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Top row:













- Samo Jereb, new ECA Member

Second row from left to right:

- Dr Igors Ludboržs, leaving ECA Member

- Augustyn Kubik, leaving ECA Member

- Milan Martin Cvikl, leaving ECA Member

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# I believe that the way of improving accountability is at least threefold

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Interview with Dr Igors Ludboržs, leaving ECA Member

By Rosmarie Carotti



Dr Igors Ludboržs, leaving ECA Member

**R. C.: You were responsible for one of the two ECA's Landscape Reviews, the one on the risks to the financial management of the EU budget. In the light of your responsibility for this landscape review, how could the ECA provide better assurance to the taxpayer that his money is well used?**

**Igors Ludboržs:** I believe we can do it the traditional way through audits, either in the framework of the annual report with the corresponding statement of assurance or, more importantly, by producing special reports. The focus there is how the EU budget expenditure indeed brings added value. Not just added value but EU added value, because added value can be brought by the Member States themselves without any assistance of the EU. And by developing other products like the landscape review you just mentioned, we try to give a comprehensive picture of the exposure to risks from the point of view of the taxpayer.

**R. C.: The Commission has changed the budget chapters. Is this change useful for the ECA auditors or rather a hurdle? Does this make it easier to evaluate EU added value?**

**Igors Ludboržs:** There would be initial problems with the audit framework we used to have but some time ago we decided to prepare our chapters of the annual report according the MFF headings, so it does not make any difference for us and in the current programming period 2014-2020 the chapters basically will stay the same.

The advantage is that we can more easily match what has been foreseen in terms of allocation of resources and policy areas and what has been actually done. We have even been praised for this decision by our most critical stakeholder, the Council.

**R. C.: While being ECA Member you have been nominated by the ECA to the Board of Auditors of the ESM (European Stability Mechanism) which is an intergovernmental instrument financed directly by the Member States. What is your role there? Will you keep this mandate?**

**Igors Ludboržs:** The Board of Auditors audits how the ESM functions itself.

Concerning the appointment, one can draw parallels with the nomination of the ECA Members where the Member States nominate and the Council, after having heard the European Parliament, appoints. In the case of the ESM, it is the ECA which by the ESM Treaty and the by-laws nominates but it is the Board of Governors who makes the decision of appointment.

I have informed my colleagues in the ECA and the Board of Auditors of the ESM of my intention to finish my full mandate in the ESM. My mandate will end in December of this year.

**R. C.: Who evaluates what happens with the money paid out by the ESM to Member States in need?**

**Igors Ludboržs:** In former times it was the Troika and in current times it is the Quadriga. It is the Troika plus the ESM, that's to say the European Commission, the European Central Bank, the IMF and the ESM.

**R. C.: The ECA has a relatively wide mandate for the ERM (European Resolution Mechanism). Why not for the ESM?**

**Igors Ludboržs:** When the ESM was established, there was the idea that the ESM should be audited by the ECA. It was decided differently, as the ESM is not in the European Union framework but an intergovernmental body established on the basis of a treaty.

If the ESM is brought into the framework of the EU institutions, there might be a mandate for the ECA to audit the ESM.

**R. C.: Would this also imply a revision of the EU Treaty?**

**Igors Ludboržs:** This would not necessarily require a change in the EU Treaty but simply a change in the ESM Treaty. The ESM is a treaty of Member States which have a euro as a currency. The EU is much wider.

What might trigger a revision of the EU Treaty sooner or later are the events around Brexit. Regardless of the result, there is broad understanding that the EU will not be the same in future.

**R. C.: The Commission has recommended that future instruments to govern EMU should be designed within the legal and institutional framework of the EU which provides amongst other things, for the European Parliament's scrutiny and control.**

**Igors Ludboržs:** That's a wish of the Commission which involves Member States and to some extent the European Parliament. They are the decision-makers.

**R. C.: There also are proposals to fund the EU budget with new own resources.**

**Igors Ludboržs:** It is for the Member States to agree and decide upon this issue. In difficult times, countries try to keep their money and not to spend it, even if it is for an interesting EU project.

**R. C.: Does private/public partnership, let's mention the Juncker plan and EFSI (European Fund for Strategic Investment), bring the expected results and leverage?**

**Igors Ludboržs:** I have mixed feelings. It is undeniable that in monetary terms, in volume of money, it goes according to the Juncker plan. But one needs to understand that the risk with these projects is higher than with the usual EIB financing.

It will require time to see the value of these projects or if money was simply allocated to projects which would have been considered too risky by the EIB alone. That way the projects get the backing of

the EU budget. Higher risks normally mean higher returns and that remains to be seen.

Another interesting question is the added value of these projects. They might indeed be a big but in some Member States that the EU managed to build up infrastructure, like sea-ports and highways, which is not much in use, as pointed out in recent ECA special reports.

**R. C.: What is accountability for you and how can it be improved in the EU?**

**Igors Ludboržs:** For me accountability means the usual triangle of the elected representative of the people, usually parliament, the executive arm, the government or the Commission and, depending on the framework, the ECA or the SAI (Supreme Audit Institution).

One is accountable to the representative of the people for what has been done, who bases himself not only on the information coming from the executive arm but also on the critical views coming from the audit.

I believe that the way of improving accountability is at least threefold. First, there is the framework of the Contact Committee between the Presidents of the Supreme Audit Institutions and the ECA. Progress there is still not enough.

Secondly, one has to examine whether the existing arrangements are sufficient in the relationship between the Commission and the Member States. As pointed out in a briefing paper prepared by the ECA on the mid-term review of the MFF (Multiannual Financial Framework), the Commission should take ownership of the accreditation of the implementing bodies in the Member States. The ECA consistently identifies a lack of administrative capacity in several Member States.

Year by year, the ECA denounces in its annual report high error rates. If there is no administrative capacity, the Commission should not allocate money. Maybe we should think about a different management mode, which is not shared management but direct management by the Commission.

Third, there is need for increased interaction between the European Parliament and national

parliaments, as around 80% of the EU funds are managed by shared management.

**R. C.: The ECA is also reaching out to the national parliaments, to the SAIs, and wants to improve communication. You, for example, fought for shorter deadlines for the ECA's special and annual reports.**

**Igors Ludboržs:** That's why I said that the way of improving accountability is at least threefold. Yes, you can imagine that special reports be brought to the attention of the Member States especially when the ECA addresses Member States' authorities in its recommendations.

I tried to promote shorter deadlines. Last year we succeeded to achieve the deadline of 18 months and this year we take up the challenge to reduce it to 13 months.

**R. C.: In the past, an auditor only looked at the past while today our look is also directed to the future. You wrote: "It is very difficult to assess the effectiveness of policies in terms of outcomes without taking into account the extent to which the weak policy results are influenced by policy design." What does this mean in the context of the recent ECA reform?**

**Igors Ludboržs:** In this briefing paper which I have mentioned earlier concerning the mid-term review of the MFF 2014-2020 we try to go out from our usual habitat, not looking at the things *ex post* but being more pro-active. We come up with our recommendations based on our audit work and we suggest how to improve policies. We try to approach all three players in the EU context, the European Parliament, the Council and the Commission.

In my view, however, we have mixed results. The Commission claims to be an honest broker between the wishes of the European Parliament and the Council, to have more ways other than the MFF to pursue its goals and not to want major changes while preparing for another programming period and while Vice-president Georgieva is launching performance based budgeting and the revision of the financial regulation.

The Council is in principle positive but in the substance very cautious because of Brexit. The

most positive feed-back we got so far is from the European Parliament. In the view of some influential MEPs not only is a review necessary but as a result of this review, the revision of the MFF becomes necessary.

# Looking back...

By Augustyn Kubik, leaving ECA Member



From left to right: Sylvia Slugocki, Emilia Slupska, Marzena Machowska-Kubik, Katarzyna Radecka-Moroz, Augustyn Kubik, Michal Machowski, Violeta Tzvetanova, Mariusz Pomienski, Robert Slugocki

When I am looking back at the six years spent at the ECA, I see a sequence of events, which have become individual milestones in my work as ECA Member. Let me share with you a couple of events, which I will keep in my memory for long.

## First year at the ECA

The first year of my presence at the ECA is to be remembered as an intensive learning process. Like every newcomer, I had gone through the tonnes of procedures and colourful ECA's papers, trying to clear my path through this jungle. This was also the period when the composition of my team was forged.

During this time I also discovered the high-level service culture of the ECA. I believe many national administration services could and should learn from the good practices developed in-house and on my part, I will do my best to transpose this experience to my future work.

## Audit world

After joining Chamber I, together with my team, we were assigned immediately to the audit tasks. The one which I remember very well was devoted to the verification of the effectiveness of the School Milk and Fruit Schemes. (By the way, I was a beneficiary of a similar scheme in my childhood!)

It resulted in a Special Report which was widely covered by the media. I was very satisfied when the Commission, following our recommendations, introduced important changes to the schemes. I am convinced that this is the best result, which you could achieve with an audit report – ECA's findings and recommendation are duly taken into account by the auditee itself, making the intervention simply better.

Next step and the biggest audit challenge we have been faced with was the audit of legality and regularity of the European Agricultural Guarantee Fund. I inherited this task in its reporting stage, which made the job even more difficult – we had to learn about the audit area and to ensure the quality of the Annual Report chapter at the same time. Thanks to the excellent work of the audit team the contribution to the Annual Report was of desired quality. I admit that I liked the job so much that I carry on with my role of the co-Rapporteur for this task still today – first draft of Chapter 7 for the Annual Report 2015 will get my signature just before my departure. What makes the statement of assurance work so hypnotising? I appreciate it because of its structured process, relatively clear rules and interesting cases behind the error rate. But most of all I respect the DAS audit team, which consists of exceptionally engaged team of professional auditors.

### **Being the Dean**

I also wish to mention about my role as the Dean of Chamber I. I find this position very honourable, requiring strategic thinking and active solution-seeking. My two golden rules, which I have applied while fulfilling my duties, were the following: finding the fair balance among different views as well as communicating transparently inside the Chamber. I am deeply convinced that such tactic has paid off and thanks to it we have successfully managed to lead the Chamber through many challenging tasks, including the process of the reform.

### **Cooperation**

“Cooperation” was always in my blood.

Over the years I have constantly sought for open dialogue and communication, both in-house and outside. One of the examples is the flourishing cooperation with the Polish SAI, Najwyższa Izba Kontroli. Thanks to this approach, we have managed to succeed in different cooperative projects, like common work on verifying the effectiveness of EU programmes on animal disease eradication. Mutual trust among the institutions also helped to organise the first ECA visit to Poland in 2015. This enhanced collaboration already brings results like the recently started common audit on JASPERS, during which the auditors from both organisations are assessing the effectiveness of this EU programme.

We also maintained regular contacts with the Polish governmental administration, mainly with the Ministries of Finance, Regional Development and Agriculture, but also with municipalities, by providing them with the ECA audit results presented in the annual reports. Additionally, thanks to the Polish auditors of the ECA, we could offer training events to the staff of the ministries, covering our audit methodology and approach. I value a lot our activities carried out at the fora of universities and media. On every occasion we promoted the ECA’s mission and the results of its work. I believe this is a never-ending process and should be continued, as it not only increases the awareness about our products, but also stimulates discussion about public finances and accountability.

### **Looking forward**

Something ends, something begins. So now, it is time to move forward, take decisions about future responsibilities and identify new challenges. For me it will always be too early for the retirement, and therefore I am ready to take up new duties and open a new chapter of my professional life, in which I will use the unique experience gained at the ECA. And I can only hope that I will manage to create a team, which at least in part will be as effective and friendly as the current one.

Speaking about the team... collaborators are also dispersing and commencing new tasks. I wish each one of you all the best. I am sure you will all have very successful careers, achieve all your objectives and fulfil your dreams. It was an honour and pleasure to work with you and share many common challenges. Good luck!

# We are all in the same boat and we have to row according to the same rules

Interview with Milan Martin Cvikl, leaving ECA Member

By Rosmarie Carotti



Milan Martin Cvikl, leaving ECA Member

**R. C. :** This interview should be a kind of legacy of your work in the ECA. You have been six years in the ECA and you have witnessed several changes.

**Milan Martin Cvikl:** There were many interesting changes and developments. To point to the main one, note that the period in which I came to the ECA in 2010 was a very interesting one because the EU institutions were trying to understand what to do following the financial crisis which affected Europe for two years already. A month after I came, there was a dinner at the ECA with the Commission where Commission President Barroso said that he was very pleased that the Member States had created the European Financial Stability Facility in May 2010 to prevent a further deepening of the crisis.

Six years later, we have carried out some very important audits on how the European institutions and the Member States have reacted to the crisis. In April I presented in Parliament and to the press the ECA audit on the excessive deficit procedure, which is one of the audits in the area of financial and economic governance. It indicates what still needs to be improved. As is well described in the earlier ECA report on the financial assistance to countries in difficulty, before 2008 the economic governance mechanisms at the EU level were not effective enough. That is why the EU faced a much deeper

economic and financial crisis than would have been otherwise.

**R. C.:** The April issue of the Journal focused on the financial and economic governance audit work of the ECA, to which you have substantially contributed. From hindsight, are there things the ECA could have done more timely or in a more flexible way?

**Milan Martin Cvikl:** Of course, and with the luxury of the hindsight, it would have been good if the ECA had started the development of the financial and economic governance audit earlier. But we reacted to the changing environment. I remember the Annual seminar we had in Ljubljana in 2012 where we discussed the start of the ECA reform and what products we could develop that would not only discuss the past but also take into account the actual situation and its possible effects. Two years later, the ECA produced two Landscape Reviews, one on the gaps in the accountability structure and the other on the financial risks to the EU budget, where we reviewed all of our reports.

I think that the ECA has reacted correctly to the crisis by establishing a financial and economic governance team.

**R. C.:** Nevertheless, let me say that every time there is a crisis, the solution seems to be to create new funds. These funds are outside the EU budget. Is this not a major weakness and detrimental for audit?

**Milan Martin Cvikl:** The initial funds to deal with the crisis were the Balance of Payment Assistance and the European Financial Stability Mechanism which were linked to the EU budget. But for that reason, they also were limited in amount.

It was logical that later, in May 2010, the Member States created a separate facility which is today linked with the European Stability Mechanism, in which the ECA has a role to play.

We have to respect the existing treaties. The EU 28 Member States can only act on the basis of the financial resources that are available at EU level. But Member States themselves decided to sign the intergovernmental agreements which are the basis for the European Stability Mechanism. This has created additional funds. The role of the ECA and

other Supreme Audit Institutions is important in it. The ECA is a permanent member, and appoints a nominee, to the external Board of Auditors of the ESM. As in all external boards of auditors, this nominee acts in his own name, but I would claim that the knowledge he/she has acquired in the ECA is useful for the external board of auditors.

One has to keep in mind that these are funds of the Member States. It is important that the Supreme Audit Institutions of the Member States and, in addition to them, the ECA, are members of the external board of auditors.

We can, of course, be critical of the fact that there are too many funds but in the absence of a change of the treaty, that is what we have. But let us not forget that there is now a clear willingness of the Member States to conclude the banking union and I hope also to further deepen the economic and monetary union.

There are now different, new initiatives to improve the economic governance of the EU: the advisory European Fiscal Board, a system of national competitiveness boards. On the one hand there are the sovereign Member States and on the other hand the European institutions. That is, in essence, what we found in the excessive deficit procedure audit. We need more transparency and consistency, as well as the full involvement of the European Parliament, the Council, the Member States and, national parliaments. A debate about the further fiscal policy coordination of the Member States is needed.

**R. C.: The situation does not seem that rosy. Take for example the ECB. What are the potential risks of the ECB's new policies and instruments?**

**Milan Martin Cvikl:** We have to be very clear about the role of the ECB as another EU institution which has a mandate linked to the monetary policy. The audit rights of this mandate are not entrusted to the ECA.

But there is a very important role of the ECB which has been fully recognised as the key element for the Banking Union and that is the ECB as the Single Supervisory Mechanism. There we do have audit rights and we are undertaking audits there.

I am certain that as a part of the financial and economic governance audit, the audit we will conclude in the coming months on the Single Supervisory Mechanism will be beneficial to the future and further development of the role of ECB as the Single Supervisory Mechanism.

As far as the ECB's monetary policy role is concerned, Protocol 4 of the Treaty enshrines the role of ECB. One thing is, of course, preventing potential inflationary development, another thing is the Single Supervisory Mechanism. There is a need for effective and preventive supervision, now that we have seen in the financial crisis that the Member States' supervisors were not able to prevent the problems with the banking sector in a particular Member State. The structure we have, the Single Supervisory Mechanism, the Single Resolution Mechanism and the Single Resolution Board are all necessary elements of the appropriate financial supervisory architecture which we did not have in 2008.

**R. C.: The Single Supervisory Mechanism is in place but the Single Resolution Mechanism is not yet effective, some governments still oppose it. How can you sell this to citizens?**

**Milan Martin Cvikl:** I am not trying to sell anything. I am trying to inform people that we now have banking union elements, including a Single Resolution Mechanism and a Single Resolution Board, on which we are starting preparatory activities as an auditor. These elements should enable the problems of some systemic banks to be solved, should these banks get into the same trouble as in 2008.

We are now in a situation that the supervisory elements of the banking union, together with the Single Resolution Mechanism and the Single Resolution Board, should be able to contain a problem of a particular financial institution which is too big to fail for one sovereign state. Now we have, at the Euro Area level, something similar to what you can find in other countries of the size of the EU, for example in Canada and the United States.

We have seen in the work of our audit of Banking Supervision (SR 5/2014) that we are achieving the right elements of the classical banking union structure. It would have been impossible to get agreement on all this in 2008. We now have a

system where, given the fact that European banks are universal banks, operating across borders, there is a single supervisor. Nobody can predict the future but I would claim that today we are in a better situation than we were eight years ago.

**R. C.: There are a number of challenges both internal and external which take time to resolve and need to be addressed in the creation of such audit capacity.**

**Milan Martin Cvikl:** There are two aspects of the Single Resolution Mechanism audit. First, the annual financial audit of the single resolution board. This is more or less a standard financial audit of an agency. Second, the performance audit of the single resolution fund. The ECA should issue a report every year assessing whether “sufficient regard was had to economy, efficiency and effectiveness” and “whether the fund aid was efficient and rigorous”. As can be seen, the ECA has an important role to play in making the Single Resolution Board accountable to the parliament for their actions.

That is why the ECA is developing its capacity to audit the Single Resolution Mechanism through the recruitment of specialists and the creation of a specific training programme.

**R. C.: The ECB has become an EU institution but the ECB evolved without any changes in the Treaty. The first mandate of the ECB was limited to stability.**

**Milan Martin Cvikl:** Protocol 4 is part of the Treaty in the same manner as Protocol 1 to the Treaty which talks about the cooperation between the European and the national parliaments, on which we now formally send out our annual reports to the national parliaments. Recently we also started sending out our special reports in a more formalistic way. The situation is evolving and this is the beauty of the European Union.

The EU is a set of institutions that is developing depending on the actual needs and on the actual deepening of the European Union itself. When sovereign Member States were not able to fulfil their debt obligation, the EU assisted them through cooperation at the EU and at the intergovernmental level. When we realized that the Member States supervisory authorities were not capable of looking

into particular entities that operated beyond their borders, we developed that further.

**R. C.: How can the ECA improve its image as auditor but also as good advisor for future developments and actions? How can the special reports give a better insight into facts, moments and situations?**

**Milan Martin Cvikl:** The ECA recently implemented its new strategy, nominated a Member for external relations and created the post of spokesperson. People now know that there is a dedicated team dealing with the press.

The ECA also has become more responsive and the reports are produced in a shorter time.

As part of the reform we also changed the work programme exercise. The core element is to identify the key risks and, on the basis of that, to anticipate consequences. The ECA wants its report to be there when the need arises to arrest a particular risk.

The work programme exercise that the ECA started has resulted in that for the last two years. The ECA was able to identify top-down priorities and its reports are linked to the key issues.

The ECA looked at air transport, ports, roads, rail infrastructure, inland-waterways and found situations within the budget where it would have been much better to have a global view. But cohesion policy is the prerogative of the Member States and not necessarily linked to overall European goals.

Then there is the whole spectrum of how the policies are implemented. The European Refugee Fund is such an example, or the implementation of services directive. It is not always necessary to have a lot of EU money involved. The kind of policy concerned is more important.

**R. C.: This is a major shift.**

**Milan Martin Cvikl:** This shift is very important. Take our state aid audit where one, of course, would have loved to examine through the audit how, in substance, state aid decisions were made. There is a limit to what an auditor can do, so we looked into the process. But maybe now it is time to undertake another audit in this area and make a comparative

analysis of the substance of some of those state aid decisions. We should look at the consistency of implementing those decisions.

**R. C.: Would that not mean to check the consistency of national policies?**

**Milan Martin Cvikl:** No, it is about hindsight and foresight. It is how you analyse the situation, with the benefit of hindsight, so that you can provide some foresight view. In the area of policy reviews I would not talk about audit, I would speak about reviews of the situation. That is something where we could add additional value. Our work programme exercise now allows us to undertake this.

**R. C.: To what extent are suggestions of European Parliament taken into account for the work programme?**

**Milan Martin Cvikl:** Much more than in the past. Last year we had had for the first time a set of proposals from the Conference of Committee Chairs, which includes the chairs of all the committees of the European Parliament.

Overall, many things have changed. The ECA has a Member responsible for institutional relations and the ECA presents its reports to different committees. The debate with the EP is a two-way street. But one should know that EP often also asks other providers to make reviews and I think that the ECA should create a small internal think-tank, as a kind of small institute within the ECA.

**R. C.: What are the relations with the Council?**

**Milan Martin Cvikl:** I presented the European Banking Authority (EBA) report to the Council. It is important for the Council to get the right information, because the most of the debate takes place in the Council formations where there are experts from the Member States. But one has to understand that each of those representatives has a very clear agenda from his or her own Member State. If you have the right messages however, they would be listening to the ECA. It is therefore important that an ECA Member goes there. They may be technocrats but they are whispering into the ears of the ministers. That development needs to be encouraged.

But, there is another group of institutions where we need to further develop relations: the other Supreme Audit Institutions of the EU Member States. The Contact Committee has been developing but the ECA could go deeper for many reasons. When the Contact Committee meets, this should be the same as when the Governing Council of the ECB meets. That is important especially taking into account the future development of the European parliamentary system, because European parliamentarians coordinate more and more their work with national parliaments. I think that the national parliaments, and of course the EP with the help of the ECA and national Supreme Audit Institutions, could join in the debate on the responsibilities of the executive arm of the EU and the executive arm of the Member States. This triangle of accountability, multiplied by 28 is what one would like to see down the line. I think that many decisions which are now made by the EU have very important repercussions in Member States and can only be audited by the Member States' Supreme Audit Institutions. Take as example the correction of data for Eurostat by the national statistical institute, especially when the issue is the collection of data at the source.

**R. C.: What can the EU do to improve the transmission of data and make them more reliable?**

**Milan Martin Cvikl.:** Everyone should recognise the importance of having an independent, professional body to provide statistics at the national and EU level, and all stakeholders should actively support the development of better quality statistical data by focusing attention on the importance of accurate, complete and exhaustive statistical data.

Eurostat should, as the ECA has recommended in at least two of its special reports (GNI and excessive deficit procedure) develop its "control" role by, for instance, improving its direct verification of Member State statistics.

**R. C.: What other issues remain important for the EU?**

**Milan Martin Cvikl:** The migration and integration of third country nationals remain highly important

policy issues for the EU. The ECA also considers it to be a priority for its audit work and will therefore continue to follow this issue. As can be seen in the annual work programme 2016 there are a number of planned reports in the area of asylum, migration and security, e.g. the EU's response to the refugee crisis.

There also is room for improvement in all 28 EU Member States on many aspects of competitiveness. I am not surprised that Vice President and Commissioner Dombrovskis has proposed the establishment of a system of national competitiveness boards and a European fiscal Council.

**R. C.: Basically you are saying that you wish a greater involvement of the Member States. At the same time this would mean a federalist move.**

**Milan Martin Cvikl:** No, I would not say that. I am not in the game of a "federal Europe" or "United States of Europe". We are all in the same boat and we have to row according to the same rules. We simply need more coordination to increase all 28 Member States' competitiveness

**R. C.: What is the role of the banks in it, the EIB, the EFSI?**

**Milan Martin Cvikl:** When we came out of the financial crisis, there was a need to stimulate growth. The banks are still not really lending and President Juncker's initiative with the EFSI has given an additional prominent role to the EIB because there are many long-term financing needs, especially of medium-size enterprises and of public sector. The small enterprises are to certain extent covered by some of the instruments we already have but the medium-size enterprises or public sector at large in many Member States are not able to get, in today's situation, long-term loans from the banking sector. EFSI is an additional element to finance projects that would otherwise not be bankable. Many projects would become bankable if they had this "soft element". We have seen this in the ECA report on Blending Instruments. But I claim that also for EFSI there would be additional audit role for the ECA.

**R. C.: We are talking about a long-term vision. Citizens however often have a hard time to**

**follow the European developments. How can the ECA improve communication?**

**Milan Martin Cvikl:** When you have a good audit, then it is easy to transform it into understandable language. The ECA's special report on Financial Assistance to Countries in Difficulties is a good example. To people in Ireland, in Portugal, Hungary, Lithuania and Romania it is important to see the findings of this report.

Secondly, the timing of the audit is extremely important. In April when the excessive deficit procedure report was debated in the Council, eight ministers have written to the President of the Eurogroup, and there was a debate in the Dutch Parliament. So, it was good timing for our report.

Thirdly, we need to sell our story, our messages. We know that with the reform of the ECA we are also changing the role of the Members and they will become more and more involved in selling of the reports to the public at large, to the national parliaments, the European Parliament and journalists.

To conclude the ECA as an institution has a bright future. And clearly one of the main reasons is that ECA consists of very good staff that is able to adapt to the new challenges. But another part of the ECA is the College of Members that have proven that even with a limited mandate we are much more than "passing birds".

# Environmental audits are one of the most suitable areas for SAI cooperation

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Interview with Samo Jereb, new ECA Member

By Rosmarie Carotti



Samo Jereb, ECA Member from Slovenia

**R. C.: Prior to becoming ECA Member you were Deputy President of the Court of Audit of the Republic of Slovenia. How did you become ECA Member? Did you apply for this position or have you been proposed by your government?**

**Samo Jereb:** There was a public tender issued by the Minister of Finance. We, in the Court of Audit of the Republic of Slovenia, wanted to have a candidate for this position to bring some experience of the national Court to the ECA and to improve cooperation between ECA and Court of Audit of the Republic of Slovenia. And I understand the Treaty as that candidates should mainly come from the national SAIs, so I became a candidate.

**R. C.: You have been here for a few days only, what did you do in the ECA so far?**

**Samo Jereb:** These first days were spent in getting to know the people and the surroundings, to install IT, to meet the other ECA Members. I went to their Chamber meetings in order to learn how they are working.

**R. C.: Yesterday you also attended the presentation of Commission director Calviño on the "EU Budget Focused on Results" initiative. Do you think that the Commission has a good idea of what represents good performance of the EU budget?**

**Samo Jereb:** The Commission is trying to launch this project which is not an easy one and which will last several years. It will have to improve year by year and the ECA has a role there in addressing recommendations.

**R. C.: So far the ECA's recommendations were based on audit results. Is it not too early for that?**

**Samo Jereb:** There are two ways to communicate with the Commission. One is of course through the audit reports, through recommendations based on audit findings, and the other one, like yesterday, is through an informal exchange of opinions.

Yesterday's conference was meant to help the Commission to think about the project, the approach to follow and what to change. This is useful to both sides. In order to find solutions the ECA should talk with the Commission. We had such an approach with the Ministry of Finance in Slovenia and it proved very useful to avoid misunderstandings.

**R. C.: For obtaining the title of verified state auditor you wrote a thesis on "Measurement of the Financial Performance of the Work of the Court of Audit of the Republic of Slovenia". In it you propose a methodology for assessing the financial effects of audit work. Can this methodology be used to evaluate the financial added value of the ECA audits?**

**Samo Jereb:** In its basics this methodology can be used for the evaluation of the financial added value of any SAI. As I mentioned in my answers to the European Parliament, the basis for this methodology comes from NAO UK and I made some adjustments to it. Regarding the nature of audit work, I don't believe that you can achieve the same financial results every year or even slightly improving it every year. But having in mind the position of an individual SAI (in this case ECA) and the possibility to follow the implementation of their recommendations, the methodology will need some minor adjustments. The methodology is not a mathematical model, as it includes some assumptions and estimations, so it should be agreed between stakeholders. Even though, using this methodology, the ECA could report to European citizens about potential savings if recommendations are implemented, I believe that an even more important aspect for the ECA is that the auditors, having in mind that this assessment will be necessary at the end of audit, will look slightly differently at the audit subject. They don't concentrate so much on what went wrong but more on what and how it could be improved to get better results. And that benefits the audit and the ECA as such.

**R. C.: Can you suggest ways the ECA can improve the way its audit findings are addressed by the auditees? How can the ECA's follow-up processes become more efficient?**

**Samo Jereb:** On many occasions the form of recommendations is not as important as the awareness of the auditee that implementing the recommendations will improve their performance. The SAI could demand corrective actions (if suitable legal provisions to do that are in place) or make some recommendations. It is more important that the ECA follows up the implementation of the recommendations and, if needed, undertake another audit of the same audit subject. Since an audit takes more time, the most efficient way is to request reports from auditees on the implementations of recommendations on a periodic basis, and report yearly to the EP (together with the annual report) on this issue. Auditees should be aware that the ECA will repeat the findings until the recommendations are implemented and report on that, unless they provide reasonable justifications why the recommendations should not be implemented. But, in the first place, recommendations need to be understandable, sensible and operational, so auditees can see the benefits of implementing the recommendations for themselves.

**R. C.: In your hearing in Parliament you stated "Europe is heading towards common accounting standards for the public sector (EPSAS)". Is this view not too optimistic given what has been achieved so far?**

**Samo Jereb:** We should have in mind that EPSAS project was launched as one of the answers to solve the problems with Member States' financial reporting, especially regarding deficit and public debt and their ability to pay their debts. The financial crisis should still be in our perspective when we are discussing the implementation of the same accountancy and financial reporting rules for all Member States. EPSAS as a project is just one of the possible ways of implementing accruals accounting, so the main issue is really whether we want to implement accruals accounting or not. I believe that heading towards common accruals accounting and reporting principles (regardless of the form) is the correct answer to this issue. If I just point out public-private partnerships, they could have important influence on the amount of public debt of the Member States if they implement

asset control principle from Regulation EC 254/09 and IPSAS 32 instead of the risk-based principle or the share of financing principle. Implementing accruals accounting will enable us to have a non-discriminatory approach, so this is why I want to stay optimistic about this project, even though we might end up implementing accruals accounting in another way.

**R. C.: You have managed several international environmental audits on behalf of your Supreme Audit Institution. Can you see the potential for the ECA take part in more of this type of work, for example in respect of the recently adopted UN sustainable development goals?**

**Samo Jereb:** Environmental audits are one of the most suitable areas for SAI cooperation, because environmental issues (climate changes, water and air pollution, waste management, etc ) do not recognise state borders set by governments. Even if we look at the latest Paris agreement, which is still not defined regarding the obligations of the particular Member States, the goal has been set out on the European level. This is why the ECA can definitely contribute with auditing the planning and implementing phase of Paris agreement to assure that goals will be met at European level. No other SAI can do that. But if we really want to go deep into country specifics to find out which measures work and why, and what could be done better, and not spend too much of our audit resources, international cooperation is crucial. Having an audit report, signed by several SAIs also gives us a greater chance to be heard by the European and national parliaments and governments. The same approach could be used practically for all UN sustainable development goals, since all those goals are recognised worldwide. But we should not forget that international cooperation takes additional time to plan and perform an audit, so it should be mainly used for the priority audit topics where appropriate SAIs are willing to undertake the selected audit.

**R. C.: Could the ECA promote with the SAIs an initiative aiming at establishing a voluntary reporting on the achievements in terms of sustainable development goals?**

**Samo Jereb:** I do not believe that all SAIs will react in the same way. Some might refer to their independence while others might be more willing to take on environmental sustainability issues. You will never get the whole SAI community to perform

an audit. But it is not necessary to get all of them. It is enough if a few of the important SAIs participate in parallel or joint audits.

**R. C.: Concerning enhanced cooperation between the ECA and other SAIs, quoting again from your answers to the CONT, please explain what you meant by saying “Developing the ECA capacity to perform audits of Member States reporting parallel to National SAI, would not reflect a sound financial management, so in my view, that is not the proper solution”. What is the proper solution?**

**Samo Jereb:** One of the main tasks for national SAIs is to perform audits of the execution of the national budgets and their financial reporting. If we don't establish cooperation between ECA and national SAIs to ensure equal financial reporting on the budget execution, and if the European Commission does not implement suitable internal controls to ensure equal financial reporting of the Member States, the European Parliament will probably try to get the correct reports through the ECA audit of all Member States' reports. Such a task would be costly and lengthy and would mean that ECA is repeating the work done by national SAIs, which could result in two different assessments (and questions about quality of the audits performed) or at best would mean a waste of our resources and the resources of national SAI. So this is the reason why I said that it would not be in accordance with sound financial management. I believe that the proper solution is through the role of the Contact Committee, where some steps forward have been made and that should be the way to enhance cooperation between ECA and National SAI and ensure the alignment of the audit approaches of SAIs for compiling the required reports, regardless of the SAI performing the audit. That will also enable the ECA to use the findings of national SAIs in our reports fulfilling all the demands in international auditing standards about using the work of other auditors.

**R. C.: Do you already know what your responsibilities will be in the ECA? Do you have preferences?**

**Samo Jereb:** From my CV you can see that I performed very different audit tasks but my preference would be Chamber 1 because I dealt a lot with environmental and sustainability issues.

This is really something I would like to do and help the Commission and the Member States since I believe that even the goal set in the Paris agreement was not high enough.

# Presentation of the 2014 annual report to the Italian authorities

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By Chiara Cipriani, head of private office of Pietro Russo, ECA Member



In March, Pietro Russo, the Italian Member of the ECA, presented the European Court of Auditors' 2014 annual report in Italy.

This day-long presentation took place at the Corte dei Conti in Rome and was organised by the Italian SAI's International Affairs Office. There was a large audience, and the welcome speech by Raffaele Squitieri, the Italian Court's President, was followed by interventions by Pietro Russo, Professor Enrico La Loggia and Professor Giacinto Della Cananea, both members of the Italian Court's Presidential Council, Carmine Di Nuzzo, the Chief Inspector General of the General Inspectorate for Financial Relations with the EU (IGRUE) at the Department of Economy and Finance, and finally, Ennio Colasanti and Giovanni Coppola, judges at the Corte dei Conti and President of the Community and International Audit Section and Head of the International Affairs Office, respectively.

During his welcome speech, Raffaele Squitieri recalled that the long relationship between the Italian Court and the ECA dated back to the 1975 Treaty and that it had received strong encouragement from the 2009 Lisbon Treaty and had been strengthened by various bilateral agreements over the years. He spoke of a strong synergy between the two institutions that was bolstered, among other things, by the Contact Committee of the Heads of the EU SAIs (including ECA President Vítor Caldeira), which last met in Riga in June 2015.

Pietro Russo's presentation summarised and explained the key points of the ECA's annual report for 2014. He spoke first about the error rate and the expenditure areas in which EU funds most risked being spent irregularly, concentrating on specific assessments with particular reference to evaluating the ability of supervisory and control systems to limit the risks of irregularity. He cited some examples of audits in Italy mentioned in the report, relating to the agriculture and cohesion policies in particular, and explained the reasons for the errors. He paid particular attention to public procurement, as the EU policy in this field is a fundamental

tool for the creation of the single market and the achievement of economic growth. With particular reference to the content of the ECA's Special Report No 10/2015 (*The effectiveness of staff development in the European Commission*), Pietro Russo also illustrated the positive and negative aspects that emerged from the ECA's audit in Italy (one of the four Member States selected for the audit).

Next, after briefly analysing the relevant aspects of the EU's financial management for the 2014 financial year and the ECA's recommendations for improving it, he moved on to the outcomes of management from the performance point of view, as evaluated in terms of the principles of sound financial management, the subject of a specific chapter in the annual report. The basic idea of the annual report, taken together with the ECA's other publications, in particular its special reports, is that the procedural aspects of regularity must go hand in hand with the sound use of funds.

The quality of management was a recurrent theme and all the other speakers touched the subjects of the strong commitment to a performance culture, the commitment towards simplifying the legal framework governing the various fields of expenditure, the achievement of the right balance between ambition and realism, so that the final objectives constituted a useful incentive in terms of performance, and the ongoing effort to improve the management and control systems and the transparency of information.

As in previous years, the presentation of the ECA's annual report to the Italian authorities was an important forum for debate and exchanging experiences. Once again, with its observations and recommendations, the European Court of Auditors showed itself to be a valuable partner, able to provide valuable input and ideas at both EU and national levels.



Nadia Calviño, Director-General of DG Budget



From left to right: Tina Svendstrup, Head of Unit f.f. Budgetary Discharge Procedure, Relations with Institutions concerned; Nadia Calviño, Director-General of DG Budget; Manfred Kraff, Deputy Director-General of DG Budget; Lazaros S. Lazarou, ECA Member; Kevin Cardiff, ECA Member

## The concept

The concept of an "EU Budget Focused on Results" was presented by Commission Vice-President Kristalina Georgieva in a conference which took place in Brussels on 22 September 2015. Now Commission Director-General Nadia Calviño gave a presentation on the state of play to ECA Members and officials and invited them to share their experience.

The "EU Budget Focused on Results" initiative was launched with the objective of reinforcing the performance features of the Multiannual Financial Framework (MFF), making a first assessment of the effects of the spending, identifying actions for strengthening further the performance orientation of the budget implementation and creating the conditions for convincing communication on Budget achievements.

Lazaros S. Lazarou, ECA Member responsible for the statement of assurance, welcomed the participants of the panel and assured them that the ECA will support the Commission in this initiative but at the same time will be critical when warranted. Director-General Calviño thanked him and his colleague Kevin Cardiff for the very good cooperation in this domain, for which the Commission and the ECA have shared interests. The issue is now how to best implement it. Director-General Calviño quickly ran through the characteristic of good performance and shared thoughts on the main features of this in the EU.

## Performance is essential

Achieving good performance is essential in the context of the European Union and of public budgets in general. The current MFF which started in 2014 brought a complete change of paradigm. Until 2014 there was a high ceiling for commitments and a lower ceiling for payments. In practice the Commission never managed to spend the budget. The focus of the Commission was on spending and the focus of the Member States on absorption.

In the MFF 2014-2020 there is a very significant reduction of the ceiling of commitments, an even sharper reduction of the ceiling of payments. The Commission also introduced an exceptional flexibility instrument - the contingency margin - to provide more payments than originally foreseen to deal with the backlog of the past programming period.

The results are fewer resources, reflecting the budgetary discipline currently in many Member States, but at the same time the need to tackle new challenges like migration crisis and security instability. In this context, the EU has to do more with less and has to focus on maximising performance.

## The process of performance budgeting

It is generally understood that performance budgeting is a process that links the allocation of funds to measurable results. It is a tool which

aims to improve the efficiency and effectiveness of public expenditure and allows better informed budget allocation decisions, stronger administrative efficiency and stronger public accountability.

However, it is not a magic tool that solves all problems. It cannot replace political decision-making by the European Parliament and the Council. The process of performance budgeting also faces timing challenges. Budgetary decisions have to be taken on an annual basis when information on performance or programmes may not be available. And political decisions are taken on investments which only bear fruit many years later. That makes evaluation difficult.

There is a risk of “totemisation” of the indicators. That only those are chosen which are expected to give the right answer. A right balance is needed. The Commission is focusing on simplification and flexibility for the review of the financial regulation currently undertaken. The system has to be proportionate and cost-effective.

Director-General Calviño concludes that having realistic expectations is a key to success. The process of improving the performance based budgeting framework is a gradual one. The approach of the Commission in this regard is evolutionary and not revolutionary.

### **The EU Performance Framework**

The first main elements of the Performance Framework of the EU budget are provided in the Treaty and the sectorial legislation. The second main element is the performance based budgeting tool introduced with the 2014-2020 MFF. There is also the annual budgetary process and the political choices made to set the priorities, the administrative performance framework, the ex-ante and ex-post evaluation, and regular reporting.

While it remains important to ensure the performance of individual projects, it becomes even more important to ensure that the whole budget maximizes its impact on the ground in terms of welfare and growth in Europe.

The very complicated multilayer framework makes it extremely difficult to follow every euro delivered at the end of the process. That means that there has to be performance analysis based around a number of blocks.

The ultimate objectives and targets of the Europe 2020 strategy or in the Treaty and the legislation are translated into action inside the Commission by the

legal basis of the programmes, and then inside the institution, by the strategic and annual management plans of the different DGs. Several programmes contribute to more than one policy area and policies are implemented via several programmes. This adds to the complexity of the system.

### **Results are put at the heart of everything**

To that end, the Commission wants to reduce the administrative burden, support decision-making with meaningful performance information, do away with inefficient and ineffective controls, identify appropriate materiality thresholds, improve communication of policy outcomes, create awareness and engage with stakeholders.

Performance based budgeting is complementary to performance audit and the political realisation process. It is also complementary to performance audits that can be done on individual projects. That is why the ECA has a very important role to play through individual performance audits, through contributing to the development of a solid methodology in this regard.

The EU performance framework is aligned with the international standards. It is framed by a legal and political set-up and a complex multilayer architecture. Progress is already visible and it will become even clearer this year when the mid-term review of the MFF will give the first opportunity to discuss and try to embed the information available on performance in the decision-making process.

### **Conclusion**

What can already be seen in the budget for 2016 and 2017 is a re-alignment or re-deployment of resources towards new priorities.

The focus of the Commission in the ongoing review of the financial regulation is flexibility and simplification of the rules.

Talking about assessment, the debate will continue on the question of areas with persistently high error rates and the setting of the materiality threshold.

A common understanding of what is good performance will have to be established with the cooperation of the Member States. Performance should only mean performance in the public good and it should be supportive of the EU best interests.

# Achieving our strategic goals through effective planning and programming

By the Directorate of the Presidency

One of the key elements introduced through the ECA's 2013-2017 strategy was a new **multiannual programming system** for the setting of priorities and the selection of work and products that best reflect risks, public interest and the potential for the ECA to contribute to EU accountability and add value through audit.

The **four-step programming system** (see diagram) - first applied for the 2015 Work Programme - provides the ECA with a useful framework and process for building on the strategic goals and objectives set out in the 2013-2017 strategy<sup>1</sup>. It has also been adapted to respond to the needs of our newly reformed **task and knowledge-based organisation** and to take into account the shorter duration of our performance audits.

The ECA's programming process starts each year with a dynamic institution-wide **policy and risk review** which is updated annually as part of the process of updating the ECA's priorities for the following year. The review takes into account the major risks and challenges of EU policies and the implementation of the EU budget, the legislative cycle, as well as new developments in the external environment. It addresses the need expressed in the strategy for our institution to be more responsive to emerging issues and concerns that are of high public interest, as well as to take into account stakeholders' priorities and the work being undertaken by the Member States' national supreme audit institutions.

The review draws on the ECA's **collective knowledge, experience and expertise**. It is based on the annual contributions of our chambers, feedback from stakeholders as well as on additional parallel analytical work carried out by the Directorate of the Presidency. The system of screening and analysing recent policy and legislative developments and the evolution of risks; determining their implications for the ECA's work; and sharing policy and risk information and analyses are being further developed this year as part of our new 'Enabling Knowledge for Audit' initiative. Furthermore, the ECA has further increased its

<sup>1</sup> Through its current strategy, the ECA aims to give sufficient and appropriate coverage to: public accountability and audit arrangements; EU financial management; the implementation and impact of the EU budget; the design of EU policies and spending programmes and initiatives; EU added value and growth; and the EU's response to certain global challenges which affect many policy areas.

consultations with stakeholders, including the Committees of the **European Parliament** to better respond to their expectations.

At the next stage of the annual cycle, the **ECA's priorities** are updated, based on the latest analysis and insights from the policy and risk review. Due to the multiannual nature of the ECA's work, the adopted priorities not only provide a high-level orientation for the following year's audit planning and programming of activities, but in practice also have an influence on the overall capacity as well as the nature and coverage of deliverables of the following two or three years. The updated priorities are adopted by the ECA college in March each year.

The next step in the process is for chambers to **propose tasks** to best address the updated priorities, taking into account those areas and themes that have recently been audited, as well as feasibility and timing. The priorities can be addressed through a variety of means (i.e. special reports, annual reports, opinions, or landscape reviews) and the chambers consider the most appropriate approach. The chambers rank the priority of their proposed tasks - reflecting (i) risks affecting the management of the EU and its budget, (ii) public and stakeholder interest, and (iii) potential added value through audit - as well as estimate the resources necessary.

Based on contributions received from the chambers, the Directorate of the Presidency prepares an institution-wide **Proposed Audit Tasks**, which includes a core list of highest priority tasks to give primacy to in the next year, and, in some cases, future years. The list of proposed tasks is approved in July each year by the ECA college and then provides the basis for identifying the tasks to be included in the next annual work programme. ECA output ranges from **permanent tasks** (e.g. clearance of the annual reports and special reports, follow-up of previous observations, fraud or irregularities, quality control and support to audit quality); to tasks that are **recurrent tasks**, such as financial and compliance audit work linked to the Statement of Assurance and annual reports; as well as **high priority tasks** and **other tasks** should resources be available.

The ECA's **annual work programme** is prepared by the Directorate of the Presidency and is approved during the last quarter of each year, first by the ECA's Administrative Committee and then by the

college. The work programme is also published on the ECA's website<sup>2</sup> and presented to the Committee on Budgetary Control of the European Parliament by the ECA President. The work programme can also be reviewed and updated during the year to take into account significant changes to priorities and the inclusion of new tasks.

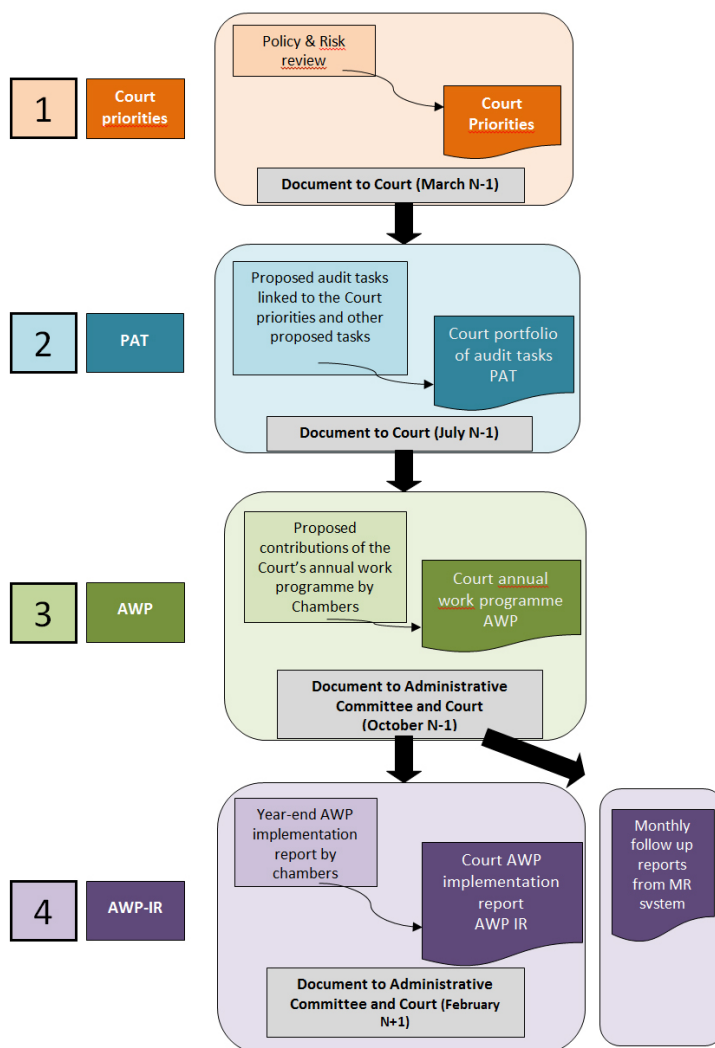
The **implementation of the annual work programme** is monitored monthly using our recently developed Management Reporting system, and yearly through an annual work programme implementation report. This monitoring identifies any action to be taken to ensure the effective implementation of the work programme, as well as lessons to be learned.

### Conclusion

The programming system effectively combines a **"top-down" with a "bottom-up" approach**, thereby providing the ECA with opportunity to ensure efficiency, coherence, rationality and flexibility throughout the process. The process of identifying and proposing tasks and products, matching resources, and preparing the work programme is considerably facilitated and strengthened by agreeing, at the appropriate stages of the programming process, on an **institution-wide perspective** of what priorities and specific tasks require particular attention.

The system also includes a number of essential checks and balances at corporate and chamber level in order to ensure a sufficient level of **monitoring and follow-up** is in place for tracking and reviewing progress on both the achievement of the ECA's strategic goals and the implementation of the annual work programme. Moreover, the policy and risk reviews as well as other elements of the process will provide useful insights when developing the next ECA strategy for 2018 onwards.

### Programming and monitoring: a four-step process



<sup>2</sup> <http://www.eca.europa.eu/en/Pages/WorkProgramme.aspx>

# A Surplus of Ambition: Can Europe Rely on Large Primary Surpluses to Solve its Debt Problem?

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Professor Ugo Panizza of the Graduate Institute of International and Development Studies in Geneva presents the results of a co-authored study  
11 May 2016

By the Directorate of the Presidency



Professor Ugo Panizza

The seminar was introduced by ECA Director Zacharias Kolas as part of a series of ECA events in the area of economic and financial governance.

Based on the research presented in ECA, Professor Ugo Panizza demonstrated certain scepticism regarding the pace of fiscal adjustment needed to achieve the debt targets imposed by International Organisations on their Member States. Panizza's research, undertaken together with Barry Eichengreen, Professor of Berkeley University, shows that achievement of the fiscal targets (60% of debt for most countries) would require running unrealistically large primary surpluses<sup>1</sup> over a longer period of time. The macroeconomic assumptions of the study are based on IMF forecasts on real GDP growth, inflation and interest rates until 2019.

IMF forecasts and the EU's Fiscal Compact foresee Europe's heavily indebted countries running primary budget surpluses of more than 5 percent of GDP for as long as 10 years in order to ensure debt sustainability and to bring their debt/GDP ratios down to the Compact's 60 percent target.

<sup>1</sup> "Primary Surplus" means that tax revenues exceed spending while interest on outstanding debt is not taken into account.

Professor Panizza questions whether this is feasible for highly indebted European countries, as episodes of such high primary surpluses proved to be extremely rare in the world's economic history. In fact the research identified only five cases where the primary surplus was high over ten years: Belgium, Norway, Singapore, Ireland and New Zealand. Using the statistical concept of heteroscedasticity, Professor Panizza also sought to understand what specific circumstances made the ambitious fiscal policy possible and found the factors to be both of political and economic nature.

Surplus episodes are more likely to occur when growth is strong, per capita income is high, global growth is powerful, the current account is in surplus, the debt-to-GDP ratio is high and the exchange rate supports competitiveness. Primary surpluses are more likely to happen with left of centre governments. Also the size of the economy matters and large countries are less likely to have a large and persistent primary surplus.

Given the results of his research, Professor Panizza is worried about the endogeneity of the current account balance and GDP growth. This does not leave him optimistic that Europe's crisis-hit countries will be able to run primary surpluses as large and persistent as projected.

# Accrual Reforms in OECD Countries: what are the lessons learned?

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Presentation of the OECD Accruals Survey 2016 on 10 May 2016

By Delphine Moretti, Policy Analyst, OECD



Delphine Moretti

The OECD Accruals Symposium attracts annually a group of more than 100 delegates from OECD member countries and international institutions. This event is an opportunity to share information about accrual accounting and budgeting reforms, and developments with regard to the international standards - International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), and European Public Sector Accounting Standards (EPSAS).<sup>1</sup>

The Symposium also includes a presentation of the *OECD Accruals Survey* results. This Survey has been carried out by the OECD Secretariat every year since 2003, with the aim to provide a regular update on accrual accounting and budgeting practices in OECD countries.

This year, the Survey included questions on the preparation basis, content, and coverage of financial reports and budget, the accounting standard-setting and external audit frameworks, and how accruals reforms have delivered change.

**Over the past two decades, a growing number of governments have begun moving away from pure cash accounting toward accrual accounting**

<sup>1</sup> More information on the OECD Accruals Symposium is available here: <http://www.oecd.org/gov/budgeting/seniorbudgetofficialsnetworkonfinancialmanagement.htm>

Following numerous accounting reform efforts in OECD countries to improve the quality of public financial information, the trend was confirmed – most OECD countries (73 percent) have adopted or are in the process of adopting accrual accounting. This figure is to be compared with results of the first OECD Accruals Survey: in 2003, only a quarter of countries were declaring using an accrual accounting system.

The move towards accrual budgeting is also noticeable: about one third of OECD countries now prepare their annual budgets on accrual basis.

Overall, looking at the accounting and budgeting framework as a whole, there are two dominant models in OECD countries: about a half prepare accrual financial statements and cash budgets and budget execution reports; and about a quarter of countries prepare accrual financial statements and budgets.

## **Nevertheless, the Survey's results also highlighted limits to accruals reforms**

First, the use of cash appropriations<sup>2</sup> in a large majority of countries, including some of those that are using accrual budgeting to measure the impact of current and new public policies, suggests that governments are still wary of the volatility and discretion in accrual valuations with regards to control over resources spent by ministries and departments. As public managers remain accountable mostly, if not only, through the cash appropriation process, there is still limited incentive in using accrual information in public entities.

Second, despite a large majority of number of countries having transitioned to accrual accounting, the direct adoption of international accounting standards (IPSAS or IFRS) by national governments remains very low. Countries seem to favour national standards in order to be able to fill gaps (for example, the accounting treatment of social benefits), or accommodate deviations (for example, the quantity of disclosures).

<sup>2</sup> Appropriations have been defined for the purpose of the Survey as “authorization by an act of parliament to permit government entities to incur obligations, and/or to pay for them from the treasury”, even though appropriations’ definition may differ between countries.

Third, only a half of OECD countries provide an overview of the general government in their financial statements. Constitutional provisions on the independence of local governments, the technical and practical challenges of consolidation, combined with a lack of appreciation of the need and use the full view of public finances in financial statements, have been cited as factors explaining that situation.

Fourth, only 62 percent of respondents indicated that their supreme audit institution provides an opinion on the year-end financial report according to international auditing standards. Among this group of countries, a high proportion of the audit opinions are qualified, showing that improving the completeness and quality of financial statements is an on-going challenge for countries that have completed their transition to accrual accounting.

### **Most countries, despite having completed their reform programs, consider they still have a way to go to achieve fully their objectives**

Around half of OECD countries expressed satisfaction that reforms' objectives with regards to transparency and accountability have been fully achieved. It is indeed undeniable that accrual accounting, coupled with the independent external audit of the financial statements, has made more and better financial information available to the public at large.

However, other objectives are not met yet by a majority of countries. In particular, the use of full accrual costs for evaluating the management and performance of government entities is not widespread. A number of countries, including early adopters of accrual accounting and/or budgeting, also note that politicians and the public at large have limited interest in accrual financial information. Last, most of countries indicated that the accrual information is not used or used only in a limited way for establishing the government's fiscal forecasts.

In short, if the consensus on the benefits of accrual accounting with regards to transparency and accountability is fairly clear, and increasingly recognized, the ways of making use of this information are less so.

### **Encouragingly, several initiatives are directed towards making accrual information more user-friendly and useful to fiscal decision making in OECD countries**

They include attempts at reducing the time lapse for establishing the financial statements, the use of management commentaries (or management reports), attempts at simplifying and streamlining the financial reports, and the analysis of the government's balance sheet to inform citizens and decision-makers on the efficiency of public management.

Though, one of the key missing pieces in the research and reform agenda involves probably looking more closely at the users' needs, as was noted by delegates during the OECD Symposium.

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The full presentation of the 2016 Accruals Survey delivered at the OECD Accruals Symposium can be found here: <http://fr.slideshare.net/OECD-GOV/oeecd-2016-accruals-syurvey-delphine-moretti-oeecd>  
The Survey will form the basis for a joint publication of the OECD, International Federation of Accountants and the *Accountability! Now!* initiative.

# The Audit Committee of the Finnish National Parliament in fact-finding mission

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Visit to the ECA on 5 April 2016

By Turo Hentila, head of private office of Ville Itälä, ECA Member



From right to left: Eero Heinäluoma, Chair of the Audit Committee of the Finnish National Parliament; Ville Itälä, ECA Member; Vítor Caldeira, ECA President; Olavi Ala-Nissilä, former ECA Member

The principal task of the audit committee of the Finnish national parliament is to oversee the management of government finances and compliance with the budget. In this task the committee concentrates on the general state and management of government finances as well as on issues of which the Eduskunta (national parliament) ought to be informed. Its tasks also include deliberating various reports on government finances and preparing them to be dealt with at plenary sessions. The committee can accept matters belonging to its sphere of competence for deliberation and has a right to report on them to a plenary session.

Chaired by former finance minister, Eero Heinäluoma, the audit committee visited the ECA on 5th April. Among the committee members was also Olavi Ala-Nissilä, former member of the ECA. The purpose of the visit was on the one hand to exchange views on the state-of-play of the use of EU budget and on the other hand hear the views of the ECA on the main challenges facing the public audit, accountability and democratic oversight in the light of the economic and financial crisis.

The audit committee was welcomed by President Caldeira who – on the basis of our audit results over the recent years - highlighted a need for wholly new approach to the EU budget. President Caldeira also summarised the main point the ECA has been making in relation to economic and financial crisis: whenever the EU is given new responsibilities, it is

essential to build in appropriate arrangements for transparency, accountability and public audit.

The Finnish Member of the ECA, Ville Itälä, gave then a presentation of the ECA's work pointing out the reasons why the performance focus of the EU budget is so difficult to put in practice. Pre-allocated national envelopes and "use it or lose it" –culture combined with practically non-existent sanctions for poor performance seem to form – at least for the time being – too high a mountain to climb. The audit committee agreed wholeheartedly that improvements for better use of the EU funds are needed. They also questioned - in relation to cohesion policy for net payer Member States - the usefulness of "circulating" the national taxpayers' money to national development projects via Brussels.

Visiting the ECA and other EU Institutions was part of the audit committee's fact-finding mission in relation to research project to examine how the budgetary and control powers of national parliament are being realised in general and in particular in light of the EU membership and economic and financial crisis.

Special Report  
N° 8/2016**Rail freight transport in the EU: still not on the right track**

The promotion of more efficient and sustainable methods of transport, in particular rail freight, has been a key part of EU policy for the last 25 years. The EU budget contributed some 28 billion euros to funding rail projects between 2007 and 2013. This report assesses whether the EU has been effective in enhancing rail freight transport and whether EU rail freight transport performance has improved in terms of modal share and volume transported since 2000. We found that, overall, rail freight transport performance remains unsatisfactory, while the position of road transport has grown further

This report was published on 24 May 2016 and is available on our website [www.eca.europa.eu](http://www.eca.europa.eu).

**The ECA says:**

Hello to:

Jan KUBAT  
Edite DZALBE  
Benny FRANSEN

Goodbye to:

Lina BALENAITE  
Nejc GABRIC  
Giuseppe GAMBINI  
Maris KLINDZANS  
Laszlo PUCH  
Andreja ROVAN  
Jozsef VERESS

**In Memoriam**

Nous avons le regret d'annoncer le décès de **M. Jacques Timmermans**, survenu le 4 mai 2016. Il a quitté la Cour en février 2007.

By Gaston Moonen, head of private office of Alex Brenninkmeijer, ECA Member

For the European Court of Auditors, it has always been a challenge to reach out to stakeholders regarding EU policies and programmes. Here I mean stakeholders in the widest sense, i.e. those affected by the EU actions the ECA has audited. This goes beyond our traditional stakeholders such as the European Parliament and the Council; it includes the companies, farmers, organisations or individuals directly affected by EU policies. What do they think about the ECA's findings and the recommendations which may have a direct impact on them?

With this in mind, Alex Brenninkmeijer, as Member-rapporteur responsible for performance audit SR 04/16 on whether the European Institute of Innovation and Technology (EIT) is an effective tool to foster innovation in the EU, decided it would be a good idea to organise a stakeholders' meeting and stimulate a discussion among them and with the auditees about the audit results. In coordination with the ECA's spokesman, Mark Rogerson, we organised the meeting on 14 April 2016, the day of publication, a few hours after the press briefing.

Firstly, a brief recap of the main findings of this performance audit: the ECA concluded that, despite a valid rationale for its creation, the EIT's complex operational framework and management problems have impeded its overall effectiveness. Since the start of its operations in 2010 only a few impacts are visible and several legislative and operational adjustments are required to let the EIT better foster the EU's innovation potential.

With the idea in mind that auditing is listening, we had involved stakeholders throughout the audit process for this performance report. Before the start of the audit (autumn 2014) we invited several experts representing business, including SME's, research and education organisations and others who dealt with the EIT, for a panel discussion to better understand the main challenges the EIT had to face. We also consulted some of these experts during the drafting of the report. This is common practice for performance reports in the ECA.

What was new was bringing together several representatives of these stakeholders on the day of publication to enhance discussion and visibility of the report findings and recommendations. Initially, we were hesitant to invite the direct auditees for this audit, the Commission (DG Education and

Culture) and the EIT. But then we decided it would actually be very good if they could hear at first hand the initial reactions from a number of important players in the field of innovation in the EU, including bigger and small entrepreneurs in the innovation field, research organisations and representatives from the academic world. At the same time, we wanted to keep the number of participants reasonably limited in order to facilitate a good round table discussion. This was not to be a conference with formal presentations but a direct, face-to-face, discussion.

What we had hoped for did actually happen. There was a good and intensive discussion among the stakeholders themselves and with the auditee. The ECA only had to moderate the discussion instead of contributing to it. After all, our contribution was already on the table through our report.



The positive effects of the meeting were threefold: first, the direct stakeholders in the EU's innovation policy all welcomed the ECA's conclusions and recommendations, complimenting the ECA not only for the thorough job done but the pertinent timing of our findings, in view of the ideas currently being floated on the creation of a European Innovation Council. Several participants referred to the report and the meeting in their own communications and Tweeted about it.

A second effect was that the Commission and the EIT were made aware that the ECA's findings were shared by several stakeholders, underlining the support for implementing the recommendations along the lines proposed by the ECA.

Thirdly, it was rewarding for the audit team because the discussions among the stakeholders, together with the first discussions held in the European Parliament on the report a week later, showed the relevance and possible impact of the audit work done.

Overall, all the ECA participants were very positive about this stakeholders' meeting, including its set-up and timing. Alex Brenninkmeijer and the ECA's spokesman are sure that this is a formula which can be used more often in the future and our intention is to organise a meeting along the same lines for the performance audit report Alex Brenninkmeijer will present on public procurement in the EU Institutions within a few weeks.

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