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- Loreta Grauziniene, Speaker of the Parliament; Vitor Caldeira, ECA President; Rasa Budbergytė, ECA Member

- Kevin Cardiff, ECA Member and Martin Schulz, President of the European Parliament

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Dear reader,

This October edition of the ECA Journal introduces several important topics, which may at first glance appear unrelated. However, many deal with issues which will be the subject of discussions at this year's meeting of the Contact Committee, to be chaired and hosted by the ECA on 15-17 October 2014.

On page 4, the ECA's President Mr Vítor Caldeira presents the agenda of the upcoming meeting. This year the focus will be on enhancing co-operation among the members of the Contact Committee. Specific attention will be given to those areas which offer good opportunities for this to be effective. This will include in particular the Europe 2020 Strategy and the Single Supervisory Mechanism as an important pillar of the banking union. See the following page for more information.

The ECA has recently published a new type of product: a landscape review of EU accountability and public audit arrangements. It will serve as inspiration for the EU Accountability Conference being organised by the ECA on 14 October. Moreover, Mr Kevin Cardiff, ECA reporting Member will present the review at the meeting of the Contact Committee as an introduction to areas which may be of mutual interest and could spark future cooperation. An article by Mr Cardiff on the landscape review is provided on page 15.

This year the EU celebrates the 10th anniversary of its 2004 enlargement – the largest in its history. This important event will also be commemorated at the Contact Committee. In this context, the ECA invited the EU 10 supreme audit institutions to prepare an article on their EU-related work. In this issue you may learn of the experience of the supreme audit institution of Slovakia.

Finally, and of particular relevance to the Contact Committee agenda, the French and the German supreme audit institutions have prepared contributions (see pages 6 and 7) on the European Public Sector Accounting Standards (EPSAS) project. These views are complemented by the ECA's perspectives on page 10.

I hope you enjoy this issue.

The Editor

2014 Contact Committee meeting: a focus on co-operation

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By Vítor Caldeira, President of the ECA



Vítor Caldeira, ECA President

The Contact Committee of the Heads of Supreme Audit Institutions of the European Union and the European Court of Auditors (the Contact Committee) meets annually to give its members the opportunity to discuss relevant matters – focused around EU financial management issues – and to agree, as needed, on joint activities when this can achieve greater impact. This year, we at the European Court of Auditors (ECA) are honoured to host and chair the meeting on 15 – 17 October 2014. Representatives of the EU Candidate Countries, along with representatives of SIGMA, the INTOSAI Development Initiative, and EUROSAI are invited to participate as active observers, as is the tradition.

Enhancing mutual co-operation

The main discussion topic will be to seek ways to enhance mutual co-operation, thereby enhancing the efficiency and value of SAIs' work and output to stakeholders, including EU citizens. Mr Igor Šoltes, Vice-Chair of the Committee on Budgetary Control of the European Parliament, will give an introductory speech by presenting the European Parliament's resolution of 4 February 2014, notably concerning the co-operation between national SAIs and the ECA. Mr Kevin Cardiff, reporting Member, will present the ECA's recently published landscape review of EU accountability and public audit arrangements, which should provide food for thought for Contact Committee members and may help inspire co-operation activities.

Moving onto the detailed discussions, we hope participants will fully explore areas offering opportunities for effective and useful co-operation, notably the Europe 2020 Strategy and the EU's newly established banking union, both of which the ECA addresses in its landscape review. Mr Henrik Otbo and Mr Neven Mates, ECA Members, will present the ECA's views in the respective debates.

A wide range of activities

The Contact Committee will take note of the wide variety of activities completed in the past year or planned for the future, and will adopt resolutions related to these activities. Topics include value added tax, EPSAS, fiscal policy audit, national SAI reports on EU financial management, and co-operation between supreme audit institutions and national statistical institutions. The Contact Committee will also decide whether to establish an early warning mechanism - to be hosted by the ECA for an initial trial period of two years – and adopt documents concerning its internal procedures.

The Network of SAIs of EU Candidate and Potential Candidate Countries will present a report on its activities of the past year and plans for the near future. In the same context there will also be a report from the Joint Working Group on Audit Activities, which is the co-operative arm of the Contact Committee and the said Network.

A traditional item on the agenda deals with reporting on recent EU-related audit work by Contact Committee members. This year the SAIs of Poland, Denmark and Lithuania volunteered to share their experiences.

During the working lunch scheduled for 16 October, ECA Member Mr Alex Brenninkmeijer will present the ECA's view on the anti-corruption report published by the European Commission in February 2014. Mr Joaquim Nunes de Almeida, Director for public procurement at DG MARKT of the European Commission, will contribute to the discussion.

Celebrating enlargement

It is now 10 years that the EU has grown from 15 to 25 Member States. The largest ever EU enlargement will be commemorated at the Contact Committee

meeting. The concerned supreme audit institutions have been invited to prepare posters on their EU-related work during this period, which will be displayed at the Contact Committee meeting. The ECA will also host a special event to commemorate the occasion. In this context, it should be noted that the EU 10 SAIs have been invited to prepare articles on their EU-related audits for publication in the ECA Journal (which started with the June edition).

A new format

In order to maximise the time available for discussion and follow-up, ECA decided to review the design and timing of the Contact Committee meeting. As a result, this year's meeting will start with a working dinner to open the discussion on mutual co-operation and will end in the evening of the following day. The working lunch - as mentioned above - will also allow for an informative debate. Time-savings are achieved especially by streamlining the reporting on pre-discussed activities, and including poster reports. Furthermore, a technical meeting of the liaison officers will be held on the last day (17 October) to ensure an immediate follow-up and early implementation of the decisions of the Contact Committee.

The next meeting of the Contact Committee will be held in Latvia in June 2015, coinciding with the Latvian presidency of the EU.



2014 Contact Committee

Main Agenda Themes

1. Seminar on enhancing co-operation between national SAIs and the ECA
2. Activities of the Contact Committee and its professional partners
3. EU-related audits by members of the Contact Committee



The 2014 Contact Committee meeting will be held in the ECA's conference room

Les normes comptables européennes du secteur public (les EPSAS) : quels enjeux pour les ISC de l'Union européenne ?

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Par Didier Migaud, Premier président de la Cour des comptes de France



Didier Migaud, Premier président de la Cour des comptes de France

Lors du Comité de contact qui réunira les chefs des ISC de l'Union européenne et le président de la Cour des comptes européenne à Luxembourg le 16 octobre prochain, le groupe de travail sur les EPSAS, co-présidé par mon collègue allemand et moi-même, rendra compte de ses travaux. Je ne veux donc pas anticiper les débats qui auront lieu à cette occasion. Je me contenterai pour le *Journal*, de rappeler les principaux enjeux d'une harmonisation des normes comptables au sein de l'Union, et de faire état de la position française sur ce sujet.

Je rappellerai tout d'abord une évidence : quels que soient le statut de nos institutions, la nature et l'étendue de nos compétences ou les modes de gouvernance financière en usage dans nos pays, nous avons un point commun : les comptes publics sont notre « matière première ». Que nous ayons à les juger, à les certifier ou à les auditer, il importe qu'ils soient établis selon des méthodes rigoureuses, stables et explicites. C'est pourquoi la question des normes comptables est essentielle. Et dans le contexte d'une gouvernance économique et financière renforcée au sein de l'Union, l'harmonisation de ces normes est une nécessité.

L'utilité d'une comptabilité sur la base des droits constatés est désormais reconnue, car elle assure une transparence et une fiabilité plus grandes des situations patrimoniales. Elle seule peut donner une vision complète de la situation financière, des actifs et des passifs et des recettes et dépenses d'une

entité pour un exercice donné. Cette information est devenue particulièrement sensible alors que la coordination des politiques budgétaires au sein de l'Union requiert une évaluation précise des déficits et de la dette publics.

La définition de normes adaptées aux besoins de nos administrations publiques, et leur harmonisation, ne vont pas de soi et ne rencontrent pas l'unanimité au sein de l'UE. Certains pays hésitent à changer leurs systèmes comptables, conscients du coût et des délais qu'impose une telle mutation. Le cadre comptable de plus n'est pas encore stabilisé. Les IPSAS, qui constituent le seul référentiel de comptabilité patrimoniale internationalement reconnu pour le secteur public, ne sont pas directement transposables aux administrations publiques européennes. Elles constituent une source d'inspiration et une base utiles certes, mais elles doivent être adaptées. C'est l'objet des EPSAS, qui ont vocation à s'appliquer au contexte européen.

Les EPSAS sont en cours d'élaboration par Eurostat, l'Office statistique européen et nous avons voulu que les institutions supérieures de contrôle de l'Union, ainsi que la Cour des comptes européenne, soient pleinement associées à ce processus, dans le cadre du Comité de contact. Il importe en effet de veiller à la plus complète consultation des partenaires publics compétents en matière de comptes publics et de normes : les normalisateurs nationaux, les producteurs de comptes et, bien sûr, les auditeurs externes des comptes publics.

L'harmonisation des normes comptables est un enjeu essentiel de la gouvernance économique et financière de l'Union. Dans le contexte de très grande instabilité et d'incertitude accrue qui touche nos économies, il est plus que jamais nécessaire de renforcer l'encadrement et la transparence de nos comptes publics.

Challenges on the way towards European Public Sector Accounting Standards (EPSAS)

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By Kay Scheller, President of the Bundesrechnungshof

Bundesrechnungshof



Kay Scheller, President of the Bundesrechnungshof

In October 2013, the Contact Committee of the Supreme Audit Institutions of the European Union (CC) set up the EPSAS Task Force¹. That Task Force was mandated to actively accompany the European Commission's efforts to implement binding European accounting standards for the Member States. The European Council and the European Parliament have the final say on the transition to EPSAS. The French and German supreme audit institutions (SAIs) jointly chair the Task Force.

Why does the European Commission call for EPSAS?

National financial statistics serve as the basis for determining the Member States' contributions, for allocating EU funds, for monitoring national budgets and for the excessive deficit procedure. For this purpose, it is of crucial importance to have available underlying data that is valid and of high quality. Especially in view of the government debt crisis, the Commission complained that the financial statistics submitted by the Member States sometimes were not fully reliable. Among other factors, the Commission attributed this to the quality of upstream data and the heterogeneity of national public accounting systems, which moreover impaired the comparability of the data supplied. In the Commission's view Eurostat² needed to convert the data supplied into accruals-based data by way of approximations

and adjustments. At the micro-economic level, financial transactions and balance sheets had to be derived from a wide variety of sources. As a result the Commission concluded that it was not only desirable but also imperative to enhance reliability, transparency and comparability of accounting data in the Member States.

In November 2011, the Council adopted the "Directive of the Council on requirements for budgetary frameworks of the Member States" as part of the six pack.³ The directive is designed to ensure the consistency of accounting rules and procedures for all segments of the public sector as well as the integrity of underlying data collection and processing systems.⁴ In view of divergent public accounting and auditing systems in the Member States⁵, the call for a harmonised set of accrual-based accounting standards is fully understandable from the supranational perspective. While (full or partial) accruals-based systems are already in place in some Member States, only cash flows are recorded in others. As the devil is in the detail, the challenge will be both the selection and discrimination of standards some of which may already be applied in some member states.

Against this background, the Commission and Eurostat were tasked to assess the suitability of the International Public Sector Accounting Standards⁶ (IPSAS) for the Member States.⁷ Following the first public consultation, they concluded that, while the IPSAS generally were a suitable basis, the inadequacy of their precision, applicability and stability as well as the insufficient involvement of EU authorities responsible for public accounting made their straightforward implementation in the Member States difficult. They therefore identified

³ 2011 EU Official Journal L306, p. 41 seq.

⁴ Article 12 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States

⁵ Ernst&Young: Overview and comparison of public accounting and auditing practices in the 27 EU Member States, Final Report, 19 December 2012

⁶ The IPSAS are a set of currently 32 accruals standards and one cash-based standard for the accounting of public entities.

⁷ Article 16.3 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States

¹ European Public Sector Accounting Standards (EPSAS)

² Statistical Office of the European Communities (Directorate-General (DG) of the Commission)

the need for developing their own accounting standards for the EU Member States (EPSAS).⁸

To what extent does this affect EU SAIs?

At first glance, it appears that such a conversion would have indirect repercussions on the SAIs only. If you look more closely, this is, however, not the case. In fact, the entire project has a bearing on the core of SAIs' mission performance:

- **Performance audit of the transition efforts:** Assessing the cost-benefit ratio is a key issue of government auditing today. The Commission itself estimates the cost of the conversion to an amount equivalent to between 0.02 percent and 0.1 per cent of a Member State's GDP.⁹ This raises the question as to whether these costs are matched by an adequate benefit and whether there are more efficient options.
- **New audit approaches:** Especially in countries that have a cash-based system in place, transition to an accruals system would amount to a paradigm shift not only for the accounting function but especially also for the audit function. Auditing accruals-based financial statements requires new skills. In addition, changes in the accounting system are likely to have repercussions on budgetary planning and budgetary control.
- **Independence of SAIs:** Even though the Commission emphasizes its respect of the SAIs' constitutional independence it seems to toy with the idea of a new role for them. Two common and (largely unspoken) questions concern a potential role of national SAIs in the audit of annual financial statements and/or in the certification of the government financial statistics to be reported to Eurostat. This would lead to additional engagements carried out in cooperation or competition with private sector auditors.

⁸ Report from the Commission to the Council and the European Parliament, COM (2013) 114 final, 06.03.2013, p. 10 seq.

⁹ Ibid., p. 9

Meeting of the EPSAS Task Force of the EU Contact Committee

On 25-26 February 2014, representatives of the Commission (Eurostat), the European Court of Auditors and 21 national SAIs met in Bonn to discuss matters pertaining to EPSAS. The Commission presented its intention to implement IPSAS-based European accounting standards for the Member States and submitted the following timetable for doing so:

- drafting a Commission communication on EPSAS governance structures and principles, costs and benefits (scheduled to be completed by July 2014, currently by October 2014);
- developing and adopting an EPSAS Framework Regulation that sets out the procedure for adopting EPSAS and the principles of EPSAS governance (July 2014 through year-end 2015);
- developing and implementing individual standards by year-end 2020.

The discussions about a potential introduction of EPSAS revealed that, irrespective of the national accounting systems, differing opinions prevailed in the relevant national institutions of individual member states. EPSAS supporters commend better comparability of financial data, enhanced transparency, strengthened accountability and more precise bases for policy decisions. EPSAS opponents largely fall into two groups. The first group expressed their concern about substituting a complex accruals system for a functioning cash-based system. The second group, above all representatives from countries with a workable accruals system in place (based on IFRS¹⁰, IPSAS or national GAAP¹¹) emphasised its benefits but also stated – taking special regard to the costs to be incurred by the transition to EPSAS – that there was still the need to be demonstrate that EPSAS add significant value. Furthermore, some SAIs expressed their doubts about the reasonableness of special EPSAS in addition to IPSAS already in place.

¹⁰ International Financial Reporting Standards

¹¹ General Accepted Accounting Principles

They therefore argued that it should be explored if uniform accounting principles would be a viable alternative.

The delegates generally welcomed the discussion thus initiated. Nevertheless, the large number of critical or sceptical comments can be attributed to the fact that many questions still remain unsolved. The following questions serve to demonstrate that prevailing doubts do not stem from a general opposition but rather from a well-founded assessment that might be addressed by supplying more comprehensive information and offering involvement to SAls:

- **Accruals accounting while the budget is not accruals-based:** Does accruals accounting only make sense, if budget preparation and budget implementation are also accruals-based?
- **Quality of data:** To what extent can the conversion to accruals accounting actually improve statistical data? Is the upgrading of systems in place a suitable option?
- **Cost-benefit ratio:** Does the value added really exceed the costs of conversion to harmonised accruals accounting standards?
- **Alternative options:** Is there really a need for putting into place new standards? Or would it be more cost-effective merely to develop principles duly taking into account the standards already in place?
- **Legal footing:** On what legal footing and by way of what procedure does the Commission intend to implement the EPSAS, i.e. principles and individual standards? How will the stakeholders be involved?

On behalf of the Contact Committee, the EPSAS Task Force will monitor further developments and take an active role where necessary.

The European Public Sector Accounting Standards (EPSAS): Look before we leap

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By Dr Igors Ludboržs, ECA Member



Dr Igors Ludboržs, ECA Member

The European Court of Auditors (ECA) welcomes the Contact Committee's consideration of EPSAS. ECA has long supported the diffusion of accruals accounting in the EU. Commenting on the recast of the Financial Regulation in Opinion 2/2001, ECA pointed out of the former modified-cash EU financial statements that:

"In the form in which they are currently presented, the financial statements are of limited value to the user: for example, they do not distinguish between current and capital expenditure, or between intermediate and definitive payments, nor do they account for accrued accounts payable. These deficiencies could be overcome by the adoption of an accruals-based accounting framework...".

Already at that stage ECA suggested that the appropriate accounting framework would be based upon the work of international bodies: "the IPSAS (International Public Sector Accounting Standards) accounting standards of the International Federation of Accountants (IFAC) and, in the absence thereof, the IAS (International Accounting Standards) standards of the International Accounting Standards Committee (IASC) or the proposals of the International Organisation of Supreme Audit Institutions (INTOSAI)".

Since 2002, the Commission has led a successful project to implement accruals accounts on the basis outlined in the Court's Opinion. Separately, many Member States have also moved towards the

implementation of accruals accounting, whether based on IPSAS, IFRS or national GAAP. This progress is welcomed, and the debate around the possible introduction of EPSAS will surely stimulate further convergence around accruals-based standards, whether the Eurostat proposals are adopted or not.

However auditing is a profession where caution should prevail. ECA believes that it is essential that some important features of the application of standards are addressed in any proposal...

Accountancy and audit are activities requiring the exercise of professional judgements. Accounting standards thus provide a basis for the exercise of such judgements. These professional judgements include considerations of materiality and the need to give a "true and fair" view.

The impact of any proposal dealing with EPSAS should not, in the ECA's view, interfere with the traditional role of the auditor in forming a view on whether the accounts give a true and fair view.

...the need to properly represent the views of all stakeholders...

Any such proposal should guarantee the participation in oversight committees of interested specialists with varied experience in the public sector. Any situation where an oversight committee is dominated by one group, e.g. preparers of accounts, might be perceived as having an institutional bias.

...consideration of the desirability of the option of providing new EU accounting standards, not put forward by existing standard setters...

In the context of public sector accounting standards, consideration should be given to the options of allowing a future endorsement mechanism to give some IPSASB 'Recommended Practice Guidelines' status as standards within the EU.

...an unclear state of affairs.

In the view of recent developments concerning the introduction of EPSAS it is very difficult at present to identify in which direction the process of creating EPSAS is evolving.

¹ Opinion No 2/2001 on a proposal for a Council Regulation on the Financial Regulation applicable to the general budget of the European Communities.

ANNUAL WORKING DINNER WITH THE EUROPEAN COMMISSION, 15 July 2014

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Demonstrating added value through a new performance culture - Opportunities offered by the 2014-2020 MFF

By Danièle Lamarque, ECA Member



Vitor Caldeira, ECA President welcoming José Manuel Barroso to the annual working dinner

All public managers, whether at the Commission or in the Member States, have to report on the performance of EU policies in order to assure citizens that public funds are used in accordance with the principles of regularity, economy, efficiency and effectiveness.

The European Court of Auditors assesses whether this obligation is correctly fulfilled and reports publicly on it. The Court provides independent and objective information which helps the Parliament, the Council and the Commission to design and manage EU policies better.

The Commission considers that the multiannual financial framework (MFF) is the appropriate framework for developing a performance approach. Strategic priorities are identified, the related objectives and means are set for seven years and a mid-term review will provide information on the results achieved. The incentive of the performance reserve should also help to focus more closely on performance.

Considering the opportunities afforded by the MFF for strengthening performance leads to three observations and one question.

I- **First observation: Performance is a widely accepted concept**

The need to report on the efficiency and effectiveness of EU funds in order to improve their management and provide EU citizens with better information is recognised by all. Article 274 of the Treaty states that the EU's finances shall be managed "in accordance with the principles of sound financial management". Article 30 of the Financial Regulation defines sound financial management, sets up ex ante and ex post evaluations and requires

administrative authorities to set objectives that are specific, measurable, achievable, relevant and subject to a realistic time-frame ('SMART') for all sectors of activity covered by the budget. Achievement of those objectives shall be monitored by performance indicators for each activity.

The Treaty also stipulates (Article 318) that the Commission shall submit annually to the European Parliament and to the Council an evaluation report on the Union's finances based on the results achieved.

Sound financial management includes reliable financial information, regularity, performance management, the establishment of internal monitoring and audit, independent external verification and compliance with general principles of accountability and transparency. It takes into account the inputs, outputs, results and impacts of the programmes.

The Council, the Parliament and the Commission insist on the fact that European added value is a key test for justifying spending financed by the Union budget.

The ECA examines whether the principles of sound financial management are applied to EU spending.

II- **Second observation: Reporting on performance has recently evolved**

The Commission issues three reports:

- o the report on the evaluation of the Union's finances based on results achieved, as required by Article 318 of the TFEU. In 2014 the Commission published its fourth report;
- o the report on budgetary and financial management;
- o the synthesis report provides a summary of the annual activity reports of the Directors-General.

The Court of Auditors' approach to performance has developed significantly in recent years:

- o the Court dedicates a chapter of its annual report to evaluating the performance of European finances. Since the 2010 report, this new chapter (*Getting results from the EU budget*) has been Chapter 10;

- o each year, the Court publishes a large number of special reports dealing with performance audit. In 2013, for example, seven of the 19 special reports related to two key dimensions of performance, European added value and/or the deadweight effect;
- o the Court follows up on its recommendations, both in the annual report and in the reports specifically dedicated to following up the recommendations made in its special reports. Of the 59 recommendations made in the eight special reports adopted between 2007 and 2010, 79 % were implemented fully and 12 % partially ;
- o the Court will also contribute to improving management performance by means of its opinions on the basis of Article 322, e.g. Opinion No 7/2011 on the Proposal for a Regulation on the Structural Funds.

III- Third observation: The assessment of performance is still inadequate

In its special reports and in the annual report (Chapter 10: *Getting results from the EU budget*), the Court notes that the performance approach is only partially implemented in the management of EU funds, both in the Member States and at the Commission itself.

Member States focus firstly on the need to spend the EU money available, secondly on the need to comply with the rules and only thirdly, and to a limited extent, on performance.

Performance culture is not yet sufficiently developed at the Commission. The Court considers that none of the three reports published by the Commission in 2013 provides a complete overview of the results in terms of European added value; furthermore, the information they contain is inconsistent.

- The Court's annual analysis of the DGs' annual activity reports shows that the objectives set for the programmes do not adequately reflect performance: only eight of the 52 objectives analysed in 2012 in three DGs, and four out of 15 in 2013 in three others meet the SMART criteria established by the Financial Regulation.
- The definition of indicators is often inadequate. The indicators should comply with the criteria set out in the Commission's internal control standards ("RACER", i.e. Relevant, Accepted, Credible, Easy and Robust). Only two of the 15 examined by the Court in 2013 comply with these criteria.

The Court acknowledges, however, that assessing performance in shared management is more difficult, as it does not make it easier to analyse the value added by the European budget. It is also too early to reach conclusions about the results of the programmes in the 2007-2013 period. The Court notes the progress made by the Commission's fourth evaluation report, which seeks to establish a link between the multiannual financial framework programmes and the objectives of the Europe 2020 strategy.

The assessment of performance is, however, a growing challenge for the coming years, and the Court therefore makes several recommendations to help improve the system.

IV- Question: What can be improved?

In order to improve accountability, develop a performance culture and meet the expectations of citizens and stakeholders, various measures must be taken:

- define, for each programme, SMART objectives and appropriate indicators, in line with management;
- develop statistical tools and information systems;
- develop a culture of performance at the Commission, which should report regularly on performance, provide relevant quantitative and qualitative information on the efficiency and effectiveness of programmes and on the achievement of objectives;
- ensure greater consistency between the various activity and performance reports drawn up at the Commission and improve their presentation in order to provide the reader with a clear overview of achievements;
- ensure that the Member States take the same approach to implementing policies under shared management.

ANNUAL WORKING DINNER WITH THE EUROPEAN COMMISSION, 15 July 2014

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State of play and future interinstitutional cooperation between the Court and the Commission

By Lazaros S. Lazarou, ECA Member

In his capacity as Member responsible for the Statement of Assurance, Lazaros S. Lazarou introduced reflections at the annual working dinner with the Commission on the ECA's interinstitutional cooperation. In particular he examined how the complementarity of the Court's Statement of Assurance (DAS) and the Commission's measures to protect the EU budget could be strengthened, based on examples from the cohesion and agriculture policy areas.



Lazaros S. Lazarou, ECA Member; Androulla Vassiliou, EU Commissioner; Danièle Lamarque, ECA Member

The Commission, as the executive power of the European Union, the Parliament and Council, as the legislative authorities, and the Court, as the external auditor, albeit with different responsibilities in the accountability chain, have a common goal; the success of the European Project.

Success means achieving the policy objectives and making an impact on the lives of European citizens, making every euro spent count and doing so by adhering to the rules and regulations and to the principles of sound financial management.

Whilst maintaining our institutional independence, we are all partners in the European Project. The Court as the external auditor is the watchdog and its work constitutes a tool in the hands of the Commission for making improvements where necessary.

It is understandable that the external auditor and the auditee may have different points of view based on their different responsibilities. The Court reports on the level of compliance of the underlying transactions to the EU budget whereas the Commission applies corrective measures to protect the budget. These responsibilities are different but at the same time complementary.

The Court takes good note of the discharge and other resolutions of the legislative authorities and we endeavour to address them to the extent possible.

We also take good note of a number of issues related to the estimation of our error rate, where the Court's approach differs to some extent from that of the Commission. For example, infringements of EU and national public procurement rules, cross-compliance requirements in agriculture and how to take account of corrective measures to protect the EU budget - more specifically financial corrections.

As regards public procurement, in response to calls from the Commission and the legislative authorities, the Court has set up a working group which reviewed the issue internally. The Court's services will engage with the Commission's services to examine the possibility and the extent to which the respective approaches to public procurement errors can be harmonised.

The issue of cross-compliance requirements as eligibility criteria will be addressed by taking into consideration the new legal framework for Agriculture, applicable for aid claims to be submitted in the new programming period.

With regards to corrective measures, detailed corrections at project level are taken into account in calculating the error rate of the project in question. Good examples for that are the Romanian ESF OP in 2013 and the Slovakian ERDF OP in 2012, where the national authorities imposed specific project level corrections after auditing individual projects.

Furthermore, under the Court's audit approach, with regard to corrections at programme level, adjustments are also made to our estimated error rate to the extent that a link to individual operations/ projects is established.

For the 2013 AR, the Court has taken account of corrective measures by Member States and the Commission in all cases affecting the underlying transactions and this has significantly reduced the level of error presented by the Court.

On this issue, in order to provide better information on corrective measures, it is important that the Commission puts in place sound procedures for confirming with Member States the timing, the origin and the amount of corrective measures.

The Court's statement of assurance is based on the examination of individual transactions. Although the Court also examines the different elements of the Commission's control pyramid, it does not rely on the results primarily because of issues of timing and reliability – as the Commission recognises in its synthesis and activity reports.

In reviewing the way forward for its Statement of assurance, the Court is considering different scenarios for the future. Starting with the 2014 AR there will be an alignment of the specific assessments to the MFF with the possibility of rotation by and within the MFF headings and also with the possibility of addressing performance issues in the AR. We will engage with the Commission so that when the conditions are right we can make more use of the Commission's control pyramid.

In response to Parliament's 2012 discharge resolution, the Court is also considering whether and how the request for risk-based and programme specific country reports could be addressed.

The multiannuality aspect of programmes is also an issue that often comes up in discussions. In this respect, the closure for the 2007-2013 programming period and the mid-term review of the MFF are set as priority tasks by the Court.

To conclude, the Court and the Commission, together with the legislative authorities, must work in close cooperation, within the remit of their responsibilities, for the success of the European Project. To this end, we all look forward to tangible results in the near future.

Landscape Review on EU Accountability and Public Audit Arrangements

By Kevin Cardiff, ECA Member

Mr Cardiff made a presentation at the annual working dinner on the Landscape Review on EU accountability and public audit arrangements



Kevin Cardiff, ECA Member and Martin Schulz, President of the European Parliament

Back in 2012, in the context of the development of the European Court of Auditors (ECA) Strategy for 2013 to 2017, ECA committed itself to various principles and actions. Among other things, ECA committed itself to “enhance public accountability and audit arrangements” and “improve financial management and reporting on the implementation and impact of the EU budget”.

But there was also a belief that the traditional range of products of ECA, such as the Annual Report, special performance audit reports and opinions on specific legislative proposals, left a gap for a higher level review product dealing with the broader EU environment within which ECA audit activities take place and the risks and challenges for the EU, which would be based on ECA's accumulated audit knowledge and research. These new products were to be called ‘landscape reviews’ – a term already in use in other audit institutions – and two areas in particular were identified as requiring to be the subject of landscape reviews in the first two years of the strategy period: public accountability and audit, and risks to EU financial management.

The landscape review, “Gaps, Overlaps and Challenges – a Landscape Review of EU Accountability and Public Audit Arrangements” was published on September 10th, and the second Landscape Review should be available in the coming months.

Review of EU Accountability and Public Audit Arrangements

For the purposes of this review, the ECA reviewed the arrangements in place for different policies, instruments, entities and related public financial resources across the EU system. The Court found that greater challenges for accountability and audit arose in particular where the nature of European Union activity made simple, traditional accountability and audit models more difficult to implement effectively, for example:

- where **intergovernmental instruments**, rather than ‘standard’ EU legal bases are used for European activities, so that the EU’s own audit and accountability arrangements do not automatically apply;
- where sub groups of Member States participate in different policy areas (the so-called **multi-speed EU**), often leading to complex governance, accountability and audit arrangements;
- where the EU acts in **partnership with others** (international organisations, private partnerships, Member States or third country states) and depends heavily on the partners’ own accountability and audit systems;
- where **different accountability and audit arrangements** apply to groups of EU bodies depending for example upon the sources of income;
- where **weak frontline governance**, limits the quality of accountability and audit processes for EU revenue and expenditure, carried out at Member State level (particularly that under shared management);
- where action is taken via a **combination of instruments** – strategies, targets, laws and regulations, as well as financial and budgetary instruments – so that more sophisticated audit and accountability approaches are required to assess all these policy components together, to provide an overall account of the outcomes, impact and results.

The ECA's review outlines the range of audit and accountability arrangements applicable in the EU system to different types of institutions and agencies and discusses the impact on audit and accountability arrangements of developments in governance and structures of the EU arising from the financial and economic crisis of recent years. It suggests that the audit and accountability challenges could be addressed at EU level in a number of ways, including:

- **A more collaborative system of scrutiny** (parliamentary oversight and public audit) for coordinated or intergovernmental instruments between the EU and Member States;
- **A more consistent and comprehensive set of arrangements** across all EU policies, instruments and funds managed by EU institutions and bodies. Parliaments and public auditors should in principle be able to assess all aspects of sound financial management related to their activities and all public finances and resources under their responsibility;
- **Improvements in accountability for the EU budget:** all parties involved, including Member States responsible for expenditure of EU funds under shared management, need to improve frontline management, articulation of objectives, controls and reporting systems;
- **Better accountability for EU results** requires that Parliaments at both the EU and national levels provide comprehensive scrutiny. This may require a level of enhanced cooperation that is not provided for by the existing accountability and audit architecture of EU and intergovernmental based European instruments;
- **Less costly audit overlaps** for EU policies and funds requires that auditors at each level can rely appropriately on the work of other auditors. ECA and public audit authorities in Member States would need to enhance their cooperation to achieve this goal.

EU Accountability Conference organised by **the European Court of Auditors** on Tuesday 14 October 2014, Brussels

ECA is committed to working in cooperation with its key stakeholders to advance the discussion and debate on these important matters. This conference will involve parliamentarians, policy makers and auditors at national and EU level, as well as academic participants.

Experience and Impact on the Work of the Supreme Audit Office of the Slovak Republic

By Mária Kysucká, Director General of the EU Funds Audit Department



Mária Kysucká, Director General of the EU Funds

The Supreme Audit Office of the Slovak Republic (hereinafter referred to as the 'Office') had begun operating in 1993, shortly after the country became independent. In line with the principles of the Lima Declaration, the Office's existence and independence are enshrined in Slovakia's Constitution. Further rules relating to its activity are laid down in the Supreme Audit Office of the Slovak Republic Act (hereinafter referred to as the 'Act'). The Office's main task is to perform independent audits within the scope laid down by the Constitution and the Act, report on its audit findings to the National Council of the Slovak Republic, the authorities and the public and, in so doing, promote sound and efficient use of funds.

International perspective

The Office is a member of the International Organisation of Supreme Audit Institutions (INTOSAI) and its European branch, EUROSAL. Through Slovakia's membership in the European Union, the Office sits on the Contact Committee of the Heads of the Supreme Audit Institutions of the EU Member States and of the European Court of Auditors (hereafter 'the Contact Committee'). It takes part in these international organisations through its representatives, auditors and other staff, delegated to 24 different international working groups within the framework of INTOSAI, EUROSAL and the Contact Committee. The Office's representatives are actively involved in drafting strategic INTOSAI and EUROSAL documents. It has successively held three-year mandates as auditor of EUROSAL's accounts.

Applying standards

Under the Act, the Office applies the International Standards of Supreme Audit Institutions (ISSAI) when carrying out the audits and successively incorporates them into its internal rules with aim to promote the sound use of public funds and contribute to efficient public finance management and accurate management of public property in accordance with the Slovak and EU legislation.

When selecting audit topics the Office's main criteria are the risk analysis, the issue's significance and the economy and effectiveness of audits respecting the Office mission and vision. However, the Office's audit activities are also influenced annually by social and economic trends and the economic situation within its scope. The Office responded flexibly to the plan to support economic growth and tackle the crisis announced by the European Commission in January 2011. Following the adoption of the strategy papers, which are part of the European Semester mechanism, the Office analysed their goals and embarked on the process of identifying target areas for auditing for 2012-2014. In the course of this process, it also took into account the conclusions and recommendations of meetings of the international organisations INTOSAI, EUROSAL, the Contact Committee and their working groups.

Audit of EU funds: a key priority

Ever since Slovakia joined the EU, the Office has highlighted the importance of EU funds as a major source of public funds by making the auditing of EU funds a key strategic priority. As an independent authority, the Office's role with regard to EU funds is to supervise the entire financial management and control system and to perform independent audits focused on the areas where the risk is highest, trying to cover a broad range of programmes and grants provided to Slovakia's budget from the general budget of the EU, bodies involved in the financial management and control system and beneficiaries. The main audit objectives are to examine whether the use of EU funds is transparent and complies with the generally binding provisions of the Slovak and EU legislation and the principles of sound financial management.



2 euro coin issued to the 10th anniversary of Slovakia's accession to the EU

Special function audits

Prior to accession and during the shortened 2004-2006 programming period the Office's audits of EU funds were carried out in two lines, consisting of 'independent' audits and audits conducted within 'special' position. While Slovakia was still preparing for EU membership, the Office decided to use its specialised capabilities, independence, legal framework and preparedness in the national interest by taking on two 'special' functions in addition to its independent remit in the field of auditing EU funds, namely:

- the function of certifying body for the SAPARD programme and the European Agricultural Guidance and Guarantee Fund (EAGGF) Guarantee Section (accomplished in 2007);
- the function of authority responsible for issuing declarations on the winding-up of assistance from the Structural Funds and the Cohesion Fund for the 2004-2006 programming period (accomplished in 2013).

While performing these 'special' functions, the Office audited 431 entities, identified 2305 shortcomings and issued 2305 recommendations to take remedial actions. On the basis of these audits, it issued 5 certificates for SAPARD annual clearance of accounts, 3 certificates for EAGGF Guarantee Section annual clearance of accounts and issued winding-up declarations for 41 Cohesion Fund projects and 11 for Structural Fund programmes in the 2004-2006 programming period.

During the Office's examination of these 'special' functions the independence of the Office was not breached or weakened in any way; vice versa its authority in the field of auditing European funds increased. By handing these 'special' functions

itself, the Office saved public money, since it is significantly more demanding on recourses for private auditing companies (as is the case in certain Member States).

In the 2007-2013 programming period, the Office no longer performed 'special' functions, instead focusing all its efforts in the field of European funds on independent audits, capitalising on its extensive and in-depth experience and understanding of the systems and the environment, the legislation, procedures etc.

A focus on the needs of society

In its audit work, the Office applies the latest innovative planning methods and best audit practice, know-how obtained by sharing experiences with long-established supreme audit institutions in the EU, which have highly developed planning systems based on risk analysis. The guiding principle of entire planning is that the Office's work and results should reflect the requirements of society as closely as possible and help resolve problems in connection to the use of public funds, of which EU funds represent a major source.

The importance of parallel audits

International cooperation in the European Organisation of Supreme Audit Institutions (EUROSAI) is a major platform to enhance the effectiveness of audits. The cooperation is carried out under framework agreements or individual agreements, particularly as parallel audits. The numerous audits already completed have resulted to a number of recommendations for improvements, some of them within supranational dimension. Good examples are the parallel audits of the Structural Funds, involving 12 to 17 EU Member States per each audit. These parallel audits were targeted on, for instance, use of simplification measures of the EU regulations, the detection, treatment and reporting of irregularities, the effectiveness of EU employment programmes, etc.

The Office is also actively involved in parallel audits in the environmental field, cooperating with audit institutions from Austria, Slovenia, the Czech Republic, Poland and Ukraine. The findings of some audits have been presented at congresses, seminars, in specialised bulletins and at INTOSAI and EUROSAI working meetings.



On-the-spot audit of ISPA/Cohesion Fund project: Sewage treatment plant in Trenčín

Parallel audits carried out with German and Austrian audit institutions in the area of road building and tourism have also proved beneficial. The Office has every intention of deepening and widening such cooperation in the future. A number of parallel audits have also been carried out in cross-border cooperation with the Supreme Audit Institutions of neighbouring countries (Hungary, Poland).



On-the-spot audit of ISPA/CF project: Modernisation of the Bratislava Rača – Šenkvice section of the Bratislava – Trnava railway line



On-the-spot audit of ISPA/CF project for the modernisation of the Bratislava Rača – Šenkvice section of the Bratislava – Trnava railway line

Intensive international activities

The Office has greatly enhanced its international standing by intensively developing international activities in the framework of INTOSAI, EUROSAI, V4+2 and through bilateral relations with partner Supreme Audit Institutions. This is acknowledged by the increasing involvement of its representatives in international expert working groups, but above all by the fact that it was appointed by INTOSAI's Governing Board in November 2012 to chair Subcommittee 3 of INTOSAI's Capacity Building Committee, whose role it is to promote best practices and quality assurance through voluntary peer reviews.

The Office has not only acquired know-how and experience by exchanging experience with supreme audit institutions with longer history, it has disseminated them by providing specialised assistance in the field of auditing, especially to countries applying to join the EU (e.g. the specialised assistance provided to Croatia's Supreme Audit Institution in pre-accession period).

Developing as an institution

The Office has benefited greatly from EU-funded projects, namely the national project 'A Modern and Flexible Office – Capacity Building – Part 1 and 2', financed by the European Social Fund under Operational Programme Employment and Social Inclusion, and the national projects 'Audit Information System – Electronic Services and 'Development of the Audit Information System', financed by the European Regional Development Fund under the Operational Programme Information Society.

Despite the significant progress made in recent years towards enhancing the quality and professionalism of its work, the Office constantly strives to improve its performance. An example of this is the 'Information Systems Audit and Security' project carried out in partnership with the Swiss Federal Audit Office and financed by the Swiss-Slovak Cooperation Programme.

Independent Supreme Audit Institutions have to face social and economic challenges. In its short lifetime the Office has achieved and fulfilled the basic requirements for its mission:

- it has achieved the appropriate, constitutionally guaranteed independence of functions and powers, which have developed in the period under review in line with Slovakia's social and economic development;
- it has increased transparency by publishing the audit findings;
- it has like its partner audit institutions grouped in EUROSAI and INTOSAI and their bodies targeted and selected audit topics on key areas of society, doing so in cooperation with recognised experts in the field concerned;
- it also affects preventively as well, having in mind dissemination of good practice rather than just revealing shortcomings;
- it has improved its activities and authority at international level, positioning in INTOSAI's governing bodies, and is actively represented by auditors and other staff in 24 international groupings of the Supreme Audit Institutions;
- it has improved auditors' working conditions in terms of training, remuneration, office equipment and greater use of information technologies;
- it has verified and continues to assure the quality of its work, including the quality of its management.

The Office has an established system of principles to increase the effectiveness of its activities, which can be summed up as follows:

- pursuing a proactive approach to planning, the implementation of ISSAI standards, carrying out the audits as well as presentation of their conclusions, and monitoring in particular the benefit of its activities to society and the public;
- enhancing the credibility of auditors and their professionalism through continuous training and education in ethics, updating the code of ethics for auditors;
- acting to increase the effectiveness of measures and recommendations reported;

- harnessing its professional capabilities to cooperation with anti-corruption bodies;
- helping to improve internal control/ audit bodies at every level of government and municipality;
- maintaining its high level of international activities, in particular by chairing the INTOSAI subcommittee responsible for promoting best practices and quality assurance through voluntary peer reviews but also by assisting with the development of new audit institutions in countries that have recently joined the EU or candidates.

Assessing progress

External relations also play a major role in the system to assure the quality of audit work. They represent a major independent source of information on the quality of audits and may also provide an objective basis for assessing the quality of audit. For this reason, the Office asked for an independent international peer review of selected activity areas. The peer review was conducted by a team of representatives from the Supreme Audit Institutions of Estonia, Poland and Slovenia and the United Kingdom, which headed the team. The project was accomplished in 2011 when the heads of the Supreme Audit Institutions concerned signed the final report at the VIIIth EUROSAI Congress in Lisbon. The report on the peer review contained recommendations in order to improve the Office's activities. The recommendations are currently implementing via the Action Plan in order to improve the Office's procedures and activities and thereby raising its quality and degree. The Office has responded effectively to the range of challenges facing in recent years and improved the quality and professionalism of its work. This is clear from the conclusions of the international peer review team's report.

The Office has paid particular attention to the quality of the inner management functions and decided to implement a modern management tool - the Common Assessment Framework (CAF) to assess quality management. An internationally recognised self-assessment tool specifically

intended for administrations in EU states, the CAF is focused on strengthening the quality management system. The significance of the Office's introduction of the CAF was highlighted by external feedback on the self-assessment report, according to which the Office had made significant progress in the matter of innovation and could, since introducing the CAF model, be deemed a model public sector institution in terms of the assessment and implementation of quality under this model. In 2010 the Office was awarded the 'Effective CAF User', which is valid for two years. It was the first organisation in Slovakia to obtain this distinction. Nowadays, it is seeking to regain the title for a further two years.

When assessing an audit institution's activities, the overriding issue is the adoption and implementation of international audit standards, the degree they have been adopted and how the audit standards are binding in the audit institution's environment. The adoption and application in good and due application of audit rules and standards based on international audit standards in daily audit practice represents the main priorities of the Office's management. This approach is one of the main guarantees for the high quality and professionalism of the Office's audit activities. This management approach is borne out by the approval of the 2014 – 2020 plan for the implementation of ISSAI standards, the main objective of which is to implement and apply ISSAI Level 4 into the Office's work.

Looking to the future

In the next period, the Office will continue to focus on developing bilateral and multilateral relations geared to tapping the expertise and exchanging know-how with Supreme Audit Institutions in the EUROSAI Contact Committee. Tasks concerning in particular the work of joint teams in parallel or joint audits will demand close attention and further improvement. The findings of the parallel audits so far carried out under the relevant cooperation agreements have shown such cooperation to be mutually beneficial.

In the next period, the Office will make its efforts to ensure that the results of its activities serve all

stakeholders and contribute to the sustainability and quality of public finance management. It will be a credible institution and all its activities will be managed so to maintain the credibility. The aim of its activity will be to create social added value by identifying shortcomings in the management of the use of public money and EU funds, encouraging the requisite behavioural changes and delivering relevant and measurable results. The Office will not only point out shortcomings identified at the audited entities, but it will also deliver recommendations for all those managing the use of public money, EU funds and public property.

Visit by a delegation of ECA Members to Lithuania

By Rasa Budbergytė, ECA Member

Reasons for the visit

Earlier this year, the Court decided to hold a series of visits to EU Member States during the coming years. The aim is to raise awareness about EU financial management and accountability issues, to strengthen partnerships with stakeholders in the Member States, and for the Court to obtain further insight into the concerns and experiences of its stakeholders.

Lithuania was chosen as the first Member State to be visited, for several reasons. EU funds represent a significant part of its public finances, helping to make the economy more competitive and to create employment for its citizens, thus making it important to share experiences and good practices of how to make best use of these funds. Its recent successful Presidency of the Council of the EU has ensured that EU-related matters receive a high profile. The fact that Lithuania will adopt the euro as its currency from 1 January 2015 has meant that the challenges and benefits of entering the Eurozone are very topical issues for discussion amongst its citizens. Added to this, the National Audit Office has a track record in the control of EU funds in Lithuania, having audited pre-accession aid and having been the audit authority for structural funds during the 2007 – 2013 programming period and again for 2014-2020; it is one of only two NAOs to do so, thus placing it in a unique position to provide insights into control over spending of EU funds.

The delegation

A delegation of eight Members of the Court visited Lithuania from September 14 to 17, 2014. The delegation comprised the President, Mr Vitor Caldeira; Messrs Igors Ludboržs, Jan Kinšt, Augustyn Kubik, Ladislav Balko, Milan Martin Cvikl, and Henrik Otbo, in addition to Mrs Rasa Budbergytė, the Member from Lithuania, who organised the visit.

The delegation thus comprised a broad cross-section of the Court's audit activities, including Members from Chamber I (Preservation and Management of Natural Resources), Chamber II (Structural Policies, Transport and Energy), Chamber IV (Revenue, Research and Internal Policies, and European Union's Institutions and Bodies) and the CEAD Chamber (Coordination, Evaluation, Assurance and Audit Development). This diversity facilitated exchanges with a wide variety of Lithuanian partners.

The partners

The importance attached to the visit was reflected in the involvement of many high-level and influential representatives from the Lithuanian public sector. These included the Speaker of Parliament, Chairs of parliamentary committees, Prime Minister, Ministers of Economy, Agriculture, and Finance, Auditor General and Chairman of the Board of the Bank of Lithuania.



From left to right: Loreta Grauzinienė, Speaker of the Parliament; Vitor Caldeira, ECA President; Rasa Budbergytė, ECA Member



From left to right: Arūnas Keraminas, Deputy Auditor General; Nijolė Mickuvienė, Deputy Auditor General; Jan Kinšt, ECA Member; Milan Martin Cvikl, ECA Member; Giedrė Švedienė, Auditor General; Igors Ludboržs, ECA Member; Vitor Caldeira, ECA President; Rasa Budbergytė, ECA Member; Henrik Otbo, ECA Member; Daiva Bakutienė, Deputy Auditor General; Augustyn Kubik, ECA Member; Ladislav Balko, ECA Member

In addition, visits were made to three projects co-financed by the EU, in order to appreciate the effect at grassroots level of EU expenditure. Three of the projects visited concern the restoration for tourism purposes of parks, buildings and amenities which are part of the rich fabric of Lithuania's historical and cultural heritage. The fourth, which showcases modern Lithuania, involves the development of a centre for the latest pharmaceutical and health technologies.



Užutrakis Manor



Pažaislis Camaldolese Monastery

The discussions

Challenges to accountability and public audit were the theme of a conference organised in the Parliament, and were also discussed with the Speaker of Parliament and with the Prime Minister. The main issues reflected upon were those highlighted in the Court's recently-published landscape review on EU accountability and public audit arrangements, which calls on

the EU to improve its financial accountability towards citizens. The discussions focused on how to strengthen links between public financial managers, parliaments and public auditors in Member States.

A common theme during these exchanges was the need to focus on outcomes and results, and the opportunity provided by the 2014-2020 EU funds to help meet the challenging targets set under Europe 2020, particularly as regards poverty, unemployment, and structural reforms in pensions, education and health in Lithuania. There were many lively exchanges on these topics, and without doubt all parties gleaned many useful insights into areas for potential improvement, as well as a greater understanding of the inherent difficulties.



Conference in the Parliament: "Challenges in accountability and public audit"

In addition, during the meeting with the Prime Minister, the main messages from the Court's landscape review of the risks to the financial management of the EU budget were discussed, as well as the challenges for Lithuania in economic and financial governance, specifically those of relevance after Lithuania has joined the euro zone, and how Lithuania will tackle these issues.



Meeting with Prime Minister Algirdas Butkevicius (third in the front row)

The common platform provided by Europe 2020 for cooperation between the national Supreme Audit Institutions (SAIs) and the Court was addressed at a meeting with the National Audit Office of Lithuania (NAOL). Given that Europe 2020 has been identified as a main topic for the 2014 Contact Committee meeting of the Heads of SAIs, this meeting served as a first attempt to encourage the NAOL and the Court to find a common platform for actual cooperation. Examples of recent cooperative audits and of cooperation in areas other than audits between the Court and SAIs were presented. It was agreed during this meeting that potential areas for cooperative audits will be explored further between the two institutions, particularly concerning Europe 2020 and financial and economic governance, in light of the mutual understanding of the benefits and preparedness for actual cooperation gained during the discussions.



Meeting at the National Audit Office

The delegation broke into sub-groups for meetings with the Chairman of the Board of the Bank of Lithuania, the Minister of Economy and the Minister of Agriculture, respectively. This provided an opportunity for in-depth discussion of pertinent issues and provided the delegation with a broader range of insights than would have been possible otherwise. The meeting with the Chairman of the Board of the Bank of Lithuania focused on the challenges resulting from the EU response to the financial crisis and the accountability gaps in EU economic and financial governance. The theme of the meeting with the Minister of Economy concerned making the best use of the Cohesion Fund and the European Regional Development Fund in Lithuania, drawing on the experiences of the Court's DAS audits and special reports in this area, and discussing the single audit concept. In the meeting with the Minister of Agriculture, the focus was on making the best use of EU money in the policy area of Agriculture, sharing experiences from the Court's audit work in this area and discussing the major achievements and difficulties for the agricultural sector in Lithuania.



Meeting at the Ministry of Economy

Media interest

There was significant interest in the visit on the part of the Lithuanian media. A press release was circulated in advance of the visit, which attracted considerable attention. During the visit, a press conference and press briefing were given by the President and Mrs Budbergytė, which were attended by a large number of Lithuanian journalists. Many interesting questions were raised, which resulted in numerous media articles, citations and the reportage on TV news reflecting the high level of interest generated. In addition,

Mrs Budbergytė participated in a popular national programme on both TV and radio, and gave a number of interviews following the various meetings.



Press conference in the Government. From right to left: Vitor Caldeira, ECA President; Algirdas Butkevičius, Prime Minister; Rimantas Šadžius, Minister of Finance; Rasa Budbergytė, ECA Member



Press briefing in the Parliament. From left to right: Loreta Graužinienė, Speaker of the Parliament; Vitor Caldeira, ECA President

Conclusion

The visit of the delegation was a great success. We would like to offer our thanks to all our colleagues and partners who contributed so much to deliver this outcome.

We believe that the awareness of EU financial management and accountability issues has certainly been increased in Lithuania. The many stimulating discussions held bore witness to the level of interest in such matters amongst public representatives. In addition, the Court's delegation obtained much more insight into the concerns and experiences of our partners, which can be used by the Court in the future in developing audit priorities and proposals.

Ladislav Balko, ECA Member, at the 23rd Annual meeting of European auditors of Structural actions - "The Homologues Group" 26

Bratislava, 22 September 2014

"The contribution of auditors to the improvement of the implementation system under Cohesion policy, the European Court of Auditors' perspective"

By Branislav Urbanic, head of private office of Ladislav Balko



Meeting in Bratislava

Ladislav Balko, ECA Member responsible for the annual financial and compliance audits of the EU Regional Policy expenditure, attended the 23rd annual meeting of the Homologues' Group of the EU Member States financial control authorities and the European Commission, held on 22 – 23 September 2014 in Bratislava and hosted by the national audit authority – the Ministry of Finance of the Slovak Republic. Mr Balko addressed the audience with a speech on "*The contribution of auditors to the improvement of the implementation system under Cohesion policy, the European Court of Auditors' perspective*", which was as follows.

Introduction

Dear State Secretary of the Ministry of Finance of the Slovak Republic Mr Hudák, Dear Deputy Director General Mr Martyn, Dear Chair Ms Turčanová, Dear Ladies, Gentlemen and Colleagues,

It is a great honour for me to stand in front of you today here in Bratislava, my home city, in my capacity as Member of the Luxembourg-based European Court of Auditors at this 23rd annual meeting of the Homologues' Group of the EU Member States financial control authorities and the European Commission. This meeting will provide you – representatives of national and regional Audit Authorities - with an opportunity to exchange views with the Commission on various issues relating to the audit and control of EU

Cohesion spending. I am pleased to contribute to your upcoming debates by sharing with you my views on the topic "*The contribution of auditors to the improvement of the implementation system under Cohesion policy, the European Court of Auditors' perspective*".

The European Court of Auditors and its role

As the title of my presentation indicates, I am presenting to you the perspective of the European Court of Auditors as the EU's external auditor, which is an independent EU Institution established by the Treaty of Brussels in 1975. The Court contributes to improving the EU's financial management by auditing EU finances, promoting transparency and accountability, and thereby acts as the independent guardian of the financial interests of EU's citizens. Through our financial, compliance and performance audits, we assess whether the collection and spending of EU funds have been properly recorded and disclosed, legally and regularly executed, and managed so as to achieve economy, efficiency and effectiveness – or, simply, value for money.

Increased focus on performance

I have to stress the increased importance and emphasis the Court has been recently putting on the latter aspect, namely performance. It is not enough that money be spent in a legal

and regular manner (for example that a port or another infrastructure was built in accordance with applicable public procurement and other legislation). To contribute to achieving the EU's objectives, such as those in the Strategy 2020, the EU's spending must add value by financing well planned and performing projects that are useful to the Union (for example that the said infrastructure is actually being used and improving the daily lives of citizens).

Performance is getting more and more to the foreground also in the EU structural and investment funds legislation for the 2014-2020 programming period. The European Parliament and Council Regulations No 1300/2013 on the Cohesion Fund, 1301/2013 on the European Regional Development Fund and 1304/2013 on the European Social Fund put more emphasis on performance by setting out output and result indicators, in accordance with the programming provisions in Articles 27(4) and 96(2) of the Common Provisions Regulation No 1303/2013 which foresee for each priority axis the setting of such indicators and corresponding targets, in order to strengthen the result-orientation of the programming and to allow progress in programme implementation to be monitored and evaluated, and performance to be reviewed.

Court's opinion on the new Common Provisions Regulation

In its Opinion 7/2011 on the proposal of the new Common Provisions Regulation for the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund (now Regulation No 1303/2013), the Court expressed concerns that despite the claimed focus on results, the new funding scheme remains fundamentally input-based and therefore oriented towards compliance rather than performance, and that the ongoing challenge for the EU is to obtain good qualitative results from a scheme where funds are pre-allocated to Member States and where absorption is therefore an implicit objective.

Various perspectives at EU level

The European Court of Auditors is an important – **but not the only** – element in the EU's transparency and accountability chain. At the EU level, there are also other accountability mechanisms with different focuses, mandates or indeed perspectives, the work

of which may directly or indirectly affect you. For example, I would like to draw your attention to the ongoing own initiative inquiry of the European Ombudsman into the respect for fundamental rights in the EU's Cohesion policy. The inquiry focuses on the Commission's role in ensuring that the EU Cohesion funding in the current new 2014-2020 programming period is used by the Member States in ways that comply with the EU Charter of Fundamental Rights. National and regional ombudsmen in the Member States have also been informed of this inquiry and were invited to submit comments based on their own experiences from dealing with complaints in this area.

The Court's perspective and types of products

But to come back to the perspective – or, better, perspectives – of the European Court of Auditors which I represent, I would like to link them to the main types of products through which we convey our messages to our stakeholders, namely through opinions, annual reports or special reports.

In **opinions**, the Court provides its views typically on draft legislation with financial impact or on various issues of EU's financial management. For example, we issued opinions on the new sectorial legislation for the 2014-2020 programming period, including Opinion 7/2011 on the proposal of the new Common Provisions Regulation No 1303/2014 which I already mentioned. Or, as early as in 2004, we issued the Opinion No 2/2004 on the 'single audit' model and a proposal for a Community internal control framework, on which I will say more in a while.

In **Annual Reports** on the implementation of the EU budget, the Court, based on its financial and compliance audit work, provides its Statement of Assurance on the reliability of the consolidated accounts of the EU and on the legality and regularity of the transactions underlying those accounts, supplemented by one specific assessment of revenue and seven specific assessments per groups of policy areas which broadly correspond to the Multiannual Financial Framework headings. Since 2010, the Annual Report contains also a chapter specifically dealing with performance aspects, entitled "*Getting results from the EU budget*", which again demonstrates the Court's emphasis on performance.

Through **special reports** resulting from its performance (or value for money) audits, the Court provides its contribution to enhancing the sound financial management of EU funds, addressing issues of economy, effectiveness and/or efficiency achieved with EU spending. For example, the Court currently carries out a performance audit on public procurement under the responsibility of my colleague Mr Phil Wynn Owen who is also present today. This audit aims at assessing the actions taken by the Commission and the Member States to prevent, detect and correct the irregularities in relation to public procurement.

The 'single audit' from the Court's perspective

Another performance audit in the area of Cohesion resulted in the Special Report No 16/2013 on *"Taking stock of 'single audit' and the Commission's reliance on the work of national Audit Authorities in Cohesion"*, which I had the honour to present in the Budgetary Control Committee of the European Parliament last July. In my contribution today, I will focus on this 'Single audit' special report because I consider it to be of particular relevance for the topics discussed at your conference.

It is clear that, if properly implemented, the 'single audit' has the potential to decrease the control costs and the administrative burden for beneficiaries, thereby making more resources (both financial and human) available for core policy implementation and thus for producing results at the level of Member States, regions or particular communities.

As I already indicated, the European Court of Auditors has made known its considerations on the 'single audit' model already in 2004, in its Opinion No 2/2004 on the 'single audit' model and a proposal for a Community internal control framework. In this opinion, the Court set out a number of general principles for internal control systems to operate in accordance with the 'single audit' model, such as: common principles and standards for control systems at all levels of administration; common control standards and coordination of controls, avoiding unnecessary duplication; openness and transparency in application, documentation and reporting of controls; clear and unambiguous legislation avoiding unnecessary complexity; specific defined objectives for each level in the control chain taking into account the work of the other levels; and coordinated approach ensuring that benefi-

ciaries are properly informed of the objectives and consequences of the controls.

'Single audit' special report - background

So let me now move on to the 'Single audit' special report – what is it about? In general, in the context of the EU budget, the term 'single audit' means a system of internal control and audit which is based on the idea that each level of control builds on the preceding one. This concept aims at preventing duplication of control work, thereby decreasing the administrative burden on auditees, but also at reducing the overall cost of controls.

In this special report, the Court estimated the specific annual 'cost of control' for Audit Authorities to be between 110 and 130 million euro. As the main institutional stakeholders, including the European Parliament, the Commission and the Court have repeatedly emphasised (and this not only for Cohesion), internal control systems require that there be an appropriate balance between the cost of controls in a particular spending area and the benefits those controls bring in terms of limiting the risk of irregular expenditure.

'Single audit' in shared management mode (which is one of the main features Cohesion policy implementation) implies that the Commission aims to rely on the checks and audits carried out at the national level. Because the Member States are responsible not only for choosing individual projects to be included in the Operational Programmes or for adopting eligibility rules, but also for putting in place management and control systems in line with regulatory requirements, consisting of Managing Authorities and where appropriate intermediate bodies, Certifying Authorities and Audit Authorities. These authorities must ensure the legality and regularity of the co-financed actions, under the Commission's supervision and final responsibility.

Article 73 of the Structural Funds Regulation of the previous 2007-2013 programming period No 1083/2006 reinforced the possibility for the Commission, subject to fulfilment of certain conditions, to rely on the opinions provided by the Audit Authorities for specific OPs and to reduce its own checks to a minimum. More precisely, for OPs with Article 73 status, the Commission could rely on the audit opinion prepared by the relevant Audit Authority, and would carry out its own on-the-spot checks only if there was evidence suggesting

shortcomings in the system affecting the legality and regularity of the certified expenditure, unless the Audit Authority has adequately addressed these issues in its audit opinion. It is important to underline that the European Court of Auditors, as the independent external audit Institution of the EU, is not part of this 'single audit' system.

In the 'single audit' Special Report No 16/2013, the Court examines whether the Cohesion assurance systems provide a sound basis for the Commission to apply the provisions of Article 73, that is, to which extent the Commission was able, in the period from 2010 - 2012, to rely on the work of national Audit Authorities.

'Single audit' special report - relevance for the future

I should also add that, although our performance audit concerned the Article 73 'single audit' arrangements under the 2007-2013 programming period, it is relevant also for the future, for instance for the closure of that period. Where Article 73 status has been granted to an OP, the Commission will be able to draw assurance that the final payment is legal and regular from the work of the Audit Authority instead of carrying out own detailed checks.

Moreover, this performance audit is relevant also for the 2014-2020 programming period, because provisions similar to those in Article 73 of Regulation No 1083/2006 are now contained also in the Common Provisions Regulation No 1303/2013, in the second and third paragraphs of its Article 148 entitled "*Proportional control of operational programmes*", with some novelties such as the possibility to limit the Commission's own on the spot audits to auditing the work of the Audit Authority, or the possibility for the Audit Authority to reduce its own audit work proportionally to the reduced risk.

I also found very nice examples of further 'single audit' provisions in the first and fourth paragraphs of the same Article 148 concerning specifically the European Court of Auditors. They state, among other things, that operations shall not be subject to an audit by the Commission or the Audit Authority in any year if there has already been an audit in that year by the Court, provided that the results of the audit work performed by the Court for such operations can be used by the Audit Authority or the Commission for the purpose of fulfilling

their respective tasks. But they may still carry out their audits if a risk assessment or an audit by the Court establishes a specific risk of irregularity or fraud. If these provisions are implemented as intended, they could contribute their part to reducing the control costs and the administrative burden on beneficiaries, Audit Authorities and the Commission, which would be a very encouraging development.

'Single audit' special report - conclusions and recommendations in brief

In the 'single audit' Special Report No 16/2013, the Court considered that the Member States and the Commission have made significant efforts to establish a better system for auditing Cohesion spending during the 2007-13 programming period.

The Court further acknowledged that, since the start of the 2007-2013 period, the Commission made considerable progress in developing a system in which it can draw assurance on the legality and regularity of Cohesion expenditure from the work of national Audit Authorities.

The Court also considered that the Commission made significant progress by providing comprehensive, clear and generally accepted guidance material contributing to better consistency in the approaches and methodologies of the Audit Authorities, who were moreover generally satisfied with the capacity-building and training activities of the Commission as well as with the support it provided to their audit work. Such activities include the annual meetings of this 'Homologues Group', as the special report expressly acknowledges in paragraph 68.

However, the Court found that there was room for improvement as regards the calculation and reporting of error rates to the Commission by some Audit Authorities, and identified a number of risks in the Commission's reliance on the error rates reported by Audit Authorities and the information on financial corrections reported to it by the Member States. Also, the Court found a risk of the Commission under-estimating the residual error rate where it has limited assurance of the reliability and accuracy of a Member State's information on financial corrections.

In times of mounting pressure on the EU's and the Member States' budgets, what matters most for all those involved in the management and control of EU funds is working together with a view to

continuously improving the implementation of EU Cohesion policy in the future. This was the purpose of this performance audit and especially of the Court's **recommendations**. They aim for example at the Commission's strengthening the verifications of accuracy and reliability of the error rates reported by Audit Authorities and of the information on financial corrections reported by Member States; introducing a system of net financial corrections for OPs in respect of which the Audit Authorities repeatedly under-reported problems; or applying in all cases when granting 'single audit' status to OPs criteria which are robust, consistent and transparent.

Increased cooperation between ECA and national SAIs

Dear Ladies and Gentlemen, as you know, the European Court of Auditors is not part of the 'single audit' system under Article 73. However, in its own work, the Court also aims at more and better co-ordination of audit work with its national sister-organisations. In the Court's strategic documents, such as the Strategy for International Co-operation for 2014 and beyond, the importance of a closer co-operation between the Court and national Supreme audit institutions (SAIs) is specifically acknowledged and "*enhancing co-operation between national SAIs and the ECA*" identified as the main discussion topic at the upcoming meeting of the Contact Committee of the Heads of the SAIs, which the Court will host next month. The outcome of such discussions could include also proposals for carrying out joint audits. In line with the Court's priorities for 2015, topics which could be addressed in a collaborative way include Europe 2020 and the banking supervision, and both of them are on the agenda of the upcoming Contact Committee meeting.

Final remarks

Dear Mr Hudák, Dear Mr Martyn, Ms Turčanová, Ladies, Gentlemen, Colleagues, I thank you very much again for your kind invitation and for your attention. I hope I managed to convey to you a message that better governance and a more robust management and control framework would lead to better results in terms of implementation of the EU Cohesion policy by all stakeholders, and thereby to a better use of the EU's and national spending in the Cohesion area. I wish you very interesting and fruitful debates.

Huw Vaughan Thomas, Auditor General for Wales

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Visit to the Court 17-18 July 2014

By Rosmarie Carotti

The Auditor General for Wales is independent of government and is appointed by the Queen. The Office of Auditor General for Wales was created in 2005, and Huw Vaughan Thomas has been in the post since October 2010



Phil Wynn Owen, ECA Member and Huw Vaughan Thomas, Auditor General for Wales

R.C.: You have recently visited the ECA where you met President Caldeira and Phil Wynn Owen, ECA Member. What was the purpose of your visit and what were your main impressions?

Huw Vaughan Thomas: We have always had a productive relationship with the ECA – indeed, we seconded one of our managers to work at the Court a few years ago, and we were keen to learn about the latest developments at the Court and establish an ongoing dialogue with the ECA.

I was very impressed with the programme put together for us. We learned a lot about the Court's work in a short space of time. The presentations were highly informative and professional, and we were grateful for the hospitality that was offered to us.

It was interesting to meet members of the Court and to discuss matters of common interest with them. In particular, I noted that members are concerned about how to make the Single Audit model a reality and to ensure that it works effectively. That is also a major interest in Wales, where European project managers are concerned about the number of different audit and inspection regimes.

My impression is that the Court's performance audit is similar to our own in terms of both audit methods and the issues arising from the audits. Like the ECA, we also find that vague objectives, limited use of robust selection criteria, diluted impact and weak monitoring and evaluation are common themes in our work.

One major difference in our work is in the area of compliance audit (statement of assurance), which is a separate strand of work at the ECA. We consider compliance with legislation as part of our financial audit of accounts and have a lighter-touch approach compared with the in-depth approach of the ECA. For example, your auditors look at procurement, eligibility of participants and compliance with contracts in much greater detail than we would, and this has an effect on error rates. Your compliance audit also considers issues such as the economic use of resources that we would only consider as part of performance audit.

R.C.: Your role includes examining how public bodies in Wales manage and spend public money. What proportion of this comes from the EU budget, and on what is it spent?

Huw Vaughan Thomas: Wales receives an average of around £650m a year (€817 million at current

exchange rates) under the current programming round. This accounts for about four per cent of the Welsh Government's budget for the 2014-15 financial year, so it is significant.

Most of the £650 million is spent on agriculture and rural development – around £260m in payments to farmers under the EAGF and £121 million for rural development under the EAFRD. Wales also receives about £268m a year in Structural Funds, a majority of which is ERDF. The Welsh Government aims to use Structural Funds to address long-standing structural problems in the Welsh economy. So a large proportion of the available funding is being used to support business innovation, invest in road and broadband infrastructure and increase participation in the labour market, as Wales has a relatively high proportion of economically inactive people.

Around 94% of the funding goes to West Wales and the Valleys, a diverse region which has around two-thirds of the Welsh population and is one of the few Convergence regions in the UK. The region includes deprived former mining communities and industrial towns as well as sparsely populated rural areas, and its needs are correspondingly diverse.

R.C.: The Wales European Funding Office (WEFO) is part of the Welsh government and manages the delivery of the EU Structural Funds programmes in Wales. You have recently completed a performance audit in this area. What did you find?

Huw Vaughan Thomas: We concluded that the 2007-2013 programmes have progressed relatively well overall despite some early difficulties. WEFO has committed all of the available funding and met all of its expenditure targets, although it took longer than expected to mobilise the programmes. The programmes are also on track to meet or exceed most output targets, especially for the ESF programmes which have performed very well. It is too early to assess the programmes' overall impact, but there are encouraging signs from ongoing evaluations.

However, the programmes are falling short of targets that relate to the cross-cutting themes of equality and environmental sustainability. For example, the proportion of ESF participants from disadvantaged groups is lower than expected. Of

course, Britain had a severe recession during the course of the programmes and this made it more difficult than before to help groups that were already disadvantaged, such as older or disabled workers, so there will need to be renewed impetus in the next programming round now that the economic outlook for the Wales is more favourable.

We found that management arrangements are generally effective and have improved since the previous programming round. The switch to a focussed approach with fewer projects and greater use of competitive procurement was a significant challenge and caused some disruption as public bodies adjusted to the new approach. Monitoring and evaluation arrangements have been strengthened significantly since the previous programming round: project evaluation is now well established with all reports being published on WEFO's website. There are some challenges with data quality, however, which need to be addressed to enable effective evaluation at a programme level for ERDF.

Looking ahead to the 2014-2020 programmes, we recommended that WEFO start developing key projects at an early stage to help mobilise the programmes more quickly, and that it updates strategic guidance regularly to keep it relevant and help fill gaps in delivery. We also made several recommendations intended to improve support for project managers with procurement, strengthen monitoring and evaluation, and reduce the audit burden on project sponsors by streamlining the various inspection regimes - insofar as EU regulations allow for this.

R.C.: Your office contributes to the certifying body reports for agriculture and rural development in the UK. What challenges do you see in this work and do you see any similarities with our statement of assurance approach?

Huw Vaughan Thomas: Yes, the National Audit Office of the UK acts as the certifying body for the UK and we undertake work on its behalf in Wales. We are subject to inspection by the Commission to ensure that we meet its requirements for certifying bodies.

As a result of new EU regulations, we will need to re-verify a large sample of inspections (already undertaken by the Welsh Government) before

payments are made to farmers. This will result in a large increase in the number of physical farm inspection visits by WAO staff. We will also need to adapt our approach to the new farm support scheme that is being introduced in Wales and a new suite of projects approved under the new Rural Development Plan. We are confident that we can do all this, but there are major challenges: a big increase in staff resources for the audit, designing a new training programme, and – perhaps most difficult – the need to deploy staff at the right time to avoid delaying payments to farmers.

I would say that the certification audit is very similar to the ECA's statement of assurance approach. It is a very detailed, methodical and prescriptive approach. This has benefits in terms of consistency across the EU, especially in the calculation of error rates, but we would welcome a less prescriptive approach that allowed us a little more freedom to use our audit judgement.

R.C.: As a result of your visit, have you identified areas of useful co-operation between your office and the ECA?

Huw Vaughan Thomas: It was clear from the visit that we could communicate more effectively. My reports do not routinely consider relevant ECA reports and we are not always aware of ECA audit work that is taking place in Wales. Nor is the ECA informed about any work we are doing that might be relevant to them. We would need to discuss the details with the ECA, but would like to encourage direct contact between the ECA and WAO on matters of mutual interest. I would also like the WAO to incorporate a review of the ECA's future work programme and its published reports into the development of our own programme of performance audits.

At the moment, as a regional audit body, the WAO is not a member of the Contact Committee. However, the regional audit bodies for Wales, Scotland and Northern Ireland have full audit powers over a significant amount of public expenditure. I intend to discuss with the National Audit Office, which represents the UK on the Contact Committee, how we can improve communication of matters of interest through the Contact Committee to the UK's regional audit institutions.

Special Report N°7/2014**Has the ERDF successfully supported the development of business incubators?**

In recent years, the EU has co-financed business incubator projects in the context of its cohesion policy with the support of the European Regional Development Fund. This is in line with the EU's political priorities, especially in view of the Lisbon and Europe 2020 strategies of supporting the launch and development of small and medium-sized enterprises (SMEs), as they play an important role in the creation of growth and jobs. In this report, the European Court of Auditors assesses whether these business incubator projects were successful in supporting start-up SMEs (see also page 38).

This special report was published on 29 September and is available on our website: www.eca.europa.eu

Special Report N°10/2014**The effectiveness of European Fisheries Fund support for aquaculture**

One of the aims of the common fisheries policy (CFP) in the period up to 2013, and its funding instrument, the European Fisheries Fund (EFF), was to encourage the sustainable development of aquaculture. The Court examined whether EFF measures to develop aquaculture were well designed and implemented, and whether they delivered value for money. Overall, the Court found that effective support was not provided, as the framework to develop aquaculture at both EU and Member State level was relatively weak, and the measures actually taken did not provide sufficient results (see also page 42).

This special report was published on 16 September and is available on our website: www.eca.europa.eu

Special Report N°12/2014**Is the ERDF effective in funding projects that directly promote biodiversity under the EU biodiversity strategy to 2020?**

Protecting biodiversity is a key environmental priority for the EU, expressed in the EU strategy for biodiversity to 2020 and a variety of relevant EU policies and legislation. In this report, the Court focuses on the European Regional Development Fund and its role in financing and supporting projects directly promoting biodiversity.

This special report was published on 17 September and is available on our website: www.eca.europa.eu

Special Report N°13/2014

EU support for rehabilitation following the earthquake in Haiti

The earthquake which hit Haiti on 12 January 2010 claimed a heavy toll in human lives and caused massive destruction in and around the capital. In this report the European Court of Auditors examined whether the EU support for rehabilitation of the country was well designed and implemented and whether the Commission properly linked the provision of relief with rehabilitation efforts and development aid. The Court concludes that the support for rehabilitation was overall well designed, addressing the major needs of the country. However, the programmes were not implemented sufficiently effectively and relief, rehabilitation and development were not sufficiently linked. This was partly due to the difficult context and the weaknesses of national authorities, but also due to shortcomings in the management of some factors under Commission's control.

This special report was published on 23 September and is available on our website: www.eca.europa.eu

**Re-appointment of ECA's Secretary General**

The Court is pleased to announce that at its meeting of 18 September 2014 it has renewed the mandate of **Mr Ruiz GARCÍA** as its Secretary-General for a further six years term from 16 March 2015.

In October 2014 the Court says:**Hello to:**

BUBNIENE Meda
COSTA SALGADO Patricia
DOWGIALO Przemyslaw
KALAYDZHIEVA Zhivka
MRKALJMarko
NARCISO Paulo Jorge
PEKKI Jari
PIKI Paivi
TENNO Kadri
TSAMIS Athanasios

Goodbye to:

CADET Laetitia
DE MIGUEL RODRIGUEZ Francisco Javier
SCIBERRAS Mark
KILHOFFER Marion

2014 EUROSAI CONGRESS

Workshop on measuring performance

By Timo Lehtinen, senior administrator in the Directorate of the Presidency

The IXth EUROSAI Congress was organised by the Netherlands supreme audit institution (Algemene Rekenkamer) in The Hague 16-19 June. The EUROSAI's 41st and 42nd Governing Board meetings were held on the first and last day of the congress, and there were two days of seminars and work sessions between them.

The ECA's work session on performance measurement

Having several years of experience of measuring its own performance, It was led by a team from the Directorate of the Presidency. ECA was invited to run a work session on the topic under the title "Measuring your performance". To prepare the session we conducted a brief survey of all 50 (ECA included) EUROSAI SAIs to learn more about how SAIs are currently measuring their performance.

Survey of all EUROSAI SAIs

The survey asked the following questions:

- Does your SAI apply performance measures, such as key performance indicators (KPIs)?
- What performance measures do you currently use in your SAI?
- Do you use the indicator for internal or external purposes?
- What is the reporting periodicity of the indicator?
- Is the indicator measured against set target(s)?

The SAIs considered the survey as a very positive initiative, and we received 35 responses making a 70% response rate.

Of those which responded, 71% (25 SAIs) currently apply performance measures. There is a tendency to use the measures mainly for internal purposes, as less than half of the 25 SAIs publish the results. As regards targets, most of the SAIs set the target for number of audit reports to be published while the other measures are left without a target. They compare success in these activities over time, rather than against any specific set targets.

The large majority of SAIs report on the results annually for most measures. Some SAIs report more frequently on measures such as cost of an audit, reaching planned timeframes set for the audit and time spent to complete an audit.

Based on the survey, the most common performance measures used in EUROSAI SAIs - 18 of the SAIs who responded - are implementation rate of the recommendations and number of audit reports produced. The table below shows ten most common performance measures used.

10 MOST COMMON PERFORMANCE MEASURES USED IN EUROSAI SAIs	
Performance measure	Number of EUROSAI SAIs applying
Implementation rate of recommendations	18
Number of audit reports produced	18
Completion of audits within planned timeframes	17
Time spent to complete an audit	16
Internal assessment of the quality of audit work	16
Number of training days for auditors	16
Number of training and seminars	14
Number of times the SAI is featured in the media	13
Number of audit reports discussed in Parliament	12
Number of auditors with a certification	11

The ECA's performance measures

The ECA has applied key performance indicators to measure its performance as an institution since 2008, and business performance indicators to measure audit chamber performance since 2009. In addition, the Secretariat General applies indicators to measure the performance of the ECA's key administrative activities.

The first generation of the ECA's KPIs ran from 2008 to 2012. They were reviewed and revised for the new corporate strategy for 2013-2017. The seven KPIs set for 2013-2017 are as follows:

THE COURT'S KEY PERFORMANCE INDICATORS IN 2013-2017	
Seven KPIs	
KPI 1	Stakeholders' feedback on the ECA's work
KPI 2	Implementation rate of the ECA's recommendations
KPI 3	External experts' assessment of the ECA's products
KPI 4	Implementation of the ECA's work programme
KPI 5	Presence in the media
KPI 6	Average duration of a performance audit
KPI 7	Number of professional training days per auditor

Output from the work session

The full presentation on survey results, together with other output from the work session, has been provided to all EUROSAI SAIs and the work session participants.

Timo Lehtinen from the Directorate of Presidency is at your disposal should you have any questions (timo.lehtinen@eca.europa.eu, +352 4398-47707).



Special Report No 7/2014: Has the European Regional Development Fund (ERDF) Successfully Supported the Development of Business incubators?

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Interview with Marc Hostert, head of private office, Emmanuel Rauch, head of unit; and Rafal Czarnecki, team leader

By Rosmarie Carotti



Marc Hostert, head of private office of Henri Grethen; Emmanuel Rauch, head of unit and Rafal Czarnecki, team leader

R. C.: To start, could you, please, clarify what business incubators are. In the Special Report they are defined as “an organisation designed to support the successful establishment and further development of enterprises”. Who sets up a business incubator?

Emmanuel Rauch: A business incubator is a private or public structure. It offers help for the creation and the start of new companies. It offers access to physical business infrastructure and support services at an early stage when people have the idea of setting up a new company.

In Europe we usually talk about public services that are offered by national or regional authorities or joint venture structures, sometimes in partnership or even embedded in public institutions like universities.

Rafal Czarnecki: Business incubation is a form of supporting small and medium enterprises (SMEs). Anyone with an interest in supporting SMEs and in increasing their growth can set up an incubator. An incubator can be seen as a tool. Different organisations such as local authorities or private companies, and even individuals, can set up a business incubator as long as they have the right knowledge, capacity and if necessary facilities.

Public authorities may ask for credentials for providing a certain type of services, but there is no official certification. The limits of and the definition of a business incubator are not defined in law. A provider’s activity determines whether he can be called a business incubator.

R. C.: In what do incubators differ from Small Business Development Centers in the USA?

Marc Hostert: Firstly, in the USA, business incubators are publicly funded to a larger extent than in Europe.

Secondly, business incubators in the USA serve only selected clients and look for the best projects wherever in the world. Business incubators are considered a driver of competitiveness and collect the best ideas worldwide for projects to be located in the USA and hence generate growth and employment.

Their market orientation is the world. Their philosophy is to provide general economic growth support while in Europe we perceive incubators more in terms of regional development support. Business incubators should also become drivers of competitiveness and attractiveness in Europe and not just be considered to a large extent as a regional development tool.

We went and saw the US concept and we were fascinated. Contrary to the stereotype that in the USA everything has to be privately run, incubators are publicly run and publicly financed.

Rafal Czarnecki: Incubators are not one homogenous type of entity. There are many types of incubators. They may address different types of clients and different industry sectors such as biotechnology or IT. And they also may have different roles: they support regional and local development, commercialise results of scientific discoveries or even facilitate social inclusion.

R. C.: In Europe, we have shared management. The money only partially comes from the European Commission. What are the percentages?

Emmanuel Rauch: As the support comes from the ERDF, there always is a part funded by the EU and a part funded by the national state authorities. The percentage depends on the region and is higher in poor and lower in wealthy regions. In addition there can be the input of private money.

Rafal Czarnecki: In the population that we audited, 82% of the costs of the financing were provided by public authorities and 42% was the average rate of co-financing from the ERDF.

R. C.: The financing mainly went into infrastructure. This is also the main criticism expressed in the report. The infrastructure stays with the incubator.

Emmanuel Rauch: One of the main observations of this report is that the ERDF is quite good at funding physical premises. But having a building is not enough to be a successful incubator. More important is providing adequate support services and people who can help start-ups to develop.

Structural funds are better for financing short one-off investments than long-term investments. For start-ups, the funding is needed for several years.

Marc Hostert: Incubation is not about bricks and mortar but about brains, knowledge and creativity. It is very easy to build buildings, but that does not mean that this will lead to successful incubation. Incubation needs experts who are able to work with people and help them in achieving their project. It is much more about soft skill. In the US, most of the money does not go to bricks and mortar but to

soft skills such as consultancy, business planning, intellectual property issues, legal advice, and networking.

R. C.: If I am a client who would like to get support from a business incubator, how do I find the right one? What do I need to do?

Marc Hostert: When you start up a venture, you go to the authorities and to the Chambers of Commerce. You can even search on the Internet for “business incubator” and find one in your country. If it suits your venture, you will find help there. Otherwise you might find the appropriate infrastructure in another European country. Incubators should be specialised to some extent.

Emmanuel Rauch: Entrepreneurs will not get financial support from business incubators. They will get services. The public money we are looking at in our audit is in fact the money for the incubator entity, not for the start-up companies.

Marc Hostert: This again is a difference with the USA because in the USA you do not have public support outside incubators for young companies. In Europe, young companies receive money directly, and they have access to all the subsidies existing in the national member state. A good incubator even has a unit which gives support in finding them.

R. C.: In your special report you mention different phases of development of a business incubator. In which phase were the major deficiencies found?

Emmanuel Rauch: Our main criticism is that the ERDF was quite good at constructing incubators, but not so well organised in providing the right services afterwards. Sustainability was another issue. These incubators received money to construct something, but afterwards they had difficulties in financing the services they had to provide. They therefore had the tendency to rent space to regular companies and not to start-ups.

Marc Hostert: This could lead to distorted competition.

Emmanuel Rauch: On the other hand without the income from the rentals of regular companies they would have been unable to provide service support to real start-up companies.

R. C.: What is a clear and short definition of start-up company? Is it linked to business incubator?



Audit Team, from left to right: Henri Grethen, Member of the Court; Naira Zabala Eguiraun, auditor; Rafal Czarneski, team leader; Marc Hostert, head of private office of Henri Grethen; Emmanuel Rauch, head of unit; Mircea-Cristian Martinescu, auditor; Ildiko Preiss, private office attaché

Rafal Czarneski: Basically, a start-up company is a recently created company which normally has no income yet and is trying to find clients. A start-up company is not necessarily linked to a business incubator. In this report we provide two figures concerning the start-up survival rate, for companies set up with the support of incubators and those without. Those without support are much more likely to fail than those which do receive incubator support.

R. C.: Will this support continue in future?

Rafal Czarneski: We acknowledge that business incubators help start-ups to survive but now it is up to the authorities which run them to decide whether to support only start-ups which are likely to produce higher growth or in preferential sectors or whether to support any company.

When we exclude the very few private incubators, which exist and operate for their own profit, looking at the public incubators, it is reasonable to expect that only those companies that are likely to stay in the region and provide employment and a certain growth should be accepted.

R. C.: We are talking about sustainability. Who checks, or should check, sustainability?

Rafal Czarneski: In our report we talk about sustainability of business incubators. If we talk about the sustainability of start-ups, it is the role of the business incubator to assess that the company they are going to support is likely to survive.

Once a start-up is established, it is a mutual effort, of the incubator and the company. Once the company is sustainable it should leave the incubator.

The moment should be decided by the business incubator.

When we talk about sustainability of business incubators in our special report, we state that the public authority granting money for the construction and operation of the business incubator should make sure that this incubator can provide its services and is sustainable in the long run. We discovered that after the compulsory five-year sustainability period, some incubators closed down and simply converted the infrastructure into normal rental properties.

From a public audit point of view, the grant of EU or national funds is an investment and we expect a certain return on this investment.

R. C.: Is this five-year period compulsory for everybody?

Rafal Czarneski: It was defined by the ERDF regulation but Member State authorities are free to extend this period. In fact, Member States look merely at absorption while they should also look at positive results which could derive from a longer term.

Emmanuel Rauch: Business incubation is not usually a profitable activity. Public support is needed to run it. The EDRF is very good at providing support for physical infrastructure but is not well suited to funding these running costs. As the public authorities do not think about how they will fund the services once the ERDF money is used up, there are cases where the business incubators are no longer financially sustainable.

Rafal Czarneski: Perhaps the role of the ERDF is just to provide this initial funding. At the same time the local authorities or public development agencies

should make sure that there is the necessary money to ensure that the business incubator is capable of providing its services beyond the compulsory five years.

Marc Hostert: The five-year term is completely arbitrary. For some incubation projects five years is more than enough. If we talk about molecular research, five years is nothing. But I want to make the link with some other audit we have made in the field of regional infrastructure, i.e. the audit on brownfields. There we recommended a first time that the European Commission increase the five years to ten or fifteen. This is a horizontal issue everywhere where we address structural funds.

R. C.: Are talks planned with the European Commission to review the regulation?

Rafal Czarnecki: We had a discussion with the Commission. It is a sort of repetitive argument and the Commission argues that it cannot expect from Member States anything which goes beyond the financial regulation. Of course, at the end it is the Member States which will decide whether to reshape the Regulation, but this is outside the scope of this report.

Emmanuel Rauch: We have an example of good practice in Poland where the national authority decided to extend the minimum period from five years to twenty.

Rafal Czarnecki: What was interesting in this example was that the value of public support for the construction of the business incubator was expected to be transferred to the SMEs in the form of soft support. The final beneficiary of the public investment was therefore not the business incubator but the start-up companies.

R. C.: In the Special Report, the ECA considers that a monitoring system should be established in each business incubator.

Rafal Czarnecki: Indeed, the business incubators should measure the value of their support to SMEs. It is in their interest to demonstrate that they have offered the necessary support and to demonstrate their usefulness and effectiveness. We need to keep in mind that incubators are only one of many possible tools which could be used to support entrepreneurship

Marc Hostert: The weakness we identified has mostly to do with soft tools in incubators. The biggest challenge is to find the right people and the right procedures to give the support.

R. C.: What does networking mean in the context of business incubators?

Rafal Czarnecki: What we meant by networking was not only networking with or between the business incubators but the building up of a network with other organisations like universities, business leaders, public and local authorities. This networking offers small start-ups very useful contacts and ways of co-operation. Universities sometimes also set up incubators for their own people who are good in research but poor in commercialising their research. We talk about an ecosystem of different organisations which should link together to give the small start-up the possibility to find the best business-partner. This networking is crucial.

Marc Hostert: Business incubators should be embedded either in an environment of technology, research or in a body like a Chamber of Commerce. They cannot stand alone; incubators should consider to get specialised in order to host start-ups coming from specific target groups.

In the EU incubators are seen as a regional development tool. We don't say that this does not work, but they do not address the real problem that business incubators should be drivers of competitiveness and for potential high growth start-ups with a high degree of innovative content.

Emmanuel Rauch: Don't forget, there are also initiatives funded by the EU, or more specifically by the ESF, to finance projects of entrepreneurs. This includes microfinance, a subject on which we are currently carrying out an audit. We will talk more about that next time.

The ECA's special report N° 7/2014 was published on 29 September and is available on the ECA's website www.eca.europa.eu

Presentation on the ECA's Special Report 10/2014 on the effectiveness of European Fisheries Fund support for aquaculture

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16 September 2014

By Kevin Cardiff, ECA Member



Armando Do Jodo, team leader; Kevin Cardiff, ECA Member; Colm Friel, Head of Unit, Damijan Fišer, ECA Press Officer

Context

One of the objectives of the EU's Common Fisheries Policy is the sustainable development of aquaculture. Each year, aquaculture produces about 1,3 million tonnes of fish in the EU. Considering that in recent years the European Fisheries Fund (or EFF) granted over 400 million euros to support aquaculture, and also considering the current reforms of the Common Fisheries Policy, the Court decided to audit the effectiveness of the European Fisheries Fund support for aquaculture.

Most of the funding is granted for actions to improve productive investments in aquaculture. The audit was performed at the Commission and in six Member States (Spain, France, Italy, Poland, Portugal and Romania) accounting for over 50 % of aquaculture production and related EFF budgetary support in the EU. Documentation relating to 60 projects was examined in the Member States, and 31 of these were visited.

Main conclusions

Overall, the Court found that the EFF did not offer sufficiently effective support for the sustainable development of aquaculture.

Concerning the question on design and monitoring at EU level, I would like to highlight four main issues:

First, the EU policy framework was not sufficiently clear about how aquaculture should be supported.

For example, there was not a monitoring or evaluation framework; Member States did not have to produce tailored plans to target support on aquaculture; and the EFF's core planning documents (National Strategic Plans and Operational Programmes) at Member State level were not required to target aquaculture.

Second, the Commission did not provide enough aquaculture related guidance on environmental matters.

Third, good data on aquaculture production in the EU is a basic requirement for management and policy review. However there were significant inconsistencies in available data and unexplained differences between data sources.

Fourth, the Commission had relatively little information on the results and impact of its measures to support aquaculture in the Member States making evaluation of results difficult. There were very few audits of aquaculture related projects; Monitoring Committees devoted little time to aquaculture; the mid term evaluations of Member States' operational programmes provided relatively little information on aquaculture.

Concerning the question on design and implementation in the Member States, I would like to highlight five main issues.

First, all Member States visited lacked a coherent strategy for the development of aquaculture. Administrative procedures were often complicated and lengthy.

Second, there was poor maritime spatial planning for aquaculture in most Member States visited. Especially when combined with complicated licencing requirements, this hindered the sustainable development of aquaculture.

Third, none of the Member States' provided sufficiently clear objectives for the development of aquaculture or the resources needed for the task. Furthermore, there were weaknesses with the Member States' Operational Programmes (which elaborate the National Strategic Plans and allocate available resources in the EFF to priority measures). We expected to see more of an attempt to prioritise spending, or to ensure value for money at the project level.

Fourth, in Member States environmental and health risks were not sufficiently considered when making funding decisions. And none of the Member States visited except Poland used the EFF to specifically fund projects for the protection of the environment and public health.

Fifth, there were serious inaccuracies in the reporting of results by some Member States.

Concerning the question on whether value for money was obtained, I would like to highlight four main issues:

First, the objectives set in terms of increases in aquaculture production, whether at EU level or for the specific Member States visited, have not been achieved. Specifically, aquaculture production has remained stable each year and the long term target of a 4% yearly increase has not been achieved. In the six Member States visited, the interim EFF production target was 683 000 tonnes, and actual production was 485 000 tonnes. We recognise that the financial crisis has had an impact here. However, Member States had not reviewed targets to take into account changing economic circumstances.

Second, new or innovative projects received only limited support; projects were often poorly selected; and aid was granted for projects which had already commenced at the time of the selection.

Third, the increases in employment or production foreseen was actually achieved in only 3 of the projects we visited.

Fourth, about half of the projects we visited did not represent good value for money. Public funding should be proportional to the expected results, and funding for excessive investment and project deadweight should be avoided. In addition, a few of the 31 projects we examined, the scale of public funding was excessive compared to the scope of the project. For example, in Portugal, over 800 000 euro was granted to a project which was closer to a form of capture based fishing than aquaculture.

Recommendations

Finally, the Court provides in this report a number of recommendations to improve the effectiveness of support for aquaculture, particularly in the context of the implementation of the new European Maritime and Fisheries Fund under the reformed Common Fisheries Policy.

We recommend that the Commission should:

- (a) when approving Member States' Operational Programmes, consider whether objectives for the sustainable development of aquaculture are realistic and appropriate, and whether support is well targeted;
- (b) establish guidelines for the consideration of relevant environmental factors when determining public funding;
- (c) ensure, where relevant, that Member States' operational programmes are only approved if appropriate national strategies for the development of the aquaculture sector are prepared;
- (d) encourage Member States to implement relevant spatial planning and to simplify the licensing and administrative procedures;
- (e) improve the comparability of the statistical data on aquaculture compiled from its different sources, in order to enhance its accuracy and completeness.

We recommend that Member States should:

- (a) ensure that public funding is prioritised towards projects which best contribute to the sustainable development of aquaculture and provide value for money;
- (b) monitor project results more closely by setting and applying relevant indicators.

A word on the new Common fisheries Policy and European Maritime and Fisheries Fund

We note that the Commission has already indicated that it will act on various recommendations.

The changes in the new CFP and EMFF Regulations are also a big improvement (particularly, the introduction of multiannual strategic plans for aquaculture, and a specific funding section for aquaculture). Our recommendations are addressed to the actual implementation of these new rules. It's a standard Court practice for us to follow up, in a few years, on how the Commission and Members States implement our recommendations.

The ECA's special report N° 7/2014 was published on 16 September and is available on the ECA's website www.eca.europa.eu



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A tribute to Massimo Vari (1937-2013)
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