Our 2014 Annual Report -
the first year of a new period

The Members’ seminar:
another step in making the
ECA a more relevant and
flexible organisation

Journal
European Court of Auditors
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Our 2014 Annual Report – the first year of a new period

By Lazaros S. Lazarou, ECA Member responsible for the statement of assurance

Reporting our view on the accounts, revenue and spending

On 10 November we present our 2014 annual report with:

- Our opinion on the truth and fairness of the EU accounts;
- Our opinion on the legality and regularity (‘regularity’) of revenue and payments;
- Our review on budgetary and financial management; and
- Our analysis on the results achieved from the EU budget.

The annual report crowns the intensive work, full of tight deadlines, of reporting Members and staff and I thank them for their contributions. It is a significant part of our mission and our treaty mandate.

This article walks through this year’s main points in the report and the developments in presenting the results.

EU multi-annual financial framework

The EU financial management runs over seven year periods. A new period started in 2014. EU spending is split around high level policy priorities: the MFF headings. Our 2014 annual report is aligned to this structure.

The annual report introduces our work with the first three chapters providing an overall view:

- Chapter 1 – a summary of the results of our work on the accounts and on the regularity of the underlying transactions;
- Chapter 2 – an insight on budgetary and financial management; and
- Chapter 3 – an insight on performance; getting results from the EU budget.

Our mission

The European Court of Auditors’ mission is to contribute to improving EU financial management, promote accountability and transparency, and act as the independent guardian of the financial interests of the citizens of the Union. The ECA’s role as the EU’s independent external auditor is to check that EU funds are correctly accounted for, are raised and spent in accordance with the relevant rules and regulations and have achieved value for money.

EU spending we examined

Diagram1: Total EU expenditure 2014 (€142.5 billion)

Source: ECA – EU audit in brief – diagram 1
The next six chapters of the annual report describe our observations:

- Chapter 4 – revenue; the income side of the EU budget;
- Chapter 5 – competitiveness for growth and jobs; with a focus on research and innovation and transport and energy;
- Chapter 6 – cohesion; the EU’s policy for regional development, social affairs and inclusion;
- Chapter 7 – natural resources; the common agriculture policy including rural development;
- Chapter 8 – global Europe; the EU’s work in external relations; and
- Chapter 9 – administration; money spent on Commission and EU Institutions.

Our opinion on the accounts

The EU accounts for 2014 were correctly prepared in accordance with international public sector accounting standards. The accounts present a true and fair view of EU’s financial results for the year and of its net position at the end of the year. We were therefore able to give a clean opinion on the reliability of the accounts (‘signed off’), as we have done since 2007.

Our opinion on the regularity of transactions

Revenue for 2014, taken as a whole, is legal and regular.

Payments for 2014 are materially affected by error. We therefore give an adverse opinion on their regularity. So far we have not been able to give an unmodified opinion on regularity.

For regularity we calculate an estimated level of error. This measures the level of irregularity. The estimated level of error for 2014 payments is 4.4 %. It is close to that of 2013 (4.5 %). It is also persistently above the materiality threshold of 2 %.

The highest levels of error were found in spending under ‘economic, social and territorial cohesion’ (5.7 %) and in ‘competitiveness for growth and jobs’ (5.6 %). Administrative expenditure had the lowest estimated level of error (0.5 %).
### Additional analyses

In chapter 1 we included additional analysis of our results. We found for example that the same estimated level of error (4.6%) applies to shared management with the Member States and to expenditure managed directly by the Commission (administrative expenditure excluded).

We note that there is a clear relationship between expenditure types and levels of error. Our estimated level of error for cost reimbursement schemes (5.5%) is twice that of entitlement programmes (2.7%). In entitlement programmes beneficiaries receive a subsidy when they meet set conditions. In reimbursement schemes beneficiaries get a (partial) refund of eligible costs for eligible activities on the basis of cost declarations.

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**Diagram 3: 2014 results of transaction testing for EU spending areas**

<table>
<thead>
<tr>
<th>Spending area*</th>
<th>Amount subject to audit** and estimated level of error</th>
<th>Audit conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td>€57.3 bn</td>
<td>3.6%</td>
</tr>
<tr>
<td>Economic, social and territorial cohesion</td>
<td>€55.7 bn</td>
<td>5.7%</td>
</tr>
<tr>
<td>Competitiveness for growth and jobs</td>
<td>€13.0 bn</td>
<td>5.6%</td>
</tr>
<tr>
<td>Global Europe</td>
<td>€7.4 bn</td>
<td>2.7%</td>
</tr>
<tr>
<td>Administration</td>
<td>€8.8 bn</td>
<td>Free from material error</td>
</tr>
</tbody>
</table>

* The estimated level of error is based on the quantifiable errors from our work, notably the testing of a sample of transactions. We use standard statistical techniques to draw this sample and to estimate the level of error (see Chapter 1 Annex 1.1 to the 2014 Annual Report).

** We do not provide a specific assessment or separate chapter for spending under MFF heading 3 (Security and citizenship) and MFF heading 6 (Compensations), not for other spending (special instruments outside the 2014–20 MFF such as Emergency Aid Reserve, European Globalisation Adjustment Fund, European Union Solidarity Fund and Flexibility instrument). Work in these areas contributes however to our overall conclusion on spending for the year 2014.

### Example of graph from chapter 1 providing additional analysis

Source: ECA – 2014 annual report
Corrective action by authorities in the Member States and by the Commission had a positive impact on the estimated level of error. Without this action, our overall estimated level of error would have been higher (5.5%). We note that there is further scope for the Commission to improve its assessment of risk and the impact of corrective actions.

If the Commission, authorities in the Member States or independent auditors had made use of all information available to them, they could have prevented, or detected and corrected a significant proportion of the errors before these were made.

**Other developments**

Starting with the first year of the new period we have restructured the annual report with additional value added information. The structure is clearer; a separate chapter on budgetary and financial management was introduced (for the main message, see textbox). The annual report provides more focus on performance. Getting results from the EU budget is no longer the end chapter of the report. The shared management chapters include a part with the results of the pilot exercises on project performance through transaction testing.

In the 2014 annual report we have addressed issues that dominated discussions in the discharge procedure. We updated our approach to public procurement error quantification, whereas cross-compliance infringements will be dealt with in the 2015 annual report following the change in the respective rules.

**We, us and our = the Court(s)**

We wrote the text of our annual report in the first person, avoiding the use of the third person. Our messages need to be understandable for the interested reader. It follows the recommendations of the ‘plain English’ initiative (see ECA Journal June 2014).

**Budgetary and financial management**

The budget for payments in 2014 was the second highest ever. As in 2013, the final level of payments (£142.5 billion) was approximately 5% higher than the initial forecast in the MFF (£135.9 billion). This was realised through seven amending budgets and included the activation of the “contingency margin” - a last-resort instrument to react to unforeseen circumstances.

The “economic result” for 2014 was a deficit: liabilities grew faster than assets.

Amounts to be paid in the current and future years remain at a very high level. It is essential for the Commission to take measures to deal with this persistent problem. For some Member States the backlog of unused funds represents a significant share of overall government spending.

*Source:* ECA – EU audit in brief – 2014 annual report chapter 2
Looking ahead to the end of the new period

The new period has just started. But looking ahead to the end of this period the Commission has a good opportunity to align its strategic planning with its financial planning. So far the ten year periods of the Europe 2020 strategy, and previously the Lisbon strategy, and the EU’s seven year budgetary cycles (2007-2013 and 2014-2020) are not aligned. Member States give inadequate attention to the Europe 2020 strategic goals in partnership agreements and programmes. This limits the Commission’s ability to monitor and report on performance and on the contribution of the EU budget to strategic objectives.


The objective for the Commission should be to achieve substantial improvement on regularity and on performance by the end of the current period. The upcoming mid-term review of the 2014-2020 multi-annual financial framework is a landmark in the management of EU spending. It is important that the Commission analyses the areas of persistently high levels of error as soon as possible and intensifies efforts to reduce errors while strengthening the focus on performance in spending.

2014 and beyond

With the start of the new period we structured the annual report in line with the EU multi-annual planning, enhancing at the same time the content of the report. We included additional analyses of our results. We addressed issues that dominated discussions in the discharge procedure. In shared management two pilot exercises on project performance are part of the respective chapters.

Progress will not stop here. Considering stakeholders’ views, we will continue to take steps to further develop the annual report beyond the quantified assessment of regularity. This is a team effort for which I thank the President and Members and the staff of the Court.

Aligning the:

- 10 year strategy: Europe 2020
- 7 year multi-annual financial framework: 2014 – 2020
Each autumn, once the ECA has adopted the annual report, its Members hold an informal meeting away from our premises. This meeting, known as the “Members’ Seminar”, offers the opportunity to reflect on topical issues relating to the ECA’s audits and internal organisation. The first seminar took place in London in 1994. A full list of the seminars is provided in the “ECA Seminars 1994-2015” box.

Discussion takes place in a relaxed and open atmosphere and is not interrupted by day-to-day work. The seminar encourages open and spontaneous communication; all participants are invited to think outside the box and make a contribution. It also helps to build the team spirit required in every organisation. No decisions are taken during the seminars, but their conclusions feed into the formal decision-making process and are later translated into action.

This year, the seminar took place in Mondorf, on 28 and 29 September. The seminar was part of the ECA’s reform process, and focused on its governance structure: the Chambers and the Committees.

Preparations for the seminar had begun long in advance, a clear sign of the high level of interest in the topics on the agenda. Before summer, Ville Itälä and Klaus-Heiner Lehne had circulated the first draft programme. Early in September, the President had written a detailed document listing the main points to be raised and inviting the Members to make their views known. All of the Members replied before the seminar, providing many interesting ideas and possibilities for reforming the Chamber system.

The seminar started on the morning of 28 September with a presentation by our guest speaker, Antonio Vitorino, a lawyer and the current President of Notre Europe – Jacques Delors Institute. Antonio Vitorino is also a former European Commissioner and long-serving Portuguese politician. He talked about the euro and asylum crises, demonstrating very sound inside knowledge in relation to both matters. Antonio Vitorino pointed out that the Council has emerged as the key institution in giving the EU democratic legitimacy. As regards the asylum crisis, he considered that, in the short term, normal border controls should be reintroduced in order to avoid any negative impact on Schengen. He said that, in the medium term, the EU should consider creating a common force to control its external borders, while the long term solution would require an end to the wars and chaos in Syria, Iraq and Libya. In the meantime, Antonio Vitorino suggested, the EU should adopt a coherent and distinct policy to deal with refugees and legal migration, and continue providing protection to refugees (as required by international law), which would take time and money. Overall, he cited both crises as examples of the deteriorating image of the EU which, until recently, had been viewed worldwide as a model of regional integration.

Antonio Vitorino is a brilliant and knowledgeable speaker. Unfortunately, there was not enough time to fully cover such an important issue, and several questions were left unasked. However, we will soon invite Antonio Vitorino back to the ECA to address all ECA staff on these issues.

The discussions were led by President Caldeira, along with Kersti Kaljulaid, Kevin Cardiff and Phil Wynn Owen, ECA Members. They distributed background information illustrating the current Chamber arrangements and the allocation of responsibilities. They also prepared two Powerpoint presentations as a starting point and stimulus for the discussions.
The President set the scene and reiterated the main aim of the seminar: to align the Chambers and the Members’ leadership with the new task-based organisation. This is vital in order to achieve the objectives of the ECA’s reform, which are to be able to select more relevant audit topics, make more flexible use of its resources and share knowledge more effectively.

Kersti Kaljulaid gave the first presentation on the Chambers’ responsibilities. She proposed three different alternatives for reorganising the Chambers, identifying the pros and cons of each. There followed a very lively discussion in which the Members expressed a preference for the second option, the “intermediate” option. The presentation concluded with several proposals to be explored, including reviewing the role of CEAD, reducing the administrative burden involved in producing the annual report, allocating responsibility based on “policy” rather than budget lines, taking care not to increase the number of Chambers or recreate silo structures, putting in place adequate knowledge management tools, better addressing cross-cutting issues and supporting the President in preparing the Annual Work Programme.

The second presentation, on adapting the ECA Members’ leadership roles in the new task-based organisation, was given by Kevin Cardiff and Phil Wynn Owen. The subsequent discussion centred on three points: Members’ task leadership, specialisation of Members and governance. It was a very candid debate which yielded fresh ideas: that Members should, in principle, work very closely with Heads of Tasks and have the Principal Manager available for advice; that the specialisation of Members must be promoted, that they should make a greater contribution to knowledge management; that the new organisation must be based on a clear delegation of responsibilities and adequate internal controls; that performance culture must be strengthened (feedback to audit teams, information available on the Audit Management System, corporate risk management, etc.), and others.

The meeting was closed on 29 September by President Caldeira. He pointed out that the ECA’s ongoing reform should be used as an opportunity to enhance Members’ leadership, responsibility and accountability, both individually and collectively. In this process, particular care must be taken not to recreate silos or increase the number of Chambers.

Following the seminar, the ECA appointed Louis Galea, Hans Gustav Wessberg and Bettina Jakobsen, ECA Members, to prepare a concrete proposal on how to reorganise the Chambers. They will draw up this proposal on the basis of the reflections and conclusions arising from the seminar. The proposal will focus on allocating responsibilities and resources to Chambers by policy area and on the basis of a three-year rolling work plan; simplifying the current procedure for adopting the annual report in vertical Chambers and in CEAD, which involves several readings; introducing effective arrangements to deal with cross-cutting issues (an area in which the ECA has been trying to improve for many years); reviewing the role of CEAD and the Administrative Committee, and exploring further ideas to increase Members’ contribution to knowledge management.

They are expected to present their proposal to the ECA before Christmas; it is intended that the new Chamber structure be ready by April 2016.

As President Caldeira stressed during the ECA meeting, this is paramount in order to complete the reform and transform the ECA into a more relevant and flexible organisation that is able to act as a “single” institution.
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<th>YEAR</th>
<th>SEMINAR</th>
<th>THEMES</th>
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3. Responsabilité disciplinaire et pécuniaire des ordonnateurs, du contrôleur financier et des comptables |
2. Déclaration d’assurance  
3. Lignes directrices pour le programme de travail  
4. Adaptations éventuelles à apporter aux dispositions réglementaires applicables aux Membres de la Cour  
5. Déplacements en avion des fonctionnaires de la Cour |
| 1996 | Séminaire de Vienne (30 septembre-2 octobre 1996) | 1. Examen du fonctionnement de la Cour  
2. Méthodologie relative à la DAS - Échange de vues sur les approches alternatives possibles - Procédure d’analyse supplémentaire |
| 1997 | Réunion informelle de la Cour à Dublin (17-19 septembre 1997) | 1. Audit tasks to be given priority in the multi-annual work programme  
2. The Court’s organizational structures  
3. Annual and special reports  
4. The Court’s human resources |
| 1998 | Réunion informelle de la Cour à Thessalonique (9-11 septembre 1998) | 1. Règlement intérieur de la Cour et décision n° 95-11 de la Cour des comptes sur les groupes d’audit  
1.1. Programme de travail de la Cour  
1.2. Réflexion sur les cadres supérieurs dans les structures de la Cour |
| 1999 | Réunion spéciale de la Cour à Helsinki (1er-3 décembre 1999) | 1. Conséquences pratiques du prochain élargissement pour la Cour  
1.1. Tâches d’audit dans une Union européenne élargie  
1.2. Effectifs  
1.3. Agents ICN  
2. Travaux du groupe de réflexion sur la CIG et organisation future de la Cour  
3. Rapports annuels et spéciaux de la Cour - infrastructure de l’autorité de décharge - relations avec la presse |
| 2000 | Réunion spéciale de la Cour à Visby (Suède) (24-26 juillet 2000) | 1. Future organisation of the Court in the context of the enlargement and the Treaty of Nice  
2. Amélioration de l’efficacité des travaux de la Cour, abordée essentiellement à travers la fixation de ses objectifs, l’établissement de son programme de travail, et l’affectation des moyens dont elle dispose  
3. Fonction des agents ICN |
| 2001 | Réunion informelle de la Cour à Venise (15-16 octobre 2001) | 1. “Outsourcing”, ou possibilité pour la Cour de sous-traiter certains de ses travaux d’audit  
2. L’esprit de corps au sein de la Cour; comment le développer?  
3. Les possibilités de réorganisation de la Cour à la veille de l’élargissement  
4. Publication pour le 25ème anniversaire de la Cour |
| 2002 | Réunion informelle à Echternach (30 septembre & 1er octobre 2002) | 1. Activity based budget (ABB ) et Activity based management (ABM) – Implications pour la Cour des comptes  
2. Allocation des ressources au sein de la Cour  
3. Contenu et structure du rapport annuel  
4. Comment accélérer la production des rapports spéciaux de la Cour |
| 2003 | Réunion informelle à Evora de la Cour (27 mai 2003) | 1. Activity based budget (ABB ) et Activity based management (ABM) – Implications pour la Cour des comptes  
2. Allocation des ressources au sein de la Cour  
3. Contenu et structure du rapport annuel  
4. Comment accélérer la production des rapports spéciaux de la Cour |
The Members’ seminar in Mondorf: another step in making the ECA a more relevant and flexible organisation

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<th>Year</th>
<th>Event</th>
<th>Details</th>
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<td>2004</td>
<td>Séminaire de la Cour à Weimar</td>
<td>1. What is the role of the Court and how to improve the procedure so that the Court can fulfil it better? 2. The new rules of procedure for the European Court of Auditors</td>
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<tr>
<td>2006</td>
<td>Réunion informelle de la Cour à Prague</td>
<td>1. ABB/ABM - Implications pour la Cour 2. Ressources humaines 3. Politique de communication</td>
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<td>2007</td>
<td>Séminaire annuel de la Cour à Chypre</td>
<td>1. Structure and content of ECA Annual Report(s) 2. Review of the EU budget, possible implications for the Court in the light of the Commission’s paper dated 12 Sept 2007 3. Information about the discussion for the Action Plan in several working groups 4. How can Europe maximise the return to its environmental investments</td>
</tr>
<tr>
<td>2008</td>
<td>Séminaire annuel de la Cour à Copenhague</td>
<td>1. The procedure to be followed in the event of the replacement of the Secretary-General 2. How can the Court’s personnel policy be improved? 3. How (who, when and where) can we ensure the systematic follow-up to findings appearing in the special reports? 4. How can the Court improve its methodology for assessing the impact of its policies? / Methodology and experience, in particular in the field of climate and the environment</td>
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<tr>
<td>2010</td>
<td>Séminaire de la Cour à Rome</td>
<td>The Court after the Chambers: the new challenges</td>
</tr>
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<td>2011</td>
<td>Séminaire annuel de la Cour à Tallinn</td>
<td>1. What are the current and likely developments in the world, EU and professional environments most relevant to the ECA’s stakeholders, and how should they be reflected in what the ECA produces? 2. How should the ECA organise and manage its resources – people and processes - to produce its existing and new products in the most efficient way?</td>
</tr>
<tr>
<td>2012</td>
<td>Séminaire annuel de la Cour à Ljubljana</td>
<td>Implementation of the Court’s Strategy 2013-2017</td>
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<td>2013</td>
<td>Séminaire annuel de la Cour à Vienne</td>
<td>The financial and economic crisis: challenge for the ECA; innovative responses</td>
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<td>2014</td>
<td>Séminaire de la Cour à Bruxelles</td>
<td>Leading Change</td>
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<td>2015</td>
<td>Séminaire de la Cour à Mondorf-les-Bains</td>
<td>ECA Governance: the Chambers and Committees of the reformed ECA</td>
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R. C.: Sir, as you recently have been appointed Baron by the King of Belgium I assume I will have to address you in English as Lord Pinxten

Karel Pinxten: I am greatly honoured to have received this distinction. The form of address, however, remains the same as before.

R. C.: You are the ECA Member responsible for the ECA’s special report EU support to timber-producing countries under the FLEGT Action Plan. Why are saving trees and tackling illegal logging so important?

Karel Pinxten: Let me give an example: if Brazil had kept on felling trees as rapidly as it was doing in 2005, it would, by 2013 have put on an extra 3.2 billion tonnes of carbon dioxide into the atmosphere. That means that over those eight years, Brazil saved six times as much carbon as ultra-green Germany did in the same period through one of the world’s most expensive renewable-energy regimes. So, as a way of helping the environment, protecting trees is hard to beat.

R. C.: The ECA’s special report was published in October 2015. FLEGT stands for EU Action Plan on Forest Law Enforcement, Governance and Trade which was proposed by the Commission in 2003. Which of its components, law enforcement, governance or trade was the most successful one? What happened with the other ones?

Karel Pinxten: I would say that the “Governance” aspect was the most successful of the three, followed by the “Trade” aspect. Given its importance, it was surprising that more emphasis was not placed by the Commission on the “Law Enforcement” component.

R. C.: What was the aim of the ECA’s audit? What the period covered? Which were the countries visited?

Karel Pinxten: The aim of the audit was to assess the management of key elements of the FLEGT Initiative, throughout its existence, from 2003 until the time of the audit. The audit teams went to Indonesia and Cameroon.

R. C.: The Action Plan did not have a clearly defined and dedicated budget and the funding was provided through the European Development Fund (EDF) and the general budget. EuropeAid was responsible for the administration of FLEGT-related funding. In total, an estimated amount of 300 million euro has been allocated to 35 countries for FLEGT-related support over the period 2003-2013. What were the criteria for governments and civil society to apply? Was the fragmentation of the aid excessive?
Karel Pinxten: All non EU countries with a timber industry could apply for FLEGT support and this was usually provided through Voluntary Partnership Agreements. However, it was not clear to us that the Commission prioritised its aid efforts and we pointed out that clear criteria should have been used. The fact that funding was coming from different budgets hampered this prioritisation.

For instance Honduras, which has negligible timber trade links with the EU and is not one of the main timber producers, was one of the main recipients of aid.

R. C.: The combination of trade incentives in the form of easier access for partner countries’ producers to the EU timber market with development aid was an innovative way to tackle the persistent problem of illegal logging. Are there statistics on how much the FLEGT action has reduced illegal logging? Was the FLEGT support in competition with other donors or programmes?

Karel Pinxten: As you would expect, statistics in this area are rare and when they exist they must be treated with great caution. Illegal logging is a global problem and the FLEGT Action contributed to tackling the problem. However, until the major Asian importers are on board progress will remain slow.

Competition between donors was not a major issue and the Commission worked quite closely with the Civil Society Organisations.

R. C.: The Commission can be reproached that the action plan was more a list of options than a proper action plan. Why? What were the options considered by the Commission?

Karel Pinxten: The Action Plan lacked key components such as a timeframe, coherence, clear objectives and criteria for making best use of the resources available. In addition to helping third countries towards licensing the Commission also instigated the establishment of the EU Timber Regulation, which prohibits the import of illegal timber into the EU. However, rather than being done at the start of the FLEGT action, this regulation was only recently put in place and is not yet fully implemented.

R. C.: Did the ECA manage to get a complete overview of the FLEGT projects funded by the Commission?

Karel Pinxten: With regard to the projects examined in detail, the audit concentrated on those in the countries visited which represented a sizeable percentage of the overall expenditure. The overall picture was drawn up by means of a desk review of documentation, such as the monitoring reports, evaluations etc. relating to other participating countries.

And of course we spoke with many experts in this area, and there were a lot of relevant articles in the press and specialised journals which provided us with background information.

R. C.: What is the ECA’s main criticism to the Commission in respect of its allocation of resources, both human and financial? Did the Commission regularly monitor the progress of the FLEGT action plan?

Karel Pinxten: The main criticism is that the Commission allocated its resources without clear criteria. This lack of proper prioritisation resulted in resources being spread thinly over a large number of countries with very limited results in many cases.

Monitoring of the overall plan was poor and the first overall evaluation has only recently been launched by the Commission even though twelve years have passed since the Action Plan commenced.

R. C.: This special report will have great impact on the Commission but what is its message to the citizen?

Karel Pinxten: The message to the citizen is that the Commission must do better! This is illustrated by the recommendations which pinpoint the areas that need to be tackled urgently.

R. C.: More than ten years after the commencement of the Action Plan, no FLEGT license has yet been issued to any of the countries participating in a Voluntary Partnership Agreement with the EU. I also read that the EU Timber Regulation is not fully implemented in all Member States. How can that be? What is the state of progress on the road to licensing today?
**Karel Pinxten:** The EU Timber Regulation (EUTR) prohibits the import of illegally produced timber into the EU while the FLEGT licensing scheme is applied to ensure legality in the partner countries. Neither measure is fully implemented as none of the partner countries has been granted a license and, as regards the EUTR, some EU Member States have not fully applied this regulation.

Indonesia and Ghana have made considerable progress towards FLEGT licensing. Many other countries have indicated their good intentions through the Voluntary Partnership Agreements (VPAs), but have been unable to progress substantially due to a variety of factors. Poor administration, corruption, and the lack of incentive are among the limiting factors.

**R. C.: Is the ECA planning a follow-up of this audit?**

**Karel Pinxten:** A follow-up will be carried out in line with the practice in the Chamber. It is first necessary to see how the Commission reacts to this report and the evaluation it is carrying out at present. Therefore, it will be a few years before we do the follow-up.
Although the European distant water fishing fleet (fishing vessels that fish outside the EU waters) constitutes less than 1 % of the EU fleet it is much more significant in terms of fishing capacity, with 18 % of the gross tonnage and 7 % of the engine power, and accounts for 4 % of EU fleet employment. The distant water fleet is also an important supplier of fish to the European market as it is estimated to provide 15 % of the total catches of the EU fleet.

The European distant water fishing fleet has a strong presence in the world’s oceans and about half of its catches are undertaken under bilateral fisheries agreements with coastal states. That confers a heavy responsibility on the EU to further engage in the tasks of promoting long-term resource conservation, good governance of bilateral fisheries relations, and sustainable development of partner countries’ fisheries sector.

The report focuses on whether the European Commission correctly managed the negotiation and implementation of the bilateral fisheries agreements (Fisheries Partnership Agreements at the time of the audit) and their Protocols¹, which negotiates and concludes on behalf of the EU with non-EU coastal States.

The need and importance of Bilateral Fisheries Agreements

Since around 90 % of fisheries resources are located in the exclusive economic zone (EEZ) of coastal countries, the EU and other distant water fleets are obliged to negotiate bilateral fisheries agreements for access to their waters and resources.

The first generation of bilateral fisheries agreements negotiated by the EU (or “the European Community” as it was at that time) with coastal states, mostly developing countries, were simple access agreements. They provided fishing opportunities for the EU distant water fleet and an important revenue source for the developing states. Being commercial in nature and generally based on the “pay, fish and go” principle, this first generation of agreements generated criticism.

The 2002 and 2014 reforms of the Common Fisheries Policy, in line with the EU concern regarding the sustainable exploitation of the fisheries resources, made significant revisions to these agreements, resulting respectively the Fisheries Partnership Agreements (FPAs) and the Sustainable Fisheries Partnership Agreements (SFPAs)². This current generation of bilateral agreements focus on resource conservation and environmental sustainability and on the concept of “partnership”. The financial contribution is split into two distinct parts: access rights to the EEZ, with a minimum financial contribution guaranteed, and “sectoral” financial support, which aims at the EU’s objective of promoting sustainable fisheries development in its partner countries. The agreements provide a legal, economic and environmental framework for fishing activities carried out by Union fishing vessels in third country waters, where similar standards to those applicable to Union fishing vessels in EU waters should apply.

¹ In drawing up an FPA, the EU and its partner countries negotiate an agreement and its implementing protocols. The agreement provides a framework for long-term cooperation in fisheries, and the protocols set out detailed terms and conditions.

² The first Sustainable Fisheries agreements have been negotiated in 2014.
Currently there are 13\(^3\) FPAs/SFPAs in force. Three of them are mixed agreements allowing the EU fleet access to different fish stocks in the EEZ of the partner country. The remaining ones are tuna agreements granting fishing rights in the partner country’s EEZ to EU vessels which follow migratory tuna stocks and other highly migratory species in their movements around Africa, and the Indian and Pacific Oceans. Annual payments made from the EU budget for FPAs are about 130 million euro, including the new Mauritanian protocol. The European operators make additional financial contributions to the agreements in exchange for the fishing authorizations they receive, contributions that have increased steadily in recent years.

It should be noted that since 1981, the EU has also negotiated a number of “northern agreements”. These are reciprocal agreements involving an exchange of fishing opportunities between EU fleets and those of Norway, Iceland and the Faeroe Islands, with no financial contribution. The report does not cover these agreements.

**Audit approach and methodology**

The audit involved the examination, for four FPAs selected, of the negotiation process at EU level and the implementation of the two components of the agreements, the access right and the sectoral support.

The agreements selected were Mauritania (a mixed-agreement in the Atlantic Ocean), Madagascar, Mozambique and Seychelles (tuna agreements in the Indian Ocean). The agreements with these four countries represented 77 % of FPA payments in 2013.

The ECA reviewed the negotiation process for the four FPAs audited and looked at whether the Commission negotiated or renewed the protocols in time to ensure the continuation of European fleet activities. Furthermore, the audit assessed whether the negotiation of fishing possibilities and the financial contributions were consistent with the FPAs’ objectives. As regards the implementation, the ECA reviewed the Commission’s management of the licensing process and the reliability of the catch data reporting system. Furthermore, the audit assessed whether the Commission appropriately designed, controlled and monitored the actions funded under the sectoral support component of the FPAs.

The audit included several steps. First, meetings with the European Parliament and relevant NGOs and an initial desk review and discussions with DG MARE. Then, visits to the four partner countries selected and two Member States, France and Spain were carried out. The objective of the latter were to obtain information on the involvement of the Member States authorities in the catch collection and, where applicable, their validation and to obtain the opinion of the national authorities and of the fisheries sector’s stakeholders (associations of vessel operators and fish processors) on the positive and negative aspects of the agreements and on the negotiation process and operating agreements.

The audit evidence was supplemented by a survey addressed to the operators of the EU distant water fishing fleet. Ship owners representing 70 % of this fleet replied.

**Main findings of the report and recommendations**

The audit concluded that FPAs are generally well managed by the Commission but that there are still several areas for improvement, amongst which we would like to highlight the following:

- The negotiating process is a long and complicated process. For example, the whole process lasted between 71 weeks and 134 weeks for the four protocols covered by the audit and it took 7 rounds to reach an agreement with Mauritania. In order to prevent the interruption in fishing activities after the expiry of a protocol, in the negotiations for its renewal the Commission tries to introduce the possibility of provisional application from the date of signature until the date of final ratification\(^4\). The ECA recommends the Commission to include also in the protocols appropriate provisions to ensure the continuity of fishing operations between two protocols when provisional application is not possible. This would reduce the risks of disruption to fishing activities and misunderstandings between the parties as has sometimes been the case in the past.

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\(^3\) Negotiations with Mauritania for a renewal of the protocol expired in December 2014 were concluded in July 2015.

\(^4\) Following a Commission initiative, a mandate is received from the Council and one or more rounds of negotiations then take place between the Commission and the partner country. At the end of these negotiations, the agreement is initialled by the Commission and the partner country concerned, then approved and signed by the Council and the partner country. The protocol can then be applied provisionally, if the parties agree, before its formal ratification. The protocol is ratified by the partner country, and the European Parliament gives its consent to the conclusion of the protocol, which then enters into force.
- Even when the Commission’s strategy of enlarging the network of FPAs is relevant to the needs and priorities of the EU fleet, there is still room to improve the complementarity and consistency among the FPAs negotiated within the same region, so as to maximise the potential of FPAs to improve fisheries governance at regional level. The Commission should define regional strategies for the development of fisheries governance and ensure that protocols negotiated within the same region are consistent with the relevant regional strategy and with other EU funds.

- The minimum financial contribution for access rights is calculated by multiplying a reference tonnage\(^5\) by a unit price agreed. The reference tonnage agreed in the most recent protocols often remained higher than catches reported from the previous protocol, which leads to its regular underutilisation. This underutilisation of the reference tonnage results in an actual unit price paid by the EU for a tonne of fish which is frequently higher than the unit price negotiated. When negotiating the fishing possibilities of new protocols, the Commission should consider the utilisation rates of previous protocols, and endeavour to better link payments for access rights to actual catches.

- The underuse of the protocols and resulting high costs for the EU are sometimes attributable to clauses negotiated with the partner countries. An example is the negotiation of too restrictive technical conditions that make the protocol unprofitable for operators. The Commission should better analyse the potential impact of agreements clauses on the use of the protocol, while safeguarding the mutual benefits for the EU and the partner countries concerned, perhaps by consulting the relevant stakeholders to identify where more detailed assessments of critical clauses are necessary.

- The licensing process by which vessels obtain permission to fish is lengthy and cumbersome, and delays can complicate or reduce the fleet’s fishing activities. However, the Commission does not have an information system to help it keep track of the various stages of the licence application process, which makes it more difficult to identify the reasons for delays and areas for improvement. The Commission should establish procedures to monitor each of the steps in the licensing process in order to identify and follow up weaknesses in the procedure. Moreover, the Commission should promote the acceptance of electronic licences or of a list of authorised vessels for the whole period of validity of the licences, replacing the current requirement to obtain the original of the licence, which may force the vessel to return to port, and keep it on board.

- There are shortcomings in the management of data on fish catches, with a lack of reliable, consistent and complete information, which can have negative consequences. For example, if the final catch is higher than the reference tonnage, an additional payment may be required, thus giving rise to financial risk. The Commission should ensure that after the measures being taken to remedy the situation, reliable catch data are available and can be consolidated, monitored and kept up-to-date.

- Even though the planning of actions funded by sectoral support has gradually improved, the Commission’s role in monitoring the implementation of this component is still limited. The Commission should, for new protocols, propose the introduction of eligibility requirements to assess actions being considered for sectoral support funding. Other requirements could relate to traceability, selection, reporting and performance measurement, and control rights for the Commission. Moreover, the Commission should ensure that sectoral support disbursements are based on the results achieved by the partner countries in the implementation of commonly agreed actions and consistent with other EU budget support payment, which is not always the case at present.

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\(^5\) The “reference tonnage” represents the catch volume in respect of which a minimum payment for access rights has to be paid by the EU, regardless of the actual catches. Should this level be surpassed, a supplementary payment for additional catches will be made by the EU.
Active discussions between ECA and key stakeholders
By Geoffrey Simpson, Director of the Presidency

The European Court of Auditors has a strategic objective to engage actively with stakeholders to help maximise the relevance and impact of our work.

Every year the ECA college meets with two of our most important stakeholders: the college of Commissioners and the Committee on Budgetary Control of the European Parliament. The purpose is to discuss developments in financial management and policy, and gain an understanding about areas of mutual concern. These high level events give us the opportunity to present our audit perspective and allow us to identify issues to be taken into account when determining our work priorities.

The annual meeting between the European Commission and the European Court of Auditors took place on 23 September in Brussels. It was the first time the two colleges had met since the Junker Commission was appointed last year. A new approach to the event saw the participants being divided into three theme groups to give the opportunity for more focused discussion and debate. The conclusions of each group were then reported back to the plenary session.

The topics addressed key current concerns, which are also reflected in ours audit priorities for 2015 and 2016. They covered jobs, growth and investment, co-chaired by Vice-President Valdis Dombrovskis and Milan Martin Cvikl, ECA Dean; climate and energy, co-chaired by Vice-President Kristalina Geogieva and Karel Pinxten, ECA Dean; and migration and security, co-chaired by Federica Mogherini, High Representative, and Danièle Lamarque, ECA Member.

The new format was highly appreciated by all participants, with both institutions benefitting from the lively interaction and gaining an understanding of the different perspectives. The discussions reinforced the relevance of our audit priorities, which will be reflected in pertinent special reports and other output over the coming two years.
Over a dozen MEPs of the Committee on Budgetary Control came to the European Court of Auditors’ headquarters in Luxembourg on 13 October for a wide-ranging exchange of views with ECA Members on a number of matters of common interest. Topics included:

* the ECA's audit mandate in respect of the European Fund for Strategic Investments, which requires us to provide an opinion on the Commission’s evaluation report;

* impact of the modification of the Financial Regulation on our audit procedures, and notably completing our performance audits within 13 months and speeding up the adversarial procedure;

* the priorities that will drive our 2016 work programme, and how they have been informed by consultation with CONT and other parliamentary committees; and

* future developments planned for our annual report, including the statement of assurance and increasing coverage of performance issues.

The session ended with a presentation of our comprehensive reform programme which from 1 January 2016 will change the ECA into a task-based organisation. It aims at increasing our efficiency, making best use of our resources and, most importantly, maximising the relevance of our work to our stakeholders.
Common Agriculture Policy reform seminar
By the private office of Mr Kubik, ECA Member

On 7 October Chamber I organised a seminar devoted to the progress made on Common Agriculture Policy reform

Speakers, among them Deputy Director General, Mr Rudi Moegele, from DG AGRI presented the overview of the reform’s implementation and highlighted the main challenges ahead of the Commission and Member States.

As we know, the reform should make CAP simpler, better targeted, greener and more equitable. The legislative framework has been agreed in 2013, however a lot of discretion has been given to Member States and therefore the final impact of the changes introduced depends on their performance. In this context, the main conclusions resulting from the seminar can be summarised as follows:

- In the first pillar of Common Agricultural Policy there is a multitude of options for Member States. This makes the whole system of direct payments extremely complex, on a par with that applicable to rural development;

- There seems to be more focus on performance now in rural development. This is in line with recent ECA’s recommendations, but the practical results of this redesign would have to be tested;

- The introduction of a compulsory opinion of the certification bodies on the legality and regularity of transactions was a very important development, with implications for the future assurance model.

The ECA (Chamber I) will be auditing the results of the reform in the coming years. But new CAP is equally a challenge for the auditors. All relevant issues need to be addressed by Special Reports, DAS audit programmes have to be redrafted and people trained. CAP reform will definitely require investments from our auditors, but in reverse the ECA will be ready to provide interesting information as regards agriculture, still one of the most important areas of EU budget.
The Europe 2020 strategy towards a better and stronger Europe for the next decade identifies the demographic challenge as a priority. Demography is an area that affects basically all policies in the European Union in one way or the other. If still obvious for pensions, employment, regional or agricultural policy, it might also affect research policy, development aid or monetary policy or inflation.

EUROSTAT has a dedicated unit dealing with demographic data, which collects these data and does the modelling of future scenarios. Other DGs then use these data and scenarios to evaluate the impact on different policies. For the ECA it is important to be aware about major demographic developments and how demographic data is used in different policies.

Demography is said to be the science of populations. But what is a population? Is it the number of people living in a given area, the number of people referring to a given area, the number of people alive at a specified point in time who meet certain criteria?

Although mathematics is a tool for demography, there is no mathematical definition of population. Definition but also implementation may differ between countries.

Giampaolo Lanzieri (EUROSTAT) guided the audience through the subtleties of widespread demographic concepts and highlighted the peculiarities of the most common statistics and the main demographic processes: birth, migration, and aging (including death).

A view on future regional population

<table>
<thead>
<tr>
<th>Major area</th>
<th>Population (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>World</td>
<td>7,349</td>
</tr>
<tr>
<td>Africa</td>
<td>1,186</td>
</tr>
<tr>
<td>Asia</td>
<td>4,393</td>
</tr>
<tr>
<td>Europe</td>
<td>738</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>634</td>
</tr>
<tr>
<td>Northern America</td>
<td>358</td>
</tr>
<tr>
<td>Oceania</td>
<td>39</td>
</tr>
</tbody>
</table>

The projection of the world population indicates 11 billion at the end of this century adding to the long-lasting controversy on sustainability of population growth.

Europe will have to cope with the growing migratory pressure and the change of the components of the population, as the contribution of migrants to fertility leads to a changing population composition and mixed marriages are a key tool to integration. With the exception of Luxembourg, most of the migration comes from outside the EU.

Statisticians produce the net migration figures by taking the difference between total population change and natural change; this concept is referred to as net migration plus statistical adjustment. Net migration is therefore considered as the part of population change not attributable to births and deaths.

Europe is experiencing the overtaking of migration and the shrinking of natural growth, a decrease in births and shrinking as well as ageing female cohorts. In statistics and demography a cohort is a group of subjects that have shared a particular event together during a particular time span. To explain this, the economic crisis might have an impact on fertility rates because of postponement of pregnancies and delivery to a later age but at the level of cohort the data will not change.

Another concern for the EU is the possible shrinking of its workforce from 2015 to 2050 because of the “tornado of ageing”. Only Japan is changing even faster than Europe in this respect.

One of the most recent products on the subject is the Commission’s Ageing Report 2015. This report includes the long-term projections of the budgetary impact of the ageing population in the 28 EU Member States over the period 2013–2060 and was presented to the ECOFIN Council in May 2015. The Council (ECOFIN) conclusions were adopted on the same day.

Per Eckefeldt (DG ECFIN) provided an insight into the Ageing Report 2015 and talked about how to calculate total age-related spending. There will be dramatic changes in the population structure over the coming 50 years and a key challenge for policymakers will be to change public perception of what “old” is. A positive note however is that sustainable pension systems are in reach for many Member States.

While projections reveal that pension spending will not be higher than today in 2060, coping with health care expenditure and coping with long-term care remain major challenges. The cost of ageing in the EU 28 amounts to 26% of its GDP, which indicates considerable increases despite the recent reforms. Commission President Juncker proposes 3 main pillars for EU action: structural reforms, investment and fiscal responsibility.

Lewis Dijkstra, European Commission, Directorate-General for Regional and Urban Policy (DG REGIO) who has edited in 2014 the 6th Cohesion Report illustrated demographic data at regional level and how it is used for regional policy. EU Treaty’s Title XVII on Economic, social and territorial cohesion is the foundation of Cohesion policy.

Europe’s reduction in population is a demographic handicap and a hot political issue. Population is in fact used to determine Cohesion Policy financial allocation. The ECA report on regional airports also suggests that the EU has over-invested in this area.

To conclude, EUROSTAT and DG REGIO together look at population statistics and future trends at regional level in order to assess how the situation will evolve.

The conference was followed by a workshop which was targeted at auditors with a specific interest in demography. It allowed a more in-depth discussion with the experts on data collection (including limitations), modelling, and regional demographic data and a short introduction to “business demography” with data on the active “population” of enterprises, their “birth”, “survival” and “death”.
On 20 October 2015 in Brussels, Ladislav Balko, Member of Chamber II, represented the European Court of Auditors (ECA) at the 1<sup>st</sup> meeting of the High Level Expert Group on Monitoring Simplification for Beneficiaries of European Structural and Investment (ESI) Funds. More specifically, he attended Item 5 – EU Institutions’ Panel, together with Martin Weber, Director of Chamber II, and Branislav Urbanič, Head of Cabinet. The High Level Group, which the Commission has set up the by Decision C(2015) 4806 of 10 July 2015, is chaired by former Commission Vice-President Siim Kallas, and will assess the uptake by the Member States of simplification opportunities to access and use the ESI Funds, in order to reduce the administrative burden for beneficiaries. Before addressing the experts’ questions, Ladislav Balko made the following presentation:

“Dear Chairman Siim Kallas, dear Commissioner Creţu, dear Minister Bausch, dear fellow representatives of the EU Institutions, and, last but not least, dear expert members of the High Level Group on Monitoring Simplification for Beneficiaries of ESI Funds!

As Commissioner Creţu rightly acknowledged in her letter inviting a representative of the ECA to this inaugural meeting of your High Level Group, the issue of simplification is dear also to the ECA. I am therefore pleased to see this inaugural meeting taking place, and honoured to represent the ECA in this Institutions’ panel to present key issues for simplification from the ECA’s perspective. Our perspective is determined by the fact that the ECA is the European Union’s independent external auditor, checking that EU funds are correctly accounted for, are raised and spent in accordance with the rules and regulations and have achieved value for money. Our mission is to contribute to improving EU financial management, promote accountability and transparency, and act as the independent guardian of the financial interests of the citizens of the Union.

Many of the issues to be addressed by you – dear expert members of the High Level Group, will contribute to attaining the objectives set out in this mission statement of the ECA, be it facilitating access of SMEs, tackling gold-plating, or using simplified cost funding models. I would like to wish you, on the ECA’s behalf, a lot of success in your important work, and congratulate you to your appointment.

I know that a lot has been done by the Commission in the area of simplification of the ESI funds, both in legislation and by means of useful analytical material from which your group will be able to draw inspiration, such as the Communication on a simplification agenda for the MFF 2014-2020 of February 2012, or the more specific document Simplification and gold-plating in the European Social Fund - State of play and proposed actions of November 2013.

To frame my brief intervention today, or, if I were to publicize a short message of the ECA for today’s event, I would go along the following lines: 

In order to maximise the added value of EU policies, simplification needs to go hand in hand with yet more focus on performance, and cannot
be at the expense of public accountability. Simplification measures should also aim at ensuring that the costs for carrying out effective administrative verifications and controls are kept at a minimum.

First, the need for simplification is undisputed because in many cases, spending rules are still too complex and therefore contribute to increasing the level of error in payments. This is because the legal frameworks governing spending are too focused on allocating resources and too precisely regulating how money should be spent, and not enough so on encouraging spending that achieves results. For instance, as regards the current programming period 2014 – 2020 (which some still call “new”), the ECA considers that some opportunities to simplify the rules and improve the design of the main spending programmes have already been missed. As regards Cohesion, this is for instance because many key aspects of those programmes are regulated at a lower legal level in implementing and delegated acts, which adds to keeping the overall legal framework complex. There are several layers of EU rules and, in some cases, an additional layer of national legislation. As a result, the ECA considers that the administrative burden for the EU and national administrations remains high. More details can be found in the ECA’s opinions on the draft Common Provisions Regulation and its amendments – Opinions 7/2011, 9/2012 and 2/2013.

Another source of complexity in the ESI funds own to the shared management mode which I know your High Level Group will reflect upon is the issue of so called “gold-plating”. The ECA often comes across this phenomenon during its audits, and, for example, the very first recommendation of the Cohesion chapter (Chapter 6) in the Annual Report 2014, to be published very soon, on 10 November, will focus on this phenomenon. I am pleased that this recommendation has been accepted by the Commission, and trust that the works of your High Level Group will usefully contribute to implementing it. The need for simplification will be reflected also in Recommendation 3, which aims at a better use by the Member States of the simplified cost options in the current programming period. This follows earlier positive statements which the ECA has made on simplified cost options in the area of ESI Funds and more precisely in the European Social Fund (ESF). Already in our Annual Report 2013, we stated in paragraph 6.16 that we detected no errors related to the specific use of simplified cost options, and that this indicated that projects using them are less likely to be prone to error than those using actual costs. I know that Commissioner Thyssen also referred to this at the conference “EU Budget Focused on Results” a month ago. And the ECA will make a similar supportive statement on simplified cost options also in its Annual Report 2014, given that, over the last three years now, we did not detect any quantifiable error related to the use of such options in the ESF. In this regard, I also note that for the current programming period, Regulation 1304/2013 on the ESF includes the obligation of using simplified cost options for small projects under 50 000 euro and Member States can still decide to make a larger use of them for programmes that are in the early phase of implementation.

Still as regards simplified cost options, please allow me a small personal reflection and consideration – during my first four years at the ECA, I was the Member responsible for the financial audit of the EU’s Research expenditure, and I remember the bold steps the Commission took notably by proposing, in the draft Horizon 2020 Rules for Participation, for a mandatory single flat rate for indirect costs, which constituted a radical simplification compared to the predecessor 7th Framework Programme for Research (FP7). In its Opinion 6/2012 on this legislative proposal, the ECA acknowledged that the radically simplified cost-funding model will improve the reliability of the model, decrease the risk of irregularities, make project accounting less complex and eliminate some of the verification steps required in FP7. In this context, I believe that the creation of your High Level Group has been a step in a right direction as there is still scope for simplification also as regards the implementation of the ESI funds in the current programming period.

The second aspect in the ECA’s message for this panel emphasises the need for an increased focus on performance. It is not enough that the EU funds are spent (absorption) or that they are spent in accordance with the rules and regulations (compliance), but they need to make a difference and add value by achieving results in accordance with the specific, measurable, attainable, relevant and timed objectives set (performance). As our President Vítor Caldeira said in April this year during his address to the European Parliament’s Plenary, and I quote, “the Court welcomes the Commission’s plans to foster a performance culture in EU financial management. That culture needs to be based on a genuine commitment, by financial managers at EU
and national level, to achieving results. It also requires that there be clear targets and effective incentives for achieving them.”

Moreover, the two shared management chapters of the Annual Report 2014 (Chapter 6 on Cohesion and Chapter 7 on Natural Resources and Rural Development) include a part on a pilot exercise with the results of the performance assessment of projects completed by the end of 2014. In Chapter 6 for example our review has shown that performance-based funding arrangements are the exception rather than the rule - in most cases, failure to achieve project objectives agreed in grant agreements did not impact on the level of EU funding received. In Chapter 7, for example, we found that, in a majority of projects where it would have been possible to include job creation as eligibility or selection condition, such a condition had not been included.

As a concrete and fresh example of how interlinked simplification and performance are, I would like to refer to the ECA’s Special Report 10/2015 on the problems with public procurement in EU Cohesion expenditure, which was presented in the European Parliament’s Budgetary Control Committee last week and was very well received by both the MEPs and the Commission. Paragraph 25 of this report, whilst acknowledging that a certain level of complexity is inherent to any public procurement system, points out that the current level of complexity of the legal and administrative framework is viewed as a problem. According to 90% of the Audit Authorities who responded to the ECA’s survey carried out for this audit, the legal framework for public procurement in their country is more complex than it needs to be. Recommendation 4 in this report, accepted by the Commission, is that the Commission should set up a high-level group to provide leadership in tackling the problem of public procurement errors, to avoid the risk that actions are not consistently implemented in all Commission services. The group should act as an advocate for improvements in public procurement, including, where necessary, simplification.

One of the questions raised by MEPs during the discussion on this Special Report on public procurement was basically how much simplification in public procurement is possible without the EU budget being negatively affected. This brings me to the next element in the ECA’s message for today’s event, namely the issue of public accountability or the accountability for how the public money is spent. Clearly, a certain level of regulation through legally binding rules is necessary with a view to ensuring accountability and protecting the financial interests of the Union. However, the ECA’s audits show that too complex rules not only contribute to errors in spending, but also affect the effectiveness of delivery of policies and their results. Therefore, the right balance needs to be found between simplification and accountability, an uneasy task which moreover has a direct link to and impact on the design and operation of relevant control systems. As an example, I go once again back to the Research policy area where, in Horizon 2020, there is a very strong link between the radically simplified new cost funding model and the revised control strategy, which has been designed to work only in the context of this new cost funding model. In other words, the benefits of certain simplification measures should decrease the risk of irregularities and thereby allow a simpler and more targeted and effective control and audit system.

And this actually brings me to briefly addressing the final element in the ECA’s message for this event before I close my intervention, namely, the issue of controls and their cost efficiency. This means that good simplification has the potential to reduce the management and control costs both at the level of the Commission and the Member States, so that those costs are kept at a minimum necessary for ensuring that they fulfil their purpose. The ultimate winners of this will be a better policy delivery and a reduction of the administrative burden for the beneficiaries of the ESI Funds, who are actually the primary addressees of simplification also according to the full name of your High Level Group.

Finally, I would draw your attention to two landscape reviews which the ECA published in September and November 2014. The first one is entitled Gaps, overlaps and challenges: a landscape review of EU accountability and public audit arrangements, and, as its title indicates, points to many interesting accountability issues. The second one is entitled Making the best use of EU money: a landscape review of the risks to the financial management of the EU budget, and contains, among other things, a lot of interesting information on simplification and on performance that could be useful to your High Level Group".

High Level Group on Monitoring Simplification for Beneficiaries of European Structural and Investment Funds continued
No organisation can afford to ignore or diminish half of its human capital. This is not a philosophical statement, it’s simple maths. Modern business is much more complex than before. The thicker an organisation’s glass ceiling and the wider its gender gap, the greater its failure to use its most valuable asset: its people, men and women.

The European Court of Auditors is currently implementing an Action Plan on Equal Opportunities for 2013-2017, with the aim of modifying its approach to gender equality and increasing its focus on tangible measures to make gender equality palpable within our institution. In 2009, we created COPEC, the Joint Committee for Equal Opportunities, chaired by Peggy Vercauteren, in order to ensure gender balance in decision-making and promote gender equality in all areas. This year’s focus is on breaking the glass ceiling that prevents women from reaching managerial positions.

Among other initiatives, the ECA recently invited Virginija Langbakk, Director of the European Institute for Gender Equality, on 15 September 2015 to analyse its Equal Opportunities Action Plan and propose new ideas and measures to make the ECA a model institution for equal opportunities. This aim was the subject of a round table on gender equality with almost 40 participants, including Members, Directors and the Secretary-General.

Numerous questions were raised during the round table: Should quotas for women be introduced? Should there be positive discrimination? How do we break the glass ceiling once and for all?

In its quest for excellence, the ECA subjected its gender equality policy to scrutiny by the EIGE’s Director. These were some of the comments made by Virginija Langbakk:

- **Ratios, numerical data is important:** they allow us to assess weaknesses. We live in a numerical world. We need statistics to take stock of where we are now and set goals for the future. They help to assess weaknesses and measure progress, and may represent a starting point for future action.

- **Gender equality perception from outside:** When recruiting, we should start by not only drafting vacancy notices using gender-neutral wording in order to make vacancies truly open, but also by encouraging both men and women to apply for any job they may consider appealing and quit the gender specific professions. We should also ensure that vacancy notices focus less on objective criteria such as knowledge and value other qualities such as pragmatism, versatility and the ability to multitask. We need a clear definition of such criteria, because although they are difficult to identify, if you manage to do so and recruit that person, jackpot! You have another star in your team. This takes much more than a simple disclaimer about being a non-discriminating institution: it is about really making the difference from the start.

- **Aiming for gender equality also from the inside:** We should ensure equality in internal promotions and aim for equal ratios (numerical data helps us again!) to have a similar number of women and men in senior posts and in different areas. Some roles tend to be female-dominated (e.g. assistants, translators) and others (e.g. directors in audit) are more of a man’s world. Why not change that by having a broader view?

- **Equal opportunities in the workplace need to be backed up by equal opportunities at home:** so true equality should also include reduced working time and personal leave for men, e.g. to care for their new-born children. They have the same rights women do.
- Part-time workers: People who work part-time seek to balance their professional and personal lives by cutting down on the former in order to devote more time to the latter. They do so for various personal reasons, usually in order to raise small children. Working part-time should not be seen as diminishing someone’s value. A competent and efficient person will be competent and efficient regardless of the amount of time they spend in the office.

- Top-down decisions could have a greater impact than bottom-up ones. Raising awareness among managers is a first step towards definite change in how we think, how we work, and how we perceive our milestone asset; our workforce.

Overall, the round table provided an excellent opportunity to discuss the subject of equal opportunities, hear the views of an expert in this field, listen to the COPEC representatives and, ultimately, to look at things differently.

The ECA continued its focus on equal opportunities by participating in a conference on gender equality on 15 and 16 October, organised by Luxembourg’s Ministry of Equal Opportunities. We are also working to build closer links with the Ministry.

We are aware that soft measures aiming to promote women are not enough to change what has been going on for decades: an unconscious biased system in which women were not or at least less so, promoted. Although people are not always aware that they are biased, facts do not lie: statistics prove that women are still not reaching the top of their professional fields. Here we are, once again, relying on maths to reveal the truth. As the participants in the round table suggested, practical approaches are required in order to add more value to our institution. We need to look at the bigger picture.

We, as women, have had to prove ourselves for many decades and, ultimately, have had to achieve more for the same reward. Let’s break the glass ceiling once and for all and show what we are made of!
The terminology of the financial crisis
By Veronica Ardelean, Head of the Romanian translation unit

“Europe is set to enforce mandatory clearing of interest rates swaps from late April next year after Brussels adopted new rules to bolster over-the-counter derivatives trading yesterday”. (Financial Times, Friday 7 August 2015)

Welcome to the world of finance and its “obscure” (only for the uninitiated, of course) language used to describe the complex systems and operations which are designed to manage mind-boggling sums of money ultimately coming out of taxpayers’ pockets. The rise of the financial sector has brought with it an important innovative component, often referred to as “financial technology”. The traditional way of doing business has long since given way to hawkish methods which are much more appropriate in a globalised economy running at full throttle. These rapid developments have been accompanied by the emergence of specific terminology coined to express the new reality. And, obviously, as the engines driving finances were located in the City and across the ocean, the language of this specific terminology was English.

As we all know, in Europe the financial crisis turned into a sovereign debt crisis, which prompted the creation of a plethora of mechanisms aimed at containing the crisis and ultimately saving the single currency. From the moment these mechanisms had a link (even an indirect one) to the EU budget, the ECA stepped in.

Deciphering financial terms

ECA output increasing

The newly created Economic and Financial Governance team has produced three special reports, due for publication before the end of this year, on the following topics: Financial assistance provided to countries in difficulties (Balance of payments countries), Technical assistance to Greece and EU supervision of Credit Rating Agencies. The Court believed it was its job and its duty to inform stakeholders and the general public about how financial and technical assistance to countries in need has been managed by the European Commission and how effective is the supervision of the Credit Rating Agencies in the EU.

Keeping track of the financial crisis was as new for the Court’s translators as it was for its auditors. As mentioned before, the financial vocabulary was essentially developed in English, leaving to the translators the challenging task of reproducing it in other languages.

However, before we outline the specific nature of the challenges faced by the Court’s translators, one point should be clarified. The fact that financial terminology is used in English does not mean that English native speakers or those who have knowledge of English will necessarily understand it. So, thinking that translating financial terms into other languages is useless because the business world – not only in the UK, but in the other EU Member States as well – basically uses English to communicate is a rather reductionist approach. We first have to translate financial terms from English into English for all those who want to grasp the concepts underlying those complex systems and operations mentioned in the introduction to this article. We then have to translate the same terms into the other official EU languages, making sure that our translations are not only accurate but also understandable for different categories of readers.

Difficulties depending on the language

Translating these highly “technical” reports was an interesting challenge for the translators at the European Court of Auditors. Depending on the
language, various difficulties were encountered: for example, in the case of Romanian, it was often difficult to find terms equivalent to the English ones. As the financial market is underdeveloped in Romania, the terminology is not very common and is poorly developed. Sometimes, there was a complete lack of terms in the language: either the concepts (or practices they refer to) are not used in the Romanian financial market, or English terms are used as they are (e.g. swap, spread, etc.).

Concerning the use of English terms in other languages, it was evident that some terms have been incorporated as they are not only into the specialised language used in financial circles, but on a large scale. The term swap is widely used in French, Italian, Romanian, German and Hungarian.

Two terms that caused problems for many languages (Italian, Polish, Hungarian and Romanian) were wall-crossing and pre-sounding. These terms have no direct equivalents in the languages mentioned, so the translators had to use long descriptive phrases and modify them depending on the form of the sentence. In the end, there was no single term for wall-crossing in the Polish text and, in Romanian, a paraphrasing translation was used alternately with a mixed expression (RO and EN) meaning wall-crossing practice (“practica de wall-crossing”). The same was true for ratio-based plausibility check: a very long and descriptive expression was used to translate this concept.

Some occurrences were not even financial terms but jargon used in this field, making them even more difficult to translate, for example real money or burden sharing. For the latter, an addition was necessary in Romanian (with private investors) in order to clarify the term, which was otherwise too opaque.

A couple of additional examples will illustrate even more clearly the difficulty of the task: cumulative accrual-based deficit, knock-on effect, budgetary yield, bid-to-cover ratio, syndicate, underwrite, bid-offer spread, mid swap, swap rate, etc.

How did the translators proceed?

So, how did the translators proceed in translating these documents? First, they used the terminological sources provided by the EU institutions (such as IATE, Council Decisions establishing the assistance programmes, Memoranda of Understanding, the ECB’s website), but they very often had to look for answers “outside the system” (for example, translations of international accounting standards, accounting websites, central banks websites, ministry of finance sites, national legislation regulating financial issues/market, financial newspapers, etc.). However, as mentioned above, in many cases they just had to “invent” translations, but this was done mostly by paraphrasing based on the definition or explanation of the term in question. In some cases, this involved providing additional information not contained in the English text if the term was too opaque. Some translators went back to the basics of macroeconomics, consulting academic textbooks in the field.

Conclusion

Writing on the financial crisis for a broader audience should not be left only to journalists or non-fiction authors. The EU institutions have played an important role in managing the crisis and are still playing an important role in regulating financial markets, so it is their duty to inform EU citizens on this topic. If, through our translations, we can help the Court to better communicate with the outside world, the terminological “struggle” will not have been in vain.

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3 As a general observation, Latin languages are often more explanatory than English. A concept that is expressed in English by one word may need an entire line in French.

Postgraduate university degree for ECA auditors

For several years the ECA has been trying to establish a postgraduate programme for auditors in cooperation with an academic institution. After so much time and effort, it is so great to finally see this programme being inaugurated this year by the ECA and the University of Lorraine (Nancy-Metz).

Offering the possibility to ECA auditors to obtain a “postgraduate university diploma in Audit of public organisations and policies” or a “Master’s degree in Public Administration: Management of public organisations” is a great opportunity for them to enhance their professional status and acquire more knowledge in the field of auditing.

The ECA, in consultation with the CEAD Chamber, and the University of Lorraine have agreed on the modules that will be taught. In the framework of this programme, auditors will have the opportunity to put their professional skills in an academic context and they will perfect competences, such as the capacity to analyse the main economic and financial indicators as well as the structural features of an audit system, perform strategic diagnosis, explain generic strategies, principles of public-sector accounting, internal control and audit, provide critical analysis of accounting, perform audit programmes, assess characteristics of an audit of information systems and detect systemic weaknesses. In addition, they will master cost-benefit and cost-effectiveness/efficiency analysis, anticipate trajectory and make future projections for auditees, assess strategically performance leverage tools, be critical and reflective to management control tools used in audit, assess contribution made to performance by knowledge management and apply the much-needed “rules” for drafting of audit reports. All the aforementioned competences will be most useful to the ECA and this programme will constitute a major asset for the ECA’s reputation as well.

Any ECA auditor with sufficient knowledge of English and French able to follow the courses taught in both languages and with three years of audit experience at the ECA can apply. They will have the option of drafting their assignments in either of the two languages.

The agreement between the University of Lorraine and the ECA was signed on October 13 and the information session that took place on the same date gave the floor to both representatives of the University of Lorraine and potential applicants and the feedback received regarding it was very positive. The session gave an idea of the general preoccupations of potential applicants as well as replied to many of their queries.

The courses for obtaining the postgraduate university diploma will take place on the ECA’s premises and will have an overall duration of 22 days spread out from February to June 2016. The 22 days that an auditor will have to devote to attending classes (and consequently, not be at work) will be accommodated within their audit workload in accordance with the requirements of the university diploma.
Fête (Faites) de la Formation – Training Day
15 October 2015

By Maria Evangelia Thymaki, for the Professional Training Unit

Opening address in the conference room

An attacker comes at someone with a knife while at the same time you can see other people putting out fires, singing, dancing tango or auditing. “What could these situations have in common? How is this even possible?”, you may ask. This is no theatre of the absurd; it is the Training Day of the European Court of Auditors.

Following the success of last year’s ECA Training Day, the Court dedicated once again an entire day to trainings destined to all ECA staff. Twenty-one workshops of 75 minutes and six trainings of three hours took place, with an opening speech by the President of the Court Vítor Manuel Da Silva Caldeira, the Secretary General of the Court Eduardo Ruiz García, the Director-General of DG Budget of the European Commission Nadia Calviño, and the historian and political philosopher Luuk van Middelaar, to mark the beginning of this day. They gave a very good insight into Europe’s current challenges and crises, uncertainty and how decisions are taken “behind the closed doors”. Examples used during these presentations included the refugee situation, the financial sustainability, security at the Eastern border as well as budgetary aspects.

Taking a closer look at the self-defence class, participants had the chance to familiarise themselves with techniques deriving from martial arts and chosen especially for self-defence purposes. They undertook the role of both an attacker and a victim and in these simulated attacks they tried to follow to the letter the advice of the experienced instructor.
In the firefighting session, participants gained knowledge in terms of fire prevention and how to successfully cope with fires, if one was to occur not only in the workplace but also at home. They even tested their skills in a fire drill where the participant assuming the role of the firefighter would have to wear a fireman uniform and extinguish a real fire set on the K3 terrace. This was such a vivid experience that it even motivated some of the staff that participated in the workshop to actually volunteer as firefighters.

Simultaneously, in another ECA room, dancing tango was used as a metaphor to inspire leadership. More specifically, just as in tango one partner leads the other on the dancefloor; in the professional environment as well there is a person that leads the team. For both relationships to be successful though, the leader must be inspiring confidence to the other party and the party must be willing to follow the leader’s steps. In practice, for all those that participated in the “tango” experiment, it was very interesting to see how tango could evolve into a completely chaotic dance once one of the conditions in question was not met.

Moving to a different training room, participants would learn how not to stress their voice when speaking in public. Working on articulation by singing “O sole mio” in public, different modes of expression and colours of speech, awakening natural resonators and mastering specific breathing techniques, all were aspects that were studied in an effort to coach the voice not only for public speaking but also in everyday life.

Meanwhile, in another room, for those worried about back pains and the toll that sitting for hours in front of a computer screen may have on their posture or their body, there was a course aimed at training staff to better adapt to these circumstances. Useful exercises to relax body muscles and relieve back pain were most appreciated.

In other workshops, at the same time, ECA staff was gaining insight into various audit-related fields: public expenditure and financial accountability, key issues in the area of EU economic and financial governance and banking arrangements, audit document analysis, public procurement, or managing sensitive audit data to name a few. This overview of a number of different audit fields allowed auditors to familiarise themselves with those topics in a very short time and to decide whether a more in-depth training on these topics would be relevant for them.

The list of the courses offered on the training day was long and to enumerate all of them would be of little interest. However, to conclude, it is important to note that a total of 303 persons (amounting to about a third of ECA’s staff) participated in the trainings and as it was shown upon consultation of their evaluations of the day, there was an overall satisfaction of 89%. Obviously, such a major event could not escape some unexpected turns, such as last-minute changes that occurred due to force majeure but overall, it was a successful day with much positive feedback gathered from participants and trainers alike and based on this, it could be said that it seems the ECA training day is here to stay.
Focus

Are the Fisheries Partnership Agreements well managed by the Commission?

The European Union (EU) negotiates agreements with coastal countries to obtain fishing rights for EU vessels and to support the governance and sustainable development of the local fishing sector. The Court found that these agreements were generally well managed by the European Commission, but that some improvements were needed. The quantities of fish negotiated with the coastal countries regularly exceeded the actual use made by the EU fleet, making the agreements relatively more costly than expected for the EU. The monitoring of catch data and the licencing process was not sufficiently robust, and the support provided for the sustainable development of the local fisheries sectors needed clearer eligibility conditions, and better coordination and consistency with other EU development support (see article page 15).

This report was published on 20 October 2015 and is available on our website eca.europa.eu in 23 EU languages.

The EU priority of promoting a knowledge-based rural economy has been affected by poor management of knowledge-transfer and advisory measures

The Court examined whether the high priority of lifelong learning and knowledge transfer within the EU’s rural-development policy was matched by the Commission’s and Member States’ efforts to deliver high-quality knowledge-transfer and advisory activities. The audit found that this was not the case. Too often Member States relied on the proposals coming from the training providers and any type of training was seen as ‘good’ and eligible to receive public support. Only infrequently was there proper analysis made of whether such activities could make a real impact. Member States did not always ensure fair and transparent competition when selecting the training activities and paid too much for certain services. In terms of follow-up, the audit found a lack of detailed evaluation of what was actually achieved with the public funds. In its recommendations, the Court particularly encourages the Member States to adapt the knowledge-transfer and advisory activities they choose to the evolving needs of the rural operators through recurrent procedures of analysis and evaluation.

This report was published on 20 October 2015 and is available on our website eca.europa.eu in 23 EU languages.
EU support to timber-producing countries under the FLEGT action plan

Illegal logging and trade in illegally logged timber affect most of the forested countries. It causes environmental damage and loss of biodiversity, and has negative economic and social effects. The EU action plan on forest law enforcement, governance and trade (FLEGT) aims to reduce illegal logging globally by supporting forest governance in timber-producing countries and by reducing the imports of illegally harvested timber to the EU. In this report the Court concludes that the Commission’s support to timber-producing countries in the framework of the FLEGT action plan was not sufficiently well managed. While the FLEGT action plan was conceived in an innovative way, the Commission did not devise an appropriate work plan with clear objectives, milestones and a dedicated budget. It did not clearly prioritise its assistance, and monitoring and reporting procedures were unsatisfactory. The main projects examined were not successful and the envisaged timber licensing schemes are not yet fully operational in any of the partner countries (see article page 12).

This report was published on 22 October 2015 and is available on our website eca.europa.eu in 23 EU languages.

The ECA says:

Hello to:
Bronislava BIELIKOVA
Ingrid CIABATTI
Maria DOMINGUEZ
Fernando GOMEZ CAMPOS
Sari FLORESCU
Jiri LANG
Markku POTTONEN
Antonella STASIA
Michal Tomasz SZWED
Michele ZAGORDO
Francesco ZOIA BOLZONELLO

Goodbye to:
Bénédicte CLAUDE
Anastassios KARYDAS
Thierry COZIER
Like most European institutions, the Court of Justice has evolved as the European Union has grown. The Treaty of Lisbon, signed in 2009, contained provisions aimed at making the EU’s judicial system work better and adapting it more effectively to EU law. The ECJ was given new responsibilities, and its jurisdiction was expanded to include other EU bodies.

The ECJ’s longstanding role was thus refreshed in 2009, especially with the entry into force of the Charter of Fundamental Rights of the European Union, a document which has its roots in the Cologne European Council of 1999 and which is monitored scrupulously in Germany.

Procedure varies according to whether open legal principles are applied, or whether judges can refer to a document – the Charter – which is even more specific than the Treaty. Nowadays, litigants refer directly to the Charter in their arguments, thus increasing the role of national constitutional courts as a partner for dialogue – and sometimes, of course, as a competitor and opponent.

Every national court which is asked to rule on a matter related to EU law can (and indeed must) submit questions to the ECJ for a preliminary ruling. The ECJ must then provide an interpretation of EU law, or assess its legality.

This has been standard practice in the regular courts of all 28 Member States for many years. For constitutional courts, on the other hand, it is something of a novelty.

In 2013, in the aftermath of the financial crisis and the rescue mechanisms which were introduced to counter it, pressure rose in the media and under the weight of public expectation. Against this backdrop, the German constitutional court issued an interim ruling. It then addressed a number of questions to the ECJ on certain matters of EU law which were fundamental to the main points of the case.

The ECJ replied with its own ruling this spring. Despite that, the case is still not over. The ball now lies with the German constitutional court, which is due to issue a final ruling.

What was special about these proceedings was that, after the constitutional court had decided to refer the case, two members of the court’s second senate stepped down, thus reducing the number of senate members to six. It now appears that consideration is being given to the possibility of reopening oral proceedings so that the new senate can decide to refer the case with its full complement of members.

The dispute about the ECB’s powers was notable in many respects. The constitutional court’s referral (or rather, significant parts of its reasoning rather than the referral itself) was highly critical, because the court, according to its own jurisprudence, was asking the ECJ, through an *ultra vires* review¹, whether the ECB had overstepped the monetary powers assigned to it in the Treaty. In doing so, the court was expressing concerns and worries raised by its own litigants.

¹ The German constitutional court only initiates an *ultra vires* review when an EU body goes beyond the scope of its powers under the EU treaties.
The ECJ was forced to deal directly with sharp criticism. However, two further aspects of the case were even more interesting. The first concerned a specific procedural problem: the German constitutional court had submitted questions dealing with the interpretation of an ECB decision which, from a legal perspective, did not yet exist. The only communications concerning the decision had been a press release and the minutes of the decision-drafting process. This presented the constitutional court with a problem in procedural law: should judicial appeal be allowed when a decision is imminent and its approximate thrust is known, but when it has not yet been formally issued?

The ECJ’s rules are far clearer in this respect: a decision must actually exist, and must have been published in the Official Journal. However, the ECJ did not dispute the constitutional court’s right to refer the matter upwards, and it even provided an answer. Had it not done so, a situation could have developed in which a constitutional court would consider itself effectively (if not legally and politically) bound to tackle alone the question of whether *ultra vires* applied. This would be a fatal blow for legal unity at European level.

The crux of the issue was this: the ECB claimed that the measure was concerned with monetary policy; the German federal bank disagreed. The ECJ approached the question from a traditional perspective, aiming to determine which institution was charged under the treaties with the duty of examining the issue and providing an answer. Its conclusion was clear: responsibility lay with the ECB, not with the federal bank. The German parliament had been aware of this when, like other national parliaments, it ratified the Treaty.

The second aspect of the ECJ’s ruling was fundamentally different and far more complex. It concerned the prohibition of state financing. It is illegal to acquire government securities not only on the primary market, but also on the secondary market under conditions which lead to the same outcome. A range of measures are in place to exclude the possibility of state financing.

The ECJ recognised the need for such criteria, especially since the programme was selective and concerned the acquisition of securities issued by certain Member States, namely by Italy and France.

In this way the ECJ demonstrated that it is indeed possible to comply with all legally mandated safeguards while taking robust action with the aim of protecting the euro.

The situation will remain unsettled until the German court replies. There may be substantive arguments which were not submitted to the ECJ, but no expert has been bold enough to argue that the ECJ’s ruling is necessarily untenable. The EU judges’ work is legally sound and convincing, and the Treaty clearly establishes where the responsibility lies for interpreting EU law. The ECJ’s interpretation of the treaties is final. The German constitutional court agrees with this, but it reserves the right to check whether the ECJ’s interpretation of the law goes beyond the framework for European integration.
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For more information and paper copies:
European Court of Auditors
12, rue Alcide De Gasperi
1615 Luxembourg
LUXEMBOURG
eca-journal@eca.europa.eu
eca.europa.eu
@EUAuditorsECA
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