varietal conversion of vineyards. The Court found that the grubbing-up was not sufficient to correct the existing market imbalance. The Court also found that the restructuring and conversion measure improved the competitiveness of vineyards, but in a number of cases also led to an increase in wine production for which new market outlets have to be secured.

## SPECIAL REPORT N°8/2012

### TARGETING OF AID FOR THE MODERNISATION OF AGRICULTURAL HOLDINGS



The European Union co-finances investments that aim at modernising farms. Subsidised investments range from simple farm machinery to complex building projects.

In this report, the Court identifies the importance of targeting aid to projects that address clearly identified structural needs in the Member States and the priorities set out at the EU level.

Effective targeting should direct the funding to viable projects that have a greater chance of achieving the objectives set, thereby providing better value for money for the European and national taxpayers.

The Court found that the targeting of the funding varies significantly; whilst some Member States have developed systems for selecting the best projects, others fail to target the aid effectively.

The Court also underlines the important role of the Commission in ensuring that Member States have provided for the targeting of the aid when it approves the Member States' Rural development Programmes.

## SPECIAL REPORT N°9/2012

### AUDIT OF THE CONTROL SYSTEM GOVERNING THE PRODUCTION, PROCESSING, DISTRIBUTION AND IMPORTS OF ORGANIC PRODUCTS



The market for organic products is highly dependent on consumer confidence. Accordingly, EU legislation was designed to ensure that consumers can be sure they are buying organic products when they are labelled as such. The system of checks laid down in the legislation aims at verifying and certifying that each operator in the supply chain (e.g. farmers, processors, importers) applies the organic production rules correctly. The Court audited the application of the EU rules that apply to this system of checks.

In order to gain sufficient assurance that the system is operating effectively and to protect consumer confidence, the weaknesses the Court has identified should be remedied both at the level of the European Commission and in the Member States.

## LES ASSISES DE L'ASSOCIATION INTERNATIONALE DES ANCIENS DES COMMUNAUTÉS EUROPÉENNES (AIACE) - Malte, 30 mai - 4 juin 2012



De gauche à droite sur la photo, Philippe Blocman, Gérald Coget, François Muller, Dominique Coget, Vasileios Kalentzis et Michel Pouzol

Du 30 mai au 4 juin, se sont tenues à Malte les assises de l'Association Internationale des Anciens des Communautés Européennes (AIACE).

Six anciens fonctionnaires de la Cour y ont participé. Durant ces quelques jours de retrouvailles et de découverte de l'île de Malte et de sa richesse culturelle, ce fut aussi l'occasion d'évoquer les souvenirs liés à leur séjour et au travail au Luxembourg.

A cette occasion, les participants ont eu l'honneur d'être reçus par le Président de la République de Malte, son Excellence le Dr George Abela. Ils ont aussi entendu une intervention du Prof. Joseph Bonnici, Gouverneur de la Banque centrale de Malte, mais aussi... ancien Membre de la Cour des comptes européenne.

Nous souhaitons adresser un amical salut à nos anciens collègues et à tous ceux qui ont repris le flambeau de la construction européenne.

### IN JUNE 2012 THE COURT SAYS :

#### HELLO TO

PRYK	Kinga
CAZZANIGA	Myriam
CZIRAKI	Zsofia
BORTNOWSCHI	Ramona
DECEUNINCK	Kevin
DARMANIN	Stephanie

#### GOODBYE TO

FACH	Romy
HARTMANN	Sabine

# Meeting with the German Bundestag's Committee on Budgetary Control

By Evelyn Holzeis, intern at Mr. Noack's Private Office



On Monday 11 June 2012, the Committee of Budgetary Control of the German Bundestag held their 24<sup>th</sup> meeting at the European Court of Auditors, following an invitation by Mr. Noack.

During this gathering, a variety of topics were touched upon. Problems with national co-financing, as well as current and future developments of TEN projects were first on the agenda. Alongside Mr. Noack, Mr. Weber, the Head of Unit for the Financial audit of the European Regional Development Fund, Transport and Energy, shared their views on these matters. In light of the current financial crisis, they stressed that funds have become tighter. This is a growing concern for Member States that depend on regional development funds the most, as they have fewer national instruments at their disposal to co-finance their projects. Mr. Weber highlighted that despite these dramatic challenges, it has become all the "more critical to plan efficiently and thus use funds more effectively".

Auditing rights of the ECA in European Stabilizing Mechanism (ESM) with regards to the Euro-crisis, and

national comparisons of Member States' auditing results and error rates were the following two topics discussed. To answer questions from the Budgetary Control Committee, Mr. Noack stressed the importance of "following criteria when projects are evaluated". Misinterpretations of "legal guidelines are most often what cause the error and do not signal fraud". On the question of whether certain countries make more errors, it was underlined that all Member States though varying in degree, do make such errors. It would not be correct in the light of the Court's audit approach, based on samples drawn in budgetary areas to "name and shame" individual Member States.

For the remainder of the meeting, a Director of the CEAD Chamber, Mr. Kraff, provided the Budgetary Control Committee with further information and quantitative indicators of Member States' auditing results and error rates in specific fields that had been audited. Overall, a deeper understanding of the European Court of Auditors' tasks as well as the methodology it employs to complete them, were reached.



# VISITE D'ÉTUDE D'UNE DÉLÉGATION DE LA *AUDITORÍA GENERAL DE LA NACIÓN DE LA REPÚBLICA ARGENTINA*

Par François OSETE, Chef de Cabinet de M. Lazaros S. Lazarou

Le 7 mai dernier, la Cour a eu le plaisir d'accueillir MM. Vicente Brusca et Alejandro Nieva, auditeurs généraux de la « Auditoría General de la Nación », accompagnés de M. Hernan P. Batinic, Secrétaire de l'Ambassade de la République argentine auprès de l'Union Européenne.

Cette visite a fait suite à la participation de MM. Lazaros S. Lazarou, Armando Do Jogo, et moi-même à la conférence annuelle de l'INTOSAI-WGEA (Working Group on Environmental Auditing), organisme au sein duquel le Membre chypriote représente notre Institution.

En effet, en marge de cet évènement, les collègues argentins avaient manifesté leur intérêt pour une meilleure connaissance du modèle européen et son fonctionnement et, en particulier, pour son système de contrôle de l'exécution budgétaire.

La journée de travail a commencé par une réunion au cours de laquelle le Président Caldeira et M. Lazarou ont dressé la liste des défis nouveaux auxquels notre Institution était confrontée. Ont été notamment évoqués ceux relatifs aux bouleversements provoqués par la crise financière qui frappe l'Union Européenne et le rôle qu'elle devrait jouer dans le contrôle des instruments financiers créés pour y répondre.

La matinée s'est poursuivie par une présentation générale du fonctionnement du système institutionnel au travers des compétences de chacune des Institutions Européennes qui le compose.

L'accent a été mis sur la préparation du budget, sa structure, son approbation et les différents systèmes de gestion qui régissent sa mise en œuvre. Dans ce cadre, ont été présentés les contrôles internes de la Commission et ceux effectués par la Cour en tant qu'auditeur externe du budget de l'Union Européenne.

De même, le rôle du Parlement Européen, qui exerce quant à lui un contrôle de nature politique sanctionnant l'exécution budgétaire par l'octroi ou le refus de décharge donnée à la Commission, a été exposé.

Après cette présentation générale, le mandat, les fonctions, l'organisation, la méthode et la nature des audits ainsi que les types de rapports que la Cour produit ont été abordés.

Si l'ensemble de ces éléments a donné lieu à de nombreuses questions de la part de nos visiteurs, c'est surtout la complexité des audits - qui doivent englober à la fois l'examen des dispositifs de gestion de la Commission, de plusieurs états membres, de collectivités territoriales souvent et même ceux des bénéficiaires finaux des financements communautaires - qui a suscité l'intérêt des auditeurs généraux.

L'heure du déjeuner a été mise à profit pour développer le rôle du secrétariat général de la Cour, tâche dont s'est chargé M. Christophe Perron, Directeur des Ressources humaines.

Au cours de l'après midi, notre collègue, M. Miguel Martinez Gimeno, référendaire auprès de Mme le Juge R. Silva de Lapuerta à la Cour de Justice, a présenté les 3 juridictions européennes que couvre le terme générique de « Cour de Justice de l'Union Européenne ». Leurs compétences respectives, les subtilités de leurs procédures et la prééminence du droit européen sur le droit national dans les domaines attribués par les traités à l'UE, ont été exposées, avec un grand talent didactique, par notre hôte. La primauté du droit européen et son application effective n'a pas manqué d'étonner nos visiteurs.

Cette conférence, a été suivie d'une visite des locaux.

Enfin, la journée s'est conclue par un dîner offert par le Président Caldeira au cours duquel nos invités argentins ont exprimé leur satisfaction tant pour l'accueil que pour les informations reçus. A cette occasion le Président leur a remis une médaille de la Cour.

Ceci nous a donné aussi l'occasion d'introduire l'approche du « modèle de contrôle unique », le rôle du comité de contact et, plus généralement, les relations que La Cour entretient avec ses homologues nationaux, qui sont systématiquement informés des missions sur place et qui peuvent accompagner les auditeurs lors de leurs déplacements dans leur pays.

Afin de permettre d'approfondir les connaissances acquises pendant cette matinée de travail une documentation sur les questions traitées leur a été remise.

# VISITA DE UNA DELEGACIÓN DE LA AUDITORÍA GENERAL DE LA NACIÓN DE LA REPÚBLICA ARGENTINA

François OSETE, Jefe de gabinete del Sr. Lazaros S. Lazarou



De gauche à droite: M. Lazaros S. Lazarou, Membre de la Cour, M. Vicente Brusca, auditeur général, M. Vitor Caldeira, Président de la Cour, M. Alejandro Nieva, auditeur général, M. François Osete, Chef de Cabinet et M. Hernan P. Batinic, Secrétaire de la Représentation Permanente de la République argentine auprès de l'Union européenne.

El pasado 7 de mayo, el Tribunal tuvo el placer de recibir la visita de los auditores generales de la *Auditoría General de la Nación de la República Argentina*, los Sres. D. Vicente Brusca y D. Alejandro Nieva, acompañados del Sr. D. Hernán P. Batinic, Secretario de la Embajada de la República Argentina ante la Unión Europea.

Esta visita se concretó tras la participación de un equipo de nuestra institución, formado por el Sr. D. Lazaros S. Lazarou, el Sr. D. Armando Do Jogo y un servidor, en la Conferencia Anual del grupo de trabajo sobre la auditoría medioambiental INTOSAI-WGEA (*Working Group on Environmental Auditing*), organismo en el que nuestra institución está representada por el Miembro chipriota.

A raíz de este encuentro, los colegas argentinos habían manifestado su interés por un conocimiento más profundo del modelo europeo y de su funcionamiento y, en particular, de su sistema de control de la ejecución presupuestaria.

La jornada de trabajo del 7 de mayo de 2012 comenzó con una reunión durante la cual el Presidente Sr. Caldeira y el Sr. Lazarou detallaron los nuevos retos a los que se enfrenta nuestra institución, mencionándose en particular los derivados de los grandes cambios provocados por la crisis financiera que afecta a la Unión Europea, y el papel que el Tribunal debería desempeñar en el control de los instrumentos financieros creados para responder a ésta.

La mañana continuó con una presentación general del funcionamiento del sistema institucional, especificándose las competencias de cada una de las instituciones europeas que lo componen.

Se hizo hincapié en la elaboración del presupuesto, su estructura, su aprobación y los diferentes sistemas de gestión que rigen su puesta en práctica. En este marco, se presentaron los controles internos de la Comisión y los efectuados por el Tribunal en su calidad de auditor externo del presupuesto de la Unión Europea.

Asimismo, se expuso el control de naturaleza política que el Parlamento Europeo ejerce sobre la ejecución presupuestaria, al otorgar o denegar la aprobación de su gestión a la Comisión, responsable de ésta.

Tras esta presentación general, se abordaron el mandato, las funciones, la organización, el método y la naturaleza de las fiscalizaciones, así como los distintos tipos de informes elaborados por el Tribunal.

Estos elementos suscitaron numerosas preguntas por parte de nuestros visitantes, pero fue sobre todo la complejidad de las fiscalizaciones -que deben englobar el examen de los dispositivos de gestión de la Comisión, de varios Estados miembros, a menudo de administraciones territoriales e incluso de los beneficiarios finales de la financiación europea- el aspecto que atrajo más particularmente el interés de los auditores generales.

Durante el almuerzo se aprovechó para tratar la función del Secretario General del Tribunal, tarea de la que se encargó el Sr. D. Christophe Perron, Director de Recursos Humanos.

La tarde se dedicó a la presentación de las tres jurisdicciones europeas que abarca la denominación genérica de «Tribunal de Justicia de la Unión Europea», a cargo de nuestro colega el Sr. D. Miguel Martínez Gimeno, letrado del gabinete de la Sra. D.<sup>a</sup> R. Silva de Lapuerta, juez del Tribunal de Justicia de la Unión Europea. Sus respectivas competencias, las sutilezas de sus procedimientos y la primacía del Derecho europeo sobre el Derecho nacional en los ámbitos que son competencia de la Unión Europea en virtud de los tratados fueron expuestas por nuestro anfitrión de forma sumamente didáctica. En especial esta primacía del Derecho europeo y su aplicación efectiva despertaron la curiosidad de nuestros visitantes.

Tras esta conferencia se procedió a la visita de los edificios.

La jornada finalizó con una cena con la que el Presidente Sr. Caldeira obsequió a nuestros invitados argentinos, quienes expresaron su satisfacción tanto por la acogida recibida como por la información obtenida. En el curso de este acto el Presidente les hizo entrega de la medalla del Tribunal.

Dicha cena nos brindó además la oportunidad de presentar el enfoque del «modelo de control único», la función del comité de contacto y, en un plano más general, las relaciones que el Tribunal mantiene con sus homólogos nacionales, a los que informa sistemáticamente de las visitas sobre el terreno de los auditores de nuestra institución, a los que pueden acompañar durante sus desplazamientos en sus respectivos países.

A fin de permitirles profundizar en los conocimientos adquiridos durante esta jornada de trabajo, se les hizo entrega de documentación sobre los temas tratados.

## E-BOOK VERSIONS OF THE CONSOLIDATED TREATIES OF THE EU AND THE EURATOM TREATY



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Ce nouveau format, facilitera considérablement la vie des nombreux utilisateurs de ces deux ouvrages juridiques de référence : étudiants en droit, fonctionnaires de l'Union européenne ou des États membres, magistrats, avocats, etc. Ils pourront transporter ces traités dans leur ordinateur portable, leur notebook, leur tablette, leur liseuse électronique ou leur smartphone. Le format .epub offre un grand avantage: le texte s'adapte automatiquement à la taille de l'écran, la page se recomposant instantanément lorsqu'on modifie la taille ou la police des caractères. Ce n'est pas le cas avec le format pdf.

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2012

A tribute to  
 Juan Manuel Fabra Vallés (1950-2012)  
 Former President of the ECA

# EUROPEAN COURT OF AUDITORS AWARD FOR RESEARCH INTO PUBLIC SECTOR AUDITING



The European Court of Auditors (ECA) has launched the second edition of the "European Court of Auditors Award for research into public sector auditing" for academic research linked to public audit and to the ECA's mission and values in order to provide an incentive and recognition for research on public audit related issues.

#### OBJECTIVES

The award is addressed to European academics for their theses in the fields of theoretical and/or empirical studies related to public sector auditing, in particular within the European Union context. Subjects can include: audit methods and standards; financial, compliance and performance audit; audit of specific areas of EU finances; quality control; reporting; organisation and management; internal audit and control; and audit ethics.

#### ELIGIBILITY

The award is open to all postgraduates who have authored an academic research paper, either a Master's or a PhD thesis. The viva examination must have taken place on or after 1 January 2010. To be eligible for the ECA Award candidates should be nationals of the European Union or have completed a thesis at an EU university.

#### PANEL

The award will be judged by a panel composed of three experts from public audit organisations, current or former Members of the European Court of Auditors and/or university professors from EU Member States.

#### Prize

The winner will receive € 5,000, a medal and an award certificate.

#### Deadline

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